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## ***ISHC's 10 Issues & Challenges in the Hospitality Industry for 2004 – the Greek practice and prospects***

The International Society of Hospitality Consultants recently issued 'write-up' for the "Top 10 Issues & Challenges in the Hospitality Industry for 2004".

We touch briefly upon each of these 10 points and then make reference to the relevant Greek practice and prospects. We conclude with our view on the prospects and necessary actions for the Greek hospitality industry.

### 1. Distribution Channel Management

The worldwide trend for late bookings, combined with intense industry-wide competition and consumers' relentless pursuit of the best deal, have given hospitality services a "commodity" aspect. As a result it has become extremely difficult to specify and implement a brand/price strategy, particularly in the face of the daily manifested "heads in beds" agony.

The results of these developments are very evident in Greece where hotels have traditionally been highly dependent on tour operators and have very restricted marketing activities (e.g. according to our Hotel Study, see [www.hotelstudy.gr](http://www.hotelstudy.gr), the marketing budget of Greek hotels hovers around the 2.5% mark). Tour operators on the other hand, feel the pressure of late bookings as well as of the pursuit of clients for the best price and pass on these pressures to Greek hotels. A long-term strategy for the Greek hotel industry can only be based on establishing and/or reclaiming the relationship with its clients, for example by utilizing the internet as a tool for active promotion and not just as an information nod. Otherwise low margins and low marketing budgets will keep feeding each other in a vicious circle.

### 2. Worldwide Terrorism and Safety

Terrorism and safety are major issues for the tourism industry since 9/11. Any destination suffering a terrorist attack will forfeit very significant future tourist income. Tourism destinations must, therefore preserve their safety, not just on moral but on economic grounds as well.

Greece has suffered considerable consequences as a fall-out from the sharp drop in long haul travel, particularly from high-spend source markets in the USA and Japan. On the other hand the country has not had a terrorist attack for many years now, while the local terrorist groups have been arrested, tried and jailed. Of course this effort to keep the country safe should not abate but be strengthened, particularly in view of the 2004 Athens Olympics (see below).

### 3. Capital

Although capital is currently available at a historically low cost, large-scale developments are not observed but fragmentation of the market in smaller scale units. As a result, a difficult highly competitive environment is being created. Additionally, in view of the uncertainty related to forecasting demand (see 1 above) as well as the risk of facing much higher interest rates in the future, many older hotels are not being refurbished. This, combined with reductions in human resource budgets, has led many of these properties into painting themselves in the corner as being singularly unattractive.

The picture in Greece is not that clear as there have been very few large-scale developments in the past, while the '90s saw the development of a number of modern internationally competitive local chains. Additionally, some truly large-scale developments with multiple hotels, golf courses, real estate etc., are currently being planned or constructed in W. Peloponese and Crete.

### 4. New Business Realities

"[New business realities] include:

- Consumers value mindset and sense of empowerment, contributing to real declines in average rates
- General economic uncertainty and a shorter booking cycle in all segments, makes forecasting much more of a "guessing game" than any time in memory.
- Increased competition from non-traditional sources (cruise ships, corporate housing, time share).
- Possibly permanent shift to new ways of conducting business that exclude travel"\*
- To the above realities we will add the introduction of the Euro (€) in Greece along with 11 other European countries, which makes price comparison and, therefore, competition much more intense.

No doubt the new business realities necessitate a "paradigm shift" in the strategic and operational thinking of Greek hotel entrepreneurs. The new realities entail, particularly for small players like most Greek hotels, operating models with higher flexibility and higher specialization and service levels. They also entail increased public-private cooperation to create memorable tourist 'experiences'.

### 5. Service Gaps

Service gaps have appeared throughout the industry as a result of the effort to reduce cost. It is expected that, when the market turns up, it will be time consuming and difficult to regain the high service levels.

A significant boost to the development of Greek tourism was given by the deeply embedded hospitality of the Greeks. As, however, tourism has become one of the country's leading sectors (contributing directly or indirectly 15-20% of GDP), this innate characteristic needs to be supported by well-trained personnel. Sadly, professional tourism education has not yet reached adequate levels.

### 6. Global Uncertainty

9/11, Terrorism, SARS, the Afghan War, the Iraq War, ... The list is long but the conclusion the same: the world has become much more unstable and uncertain.

In such an unstable environment, providing tourists with safe and secure conditions is no longer axiomatic or obvious, but has become a major national competitive advantage. Considering the relevant importance of tourism in the Greek economy (see point 5), it is a national economic imperative to provide tourists with these conditions. This includes an imperative for handling efficiently the PR aspects of potentially adverse situations and not allowing the media to create unwarranted impressions.

In this respect, running the 2004 Athens Olympics impeccably, including avoiding terrorism attacks or outbreaks of diseases, will firmly establish Greece as one of the safest destinations and will further strengthen this national competitive advantage.

### 7. Building Occupancy

The above mentioned changes contribute, each in its way, in making the road for building and maintaining occupancies harder. Furthermore, building and maintaining occupancy entails a different business model with transparent pricing, more active marketing to niche groups etc.

In such an environment, Greek Tourism's dependency on a highly seasonal summer market and Tour Operators, will not only lead to short term losses but, more likely and importantly, to diminished market share and fewer source markets in the long run. In order to reverse the situation, proactive strategic and operational marketing on a national and corporate level, should start with designing (and then promoting) that tourist product / experience which will match tourists' need in the current turbulent and highly competitive times.

### 8. Airlines in the 21<sup>st</sup> Century

Declined air travelling is a result not only of fear of terrorist attacks, but also of the extensive measures for countering these attacks. Not surprisingly, with declining air-travel, the airline industry has seen falling profitability, M&As and outright bankruptcies.

In a country where over 90% of incoming tourists reach the country by air, air-travel is a sector of paramount importance. In this respect, increased security in Greek airports, to the point that US Federal authorities consider Athens' airport one of the safest worldwide, must be maintained and enhanced. Furthermore, steps should be taken in having more and more frequent connections with the rest of Europe and long-haul source markets. Additionally alternative transportation modes, such as the high-speed ferries between Greece and Italy, should be encouraged and facilitated.

### 9. Management Evolution and the Shift in Power

"There continues to be a definite shift in power toward ownership in the owner/management company equation. Management companies are increasingly granting concessions in their existing management agreements, as well as trying to make their dealings more easily understandable to owners. This shift also represents an attempt to potentially reduce exposure to costly litigation."\*

The Greek hospitality industry remains very much local and family-owned and managed. It is indicative that international companies own and/or manage approximately 25 units out of a total of almost 9.000. In our opinion the shift in power is not going, per se, to have a significant impact in the current situation.

### 10. Financial Viability

The combined effect of economic recession and business uncertainty has led a number of older hotels to defer modernization and refurbishment expenses that are necessary for a achieving a modern and competitive infrastructure. "Compounding the problems are the development of newer, smaller more economical hotels that are competing in traditional full service territory literally cutting-off demand at its source."\*As a result many of the older units have entered a "vicious circle" where due to lack of investment they can no longer attract the customers that would help them pay off the investment.

The problem is severe in some Greek regional destinations that are little or not at all differentiated from competing destinations on the beach a few miles away or a few hundred or thousand miles away in another Mediterranean country or in another part of the world.

Two significant exceptions are:

- hotels in Athens, where, in view of the 2004 Athens Olympics, major renovations have taken place and the hotel infrastructure is now among the best in Europe.

- the highly competitive local chains and individual units that pursue active marketing that gives them adequate margins to continually update their products

### Conclusion

Greece has the basics to advance rapidly in the worldwide tourism market.

However, facing the Issues & Challenges necessitates the formation of integrated strategic as well as multiple operational marketing plans at national, regional, sectoral and corporate levels that will meet modern day realities and requirements. Focusing on the bottom-line, without analyzing and facing the factors that contribute to it, is a one-way street to cost and activity cutting exercises or subsidization of otherwise non-viable investments.

On the other hand, development entails initiatives for adapting to the new environment. The emphasis now is on building the demand prior to building the infrastructure and on having a product flexible enough to meet a number of contingencies. Integrated planning should go well beyond the usual boundaries of advertising and promotional activities; it should consist of planning, creating and promoting a tourist product / experience that will match modern requirements and, as a result, will be competitive and viable both short- and long-term.

The successful establishment of:

- world renown destinations such as Elounda in Crete or the islands of Santorini and Mykonos
- as well as famous units such as some of the Elounda based hotels or the Santorini boutique hotels
- or the highly competitive chains like Aldemar or Grecotel,

shows that it is possible and it is the only way.

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\* quoted from "ISHC's Top 10 Issues & Challenges in the Hospitality Industry for 2004"