

Chapter 29

Network Strategies of Hospitality Companies in Emerging and Transitory Economies: Evidence from Russia

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ABSTRACT

This chapter sheds light on network organisational forms—hotel chains—actively implemented in hospitality services. The concepts of networks are critically analysed and applied to explorative case studies of hotel chains operating in Russia. The chapter adds to the literature in the hospitality industry by expanding on existing theories of network strategies and illustrates their different patterns within the framework of modern hotel chains' strategies.

A detailed description of the current Russian hotel market situation is presented. The main trends in the Russian hospitality sector are analyzed and key factors stimulating the development of Russian hospitality are outlined. The huge potential of the Russian hospitality sector is revealed. Among the factors impeding the future development of the market, the following are identified: the lack of a developed service standards system and the lack of developed marketing policies and strategies (i.e. inefficient pricing, sales, and communication policy; lag in modern technologies). The formation of domestic and international hotel chains in this environment is described.

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The chapter focuses on the strategies of domestic and international hotel chains operating in the Russian market. Within this theoretical framework and using the current market situation, the strategies of domestic and international hotel chains are differentiated and classified.

INTRODUCTION

The service sector is gaining an increasingly firmer foothold in the global economy. Many countries show a tendency towards increased production of services, greater service revenues, increased employment in this sector, tougher competition, and growth in the import and export of services. So fundamental are the changes occurring in the service sector on a global scale that the modern economy has been described as “the service economy.”

Currently, the service sector accounts for 70% of the world GDP. Among the countries where the service sector accounts for $\frac{3}{4}$ of GDP and more are Luxembourg (85%), France (78%), the USA (77%), Greece (77%), Great Britain (76%) and Belgium (76%) (The World Bank). Recent decades saw not only shifts in the industry structure of the world economy, but also substantial growth in employment in the service sector. In many countries this indicator exceeds their industrial production figures. The highest employment rate in the service sector is in the USA (80% of the workforce), the Netherlands (79%), Great Britain (77%), France (77%), Sweden (76%), Luxembourg (76%), Canada (76%), Norway (76%), Iceland (76%), Australia (75%) and some others (OECD).

In today's economy services act as fully-fledged components of world trade. According to UNWTO data, in 2009 the export of commercial services in the world totaled \$ 3312 billion, whereas in 1980 – it was only \$ 365 billion (The World Trade Organization). As for the import of commercial services, it totaled \$ 3115 billion in 2009 versus \$ 402 billion in 1980.

The highly interconnected hospitality, leisure, travel and tourism sectors together make up one of the main parts of the service sector. According to

the World Tourism Organization (UNWTO) and International Monetary Fund (IMF), tourism has become one of the major players in international commerce. It has been rising to the top in the world trade's export of goods and services since 1998 and it continues to hold this leading position to this day¹. According to the UNWTO forecasts, the total number of tourists will reach 1.6 billion people by 2020². Tourism accounts for 9.4% of the Global Gross Domestic Product (GDP), 9.4% of global investments, 7.6% of global employment³. Though the tourism share in the global GDP decreased by 0.5 percentage points from 9.9% over the period from the end of 2007 to 2010 and its share in the global employment declined by 0.8 percentage points from 8.4% over the same period under the influence of the world financial crisis, tourism is still one of the leading and most dynamically growing industries of the world economy.

Hospitality sector comprising all businesses that provide food, beverages, and/or accommodation services is now truly international, with a great number of workers in many local markets being from overseas, rising up to 50-60% in capital cities such as London⁴. There is an acute competition in international hospitality business, lots of different actors and initiatives. Different strategies are pursued by different companies.

As part of the tourist market and hospitality industry, the hotel market retains the industry's patterns and tendencies. The main subjects of the hotel market are hotels and resorts. The industry is highly fragmented. The interests and diverse preferences of the hotel services' consumers determine the contemporary structure of the global hotel market and a variety of different types of hotels and resorts worldwide.

The global hotel market grew at the average rate of 2% annually over the period of 2000-2008.

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