

## Chapter 3

# Root Causes of New Hotel Opening Delays in China

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### ABSTRACT

*In China, at least three new 150+ room hotels will be opened every day for the next 25 years according to available development pipeline data (Yang, 2011; Lodging Econometrics, 2013). This phenomenal rate of hotel construction has major implications for how new hotels are opened on such a large scale. China is a vital growth market for the global hotel industry, yet many of these hotel openings are being considerably delayed. This chapter reviews the future growth strategies and plans of the major international hotel companies in China, and examines the causes for these setbacks. The authors used a Causal Chain Analysis on data that were acquired from over 80 interviews with hotel management professionals in 2009. There was an overwhelming general lack of understanding of project management methodologies, concepts, and structures. These were found to be key problem areas (Thomas, Delisle, & Jugdev, 2001).*

### INTRODUCTION

The growth rate of the Chinese hotel industry is phenomenal. The sheer scale of hotel growth in China is unlike anything the world has ever seen before. The increasing focus of major global and regional hotel management companies on China as a growth market has been covered extensively by the international and regional press (USA Today Travel, 2010). This chapter reviews and analyzes the current conditions of the industry. We chart the plans of the top international hotel companies that are heavily developing in the region. We will then examine and report on the causes of the prevalent hotel opening delays that are being experienced across the region.

The authors planned and conducted email and telephone interviews in 2009 with hospitality professionals with relevant hotel opening experience. The objective of the exploratory survey was to understand the processes that international hotel management companies working in Greater China apply to the

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opening procedures of their new hotels and gather insights into the reasons, both real and perceived, of the delays. We collated and analyzed the data, we collated and analyzed the data from the interviews and subsequent anecdotal evidence (from private discussions with people active in the industry) makes us very confident that the situation has continued largely unchanged up till the present day.

Delays in new hotel openings are widespread and commonplace throughout China. In the direct experience of the authors, typical delays of between 1-12 months frequently occur. Delays have substantial financial implications. Incremental pre-opening expenses, revenue and business opportunities are all lost as a consequence. The reputations of the hotel itself, the hotel brand and the hotel management companies involved are also all damaged. At the same time, delays tie up corporate resources that could be utilized elsewhere.

This chapter recommends the introduction of project management as a strategy for dealing with these delays. Project management is the best way forward to improve the effectiveness and efficiency of opening hotels in China, but extensive organizational, educational and cultural changes will be required (Noordzy, 2012).

## **HOTEL ROOM GROWTH PROJECTIONS**

There are currently around 2.3 million hotel rooms in China (The Washington Post, 2011), a figure that has grown considerably since the beginning of China's Open Door policy. In 1984, the first international hotel, the Holiday Inn Lido Beijing was opened, and in the following year, the Great Wall Sheraton Hotel was launched in the same city. In the subsequent years, almost all the major hotel chains have expanded into the Chinese market, establishing franchise and hotel management agreements with the local developers of new hotels.

Predictions are (Yang, 2011) that by 2025, the number of hotel rooms in China will rise to 6.1 million, equaling the expected US total by the same date. By 2039, the number of hotel rooms should reach 9.1 million, quadrupling the present total.

About 22% of Asia's hotel inventory is branded, compared to 66% of North America (STR Global, 2012). Another key difference between the US and China is that the US growth rate is much more gradual, and has developed over a longer time period. A number of the major hotel management companies in the US grew through acquisition, as well as organic growth. Acquisition does, of course, occur in China, but examples of these transactions are much less frequent. The huge majority of hotel projects in China are new build.

Researchers reported that in May 2012, in China and India, a combined total of more than 850 branded hotels with more than 225,000 rooms were under construction (Ernst & Young, 2013). Hotel Investment Outlook 2014 reported that China's hotel market is experiencing a general slow-down "following a crackdown on conspicuous consumption", but "deal volumes are expected to keep pace in 2014" (Jones Lang LaSalle, 2013). Another global management consulting firm stated that "China's explosive hotel market growth will continue unabated over the next decade and is far from reaching its saturation point (A.T. Kearney, 2013).

According to a recent report, China's overall pipeline has been trending upward for 17 quarters, despite economic reform and slowdown, and accounts for 74 percent of the total Asia Pacific construction pipeline (Baker, 2014). This growth rate echoes the findings of a leading tourist industry expert that

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