

HOTEL SECTOR: DIGITALISATION AND INNOVATION TO COUNTER CHALLENGES (Feb 2017)

The direct contribution of Travel & Tourism to GDP in 2015 was RM61 billion (5.7% of GDP). By 2025, direct contribution of Travel & Tourism to GDP is expected to grow by 4.1% p.a. to RM95.9 billion (5.8% of GDP). Visitor numbers are rising steadily since 2005 (except for 2015 post MH370 and MH17 incidences). As a result, the country has attracted the attention of prominent regional and global hoteliers leading to the development of a broad range of new hotels in Malaysia - both within established tourism destinations and in more remote locations.

Tourism outlook is positive given the steady growth in Malaysia's inbound tourism market, which is forecast to grow from 30.3 million in terms of international arrivals in 2016 to 36.0 million arrivals in 2020 (Tourism and Culture Minister, February 2016). Asia Pacific countries will continue to contribute the bulk of international arrivals, though there is an expected healthy growth in arrivals from the Middle East (currently a relatively small source region for Malaysia tourism).

ISSUES AND CHALLENGES

Growth in Alternative Accommodations and Online Travel Agencies (OTAs)

OTAs help to fill hotel rooms. However, private rentals lure travelers away from hotels entirely. The growth has been precipitated by digital innovation and transparency. For example, Airbnb alleviates travelers' concern about staying in a stranger's home by allowing them to view photos of homes and maps of the local area, compare listings and pricing, check out host profiles and reviews, and book instantly.

For the past few years, the hotel industry has been facing great competition from alternative accommodation such as homestays. This is further aggravated by the inception of Airbnb, the largest home sharing network which does not only target leisure travelers but also business travelers which traditionally occupy hotels during their business trips. In this era of digitalization, the use of technology to view and book the accommodation at the finger tips help to viral the use of Airbnb.

Based on statistics for international tourism activities, it is estimated that hotel segment loses approximately USD450 million in direct revenues per year to Airbnb. Between September 2014 and August 2015, 480,000 hotel room nights were reserved, while over 2.8 million room nights were booked on Airbnb. By 2018, Airbnb room nights are estimated to reach 5 million room nights per year.

Shift in Baby-Boomers to Gen-X

The increase in guest sophistication also poses challenge to hotels in addressing multi-generational needs, wants & desires. For example, the demand gap between the younger travelers (Gen-X & Gen-Y) and the aging consumers (Baby Boomers), who have higher expectations of technological advances. Hoteliers must also be innovative in sales and marketing ideas to attract these different generations.

Modern Technology of Hotel Facilities

The modern technology of the hotel environment imposes challenges to the hoteliers to keep on improving the hotel facilities. For example, rooms with iHome stereos, fitness facilities as well as business and meeting facilities. A lack of awareness of how much efficiency could be improved through the use of modern integrated systems such as interactive reservation system.

Escalation of Construction and Renovation Cost

Given the current economic conditions, the construction/ renovation cost of new/existing hotel is definitely higher. The rising cost of materials due to the ringgit depreciation especially for imported building materials and furniture; and higher cost of labour due to revision of annual levy on foreign construction workers. Hence, the anticipated increase in the number of hotels being developed currently will certainly be affected by the increase in construction cost.

DEVIATION ELEMENTS

Embracing Sharing Economy

Hotel operators can seek new opportunities by expanding their operation to include offering private apartments as part of the alternative type of accommodation. Competitive advantage can be achieved by providing guests with all the benefits of private accommodation plus access to the hotel's public spaces and services. To optimize the operating cost, hoteliers can consider to sub-contract out certain services to operators of private rentals, including the collection and distribution of keys and mail, concierge and business services, security, professional cleaning, and training in guest service, hospitality and cleaning standards.

Locations, Services and Facilities

Location of hotels should be prevalent enough, that is, not to compete with location of homestays or private rental properties offered by the private rental agencies such as Airbnb. They should provide excellent basic services quality such as room cleanliness; staff friendliness; hotel lounge with outstanding food and beverages offerings; and fitness facilities and spa. Hotels should also provide innovated and well maintained facilities at no extra cost such as interactive menu ordering for room service and electronic games; high definition televisions (HDTVs) with digital tuners and touch screen functionality.

KEY TAKEAWAYS

In order to beat the impact of speed growth of alternative accommodations, hoteliers must embrace the use of technology advances. Rather than relying on Online Travel Agencies such as Booking.com and Agoda.com, hoteliers must ensure full utilization of their own website in promoting their services. The use of social media accounts such as YouTube channel, Instagram and Twitter could also help to step up the promotion of the hotel. Additionally, in terms of guestrooms and leisure facilities, hoteliers must ensure that they keep abreast with the latest development in modern technology in providing excellent guests experience such as HDTVs, high speed internet access, lighting and climate control and energy management systems.