

INTERNATIONAL HOTEL CHAINS ON THE RUSSIAN MARKET

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ABSTRACT

In recent years there has been major growth in the hospitality sector in Russia. The purpose of the paper is to analyze the developments in the Russian hospitality sector, with the main focus on the international hotel chains activity. General observation of the local environment, statistical analysis and qualitative approach were used to shed light on the current developments in international hotel chains strategy in Russia. The problem is examined using secondary data available, including relevant empirical studies as well as feedback both from members and non-members of hotel chains, and from external observers.

Key Words: hotel chains, hospitality industry, Russia

INTRODUCTION

The Russian market has undergone numerous changes in the last decades, which caused a strong tendency towards increasing the role of the service sector in Russia. The environment has changed considerably in 2000s, and there is now a strong tendency towards increasing the role of the service sector in Russia. In particular, there is major growth in the highly interconnected hospitality, leisure, travel and tourism sectors in the country boosted by recent government programs, including Special Economic Zones (SEZ) in tourism and recreation for which an appropriate infrastructure is being planned. Significant increase of hotel room capacity is expected in the Far East because of preparation to the APEC Summit in Vladivostok in 2012. No less important for the sector growth are the new ambitious projects supported by the state: The Olympic Games in Sochi in 2014 and the World Football Championship in 2018.

Given the extremely high potential of Russian hospitality industry, the market appeared to be attractive to all the market leaders, as well as middle- and small-size hotel chains. The impressive growth of hotel sector in contemporary Russia was clearly accelerated by recent arrival of international hotel chains well known for their aggressive marketing strategy and successful implementation of modern business practices.

In the paper preliminary results of the research project initiated in 2011 at the faculty of management, National Research University Higher School of Economics the main trends in the Russian travel accommodation market are examined, with the special focus on international hotel chains activity.

The paper is organized around the following topics. Firstly, there is a brief overview of relevant literature on the international hotel chains, with the special attention to publications on hotel chains activity in Russia. Secondly, the recent developments in the Russian travel accommodation sector are discussed. Thirdly, the results of the pilot research on strategy of international hotel chains in Russia are presented. Finally, key conclusions are listed and directions for future research are proposed.

LITERATURE REVIEW AND RESEARCH METHODOLOGY

Ingram was one of the first researchers who focused his attention on the hotel chain phenomena (Ingram, 1996a). According to his broadly accepted definition, hotel chains are “collections of service organizations, doing substantially the same thing (often the only differentiation is in physical space), that are linked together into a larger organization. The relationships between the components of a chain are horizontal, although typically there are centralized parts of the chain, such as a distribution facility, that have vertical relationships to the components. There are a number of types of linkage between component and chain, including ownership, franchise agreement, or other types of contracts or agreements” (Ingram & Baum, 1997, p. 68). This form of doing business in hospitality sector is considered by researchers and practitioners as one of the best ways to form the identifiable image and unified hospitality product to multiply standards, transfer knowledge and best practices to produce guaranteed quality service.

There are many publications dealing with issues of hotel chains internationalization, entry strategies and success factors of international hotel business (see f.ex. Chathoth & Olsen, 2003; Chen & Dimou, 2005;

Cunill & Sung Chon, 2006; Go, 1993; Go & Pine, 1995; Hoffman & Schniederjans, 1990; Leo & Philippe, 2011). At the same time, only few publications on the local and international hotel chains activities in Russia were found (Balaeva, 2012; Burnatseva, 2010; GVA Sawyer, 2011; Katkalo and Shemrakova, 2008; Stene, 2007; Taylor, 1994; Welsh & Swerdlow, 1992). Taking in account huge hotel market capacity of Russian cities and fast development of leisure and business travel sector in the country, there is a need to monitor travel accommodation market trends and to specify changes in strategic behavior of international hotel chains on the Russian market.

A research project which aims to shed light on hotel chains as network organisational forms implemented in hospitality services in Russia was initiated in 2011 at the faculty of management, National Research University Higher School of Economics. At the first stage of this study general observation of the local environment and qualitative approach were chosen in order to describe current developments in international hotel chains strategy in Russia. The emphasis was on the statistical analysis and qualitative methods which are the most appropriate if understanding and explanation are the main target of research (Yin, 1994; Eisenhardt & Graebner, 2007). A number of personal interviews with industry experts were used that allowed access to respondents' opinions and market knowledge. The interview guide was prepared which helped to discuss all the needed topics with every respondent and still to allow respondent as much freedom in their answers as possible. All interviews were first taped and later transcribed to allow for a detailed analysis. The interpretative reports were returned to the respondents for their comments. To improve the quality of the analysis, all the secondary data available were used to verify the general market situation and some questionable statements of the respondents.

RUSSIAN ENVIRONMENT AND PERSPECTIVES OF HOSPITALITY SECTOR

Global tourism and travel accomodation industry is demonstrating positive trends, business development being slowly returning to pre-recession period. Tourism and hotel industry were to a great extent underdeveloped in the USSR, in spite of the fact that the internal leisure, travel and tourism sectors featured considerable growth in 1970s and 1980s. The post-Soviet Russia environment was highly unstable, 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).

Russian tourism and travel accomodation industry has been experiencing an impressive growth since the beginning of the last decade. Russia is now providing ample opportunities for various leisure and business trips. The number of travel agencies has doubled from 2002, the number of tourists served by travel agencies increased from 2.8 million in 2002 to 7.7 million in 2008 (Russian statistical yearbook, 2009). The statistics of tourism receipts and spendings in Russia has shown clear positive trend (Table 1).

Table 1
Growing Tourism Receipts and Spendings in Russia (USD million)

	2005	2006	2007	2008	2009	2010
Tourism receipts	5,870.0	7,628.0	9,607.0	11,944.0	13,501.4	15,007.4
Tourism spendings	17,314.0	18,112.0	22,133.0	24,890.0	26,693.8	28,481.7

Source: Euromonitor International (2011)

The number of hotels and similar accommodation establishments rose impressively within the last two decades (Table 2). In early 1990s first attempts were made by international hotel companies to enter contemporary Russian market (Taylor, 1994; Welsh & Swerdlow, 1992). For now most of the global leading hotel chains are represented on the Russian market including Rezidor Hotel Group, InterContinental Hotels Group, Hilton, Mariott International, Starwood Hotels & Resorts Worldwide, Accor, Hyatt, Forte, Le Meridien Hotels & Resorts, Orient-Express Hotels, Corinthia Hotels etc. The fast development of the hotel real estate market in the middle-term perspective is expected also in small cities with population under 1 mln. (Irkutsk, Lipetsk, Ryazan, etc). An average increase of the hotel room capacity due to activity of the chain hotel operators in the middle-term perspective is expected to reach 16 % in mega cities and 29% in cities with population under 1 mln. (GVA Sawyer, 2011).

Table 2
Travel Accommodation Sales in Russia (Value, RUB million)

	2005	2006	2007	2008	2009	2010
Hotels	70,122.1	76,160.1	84,330.0	92,828.0	105,903.0	106,725.1
- Channel hotels	3,611.0	4,311.1	4,999.0	5,614.0	6,036.9	6,311.9
- Independent hotels	66,511.1	71,849.0	79,331.0	87,214.0	99,866.1	100,413.2
Other travel accommodation (private, campuses, motels, hostels, etc)	26,630.3	30,022.5	33,826.7	36,614.0	40,819.2	43,678.5

Source: Euromonitor International (2011)

Table 3
Room capacity in Russian cities in 2010 and planned hotel operators activity for 2011-2013

City	Hotel room capacity in 2010, number of rooms	Forecasted increase in the room capacity (% of the total amount)	Forecasted hotel room capacity in 2013, number of rooms	Hotel operators planning to open new hotels in 2011-2013
Moscow	21740	32%	28740	Accor, Kempinski Hotels, Fairmont Raffles Hotels Int, Hilton, Hyatt Corporation, InterContinental Hotel Group, Lotte Hotels & Resorts, MaMaison Hotels & Apartments, Marriott International Inc., Rezidor Hotel Group, Shangri La, Accord Management, RosInvestOtel
St.Petersburg	13970	12%	15670	Domina Hotel Group, Fairmont Raffles Hotels Int, Four Seasons Hotels & Resorts, InterContinental Hotel Group, Kempinski Hotels, Marriott International, Orient Express Hotels, Rezidor Hotel Group, Rocco Forte Hotels, Azimut Hotels Company, Starwood Hotels & Resorts
Nizhny Novgorod	4700	19%	5600	Accor, InterContinental Hotel Group, Kempinski Hotels, Marriott International Inc., Rezidor Hotel Group
Kazan	5500	5%	5800	Accor, Marriott International
Yekaterinburg	5000	3%	5160	InterContinental Hotel Group
Novosibirsk	2400	19%	2850	Hilton, Domina Hotel Group
Volgograd	2500	24%	3100	Rezidor Hotel Group, InterContinental Hotel Group
Tomsk	1400	8%	1510	Domina Hotel Group
Irkutsk	500	80%	900	Marriott International, GostOtelManagement
Samara	2500	16%	2900	Accor, Hilton
Rostov-on-Don	3600	32%	4750	Accor, Hyatt Corporation, Kempinski Hotels, Starwood Hotels & Resorts, Domina Hotel Group, RosInvestHotel
Vladivostok	2200	23%	2700	Hyatt Corporation
Omsk	4800	7%	5150	Accor, Hilton
Sochi	9600	29%	12380	Kempinski Hotels, Fairmont Raffles Hotels Int, Golden Tulip Hospitality Group, Hilton, Hyatt Corporation, Rezidor Hotel Group, Domina Hotel Group, GostOtelManagement, RosInvestOtel

Source: GVA Sawyer (2011), Knight Frank Research (2010)

According to Euromonitor data, travel accommodation sector in 2010 saw 11% growth in the number of outlets and 3% growth in current value terms compared with 2009. Still, even taking into account medium-term plans of Russian and international hotels operators (Table 3), Russian travel accommodation market is far from being saturated (Table 4).

Table 4
Current and medium-term (2013) provision of big Russian cities with the hotels, rooms per 1000 residents

City	2010	2013
Moscow	1.68	2.43
St.Petersburg	2.87	3.22
Nizhny Novgorod	3.70	4.41
Kazan'	4.81	5.07
Yekaterinburg	3.70	3.82
Novosibirsk	1.63	1.93
Volgograd	2.55	3.16
Krasnoyarsk	1.04	1.04
Tomsk	2.75	2.97
Irkutsk	0.65	1.53
Samara	2.21	3.56
Volgograd	2.55	3.16
Vladivostok	3.72	4.56
Omsk	4.23	4.54

Source: Rosstat, GVA Sawyer (2011)

Fast development of information and communication technologies in Russia significantly contribute to the changes in the hotel industry in Russia. Booking and payment for hotel rooms can be performed either at sites of the hotels or through online travel booking services some of which are now available not only in English but also in Russian language (e.g., www.expedia.com, www.venere.com, www.booking.com. etc.). ICT also expands the bundle of services offered by hotels for providing guests with a wide range of opportunities for relaxation and comfort like Interactive TV Systems and WiFi .

INTERNATIONAL HOTEL CHAINS ON THE RUSSIAN MARKET

The history of international hotel chains operating in Russia dates back to the early 1990s. The first foreign newcomers to Russia were the global majors operating worldwide who had the resources to invest in a demand-generating infrastructure. The main form of taking part in reconstruction and building new accommodation facilities in Russia were joint ventures, the first successful one established by Radisson Hotels and Resorts Worldwide. The next hotel in the Radisson SAS chain in Russia was the hotel-complex on the Black Sea coast of Sochi that opened in 1993. Later The Lazurnaya Peak Hotel 4*, aimed at skiers, was added to the complex. Another pioneer international hotel operator having entered the Russian hotel market at the beginning of the 90s was Kempinski Hotels S.A. Now there are plenty of international hotel chains operating in Russia (Table 3).

The main difference in the strategic preferences of global majors, as compared with other international brands, is that the first group focuses mainly on up-market hotels which have a greater exposure to capital and gateway cities, while the second group operates mainly on the mid-market level with the focus on provincial conurbations where domestic demand is more prevalent (Slattery, Gamse, & Roper, 2008). Accordingly, the "first wave" of international hotel chains' development in Russia led to a predominance of expensive hotels aimed at business tourism and leisure (this blending is also known as "Bleisure") in Moscow and St.Petersburg..

The strategy of focusing on the top market segment implemented for almost 20 years and seems to be still effective in next 5-10 years. Hotels operated by international chains are quite flexible in terms of pricing policies, (clients are offered special rates, like "corporate", "family", "super-economy", "business class", etc.) but it is worth to admit that economy class room in Moscow is much more expensive than it would be at similar hotels in large cities elsewhere in the world. According to the EuroMonitor data, the average price of a hotel room in Moscow before the economic crisis was the highest in Europe. In 2011 it had declined by 27%, down to

\$169 per night, but Moscow is still in the second place in the world in terms of average room price, after Monte Carlo where the price is \$172.

As a result, there is now an obvious deficit of economy and budget lodging facilities consistent with international standards, especially in the regions of Russia. With tourists currently wanting to explore more far-out locations, and with business links in Russia continuing to develop, more people from abroad are likely to require access to the country. Small independent hotels in the regions which are few in number cannot provide adequate quality standards. Experts from Knight Frank Research underline that business tourism predominates in the accommodation demand structure, and there is a need for more hotels that would have all the facilities that a business person may need: fast and professional staff, business centers with all the necessary equipment, fast and free internet service in the hotel, etc. (Knight Frank, 2010). Profitability of hotels in the regions is 15-20%, and that's considering that similar statistics for Europe are 5-10% (Balaeva et al, 2012).

All this makes Russian regions a very attractive market for investment and new market players. Now most international hotel chains in Russia demonstrate the strategy of regional expansion. Mike Collini, Hilton Worldwide's vice president of development for Northern Europe said in an interview that his company is anticipating substantial growth in cities other than Moscow and St. Petersburg because, according to a Western model, "you usually get a variety of hotels" in a city of 300,000 people. Marriot International, which already operates eleven hotels in Russia, spread throughout Samara, St. Petersburg and Moscow, announced that an additional 25 hotels are to be opened, offering accommodation across the Russian Federation in non-capital cities such as Ufa, Krasnodar, Irkutsk, Krasnoyarsk, and Kazan. Rezidor Hotel Group and Starwood Hotels and Resorts Worldwide plan to open hotels in all Russian cities with a population of 500,000 or more. InterContinental Hotels Group strategy in Russia is to target a select number of cities with populations of more than 1 million and substantial infrastructure and industry. "Our strategy for the past five years, and recently reconfirmed for the next five, is to stay very focused on a small number of cities with populations above 1 million; infrastructure; international airport access; and identifiable light, service and heavy industry present and growing," said Michael Cooper, the company's vice president for strategic development in Russia and the CIS (Childs, 2010). A similar strategy is being followed by Accor Hospitality, which owns the brands Sofitel, Novotel, Ibis and Etap. It is interested in Murmansk and other cities with more than 1 million people.

There is also an evidence of "small-size" international brands activity but their number is growing very slowly because they have a number of adaptation problems in Russia. As an example, cost structure of operating a hotel in Russia is different from that of Europe and the United States: the country's climate demands more heating and lighting, and there is a need to hire extra security personnel. Those factors make the standard budget-hotel model impossible to implement in Russia: operating costs would be so high that hotels would need to charge higher prices - eliminating the budget part of the formula.

International hotel operators expanding to the Russian market are creating some trends in the local travel accommodation business. One of the most important trends is growing role of relationship marketing in the long-term success of any hospitality company, even if it operates in so-called business areas. That means that the popularity of a hotel significantly increases if it builds sustainable relationships with suppliers of products and services, travel agencies and other actors of the market, which helps to provide not only good quality accommodation, but also a wide range of services, including sport and entertainment facilities.

Most experts interviewed consider the franchising concept as the most suitable one for economies in transition. Since such countries, including Russia, do not have a long history of entrepreneurship, the franchising provides them with a clear working structure and know-how. It is also a source of competitive advantage for an entrepreneur to use a famous brand name and the existing reputation to attract brand-loyal customers. Today, however, international hotel companies operating in the domestic market are actively implementing franchising. Among them there are world-leading hotel chains and companies like Marriott, Hilton, Hilton Garden Inn, Doubletree by Hilton and Holiday Inn, etc. Hoffman (2004) argues that the main factors favoring franchising in Russia are absence of powerful local hotel chains that could bring the service standards, poor conditions of the existing room fund and hotel infrastructure in general around the country.

It is worth to mention that new hotel construction rates are still too low in Russia: constructing new hotels in Russia requires significant investment, and the payback takes a long time. Most of the international companies are unwilling to risk their own capital in the face of questionable rule of law and questionable security of foreign investments, so significant local capital will need to be invested in hotels. At the same time, "the issue is the low proportion of local capital seeking hotel investments in the face of more pressing need for

investment in other asset classes such as industrial, residential, and commercial, each producing higher volumes of development opportunity and greater political support" (Slattery, Gamse, & Roper, 2008). Thus, it is not easy to find an investor for a hotel development project in any of Russian cities.

That's why the process of penetrating the Russian market is not easy, and the majority development is not fast. In general, the supply in travel accommodation sector in Russia increases at the expense of launching non-network hotels. Hotels offering international standards still have a small market share in metropolises and have just begun to appear in other Russian cities. The luxury hotel niche is still to be filled, as well as some other niches, including the cheap hotels segment.

CONCLUSIONS AND FUTURE RESEARCH

The main conclusions are as follows.

There is a general upward trend in the role of the Russian tourism and hotel industry in recent years. Most of the global majors and many of smaller international hotel companies have now arrived in Russia and are seeking further exposure. Since last decade also Russian hotel chains operate in the country.

The main constraints for enhanced growth of hotel chains in Russia are as follows: the depreciation of the hotel stock including two- and three-star hotels; unreasonably high prices for accommodation in many four- and five-star hotels; the absence of the necessary infrastructure in many attractive tourist regions of Russia.

International hotel chains operating in Russia prefer time-tested and long-established schemes of business. Global majors focus on up-market hotels, while other international brands focus on the mid-market. Up-market hotels have a greater exposure to capital and gateway cities, where much of the foreign business demand and a portion of the foreign leisure demand are concentrated.

The first foreign newcomers to Russia were the global majors operating worldwide possessing resources to invest in a demand-generating infrastructure. Due to the strategic preferences of global majors the "first wave" of international hotel chains in Russia was composed of mostly 4* or 5* hotels located in Moscow and St.Petersburg. Recently global majors have significantly increased their activities in Russian regions and are still operating in up-market segments. Many smaller international hotel chains which lately have begun operating in Russia demonstrate now the strategy of regional expansion in low-end segment.

Still, the international standards are not simply translated to the Russian market. Hotel chains have minimal brand infrastructure in the country, new hotel construction rates are still too low in Russia, and there is an obvious need for significant investment in training and education necessary for providing an effective hotel workforce. One of the main challenges for international hotel chains is also embedding into complex environment and building network relationships with the main actors of Russian hospitality market.

Findings suggest there is scope for further research. In particular, the role of interorganizational networking in gaining competitive advantage in the Russian hospitality sector, as well as regional operations of hotel chains will remain a promising avenue of further research.

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