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The Russian hospitality market: what is the basis for success in a challenging environment?

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Abstract

Purpose – This paper aims to analyze developments in the Russian hospitality sector and present the results of qualitative research conducted at the Faculty of Economics, Lomonosov Moscow State University, in 2014-2015.

Design/methodology/approach – This paper offers a general observation of the local environment and comparative analysis, and statistical analysis and content analysis are used to shed light on current developments in the Russian hospitality market. The issues are examined using the available secondary data, including relevant empirical studies and feedback from hoteliers and hotel guests. A case study method is applied to reveal the challenges facing hotel chains in Russia and to propose the most effective directions for hotels to provide services that meet world standards and customer expectations.

Findings – In recent years, there has been a major growth in the hospitality sector in Russia. This paper confirms and explains the long-term attractiveness of the Russian market. Hotel chain development is one of the most promising directions for both international and Russian hotel brands. The growing role of the internet as a distribution channel is underlined, as well as long-term relationships, positive experience and positive emotions, as a way to gain loyal clients.

Originality/value – The current study adds to the literature on emerging markets by presenting an overview of the main trends, challenges and factors for success in the Russian hospitality market.

Keywords Russia, Hotel chains, Hospitality market, Tourism market

Paper type Research paper

Introduction

The tourism and hospitality market in Russia was almost ruined after the collapse of the Union of Soviet Socialist Republics (USSR). The environment in post-Soviet Russia was highly unstable, and there were a number of negative factors that have been influencing the local tourism and hospitality sector since the early 1990s, including decreased production rates, low real disposable incomes and wholesale redundancies (Balaeva *et al.*, 2012). After a very hard decade at the end of the twentieth century, the industry experienced a gradual recovery with the emergence of new actors and new management approaches; it has become a fast-growing market, showing great vitality and bright prospects for development. In the ranking of the top ten largest countries in terms of tourism expenditure, the Russian Federation in 2013 rose to a higher position and took the fourth place in the world (Silaeva *et al.*, 2014).



Actually, Russia is a magical destination for many different kinds of tourism. It is a blend of Eastern and Western culture; it has a long history, diversity of climatic zones, beautiful natural scenery, unique cultural heritage and rich natural resources, including spa resources (mineral water, hot springs, etc.). However, in spite of the fact that Russia is providing ample opportunities for various leisure and business trips, the foreign travel and tourism mindset is usually to believe that Russia is not an especially attractive tourist destination. Indeed, to fully realize the potential of Russia as a tourist destination, a lot still needs to be done for travelers, both for foreign tourists visiting the country and for Russians who have a long tradition of domestic tourism but are now much more demanding than in the Soviet period. Many potentially attractive Russian regions lack the infrastructure and proper funding, as well as managerial skills, and thus cannot create a steady tourist flow.

The main problem is the poor development of the tourism infrastructure, including a shortage of accommodation and entertainment resources and the poor state of many local attractions and road networks. The infrastructure is also poorly adapted for people with disabilities and foreign tourists because of a lack of supporting information in English. In accordance with the World Economic Forum (WEF) Travel and Tourism Competitiveness Report 2015, Russia sits in the 45th place out of 141 countries (World Economic Forum, 2015), but tourism infrastructure is ranked only in the 54th place (Table I), with the worst components being extension of business trips recommended and hotel rooms number per 100 people (0.2 at maximum 4.35 and median 0.72).

In Russia, as in other countries, the challenge facing hospitality and tourism organizations is no longer limited to managing service provision and delivery but “managing the fundamental building blocks for long-term socio-cultural relationship and understanding” (Dioko, 2016). In the experience economy era, requirements are increasing for living conditions, quality of service, catering and other services to be provided as a single complex product to ensure positive consumer perceptions and emotions. In this complex product, hotel services are of crucial importance. Therefore, managers need to understand satisfied and dissatisfied hotel customers.

A research project initiated in 2014 at the Faculty of Economics, Lomonosov Moscow State University, aims to shed light on the main trends, challenges and prospects of hospitality services in Russia. At the initial stage of this study, the emphasis was on the statistical analysis and qualitative methods that are most appropriate to understand and explain the main target of research (Yin, 2013).

Travel and Tourism Competitiveness Index 1-7 (best)	Rank (out of 141 countries)	Score
Tourist service infrastructure 1-7 (best)	54	4.7
Hotel rooms number/100 people	90	0.2
Extension of business trips recommended 1-7 (best)	113	4.6
Presence of major car rental companies 1-7 (best)	59	5.0
Automated teller machines (ATMs) accepting Visa cards per million people	11	1,373.0

Source: WEF Report 2015, available at: <http://reports.weforum.org/travel-and-tourism-competitiveness-report-2015/economies/#economy=RUS>

Table I.
Tourist service
infrastructure in
Russia, WEF report
2015

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Secondary data analysis was conducted to investigate the post-Soviet market developments. General observation of the local environment and personal interviews with industry experts were chosen to describe the current market environment and determine the main trends and challenges facing hotel enterprises in Russia. A pilot study conducted in Moscow by means of a case study and content analysis allowed access to respondents' opinions and market knowledge and helped to reveal positive and negative consumer perceptions of hotel services in Russia.

The purpose of this paper is to present initial findings of the research project initiated in 2014 at the Faculty of Economics, Lomonosov Moscow State University. To this end, the paper is structured into three main sections that reflect the evolution of the Russian hospitality market in post-Soviet decades, the main trends in the Moscow hospitality sector and the key opinions of hoteliers and hotel customers revealed as a result of our initial study. The paper concludes with a section that summarizes the findings and proposes avenues for future research.

Evolution of the Russian hospitality market in post-Soviet decades

The number of hotels and other accommodation establishments in Russia rose impressively during the past two decades. In 2014, the number of hotels operating in Russia exceeded 10,700. Fixed capital investments in collective accommodation facilities development are estimated to be about 80bn Rubles, excluding investments not observed by direct statistical methods (Table II).

The first foreign entrants to Russia were global hotel brands operating worldwide. Their strategic preferences were to open four- or five-star hotels located in Moscow and St. Petersburg. Now, most of the prominent international hotel brands are operating in Russia (Sheresheva, 2012), and their hotels have the same standards as anywhere else in the world. In total, at the end of 2015, there were 152 hotels under the management of 23 of the largest

	2009	2010	2011	2012	2013	2014
Number of hotels	7,410	7,866	8,406	9,316	9,855	10,714
Number of beds, Mill.	1.12	1.13	1.16	1.18	1.20	1.57
Size of room fund, Mill. (m ²)	12.5	11.7	11.8	11.5	11.5	13.1
Number of Russian citizens in accommodation facilities, Mill.	24.9	27.2	29.3	31.8	32.5	33.8
Number of foreigners in accommodation facilities, Mill.	3.05	3.41	3.87	4.21	4.44	4.61
Volume of paid accommodation services, Bill. Rub.	105.9	112.9	125.5	141.0	162.4	175.7
Fixed capital investments in development of collective accommodation facilities, Bill. Rub.	17.95	20.7	41.2	27.6	15.4	75.9**

Notes: * Without small businesses and micro-enterprises and without investments not observed by direct statistical methods; ** preliminary data; Mill = Million; Bill = Billion

Sources: Federal State Statistic Services, available at: www.gks.ru; Federal Agency for Tourism available at: www.russiatourism.ru/content/8/section/81/detail/4124/; Unified Interdepartmental Statistical Information System, available at: <http://fedstat.ru/indicator/data.do?id=37253&referrerType=0&referrerId=947153>

Table II.
Major indicators of
hotel market
development in
Russia*

international hotel operators in 38 cities of Russia, with a total capacity of 34,466 rooms; 66 per cent of these operators' market share is split between four companies:

- (1) Carlson Rezidor Hotel Group;
- (2) Accor Hotels;
- (3) InterContinental Hotels Group; and
- (4) Marriott International (Ernst and Young, 2015).

A larger share of the Russian market (54 per cent of hotel room capacity) is occupied by Moscow and Saint Petersburg, but these regions' share is constantly growing. The preparation for mega-events, such as APEC Summit 2012 in Vladivostok, World Summer Universiade 2013 in Kazan, Winter Olympic Games 2014 in Sochi, FINA World Championships 2015 in Kazan or the FIFA World Cup 2018, provide a good basis to increase room capacity in a number of Russian cities. Thus, for the Sochi Olympics, about 40 accommodation facilities were built and reconstructed. Hotel room capacity increased by 2.5 times and amounted to 40,000 rooms. It is enough to accommodate 4.5-5 million people annually (Silaeva *et al.*, 2014). These resources added to Sochi's total room inventory, thus placing Sochi in about the same league as large resorts such as in Cancún, Mexico (Müller, 2014). The other large Russian cities such as Novosibirsk, Ekaterinburg, Khabarovsk and many others are still a bit behind the times; there are usually only one or two hotels of an international standard. The rapid development of the hotel real-estate market in the middle-term perspective is expected in these large cities, as well as in smaller cities with population under one million (Irkutsk, Lipetsk, Ryazan, Vladimir, etc.).

Global operators have significantly increased their activities in Russian regions and are still operating in up-market segments. Many small international hotel chains that lately have begun operating in Russia are adopting a strategy of regional expansion in the low-end segment (Sheresheva, 2012). As to the local hoteliers, they operate mostly two- and three-star hotels (mini-hotels, boutique hotels, hostels, condominium hotels, departmental hotels, motels and short-term rent sector). Russian hotel chains are few and are primarily focused on the tight hotel market niches. They are quite active mainly in Russian regions, especially in those that are not yet attractive to international hotel chains.

Along with the overall growth of the market and international hotel brands expanding into Russian regions, one should underline the growing market share of hotel chains, both foreign and Russian, as one of the most important trends (Table III). This is consistent with global trends in the hotel market. The base advantage of hotel chains over independent hotels is their ability to form identifiable image and unified hospitality product to multiply standards, transfer knowledge and best practices and, thus, produce

Year	2007	2008	2010	2013	2014
Number of hotels in the chain	43	48	75	100	137
Number of rooms	10,900	12,900	19,500	24,800	31,500

Sources: Federal State Statistic Services, available at: www.gks.ru; Federal Agency for Tourism available at: www.russiatourism.ru/content/8/section/81/detail/4124/; Unified Interdepartmental Statistical Information System, available at: <http://fedstat.ru/indicator/data.do?id=37253&referrerType=0&referrerId=947153>

Table III.
International hotel
chains in the Russian
market, 2007-2014

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guaranteed quality service (Ingram and Baum, 1997). From the perspective of an independent hotel, the chain membership can provide benefits, such as access to the chain's knowledge and cost savings through economies of scale (*ibid*). Moreover, the possibility of using the brand of the chain in marketing is an incentive for independent hotels to join the chain (Dahlstrom *et al.*, 2009). It has been shown that in most cases, the chain affiliation improves the survival chances of component hotels (Ingram and Baum, 1997). However, being a member of a chain also limits the freedom of the independent hotel to adapt to the local business environment. Chain membership can, therefore, be a strategic constraint for the independent hotel if the chain owner has a limited experience of local or similar markets (Ingram and Baum, 1997; Brookes and Roper, 2010; Table IV).

Our investigation has shown that international hotel chains operating in Russia prefer time-tested and long-established schemes of business. However, international standards cannot be applied directly to the Russian market. As an example, because of the capital intensity, political risk and duration of many hotel projects in Russia, a mixed strategy called "manchising" is a common choice, that is, management agreement for two to three years and then the franchise.

The strategy of domestic operators differs from that of Western players; 60 per cent of Russian hotels operate under little-known brands (Torres and Kline, 2006; Albayrak and Caber, 2015; Berezina *et al.*, 2015). Moreover, it is considered normal if the property owner manages the hotel despite the lack of experience. This usually causes serious problems.

Strengthening of the online travel agency (OTA) in addition to lack of any organization among hoteliers generates dumping. Within the OTA, brand positioning is always limited as the OTA dictates the way all the information about the property is

Brand	No. of hotels	Cities of presence in Russia	Countries of presence, except Russia
Amaks Hotels and Resorts	23 hotels and three resorts	Moscow region, Kazan, Tolyatti, Rostov-on-Don, Voronezh, Vladimir, Belgorod, Tambov, Ufa, Azov, Perm, Valdai, Kurgan, Novy Urengoy, Krasnoyarsk, Izhevsk, Toliatti, Yoshkar-Ola and Omsk	Belarus
Azimut Hotels	24	Moscow, St. Petersburg, Sochi, Astrakhan, Vladivostok, Voronezh, Kostroma, Murmansk, Nizhny Novgorod, Novosibirsk, Samara and Ufa	Germany and Austria
Cronwell Hotels and Resorts	15	St. Petersburg, Khanty-Mansiysk, Kaluga region and Astrakhan	Greece
Heliopark Hotels and Resorts	11	Moscow, Moscow region, Kaliningrad, Nubug, Penza, Sochi and Suzdal	Germany and Switzerland
Intourist Hotels Group	8	Moscow, Petrozavodsk, Elez and Altay	Czech Republic, Italy and Namibia
Korston Hotels	4	Moscow, Kazan and Serpukhov	—

Table IV.
The major Russian
hotel chains, 2015

provided. This leads to the fact that the well-known brand hotels within the OTA platform have fewer advantages. On one hand, local small chains and stand-alone hotels get an opportunity to compete with international managing companies on more or less equal conditions. On the other hand, it is very hard to gain any brand recognition, authentication and identification. More than that, it causes retraction of guest experience from the hotel to the OTA. At the same time, it is very complicated to compete with the OTA: huge advertising budgets and broad catalogs really make it difficult for individual hotels to secure direct bookings. The OTA hotel tends to offer an impersonal accommodation facility but with well-understood rates and characteristics structured in accordance with a successful template. In addition, all OTAs have rather simple schemes for ranking the properties: those hotels that generate the most revenue for the OTA are located above others. To compete within the OTA, the hotel has quite a simple and limited pack of tools: commission adjustment (an increase leads to rapid “surfacing” in search results), increasing the amount of discounts and offers on the website of the OTA, leading to revenue loss, but still is expected by the market. Other indirect tools such as rating reviews summary, well-managed content, quick responses on requests from the guests, etc. actually affect the conversion rate of the hotel’s profile page, not directly the OTA search results ranking. The hoteliers struggle to get to the top of the list by increasing commissions and providing special offers, and this “rates race” leads to an average daily rate (ADR) reduction and affects the total revenue.

The current geopolitical situation is influencing the current positioning and prospects of the hotel industry. As was mentioned above, in 2014–2015, the tourist flow from Western countries declined but the volume of Asian tourists has grown, as well as domestic travelers, but these guests spend less on accommodation services than European and American ones. Therefore, their spending cannot cover the decrease in loading and, thus, in revenue caused by the aforementioned reduction, and there is no clear indicator for other sources of growth.

However, as noted in the study conducted by [Ernst and Young \(2014\)](#), 63 per cent of hotel operators have not changed their plans in Russia in spite of the economic sanctions imposed on the Russian Federation; 33 per cent of hotel developers reported their business to be profitable and 54 per cent reported their business is stable; none of them (both developers and operators) plan to leave the Russian market. These data confirm the long-term attractiveness of the Russian hospitality market for international hotel brands. Of course, there is a need to be more cautious: 37 per cent of hotel operators continue to work on their current projects, but they have frozen their development plans; 62 per cent of all respondents, both developers and operators, are going to optimize costs but have no intention to do it by cutting staff ([Ernst and Young, 2014](#)). According to the recent study by Ernst and Young conducted in October 2015, 37 new hotels (6,662 rooms) were opened in 2014, and 13 new hotels (2,271 rooms) were put into operation in 2015 ([Ernst and Young, 2015](#)). Currently, the domestic hotel market in Russia is represented by more than 13,000 hotel enterprises and its capacity is estimated at 300bn Rubles ([Dzhandzhugazova et al., 2015](#)). The share of high-quality supply is gradually increasing, but the opportunities for development are far from exhausted. The room stock increased basically at the expense of luxury segment hotels, though demand is concentrated on the hotels in midscale and upper-midscale segments.

By 2020, according to current plans of international operators, the number of hotels will be increased by 118 properties (23,450 rooms), up to 270 hotels with a room capacity

of 58,000 (Ernst and Young, 2015). International brands will open their first hotels in Arkhangelsk, Vladivostok, Vladimir, Zelenogradsk, Kemerovo, Naberezhnye Chelny, Novorossiysk, Pereslavl, Saransk, Saratov, Stavropol, Surgut, Tver, Togliatti, Ulyanovsk and Khabarovsk.

Moscow's hospitality market

As mentioned above, Moscow and St. Petersburg account for more than half of the Russian hospitality market. Therefore, it was logical to start the research project with an investigation of the Moscow market.

In accordance with the general trend, total room numbers in the Moscow market are continuing to grow, but demand appears to be unpredictable (actually, it keeps decreasing). As outbound tourism significantly suffered, many hoteliers were hoping for a domestic demand; but domestic demand is quite sluggish and unpredictable. Despite the fact that traditionally low-season periods (in Moscow – holidays and weekends) were loaded a bit more this year (e.g. we have experienced an increase in total occupancy during the New Year holidays by about 10 per cent in comparison with the same period in 2015), the main business periods in 2015 (main and high season and workdays) were loaded much less than in 2014. In total, the market has experienced a slight decrease in occupancy as reflected by ADR and revenue per available room (RevPAR) results since January 2015.

Despite the fact that there was growth in total occupancy during the New Year holidays in 2016, revenue does leave something to be desired: ADR decreased and it is almost impossible to sell without considerable discounts, promotions and special offers to guests. The increase in the total occupancy during the New Year holidays was mainly generated by students and school groups, but they have low rates, high shock absorption and low-package income (these guests usually do not consume additional services). Moreover, hotels had to offer a cheaper alternative to the buffet breakfast (continental breakfast, about 50 per cent cheaper) because it is rather expensive for students and school groups.

At the same time, the visiting pattern of business travelers also changed a lot. Moreover, these are the same customers who stayed a year ago in Egyptian resorts (e.g. Sharm El Sheikh) and are now staying in Russian five-star resorts for approximately the same price. Even though they do not conform to full international five-star standards, there are sea-added services, which are also quite inexpensive but valuable for entertainment and leisure experiences. This trend has resulted in a slight increase in negative evaluations as reflected by guest reviews. These guests are typically accustomed to a broad range of recreational resort services, and Moscow is anything but the sunny coast. In addition, the price of the trip to Moscow from the regions is not likely to become any cheaper than it is at the moment. Therefore, although the cost for the guest is about the same, the experience is different. Moscow hotels are historically used to working with business travelers, and most of them do not provide enough entertainment. All extra services are designed to meet business needs (e.g. conference halls, business centers, etc.), and reviews by individual leisure guests are characterized by the lack of clear specifics: literally dissatisfied with everything, but nothing in particular. This could be caused by a lack of positive guest experience during the stay, which consists of various parameters, for example, transport availability, location, weather conditions, usability of city infrastructure for tourists, etc.

There is clearly more pressure in luxury and upper-midscale hotels as compared to lower-cost hotels, but it is not especially noticeable if based on an evaluation of published

rates. If a five-star hotel is not able to offer big discounts in the public domain (to avoid undermining the positioning of the brand), they still can make considerable rate adjustments for business-to-business (B2B) customers by enticing them away from the rather more popular three-star hotels and chains. To illustrate, during competitors analysis, we noticed a difference between rack rates and B2B rates of some upper-midscale and luxury hotels of up to 300 per cent on some dates. Thus, their B2B rates are rather competitive with the rates of the midscale segment. Expensive hotels usually have a bit more margin for such aggressive pricing. Midscale Russian chains also have well-established ways of attracting clients from lower-midscale and other segments. However, these measures are accompanied with a total revenue decline caused by promotional discounts, lowering B2B rates and lack of tendency to purchase extra services by guests.

It is also worth mentioning the dramatic decline in business activity in Russia caused by negative tendencies in the Russian economy and geopolitical disagreements. Despite the potential of domestic leisure tourism and the opportunity to attract free individual traveller (FIT) by low local currency rate, the market still has not yet experienced these growth factors to a significant degree. As we observed in the past 1-1.5 years, leisure tourism in Moscow did not develop the way some expected. Russian citizens who were not able to travel abroad because of a decrease in their real income and legal prohibitions on flights to some popular leisure destinations (or both) mostly preferred to stay home or travel from big cities to smaller ones, exploring the picturesque nature and rich culture of their motherland. Leisure FITs are hardly attracted to Moscow because of political disagreements and lack of infrastructure. At the same time, the visiting pattern of business travelers also changed a lot. As an example, during 2014-2015, the audience of the most important business events in Moscow declined: there are fewer trade shows, exhibitors and visitors. Many of the visitors attend only the first day of the fair (they usually come for one day on the morning flight to leave Moscow in the evening; thus, usually, they bring their suitcases with them). As a result, we observed a considerable decline in the average business duration stay from 3.2 days in 2013 to 2.4 days in 2015.

The decline in traditional business travelers' demands pushed Moscow hoteliers toward discounts and cancellation of some high-season dates. Moscow hoteliers noticeably adjusted the rates as compared with other top European destinations (Table V).

Still, as our research has shown, there is a need to not only cut prices but also look for improving hotel services. A brief overview of the research results presented in the next section confirms the need for improvements and shows that understanding customer needs and perceptions is crucial for success in a contemporary challenging environment.

Challenging environment and new opportunities: pilot research results

During the course of the pilot research, in 2014-2015, personal interviews with industry experts, as well as online hotel guest reviews, were the focus of our attention. A case study method was used to understand more deeply the behavior of local hotels.

Personal interviews with industry experts

Personal interviews allowed access to respondents' opinions and market knowledge. The expert opinion concerning current market trends and challenges in the Russian hospitality market (Table VI) confirmed our conclusions based on secondary data but also gave us some additional important information. In particular, experts focused on long-term relationships and guest loyalty; positive experience and positive emotions as

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Table V.
Top destinations in
Europe and room
rate per night

Top destinations in Europe	Ø Room rates of one- to five-star hotels per night, Q3 2015 £(€)	Rate development compared to Q3 2014 in %
Amsterdam	95 (136)	+8.8
Barcelona	85 (121)	+7.1
Berlin	66 (94)	+4.4
Brussels	84 (120)	+9.1
Budapest	56 (80)	+12.7
Copenhagen	81 (116)	+3.6
Helsinki	67 (95)	+8.0
Istanbul	110 (157)	+10.6
Lisbon	69 (99)	+7.6
London	140 (199)	+17.1
Madrid	62 (88)	-4.3
Milan	90 (128)	+19.6
Moscow	<i>65(92)</i>	-20.7
Oslo	83 (119)	+6.3
Paris	95 (135)	-1.5
Prague	49 (70)	+1.4
Rome	69 (99)	-1.0
Stockholm	95 (136)	+11.5
Warsaw	53 (75)	+5.6
Vienna	65 (93)	+2.2
Zurich	125 (178)	+17.1

Note: Figures for Moscow are in italic

Sources: www.traveldailymedia.com/229933/hotel-room-rates-on-the-rise-worldwide/

a way to gain loyal clients; and the growing role of the internet as the most cost-effective distribution channel. For luxury segments, corporate reputation and brand image, personalized service and loyalty programs are among the most effective instruments to gain and maintain clients. Most experts also underlined the fact that joint efforts of hoteliers are required to improve the image of Russia and that this is a key objective given Russia's contemporary situation.

We also considered it important to identify separately the opinions of local hoteliers. Although we expected a very pessimistic view, we found more willingness to improve and compete in new target market segments:

Despite the fact everything looks far from safe, there is still something to rely on. From one perspective, we have less experience in dealing with all the market problems; from the other, we know how to handle foreign guests. In addition, there is still plenty to change before inventing something completely new. As to our conclusions, nothing completely new is really needed: firstly, we should deploy our resources so as to implement everything that should have been done in the past.

When we experienced the business travel decline in 2014, we began searching for something new. After some research, we found out that Moscow is not only about business and fairs. There are plenty of recreational events attended by guests from all-over Russia. In June 2015, we began to cooperate with one of the main trance music festivals – "Sensation" – which was held in Moscow. Despite the fact that according to the contract we gave 100 room nights free

Trend	Quotations
<p>The period after the collapse of the USSR: lack of competition and poor quality of hotel services in the Russian market</p> <p>The need to adapt international policies to the Russian market</p>	<p>"In the post-Soviet market, people had no idea of the true hospitality"</p> <p>"Since our brand was the first to enter the Russian market as a hotel chain, we did not have any competitors at all"</p> <p>"Of course, our hotel chain strategy is solid across countries; but it is always necessary to consider the local mentality"</p> <p>"The Russian market structure is very interesting: there are clients who are acquainted to the European market, and they are more progressive. There are also those who are still in the era of 'heritage' ... for example, they are not acquainted to online advertising, they like paper, so sometimes we need to do a lot of print advertising for Russian clients"</p>
<p>The importance of differentiation and targeting "the own audience"</p>	<p>"It is important to understand what makes you different from competitors, and to carry it as your banner. ... Gold, moldings, wealth is not about us, it is expressed also in our service. That is, we have it unobtrusive enough, sometimes we anticipate the expectations"</p> <p>"We have very different customer for styling and features, we have a completely different culture and perception"</p> <p>"The future of the hospitality business - the ability to find your own distinguishing feature, that is, every hotel should be aware of how it differs from the other"</p>
<p>The consequences of the crisis for the hospitality industry in Russia: increasing purchase prices, falling occupancy of hotels and increased competition</p>	<p>"Our purchases prices have increased because many calculations are made in Euros"</p> <p>"We had to increase prices on our services"</p> <p>"Almost all hotels are now choosing a policy of increasing load volumes"</p> <p>"Of course, the whole market felt the impact of the situation; but any crisis is always a path to success, because increased competition among hotels leads to improved quality of service"</p> <p>"Lots of opportunities ... a little more complicated, but we will probe some new directions, we have to improve service quality, to introduce something new. Crisis is a good thing, because it makes us move, and the movement is life"</p>
<p>The importance of long-term relationships and guest loyalty</p>	<p>"We have to deal with the total demand decline. The thing is that each client or guest has lost creditability, and, since then, we need more guests and clients. This means to concentrate on retaining those who already has long-term relations with us and building new connections, testing new advertising instruments, etc. To make it simple: we are struggling to save what we already have and to gain more"</p>
<p>The main trend in the hospitality industry at the moment: guest emotions and experiences at the forefront of the competition</p>	<p>"Globally, the new approach is to ensure that there is a real concern, not simply some service. ... These are simple human principles and values, but they give the result"</p> <p>"Client should have a sense that we take care, and waiting just for Ksenia, for example, who is always sleeping only on the right side of the bed, and not on the left, who likes apples and do not eat bananas, and we know all about Ksenia. We will not ask her twice the same question. For each guest, we have such a file"</p>
<p>Working together to improve the image of Russia as one of the key goals of leading hotel chains</p>	<p>"We are trying to draw attention to the location in general, to the fact that there is nice skating on Red Square, healthy cycling in Gorky Park in Moscow. ... In general, we try to improve the image of Russia. And we started to prepare articles about the Russian theater, about the unique Moscow subway, and other most interesting moments for our guests"</p> <p>"Together, we can promote our segment, and our city and our country, and we are always aware of own distinguishing features and our target audience, and the importance to focus on them"</p>

Table VI.
Pilot study results:
expert opinion
concerning current
market trends and
challenges in the
Russian hospitality
market

(for the staff of the show), we got a good revenue stream from the deal. For those 100 room nights, we were provided with advertizing time on one of the most popular radio stations and could advertize special promo-codes for accommodation in our hotels to the guests of the show. In total, the ADR of all the bookings was more than 10 per cent higher than usual rate for such groups. Moreover, we have developed several new relationships, and this year, we are planning even more collaborative effort.

The short case of a Russian company Maxima Hotels (<http://maximahotels.ru/en/>) serves as a good example of responding to new opportunities in a challenging environment.

The case of Maxima Hotels

The case of Maxima Hotels shows that there are ways to success even in the difficult conditions described above.

To begin with, OTA, despite dumping and lack of positioning, is also a nice tool to drive direct bookings. Maxima Hotels has implemented some measures that attract OTA's guest to the company website. The key idea is to make them acquainted with hotel offers. Managers observe all the parity rules while still managing to provide more value. For example, last year, Maxima Hotels offered a free dinner for direct bookings. Even those who made their reservation via OTA came to the hotel and saw the offer:

We have tracked those guests in our PMS: 37 per cent of those guests have already made bookings on our website. Since then, they learned to book our rooms on the best terms.

Thus, it is very important to have good positioning in OTA's search results. These guests are potential members of the loyalty program because this audience is similar to the audience of the hotel's website. It is vital to attract guests from the OTA and it is not that hard to convert them into future direct bookings after the initial check-in. Managers observe search results, rate-shopper reports and OTAs' extranets on a daily basis to ensure they have the correct pricing:

The dumping is very difficult to deal with, but still there are some crucial principles in order not to be affected by aggressive pricing. The key is an accurately selected competitive set. You need to know which hotels are compared with yours when processing the reservation within the OTA.

Another powerful tool to deal with the OTA is a loyalty program:

You may break the rate parity requirement with the initial level of the program. For example, we have revised the regulations of the program.

Until 2012, an initial "Classic" card was issued on the second arrival to any of the Maxima hotels. Nowadays, it is enough just to fill in the form during the first stay and the next booking will qualify the guest for a 5 per cent discount, which is not that expensive in comparison to the OTA's commission rates but still provides a better rate than the one displayed on the OTA's website. This measure increased enrollment and stimulated direct bookings and long-term relationships with guests.

It is not obvious but it appeared much harder for Maxima Hotels to deal with aggressive B2B pricing of upper-midscale hotels. The key point is that those competitors are able to provide more service of a different class at comparable rates. There are few opportunities to provide higher standard services than the competitors. The only way to prevent the loss of corporate clients now is to provide flexible rates and good service and to build long-term personal relationships. There are always some other

benefits you may provide to maximize the cost of switching to another supplier. For example, Maxima Hotels make several events for B2B clients during the year which are well-attended by partners to establish personal relationships and keep connections:

In 2016, we are planning to start our own business club to organize communications among our corporate clients and to build a powerful communication too.

Surprisingly many hoteliers are sure that revenue management is needed when the demand is high. However, it is even more necessary when it is unpredictable and slack. For example, in 2015, Maxima Hotels started the dynamic pricing based on occupancy and found it helpful. A simple practice with different non-refundable discounts lets Maxima Hotels affect the revenue quickly:

We also once lost the opportunity to earn more. In May, we accepted a group of children, which caused zero availability of standard rooms in one of our hotels. Needless to say, it was a mistake to put the most cheap and the most popular room category on stop sale without starting any special offers on studios and other more expensive rooms. As a result, the rates were higher than the rates of our competitors and we lost the dates. It is very important to compare your rates and availability with your competitive set.

According to the Maxima Hotels strategy for 2016-2017, the website is considered to be more focused, as direct bookings are crucial in case of revenue decline, and its website is considered to be the most efficient and powerful tool for driving direct bookings.

Here are the key reasons to work with the website in a strategic way:

- *Revenue*: Website drives bookings that are cheaper in comparison to OTAs and is still able to attract more guests than reception, telephone and e-mail reservations.
- *You and nobody else*: Brand your website. Use your content to tell the story.
- *Information*: You get all the information about the guest and direct feedback. Stay in touch.

We have completely redesigned our website in 2013 and are planning to release another update in February 2016. The first redesign was published in June 2013, and we immediately experienced an increase in business equivalent to conversion rate that is three times higher than before (from 0.75 per cent to 2.2 per cent) even though it was still not adapted for mobile devices. The redesign helped with content restructuring and we sought to ensure that all the main information was accessible from the home page. It became simple and user-friendly and it had a new integrated booking engine, which allowed us to upload the rates and availability on the website directly from our PMS through the channel manager. Thus, we could observe the parity and react immediately.

The statistics for 2015 in comparison with 2014 shows a 26 per cent increase in website sales despite a decline in other channels (there was also a 5 per cent increase in travel groups, but the ADR here was twice as low). Also, the website bookings share in terms of total occupancy increased by 3.71 per cent. The next redesign aims to improve the bounce rate:

As we have noticed, about 27 per cent of users visit our website from mobile devices. The highest bounce rate is registered here: about 70 per cent. The reason is clear: our mobile version is based on a template, which does not provide all the information about our offers and rooms in a user-friendly way. Thus, we expect even more bookings from the website after the redesign.

To gain such results, it is not enough to develop a new website. In 2015, Maxima Hotels adjusted its entire digital strategy. The budget on gross domestic product (PPC) advertizing in Yandex and Google has decreased but had been made far more efficient. This became possible after thorough research that showed inefficient keywords and wrong targeting. It was hard to prove that the PPC advertizing is not used to increase awareness; but it was not effective in attracting traffic via the most popular keywords. The research clearly showed that such keywords attract users who want to choose a hotel from a big catalog. Thus, this traffic was not generating sufficient conversions:

Shortly after changing the strategy of collecting the keywords, we implemented a budget reduction (about 20 per cent) but secured a conversion increase. Despite the fact we lost some traffic, we have reduced the bounce rate and the website became more efficient.

The Maxima Hotels management has successfully improved the SMM strategy that was previously typical of the Russian brands. It seems that Russian hoteliers are far from being experienced in digital advertizing. Top management is still underestimating the importance and power of using these tools in the correct way. Their management considered social media to be just a free advertizing channel, forgetting about the audience:

Our Facebook account was filled with posts about our services and offers but there was no content and story at all. We didn't use Facebook's advertizing tool. In 2014, we have completely changed our attitude to SMM. We started writing about Moscow's POI and events. As a result, we have a three times bigger audience which is more active and interested. We have also secured our first bookings from the social media and we are receiving more and more. In February 2015, we started a St. Valentines Day advertizing campaign on Facebook. We were surprised by how active users were who had seen an ad with our romantic package. All the rooms where this package is applicable were sold in two days. Social media ads are very easy to target.

Finally, it is worth mentioning that some hoteliers are still looking for demand for their hotels and refuse to spend budgets on locals. Actually, local guests will not increase their average stay but still generate nice package revenue by consuming some services. According to loyalty program database of Maxima Hotels, 40 per cent of "Exclusive" cardholders (the most loyal and returning guests) are from Moscow. That is not that surprising as it may seem at first sight. First, Moscow citizens tend to consume additional services. They do not hesitate to take a cup of coffee in a lobby bar or to have a dinner in a restaurant. Besides, they choose a hotel because of a suitable combination of price, location and quality, and the location plays a vital role for them: they choose a hotel located nearby. It is a nice base for long-term relationships and it is important not to spoil their experience.

Hotel guest perceptions

Content analysis of hotel guest reviews helped to reveal positive and negative consumer perceptions of hotel services in Russia. We started with luxury hotel guests' reviews and perceptions keeping in mind that this target audience is the most demanding one. In total, 658 online reviews from TripAdvisor.com, 262 reviews written by foreigners and 396 reviews written by Russian guests of the Ararat Park Hyatt, Lotte Plaza, Radisson Royal and Swissotel (Moscow) were analyzed.

The factors on which hotel guests focus their attention are as follows: the hotel as a whole, location, service, staff, room interior, room infrastructure, catering, restaurant

and in-hotel extra services (shops, spa, etc.). Both Russians and foreigners are not satisfied with prices, finding services too expensive.

Key factors for Russian guests are interior, atmosphere and style, whereas for foreign guests, location, infrastructure and friendly service are more important, as well as custom advice on local attractions (Figures 1 and 2). A large number of security guards causes discomfort for Russian tourists, whereas foreigners dislike much smoking in recreation areas (Sheresheva and Yakuba, 2015).

Therefore, there are some differences in preferences for local and foreign tourists. Still, unfriendly staff and lack of professionalism are the main causes of negative emotions, whereas customized service and positive experiences are important for all guests.

Conclusions

From our point of view, there are plenty of threats and challenges in the Russian market which hoteliers must face in the near future, but there are also plenty of opportunities.

Key threats and challenges for hoteliers in Russia are as follows:

- Inbound tourism has declined dramatically, and domestic demand is not the “universal panacea”, not as valuable as was expected. Therefore, it is a bit shortsighted to rely only on it.
- A decline of business activity in Russia causes the key demand share (business travelers) to shrink.
- An increase in the total supply of rooms in addition to the demand decline takes the competition into uncharted territory.
- It cannot be assumed that FITs will be the main growth point.

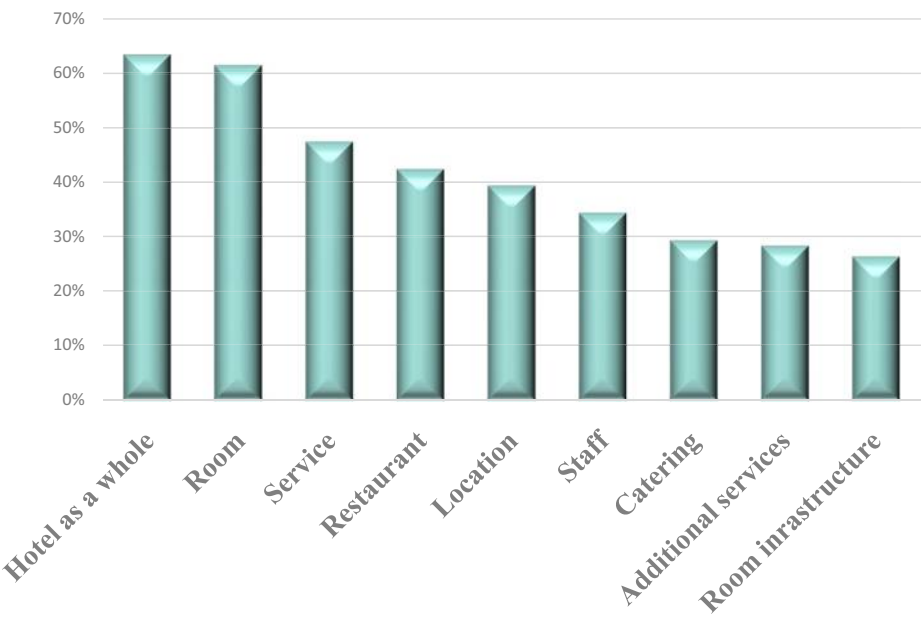


Figure 1.
Positive feedback
from Russian guests

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8,3

324

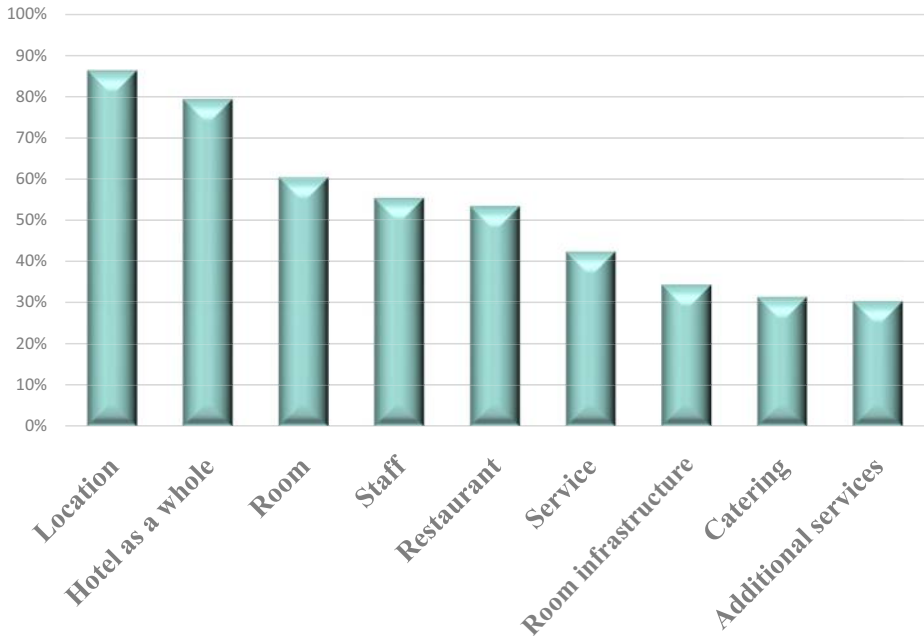


Figure 2.
Positive feedback
from foreign guests

For local hoteliers, it is important to underline additional threats:

- OTAs are gaining more and more bookings and “stealing” the guest experience from the local hotels.
- The key principles of OTAs create an environment for dumping on the market.
- There is pressure on more expensive hotels compared to lower-cost hotels, with aggressive B2B pricing.

These and some other reasons explain the changes in key hotel performance metrics and, specifically, the fact that hoteliers that continue to lose revenue are struggling to compete with each other with their own distributors for direct bookings and with alternative services (such as Airbnb or hostels).

Additionally, there are still some internal problems, both for local and foreign hoteliers. First, the lack of qualified staff is a huge problem. The Russian hotel industry only started to develop 25 years ago; thus, the educational infrastructure is not well established.

OTA is a very powerful tool if used properly. However, it is very important to promote loyalty programs, the official website and other benefits for direct bookings from the hotel.

At the same time, the opportunities for development are far from exhausted, the long-term attractiveness of the Russian market is high. None of the main market operators plan to leave the Russian market. Moreover, many of them are actively expanding into Russian regions. It is also worth underlining the growing market share of hotel chains as one of the most important trends, as well as the growing role of the internet as the most effective distribution channel. Long-term relationships are growing

in importance as a way of gaining loyal clients and they serve as a solid basis for success in the current contemporary and challenging environment.

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