



GHN ON MY MIND

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The Changing Dynamics of the Global Hotel Industry

China's hoteliers achieved a dramatic milestone earlier this year—one that signals a profound change in the dynamics of our industry globally.

For the first time, not one, but two China-based hotel groups leaped into the ranks of the world's top 10 hotel companies. Shanghai Jin Jiang International Hotels with 1,243 hotels and 193,334 rooms now ranks ninth in the world as Shanghai-based Home Inns & Hotels Management with its 1,426 hotels and 176,824 rooms came in at 10th place—joining long-time industry stalwarts IHG, Marriott, Hilton, Wyndham, Accor, Choice, Starwood and Best Western as the industry's dominant players.

With its population base of over 1.3 billion people, China's huge domestic tourism market and expanding middle class have generated a 10 percent tourism growth rate every year over the past decade. This phenomenal expansion has enabled Chinese hoteliers to lay a solid foundation for entering the hotel business on a global scale. Domestic Chinese tourism now contributes about five percent to the country's GDP, greatly enhancing local employment, consumption and economic development. Today, over 80 million Chinese tourists a year travel to far-off places like the US, Australia, the UK, Canada, Germany, Italy, Spain, Brazil and Mexico. This number is expected to increase exponentially as the Chinese government recently announced plans to boost its tourism sector another 10 percent. By 2020, Chinese mainlanders are expected to make 200 million cross-border trips annually.

The Chinese path to international expansion is not unlike that which hoteliers in North America and Europe followed in the second half of the last century when western hotel chains built their domestic portfolios then turned their attention to tapping international markets.



Today, while western chains continue to expand their reach into China through franchising, management contracts and new brand introductions, Chinese hoteliers are employing a variety of strategies to gain a firm foothold in markets beyond their borders. Along the way, they are fine-tuning their experience with various business models.

For example, over the past couple of years, New World Hospitality bought Dallas-based Rosewood Hotels & Resorts, China's HNA Group took a 20 percent stake in Spain's NH Hoteles, and Shenzhen New World Group bought the Sheraton Universal Hotel and the Los Angeles Marriott Downtown Hotel in Los Angeles. China's HanTing Inns and Hotels is similarly reported to be interested in expanding its operations by looking at hotels in the West.

Perhaps, the most aggressive among China's expansion-minded hoteliers has been Shanghai Jin Jiang Group which joined with Thayer Lodging to buy Interstate Hotels & Resorts in the US. Jin Jiang recently struck a deal with France's Louvre Hotels Group in which Jin Jiang Inn customers will be able to make reservations for Campanile hotels in five French cities and Campanile customers can book rooms in 15 Jin Jiang Inn hotels in China. In addition, Jin Jiang also entered into an alliance with Spain's Sol Melia as a first step in forging a larger partnership.

It's clear western markets offer attractive opportunities for these hoteliers.

In the past decade, China's hotel industry has developed in quality and quantity. China Hotel Association reports there are about 300,000 hotels in the country, with approximately 11,000 of these hotels holding a four-star rating. The booming Chinese economy has enabled the big domestic hotel groups to build their networks and to grow in popularity. As mainland Chinese tourists and businesses become the world's dominant travel group, they will become a solid customer base for these chains as they move into western markets, including Africa.

Meanwhile, the difficult economy in many western countries has created an attractive environment for mergers and acquisitions as well as for other forms of consolidation and integration as ways to instantly penetrate new and emerging markets. And, franchising is proving to be a potent engine for global brand distribution.

In the years ahead, Chinese hoteliers will continue to build their global reputation and to increase their brand value internationally. It won't be long before a Chinese-flagged hotel opens its doors on Main Street, USA or the Champs Elysees.

Ed Fuller, President, Laguna Strategic Advisors, is a member of GlobalHotelNetwork.com's [Investment Committee](#).