

Brothers hit jackpot in China hotel sector



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Three brothers from Singapore with a flair for the hospitality business have hit the jackpot, thanks to China's booming middle class discovering the travel bug.

The brothers set up a single Chinese hotel of the all-American Days Inn group in 2004 and have not looked back.

They now have 45 largely three- and four-star hotels up and running in cities like Chongqing, Suzhou and Xiamen and more than 130 building projects across 76 mainland cities.

Many of these are still under construction, but Frontier Group, the brothers' Singapore-based investment firm, has secured either management or franchise contracts with them.

The number of operating hotels would be even higher if not for the group's stringent quality controls, which have led to a few franchisees being shut down for flouting standards.

This ambitious foray into the hotel sector started when twins Harry and David Tan, 56, and younger half-brother Ted Fang, 46, bought the Days Inn master franchise rights for Greater China in 2003.

Expansion, which was previously done through securing new management and franchise contracts, has been robust. Revenue grew 76 per cent in 2010, a further 33 per cent in 2011 and gained 29 per cent last year.

And the figure is set to climb with the firm expected to add about 40 new hotels a year despite competition from other brands in a similar range, such as Holiday Inn and Mercure.

Most of the additions will be from management and franchising, while the rest will come through its leasing model.

Leasing, which the firm recently embarked on, is a more profitable strategy as the company leases an entire building and runs it as if the hotel was its own as opposed to just collecting management or franchising fees.

"We are already a leading brand in China and because we have so many years of experience and a good management team, we feel that we are ready to go into the leasing model so that we can capture more upside,"

said Mr Fang.

But the hospitality sector in China is rapidly changing with more domestic travellers on the back of the middle class's rising affluence.

This has led to second- and third-tier cities receiving more visitors, which has in turn led to rising demand for mid-range hotels. Room rates are also steadily climbing.

Days Inn China chief executive officer Harry Tan, who has worked at the Shangri-La and Holiday Inn hotels in China, noted that foreigners made up 30 to 40 per cent of its hotel guests at first-tier cities like Beijing and Shanghai.

But this falls to about 10 per cent for second-tier cities and dips further, to less than 5 per cent, for third-tier ones.

In 2001, for instance, there were only about three hotels along Sanya Bay in Hainan Province, Mr Tan recounted. But there are about 20 now, highlighting the tremendous changes that have been happening in the sector as locals pack their bags and travel across the country.

"China travellers are under-travelled so there is still a lot of opportunities for business and leisure travel. I see a lot of potential in leisure travel, especially to resorts, as there are so many interesting places unexplored," Mr Fang added.

The business also seems to be sitting in a comfortable spot, where economic cycles do not matter as much.

"Our niche market is good because when times are good, the two-star travellers want to upgrade and give themselves a treat to a three-star hotel. When times are bad, the five-star travellers want to save some money and move down to a four-star hotel," said Mr Harry Tan.

That means the firm's business is buffered and always has movement coming into its market to compensate for any loss, he said.

There are challenges though, including having to cope with competition and needing to train hotel staff from scratch in smaller cities, where few people have the industry experience and necessary expertise.

The company employs about 45 people at its corporate offices in Beijing and Shanghai and has about 10,000 staff running its hotels in China. It also has plans to list on a suitable stock exchange, possibly in two years when the "right time" comes.

Days Inn is owned by United States-based Wyndham Hotel Group, part of Wyndham Worldwide.

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