

Reshaping hospitality and tourism

OVERVIEW

ONE of the major casualties of the global financial crisis has been the hospitality and tourism industry. After having enjoyed good growth year after year – with relatively few interruptions, this sector has contracted sharply in many countries as people cut back on travel and leisure activities due to the uncertain economic outlook.

In an ongoing Business Times-Nanyang Business School Roundtable discussion series, senior professors at Nanyang Technological University's Nanyang Business School examine the new trends in the hospitality and tourism market, and how they are shaping the business so important to many countries including Singapore with the opening of the integrated resorts (IRs) next year.

Narendra Aggarwal: There has been an evolution of budget products in airlines and hotels recently. How is the broader hospitality and tourism industry adapting its product offerings to changing public expectations and customer budgets?

Dr Sheryl Kimes: We are seeing quite different trends in the airline and hotel business. The airlines – the low cost carriers and even the traditional airlines – are adding on costs for customers. If you want to check your bags, you want a particular seat, you want this or that extra service, you have to pay for it.

The hotel industry has taken a different approach and is trying to provide better service to attract customers and improve customer satisfaction, as they have the advantage of many revenue sources. For instance, as a full service hotel has restaurants, a spa and a variety of different things, so we are seeing a lot more bundling. Today, you can stay in a hotel and get three nights for the price of two. Or, stay in a hotel and get a free spa treatment.

Another interesting thing happening in Asia is at the new Tune hotels group in Malaysia and Indonesia, which is copying the low cost carriers. This is not surprising since AirAsia's chief Tony Fernandes is one of its main shareholders. They are taking the same approach as budget airlines, where if you want to have air-conditioning, it costs extra, if you want towels, you pay more. This is very appealing to a certain market segment and I think they are onto something here. I think we will probably see more of this in the future. Already, Ginger Hotels (Taj's budget brand) are coming up in India, and the same is happening in China.

Dr Wee Beng Geok: I was wondering how does this square with the fact that some five-star hotels are cutting down a star or two and bringing themselves down to three or four stars, and are trying to cut cost in this way.

Dr Kimes: The luxury hotels are facing a challenge because business is down. Some of their regular customers might be employees of financial institutions or similar companies and it is difficult for them to now stay in a luxury hotel such as the Raffles or the Ritz Carlton. But at the same time, if these hotels start cutting too much and lose a star, the impact on their long-term profitability will not be good.

There seems to be some tension between the owners of these hotels and the management companies. The brands are saying: "I can't cut these costs because if I cut them, it is going to impact my long-term brand equity." So there is this tension going on right now and I think this is true across the world and across luxury brands. To me, the question becomes, you've got to cut something, but what can you cut without affecting customer satisfaction and while still allowing the owners to be able to do what they need to do.

Dr Russell Arthur Smith: Whereas low-cost carriers are a relatively new phenomenon, low-cost hotels are not – they have been in Asia for ever. But what is new is that we are now seeing low-cost hotel chains or brands growing. This is important because if you buy a low-cost room, you need to know what you are buying and this has become a fundamental part of the growth of this segment. The brand gives predictability and standardisation to the consumers. People are aware that when they are buying these products, they are going to get less, but they accept it.

Actually, the economic downturn has helped both these sectors as it has allowed them to expand their network and reach, expand their properties and hence expand market share. I think after the economy recovers, they are not going to lose that market share. They are going to keep it and this will help their long-term growth plans. In fact the economic downturn has been good for the low-cost carriers and the low-cost hotels!

Dr Sunanda Sangwan: The economic downturn has geared us towards more competition leading to better innovation. The tourism and hotel industry has become creative in its services and has introduced competitive products and services.

I have seen unusual hotels such as on tree-tops and on large rocks in the middle of the sea, to high-technology based floating and underwater hotels. Moreover, consumers are also asking for more eco-friendly environments. Innovation has become significant not only for the low-cost, but also for the high-cost segment.

Whether due to the economic downturn, or in a bid to increase customer satisfaction, in general, the hospitality industry is undergoing dynamic changes. This is a motivating factor when compared with many other sectors and should ensure long-term competitive survival of this sector.

Dr Smith: When we talk about people trying to save money with low-cost carriers and low-cost hotels, the immediate assumption is that people will fly cheap and stay cheap. Yes, some people will bundle those things, but there will be others who will want to fly cheap, but stay expensive. And then there are others who want to fly expensive, because it is long haul, but when they get there, they don't want to stay five-star. They will stay cheaper. So, we're getting different combinations of demand.

Dr Wee: I also think that with all this bundling and with all the high-end hotels trying to bundle, there's a tremendous need to cut cost. I think there's going to be a lot more focus on productivity in the coming years especially in terms of people, processes and systems.

Narendra Aggarwal: Productivity is a major issue in the services sector, especially when it comes to hospitality and tourism as the industry is people intensive. What can be done to raise its productivity?

Dr Wee: I think that the productivity level of the food and beverage sector in Singapore is far behind the kind of productivity levels of services we see in the US and in Western European developed economies. I am not sure what the reason for this is, and this is being investigated, but from what I can see from the American service sector, productivity levels there seem to be driven by the motivation levels of the frontline staff.

Dr Kimes: The US frontline staff reward system is tip-based and so if you are getting most of your income from tips, you are going to be pretty motivated. To put it in perspective, the hourly wage for a server in a restaurant is around US\$2.25, whereas the minimum wage for the other positions is more like US\$7 or US\$8. So since servers

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- ◆ Wee Beng Geok, Associate Professor of Strategy, Management and Organisation & Director, Asian Business Case Centre, NBS
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do not make much money from their wages, they have to make it in other ways.

As for productivity, the staffing levels in the US are lower. So from a productivity stand point, you could argue that they are more efficient and the reason for that I don't know.

Dr Smith: With regard to the apparent productivity levels between Singapore and America, even across Asia we see dramatic differences in productivity if you look at the employee to guest room ratio across countries from Singapore to Thailand to India – they are dramatically different. The challenge here is not just productivity, but also how does a corporation with outreach across a region have coherent human capital management policies and strategies to deal with these variations?

Dr Sangwan: We set high standards for ourselves in Singapore and with the new integrated resorts opening soon, our expectations have to stay high so that we continue to sustain this competitive advantage. There is so much competition in this sector particularly from Indonesia, Malaysia and Thailand. We therefore have to raise the bar for our standards and requirements. We have to keep our quality high so that we can demand more. So the issue to focus on is how can we do this? How can we sustain competition in the future?

Dr Wee: What we are looking at is raising the bar in terms of the IRs and the MICE industries. In terms of the hardware, everybody has more or less the same. But our manpower or human capital cost is much higher, except perhaps Hong Kong and Japan. Thus, the productivity issue looms very large. So how do you get that productivity and I think Sheryl hit on a point that staffing levels are lower in the US. And obviously this translates into higher productivity, because in terms of output per person, this is how productivity figures are arrived at.

Another possibility has to do with customer perception. What is perceived as an acceptable level of service in one country may be very different for another country. This could influence the staffing levels expected of hotels and restaurants. It might also be useful to examine how productivity levels are computed in places where tipping is the norm. For instance, if in the US, hourly wages excluding tips are used to arrive at productivity, this might also translate into higher productivity.

Narendra Aggarwal: Moving on, what are some of the key



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management, marketing and technological advances taking place and how are they impacting the distribution channels, revenue management, brand differentiation and customer loyalty?

Dr Sangwan: Talking about technology's impact, social media and networks such as Facebook, Twitter and websites like TripAdvisor have become an important part of user decision making, and an important venue for organisations to sell their products and services or disseminate information.

Another recent development that has become very important in social media is blogs, which are word-of-mouth marketing in an online environment. These have become very popular among special-interest based groups of users. Tourists share their travel experiences on blogs and influence the decision making of their peer group about the destination. Such Internet based marketing channels, which were traditionally used by organisations are now being used by consumers to create micro brands. New interactive, micro-level business models have emerged in the tourism and hospitality industry, which thus far were sender and organisation communication dominated. Users or consumers have become an integral part of the business activities.

Dr Kimes: This is the first time we have been through an economic crisis with well developed revenue management and the hotels have the tools. But there are price wars going on with the owners coming in and saying drop your rates so that you can increase occupancy, which doesn't work. But the owners are still putting that pressure on.

Demand has dropped and everyone is fighting over a smaller pie. I think there have been some mistakes and some people might have over-reacted, but for the most part, hotels with well-developed revenue management systems have approached it relatively in an intelligent way.

Dr Wee: From the point of competency in revenue management and the people you require for it, because it is a new phenomena, there are wide differences in how people in revenue management roles in Asia are being rewarded and this causes inconsistencies even across chains in their different properties in different countries.

I think revenue management is still a new, evolving discipline and how it fits into the structure and organisational hierarchy in a hotel has not yet been settled. This is

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something that will be resolved in the next five years, as to where it will be slotted in the hierarchy of jobs.

Dr Sangwan: Revenue management is a multi-disciplinary activity. One can view it from an organisational HR and training perspective, but also how educational institutions train prospective revenue managers. What skills may be required? Besides communication and strategic thinking, revenue managers must be well equipped with the technological perspectives to better manage their costs without compromising customer satisfaction.

Dr Kimes: Among the attributes of the revenue manager would be analytical, communication skills and strategic thinking. But since there are not enough people like that, they are in high demand and difficult to hire. So this goes back to the use of more technology. If you have a budget hotel chain growing in China, you could use technology to centralise its revenue function and have a revenue manager with responsibility for as many as 20 hotels. This would give consistency across the different properties, but there's going to be a real need for more analytical people.

Dr Wee: The hospitality industry on the one hand needs analytical people, while on the other hand the nature of the industry is such that you still need a whole bundle of soft skills. The challenge is to have a balance of different kinds of skills and that they are both well recognised – ideally, of course, integrated in the same body. There might be challenges in doing this, but both sides should be given equal recognition.

Dr Kimes: One of my former students who is very analytical and also has great communication skills works for Disney. I asked him: How come you are so successful? He said: I'm a geek who can speak. I love that and tell my students that that's what they have to be. If they are analytical, but can't communicate, it's insufficient; if they can communicate, but are not analytical, it's insufficient. They need to have both. Developing both sets of skills is no doubt challenging.

Dr Smith: We have said that if there is a shortage of skills, we might use technology and use software systems on revenue management for setting price. We have just completed research at our institute by professor Lewis Lim which looked at how corporations set prices for guest rooms across Asia.

He said that you can use technology and rely heavily on one of the sophisticated software systems or you can all get in a room and talk about it. So you have a technological approach and a human approach. He found that for a more successful outcome, an even combination of technology and human approach worked. Technology didn't dominate, the human approach didn't dominate. It tended to be a combination of both.

Narendra Aggarwal: The buzz word now is sustainability. What are the new things happening in this area in hospitality and tourism? How is the industry going green?

Dr Smith: The hospitality industry is enthusiastic about environmental sustainability as it feels that if it is responsible today, there will be a better and sound environment tomorrow. Unfortunately, there is a perception that hospitality, leisure and travel is unnecessary as some people say these activities are polluting. The industry is aware of this misconception and as the spotlight now focuses on this issue, environment has been moved to the top of the list of actions under corporate social responsibility.

Dr Wee: For using green technology, there has to be complete systematic development right from the start of a project. This is possible as we see from the experience of the Kandalama hotel in Sri Lanka, which has won several global green awards over the years. Starting from the concept stage, the whole project development, the building of the resort, the construction stage, it progressed to the running of the hotel, and thus evolved a culture which is really grounded in green sustainability.

In fact, the issue of sustainability goes right to the operations stage and I think one of the biggest challenges in operating hotels, resorts or any F&B outlets is how to make sure that the kitchens and operations remain green and sustainable on an ongoing basis.

Dr Smith: Beyond using green materials, when looking at the site now they are even starting to look at the way resort operations interact with the local residents. It is not just environmental issues. It is also how they work with local communities.

We are starting to see in Asia some interesting examples of sustainable hotel operations, even in cities. Japan is starting to lead in this area by having hotels near train stations, so that people can get there without driving and building hotels that use recycled construction materials. They are even supplementing mechanical ventilation with natural ventilation. So you have a combination of natural ventilation and air-conditioning to ventilate buildings.

Narendra Aggarwal: Going forward, what are some of the key challenges for Singapore's tourism and hospitality industry with the imminent opening of the IRs?

Dr Smith: The opening of the IRs is creating a massive demand for new staff, most of whom need to be trained for the job. But the most difficult thing is going to be to train senior managers as it takes time and effort. This is where the flashpoint is at the moment, finding people at the middle and upper level of management to work in these organisations as the industry expands in Singapore.

These people are not easy to find as there is a shortage of such people throughout Asia. Singapore is not the only country that is expanding its hospitality and tourism products. China, India and Vietnam are doing so massively. Demand for good people who are willing to work at the higher levels in this industry is high, but the supply is small.

Dr Wee: I think there is a potential supply of people who may be willing to work in this industry as there is a range of choices for any MBA or graduate in terms of which industry to go into. But for hotel management and tourism industry to become an attractive career option, its recognition in the wider business community has to go up.

Dr Smith: As we talk about growth in Singapore and the coming of the IRs, we should not forget that there are many organisations here that are extending their outreach. We have the airlines such as Singapore Airlines and Tiger Airways, and lodging operators such as Ascott and Frasers. As they grow, they are looking for people to manage their networks and operations across Asia.

Again, this is another challenge. Not just where do we find senior managers, where do we find those who want to work in this industry, who are those who want to go and live in second tier cities across Asia for years. This is a challenge for Singapore Inc.