

Hotel openings: critical success factors and challenges

Adjunct Professor JP Spencer* and GA van Zyl.
Centre for Tourism Research in Africa,
Cape Peninsula University of Technology,
Cape Town, South Africa
jpsafron@mweb.co.za

*Corresponding author

Abstract

This study investigated the critical and the secondary success factors or advantages that may be encountered and applied for consideration when opening a hotel, specifically those in Cape Town between 2008 and 2010, and the major challenges experienced during the initial period of a hotel's life cycle. Further, the study assessed whether there were significant differences between the success factors and challenges experienced in corporately owned- versus privately owned hotels, or large versus small accommodation establishments. The findings revealed no significant differences between corporately owned hotels versus privately owned hotels or large versus small hotels. The research approach was inductive and the purpose exploratory, thus it was a qualitative study. Data were obtained by interviewing 10 hotel managers of 4- and 5 star hotels that opened between 2008 and 2010 in Cape Town, prior to the FIFA Soccer World Cup. The interview results are compared and analysed and the results are discussed within specific themes. The results should be of interest to practitioners and operators who could apply the insights gained from these interviews in their pre-opening strategies, and to academics in the fields of hotel management, general management, strategic planning, project management and new business development.

Key words: Accommodation, challenges, critical success factors, hotel openings



Source:<http://capetown.hotelguide.co.za/images/1-colloseum-luxury-hotel-exterior-480.jpg.jp>

Introduction

Opening a hotel is fraught with challenges; financial, site or location, labour and equipment are just four items that will require expert management to source, manage, and ultimately control, to operate the new hotel at a profit. The timing of a new venture is also critical; the advent of the 2010 Federation Internationale de Football Association (FIFA) Soccer World Cup in South Africa, announced in May 2004, and especially in Cape Town, offers an opportunity to plan for, and open, new and refurbished hotels to meet the expected demand for accommodation during the festival, and into the future. Such a mega-event will attract foreign and local investors who see an opportunity to invest in the South African economy, specifically in the hospitality sector of the tourism industry. Coupled with a vibrant tourism industry in the Mother City, and a stable economy, the presentation of the Soccer World Cup offers an ideal opportunity to add to the accommodation stock in Cape Town.

South Africa expected approximately 350 000 tourists in June and July 2010 (www.project2010.co.za), and it was widely reported that there would be a shortage of rooms and beds (www.africanews.com) in the major cities where matches were to be played. As a result, investors sought to benefit from the income and employment opportunities offered by the World Cup event, and various local and foreign hotel-chains announced that they would open new and refurbished hotels in Cape Town, in time for the FIFA World Cup. One of the major contributing challenges, at the time, was the world economic crisis that began in 2008 and caused South Africa to enter a period of recession for the first time in 17 years, as announced in May 2009 (www.france24.com), resulting in an immediate reduction in demand for rooms

The aim of the study was to explore success factors and challenges faced during the opening of a new or refurbished

hotel, so as to benefit from the successes of other ventures while avoiding the

challenges faced by establishments; to outline success factors and challenges to assist practitioners to plan their business strategies, so as to assist in a smoother and more accurate flow of events during the opening of a hotel.

Literature review

There are six objectives to be considered in the literature review: critical success factors and challenges when opening a new hotel; whether these criteria differ between large and small hotels and private or corporate accommodation establishments, and how technology and a hospitality industry culture impact on the opening of a new hotel. Only limited research appears to have been conducted in these specific fields, however there has been some related research in China (Chan, 1993:155) assessing the individual roles of the hotel management and department heads when new hotels are opened. Another study by Nicolau (2002:47) investigated the effect of an announcement by a hotel chain that they were opening a new hotel and how this impacted on the chain as a whole.

The researchers conducted an industry overview to establish what factors impacted the hospitality industry in 2008, 2009 and 2010, prior to the advent of the FIFA Soccer World Cup. These statistics, contained in tourism reports for 2008 to 2010, appear to support the decisions made post-2004 to open new hotels, and for investors to invest in new hotels. The decision by FIFA in 2004 hid to a large extent the impact of the global economic crisis, and thus various key outputs were not planned for thoroughly enough, which in turn resulted in major difficulties in the opening of hotels.

Any tourism activity or event that requires mass- or niche tourists is reliant on adequate hotel accommodation. The British Hotel Proprietors Act of 1956, as

quoted in Baker, Huyton, and Bradley (2000:7), defines a hotel as:

'An establishment held out by the proprietor as offering food, drink and, if so required, sleeping accommodation, without special contract, to any traveller presenting himself/herself who appears able and willing to pay a reasonable sum for the services and facilities provided and who is in a fit state to be received'

While this definition is standard for any accommodation establishment, it does emphasise the definite need for 'services and facilities provided', one of the definite success factors of any business organisation, and a key challenge when missing from the structures of the enterprise. Baker et al. (2000:8-9) define a small hotel as having 100 or fewer bedrooms, a medium-sized hotel having between 100 and 200 bedrooms, and a large hotel having in excess of 200 bedrooms, and also define a private hotel as an independent hotel owned by a person, a partnership or a private company, and a corporate group as several hotels owned by either a local company or an international chain.

When conducting initial research into this field the Tourism Reports of 2008 to 2010 were the only data available with relevant South African tourism statistics, contained in the strategic research unit report.

2008 Tourism Report

The official annual Tourism Reports remain the most important source of tourism data for South Africa in terms of tourist arrivals, bed-night occupied, tourist revenue generated, and comparisons with previous Reports. Tourism contributed R194.5 billion to South Africa's Gross Domestic Product (GDP) in 2008, which represents an 8.5% year-on-year increase over the 2007 GDP contribution (SA. Tourism Report, 2008). It is therefore clear that tourism is a significant contributor to the country's GDP and represents a major

source of income. The total number of foreign arrivals in 2008 reached an all-time high of 9.5 million visitors, representing a 5.5% year-on-year increase over the 2007 tourist arrivals, and exceeding the global average of 1.8% (SA. Tourism Report, 2008). Considering that in 2007 arrivals also increased by 8.3% year-on-year over the 2006 figures, South Africa's popularity as a tourist destination was growing significantly. Although growth was less in 2008 relative to 2007 and was expected to further diminish in 2009, due to the world economic crisis and reduced disposable income of tourists, it was expected to recover in 2010 due to South Africa hosting the 2010 FIFA World Cup.

The average length of a foreign tourist's stay in the country also increased from 7.9 nights in 2007 to 8.2 nights in 2008, translating into more beds needed for tourists. The total bed-nights spent in South Africa for 2008 were 75.3 million, 10.4% up from the 2007 data (SA. Tourism Report, 2008). This underlined the urgent need (in 2008) for more hotels and beds in the country, hence the indication by various hotel groups to open new hotels in South Africa, including Cape Town, by 2010. Tourists also spent more on accommodation in 2008 compared to 2007, namely, R1.4 billion, which represents a substantial increase of 15.7% (SA. Tourism Report, 2008). This could be a direct result of the somewhat longer stays and increased demand for bed-nights. Total revenue generated by foreign tourists in 2008 increased by 23.4% (R14.1 billion) year-on-year, and the tourism industry in South Africa is strongly positioning itself against the other major tourist destinations, where South Africa was ranked 29th in the world in 2008 (SA. Tourism Report, 2008).

2009 Tourism Report

The 2009 economic downturn could have had devastating results for hotels in South Africa, however, the major events held in South Africa in 2009, such as the FIFA Confederations Cup, the British and Irish Lions Rugby Tour, and the Indian Premier League Cricket tournament, all contributed

to tourism in the country and ensured a positive growth despite the economic downturn.

In 2009, South Africa had 9.9 million foreign arrivals, which represented a 3.6% increase over 2008 (SA. Tourism Report, 2009). It is important to note that the international average decreased by 4.3% in 2009, therefore the major sporting events held in South Africa had a significant influence on the number of foreign arrivals to the country. Tourism's contribution to GDP increased by 2.7% (SA. Tourism Report, 2009), again indicating the value of tourism for South Africa. Moreover, the total amount of revenue generated from foreign tourists increased by 7% (R5.2 billion). The average length of stay for a tourist decreased from 8.2 nights in 2008 to 7.5 nights in 2009, total spent on accommodation declined by 6.8% year-on-year in 2009, and as a result there were 4 million less bed-nights occupied in 2009 than in 2008, which represented a decrease of 5.4% (SA. Tourism Report, 2009).

2010 Tourism Report

Worldwide, international tourism arrivals grew by 6.7% over the 2009 arrivals (SA. Tourism Report, 2010) indicating a recovery in the global economic crisis, and a propensity for travel. South Africa greatly exceeded the international growth rate, and tourist arrivals grew by 15.1% from 2009 to 2010 (SA. Tourism Report, 2010). This major increase certainly proved valuable in the overall economic situation, with revenue generated from foreign tourists growing by 22.6%. The average length of stay for a foreign tourist increased slightly from 8.3 nights in 2009 to 8.5 nights in 2010 (SA Tourism Report, 2010), which contributed to a 19.8% (4 million) increase in bed-nights spent in South Africa by foreign tourists (SA. Tourism Report, 2010). The increase in bed-nights definitely contributed to occupancies experienced by new hotels that opened immediately prior to the FIFA 2010 event.

The overall increase in bed-nights, visitor arrivals, and tourist' revenues (despite the tourist' dip between 2008 and 2009) over the period 2007 and early 2010 can be viewed as a success factor in attracting visitors to South Africa, despite the political intrigues and (internationally perceived) rampant crime. These increases proved a challenge to accommodation management to increase available bed-stock in the short term, while not over providing in the long term availability of rooms. The data provided in the three Tourism Reports speaks of the success factor of South Africa as a viable international, and continental, tourism destination, and probably has a direct bearing on the increased accommodation in Cape Town. The World Cup had a major impact on the highly positive tourism arrivals South Africa experienced during 2010. Were it not for this event, growth and revenue targets would clearly not have been achieved, and South Africa (and Cape Town) is expected to benefit from this event in coming years, considering the exposure that the country received from broadcasting, marketing, and word-of-mouth for the World Cup.

A total of 309 554 tourists arrived in South Africa specifically to attend the 2010 FIFA World Cup. The major tourist-markets were the United States, the United Kingdom and Brazil, where approximately 60% of the tourists who attended the World Cup were first-time visitors to South Africa, and 20% had attended previous World Cups. The total revenue generated by tourists who specifically visited this country for the 2010 FIFA World Cup was R3.64 billion and their average length of stay was 10.3 nights (SA. Tourism Report, 2011).

Research design

The study aimed to generate new insights in a field where little research has been conducted; the research is therefore exploratory in nature and the approach is thus partially inductive (Bryman & Bell, 2007:33) as a rough framework was developed through the literature review.

Research methodology

Because the research approach was inductive and the purpose exploratory, the researchers followed a qualitative strategy (Bryman & Bell, 2007:33). Van Maanen (1983, cited in Easterby-Smith, Thorpe & Lowe, 1995:71) described qualitative research as an array of interpretive techniques that sought to describe, decode, translate and otherwise come to terms with the meaning, but not frequently, of certain more or less naturally occurring phenomena in the social world. Leedy and Ormrod (2005:94) noted that qualitative research was typically used to answer questions about complex nature of phenomena, often with the purpose of describing and understanding the phenomena from the participants' perspective, which was precisely the intention of this study.

Data collection methods

The researchers used an interview schedule to obtain data from the participants (Saunders, Lewis & Thornhill, 2007:131). The researchers interviewed hotel managers who had each opened a specific hotel, which was the actual unit of analysis. The level of analysis could then be viewed as organisational, but the focus remained on the individual and his/her experience during the opening period of a new hotel. Two primary, and a number of secondary questions, were asked of each interviewee; these follow-up secondary questions were asked based on the responses received from the primary questions, and therefore not all interviewees were asked all or the same secondary questions.

Population and sample

The study was conducted during December 2011 and June 2012, and the population was all 12 4- and 5 star hotels that opened in Cape Town between 2008 and 2010. Maximising the sample was necessary to enable the various comparisons that were envisaged, that is, small versus large hotels, and private versus corporate establishments. The 12 hotels were identified from information

obtained from the Federated Hospitality Association of South Africa (FEDHASA). The researchers contacted the 12 hotels telephonically to negotiate with the managers to represent the hotel during the interview process. A follow-up email was sent to confirm the interview. Two of the managers responsible for opening a hotel between 2008 and 2010 had left Cape Town, so the sample interviewed was 10 establishments (83.3%).

Research data analysis

The data obtained during the 10 interviews is discussed below under appropriate headings.

Critical success factors and challenges

The prime objectives of this study were to consider *critical success factors and challenges* when opening a new hotel. Daniel (1961:111) is regarded as one of the first users of the term 'critical success factors', applying it in an information system context, and since then, various organisations have used the 'critical success factors' approach generically. According to Brotherton (2004:19), businesses use this approach to strategic management, operational planning (Leidecker & Bruno, 1984:23; Hardaker & Ward, 1987:112; Sousa de Vasconcellos e Sa, 1988:56; Devlin, 1989:377; Black, 1990:29; Grunert & Ellegaard, 1993:245), and business processes (Ward, 1992:111; Watson, 1993:12). Critical success factors are not goals or objectives, but a combination of activities that contribute to the attainment of the goals and objectives. They are actionable, measurable, and to a large extent controllable, by management (Brotherton & Shaw, 1996:114).

There is limited research on *critical success factors* in the hospitality industry. Goldman and Eyster (1992:72) conducted some research that touched on the success factors of food and beverages from a restaurant perspective. Peacock (1995:48) investigated the factors that render hospitality managers successful, including financial performance, customer satisfaction, volume of repeat business, operational efficiency, personal

satisfaction/standards, good management of staff, and superiors' perceptions/opinions, while Brotherton and Shaw (1996:113) conducted similar research on the identification of critical success factors in UK hotels, producing similar results.

The most recent, and arguably the most relevant research, was a follow-up study by Brotherton in 2004. He examined the critical success factors in order of importance per department in specific UK corporate hotels, assessing these from front office, food and beverage service, food and beverage production, back-of-house operations, human resources, and accounting and control perspectives. Brotherton's study (2004:19) identified 59 critical success factors in the different departments of hotels, however, these all relate purely to operational day-to-day activities that ensure that departments function at an identifiable minimum standard. While this research does not replicate such a study emphasis is more focused on the hotel opening activities, the setting-up the hotel in order for it to function effectively and efficiently from the date of the opening to the standards that are achievable from the critical success factors identified by the Brotherton (2004) study.

The study anticipates the *challenges* to be the involvement of owners/investors, or even corporations, in large organisations, number of hotels opening versus demand, and achieving operational deadlines. The owner's or management's perceptions of how the business should run can play a major role in the employment of the hotel manager, and as such impact on the culture he/she would like to create in the hotel. This type of challenge occurs mainly when owners/managers have never been involved in managing a hotel in the past. More-over, the market (customers and suppliers) are very demanding, as there are already numerous hotels in Cape Town, and demand would only spike for a short period during the FIFA World Cup event. 'Spike' is an acceptable hotel industry term for a sharp increase in bed-occupancy for a short period, followed by

a sharp decline after an event, such as can be expected with an influx of visitors for the Two Oceans and Comrades marathons, the Cape Town Cycle Tour, or other mega-events. Achieving operational deadlines, such as being ready on time to receive the first guests and provide them with a memorable experience to ensure their return, and positive word-of-mouth marketing, are impacted by elements and people outside the organisation, which requires strong people-skills and positive relationship-management. The hotel industry and its successes depend largely on the quality of their employees and the effective management of these employees (Berger & Ghei, 1995:28) specifically, where quality employees can be one of the critical success factors during a hotel opening. Moreover, the success also indicates that the recruitment phase, and the thoroughness of recruitment procedures, impact on the success of the opening of a hotel, which underlines the importance of the skills and experience of the Human Resources Manager. Holjevak (2003:129) emphasises that employee-benefits in the future could include child and elderly persons care and more flexible work arrangements, which could be taken into consideration by the new hotels to lure the more experienced and educated employees to their organisations.

Table 1 was developed by Newell and Seabrook (2006:287) to highlight factors influencing a hotel investment decision. Based on this study the order of importance of these factors is reflected in the table, and is equally important to the opening activities of a new hotel. The financial decision is the most critical of all the factors. There are six sub-factors that impact/contribute to the financial factor. The first is a time-line forecast of projected revenues that will indicate when, and whether, the investment will generate a return, and produce profits for the owners/investors. The second is gross operating profit that is strongly linked to the return on the investment (ROI), in that one will need to ensure that operating expenses remain in line with revenues, which will ultimately ensure that a ROI is achieved. Historical rates of return (this is

method of using historical data to predict future returns) reveal how other hotels in the same location or area are performing, and base predictions on this, or in the case of a 'take over', consider how the same hotel performed historically. This is a good tool to project the future revenues and establish the ROI.

RevPAR can also be used to measure returns. This is a ratio that is based on a balance between occupancy and average rack rate, or charge of a room per night, and stands for revenue per available room. The rate is used to create demand by remaining competitive through a flexible rate strategy, irrespective of the market conditions. Occupancy will indicate the room-demand, and the hotel manager

adjusts the rate to achieve an optimal balance between demand and income, to generate the maximum possible revenues. Unsystematic risk is an industry-specific risk, which will, as RevPAR, be directly linked to market conditions. Economies of scale will also be directly linked to RevPar and unsystematic risk, as it is the balance between the market conditions and the rates the hotel would like to charge, taking the risk of additional competition into consideration. The more competitive, the more there is an oversupply of rooms, and therefore room rates will be lower in a market where the demand does not increase, as every hotel will be competing for the same guest-pool. It will therefore be imperative to employ a flexible rate strategy.

Table 1: Hotel investment decision factors (Source: Newell & Seabrook, 2006:287)

Factors	Factor weight %	Sub-factors
Financial	37.0%	Forecast ROI (five years)
		Gross operating profit
		Historical rates of return
		RevPAR as a return measure
		Unsystematic risk
		Economies of scale advantages
Location	29.9%	Site attributes
		Current hotel supply
		Volatility of demand
		Number of domestic visitors
		Number of international visitors
		Age of target hotel
Economic	14.5%	Business spending patterns
		Interest rates
		Extent market is emerging
		Tourist spending patterns
		Extent market is mature
		Employment growth
Diversification	12.0%	Segment diversification
		Geographic diversification
		Link to target property
		Brand diversification
Relationships	6.6%	Alignment with stakeholders
		Independent asset management
		Regulatory influence

Location success factors or challenges, such as the site's attributes, need to be considered. The business-influencing factors of the site need to be identified, such as surrounding/competing businesses, surrounding/competing leisure facilities, surrounding/competing attractions, and the people (the market) in the surrounding/competing area. These factors will identify why the market would want to come to the area, and stay at the hotel, which will also be a guideline in identifying a specific target market, and hotel facilities. The current hotel supply versus the market demand needs to be identified and considered, whether the demand is volatile or not, for example. Consideration of tourism statistics, identifying the number of domestic and international visitors, is needed and whether it should be an old hotel that is being purchased, the age of the hotel, and whether refurbishment or restoration investment will be required.

Further, the economic success factors/challenges are very important as they are directly linked to the financial success factors. The current business and tourist' spending patterns need to be identified, and a future projection analysis should be conducted on whether these spending patterns will remain or change in the future. A market analysis should also be done to identify whether the market is emerging or established, and when it is likely to mature. Current and projected future interest rates must be considered, as they will impact on the ROI directly, and employment growth will be affected as room occupancy fluctuations. Newell and Seabrook (2006:287) identified the financial factor as the most important critical success factor/challenge to consider when making an investment decision, however, management will not be able to accurately compile, and forecast, financial data, in order to make an investment decision, if the location and economic factors are not correctly identified.

The fourth success factor/challenge, those of diversification, needs to be considered once the preceding three factors or

challenges are addressed. Only once the market has been thoroughly analysed and the financial data has been considered, can management segment the market. This can be done through identifying the types of travellers and the geographic location/origin of the travellers, and then implement strategies of how to link to the hotel property, and attract them through brand diversification. It is imperative that management differentiates competitors in order to have a unique identity, and to capture a market share whose needs are not completely met by the current available supply of hospitality products and services. This can be linked to the anticipated critical success factors of having an organisational culture where entrepreneurial thinking is encouraged, and having employees who are skilled in driving innovation.

The fifth success factor, or challenge to be countered, is that of relationships, which are also important, especially the first sub-factor of alignment with stakeholders. Should management's vision of the investment and deliverables not be aligned with those of the various stakeholders, the investment will not materialise. It is of the utmost importance that all the stakeholders (investors, advisors, management, suppliers, customers, municipality) are clear of what is required with investment in a new hotel, what the projected outcomes are, and what the elements of risk (challenges) involved in the investment are. Furthermore, should an independent asset management company be appointed, or there are any regulatory influences from various government agencies, positive and active relationships (critical success factors) and negative (challenges) will impact the hotel investment.

There can be no doubt that these critical success factors noted by Newell and Seabrook, and argued in Table 2 by de Brentani (1991), and the attendant challenges must have formed the basis for deliberations by investors and management when new hotels were planned for Cape Town once the announcement was made that the 2010

FIFA Soccer World Cup event had been awarded to South Africa.

Table 2: Model for the measurement of new business services

1	Sales Performance 70%	<ul style="list-style-type: none"> · Exceeds market share objective · Exceeds sales/customer use level objectives · Exceeds sales/customer use growth objectives · High relative sales/customer use level · High overall profitability · Positive impact on corporate image/reputation
2	Competitive Performance 13.40%	<ul style="list-style-type: none"> · Buyer perceives superior service "outcome" · Buyer perceives superior service "experience" · Unique benefits: perceived as superior to competitors · Gives company important competitive advantage
3	Cost Performance 8.30%	<ul style="list-style-type: none"> · Substantially lower costs for the company · Performs below expected cost · Achieves important cost efficiencies for the company
4	"Other Booster"	<ul style="list-style-type: none"> · Enhances sales/client use of company's other products/services · Enhances profitability of company's other products/services

Source: de Brentani, 1991:40

Table 2 displays a reliable model developed by de Brentani (1991:40) that measures the critical success factors or failure/challenges of new business services, addressing some of the arguments noted in the proceeding paragraphs. The sales performance criteria noted in Table 2.2 represents the most critical success factor to consider whether a project is successful, and constitutes 70% of the total measurement. From a hotel perspective, if the hotel operates at a high occupancy, it is deemed successful. The second critical success factor measure is the competitive performance, which constitutes 13.4% of

the total measurement, and asks what the market's perception is of the new hotel, and whether it is better than the competition and really unique? The third measurement is cost performance, contributing 8.3% to the total measurement. If the hotel operates on lower costs than budgeted for it will either generate more profits, or more funds can be allocated to enhance the offering. Reduced operating costs can also ensure better pricing and better value for consumers, which flow into the 'other booster' where consumers will then make more use of the other hotel offerings, for example, restaurants or spas.

The model can be applied to a hotel to assess whether the hotel is successful, which can also serve as a tool for the operators and the owners/corporate board. However, the 'champagne effect' is not addressed and only time will determine whether the results are sustainable.

Figure 1 illustrates a framework developed by Belassi and Icmeli Tukul (1996:144), which groups some critical success factors for projects in various groups of factors related to (1) the project, (2) the project manager and team members, (3) the organisation, and (4) the external environment.

All these factors are interrelated and, as a whole, contribute to the success of the project. If one or more of these factors are not functioning, the project may fail. This framework can be applied to the opening of a hotel as a project manager could be substituted by a hotel manager and the team members by department heads, once the hotel has opened. Factors relating to the project can be replaced by factors relating to the operating hotel, in terms of the size of the hotel and the services the hotel will offer. Factors relating to the organisation can be replaced by factors relating to the business that owns or manages the hotel; while the factors relating to the external environment remain. Modified as such, the framework can be used as a valuable tool in the successful opening of a hotel.

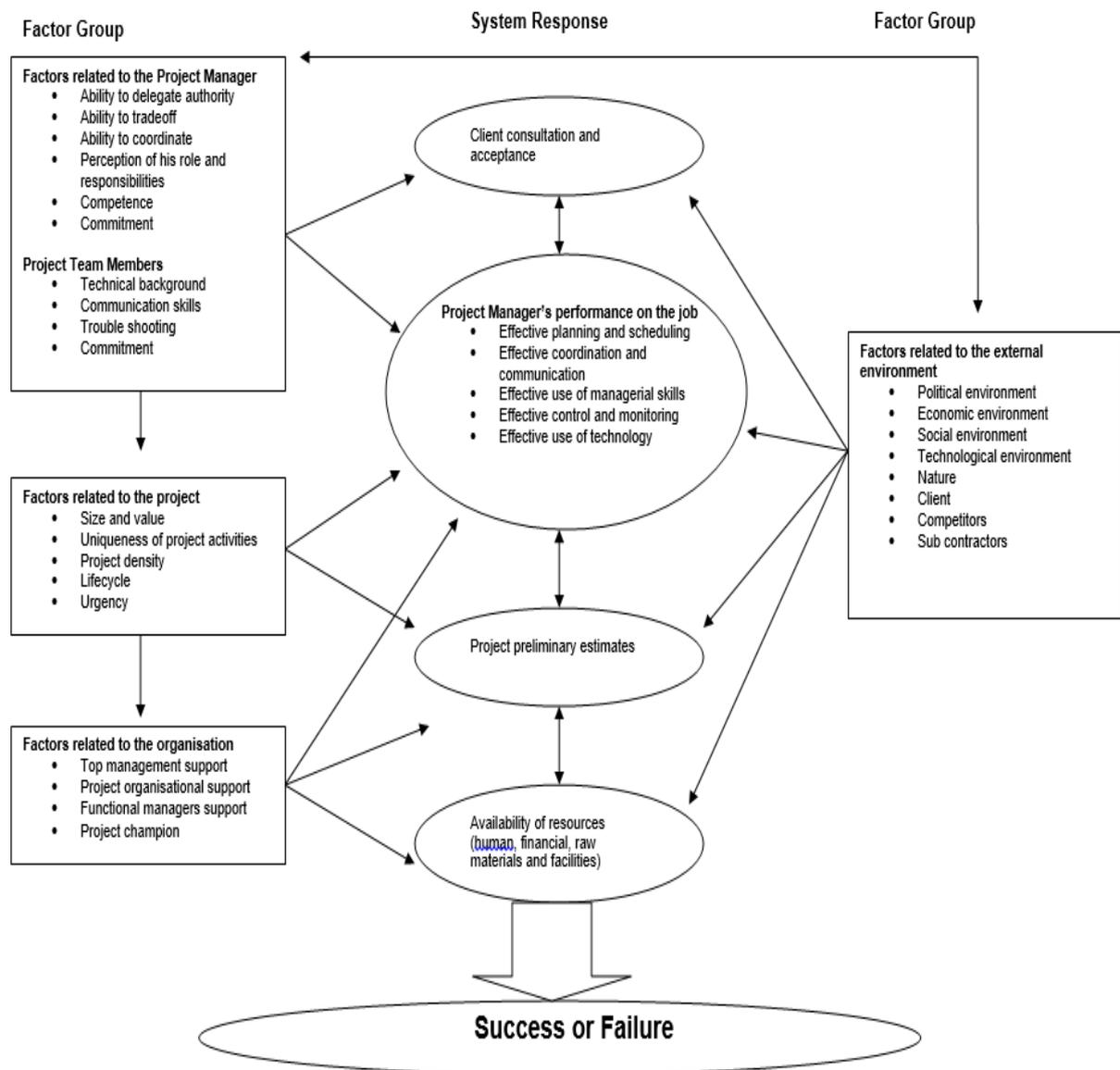
Factor Group 1 factors in Figure 1 relate to the project/hotel manager and the team members/departmental managers, revolve around the hotel management's leadership abilities, motivational levels, perception of the role, and competence. The System Response for Factor Group 1 is client consultation and acceptance which can relate to obtaining 'buy-in' from the

investors/owners when considered by a hotel opening, and effective planning, scheduling, communication, use of managerial skills, monitoring, and use of technology by the hotel management, which all directly relates to the leadership capabilities and experience.

Factor Group 2 factors relating to the project, these are all factors that relate to the size of the hotel, uniqueness or type/grading of the hotel (for example, 3-, 4- or 5 star), and the urgency of getting the hotel operational. The System Responses that these factors will have an effect on is again the performance of the hotel management, that is, the experiences and capabilities aligned to the size and type of hotel that should be opened. Factor Group 3 factors relate to the organisation identifying the relationships of the various stakeholders that need to be articulate and strong. This directly refers to the relationship between the hotel management and the investors/owners as well as with the executive/top management. The System Response for this is that the hotel management's performance and effectiveness in managing the project/opening a hotel, the preliminary estimates, and the availability of human- as well as financial resources.

Factor Group 4 factors that relate to the external environment, such as the political-, environmental-, social-, and technological environment, competitors and sub-contractors, are factors that relate to Newell and Seabrook's 2006 investment decisions, and as such should form part of the pre-project analysis and feasibility that should be considered. The System Response of Factor Group 4 indicates that this will have an impact on the entire project as a whole, and therefore plays a major role in the success or failure of the hotel opening.

Figure 1: Critical success factors for projects



Source: Belassi and Icmel's., 1996:144

listed certain important functions as follows:

Management roles in new hotels

Chan (1993:155) studied managerial roles of hotel pre-opening teams for new hotels in developing countries, specifically the hotel manager and the department head roles, when opening a new hotel in China. Chan (1993:156) emphasised that the primary function of a hotel manager during the opening phase was to act as a conduit between the management company and the owner, a function that can lead to a critical success factor, or develop into a challenge, if not exercised properly. Chan

- The financial controller's functions are to take care of licenses, insurance and computer systems for the various areas of the hotel.
- The chief engineer's primary function is to monitor the project's progress by the construction company and ensure that deadlines are adhered to. An opening date being postponed can cause rooms not to be sold, or existing bookings to be cancelled, and potentially additional financing to be sourced. The function of the

chief engineer, therefore, has huge financial implications if not properly performed.

- The human resources manager should have knowledge of the local labour laws and employee benefits, and source key staff to fit the managerial roles.
- The sales and marketing manager should complete the sales and marketing budgets plans, and possess a thorough knowledge of the local market conditions.

Entrepreneurship and business planning during hotel openings

The opening of a hotel can be related to the opening of any business. The management team opening the hotel, therefore, need to have an internal focus of control, similar to an entrepreneur starting up his/her own business. There is a need to be vigilant in managing the processes, and planning all aspects of the project in great detail. The research on the characteristics of entrepreneurs is extensive; Kuratko and Hodgettes (2007:118) identified the following characteristics as the most common traits of successful entrepreneurs:

- Commitment refers to the level of time and effort put into opening the hotel on time, and successfully.
- Determination is the emotion of how much one really wants to achieve the goal of successfully opening a hotel.
- Drive to achieve refers to the determination to open the hotel successfully, and achieve a positive result.
- Goal orientated refers to the need to know exactly what needs to be achieved before a hotel can successfully be opened, and set clear goals/targets with a time line for achieving these. The goals must form part of the planning process and critical path development.
- Taking initiative by the hotel manager in driving the project or hotel opening.

- Persistence in problem solving is a key characteristic in that it does not matter how detailed a project is planned there will usually be issues or challenges.
- Calculated risk taking implies the hotel manager is empowered to take these risks. Should there be no empowerment risk taking can present further challenges.
- Integrity and reliability is a basic requirement for a hotel manager to perform the planned duties and responsibilities entrusted with the opening of a hotel, and managing the business ethically (Evans, N., Campbell. D. & Stonehouse, G. 2003, 72-74; Nieuwenhuizen. C. 2007).

Van der Heijden (2001:14) notes that value is directly linked to scarcity, and scarcity is what entrepreneurs thrive on; establishing that unfulfilled or partly fulfilled customer needs, and fulfilling it differently to competitors, is a critical success factor. New hotels should be conscious of those needs and the way that they are fulfilled in the current market, and to differentiate themselves from the already established hotels to attract and maintain market share, especially with shrinking markets. Van der Heijden (2001:15) was concerned with new businesses, distinguishing between a new business and a sustainable new enterprise. He explains that the management team or entrepreneur should identify and develop the unique activity, or critical success factor, by making critical strategic investments to maintain that critical uniqueness, remain the market leader, and build on the success factors or address the challenges. This can only be achieved by thoroughly understanding the customer market and actively anticipating any future needs, and many organisations set up research a development department for this exact purpose to ensure competitiveness. This is, however, something that is not popular with the hotel industry, which can potentially explain why so much of hotel revenues come from outside third parties. Once the strategic investments have been made

and management has accurately identified what is required in order to remain competitive, then management needs to allocate resources (material and human) with the 'right' competencies towards achieving this unique activity-set.

Hotel pre-opening feasibility study and market research

Feasibility studies are predominantly required by financial institutions to approve loans. It captures a broad range of data to form an analysis of whether a project will be feasible in terms of delivering a return on investment for the owners. Factors such as market conditions, products to be invested in, and related costs are taken into account, as well as using historical data to project revenue statistics and ultimately decide whether the investment will make a return or not, and in which timeframe (Faulkner & Russell, 2000:328). According to Sorenson (1990:6) the major cause of failure for a real estate project is due to a poor feasibility study, weak management, and incorrect market timing. Considering the above, a detailed feasibility study prepared by the 'right' professionals will provide owners with the necessary information required to make an effective investment decision, and will be imperative before embarking on a hotel investment project.

Singh and Schmidgall (2011:76) say that compared to office buildings and apartment blocks, hotels are a far more complex product considering the range of product and service types they have to offer and the complex operating structures, which includes management companies and franchises. These characteristics make them significantly riskier assets and as such it is more complex to assess their feasibility. These feasibility studies looked at the market and assessed whether a demand existed for more hotel rooms within a location. The study then considers the additional rooms against the demand and multiplies this by an average room-rate to provide the projected marginal and total revenues. The major challenge with this type of market analysis is that it does not take changing market conditions into account. Putting this into perspective for Cape Town between 2008 and 2010, it can be asked whether the feasibility analysts considered the recession at the time, or the additional competitors that also planned new hotel operations.

Barrett and Blair (1987:6) referred to a five-stage model for the traditional development process. The researchers believe that stage one of this model would be identical to the process to be followed in developing a new hotel, namely:

Stage 1: Initial planning of the project (a new hotel):

Phase 1: The formulation of the developer's objectives

Phase 2: Conducting a market analysis

Phase 3: Preparation of a financial feasibility study

Phase 4: Decision-making process.

In phase one the developer's objectives could be increasing the value of the business and boosting the image, seizing an investment opportunity, implementing a segmentation strategy, or increasing the market share; all of which could lead to increased profits and the future prosperity

of the organisation and the shareholders (Withiam, 1985:39; Nicolau, 2002:48). Phase two, conducting the market analysis as discussed above, analyses current supply and demand of locations (cities) and predicting future supply as well as demand of locations. This could also

include demand generators such as who is the target market and how is the product offerings linked to attracting the market. George (2008:116) is at pains to emphasise that 'knowledge of consumers' is vital in the hospitality industry, including 'new, existing, potential and lapsed consumers'. Detailed knowledge of the hotel's market and potential market is vital in meeting customers' demands and maintaining a competitive market position. The demand generator will also identify the optimum price that the hotel can sell its products.

Phase three prepares the financial feasibility study and is also discussed above when calculating the return on investment by taking the market analysis into account to project revenues over a period of time, subtracting operating costs from these revenue projections to indicate profitability, and as such measuring off profitability against investments. Lastly, phase four makes decisions on whether to proceed with the investments or not.

Internal and external factors affecting the opening of a hotel

Numerous factors which could infringe on the opening of the hotel need to be considered; some of these can be controlled by the Task Team, such as salaries and wages and the room rack-rate (internal factors), while others are outside the powers of the hotel owner/management team, such as interest rates on loans/investments, taxation, and the petrol price (external factors). Goeldner, Brent Ritchie and McIntosh (2000:458) state that the following policies are needed to ensure the successful operation of a hotel enterprise: Physical resources; human resources; financial resources; information resources, and activity resources.

Ordering physical resources

When opening a hotel it is imperative that management matches the right type and quality of equipment to the style of the hotel. As the choice of any luxury

equipment in South Africa is limited, and also international hotel chains usually have brand standards of equipment to use, there is usually a significant amount of equipment that is imported from international suppliers. When importing equipment there are quite a few external factors to consider that could potentially impact on the opening of a hotel. Such factors include timing, security, storage and selecting a local distributor, and the external factors are interlinked to one another and impact both in isolation and collectively on the operations, costs and logistics of the hotel opening.

Timing is important as management would need to calculate the time equipment would take to come from its original location to Cape Town, which is usually six to eight weeks from order date from either the United States of America or Europe. Time is then needed for customs clearance as well as transport to the hotel. The reason why this is important is because when opening a new hotel, the site is usually busy with construction and as such there is no storage space available on site, and as such when stock arrives early alternative storage must be arranged which will increase costs, and also pose a security risk considering the political climate and unacceptable crime rate in South Africa (George, 2004:48). However, getting the ordering process correct would not eliminate all possible problems, as there are other external factors that could contribute to equipment being delayed or arrive early.

One of these is a reliable local distributor, as when importing internationally it is always wise to have a local distributor to manage the import process, and to be held accountable for the quality of the imported goods. When referring to quality it would entail that the right equipment, to the right standards/quality and with no faults/damage arrives at the right time, hence the importance to have some organisation with experience in the import field as well as a relationship with the actual suppliers.

There are other external factors such as the state of the economy, exchange rates, accidents, strikes and natural disasters that could impact on orders and the arrival time. These factors are very difficult to plan for and form major challenges to a hotel opening on time; the best way to deal with them is to select a reliable supplier with a successful track record, and use a local distributor with a good reputation and previous experience.

Hotel technology (information resources)

The correct technology plays an important role in any form of business; should a hotel not use the right technological advancements the competition will have an automatic advantage. Technology in hotels consists usually and mainly of a room inventory management system, stock control system, financial package, point-of-sale system, customer relationship management system, human resource and training system, and sales control package (George, 2004:227). George (2008:352) also points out that consumers are becoming increasingly computer literate, spending much time on '... personal computers, personal digital assistants, netbooks, working from home, surfing the internet...'. If a hotel is, therefore, not online it can expect to lose bookings from a whole generation of 'computer dependent' customers. A hotel manager also needs to consider the size of the hotel and the number of employees required to effectively manage the system. In this respect there is little or no difference between the technology requirements of corporate or private hotels, small, medium or big organisations; all need some form of technological system.

Cultural and education impacts (human resources)

George (2004:149) defines culture as '...consisting of the shared attitudes, perceptions, values, and behaviour of a (specific) group of people'. South Africa, universally known as the 'rainbow nation', has many different cultures, and as such employees come from different beliefs and customs, educational levels, values, and religions. In addition to this, the labour

laws in South Africa are very pro-employee. This makes it very difficult for an employee without experience of the region (where the hotel is located) to adapt to the conditions, and effectively work in, or lead a team. This is not just the case for individuals, but also for international hotel organisations, where new hotel structures that enter the market with zero experience of the location will encounter challenges adapting to the local business environment. The possible solution for them is to employ hotel managers with good local experience who will be able to assist in adapting processes, procedures and policies to suit the local working environment.

Stakeholder involvement (activity resources)

Various stakeholders are involved in the opening of a new hotel, and their involvement levels, or lack there-of, can contribute to the success of the hotel from the opening date. The stakeholders are usually the owners (or owner's representatives), a hotel management company, and the hotel management operational team. The hotel management team operates the hotel, but relies on the effective support of the management company, which needs to build and maintain a strong relationship with the owner/s, and convince them that the hotel is being managed in the best possible way, which includes the financial returns. .

Research summary

The study was limited to only 4- and 5 star hotels that opened in Cape Town during the period 2008 to 2010, prior to the FIFA Soccer World Cup event in South Africa. The majority of the new hotels planned to open before the FIFA event were to cater for the more affluent international visitor. While the study aimed to identify critical success factors and challenges encountered with the opening of a hotel, these success factors should ensure the sustainability of the hotel, and the elimination, or at least the addressing, of challenges.

Critical success factors

The following list is of the success factors identified during the interviews and named by the hotel executive managers:

- 1 Strategic planning
- 2 Staffing and recruitment
- 3 Time on board (this refers to how long before the opening of the hotel the general manager is recruited)
- 4 General manager's skills and experience
- 5 General manager's perception of his/her role
- 6 Task Force Teams
- 7 International and local experience
- 8 Networking
- 9 Relationship management
- 10 Technology
- 11 Support received from sister properties

These success factors can be grouped into four critical groupings:

- Strategic factors:** 1, 2, 7, 9, 11 (these factors include location, financing, financial and budget planning, and the physical buildings).
- Operational factors:** 2, 3, 4, 5, 6, 8, 10 (by operational factors is understood the organisations financial, human resources, marketing, stock procedures, and daily operational methods).
- Human resource factors:** 2, 9 (this factor includes the identification, recruitment, training and placement of all levels of staff from management to operations).
- Technological factors:** 10 (the factors which refer to the electronic control of the hotel's operational functions)

The research evaluated South African tourism statistics for the period 2008 to 2010, and considered the effect of some major sporting events, as well as the recession, on these statistics. The literature reviewed further assessed feasibility studies, market analysis, the role of technology in a hotel, success factors during the project (hotel-opening), hotel investment decisions, as well as the role of owners/developers and entrepreneurs in starting new business ventures. These criteria all provide insights into what factors could influence hotel-opening decisions and hotel opening operations-management.

The research approach is inductive and the purpose explorative, thus it is a qualitative study. Data was obtained by interviewing hotel executive managers/managers of 4- and 5 star hotels that opened during the 2008 to 2010 pre-FIFA Soccer event in Cape

Town. The research posed open-ended questions to enable the participants to discuss openly, and offer their experience and considered views, on the hotel-opening events. The literature reviewed provided guidance in developing the interview questions, which results were coded, compared, and analysed, and the critical success factors for opening new hotels, as well as other factors or advantages that could be encountered and applied when opening a hotel, are identified. Further, the major challenges experienced during the hotel openings are also identified, and the findings reveal no significant differences between corporately owned and private hotels, nor between large and small institutions; thus the study objectives were addressed. The role of technology and the influence of South African culture on the accommodation industry, especially the opening of new hotels, are also addressed and found to exercise considerable influence on the

hotel establishment, especially the role of technology; thus objectives five and six were also addressed.

Conclusions

The lack of the hotel manager's involvement at the feasibility- and market analysis stages, is probably understandable, as the project is still undecided being part of the research stage. There should, however, be an experienced hotel operator involved who forms part of the consulting team. In the literature reviewed the researcher considered feasibility studies, and their effectiveness and accuracy would greatly depend on who is conducting them. An experienced hotelier will be able to appropriately link the type of hotel, its products and service offerings, to the prospective location and available current, as well as future, accommodation market, which should enable the projection of future revenues to be more accurate. Also, the fact that no hotel executive manager/manager who was interviewed was part of this stage of the planning, before the investment decision is made, contributed to the information and research on success factors and challenges during the feasibility- and market analysis stages.

The South African tourism market, and the market statistics during 2009, offered investors a false sense of the accommodation market as, although in a recession, the tourism statistics are still largely positive. This is mainly attributed to the British and Irish Lions Rugby tour, the Indian Premier League Cricket pageant, and the FIFA Confederations Cup Soccer event, that all came to South Africa, and Cape Town, during 2009. These positive statistics, in all probability, told investors that the recession would not have an impact on South African inbound and internal tourism, which ultimately could have led to skewed revenue projections for the five years to 2017. Furthermore, were the investors who planned and embarked on their hotel projects prior to 2009, perhaps just after the FIFA Cup announcement in 2004, prepared for a

recession in 2008/9? Were they also prepared for the number of new competitors entering the market all at the same time, and did they consider thoroughly beyond 2010?

The study identified that there are no significant differences between the success factors and challenges relating to the size, ownership and star grading of hotels. Four- and 5 star hotels are similar in product and service offerings, thus should the study have considered 1- and 2 star hotels to 4- and 5 star establishments, there might have been more significant differences. Ownership is perhaps the only criteria that could not have been any different, as the hotel executive managers/managers interviewed were from both private and corporate owned establishments. This could again be confirmed should future research be done in this field.

The biggest impact was probably that external influences can impact on the success of the hotel openings, irrespective of having all the success factors in place. The state of the economy is probably the biggest external contributor that can impact on the customer market, irrespective of in how much detail the market analysis is done. Suppliers, and their financial strength, can impact on the arrival of stock and equipment, and nature plays a role in whether people will be attracted to the hotel's location, for example, an event like an earthquake, hurricane or tsunami can affect the tourism accommodation statistics. However, so can, as we saw in 2009 in South Africa, major sporting events contribute positively to tourist arrival numbers. There are seldom solutions to these external challenges, especially considering their unpredictability, however, the hotel can have contingency plans in place to troubleshoot and deal with these influences as and when they occur.

Recommendations for further research

Further research focusing on hotel openings in other countries can be initiated and the results can be compared

to the findings of this study. It would be interesting to determine whether the same success factors and challenges occur in different cities and countries under different scenarios.

The study could be more quantitative by capturing a larger sample, which should better identify whether there are differences in success factors or challenges in corporate, private, large and small hotels.

Moreover, each success factor can be researched independently and defined in greater detail, then prioritised in order of importance. In particular, the success factor for planning should be explored in more detail as it has major components comprising the business-, financial-, marketing-, human resources- and operational plans. These plans can definitely be more accurately defined. Future research should be conducted into the success factors of accurate feasibility studies and market analysis of hotel developments, where investors/owners are interviewed instead of executive managers/managers.

This study lays the foundations to further explore the relationship of the success factors and the challenges. This will determine whether the challenges will be eliminated with increased focus on the success factors, enhanced, or whether new challenges will appear when the success factors are ignored.

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