

# Expansion of the Hotel Industry in Russia into an Emerging Market

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## Extended Abstract

The question raised in this research is how the hotel industry penetrates and expands into a new emerging market in Russia. The analysis reveals the hotel industry is a suitable base for the Russian economy and the investment in this area of the economy is directed without significant initial infrastructure. The findings of this study show the price, quality and quantity of service and activities, surrounding the infrastructure to be important factors of consumer purchase decisions. In this paper we analyze the hotel industry in the Moscow region by identifying: (1) the directions of the economic and market development; (2) classification of the hotels; (3) the significant factors associated with consumer purchase decisions.

Emerging markets are growing faster than developed economies. India and China represent two of the largest of these markets. India's economy has growth by 8-9 % GDP every year in last decade and China's economy has had a 9% GDP growth per year. Together the two countries have about 40% of the world's population. The size of their middle classes combined equals the entire U.S. market (Waheeduzzaman, 2006). The Russian economy has an average a 6-7 % GDP growth every year with impressive buying power. During the mid-1990s the growth of these emerging markets helped the developed countries come out of recession (Garten, 1996). Their importance in the global economy is well recognized today (Cavusgil et al, 2002). Economic growth has accelerated consumption in these societies. Modern lifestyle has challenged the traditional customs, especially in the areas of consumer demands and preferences. Consumers in these countries are increasingly becoming global in their outlook.

This study investigates the historic growth of the hotel industry in Russian emerging markets during the last five years and identifies the process of modernization and globalization which exists in the Russian market. The region included in this study is the suburban area of Moscow (Moscow region). The purpose of the present paper is to analyze the direction of the economic development of the hotel industry and its impact on consumer behavior in the Russian emerging market. The paper is divided into sections. After the introduction and literature review, the following sections, "Current analysis of hotel industry in Russia" and "Analysis of the hospitality sector in the Moscow region of Russia", provide current trends in the hotel industry, developers and market operators, including the classification of the hotels. "The Analysis of the consumer purchase decisions" section reveals the factors which influence hotel consumer buying decisions. The final section provides the results and conclusions of the study.

The revenue of the hotel business in Russia is about \$2 billion per year, with year growth of about 20%. The significant importance is that 50% of the revenue belongs to Moscow and Moscow region. The Moscow market annual growth ranges from 20 to 30%. During 2006-2007, 4 thousand hotels and resorts operated on the Russian market. The 3-star hotels seem to be in most demand as demonstrated by their shortage in Russian cities. In 2006, 410 thousand beds were available on the Russian market, including 72.5 thousand beds or 18% in Moscow and Moscow region. This trend is due to more expensive 4- and 5-star hotels having a low capital return a higher occupancy rate compared to 3-star hotels. Over the last ten years, the renovation and development projects in the hotel sector have been more obvious. The major regions of the fast development are Moscow, St. Petersburg and Sochi (2014 Winter Olympic Games). Another major trend in the Russian hotel industry is the increasing development of foreign hotel chains.

The most significant fact in the current market is the domination of the small developers and operators in the hotel industry. At the same time, the hotel industry in the Moscow region is represented by four larger developers/operators with the total share market of only 4.1% (Table 1). One of the lead developers in the Moscow region is a holding company Heliopark Group, established in 2000. Heliopark Group includes the Heliopark Hotel Management, the Heliopark Development, and the Russian Weekend Service. In 2006, the Heliopark Group's revenue was \$50 million, with the staff of 2500 people. Another leader in the hotel industry of the Moscow region is Azimut Group, was established 2004. Azimut Group has the most number of beds in the market compare to competitors, with \$37 million revenue in 2006. Also, the research identifies other developers and operators in hotel sector (Table 1).

Table. 1. Larger operators and developers in Moscow region.

<b>Hotel Groups</b>	<b>Share Market (%)</b>	<b>Number of hotels</b>	<b>Number of beds</b>
Amaks Grant Hotels	1	15	1900
Heliopark Group	1.5	11	1200
Azimut Group	0.8	8	3000
Intourist Hotels Group	0.8	8	2700

*Source:* Report of Committee of Investment and Strategic Planning, Moscow region (2007).

The high concentration of different ownerships and small developers has decreased the possibilities for long-term strategic planning in the region. This study discovered two facts, which will increase the possibilities of the future growth in hotel industry: the cooperation of the ownership and the statutory merger of the small developers.

To increase our understanding of the economic development of the hotel industry and consumer behavior process, we conducted analysis of developers and classification of hotels in the emerging market of the Moscow region. The hotel industry has particular features associated with provision of hotel product, and, therefore, the measures used to assess hotel

performance should reflect the specific activities, products and services offered (Harris and Mongiello, 2001). To understand the differences and the hospitality sector for Russian market, we classified them by services offered to the customers in three categories: the Soviet Type of Hospitality (STH); the Modern Type of Hospitality (MTH); and Alternative Type of Hospitality (ATH). The Soviet Type of Hospitality (STH) was built during the period from 1960 to 1990 and restored during 1990-2005. STH provides traditional hotel room accommodations with restaurant services (buffet style) and no additional activities or hotel products. The distinctive feature of the STH are the preventive health treatments for the consumer, including treatments of cardiovascular and digestive systems. The Modern Type of Hospitality (MTH) provides hotel rooms, apartments, townhouses and cottages with variety of dining options, specialty shops and limited recreation activities (fitness centers). The research identified two distinguishing characteristics of this group, including the long-term lease (seasonal or monthly) and family oriented customers. Alternative Type of Hospitality (ATH) provides hotels, apartments or cottages with a variety spa and beauty services, specialty shops (sports, beauty, merchandise), first class restaurants, and all spectrum of the activities. ATH is the fastest growing category of hospitality with a relatively low share market, only 5%. At the same time, ATH has the highest occupancy rate in the market, up to 90%. According to our research, this high occupancy rate has resulted from high demand on high quality of service with the reasonable price, as well as variety of services, products and activities. This study provides the differences of the three categories of hotels in Moscow region (Table 2).

Table. 2. The differences of the three categories of hotels in Moscow region.

Type of hospitality	Share Market (%)	Competitiveness	Ownership	Occupancy Rate (%)	Average room price
Soviet type of hospitality (STH)	75 (decreasing)	Low	Corporate, state	20 (low)	Low
Modern type of hospitality (MTH)	20 (increasing)	High	Private	50-60 (high)	Moderate
Alternative type of hospitality (ATH)	5 (increasing)	High	Private	70-80 (high)	High

*Source:* Report of Committee of Investment and Strategic Planning, Moscow region (2007).

The above study points to a number of conclusions and recommendations for the hospitality sector in the Moscow region. First, the study discovered two factors which will increase the possibilities of the future growth in hotel industry: the cooperation of the ownership and the statutory merger of the small developers. Second, share market of the Soviet Type of Hospitality (STH) is decreasing. At the same time, share market of the Modern and Alternative Type of Hospitality (MTH) is constantly increasing which appeals a lot to the developer. Third, the occupancy rates depend on quality of service provided. MTH and ATH have high occupancy rates, up to 90%, compared to STH with only 20%. The related research supports

that hotel occupancy rates are usually used as an important indicator in hotel performance (Jeffrey and Barden, 2000; Enz et al., 2001). Also, the control of the hotel occupancy rate is critical in this industry and, consequently, hotels should promote their products at the appropriate time to increase the occupancy rate (Wu et al., 2008). Fourth, the study indicates the shortage of professional staff. The staff has general or no education with fairly extensive experience in hotel work. The reason is constructed by a combination of economic, political, cultural, and other factors in the local economy (Baum and Devine, 2007) which is typical for the current emerging Russian market. Fifth, the hotel industry of the Moscow region faces shortage of 3-star hotels with moderate price for accommodation and good quality of services. Sixth, the research shows that significant factors associated with consumer purchase decisions are price; quality of services and accommodations; variety of activities, including entertainment, sport, spa and body treatments; natural environment, including park, lake, river or hot spring; and distance and transportation from the city of Moscow.

In conclusion, this paper suggests that there is evidence to support that hotel industry in the Moscow region is part an emerging Russian market with full characteristics of economic growth and profound effects of globalization. This study points a saturation of the market with the small developers and the continued trend towards statutory merger.

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