

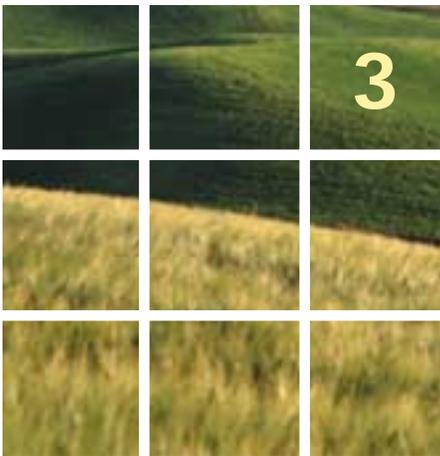


World maps delineate national boundaries, but those lines bely the increasingly transparent nature of the global economy. Globalization is typified by the rapid movement of people, information and capital across national borders worldwide in ways that would have been difficult to envision not too many years ago. Yet "globalization," accepted though it is as a contemporary force, is a big concept

therefore need to consider the implications of the global context in which they operate and must be prepared to address the questions that arise from this changing environment. What tangible trends driven by an inter-linked global marketplace will shape the hospitality industry of the future? What does globalization mean for the internationally oriented hospitality company, as well as hotel operations that

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Hospitality Adjusts to Globalization



requiring careful definition.

In many countries, where tourism has become a major export industry, the hospitality sector is the focal point for concepts of globalization to take root. Indeed, tourism has become the world's largest export industry, involving as it does enormous cross-border flows of people and capital. The hospitality industry is one of the world's largest employers and arguably one of the largest traders of foreign currency. It is often also a focal point for local society, and clearly at the heart of the transfer of ideas and the cross fertilization of cultures. At its heart, the hospitality industry plays an important part physically in bringing people together in a global community. And those countries suffering from trade imbalances due to high imports frequently look to tourism and hospitality to close the gap. Hospitality is thus not only an industry, it is a concept — and a major force in the fast evolving global marketplace.

The hospitality industry is thus at the very core of the globalization of international business. Hospitality companies

compete locally and regionally with these organizations?

The globalization of business and lifestyles is characterized by communicating over vast distances in foreign languages, frequent travel to overseas countries, dealing in many currencies, and coping with a variety of political and social systems, regulatory environments, cultures and customs. While these aspects of globalization are easy to identify, understanding the underlying current and future trends can be problematic. Analysis, however, reveals that a number of issues are reshaping the global hospitality industry, although there are clearly some complex questions that are still to be resolved:

- International expansion with common product and brand position;
- Sales and marketing programs that fully capture global economies of scale;
- Organizational structures that allow global delivery of services with local operational control;
- Cross-border employee training to support operations; and



- Use of the world capital markets as sources of funding.

Those hospitality companies that believe that they can grow and retain a niche position without acknowledging the imperatives of globalization need to take another look. Put another way, most hospitality businesses will need to think “globally” if they are to survive. That goes for organizations competing in the mature European and U.S. markets, which are now seeing stiff competition from other parts of the world, especially Asia. The sheer size of the vast U.S. market, in particular, can promote an insular point of view, but hotel companies that concern themselves only with the dynamics of this domestic arena also need to hear the “wake up” call.

Globalization will ultimately touch virtually all aspects of the hospitality industry. Increasingly, customers, management processes, employees, products, and sources of capital will be competed for and will move across national boundaries. Companies which are unprepared for this will be left behind. Local or regional entities may believe that globalization is not their concern. But that view is in error — competition in the future will come from global entities with the advantages that globalization brings.

Global Expansion — Reaching Critical Mass

Globalization is a natural outgrowth of trends that have evolved during the past 50 years. International hotel chains were invented after the World War II; they grew in the 1960s, and expanded greatly in the following two decades. Industry and economic trends in this decade have further propelled the growth of internationally-oriented hotel companies for a variety of reasons.

Severe overbuilding of hotel markets, particularly in the United States during the 1980s, halted new development almost entirely, while scarcity of growth

and development opportunities in markets around the world, has further supported the trend toward industry consolidation. Many companies committed to growth have found that growth opportunities in their back yards have been limited because of overbuilding, and have been forced to look beyond mature domestic markets to offshore opportunities.

The pressures to expand beyond national boundaries have largely arisen

critical mass will vary in scope.

A hotel organization, for example, may reach a point in which there is no other viable option than to expand across national boundaries if it wishes to grow, achieve critical mass and benefit from the economies of scale that accompany it. If this is the case, leadership will need to recognize the imperative of organizing as a global company. As an example, consider an international hotel company that is well established in North America



from the need for growing hotel companies to reach “critical mass” — the point at which a network of properties is sufficiently large to satisfy the travel needs of the hotel company’s most valued customers. For different companies with varying products and locations,

and Europe. In today’s world market, company leadership may cast attention on the potential for moving into burgeoning Asia/Pacific markets to compete with established regional companies. Companies considering such strategic options can succeed against strong local and



regional competitors only if they capitalize on the advantages derived from being a global company.

While the large international chains continue to expand on a global basis, there are in the United States, a number of brand names that have yet to reach the critical mass required for marketing success. The question this presents to the industry can be stated simply. Will the demands of globalization encourage further consolidation as smaller companies that have not achieved critical mass are acquired or put out of business? The need for hotel companies to achieve critical mass and the attendant economies of scale suggests that we will see a diminishing number of larger companies in the future as the imperatives of global expansion persist. Economies of scale are real, not imagined, and marketing on a global basis creates a significant competitive edge. It is certain that brands and products will be increasingly marketed on a truly global basis. Growth and development functions will thus become even more critical for those organizations that have not yet achieved critical mass.

For those companies pursuing a global strategy and accustomed to hotel management contracts, franchising relationships and non-recourse financing, significant adjustments will need to be made to the growth and development model. In a number of markets around the world, the bifurcation of ownership from management and management from marketing is a concept yet to achieve real maturity. The process that promotes these concepts is a slow one and global-minded companies will need to respond accordingly.

The differences in financing, owning, operating and marketing hotel properties will thus eventually narrow in a more global environment. The challenge for companies growing into markets where local partnerships and alliances are required for success will be to convince their foreign counterparts of the benefits

of structures that have been successful in their home countries. A company going offshore with a business concept, however, cannot assume that it will be wholly accepted. Differences will gradually break down, but for the time being it may be necessary to adjust to local realities.

Global Brands and Products

Hospitality customers increasingly seek predictable services that support their

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ability to move quickly and easily around the world. Indeed, the businesses and lifestyles of these multi-cultural travelers have themselves been shaped by globalization. The concept of projecting single brands globally is thus alluring, as well as being fully within the grasp of many hospitality companies. Nevertheless, there continues to be uncertainty about the benefits of establishing a single-brand presence in a global marketplace, in contrast to responding to the unique conditions at the local level. That challenge was addressed by an executive in another industry in the Economist Intelligence Unit study co-sponsored by Arthur Andersen — *The Successful Corporation of the Year 2000*. “We like to say we speak English with a Swedish accent,” says Goran Carstedt, president and CEO of IKEA North America. “I think global companies that understand how to organize and distribute their global competence to local needs will be the winners in the future.”

A number of international hotel companies have sought the economies of scale attendant to developing single brands and products, and providing them in a uniform fashion to as many markets

around the globe as possible. A countervailing trend is that many people — both tourists and business travelers — seek the unique qualities and customs of an individual locale. In response, some international hotel companies have tried to reflect local culture in the way their hotels are designed and operated.

This is clearly an arena in which there is no one *right* answer, but rather a balance of complex factors required. For example, there is a general consensus that

“global travelers,” who travel frequently whether for business or recreation, usually prefer a uniform product, because they want the convenience and comfort of predictability, and they demand a high level of service. Those who travel less frequently, but have a fairly high level of sophistication may avoid such dominant global brand and product concepts. A third group is looking for what they are accustomed to, and are attracted by brands they are familiar with; in essence, they prefer to stay in environments that reflect their home-based experience.

Customer expectations are related to the level of the product, and hotel products at the lower end of the spectrum tend to be easier to standardize globally, in part because these properties are more clearly defined by physical attributes, which can be duplicated. At the upper end of the product quality spectrum, customers seek subtle differences in services and quality, which are not easily replicated.

Organizational Strategies for a Global Economy

For the larger well-established international hotel companies that have circled



the world in the quest for new opportunity, globalization has been a strategic concept for a number of years. International hotel companies have had to confront virtually all of the issues facing global enterprises — and in many cases more. Unlike a manufacturer with an overseas plant, for example, a hotel company must export its entire operating business to function in diverse cultural and geographic settings. Hotel companies must have the capability of estab-

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lishing an entire business concept in dramatically different local environments.

As the new century approaches, formulating organizational structures that can integrate individual businesses in one seamless global structure will remain an on-going challenge. Information technology clearly is one major factor shaping the opportunities for how global hotel companies organize themselves, offering the ability to communicate with customers electronically and linking far-flung operations.

It is also clear that global organizations also benefit by becoming “flatter,” in contrast to pyramid-shaped structures with strong central authority. Such decentralized organizations can narrow the distance (both physical and emotional) between employers and employees, at the same time putting management and staff closer to the customer. Organizational structures that are based on hierarchical systems with authority centralized at a headquarters location, as a result, may be increasingly obsolete because they distance management from the customer, while at the same time failing to empower line management and staff responsible for delivering services. Fortunately, “flatter”

and more decentralized organizations are greatly facilitated by the increasing sophistication of technology and communications.

In addition, hotel company employees represent a melting pot of cultures, customs and languages, requiring new visioning and management skills to manage effectively, as well as a commitment to education and training that is unprecedented in its breadth. Today’s hotel schools will need to increase their

focus on issues that have to do with a global environment - communications, international marketing and law, history, social studies, geography and language. Company-wide training in a global organization to assure consistent leadership, operational skills and service delivery also represents a considerable challenge.

All of these factors suggest that companies expanding globally can benefit greatly by forming strategic alliances. A number of companies are moving towards such alliances with regional partners as a key strategy to provide entree to new and relatively unfamiliar markets and assure a higher level of local knowledge. Going it alone is increasingly expensive and frequently more risky. Substantial sums of money can be spent trying to conquer a region, and there may be considerable wisdom in forging alliances with local and regional partners. Foreign hotel groups have long found it difficult to establish a U.S. presence and distribution system, for example, and will probably need to enter into alliances, rather than establishing a new product from the *ground up* in an extremely competitive market.

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strengths of large, multinational corporations while drawing on the benefits that tend to accrue to smaller more differentiated companies. Creating an integrated organization from such alliances presents a challenge, however. The overriding issue operationally is how best to maintain a firm, fixed center while encouraging flexibility and proactive approaches to local conditions. Also at issue is the choice of partner. Here, a shared operational philosophy and product/customer orientation are mandatory if the combined whole is to become bigger and more successful than the sum of the parts.

The Operational Paradox

A recurrent issue for hotel companies in a global context is the need to develop global brands and image, while at the same time empowering management and staff closest to the customer in day-to-day operations. On the one hand, decentralized structures allow a hotel company to give authority to employees at the property level. Once the customer walks in the door, the service is controlled and delivered at the local level — with virtually no headquarters interface, even if those services have been centrally designed. But a key — and potentially controversial — question arises. Are chain and operational economies of scale thus increasingly irrelevant in a global context involving greater decentralization?

Customers want to be served *locally* in the hotels they patronize. But they want to make reservations and communicate electronically on the Internet — pointing to a bifurcation of the economies of scale possible in a global organization between marketing and operations. While operational issues must be dealt with locally, marketing is very much a corporate, chain-wide function that lends itself to realizing the benefits of global structures. As a result, it is possible that the economies of scale that can be achieved by a



global organization may have less to do with operations — the running of a hotel — and much more to do with marketing. Companies need to resolve this seeming paradox. They will need to secure a balanced position between these two objectives, which are potentially conflicting — decentralization for operational needs while taking advantage of global structures in the marketing arena. One might conclude that it will be marketing-driven organizations, especially franchisors with strong brand names, that are better able to capitalize on globalization and its communications benefits than those companies that persist in operating from a centralized base. For forward-looking companies, headquarters must be viewed not as a physical place but a dynamic function that exists either electronically or in person wherever it is needed. The “marketplace” has become the “marketspace”.

Global Capital

As hospitality companies grow into the global economy, they will need to look to global capital markets for support. Investment capital, however, continues to be in short supply and this situation will continue for some time. Companies that wish to attract investors will need to demonstrate that they can offer better returns and performance than in the past. And at least in the eyes of the world’s financial markets, they will need to demonstrate their viability as companies in a global marketplace.

For the first time real estate is now being traded as a commodity in securities markets, and we can therefore expect hospitality products in the future to be viewed in the same manner. The

securitization of real estate in the United States represents a significant trend, and it behooves savvy futurists to track these trends as they develop elsewhere in the world.

Indeed, the world’s financial markets are at the cutting edge of globalization, driven by the revolution in communications. With “investment portfolios” passed between the Americas, Europe and Asia/Pacific in a time continuum without interruption, 24-hour financial markets are here and are destined to impact significantly the way their customers use them. Hospitality companies that seek capital from the public marketplace (a trend which is clearly going to continue and expand) will need to function as global enterprises. If the public markets on a global basis are going to serve corporations and produce optimum results, those public companies that feed into any or all of the three major financial centers of the world (New York, Tokyo, and London) need to view themselves and to be viewed as global enterprises in order to benefit fully from what these markets have to offer.

Those companies that provide homogeneity in products and market orientations will be the most attractive to global capital markets. Companies with simple and well-defined products such as Coca Cola have become recognized by customers and investors around the world. Hospitality companies that want to trade in the financial markets will need a business concept that is relatively easy to communicate and comprehend.

Hotel companies expanding globally will also need to confront varying traditions, structures and attitudes to property investment and valuation in

different countries. It is possible that there will be a more common set of standards in the future but we are still far from that level of standardization, however.

Conclusion

The message today is that it is incumbent on all hotel organizations that have aspirations to develop brand names across national boundaries to understand what globalization means. A truly global enterprise will have the ability to react quickly to market opportunities, no matter where they present themselves by applying business concepts that have been proven in a context of a global undertaking.

In a world moving more and more towards globalization, hotel organizations will need to communicate more quickly, operate more productively, offer their employees greater opportunity and deliver their customers enhanced benefits. Those companies that address these issues today will be better prepared for the global marketspace of tomorrow.



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