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ALL THE KEYS IN CHINA

International hotel brands are expanding as never before to keep pace with China's booming hospitality market—and there doesn't seem to be an end in sight

BY RON GLUCKMAN

Frits van Paasschen, CEO of Starwood Hotels & Resorts, likes to start his mornings with a long run. A tough competitor, he finds ample opportunity for a hard workout in China, where Starwood is in a spirited race for a hospitality market booming like nowhere else. This summer, the former Nike executive upped the ante, moving most of his executive team from New York to Shanghai for a month, in a bold experiment he dubbed "Business without Borders."

The aim was to give Starwood executives more insight into what has become the company's second-largest market. "The idea was to get close to China," says van Paasschen, adding that 30 percent of Starwood's growth nowadays is in China. And Starwood only intends to ramp up, perhaps tripling the number of its China hotels within a few years. "Shanghai helped our internal focus," he says, "and it acknowledges how important China is to us."

Starwood currently has more than 70 properties in China, with a broad brand range that includes St. Regis, Sheraton, Westin, and W hotels. At least 90 more are in the pipeline, according to van Paasschen. "We plan to open a new hotel in China every two weeks through the next year."

Some competitors scoff at such bold growth projections—until they pause to tally their own China contracts. Pullman, a recently launched luxury brand from French group Accor, plans to more than triple its properties in the country to 32 within three years, according to Vincent Lelay, Accor's Shanghai-based vice president of operations for Greater China. Other chains are similarly upbeat. In the next five years, InterContinental Hotel Group (IHG), the market leader in China, expects to double the 150 properties it manages in mainland China, Hong Kong, Macau, and Taiwan—and to employ an additional 90,000 workers.

"The growth is phenomenal," notes Nong Xia, senior vice president with Hyatt for China, who maintains that his group intends to move cautiously, seeking prime locations in major gateways. Still, Hyatt plans to roll out Hyatt Place, a "select service" brand, in China, and see its portfolio of 17 properties in Greater China balloon to 39 within a few years. "Sometimes, in China, it can be difficult to resist the temptation to grow faster and faster," Xia says. "It often feels like fast is not fast enough."

Making China all the more attractive is the fact that much of the rest of the world is seeing flat or negative growth. In contrast, China's market has been like "a perfect storm," says Robert Murray, who has been based in Shanghai for six years as head of Accor's China operations. He concedes downturns in rates and occupancies during that time. "But we're all just beating our chests about this growth, since there is nowhere else in the world like this."

Take IHG, the first international hotel chain to enter China with the opening of Beijing's Holiday Inn Lido 1984. By 2004, the group operated 39 Chinese properties—but has nearly quadrupled that number in the last seven years alone. Says Keith Barr, the group's CEO for Greater China operations, "Things are moving at explosive speed. China is definitely a new and emerging market, and no company wants to miss opportunities here."

Such frothy forecasts have more than a few analysts worrying about a potential bubble market. Indeed, the costs of labor, land, and development have all been rising in China, even as room rates have failed to keep pace. Yet Barr maintains: "We think the market is still growing and is far from saturation point." Those pondering whether there has ever been a hotel growth curve comparable to China only need to look at the origins of IHG, the world's largest hotel company, booking nearly 150 million room stays each year at over 4,400 properties around the world.

Holiday Inn was launched during the American baby boom following World War II, with four motels in Memphis, Tennessee, in 1952. By 1968, the chain had expanded to 1,000 properties. Much of that growth was facilitated by franchising, a model that hasn't really taken off in China, according to Damien Little, the Singapore-based director of Horwath HTL, a consultancy that conducts extensive studies of the Chinese hospitality market.

Partly because its economic reforms have come so recently, China has few entrepreneurs with the credit rating or experience required of franchising. Yet, there are still interesting parallels with the development of hotels in America. The U.S. hospitality industry took off in the 1950s amid a national expansion of the highway system, which provided record numbers of Americans with the ability to travel. The same sort of revolution is underway in China, where a massive expansion of roads, airports, and railways is helping to unleash the tourism potential of 1.3 billion people.

Horwath's latest China survey claims that for the first time, domestic tourists rank first in every market segment, even the high-end corporate and MICE travel niches long dominated by bigger-spending foreign visitors. This explains much about the robust numbers for hotel development, since brands are now pushing out from China's major cities, and even secondary markets, into the country's vast hinterland.

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IHG's Barr puts the market in focus: "There are 2.3 million hotel rooms in China today, compared with five million in the U.S. and six million in Europe. This means that China has around 550 people per hotel room against 50-70 people in those other markets. And that's overall. If you just look at branded hotels, which are relatively fewer in China, the gap is even wider: 3,000 people per branded hotel room in China against nearly 90 in the U.S."

According to Accor's Murray, "China is booming across all sectors"—meaning everything from five-star lodgings to budget inns. The country is also seeing a diverse selection of new products, including boutique and eco-resorts that weren't even represented a few years ago. Spa retreats and conference centers now inhabit the suburbs of practically every major Chinese city.

Some of the greatest room expansion has been in the budget sector, a segment where the foreign chains are much imitated, but largely left out. Little says that foreign firms have difficulty competing with domestic companies that can lock up approvals and prime locations, often converting old apartment blocks to budget hotels that don't meet the standards of international brands. Homegrown companies like 7 Days Inn, Hanting Inns & Hotels, Motel16, and Jinjiang Inns have boomed across China, offering rooms for under US$50 a night. Many have copied the approach of pioneering budget chains like Motel 6, which boomed across America a half-century ago.

While few foreign firms can compete at the entry level, Accor has been determined to build a brand to fill every niche in China. It has rolled out its mid-range Ibis brand across the country, not only in business cities but also in secondary markets where it offers international quality, often for only US$50 a night. "The Chinese customer is getting very spoiled," notes Accor's Murray. "The value they get is incredible. Rooms are much bigger than before and lots of features that you used to only see in five-star hotels are becoming standard."

As the market increasingly focuses upon a more discerning domestic clientele, many groups will be diversifying their presence. Accor has already had great success with its Pullman hotels, and recently introduced its first MGallery Collection property in Shangri-La County, Yunnan. Starwood is expanding its Aloft line, while Holiday Inn Express hotels were recently rebranded in China under the name Zhi Xuan Jia Ri, which translates as "Smart Choice."

All of this is being facilitated by online Chinese travel services, notes Kent Zhu, group sales director for Hong Kong's Shangri-La Hotels and Resorts. "More and more Chinese tend to make bookings and search travel information online," he says. Websites like Ctrip and eLong now offer multilanguage services and booking with international credit cards, in many cases beating global competitors for price and efficiency.

The main change, though, is summed up by Kamal Naamani, general manager of the recently revamped Fairmont Peace Hotel in Shanghai. "What we've been hearing about for years, this rich China market, is really happening now. People are making money and starting to travel in tremendous numbers." Fairmont Hotels & Resorts, based in Toronto, only entered the China market at the end of the decade, but has big plans, with three properties opened, and four more on the way. Says Naamani, "We are all just scratching the surface of the market here." ◎