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Hotel, Tourism and Leisure

INDUSTRY REPORT

Can Hotels create Convergence Economies?

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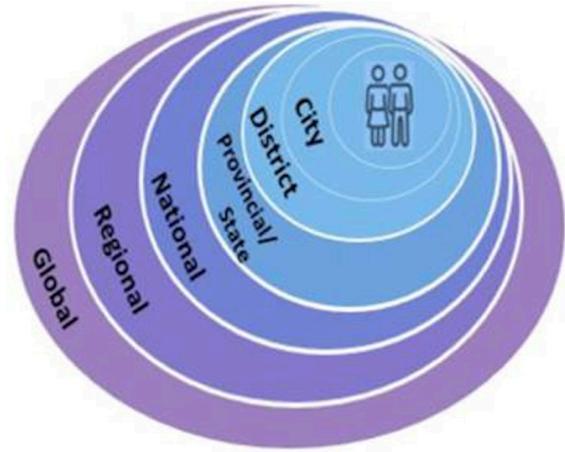
Can Hotels Create Convergence Economies?

The COVID-19 pandemic has forced us to question the way our economy and society have operated for centuries. Since the onset of the first Industrial Revolution more than 200 years ago, the Western economic model of hyper-competition and continuous growth has achieved global dominance – this holds true even in the hotel industry.

Historically, less developed countries around the world adopted the technologies and paradigms their wealthier Western counterparts championed in a bid to increase their gross domestic product (GDP) and access new sources of capital.

COVID-19 has the potential to become a tipping point, a course correction rejecting the status quo in favour of an economic model better serving our transforming world. The pandemic, coupled with raging weather and natural disasters (severe wildfires in California, sea level rise that would submerge cities as different as Shanghai and New Orleans, recurring major hurricanes in Texas and Louisiana, more frequent floods due to precipitation and snowmelt in Canada etc.), makes us rethink age-old operating models, forcing many industries to reoptimize their operations. This is also applicable to the hotel industry.

It is the perfect time to move from the Western economic model to something new: a convergence economy. By placing the human being and their immediate family and community at the centre of practice, system design, and policy, we can promote the convergence of societal and economic goals. The convergence economy focusses on



resilience contrary to hyper-competitiveness, challenging traditional operating models of businesses.

Resilience is the ability for businesses to survive, adapt, evolve and grow in the face of turbulent change. Resilience of organizations and institutions on both sides of the economic and social divide is clearly a pressing and current need, leading to dynamic interdependencies of systems.

The COVID-19 pandemic may have fostered resilience at an individual level by forcing a better balance between aspiration, expectation and achievement of individuals in our roles as parents, citizens, workers or patients vis-à-vis consumer roles. Purchasing power and lifestyle decisions as consumers have traditionally supported modern economy and society – holding true in the hospitality industry.

Consumer decisions impact businesses, policies and have system wide implications, at a city, neighbourhood, regional, national and global level, as seen in the graphic alongside. For the hospitality industry, fostering local community development has been undertaken sporadically. The worldwide pause in international travel has acted as a reminder that engaging with the local community is essential to business continuity.

Hotel design, development, operations, services and amenities putting communities front and centre make the global and the local converge. This special market report highlights how hotel owners, developers, franchisers and hotel companies can reimagine their operations by placing local community development at the core of their DNA, thereby creating win-win situations.



Source: Royalmount, Montreal



Source: Marival Armony Luxury Resort & Suites, Puerto Vallarta

Reimagining the Hotel Development Process

Integrated Developments

Mixed-use real estate and hotel developments combining residential, retail or commercial aspects have been known to provide synergies in services, amenities and overall experience for hotel guests and residents alike. However, when developments follow integrated development systems (a complete integration of amenities, retail spaces, hotels, transportation and lifestyle components), residents, localities and communities start to thrive.

This has been demonstrated by the newly revised plans at the Royalmount development in Montreal, connecting the Montreal Metro to its hotel, residential and retail components.

Previously, the plans called for a mega-project consisting of 6,000 residential units, with several hotels, theatres and exaggerated retail space. The revised plans call for a more community integrated development, with 3.8 kilometres of bike paths, revised LEED targets, an overhauled energy grid plan and scaled back residential and entertainment components. Green space within the overall development increased by 170% when compared to the old plans, thereby placing the well-being of communities at the centre of the development.

In terms of feasibility, the revised plan (even at an increased project value of \$7 billion), is estimated to be profitable in the long run given the cost savings the development will achieve by being “green” and sustainable.

Such vast integrated developments support the local economy by supporting thousands of jobs, from the inception of the development (construction contracts, and related employment) to operations while fuelling the tourism and cultural aspects of the economy. It also provides a “sense of place” given these developments significantly engage with the local community and surroundings.

Local Materials for Global Hotels

Developing hotels fitting with the overall theme of the location proves to be more sustainable. Sourcing materials indigenous to the location has been known to reduce the overall cost of development, while also benefiting the local economy. Materials locally sourced are also known to be better suited to the hotel’s location and withstanding the local weather conditions, thereby increasing sustainability. Building locally also enhances guest experience, where guests are provided with an authentic experience inspired by the location.

A great example of integrating local elements into the design of the hotel is the Marival Armony Luxury Resort & Suites at Puerto Vallarta that incorporates the design of a palapa for the roof of their main restaurant.

Focus on Operations – Creating Lasting Guest Experiences

Infusing Local Culture within Operations

Hotels seek to infuse the local culture within their guest stays to enhance the overall guest experience. Hotels have started becoming cultural hubs, be it hosting various art workshops or local gastronomical experiences.

Several hotel brands, such as Sheraton, with its focus on local F&B design through its brand refresh, allows for local and cultural nuances within the hotel spaces. At the same time, the increase in experiential travellers, allows hotels and chains to attract this type of consumer, thereby increasing their overall occupancy. It also takes the guest away from the usual cookie-cutter experience, especially for the 'road-warrior' guest, who is travelling extensively.

Supporting local musicians, artists, and events are ways hotels can nurture local talent. Art exhibitions, pop up musical events, local gastronomical experiences, are some ways local talent can be supported through hotels. As always, it provides guests with a better experience driven by local flavour, compared to generic experiences.

Farm to Table F&B

Farm-to-table or Farm-to-fork is a social movement that gained in popularity almost a decade ago. The movement promoted serving food made solely with local ingredients and recipes in a restaurant and a bar setting. Ingredients can be acquired through local produce sellers, but most prefer acquiring directly from the growers/makers. Several hotels in Canada have started their own farms within the premises of the hotel's grounds. As such, the food items produced are fresh and seasonal, allowing guests to eat what is typically grown locally.

Farm-to-table restaurants are also thriving and gaining in popularity, given the following factors: guests are becoming more aware and health conscious; consumers are seeking sustainable food options; producers are cutting out the middle man and therefore earning more; and, from a marketing stand point, farm-to-table concepts are very much in demand. This in turn makes the supply chain more profitable for the producers.

City hotels do not need actual land space to create these experiences. Several city hotels achieve this within concrete jungles. For example, the Crosby Street Hotel in New York

City uses its rooftop to keep a garden growing vegetables, fruits and even eggs and poultry used by the hotel's restaurant.

Engaging with Local Businesses

To assist local businesses to survive and flourish, several hotel companies and hotel properties have partnered with local businesses to ensure a higher level of synergy. Be it in serving food, beverage, laundry or other services, hotels partner with local businesses to provide these services.

For example, AccorLocal, the app developed by Accor Hotels, allows local residents to 1) connect with merchants rendering their services at a nearby hotel and concierges to assist with enquiries and provide services, 2) make restaurant reservations (usually within the hotel), 3) book yoga and other fitness classes offered in the hotel and/or locally, 4) grab breakfast on their way to work, 5) drop-off and collect dry cleaning (without a time limit as hotels operate 24/7), 6) hire local services such as carpenters and handymen. Spending money on such services allows locals to gain loyalty points on the respective loyalty programs, thereby enjoying perks while on holiday. The concept of the AccorLocal app is to allow/motivate locals to connect with the hotel – thereby being "neighbours within the district".

Using your Hotel as an Alternative to WFH

The concept of work-from-home became mainstream during the pandemic. Many companies, including those as big as Google, have allowed employees to continue working from home, until a solution to the pandemic or a potential cure is found. Though working from home can be monotonous with a lack of interaction one would typically get in an office setting, hotels can help! Many hotels and chains, such as Kokotel in Thailand allow local company employees to rent a room for a day (with or without spending the night). Employees have access to a professional setting away from their home – while ensuring significant levels of hygiene typically not guaranteed in an office setting.

Renting rooms for the day may be a shift in the traditional operating model for hotels but can help generate incremental revenue for under-utilized guest rooms and hotel facilities. In this way, hotels can compete with short-term office rentals and co-working spaces. It also allows for engaging with the local working population and demographic groups that had previously never frequented local hotels.



Source: Good Hotel

Rethinking Corporate Strategies

Creating Hub and Spoke Systems

Localisation and involvement of local communities does not need to stop at a property level. Having several geographical hubs to “push” the local strategy is now trending amongst large hotel companies. Accor Hotels recently announced the company is downsizing their corporate headquarters in Paris, in preference to having 8 regional hubs spread out globally. These geographical hubs will support the local and regional hotels better, with personnel being chosen to facilitate a better connection between locals, guests and hotel owners. Similar moves were also undertaken by IHG and Marriott, prior to Covid-19. Such moves are also considered to be providing cost savings which are critical when company profits have deteriorated.

Reimagining of Traditional Investment and Development Options

The traditional investment and development option within the hospitality industry was predominantly driven by an influx of both foreign investment and foreign talent. This was true two decades ago, but has now changed.

Investment and development, especially in growing economies such as India, Vietnam, Thailand, Indonesia and others, has been primarily “local” driven. Access to local capital, local well-qualified talent, well-reputed food and supply chains, local tours and recreational activities, are front and centre of developing and operating a successful hotel. The overall localised investment and development cycle means a faster route to opening a hotel, typically less cost of capital and higher synergies with local businesses, creating an efficient and effective business model.

Social Entrepreneurship

According to Robert Nason et al, social entrepreneurship is a distinct form of entrepreneurship endeavour placing an explicit focus on creating social value for key stakeholders. Social entrepreneurship in the hospitality industry has been slowly gaining in popularity. Driven by innovation, this form of entrepreneurship is available at the grass-root level and can happen anywhere when stakeholders engage with society.

The availability of information technology in the hands of local producers, be it fishermen, farmers, coffee growers, etc. has allowed a convergence of international operating standards with local production facilities. In a local supply chain, revenue ends up with the local producer rather than middlemen. And it also provides hotels with a better understanding of the quality and traceability of the products.

Social entrepreneurship leads to strong intuitive synergies between communities and businesses. This type of entrepreneur strives to create a better and more resilient world, where sustainability forms the core of the business model.

Ethical Employment and HR Practises

Hotels have always been known as a great source of employment, be it local or international. They provide jobs at various levels, both at entry and executive levels. But can hotels be more purposeful in their hiring in terms of local community engagement? A case for this is seen at Good Hotel Antigua in Guatemala, where the hotel only hires single mothers, and proceeds from the hotel go towards educating children.

Training programs not just limited to hotel staff can assist locals in gaining employment in the industry. EGBOK, a not-for-profit training school in Cambodia, assists youth in enrolling in the hospitality program by paying a stipend and providing hospitality training leading to jobs for underprivileged youth.



Meeru Island, Maldives



Praia do Forte, Brazil

The Benefits of Community Engagement

Setting Trackable Environmental, Social, and Corporate Governance (ESG) Goals

Environmental, Social, and Corporate Governance (ESG) is a company's commitment to responsible management of the social, environmental and economic effects of its operations. Previously, we presented examples of strong community engagement. They illustrate how hotels and organisations set trackable goals measuring both the benefits to the community and the required investment.

A key example is Marriott's Serve360 program, which includes goals such as contributing 15 million hours of volunteer service to support Marriott's community engagement strategy and having at least 50% of their franchised hotels participate in community service activities.

Increased Investment Opportunities

Lending institutions pay attention to increased community engagement translating into ESG goals. Banks view ESG activities positively, as companies having a robust ESG program gain access to better and less costly loans (as demonstrated in a research paper by Allen Goss and Gordon S. Roberts published in the Journal of Banking and Finance).

Private investors are often inclined to invest in hotel REITs, companies, owners, and developers demonstrating high ESG standards. High levels of community engagement attract shareholders, by providing the company with a positive reputation. Investors care about community engagement: good ESG ratings are an attractive feature for shareholders of publicly listed companies. Good ESG ratings can lead to higher stock returns and less exposure to risk.

Getting local buy-in - allowing hotels to operate

In resort settings or hotel developments in more niche locations, local engagement and community development at a grassroots level assists hotel development to get the "go-ahead" to proceed in building, pre-opening and starting operations.

The location could be a fishing or farming village that could be integrated into the development of an emerging tourist destination – as seen in the Maldives where local meets tourism. Yet these two do not meet without engaging with localities: considering and respecting local customs, regulations, supply chains, local produce, and labour laws. This is not an option; this is a business imperative shielding the hotel by making it part of the local fabric.

Boost to Corporate Image

Community engagement translates into positive communication to shareholders, guests and employees. A strong community engagement programme is multi-faceted, with investment in sustainable operations, education and training for skilled labour, and the development of sustainable sources of income. This enhances the company's and the hotel's reputation.

A hotel demonstrating strong community engagement also increases guest loyalty, thereby having a direct impact on repeat business and revenue for the hotel.



Source: Banyan Tree, 'Greening' Communities Together



Source: Fairmont, Working to 'Bee Sustainable'

Enhanced Economic and Social Benefits

Community engagement, be it in the form of human resources, training, supporting local arts and crafts, engaging with local farmers and food producers, supports the community at large.

It not only provides direct monetary benefits to the community, but also presents benefits in the form of:

- **Access to jobs:** Training and development of local staff, building using local materials, farm to table operations, and key community-led development programs allow for employment gains at the local level.

Employment gains support local employment – and make local communities safer (as highlighted in a research paper by Patrick Bennett and Amine Ouazad in the Journal of the European Economic Association).

- **Conservation of local heritage:** Local artisans supported by hotels sustain traditional ways of lives and livelihoods. A great example of this is seen at Banyan Tree Hotels & Resorts, where every property showcases crafts from a local village.

- **Education:** Training staff and hiring locally allows for continued education of not just the current employees of the hotel but also future generations. Programs developed by NGOs such as EGBOK support not just current workers, but also aspiring youth, thereby fueling the economy.
- **Health:** Preventive health and disease awareness drives, as well as disaster relief efforts, led by hotels and hotel companies result in higher levels of overall wellbeing and health in the community.

A flagship example of such involvement is the Fairmont's Makkah Clock Royal Tower, along with Ebsar Foundation, supports people on the verge of losing their eyesight. Many hoteliers routinely also help with HIV AIDS health drives through education programs.



Source: Nishiyama Onsen Keiunkan in Hakayama, Japan

Creating Convergence Economies and Multi-Level Resilience

Detached cookie cutter business strategies make hotels adopt fragile and unsustainable practices. By placing people and communities at the centre of the conversation, hotel chains and developers worldwide become robust and resilient, while promoting societal and economic goals – be it at a local, regional or national level.

Community development has traditionally been associated with sustainable operations. Yet there is a growing acknowledgment of the tight personal links community development builds, in turn strengthen the business resilience at multiple levels. A narrow concern for efficiency based on a fragile understanding of innovation and cost cutting has prevailed since the onset of the first industrial revolution. This Taylorian “production line” approach to hotel operations has not sufficiently accounted for the personal interdependencies in complex business systems.

Hotel guests recognize the need for a system-level transformation of the industry. They recognize the personal connections hotels establish with their stakeholders – neighborhood, local community, staff, local suppliers – and treat the product with unique trust.

The hotel industry can build this trust by going back to its historical roots. When travellers check in at the world’s oldest hotel, the Nishiyama Onsen Keiunkan in Hakayama, Japan, they are going back to where the hotel industry began. A place where the building blends with its surroundings, hot water springs from a local source, food comes from Yamanashi, and the staff has a strong connection with its local community since the 7th century.

This guest experience, however, can be replicated at any level, at any hotel property across the globe – and for that we just have to tap into our DNA, bringing the essence of hospitality to the forefront of the conversation.

Clearly, all suggestion above, whether at city, state, national, or global level, cannot reach scale in the absence of enabling conditions for access to labor and commercial, for interconnected, efficient and agile supply chain, as well as sustainable investment and policy environment.

Recent efforts deployed by governments and other actors throughout society around the world for green financing, sustainable development, inclusive innovation can as many opportunity where hotelie can contribute to and benefit from to make our transforming world a better world for all.

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A Cornell Hotel School post-graduate, Ambika has over 13 years of hospitality development, operations and consulting experience with significant experience in conducting market studies in real estate sectors, including hotels, tourism, retail, residential and commercial projects. Ambika has completed projects, spanning over USD 12 billion in asset value, in numerous locations including Singapore, Malaysia, Vietnam, Indonesia, UAE, Qatar, Morocco, Maldives, Micronesia, Mauritius and Canada. Ambika is also a member of the Royal Institute of Chartered Surveyors (MRICS).



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Professor Dubé holds the James McGill Chair of consumer and lifestyle psychology and marketing at the Desautels Faculty of Management of McGill University. Dr. Dubé's lifetime research interest bears on the study of affects, behavioral economics, and neurobehavioral processes underlying consumption, lifestyle, and health behavior. Her translational research examines how such knowledge can inspire more effective behavioral change and ecosystem transformation. Dr. Dubé is also the founding chair and scientific director of the McGill Centre for the Convergence of Health and Economics (MCCHE), a unique initiative to push the boundaries of disciplinary and complexity sciences to help individuals, communities, businesses, social enterprises, and governments to tackle, the most pressing societal and economic problems facing the world that lies at the nexus between agriculture, health and wealth production, consumption and distribution.

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At Horwath HTL, our focus is one hundred percent on hotel, tourism and leisure consulting. Our services cover every aspect of hotel real estate, tourism and leisure development.

Our clients choose us because we have earned a reputation for impartial advice that will often mean the difference between failure and success. Each project we help is different, so we need all of the experience we have gained over our 100-year history.

We are a global Brand with 47 offices, who have successfully carried out over 30,000 assignments for private and public clients. We are part of Crowe Global, a top 10 accounting and financial services network. We are the number one choice for companies and financial institutions looking to invest and develop in the industry.

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