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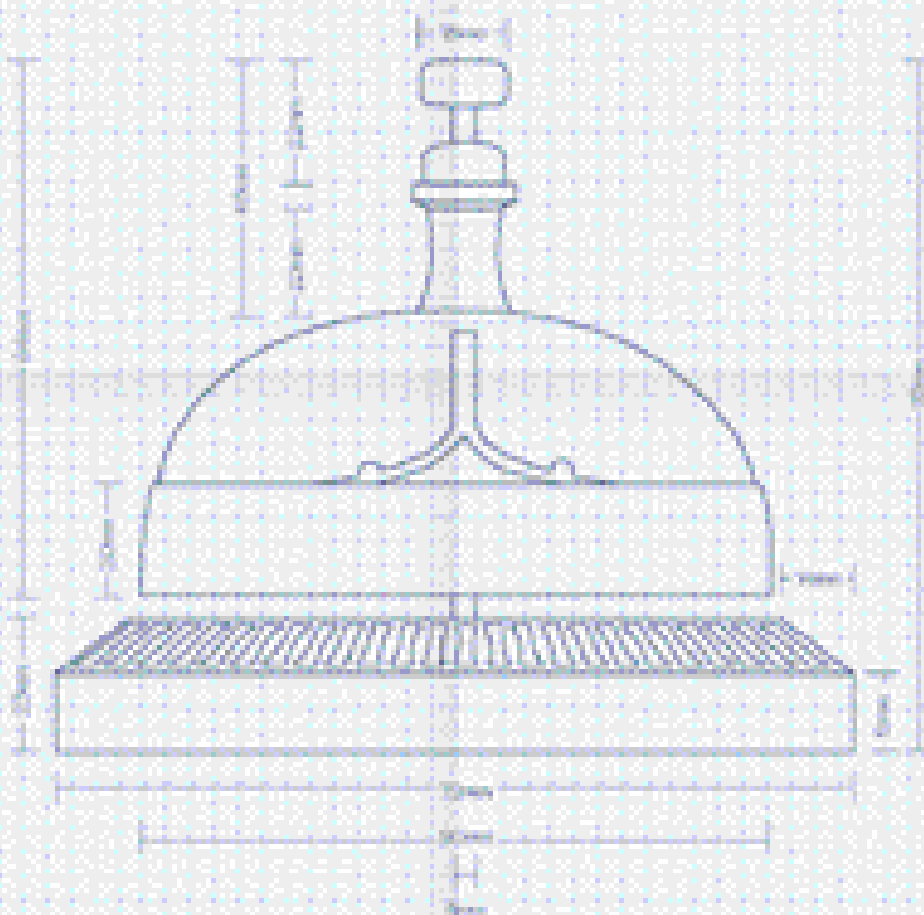
**IRISH
HOTELS
FEDERATION**

by

CHL

CHL CONSULTING Co. LTD.

BLUEPRINT FOR THE FUTURE



with

A strategic review

and recommendations

for the Irish Hotel &

Guesthouse Industry



BLUEPRINT FOR THE FUTURE

**A strategic review and
recommendations for the
Irish Hotel & Guesthouse industry**

VOLUME ONE: MAIN REPORT

February 2001

Supported by:



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BLUEPRINT FOR THE FUTURE

A Strategic Review and Recommendations
for the Irish Hotel & Guesthouse Industry
Volume 1: Main Report

PREFACE TO VOLUME ONE

This document is the first of two volumes that together comprise **A Blueprint for the Future Development of the Irish Hotel and Guesthouse Industry**. This strategic review has been prepared by CHL Consulting Company in association with international consultants Accenture (formerly Andersen Consulting) and GHH Consultants, Germany, with specialist inputs from economic consultants, Peter Bacon & Associates. It was commissioned by the Irish Hotels Federation with support from Bord Fáilte, CERT and ICC Bank.

Volume One is the Main Report. It contains the conclusions and recommendations of the Review, and sets out a strategy for the future development of the Irish hotel and guesthouse industry. The measures required to enable the implementation of the strategy and an action programme for the key parties – hoteliers, the IHF, Bord Fáilte, CERT and the Department of Tourism, Sport and Recreation – are specified in this Volume.

Volume Two contains the detailed findings of the research and analysis conducted in Ireland and overseas which underpin the conclusions and recommendations of the Review. The contents of Volume Two are organised into five parts, as follows:

- Part I: The Irish Hotel and Guesthouse Industry Today**
- Recent Trends and Performance

- Part II: A Sector in Transition**
- Issues Confronting the Industry

- Part III: Experience Overseas**
- International Trends and Lessons for Ireland

- Part IV: The Economic Impact of the Irish Hotel and Guesthouse Industry**

- Part V: Annexes**

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FOREWORD

There are interesting and challenging times ahead for hotels and guesthouses. Our industry has grown immensely over the last decade to the billion pound business it is today. It is now Ireland's largest indigenous industry making significant contributions to the expansion of the economy at national and regional levels. With revenue turnover of almost £1.3 billion, it provides almost 61,000 jobs according to the most recent CERT tourism employment survey. Generating over 2% of GNP and contributing about £200 millions annually to the Exchequer, the industry is a national asset providing employment and incomes in every city and town in the country.

Impressive as these figures are, there are many challenges ahead. Hotels and guesthouses throughout the country are experiencing increasing pressure from all quarters. Customers are demanding superior service, staff are seeking empowerment and greater rewards, whilst investors require high returns. All this at a time when new technology is changing the way we do business and the wider concerns of society such as food safety, the environment and personal security are impacting on our industry.

After a period of sustained growth, it is now appropriate to benchmark the industry and develop a strategy to provide guidance for the future. This study commissioned by the IHF does that. The study is stimulating, exciting and will no doubt be the instigator of change within our industry. It points to the new directions we need to take *'to create a profitable, internationally competitive industry, delivering an excellent product and outstanding service'*. It makes clear recommendations and provides an action plan for realistic implementation.

The report is refreshing. It challenges our thinking, questions our previous notions and suggests changes to the very structures of our industry. Not everyone will agree with its every detail. However, everyone will agree that it is a well researched, authoritative document that outlines a coherent strategy for the entire industry - with no sectoral bias.

CHL Consulting carried out the study in association with international consultants Accenture (formerly Andersen Consulting) and GHH Consultants, Germany, with specialist inputs from economic consultants, Peter Bacon & Associates. Financial assistance was provided through the support of Bord Fáilte, CERT and ICC Bank. The IHF appreciates and is indebted to all organisations involved.

We look forward to implementing this strategy in consultation with our partners in the industry.



MARY FITZGERALD
PRESIDENT

MESSAGE FROM SPONSORS

ICC Bank is pleased to have had the opportunity to sponsor this strategic review of the future development of the hotel and guesthouse industry, initiated by the IHF. The Bank has had a long and productive association with the IHF and the tourism industry, during which time the industry has evolved into a sophisticated and important sector of the Irish economy. ICC's experience and in-depth knowledge of the industry have resulted in the Bank now financing almost one quarter of 3* to 5* Irish hotels.

This Review is timely for the industry, as it faces a new phase of growth and development. The Review will also assist ICC Bank in planning future investment strategy with the industry over the medium term, as befits the nature of our hotel financing. ICC Bank wishes the IHF and the tourism industry every success in addressing the challenges that lie ahead. We look forward to a continuing fruitful relationship with both the IHF and an expanding tourism industry.

ICC BANK

FEBRUARY 2001

TABLE OF CONTENTS

Executive Summary	i
1. INTRODUCTION	1
1.1 Background	1
1.2 Study Objectives	1
1.3 Methodology	2
1.4 Acknowledgements	2
2. THE CHALLENGES AHEAD	3
2.1 The Performance of the Industry to Date	3
2.2 Issues Confronting the Industry	9
2.3 Shaping a Future Vision – Industry Context	24
3. INTERNATIONAL EXPERIENCE	30
3.1 Operating Performance Indicators	30
3.2 Key Worldwide Industry Issues	32
3.3 International Drivers of Change: Implications for Ireland	33
4. FRAMEWORK FOR A DEVELOPMENT STRATEGY	44
4.1 A Time for Change	44
4.2 Criteria for a Coherent Development Strategy	45
4.3 Vision for the Industry	47
4.4 Strategic Framework	47
5. ENABLING MEASURES	53
5.1 Registration Regulations	53
5.2 Classification	58
5.3 Human Resources	60
5.4 Management	63
5.5 Product Development	64
5.6 Information Technology	66
5.7 Finance / Tax	68
5.8 Marketing and Branding	70
6. ACTION PLAN	73
6.1 Time Frame	73
6.2 Agents of Change	73
6.3 First Steps	74
6.4 Priorities	74
7. ANNEX	80

BLUEPRINT FOR THE FUTURE

A Strategic Review and Recommendations
for the Irish Hotel & Guesthouse Industry
Volume 1: Main Report

EXECUTIVE SUMMARY

The expansion of the industry during the 1990's was driven by a number of key factors which acted to reinforce each other and bring about the most favourable set of sustained economic circumstances that the industry has experienced to date. These factors included:

- **the availability of investment incentives** including capital allowances, the BES scheme, and grant aid
- **an increasingly competitive economy** including low inflation, favourable exchange rates, a growth in foreign investment and in investment in infrastructure
- **an expansion of market demand** from overseas tourists, international business travellers and the domestic market
- **a low cost operating environment** due to reductions in interest rates, energy costs and marginal increases in labour costs
- **good availability of factor inputs** including a pool of cheap labour, investment capital, investment in overseas tourism marketing and investment in training
- **an improved product offer** through improved product quality and a growth in complementary tourist attractions and activities.

CHALLENGES FACING THE INDUSTRY

Following the significant growth and development in the 1990's, the industry is now facing a number of key challenges which will impact on its profitability, future competitiveness and development potential. These challenges include:

- **the opportunity that new technology brings to the industry** and how best to harness this for the benefit of Irish operators
- **rising operating costs** especially in the areas of wages, energy, waste management, insurance, and food and beverage purchases
- **a growth in restaurant, bar and leisure businesses** which compete directly with hotel food, beverage and leisure facilities
- **a projected slowdown in the growth rate of tourism demand**
- **staff and skills shortages**
- **emerging product weaknesses**, with visitor satisfaction ratings declining
- **higher inflation rate here than in other Euro-zone countries** leading to a perception of Ireland as an expensive destination in these markets
- **a regulatory environment constraining productivity** and the industry's ability to respond to changing market needs, constituting an implicit tax on room sales
- **the current classification system failing** to communicate effectively with customers.

STRATEGY CONTEXT

In framing a strategy to address these challenges we examined the unique characteristics of the Irish industry compared to other countries, and took account of key industry trends internationally. The unique characteristics of the Irish hotel and guesthouse industry include:

- the relatively small size of properties
- the high proportion of family owned / independent properties
- the lack of identity in the guesthouse category
- the very high proportion of sales accounted for by F&B
- the high dependence on overseas tourists
- the importance of the corporate segment of the market
- the small geographical size of Ireland, with few major cities and motorways.

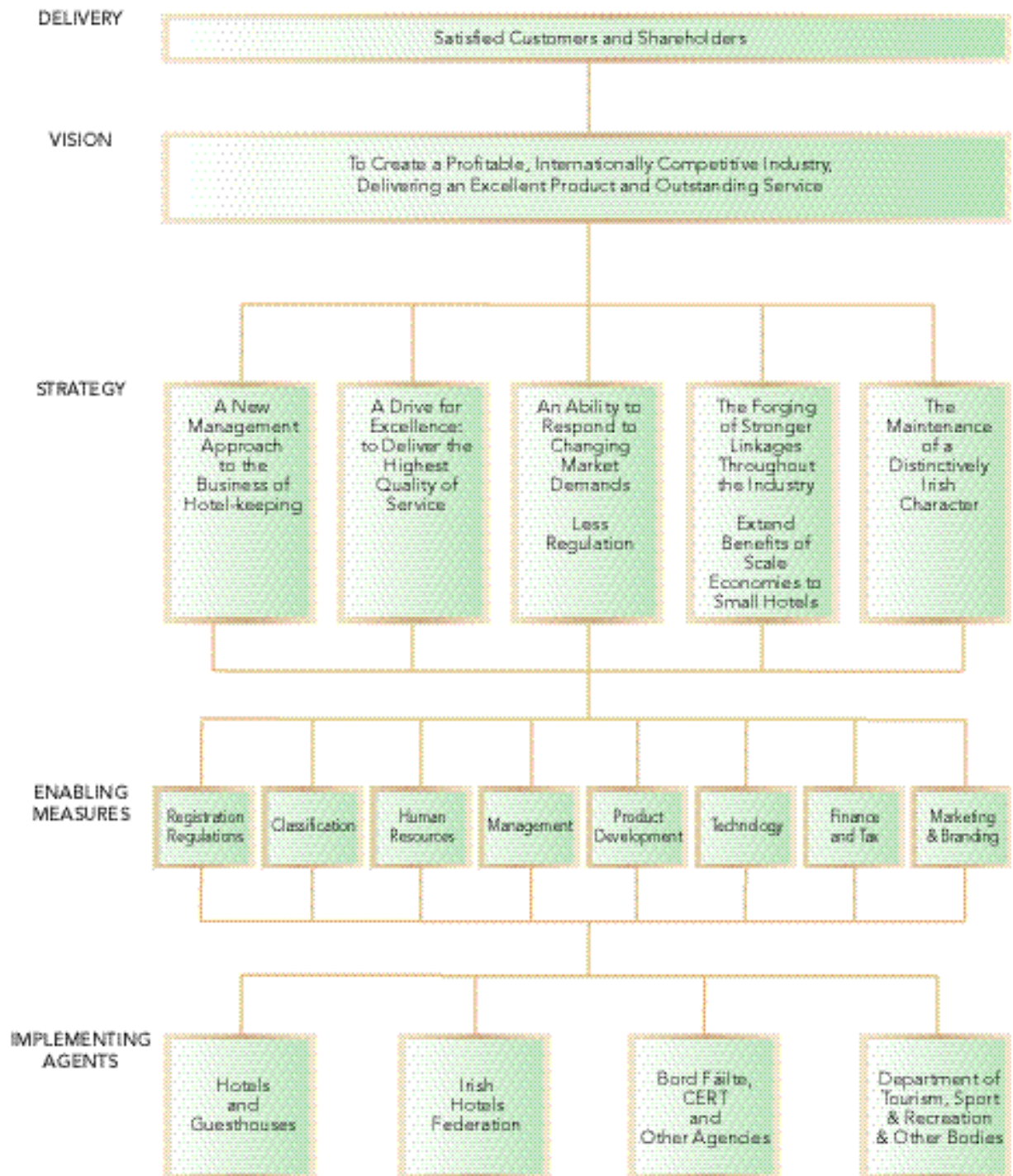
The key industry trends internationally include:

- the split between the ownership of hotel assets and the management of hotel operations, with a growing emphasis on adding shareholder value
- the increasingly strict health and safety standards being demanded by both regulators and customers
- the new management approach being adopted which seeks to maximise return on capital and includes a greater emphasis on training
- marketing and distribution are greatly affected by eCommerce which is changing the way business is done
- revenue and customer relationship management receiving greater priority; revenue per customer becoming the benchmark instead of revenue per room
- technology and property management systems driving change throughout the sector and improving efficiencies
- branding of hotels growing due to the marketing benefits and scale economies it brings
- facilities, services and rooms of the future becoming more tailored to individual needs through the use of new technology
- customers becoming more discerning and demanding an individually tailored approach in their dealings with hotels
- human resources and training becoming increasingly important as the emphasis shifts from the physical elements of a hotel stay to the experience itself, which is greatly influenced by interaction with staff.

FUTURE VISION AND STRATEGY FOR THE INDUSTRY

The strategic framework for the hotel industry comprises four main components - vision, strategic framework, enabling measures and implementing agents. The framework is illustrated on the chart opposite.

Strategic Framework for the Hotel and Guesthouse Industry



(i) Vision

The vision for the industry is as follows:

The vision for the future of the Irish hotel and guesthouse industry is that of a profitable, internationally competitive industry delivering an excellent product and outstanding service.

(ii) Strategy

In seeking to achieve this vision, we have made recommendations based on the five following interrelated themes:

- A New Management Approach: the hotel as a business enterprise
- The Drive for Excellence: an overriding emphasis on quality
- Enabling Responsiveness to changing market demands by reducing the level of regulation
- Forging Linkages throughout the industry to extend the benefits of scale economies to independent small hotels.
- Maintaining a Distinctive Irish Character.

RECOMMENDED ENABLING MEASURES

We have identified eight key areas or factors that have a fundamental influence on the performance of the industry. A series of recommended actions for each factor are summarised below.

(i) Registration Regulation Measures

- Recategorise hotels and guesthouses into four categories of hotel, and abolish the present guesthouse title; the working titles of the four categories for the purposes of this study are: Full Service Hotels, (Town and Country) House Hotels, Budget Hotels and Aparthotels - the final titles should be determined through a consultative process.
- Reduce the scope of Registration Regulations to statutory requirements minimum capacity, minimum size of bedrooms, public areas and minimum scope of food service; detailed specifications should be left to classification.
- The minimum number of rooms for hotels should be reduced to seven, although the provisions of current licensing legislation will require hotels with public bars to adhere to existing minimum capacities.
- Full Service Hotels will be required to provide breakfast and an evening meal; Town and Country House Hotels and Budget Hotels will be required to provide breakfast; no food services will be required of Aparthotels.
- The content and format of food service will be at the discretion of hoteliers.
- The liquor licensing legislation should be simplified and liberalised - all hotels should be entitled to sell alcoholic beverages to resident guests.
- The drafting of legislative and regulatory amendments should incorporate a consultative process involving all key stakeholders.

(ii) Classification Measures

- Research the reasons for non-participation in present classification system
- Overhaul the current classification system for Full Service Hotels to address weaknesses
- Bring 5* category more in line with international standards
- Sub-divide 3* category into 3* and 3* deluxe
- Introduce an appropriately tailored star classification system for the new categories of Town and Country House Hotels, Budget Hotels and Aparthotels
- Presentation of classification system in various guides to be revised to elaborate from lower to higher grades to emphasise positive benefits of each grade
- Following the comprehensive revision of the classification system, participation should be mandatory for all hotels.

(iii) Human Resource Measures

- Continue to increase the pool of labour by enhancing the image of the industry, improving employment terms and conditions, and conducting recruitment drives in Ireland and overseas
- Invest in training - all operators to allocate 2%-4% of turnover to training
- Develop multi-skilled staff through training
- Develop creative non-cash employee benefit packages to improve staff retention
- Introduce better HRM practices through QEP and make the QEP mandatory for IHF membership
- Develop networks of independent hotels to support staff training, staff retention and career path development
- Expand range of training methods and subjects, especially in the fields of hotel information systems, customer relations for all staff, video-based training for multi-racial staff, and 'Irish hospitality' programmes for foreign staff.

(iv) Management Measures

- Update the education curricula of hotel management colleges to give greater emphasis to general business management knowledge and skills
- Introduce a structured continuous professional development programme for existing managers at all levels
- Introduce a structured approach to developing young managers through a mentoring programme
- The benchmarking of best practice should be developed as a management tool for the industry, and used as the basis for an in-service training strategy for the industry.

(v) Product Development Measures

- Conduct research into product development internationally
- Disseminate information on new products to the industry, via the Internet, publications and seminars
- On-going research by CERT to further improve culinary arts
- Promote good interior and exterior design in the industry
- Provide training in the development and delivery of new services
- Introduce industry product and service quality schemes
- Develop networks of independent hotels for outsourcing of services and joint purchasing of supplies.

(vi) Technology Measures

- Organise technology information events (seminars, shows etc.) for hoteliers, so that they know what is available to suit their needs
- Provide information and training seminars on eCommerce
- Introduce eCommerce consultancy scheme to enable networks of hotels to engage eCommerce specialists
- Develop a customised property management system for small and medium sized Irish hotels which could be provided by the IHF through a central server
- Promote the shared use of technology by networks of hotels.

(vii) Finance / Tax Measures

- Retain capital allowances for hotel buildings
- Pending proposed changes in regulations and classification, extend the availability of hotel capital allowances to guesthouses
- Extend capital allowances to buildings used for staff accommodation
- Introduce taxation measures to facilitate the transfer of ownership of hotels and guesthouses
- Conduct and publish the results of a quarterly survey of key performance indicators in the industry
- Publish a regular capital appreciation index of hotel properties
- Allow double tax relief on investment in training
- Reduce the VAT rate on hotel accommodation and meals to the EU average of 10%.

(viii) Marketing and Branding Measures

- Continuously strive to improve product and service quality
- Encourage more networking and co-operation amongst independent hotels for marketing purposes
- Extend scope of marketing activities of affiliations to consumer marketing
- Place greater emphasis on product branding based on product attributes - facilities/activities/ location etc.
- Establish strong links between 'irelandhotels.com' and other on-line reservation services
- Promote better spatial spread and improve utilisation
- Develop new markets.

ACTION PROGRAMME

- The strategy will be implemented over a three-year period.
- The principal agents of change in the proposed strategy are:
 - the IHF
 - hotel and guesthouse owners and managers
 - CERT
 - Bord Fáilte
 - Department of Tourism, Sport and Recreation.

In addition, specific interventions from other agents such as the Department of Justice (with respect to the licensing laws) and the Department of Finance (with respect to taxation) will also be required.

- The first steps to be taken in moving forward with this strategy are:
 - Initial presentation of the strategy to the Industry at the IHF Annual Conference, 2001
 - Dissemination of the strategy to the members of the industry and other stakeholders
 - Debate and adoption of the strategy by the Council of the IHF
 - Debate and adoption of the strategy by the other key agents of change - Bord Fáilte, CERT and the Department of Tourism, Sport & Recreation
 - Formation of a Strategy Working Group (SWG) comprising representatives of the key agents of change; the objectives of the SWG will be to set out a critical path for the implementation of the strategy, to allocate responsibilities and oversee the implementation. The SWG would also make adjustments to the strategy if required
 - Appointment of a dedicated IHF executive to co-ordinate the implementation of the strategy
 - Promotion of the strategy to the industry.

- While the Strategy Working Group will prioritise actions on an annual basis, the following broad priorities are suggested:
 - In the short term (next twelve to fifteen months) the key priorities should be the recommendations on registration, classification, finance and tax, human resources and marketing
 - The medium term priorities (next two to four years) are the recommendations on management, technology, product development and branding.

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1. INTRODUCTION

1.1 BACKGROUND

Since 1995, the Irish hotel and guesthouse industry has enjoyed unprecedented growth. Capacity has increased by about 50% and, in round figures, there are now some 850 hotels and 490 guesthouses with just under 40,000 and 5,300 rooms respectively.

The buoyant market conditions of the 1990s allowed the industry in Ireland to expand easily and to produce acceptable returns while largely adhering to traditional strategies. But as occupancy growth rates flatten and even show signs of downturn, the pressure to deliver good results based on asset productivity and competitive advantage will intensify. There is only so much scope available simply to continue to raise room rates – growing customer dissatisfaction and an increasingly competitive market will undermine prices that are not supported by a high quality product and service.

The traditional hotel model that has shaped the hospitality industry in Ireland has served well. Indeed, it has supported the development of a substantial tourist industry. However, as the industry has matured and as markets have changed, it is evident that the old model is no longer adequate. The issues affecting the industry globally and in Ireland – shortages of labour and skills, the growing impact of the internet and e-Commerce, to name a few – are not amenable to resolution by partial strategies, and especially not by the traditionally favoured method of incremental adjustments.

There is a need to move more decisively into the future, to stimulate the industry to a greater awareness of the forces of change, and to enable it – and its stakeholders – to make the changes necessary for continued success. To do this, and to prepare a vision and blueprint for the hotel and guesthouse industry into the new millennium, the IHF, with the support of Bord Fáilte, CERT and ICC Bank commissioned this study from CHL Consulting Company in association with international consultants, Accenture (formerly Andersen Consulting) and GHH Consult, Germany, with specialist inputs from economic consultants, Peter Bacon & Associates.

1.2 STUDY OBJECTIVES

The key aims of the study were to:

- review recent trends and the present position of the industry in Ireland
- review international developments and drivers of change in the lodgings industry, assessing their relevance to the situation here
- consider the likely medium term business environment for the hotel and guesthouse industry
- identify strategic options and make recommendations for the optimal development of the industry over the next decade
- outline an action plan for development, indicating the respective roles for key stakeholders in its implementation.

1.3 METHODOLOGY

The study methodology involved a combination of comprehensive documentary research in Ireland and overseas; case study analyses among representative hotels and guesthouses; and an extensive series of personal interviews among:

- hoteliers and guesthouse proprietors,
- business leaders in the wider tourism sector,
- policy makers in relevant Government Departments, Bord Fáilte, CERT, Shannon Development and other state agencies,
- business leaders in the financial and commercial sectors, and
- key contacts in the hospitality industry in the US, Britain and Mainland Europe.

An important part of the study process was the active involvement of the industry in the consultative process. This was chiefly achieved through the organisation of workshops with all IHF regional branches and the convening of a High Level Symposium, in November 2000, on the future of the industry, thus ensuring that all had an opportunity to voice their opinions and that all of the issues seen as important by the industry were taken into account.

1.4 ACKNOWLEDGEMENTS

As the above outline of the methods employed in preparing this report indicates, the consultant team relied heavily on the co-operation and inputs of numerous organisations and individuals. We wish to record our sincere gratitude to all those who participated so willingly in the project, frequently at great inconvenience to themselves.

Particular thanks are due to the IHF Steering Committee under the chairmanship of Mr. Jim Murphy, who provided valuable advice and guidance during the course of the work – the members of the Steering Committee are listed in Annex One.

We also wish to acknowledge the considerable assistance provided by the IHF Chief Executive, Mr. John Power, who made himself readily available at all times to discuss and resolve matters as they arose during the course of the project.

CHL CONSULTING Co. LTD.

16TH FEBRUARY, 2001

2. THE CHALLENGES AHEAD

2.1 THE PERFORMANCE OF THE INDUSTRY TO DATE

2.1.1 Hotel and Guesthouse Industry Represents over 2% of GNP

Revenue turnover for the hotel and guesthouse industry is estimated to be about £1,300 millions.

In terms of the industry's contribution to the national economy, we estimate that it accounts for:

- 2.2% of Gross National Product;
- just under 61,000 full and part-time jobs;
- over £200 millions in tax receipts to Government through VAT, corporation tax and income tax;
- significant contribution to employment in the disadvantaged regions.

2.1.2 Unprecedented Growth since mid 1990's

The Irish hotel and guesthouse industry has enjoyed unprecedented growth over the last six years. Since 1995, the number of hotel properties has increased by almost 20% with a 53% increase in the number of rooms; guesthouse capacity has grown by 43%.

Figure 1: Hotel Capacity
Rooms (000's)

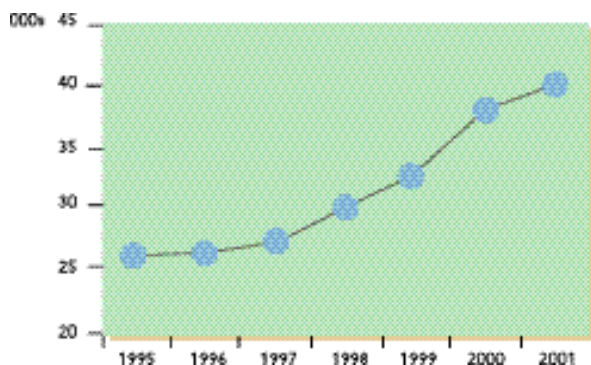
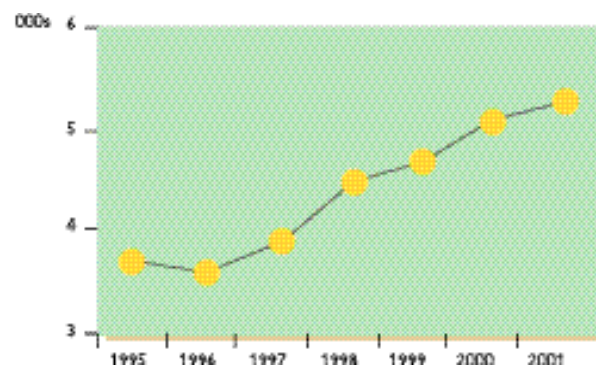


Figure 2: Guesthouse Capacity
Rooms (000's)



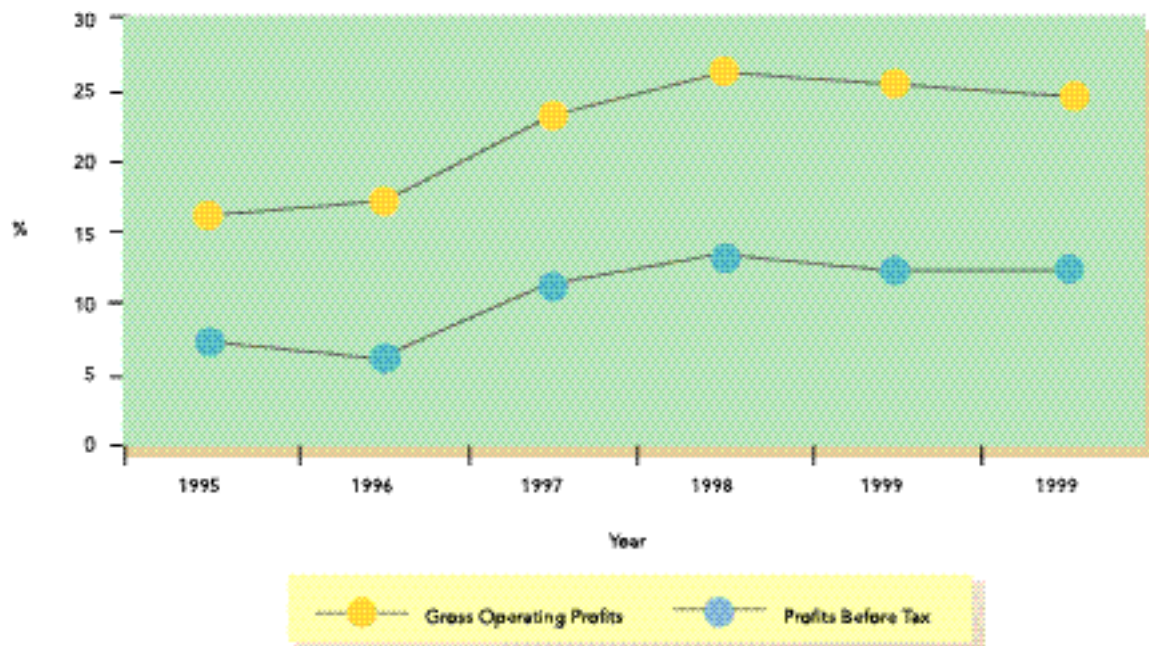
Source: Bord Fáilte

As of 2nd February, 2001, there are 848 hotels with a capacity of 39,942 rooms, and 489 guesthouses containing a total of 5,272 rooms.

2.1.3 Profitable Growth Driven by Favourable Confluence of Key Factors

Data on the return on investment in hotels and guesthouses are not available. However, the financial performance of the industry is tracked on an annual basis by Horwath Bastow Charleton. Key profitability indicators are shown on Figure 3 for selected years. The graph illustrates how profitability improved throughout most of the 1990's before slipping back a little in 1998 and 1999.

Figure 3: Profitability in the Irish Hotel Sector: 1989 -1999



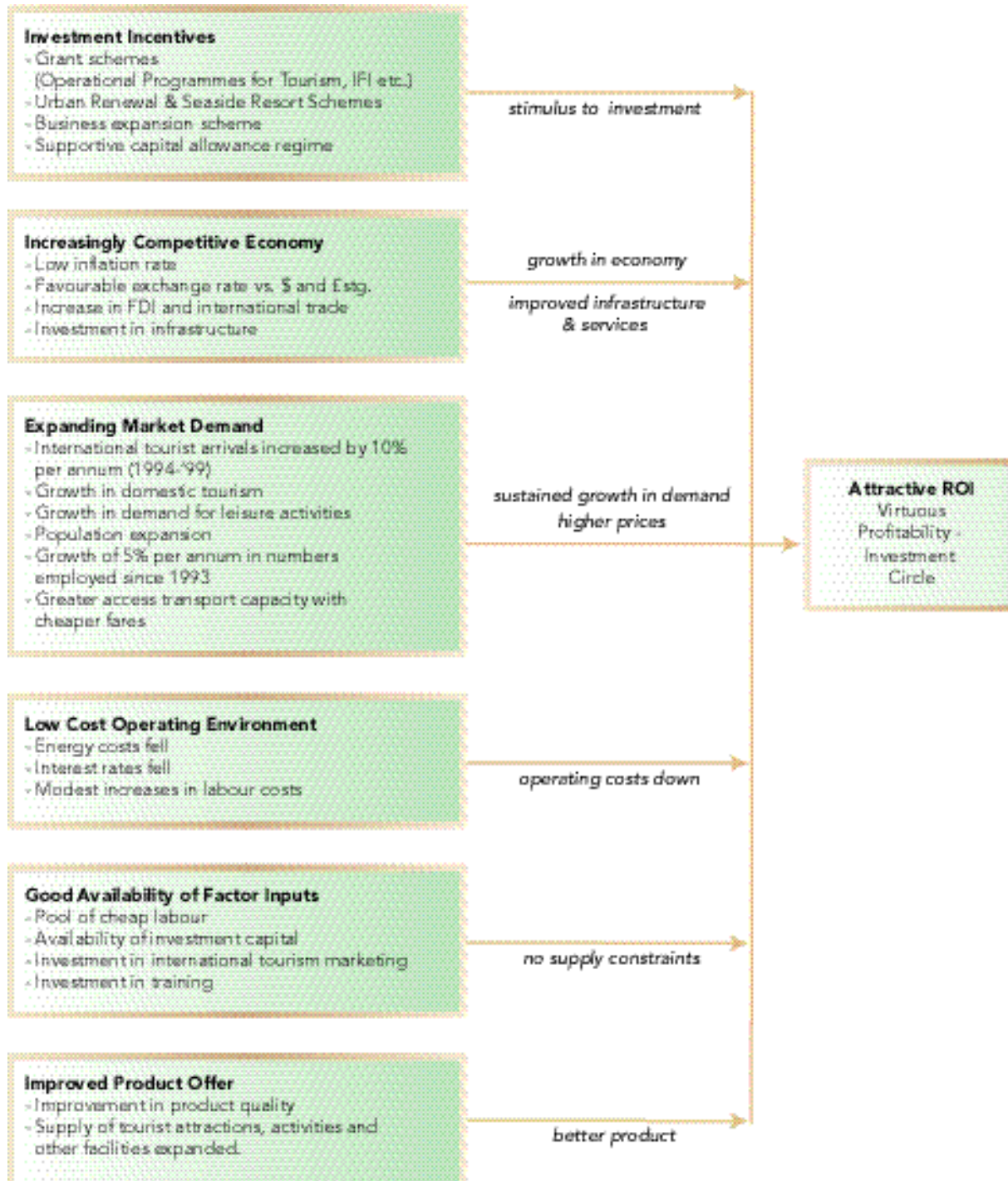
Source: Horwath Bastow Charleton, Ireland & Northern Ireland Hotel Survey, various years

The expansion of the industry during the 1990's was driven by a number of key factors which acted to reinforce each other and bring about the most favourable set of sustained economic circumstances that the industry has experienced to date. These factors were as follows:

- availability of investment incentives
- increasingly competitive economy
- expanding market demand
- low cost operating environment
- good availability of factor inputs
- improved product offer.

These factors combined to give sustained competitive advantage to the industry during the 1990's, making investment in hotels and guesthouses profitable, which in turn attracted more capital, thus forming a virtuous investment / profitability circle.

Figure 4: Drivers of Growth of Hotel and Guesthouse Industry during the 1990's



2.1.4 Industry's Development Plans

Although the rate of growth in the industry has eased during the past year, the industry continues to be optimistic about future business prospects. The *CERT 2000 Employment Survey of the Tourism Industry in Ireland* indicates that just over half of hoteliers (54%) intend to develop their businesses over the coming year (the corresponding figure for 1999 was 50%). Taking new hotel construction into account, an estimated additional 3,000 rooms are scheduled to come on stream in 2001.

The guesthouse sector is equally optimistic, with just under half (47%) of operators indicating that they intend to develop or expand their business over the coming year.

However, the extent to which the industry's expansion plans will be realised depends on maintaining sustained competitive advantage. In this context, competitiveness is understood to include the range of product, quality of facilities and standards of service, and not just relative prices.

2.1.5 Risk of Overcapacity

Room Supply Outstripping Demand

The additional 3,000 hotel rooms currently under construction will increase total capacity by 8%. With tourism growth rates projected to moderate to about 5% yearly, the indications are that the supply of hotel room capacity is beginning to outstrip demand.

Overcapacity in Particular Regions

A national average room occupancy rate of 64% masks the fact that there is significant overcapacity in particular regions during the off-peak months. Although capacity utilisation during the off-peak months has improved in all regions, the data in Table 2.1 show that there is at least 30% spare capacity in all regions except Dublin for most of the year. In fact, in most regions, at least 45% of capacity is unutilised during the six-month period, October through March. Further growth in capacity in these regions is likely to exacerbate this problem.

Table 2.1: Unutilised Room Capacity (%) by Month and Region (%), 1999

		Dublin	South East	South West	Shannon	West	North West	Mid East
Year	%	25	38	36	38	40	45	47
January-March	%	35	60	52	55	55	60	59
April	%	26	39	41	41	43	47	49
May	%	17	28	34	30	32	36	39
June	%	14	22	23	23	30	40	37
July	%	16	20	17	24	23	27	42
August	%	18	18	19	22	16	24	39
September	%	16	23	23	25	35	31	38
Oct-December	%	30	45	47	46	49	55	48

Source: Bord Fáilte

Note: shaded areas = spare capacity of 30% or more.

2.1.6 Consequences of Overcapacity

Trends in two key indicators – room occupancy rates and profitability – suggest that the growth in capacity may now be running ahead of market demand.

Decline in Room Occupancy Rates

Until recently, the supply of hotel room capacity more or less kept pace with demand. However, within particular grades, there has been a decline in room occupancy rates over the last two years. Average yearly room occupancy rates in both the 3* mid-market and the 2* economy/budget hotels have declined over the period – see Table 2.2.

Table 2.2: Annual Hotel Room Occupancy Rates

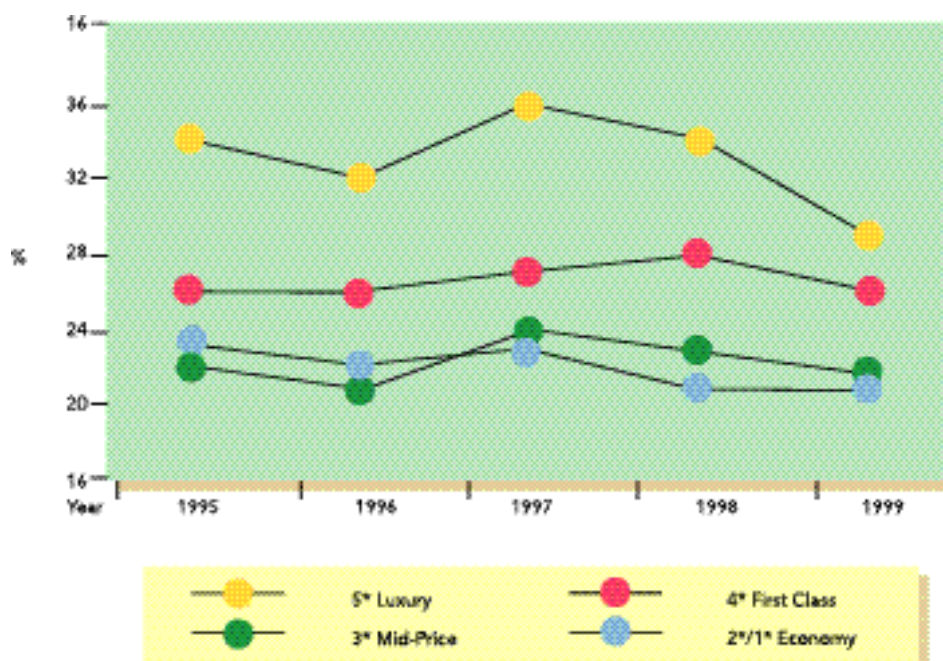
Property	1995 %	1997 %	1999 %
Grade 5*	77	77	74
Grade 4*	74	75	71
Grade 3*	68	65	63
Grade 2*	56	54	51
Grade 1*	47	53	50
All	65	65	64

Source: Bord Fáilte

Deteriorating Financial Performance

The Horwath Bastow Charleton hotel surveys track key indicators relating to financial performance. Although the data refer to hotel properties in both the Republic of Ireland and Northern Ireland, it is considered that the figures are primarily indicative of the situation in the Republic as approximately 90% of the room capacity is located here. Bearing in mind that too much significance should not be attached to any individual figure, the broad trend emerging from the analysis of the data is that all categories of hotel properties are experiencing a decline in profitability as shown in Figure 5. The luxury 5* properties are more adversely affected than other categories, as costs at this level have risen sharply.

Figure 5: Gross Operating Profit (% of Turnover)



Source: Horwath Bastow Charleton, Ireland & Northern Ireland Hotel Survey, various years

This deteriorating financial picture was confirmed by the findings from the detailed case studies that we undertook to gain a better understanding of the factors currently determining the performance of hotels and guesthouses. The results are outlined on Table 2.3.

Table 2.3: Operating Profits (% of Turnover) by Type, Size and Business Base of Operation

Case Study No.	Type	Grade	Size (rooms)	Business Base			Operating Profits*		
				Comc'l	Grp Tours	Leisure	'98	'99	'00
1	Hotel	Ungr.	70-80	68%	7%	25%	n/c	18.0	17.5
2	Hotel	3*	90-100	15%	5%	80%	20.6	13.3	15.8
3	G'hse	3*	20-30	5%	0%	95%	n/c	15.3	10.3
4	Hotel	4*	40-50	3%	48%	49%	4.6	5.6	3.0
5	Hotel	3*	100-120	25%	30%	45%	28.2	27.4	24.7
6	G'hse	4*	<25	50%	5%	45%	n/c	n/c	n/c
7	Hotel	3*	70-80	25%	35%	40%	n/c	n/c	n/c
8	Hotel	2*	<20	35%	0%	65%	n/c	n/c	n/c

Source: Consultants

*Operating Profits (before interest and depreciation) as % of turnover

n/c = not comparable, as figures provided were after interest and depreciation

Notes:

'Commercial' includes conference & incentive groups and individual business travellers

'Group Tours' refer to overseas package tour groups

'Leisure' refers to all other guests

2.2 ISSUES CONFRONTING THE INDUSTRY

The ability of the hotel and guesthouse industry to compete effectively is of much greater concern than short-term imbalances in supply and demand. A number of issues are now confronting the industry's ability to maintain the competitive advantage enjoyed during the past decade. These issues are summarised on Figure 6 overleaf and comprise:

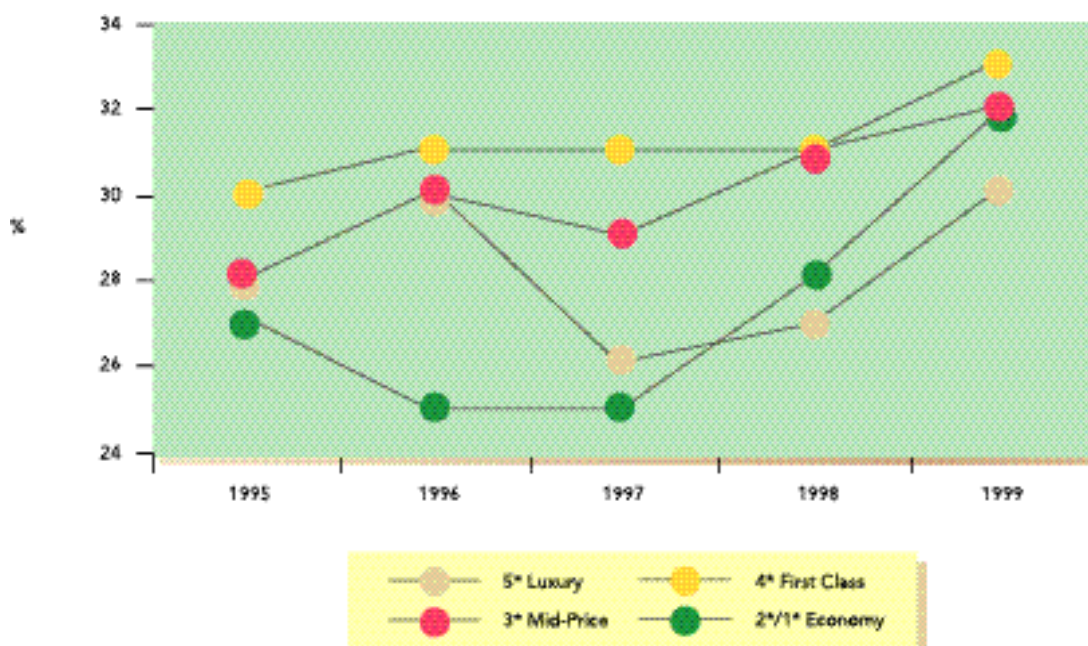
- rising operating costs
- contracting business base
- slowdown in tourism demand
- overheating economy
- staff and skills shortages
- investment incentives curtailed
- emerging product weaknesses
- registration regulations constraining productivity
- and represent an implicit tax on room sales
- classification system unwieldy.

2.2.1 Rising Operating Costs

Wage Inflation

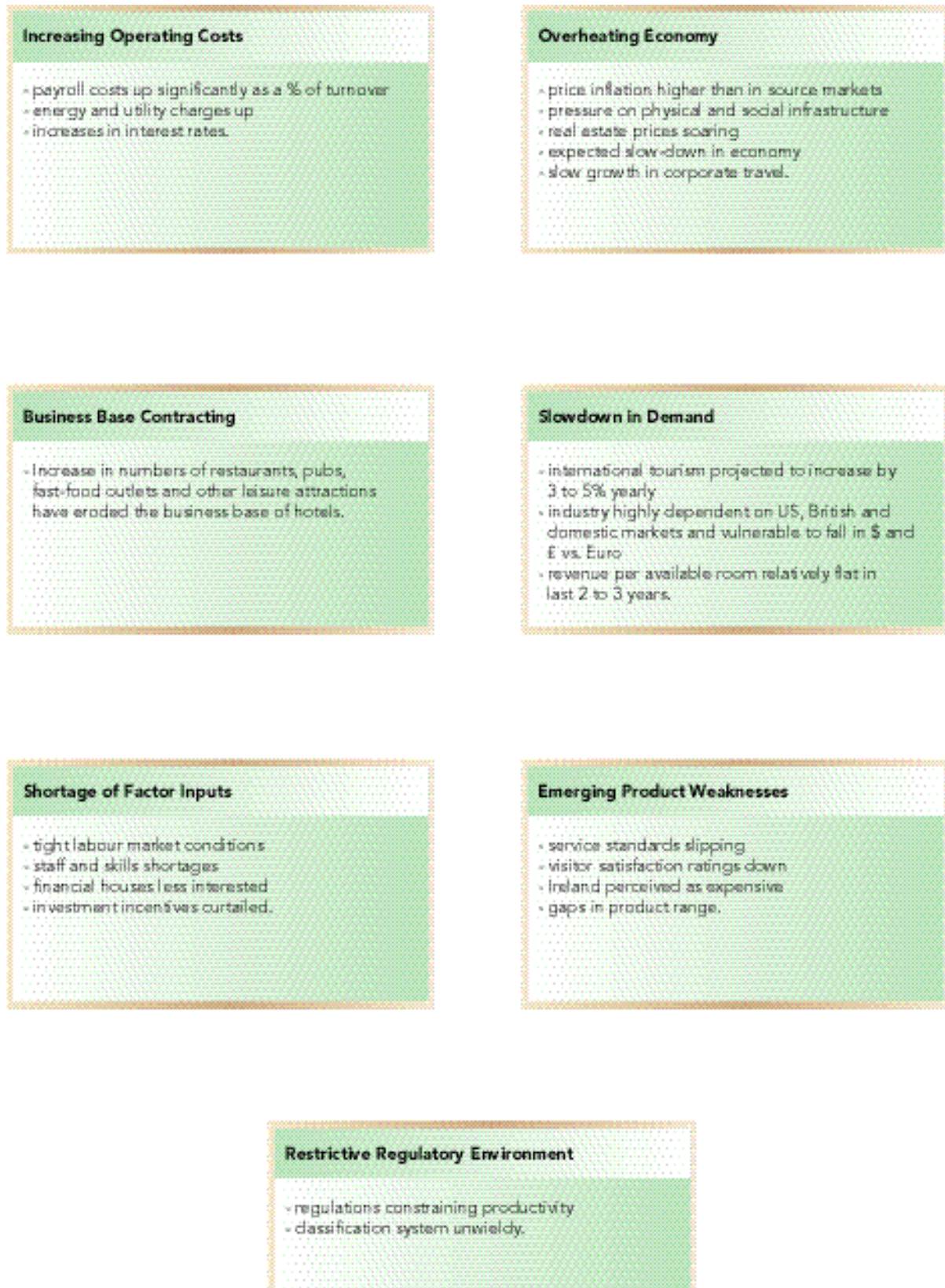
The findings of the Horwath Bastow Charleton Survey of the Irish hotel sector indicate that, because of high wage inflation during the past 2 years, payroll and related expenses as a proportion of total revenues have increased in all categories of hotel as shown on Figure 7 following.

Figure 7: Payroll & Related Expenses as a % of Turnover



Source: Horwath Bastow Charleton, Ireland & Northern Ireland Hotel Survey, various years

Figure 6: Issues Confronting the Industry



As many managers regard a payroll:revenue figure of 30% as a benchmark performance indicator of profitability and productivity, it is clear that, with an average of about 33%, many hotel operations are underperforming on both counts.

The upward trend in payroll costs as proportion of turnover was confirmed from the case-study analyses as illustrated on Table 2.4. The situation has worsened during the past year with staff costs in hotels now representing around 35% of turnover. In the guesthouse sector, staff costs have also increased sharply over the last two years and now represent between 22% and 35% of turnover.

Table 2.4: Staff Costs and Energy Costs as a % of Turnover by Type, Size and Business Base

Case Study No.	Type	Grade	Size (rooms)	Staff Costs			Energy Costs		
				% '98	% '99	% '00	% '98	% '99	% '00
1	Hotel	Ungr.	70-80	n/c	36.7	36.0	n/a	5.3	4.4
2	Hotel	3*	90-100	32.4	36.0	37.9	3.0	3.3	2.9
3	G'hse	3*	20-30	18.5	19.3	21.7	3.5	2.7	3.1
4	Hotel	4*	40-50	26.4	32.0	25.2	3.7	3.7	3.4
5	Hotel	3*	100-120	28.9	28.5	33.5	3.8	3.5	4.0
6	G'hse	4*	<25	n/c	31.8	35.8	n/c	6.1	9.6
7	Hotel	3*	70-80	29.4	35.9	31.8	2.1	2.2	2.2
8	Hotel	2*	<20	33.8	32.7	34.6	5.1	5.8	5.5

Source: Consultants

n/c = not comparable

This upward trend in payroll costs is due to a combination of:

- labour and skills shortages
- introduction of the minimum wage (although the effect of this was rapidly overtaken by the more significant impact of labour shortages on wages)
- increased costs of replacing young people with older staff on evening shifts as a result of the introduction of recent employment legislation
- removal of split shifts in the hotel to create more attractive working conditions, and
- need to match pay increases in the other sectors of the economy in order to retain staff.

Increases in Interest Rates and Utility Charges

Interest rates (Euribor 3-month) have increased from a low of 2.5% in 1999 to 5.1% currently. Energy costs have also increased, as have other utility costs, (particularly waste disposal charges).

2.2.2 Contracting Business Base

From the early 1990s, Ireland's expanding, young and increasingly affluent consumer market generated an increasing demand for eating out, entertainment and leisure activities. This demand met a response in the growth in the numbers of restaurants, fast-food outlets, pubs and nightclubs/discotheques. The increase in employment in these establishments is a good indicator of the expansion of business taking place: between 1992 and 2000, the number of restaurants increased by two-thirds while the number of people employed in restaurants more than doubled.

The licensed trade has also made significant inroads to the hotel business base. Although the traditional bar is still prominent, many establishments provide their customers with a one-stop-shop for beverage, food and entertainment, with an ever-increasing mass-market appeal. Bar environments are hugely diverse, from conventional Irish themes to modern minimalist décor, and encompass disco-pubs, micro-breweries, transit bars and wine bars as well as the traditional Irish pub.

The range of ancillary services being offered by licensed premises is so diverse that pubs now have multi-functional roles. According to the *CERT 2000 Employment Survey of the Tourism Industry in Ireland*, 75% of licensed properties serve food (restaurant/bar food) and almost one-third (32%) have a nightclub.

The expansion of these sectors of the hospitality and entertainment industry has eroded the hotel sector's business base, as shown on Table 2.5. We have used the situation of the hotels in Dublin to illustrate the changing trends in their mix of business, as there is a consistent set of data available over the last decade.

In 1989, food and beverages accounted for 60% of the sales of Dublin hotels. The corresponding proportion 10 years later was 48%, as shown on Table 2.5. While part of this reduction in the share of food and beverages in the hotels' business mix may be attributable to rising room occupancy rates and prices, it is evident that a substantial share of the F&B market has been lost to other providers.

Table 2.5: Sources of Revenue for Dublin Hotels, 1989-1999

Department	1989 %	1992 %	1997 %	1999 %
Rooms	36	40	43	47
Food	32	30	25	28
Beverages	27	23	24	18
Other F&B	n/a	n/a	2	2
Other	5	7	6	5
Total	100	100	100	100

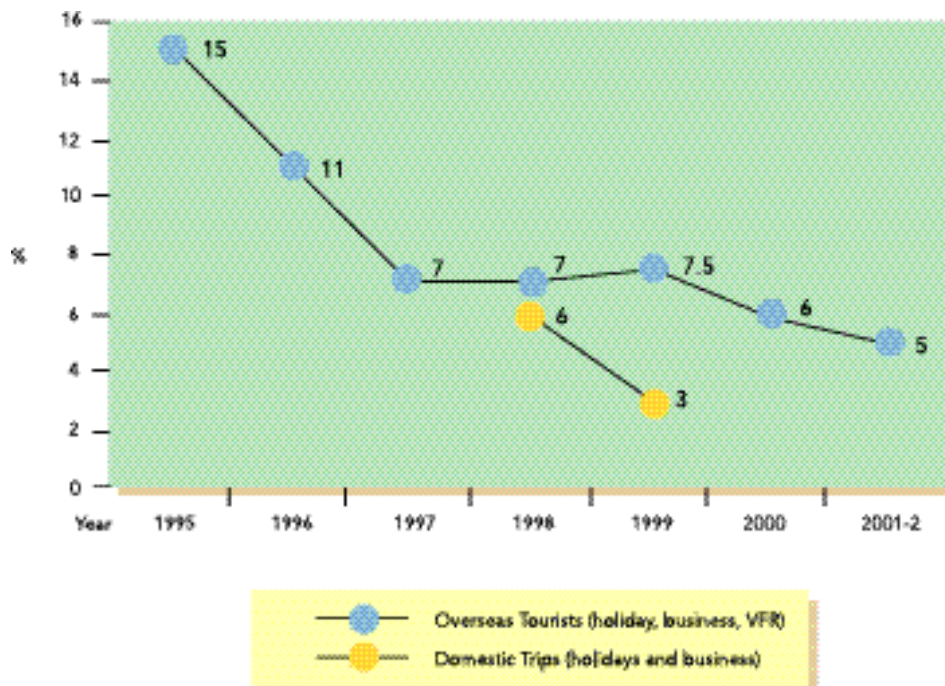
Source: Horwath Hotel Industry Surveys, various years

2.2.3 Slowdown in Tourism Demand

Lower Growth Rates Projected for International and Domestic Tourism

During the past five years, international tourist arrivals to Ireland increased by an average growth rate of just over 8% yearly. However, in recent years the growth rate, although continuing to be well above the European average, has slowed down considerably (Figure 8).

Figure 8: Year-on-Year Tourism Growth Rates



Source: Bord Fáilte

According to Bord Fáilte's 'Three-Year Marketing Strategy, 2001-2003', the growth rate of overseas tourist numbers to Ireland is expected to move closer to the world average, which is in the 3-5% range. The reason for this projected slowdown in the tourist growth rate is an erosion of the tourism industry's price competitiveness (due to higher Irish inflation and expected Euro strengthening against the dollar/sterling).

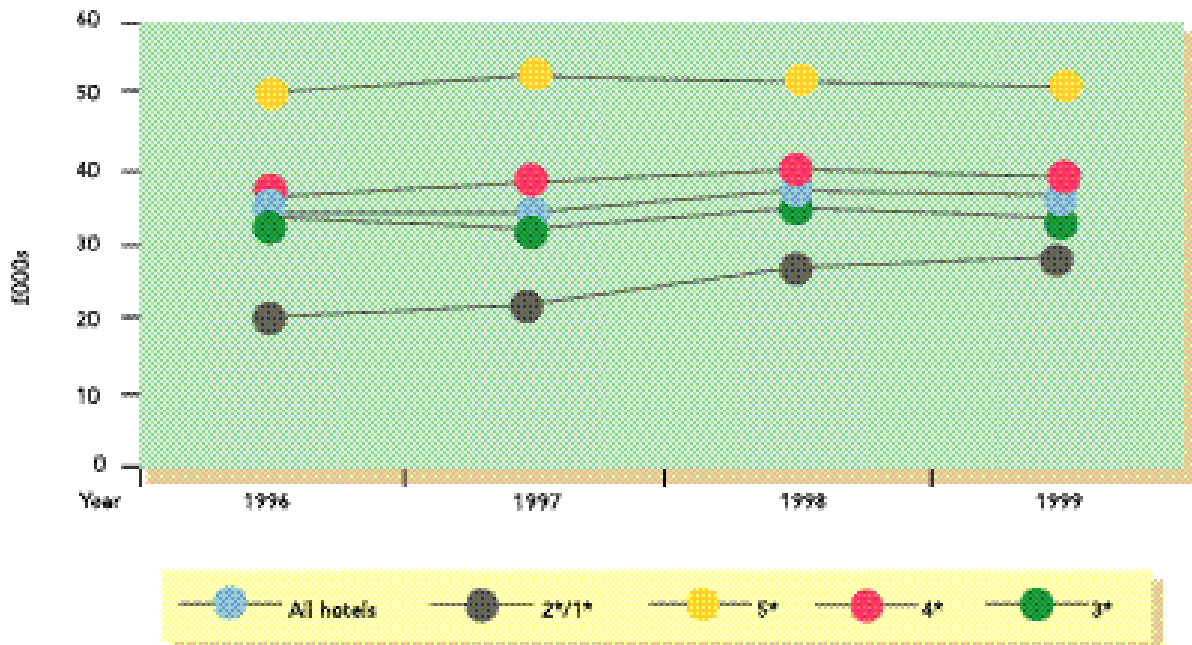
The slowdown in the growth-rate of international and domestic tourism is expected to dampen the demand for hotel and guesthouse guestnights.

Slow Growth in Revenues per Available Room

Although achieved hotel room rates have increased significantly in recent years, total revenue per available room (REVPAR) has remained almost flat, as shown on Figure 9 following.

Comparable data do not exist for the guesthouse sector. Based on our survey fieldwork and case studies, our estimates of the current REVPAR for guesthouses is about £10,000.

Figure 9: Revenue (£000s) Per Available Room



Source: Horwath, Bastow Charleton: Ireland & Northern Ireland Industry Surveys 1996-1999

- During the last 2-3 years, total revenue per room has been flat for the 5* luxury, the 4* first class and the 3* mid-price hotels
 - for 5* hotels, total revenue per room is about £52,500
 - for 4* hotels, total revenue per room is about £39,000
 - for 3* hotels, total revenue per room is about £34,500
- Only the 2* and 1* economy hotels have recorded increases
 - hotel revenue per room in these grades is just over £29,000.

2.2.4 Overheating Economy

The economic environment for the hotel and guesthouse industry has changed in a number of important respects during the past 18 months:

- The growth of the national economy is forecast to slow down in the medium term, leading to possible slower growth in business travel;
- Consumer price inflation is running at around 5% on an annual basis
 - prices in Ireland are increasing at a faster rate than the EU average,
 - as currency exchange rates within the euro-zone are fixed, this is contributing to the growing perception of Ireland as an expensive tourism destination in mainland European markets;

- the anticipated strengthening of the euro vis-à-vis the US dollar and sterling will impact on perceptions of Ireland’s competitiveness in the USA and UK markets in terms of value for money;
 - room rates are being eroded in terms of constant money values.
- Shortage and upward spiralling cost of housing is contributing to demands for higher wages;
 - Spiralling property/real estate prices generally
 - in the hotel and guesthouse industry, this has focused attention on the alternative value of hotel sites. Increasingly, the hotel is being viewed as another investment opportunity which must compete for capital. This means that attention has shifted to the balance sheet with asset productivity becoming a key performance indicator alongside the traditional profit and loss indicators.

2.2.5 Staff and Skills Shortages

Because of the labour-intensive nature of the hotel and guesthouse business, growth has been associated with an increasing demand for labour, as indicated in Table 2.6.

Table 2.6: Employment Growth in Hotels & Guesthouses 1996 - 2000

Year	1996	1998	1999	2000*
Hotel Properties	717	771	826*	854**
Employees	38,915	46,402	53,906	57,397
Guesthouse Properties	344	422	475**	494**
Employees	2,963	3,731	3,115	3,263

Source: Bord Fáilte; CERT 2000 Employment Survey of the Tourism Industry in Ireland

Notes: *Sept 1999 **Oct 2000

Employee numbers include full-time, part-time and seasonal personnel

However, this growth in the industry coincided with high growth in the economy generally with the result that there has been an unprecedented level of demand for labour from many sectors, particularly from the information technology, telecommunications, media and financial services sectors. In comparison with hotels and guesthouses, these sectors are perceived to offer a more attractive prospect to potential employees - they have a more dynamic and exciting image, more social working hours, better pay and conditions, and offer a wider range of career opportunities – although these perceptions are not always matched by reality.

As a consequence, the hotel and guesthouse industry has developed severe human resource problems. Respondents to the *CERT 2000 Employment Survey of the Tourism Industry in Ireland* indicated the relative importance of various human resource factors that are constraining the development of their businesses – see Table 2.7.

Table 2.7: Human Resource Factors Constraining Business Development

Factor	Hotels %	Guesthouses %
high staff turnover	69	12
labour shortfall	68	35
skills shortage	46	43
difficulties in retaining staff	35	23

Source: CERT 2000 Employment Survey of the Tourism Industry in Ireland

Labour Shortfall

The CERT 2000 Employment Survey of the Tourism Industry in Ireland found that a high proportion of establishments in the tourism industry had job vacancies:

- 78% of hotels reported job vacancies (up from 62% in 1999) with an average of 6 vacant positions per hotel
- 30% of guesthouse establishments had job vacancies (up from 20% in 1999).

This problem was not confined to hotels and guesthouses. In the same year, 62% of restaurants reported job vacancies (up from 50% in 1999) with about 4 vacant positions per establishment. 57% of pubs reported vacancies (4 to 5 per premises), primarily in the bar service and kitchen areas.

High Staff Turnover

The rate of staff turnover has become a significant problem for hotels with some departments such as bar and restaurant being affected more than others. Nearly two-fifths of all hotels report permanent staff turnover rates in excess of 20%.

While it is recognised that job mobility is part and parcel of career building, the levels of staff turnover being reported by the industry are considered to be too high, and give rise to a higher level of recruitment costs than should be the case. From an industry standpoint, a high level of staff turnover can provide a pool of trained workers to draw from, provided they stay within the industry. However, this does not appear to be the case as, according to the *CERT Hospitality 2005 – A Human Resource Strategy Study*, some 50% of all workers who leave the hotel and restaurant sectors exit the industry.

Staff Recruitment and Retention Difficulties

A significant proportion of hotels and guesthouses are having difficulty in finding and retaining staff. A major reason is the young age profile of employment in the sector. Over two-thirds of hotel employees are in the 18-35 age group. Many of these regard jobs in the hotel sector (and the tourism industry generally) as stepping stones to another career in another sector.

Skills Shortages

There is a severe skills shortage in the industry. The *CERT 2000 Employment Survey of the Tourism Industry in Ireland* found that 46% of hotels report that they cannot get adequately trained people and 25% of hotels consider that staff are not adequately trained. Among guesthouses, the corresponding proportions are 43% and 15% respectively.

Insufficient emphasis on Human Resource Management

In common with their international counterparts, many Irish hoteliers and guesthouse operators demonstrate a relatively low commitment to human resource development. Although the *CERT 2000 Employment Survey of the Tourism Industry in Ireland* found that 62% of the hotels who responded to the survey had a formal training plan, only about two-fifths (43%) had a specific budget allocated for staff training. These budgets varied significantly, but generally represented less than 1% of payroll and related expenses.*

Relatively few hotels (*about 10% according to the CERT study, Hospitality 2000 – A Human Resource Strategy*) have full-time training managers. However, the employment of a full-time training manager is a function of the size of the hotel. Generally speaking, it is difficult for an hotel with less than about 70 rooms to justify the cost of employing a full-time, qualified human resource manager. In this context, only 20% of hotels in Ireland have in excess of 70 rooms.

There is also a lack of conviction in the industry with regard to the benefits of training. As part of the *CERT 1999 Employment Survey of the Tourism Industry in Ireland*, hotels were asked to indicate to what extent they felt they had benefited from staff training. Table 2.8 shows the response to this question.

Table 2.8: Impact of Staff Training on Hotel Operations (%)

Benefits	Significantly	Partly	Little
Improved employee skills	74	26	-
Decreased staff turnover	31	31	38
Improved productivity	50	50	-
Decreased wastage / breakage	33	40	27
Increased service standards	79	21	-
Improved staff morale / attitudes	61	39	-
Increased competitiveness	35	59	6

Source: *CERT Employment Survey of the Tourism Industry in Ireland, 1999*

The majority of hotels felt that training resulted in significant improvements to service standards, skills and staff morale / attitudes. However, only about half of hotel respondents considered that training had a significant impact on increasing productivity, and almost 40% felt that training had little impact on reducing staff turnover. With regard to increasing competitiveness, only about one-third felt that training has a significant impact.

Of the 131 hotels surveyed, 126 replied to the question on training plans and 128 to the question on training budgets; since 1 and 2* hotels were underrepresented in this sample, the proportion of positive responses probably overstates the position for the sector as a whole.

The implications of a continued low rate of investment in human resource development are potentially very serious. The most immediate consequence is that standards of service will decline – indeed, many people from the wider tourism industry who were interviewed as part of the research for this study remarked on this issue as a growing problem. Deteriorating service standards will undermine the competitiveness of the industry and diminish its marketability. A further concern is that a short-term approach to addressing staff shortages, and a failure to adopt adequate human resource development policies, will further undermine the industry’s appeal as a career option.

2.2.6 Investment Incentives Curtailed

The expansion of the hotel and guesthouse industry during the past ten years was undoubtedly facilitated by the availability of finance and various investment incentives. As the growth in capacity has caught up with – and may now be exceeding – the growth in demand, the position has changed. The range of investment incentives available for the hotels and guesthouses has become increasingly circumscribed, and financial institutions are taking a more cautious approach in lending to the industry.

The current position may be summarised as follows:

- **Hotels and guesthouses are no longer eligible for grants:** there were grants available for specialist accommodation-related developments and for improvements to smaller hotels under the last Operational Programme for Tourism; however, the Bord Fáilte plan for the period up to 2006 rules out support for accommodation “*apart from that which arises as an intrinsic part of the components*” listed for support. Special interest activities and health tourism are two areas in which accommodation providers may find support.
- **Tax-based incentives for hotels and guesthouses have been curtailed:** hotel and guesthouse accommodation was excluded from the Business Expansion Scheme in 1991, although certain related products including leisure centres and conference centres continued to be eligible. However, with the subsequent reduction of the ceiling on BES investment in any company to £250,000, the value of this incentive was greatly reduced.

Capital allowances remain the most important form of incentive available to hotels. Originally, these could be used against all taxable personal income but, under the Taxes Consolidation Act, 1997, capital allowances for investment in hotels can now be used only against taxable rental (or trading) income arising from the hotel and against other Irish rental income. There is some relaxation of this rule in designated areas.

- **Financial institutions and investors are becoming more cautious:** it is evident that banks are now scrutinising hotel and guesthouse project proposals very carefully and are being more selective in their lending. Emphasis is being placed on the qualities of location, management, product strength and performance potential, and there is a strong preference for dealing with proven operators. The lack of realistic feasibility studies and independent market data on the financial performance of hotels in Ireland

by comparison to that available in other countries were cited by some banks as major problems in evaluating borrowing applications.

Investors are increasingly applying the same criteria as banks – there are many tax-based investment opportunities available, and projects in the hotel and guesthouse industry must demonstrate a capacity to perform well in order to compete for available capital.

2.2.7 Emerging Product Weakness

(i) Overseas Tourist Perceptions of the Hotel and Guesthouse Product

The Bord Fáilte *Visitor Attitudes Survey*¹ (VAS) asks holidaymakers visiting Ireland to rate their satisfaction with quality, customer service and price across a range of tourist facilities and amenities, covering accommodation, food, internal transport, attractions, amenities, activities and pastimes. The VAS reports provide summary charts based on the most stringent measure of satisfaction, i.e. only tourists rating themselves *very satisfied* on quality, customer service and price. It must be assumed that respondents who describe themselves as only *fairly satisfied* must have some underlying reservations about the facilities and services they have been asked to review.

With regard to hotels and serviced accommodation, the principal findings of the VAS are illustrated on Figure 10 for selected years since 1993.

Figure 10: Tourists' Rating of Service Accommodation, (% 'Very Satisfied')



Source: Bord Fáilte, various years

¹ Carried out every second year among a sample of 3,000 to 4,000 overseas holidaymakers

4 to 5* Hotels*

- Although 7 out of every 10 holiday visitors are very satisfied with product quality and customer service of our 4* and 5* grade hotels, the performance ratings have been slipping since 1995.
- Almost two-thirds of holiday visitors are dissatisfied to some extent with prices.

Medium Grade Hotels

- Ratings of customer service have been deteriorating since 1995.
- Ratings of quality have dropped.
- Satisfaction with price has continued to deteriorate.

Other Paid Serviced Accommodation

Less formal types of serviced accommodation – guesthouses, Irish homes, etc., - continue to get higher rating than hotels on quality, price and customer service. However, the ratings have deteriorated since 1993.

(ii) Overseas Tour Operators' Assessment of the Irish Hotel Product

Based on a survey² among some 40 tour operators in the main source markets as well as six leading incoming tour operators, the following views emerged with respect to the Irish hotel and guesthouse product.

US Market

- in general, Irish hotel accommodation is becoming more and more expensive, but service quality and product standards are not increasing commensurably.
- mid-market 3* properties give excellent value-for-money.
- 5* properties in Ireland are not on a par with those in other countries, and are pricing themselves beyond their product quality.
- majority of respondents feel that service standards are slipping, especially in Dublin - in particular staff are not as helpful or as friendly as before.

British Market

- 4* and 5* properties are disimproving in terms of value-for-money in comparison with competitor destinations.
- mid-market 3* properties give best value.
- there has been a decline in service standards across all categories of hotel, particularly in Dublin.

Germany / Switzerland / France

- 4* and 5* properties are overpriced in Dublin; however, those in the rest of country provide good value-for-money
- there is a wide variety of standards in 3* category.
- service standards are slipping.
- hotels in general do not have standards as high as elsewhere in Northern Europe.

² Extract from forthcoming Irish Tourist Industry Confederation Study on Competitive Factors Affecting Tourism.

(iii) Irish Incoming Tour Operators' Assessment

- Ireland is now very expensive and prices are continuing to increase
- staffing problems in hotels have become a major issue
- Ireland lacks facilities for major conferences
- accommodation is overpriced at higher end of market
- guesthouses provide good value for money
- service standards have been worsening in hotels – operators received a higher number of complaints in 2000 than in previous years
- service standards have deteriorated in restaurants and pubs.

(iv) Gaps in the Product Range

Certain types of accommodation in demand by overseas visitors are not available in Ireland, thereby weakening the scope of the product's overall appeal.

The gaps identified include serviced apartments / all-suite properties and limited service hotels / 'hotels garnis'. These products require very little or no food and beverage facilities, but due to the food and beverage requirements of the existing Irish hotel regulations, they have not been developed in this country. Some attempts have been made to develop these types of products but, to satisfy the regulations, they have had to include restaurant facilities, thereby eliminating their ability to differentiate themselves from existing hotels.

2.2.8 Registration Regulations Constraining Productivity

The detailed regulations governing the registration of properties that wish to call themselves hotels are made by Bord Fáilte under the Tourist Traffic Acts. The regulations currently in force were issued in 1986 for guesthouses and 1988 for hotels.

The registration regulations are very detailed and cover all aspects of the hotel product. The main stipulations are that a hotel must:

- have at least ten guest bedrooms with private bathrooms (twenty in the case of the County Boroughs including Dublin Metropolitan District); the bedrooms must meet or exceed a specified minimum size.
- provide prescribed breakfast, midday meal and dinner services.
- provide public lounge areas of a minimum size, cloakrooms and toilets, and a range of other facilities.

This definition served its purpose well during the period when there was a lack of alternative hostelries. As outlined earlier, it is only in recent years that there has been a large increase in the number and types of restaurants and an equally large increase in the number of pubs serving meals, pub-grub, snacks, etc., with some providing limited accommodation.

As a considerable amount of the food and beverage business has moved from the hotel sector, the need for hotels to provide a full kitchen service is questionable, particularly in

urban areas or the main tourist destinations. It places an unnecessary cost on an hotel in terms of staffing and maintenance upkeep. In places where there are numerous eating-out alternatives, it is likely that the hotel will be left with an unprofitable food and beverage service.

This requirement to provide a full-kitchen service has the added implications of:

- constraining productivity improvements.
- inhibiting the hotel from providing the appropriate level of service to target customers.
- keeping operational costs at a higher level than they would otherwise be
- reducing available resources to improve products/services for target customers.

Implicit Tax on Room Sales

For many hoteliers, the regulatory requirement to provide food service means incurring losses. As argued in Volume two Part IV of the report, (Economic Impacts), the losses/opportunity costs arising from adhering to this regulation equate to an implicit tax on room sales.

2.2.9 Classification System Unwieldy

Irish hotels and guesthouses are categorised under a star classification system. Devised by Bord Fáilte and the IHF the implementation of the system has been sub-contracted to Tourism Quality Services Ltd. (TQS).

Although the criteria for classifying properties has undergone various modifications over the years, the system is primarily based on the physical attributes of a property. From time to time, attempts were made to incorporate some method of classifying the quality of service that should be associated with the different categories of hotel, but none have received general acceptance by the hotel and guesthouse industry. The problem is two-fold:

- the inherent difficulty in quantifying or delineating gradations of quality of service which, in itself, is a subjective assessment
- the difficulty in ensuring transparency, objectivity, inclusivity and accountability - necessary characteristics for a system implemented by the State or an agency of the State.

In the context of the international trends and drivers of change in the lodging industry our assessment is that:

- the classification system no longer reflects customer requirements
- the system is primarily based on the physical facilities provided by an establishment. But customer tastes have become more discerning with other factors coming into play, such as ambience and type of service – factors which are not readily included in the present system.

-
- the system is losing support among hoteliers
 - an increasing number of properties are opting to remain 'unclassified'. In 2001, some 106 hotels representing almost 12% of total room capacity are unclassified, compared to 22 hotels and 5% of capacity in 1994. About 5% of guesthouse properties are unclassified.

The large increase in the number of unclassified hotels indicates a considerable level of dissatisfaction with the classification system. Possible reasons include disagreement by hoteliers with the grade awarded or a preference for classification by a recognised international commercial body, such as the AA or RAC, or a reliance on membership of a branded group.

It is a matter of considerable concern that so many hotels are opting out of the system. The growth in the number of unclassified properties serves to undermine the system. If the system is to maintain credibility in the marketplace, the reasons why hotels opt out need to be assessed with a view to identifying appropriate solutions.

- the system does not adequately reflect a budget category
- the 265 hotel properties classified as 1* and 2* contain 5,100 rooms (about 13% of the hotel accommodation stock). However, many of these properties are not focused on the accommodation business, relying primarily on food, beverage and function trade for sales revenue.

In reality, a budget category of hotel, equivalent to the budget category in Britain, the US or Continental Europe does not exist in Ireland. As overseas tour operators will not consider including Irish properties classified as 2* or 1* in their programmes, hotels wishing to operate in the budget category opt not to be classified or, alternatively, seek 3* classification.

- there is inconsistent application of system
- the feedback from hoteliers is that there are too many grey areas in the classification system. There are also examples of properties awarded different grades by different organisations – e.g. 3* and 4* ratings given to the same property by TQS, AA and RAC.
- the system is not consistent with systems elsewhere
- classification systems are in operation in many tourism destinations in Europe. In most instances, they are compulsory systems and virtually all are based on a star system of classification. However, there is considerable variation between the systems. It is considered that the criteria for Ireland's 5* class does not match the international perceptions of what that classification should mean.

2.3 SHAPING A FUTURE VISION – INDUSTRY CONTEXT

The shaping of a future vision for the Irish hotel and guesthouse industry has to take account of a number of structural characteristics, the main ones being:

- relatively small size of properties
- high proportion of family owned / independent properties
- guesthouses have an identity crisis
- departmental sales revenue mix varies significantly by hotel grade
- high dependence of hotels on overseas tourists
- corporate segment of market very important for hotel sector
- small geographical size of Ireland, with few major cities.

2.3.1 Relatively Small Size of Properties

Although the average size of hotel is increasing – 47 rooms is the average now – there is still a very large number of small properties. The average size of guesthouse properties is between 10 and 11 rooms – an average that has remained constant over the last five years.

The size distribution of hotels and guesthouses is shown on Table 2.9.

Table 2.9: Distribution of Hotel and Guesthouse Properties by Size, 2000

No. of Rooms	Hotels %	No. of Rooms	Guesthouses %
10-20	40	< 10	68
21-30	15	11-20	27
31-40	9	21-30	4
41-50	7	> 30	1
51-70	10	Total	100%
71-100	10		
101-150	5		
151-300	4		
+300	*		
Total	100%		

* less than 1%

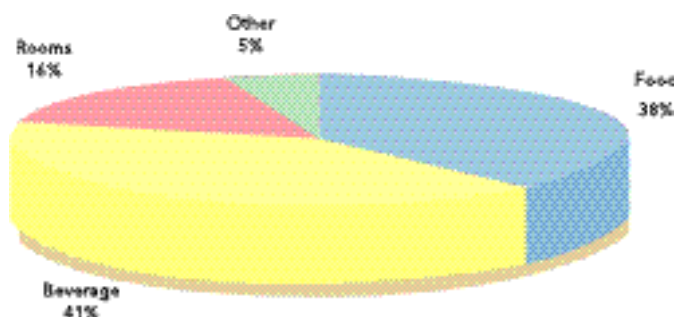
About 70% of hotel properties have less than 51 rooms. A similar proportion of guesthouses have 10 or fewer rooms. These small independent operations face a particular set of problems:

High Dependence on Food and Beverage Sales

By their very nature, small hotels have limited accommodation capacity and so are more reliant on food and beverage revenues than larger properties (see Figure 11 following). Due to the lower profit margins on food and beverage compared to room sales,

they therefore achieve lower operating profits than their larger counterparts and as a result are more exposed to changes in the market for food and beverage.

Figure 11: Distribution of Revenues by Source of Business
- hotels in 10-49 room size category -



Difficulty in Recruiting Staff

As competition increases for a shrinking pool of labour, smaller properties find it difficult to recruit staff who more often than not are attracted to larger operations or groups. In general, larger groups have more developed human resource management systems and career advancement opportunities. Therefore, they are seen as more attractive to potential employees.

Increased Competition from Newer Hotels

The growth in new hotels offering more modern, better quality facilities in recent years has led to a reduction in smaller properties, especially in the 1-star category.

Table 2.10: Distribution of Hotel Properties and Rooms by Grade, 1994 – 2000

Grade	1994		1996		1998		2001*	
	No.	Rooms	No.	Rooms	No.	Rooms	No.	Rooms
1-star	172	2,800	161	2,400	124	1,700	74	1,100
2-star	219	4,700	229	4,500	204	4,100	191	4,000
3-star	186	9,900	203	11,600	258	14,900	303	18,600
4-star	40	3,500	42	3,600	44	3,800	64	5,600
5-star	14	1,800	16	1,900	16	2000	17	2,300

Source: Bord Fáilte, *Registered properties as of 2/2/01; all figures rounded

Over the six-year period 1994 through 2000, the number of 1* properties has decreased from 172 to 74 and the number of rooms from 2,800 to about 1,100.

Lack of Economies of Scale

The lack of economies of scale in smaller hotels reduces their profitability. Roughly the same level of staffing is required to run a hotel with 20 rooms as one with 40 rooms for

example. Yet the same level of overheads in both hotels reduces the profitability of the smaller one.

Rising Staff Costs

The rising staff costs being experienced throughout the sector have a disproportionate effect on smaller hotels. Because they are so reliant on food and beverage with its higher staffing requirement, this has a significant impact on profitability.

Higher Proportionate Cost of New Technology

The cost of investing in a web-site, reservation system or front office system is more or less the same for a small and medium sized hotel. However, as a percentage of turnover, the cost to the small hotel is greater, which deters many from making the investment.

Lack of Tailored Training and Support Programmes

The majority of training programmes for the hotel sector are of a generic nature and generally favour the larger operator. There is a need to develop a series of tailored programmes specifically for the needs of the small hotel operator.

2.3.2 High Proportion of Family Owned Independent Properties

Broadly speaking, the industry may be divided into single unit operators on the one hand and groups of four or more properties on the other. Traditionally, hotels and guesthouses in Ireland have been owned and managed by the same party, but in common with international experience, there has been a growing trend towards separating the management function from ownership.

Our own analysis confirmed the above pattern of ownership/management. We estimate that there are some 16 hotel groups in Ireland with four or more properties. These hotel groups consist of some 125 properties containing about 13,100 rooms. The balance – some 723 properties – are almost all single unit operations, (with a small number of 2 and 3 property groups) and represent close to 26,900 rooms. This means that the average size of independent hotel property is about 37 rooms, whereas the average size group property is about 105 rooms.

The CERT *Employment Survey of the Tourism Industry in Ireland, 1999* found that the vast majority of guesthouses (93%) are owner managed and/or family-run operations.

Family ownership can lead to particular difficulties in relation to passing on the property from one generation to the next:

It is Difficult to Exit while Retaining Family Ownership

Approaching retirement, the owner/manager of the smaller, independent property regards the hotel operation as a source of future retirement income, whether by means

of sale or pension from the business. The problem is that the operator's equity is locked up in illiquid shares in what is often a unique asset. The difficulty arises in trying to unlock the value of the business while maintaining family ownership.

It is Difficult to Arrange Successful Family Succession

The difficulties in arranging successful family succession are well documented. These include conflicts over how to run the business, sibling rivalries, problems in valuing the business to facilitate exit for family members, liability to capital taxes etc.

2.3.3 Guesthouses Have an Identity Crisis

With the exception of the dependence on food and beverages, guesthouse operators face a similar set of problems to the small, independent hotels, as discussed in Section 2.3.1. Guesthouses also face problems related to their categorisation.

The guesthouse sector is becoming increasingly concerned with its identity or, more precisely, its lack of identity in the market place. In its present form, it is a catch-all category gathering in all properties that want to be officially recognised but are too large to be approved as Irish Homes (bed and breakfasts) and cannot or do not want to be registered as hotels. (Even this approach to defining guesthouses by what they are not is problematic since the Irish Homes may have up to six bedrooms while guesthouses may have as few as five, thereby creating an overlap between the two categories).

The difficulties caused by this identity problem are most acutely experienced when properties seek to market themselves, whether individually or on a group basis. The problem also gives rise to some confusion among different State agencies in the treatment of guesthouses – for example, some guesthouses have qualified for capital allowances, based on the definition of hotels (providing food, drink and accommodation), whereas others have not.

2.3.4 Departmental Sales Revenue Mix Varies Significantly by Hotel Grade

The Horwath Bastow Charleton survey³ indicates the departmental breakdown of business for the different categories of hotels. The figures show that:

- Revenue sales for the 5* luxury hotels are primarily from room sales; beverage sales account for just over a tenth of total revenue.
- Budget (1* and 2*) hotels, of which there are some 265 in the Republic of Ireland (representing nearly one-third of all registered hotel properties but just 13% of total capacity) are primarily dependent on liquor sales for turnover. In this regard, their main competitor is the licensed trade.
- The 3* mid-price hotels have a more balanced distribution of departmental revenue sales.

³ Horwath Bastow Charleton: *Ireland and Northern Ireland Hotel Industry Survey 2000*

2.3.5 High Dependence by Hotels on Overseas Tourists

Between 30% and 32% of overseas tourists use hotels.

Just over half of all bednights sold in hotels are to overseas visitors (compared with 48% in 1994), the other half being accounted for by residents of Ireland (92% from the Republic) – as shown on Table 2.11.

Table 2.11: Significance of Individual Source Markets

Source Market	% Share of Bednights	
	1994	1999
Britain	17	20
Mainland Europe	14	10
North America	14	16
Other Overseas	3	5
Total Overseas	48	51
Republic of Ireland	47	45
Northern Ireland	5	4
Total Bednights	100%	100%

Source: Bord Fáilte

Over the last 5 years to 1999, growth in bednights has mainly come from:

- Britain, with an average growth rate of 11.5% yearly;
- North America (overwhelmingly US), with an average growth rate of 11.2% yearly;
- The domestic market, with an average growth rate of 7.4% yearly; currently, approximately 30% of domestic holiday bednights are spent in hotels.

The result is that hotels are highly dependent on three markets – the Domestic market, Britain and the United States. There is a further vulnerability in that holiday travel from the British and United States markets is sensitive to any strengthening of the Euro vis-à-vis Sterling and the US\$.

2.3.6 Corporate Segment of Market Very Important for Hotel Sector

Overall, overseas tourists coming for business purposes account for the highest proportion of those staying in hotels, particularly for the British and Mainland European markets.

Table 2.12: Purpose of Visit of Overseas Hotel Guests by Source Market, 1999

Visit Purpose	Distribution (%)				
	All	Britain	US	Main. Eur.	Other
Main / Annual Holiday	18	6	50	15	25
Additional Holiday	16	19	15	10	10
Business (excl. conferences)	50	59	20	61	34
Conference	4	3	1	6	12
Other	12	13	14	8	9
TOTAL	100	100	100	100	100

Source: Bord Fáilte

The US market is different in that about two-thirds of US tourists staying in hotels are on holiday. This has an important regional implications. Outside of the Dublin and South East Regions, the US is the most important source of guestnights for the hotel sector.

2.3.7 Small Geographical Size of Ireland with Few Major Cities

The relatively small geographical size of the country, with few major cities and few major motorways has implications for the scale of development in the hotel sector. This applies not only to the size of an individual property, but also to the development of chains. The development of brands will rely on the provision of standard size rooms, standard facilities and services depend for their success on the achievement of economies of scale. This can only be realised where there are numerous cities / urban areas, long distances between them, good motorways and large volume of domestic travel for business, personal and leisure purposes.

For Ireland, the implications are:

- limited possibilities for the development of conventional brands, based on the standardised hotel concept (such as the Formula 1 type model), and,
- branding has to be grounded on an activity product (e.g. golf, angling) or a theme (e.g. health).

3. INTERNATIONAL EXPERIENCE

3.1 OPERATING PERFORMANCE INDICATORS

Based on available data, the International Hotel & Restaurant Association estimates that total revenues for the hotel industry worldwide was just over \$202 billion in 1997. These revenues were generated by some 301,400 hotels with an estimated 13.2 million rooms, operating with an average annual 55% room occupancy rate.

Data on the performance of the hotel sector worldwide are available from a number of sources including Arthur Andersen, Horwath International, HVS International, Pannell Kerr Forster and TTI Publications. Although the strict comparability of the data on a year-on-year basis and between different countries may be open to question for a number of reasons (e.g. sample coverage, relative exchange rates), the information does provide a good indication of underlying trends.

A breakdown of operating performance indicators for hotels in selected countries worldwide for 1997, the latest date for which the data are available, is shown on Table 3.1.

Table 3.1: Breakdown of Operating Performance (%) in Selected Countries, 1997

%	USA	Fr.	Aus.	Bnlx.	Ger.	UK	Irl.
Occupancy	72.9	73.0	65.0	68.7	59.9	71.9	66.7
ADR (US\$)	112.8	112.0	75.8	90.2	86.5	91.9	82.5
Gross Profit	59.1	35.0	44.2	58.8	46.8	55.4	47.1
GOP	36.6	35.0	20.7	38.0	23.2	37.1	26.0
Mgmt fee	3.4	1.6	1.5	3.0	1.4	2.1	2.0
Income before fixed charges	33.2	33.4	19.2	35.0	21.8	35	24.0
Revenue							
Rooms	64.2	64.0	53.3	51.4	50.7	48.4	36.0
Food & Bev.	28.4	30.1	39.4	41.9	40.0	44.1	58.4
Costs							
Rooms	24.8	33.8	35.1	30.4	32.9	25.6	25.7
Food & Bev.	75.5	78.3	86.3	52.0	85.3	64.5	70.1
Other Costs							
Marketing	5.7	3.8	4.8	3.6	4.3	2.3	3.3
Franchise fee	0.5	0.6	0.4	0.0	0.2	0.1	0.3
Operating Costs	22.5	19.0	23.5	20.8	23.6	18.3	21.1

Source: Horwath International

Notes: - ADR = Average Daily Room Rate;

- All figures except occupancy rates and ADR are expressed as a % of sales

In interpreting the figures on Table 3.1 above, the economic context must also be taken into account. In 1997, the central European countries were experiencing an economic recession whereas the US and Ireland were experiencing rapid growth. Taking these and related factors into account, there are a number of pointers which have relevance for the Irish hotel sector, viz:

- room occupancy rates in Ireland are comparable with those achieved by hotels in central European countries, but are well below the averages in Britain, the US and France;
- with regard to gross operating profits, the ‘best practice’ benchmark for the industry in Europe and the US is between 35% and 38% of turnover;
 - at 26% in 1997, the Irish hotel industry falls significantly below this benchmark.
- the major difference between Irish hotels and their counterparts in Europe and the US relates to the composition of revenue. In the US and France, room sales represent just under two-thirds (64%) of revenues, whereas they account for just over one-third (36%) in Ireland (47% in Dublin). The reasons for this divergence in performance are threefold,
 - a restrictive regulatory environment, in that hotels are required by statute to provide food and beverages, irrespective of whether these services are profitable;
 - a less developed restaurant and leisure sector in Ireland compared with other countries, through as described earlier, this situation has changed dramatically over the last five years;
 - a greater proportion of hotel capacity lies outside urban areas in Ireland.
- Irish hotels spend comparable amounts on marketing to other European hotels, through all spend considerably less than US hoteliers.

According to the Horwath International survey of hotels worldwide, payroll costs as a share of total sales is in excess of one-third for European hotels – see Table 3.2.

Table 3.2: Payroll and Related Expenses (%) as a Share of Total Sales in the World’s Hotels by Region, 1995-97

	1995	1996	1997
Africa & Middle East	23.9	23.8	26.5
Asia	25.7	26.2	29.1
Australia	36.1	35.5	34.3
North America	32.7	32.4	30.9
Latin America	28.8	28.8	32.0
Europe	32.3	33.1	33.8
Ireland	28.5	30.4	29.1

Source: Horwath International

Until 1997/98, Irish hotels enjoyed a competitive cost advantage in that payroll and related expenses represented about 30% of revenues. However, as described in Section 2.2.1 earlier, the situation has deteriorated since then and staff costs now represent around 35% of turnover. Based on an anecdotal evidence, this is probably one of the highest (if not the highest) among European countries.

3.2 KEY WORLDWIDE INDUSTRY ISSUES

Industry analysis and interviews by Accenture⁴ found that the lodging industry is facing serious long-term growth challenges driven by chronic under-investment – these are summarised in Figure 12. Although these findings are largely related to major hotel chains, they can also be applied to independent hotels, irrespective of size.

Figure 12: Key Worldwide Industry Issues



With virtually all countries anxious to attract foreign direct investment (FDI) coupled with minimal restrictions on capital movements, investors have more opportunities than ever to select investments that will maximize their wealth, whether in tourism, manufacturing or telecommunications. If investors do not achieve returns on these investments that match earnings from other sources, they will move their money to the more attractive alternatives.

Wealth maximisation increasingly equates to returns on invested capital with one major difference from earlier days: a greater emphasis on future earnings potential. As described by the IH&RA, hotels will be able to attract capital only if they are able to demonstrate the ability to generate a future stream of cash flow that provides the required return on investment (ROI). This has put the focus on maximising shareholder value, whether for an hotel chain or independent property seeking investment.

In trying to maximise shareholder value, the worldwide lodging industry is facing the following issues:

- performance is heavily dependent on uncontrollable, macro-economic factors;
 - demand is highly correlated with GDP and consumer confidence
 - supply is rigid, driven by real interest rates, past demand and GDP forecasts
 - profitability forecasting models are very unreliable.

⁴ Formerly Andersen Consulting

- structure of ownership/management results in under-investment;
 - hotel ownership, management and brand may belong to different parties resulting in complex relationships
 - management companies must offer capabilities for 100% of the performance of managed hotels, but only benefit from a portion of the revenue generated. This can result in under-investment by the management company.

- underinvestment has resulted in poor technical infrastructure that limits flexibility and profitability;
 - 85% of executives believe technology limits growth
 - multiplicity of property management systems (some older than 15 years)
 - technology providers are fragmented and unreliable.

- industry supply chain fragmented and inefficient;
 - three levels of purchasing (e.g., corporate, regional, property) with little visibility and control over 10,000 stock keeping units (skus).

- Customer Relationship Management (CRM) capabilities are minimal;
 - despite access to the customer, hotel chains have limited marketing and CRM capability
 - only 45% of chains have a guest database; just 11% have it integrated with an executive information system
 - only 23% have significantly automated their loyalty programmes.

- hotels not capitalising on eCommerce potential;
 - in general, chains have inadequate eCommerce strategies and their capabilities fall far behind other industries
 - little attempt to target groups and tours.

- shortage of qualified labour;
 - US hotel employee turnover ranges from 60% to more than 300% annually
 - turnover can cost an average of \$2,500 for direct and \$1,600 in indirect turnover expenses per departing employee.

3.3 INTERNATIONAL DRIVERS OF CHANGE: IMPLICATIONS FOR IRELAND

In its recently published White Paper on the major forces shaping the hospitality industry worldwide, the International Hotel & Restaurant Association (IH&RA) identified a number of areas considered to be decisive to the future development of the industry. These included sustainable development, social issues, health and safety.

Taking into account the context of this study, our research on international trends suggests that the major forces driving change can be grouped under the following headings:

- assets, capital and ownership
- health and safety
- new management approach
- marketing and distribution

- revenue and customer relationship management
- information technology and property management systems
- branding
- facilities, services and rooms of the future
- serving tomorrow's customer
- human resources, training and productivity.

3.3.1 Assets, Capital and Ownership

As described in the previous section, the increasing facility of global capital movements has brought about greater focus on asset value in the lodging industry.

The old model of the hotel put location and the physical attributes of the property at centre stage. This is changing as the customer now places an increasing emphasis on the intangibles – the service, the experience – when deciding on where to stay. As the value of the hotel depends more upon the intangibles (the soft assets), the hard assets will become more like commodities and priced accordingly. According to the IH&RA, this can be expected to continue as Internet-based distribution makes the physical hotel product more transparent and easily comparable and as customers become less willing to pay a premium for anything less than extraordinary. As a result, valuation measures will have to take into account these soft assets - assessing how secure and dependable they are to generate future revenue streams.

In a situation of labour and skills shortages, valuation measures will also have to take into account the collective *knowledge capital* of employees. Because the lodging industry is about service, the skills, experience and training of employees are what differentiate successful hotels from the rest. Although difficult to quantify, the *knowledge capital* of the employees is fundamental to the capability of the hotel operation to generate cash flow.

Implications for Irish Hotels and Guesthouses

In the past, ownership and management were largely synonymous. As a result, focus tended to be on the P&L account. In recent years, due to tax driven investment schemes, the spheres of ownership, management and brand are increasingly belonging to different parties. Consequently, there has been a shift in emphasis to the balance sheet - ROI and the generation of shareholder value. This shift has had an extra impetus in Ireland due to the rapid inflation in property values. Added to this, is the growing appreciation that the soft assets and the knowledge capital of employees constitute an increasingly important component of the value of the hotel.

This shift in focus has already happened, or is in the process of happening, in the hotel chains and larger properties where ownership and management are different parties. Independent properties, irrespective of size, will also have to make the shift in focus, if they are to be successful.

3.3.2 Safety and Health

The IH&RA considers that among the most important forces driving change are the issues of safety and health, for which the hospitality industry will be held increasingly accountable. It considers that hospitality enterprises will find it necessary to step-up training of employees in this regard.

Implications for Irish Hotels and Guesthouses

Safety is one of the top five criteria which tourists take into account when considering a holiday destination. It is a high-leverage factor and, despite the Northern Ireland situation and concerns about security in Dublin, Ireland scores highly in this respect⁵. Nonetheless, hotels and guesthouses, particularly those located in urban centres, cannot become complacent and should include safety and security in their training programmes.

With regard to health, the IS340 1994 and HACCP are the guidelines within which every catering outlet in Ireland is required to operate under law. A recent CERT Study (Benchmarking Best Practice in Culinary Arts) found that many employees are not aware of their responsibilities or are not properly informed of the detail of the legislative requirements. Employers have the responsibility to ensure that their employees are informed of, and operate under, hygiene and safety regulations. Basic HACCP training must be included as part of the induction training of all staff. Advanced HACCP training should be provided for core staff members.

However, as structured, HACCP is more appropriately geared to a food production process rather than a service outlet. As a result, the hotel and guesthouse industry, along with the restaurant sector has difficulty in its implementation. We recommend that HACCP guidelines be adapted to better meet the requirements of the industry.

3.3.3 New Management Approach

A conclusion arising from our assessment of the forces driving change in the industry is that tomorrow's management must think and behave differently. The new model for the lodging industry will require management to focus on achieving value added for shareholders, customers and employees. The elements that are necessitating this changed management approach are:

- employees expect more freedom/autonomy of action and will not tolerate rigid, traditional leadership styles;
- flattening of the organisational hierarchy which is resulting in more participatory managerial approach;
- technological advances are affecting all aspects of the business, from customer relations to procurement.

⁵ Bord Fáilte Visitor Attitude Surveys, 1997 & 1999

Implications for Irish Hotels and Guesthouses

A major implication is that hospitality education must move from a heavily skill based focus with strong operational content towards a business management emphasis with value adding at the centre. What this means is that subject content will have to be re-thought at all levels:

- at managerial level, the hotel schools will need to adapt the course content to reflect a more general business management orientation;
- at craft level, while operational skills will always be required, the course content will need to place greater emphasis on a knowledge based approach.

3.3.4 Marketing and Distribution

Originally the only way to book an hotel in advance was either directly by phone, in writing or via a travel agent. In the 1970s, the emergence of representative companies made the process more efficient and cost effective. It was only with the widespread adoption of Central Reservations Systems (CRS) in the early 1980s that booking a room became both convenient and rapid. In turn, CRSs were overtaken by Global Distribution Systems (GDS) in the 1990s and have become the dominant channel for hotel bookings (via travel agents).

However, from the standpoint of the supplier, GDSs are only economic where large capacity is involved – i.e. for very large hotels and chains. For the independent, smaller properties (which make up the bulk of the world’s hotel stock), the cost of maintaining a GDS connection is prohibitive.

While travel agency-GDS links are likely to continue to dominate hotel distribution channels during the next five years, Internet bookings are growing fast. The Internet is still a minor force compared with traditional channels – see Table 3.3 - but it is likely to become the dominant bookings channel for the industry by the end of the decade. Savings can be substantial. It is now widely accepted in the industry that the cost of a booking taken directly over a dedicated hotel website averages approximately 1% of room distribution compared to approximately 30% through traditional channels⁶.

Table 3.3: Relative Importance of Distribution Channels – Advance Reservations (%)

Distribution Channel	Hotels Worldwide	Europe	North America
Direct Enquiries	35.1	38.9	29.5
Intermediaries	64.9	61.2	70.5
- Own Reservation Systems	14.0	10.8	23.6
- Indep. Reservation System	5.3	5.8	4.1
- Travel Agents/Tour Operators	37.9	37.7	34.2
- Hotel Representative Co.	4.3	3.7	7.0
- Transport Company	2.0	1.7	0.7
- Web site, Internet	1.4	1.5	0.9
TOTAL	100.0	100.0	100.0

Source: Horwath Worldwide Hotel Study, 1998

⁶ Jonathan Hart: *Global Hotel Strategies*, Informa Publishing Group, London, 1999

Implications for Irish Hotels and Guesthouses

The projected increase in sales via the Internet over the next decade will require Irish hotels and guesthouses to become increasingly familiar with this medium. Within the Internet environment, there is a growing multiplicity of sites, web agents and search engines which themselves form new distribution channels. The “irelandhotels.com” distribution channel is a good start in facilitating the distribution of the Irish hotel and guesthouse product on-line, but it is just one of many channels that hotels and guesthouses may use. In future it will be important that Irish hotels and guesthouses tailor their distribution channels to meet their specific target markets. A number of technology products have been developed recently which enable sales distribution through a variety of distribution channels, and central reservations via a single image screen. This removes the need for separate room allocations for each distribution channel as they are all linked to a continuously updated rooms inventory. It is anticipated these web-based products will be favoured by small to medium sized operators in future due to the low installation costs involved.

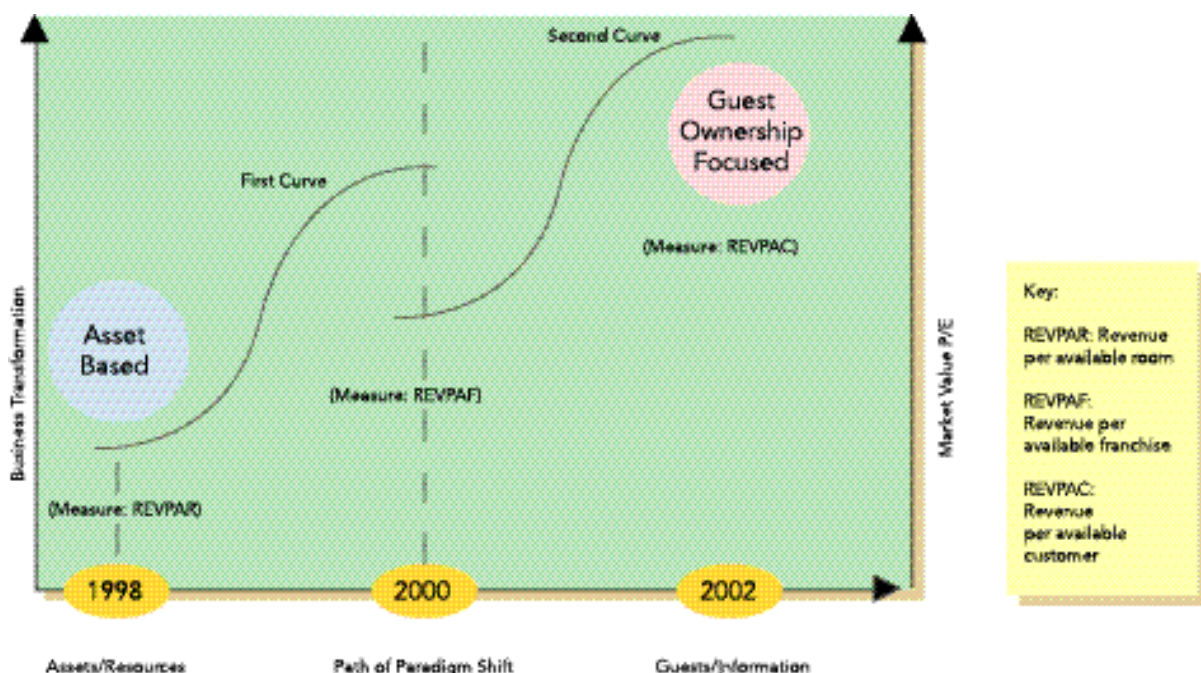
3.3.5 Revenue and Customer Relationship Management

As illustrated in Figure 13, the traditional approach is to maximise revenue per room. Accenture’s research on the lodging industry world-wide has highlighted the weaknesses of this approach as

- not customer sensitive
- not content sensitive
- a ‘memory of one’ – only the current purchase matters.

Figure 13: Focus on the Customer

- Guest / customer focus underpins the migration of hotel corporations to new levels of revenue and growth in profitability -



With hotel properties becoming more commoditised on the one hand and, on the other, customers placing increasing importance on the experience or intangibles related to their stay, international hotel management is adopting a customer relationship management (CRM) approach in order to maximise revenues. The CRM approach is:

- highly customer centred
- maximises customer loyalty
- optimises customer value expectations
- focuses on 'life-time memory' of past as well as expected future purchases.

Implications for Irish Hotels and Guesthouses

Due to the small size of most properties in Ireland and our cultural tradition for hospitality, customer focus and personal service have been key strengths of the hotel and guesthouse industry for decades. As a result, many Irish hotel and guesthouse operators have practiced customer relationship management (CRM) principles instinctively. Now that there are signs that satisfaction levels are declining (see Section 2.2.7), the industry should seek to apply some of the more structured CRM techniques used abroad in order to boost guest satisfaction levels on the one hand and on the other, adopt a more targeted marketing approach. These techniques include CRM systems which collect customer profile information, guest history, special requests and preferences etc. This enables hotel and guesthouse operators to review collected customer information easily and to tailor services to the specific needs of guests. A typical customised offer may include pricing, room type, in-room facilities etc.

3.3.6 Information Technology and Property Management Systems

The technology model of the future enables individual hotels to focus on execution – i.e. providing excellent customer service – while it enables senior management to manage the chain or brand from the centre, as illustrated on Figure 14 overleaf.

The operating model illustrated on Figure 14 will apply more appropriately to hotel chains and hotel groups which go beyond the conventional marketing affiliations.

For independent hotels, the central technological concern is their Property Management System. The PMS is the traditional engine room of hotel operations. To be fully functioning in today's increasing competitive market, the PMS must interface with all management and operational departments, both front and back of house.

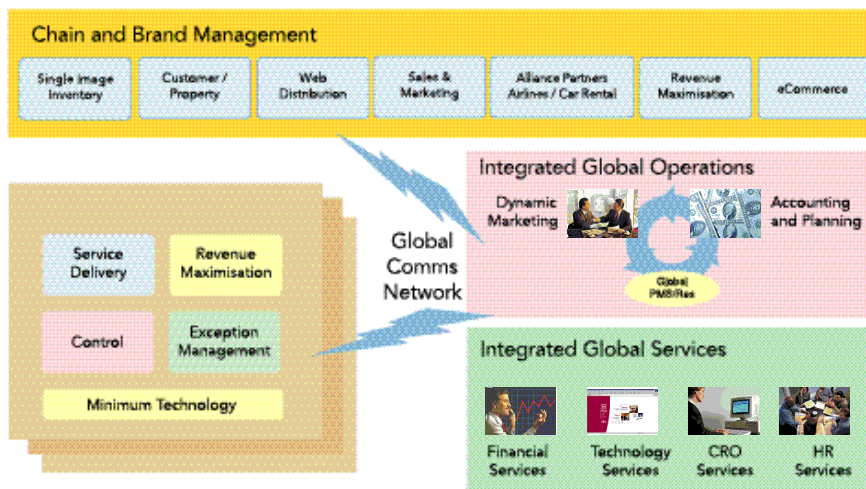
Today's PMS has an extensive range of applications which include yield management (similar to airlines with room rate and length of stay optimisation, hurdle rates, etc.), data mining to assist the development of customer loyalty programmes, as well as the traditional operational and financial reporting. The more advanced PMS can be used for on-line analytical processing (OLAP) through multi-dimensional databases.

Implications for Irish Hotels and Guesthouses

The major hotel chains, including individual properties (such as the Four Seasons) which are part of global chains, will move towards the operating model as illustrated on Figure 14.

The marketing affiliation groups will also have to move in this direction if they are to survive in the longer term. Essentially, these affiliations will have to provide a wider range of services to their member hotels and guesthouses to maintain competitive.

Figure 14: Hotel Operating Model of the Future



Although commercial sense suggests that sophisticated PMSs are of limited relevance to the smaller operations, a recognised and totally integrated PMS is essential for medium-sized, independent properties. Without such a system that integrates all operations, departments and applications, a property faces ‘fast fade’ from tomorrow’s customer.

3.3.7 Branding

As there is no globally accepted classification system for hotels, international chains distinguish their category or categories through branding. Building an internationally recognised brand identity is expensive and takes time, but operators are increasingly accepting the value of brands in generating profits. In many respects, the brand has become the key element in defining the market.

Trying to determine the extent to which the international lodging industry is branded is fraught with difficulties, as there is no definitive database on the size and structure of the industry, even at country level. Research by GHH Consult on the importance of brands in Europe provides indicative figures for individual countries (Table 3.4):

Table 3.4: Share (%) of Rooms belonging to Brands

Country	%	Country	%
Germany	22	France	22
Spain	22	UK	33
Denmark	24	Norway	42

Source: GHH Consult

In North America, the figure is about 70% of room capacity, according to Bass.

Although there is debate on the extent of branding internationally, there seems to be little doubt as to future direction:

- The larger chains, particularly at the budget and mid-market categories, are developing true brands with strictly defined physical parameters and service standards.
- The bigger brands are expanding and doing so rapidly. Arthur Andersen cites five key reasons why strong brands are growing. Branded hotels:
 - typically obtain higher market share
 - often obtain price premiums from customers
 - typically achieve higher investor returns
 - offer more opportunities for further growth
 - create customer loyalty and thereby generate more stable earnings streams.

Other reasons enforcing this trend towards greater consolidation are the need to achieve critical mass to make PMS/CRS's economically viable, and the fact that capital markets increasingly favour companies that can offer strong brands.

- To date branding has had its greatest impact on the budget sector of the hotel industry. In this sector, brand consistency is easiest to achieve – the formula product exemplified by brands such as Accor's Formula 1.
- Hoteliers are moving their brands beyond accommodation, mainly in the meetings, F&B and fitness markets. For example, Hilton has established its coffee bar concept, Caffe Cino at its first non-hotel site.

Implications for Irish Hotels and Guesthouses

Our research indicates that there are currently 23 hotel brands in Ireland representing 102 hotels (including 5 planned hotels) and about 11,000 rooms. This represents about 28% of national hotel room capacity. [For the purposes of our analysis, a hotel is deemed to be branded only if the brandname appears in the name of the hotel and it is part of a wider group with a consistent product offering]. Recent years have seen a growth in the number of branded hotels in Ireland, especially in the 5-star category as a number of international operations have entered the market (e.g. Radisson, Westin, Four Seasons). There has also been a growth of domestic hotel brands including Bewleys, Jurys Inn's and Ryan's.

In the guesthouse sector, Premier Guesthouses is the only marketing affiliation group exclusively for guesthouses in Ireland. However, a number of guesthouses are included in hotel affiliations (e.g. CMV, Ireland's Blue Book, Relais & Chateaux and Logis of Ireland). In total, about 27% of the national guesthouse room stock are part of a marketing affiliation group.

Brands will become an increasingly significant force in Ireland, driven by the same factors which are driving brand consolidation internationally. However, it is unlikely that conventional branding will develop in Ireland as it has in larger countries for a number of reasons including the dominance of independent family-owned hotels, the nature of demand for tourist accommodation, and the relatively small geographical size of the country with few large cities. The development of branding in Ireland is likely to be more geared to products and themes.

3.3.8 Facilities, Services and Rooms of the Future

The primary objective of the lodging industry and the hotel room of the future is no different than in the past and present – to provide guests with a comfortable place to stay and a good night's sleep. According to research published by The Conrad N Hilton College of Hotel and Restaurant Management by making use of technology, hotels today are in a position to all but custom-design rooms for individuals, based on the guest's age, health, job related stress, amenity preferences, etc..

The room of the future will incorporate concepts to make the room more comfortable, safer, more productive for the business traveller, less stressful, cater for sleep disorders, etc. They may include such facilities as:

- electronically controlled mattresses to provide guests with the right kind of firmness and support
- in-room exercise amenities
- windows replaced by selected computer generated scenes to create a more restful, relaxing, in-room environment.

Rooms will be tailored more specifically to the demands of customer groups. The size of a room will become more important, especially for business travellers, and the size of bathrooms will increase and the relative apportionment of space between bathroom and sleeping area will change.

Implications for Irish Hotels and Guesthouses

The point to note here is that room features tailored to an individual's needs are increasingly becoming the basis on which hotels compete. Advances in technology are enabling hotels to better customise their facilities to the needs of individual guests.

3.3.9 Serving Tomorrow's Customer

The consensus in the international lodging industry is that the industry is facing a new type of customer who:

- places increasing importance on the experience of their stays in hotels
- increasingly uses the Internet to search and book accommodation
- is less loyal to properties, but more loyal to brands
- knows the type of product he/she wants and what price it's worth
- has zero tolerance of delays and misinformation

- increasingly regards access to the Internet as one of the essential criteria for hotel selection
- selects the hotel which best suits his/her lifestyle
- cannot always be strictly categorised into business and leisure segments from the standpoint of their requirements.

To meet the needs of tomorrow's customers, the leading hotels of the world:

- are adopting a customer centred approach
- use technology to free-up staff to spend more time with customers
- use all departmental points to exploit opportunities to talk with customers, from front desk to housekeeping
- ensure that technology products/services incorporate guest needs in addition to optimising the hotel room as a profit centre.

Implications for Irish Hotels and Guesthouses

Customers, both domestic and international, are becoming more discerning and are no longer satisfied with just the physical aspects of staying in a hotel or guesthouse. They expect excellent service and are dissatisfied unless they receive it. Moreover, they are quick to point out their dissatisfaction and expect complaints to be dealt with professionally. The signs of weakening satisfaction levels with the Irish product (see Section 2.2.7.) should be viewed as a serious warning for Irish hotels and guesthouses – they highlight the need to invest in customer service training for all staff on a continuous basis.

3.3.10 Human Resources, Training and Productivity

One of the major forces driving change in the international lodging industry identified by the IH&RA is that the consumer is increasingly interested in purchasing an experience as opposed to being charged for a room and its physical amenities. This means that the hotel sector is being forced to invest more in the intangible elements of the business – i.e. the ability to provide the services and experiences the consumer wants.

The implications are clear. Delivering on these intangibles will require highly skilled staff. This will drive up labour costs even further, thanks to the increasing scarcity of skilled labour, at least in the developed countries.

Because of this, the lodging industry globally is now finding it necessary to reassess attitudes towards investment in human resources. Training and development programmes are no longer luxuries but essential to meet the needs brought about by technology and changing customer needs.

Implications for Irish Hotels and Guesthouses

The human resource situation has become acute in Ireland with increasingly demanding guests on the one hand and, on the other, increasingly demanding staff due to the labour shortfall and skills shortages outlined previously in Section 2.2.5.

The high rate of staff turnover and shortages of staff in the industry have militated against the implementation of effective training programmes at individual property level. Employers are reluctant to invest in training staff who may leave after a short period of time. Secondly, the pressures created by staff shortages mean that new recruits may be pushed into positions for which they have not been adequately trained.

As we have noted, the implications of a continued low rate of investment in human resource development are very serious. Not only will the industry fail to meet the increasing exacting demands of the consumer, but also, standards of service will decline from current levels. Indeed, as demonstrated in Section 2.2.7 earlier, there is evidence that this is already happening.

The industry will have to develop more appropriate responses to its recruitment and training needs. It needs to invest more heavily in training, and it needs to introduce effective staff retention and human resource management policies. Rather than viewing labour primarily as a cost, the industry should focus on how labour can contribute to added value. Only in this way can significant productivity gains be achieved which are necessary to maintain sustained competitive advantage on the one hand and, on the other, pay the higher payroll bill.

4. FRAMEWORK FOR A DEVELOPMENT STRATEGY

4.1 A TIME FOR CHANGE

Our analysis of the present position of the Irish hotel and guesthouse industry, and our review of the issues arising in the industry here and overseas, underline the extent to which this is a time of great change. Globally, hoteliers are coming under increasing pressure from all quarters – customers are seeking superior service, staff are seeking empowerment and greater rewards, and investors are seeking higher returns. The wider concerns of society with regard to such issues as food safety, environmental welfare and personal security are also affecting the industry.

The buoyant market conditions of the 1990's allowed the industry in Ireland to expand easily and to produce acceptable returns while largely adhering to traditional strategies. But as occupancy growth rates flatten and even show signs of downturn, the pressure to deliver good results based on asset productivity and competitive advantage will intensify. There is only so much scope available simply to continue to raise room rates – growing customer dissatisfaction and an increasingly competitive market will undermine prices that are not supported by a high quality product and service. The situation in Ireland is not unique. In the US, for example, the lodging industry posted record profits in 1998 while also generating record levels of customer dissatisfaction, according to the results of the American Customer Satisfaction Index – clearly an unsustainable position.

The traditional hotel model that has shaped the hospitality industry in Ireland has served well. Indeed, it has supported the development of a substantial tourist industry. This model is based on the delivery of a standard product configuration of food, drink, sleeping accommodation and, usually, a function room. These services have often been provided without style or sophistication, but with the rough edges smoothed by the qualities of natural Irish hospitality. The underlying presumption has been the belief that this model delivered what customers wanted. Detailed regulations, which have been infrequently updated, ensured conformity to the standard model and alternative configurations have been discouraged.

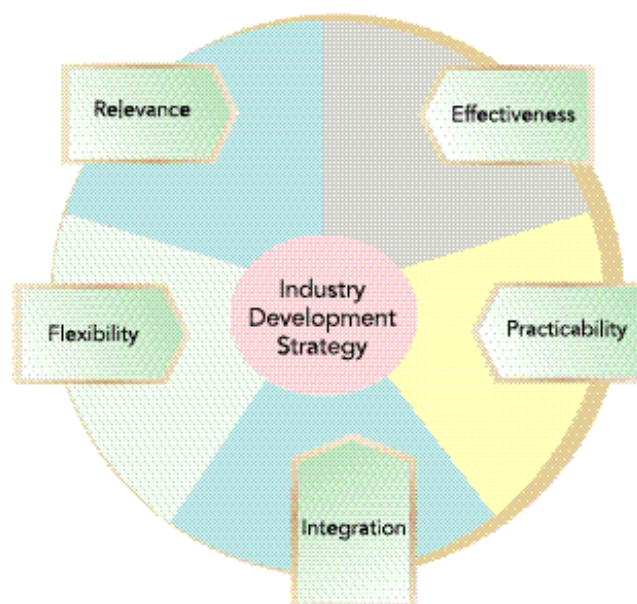
As the industry has matured and as markets have changed, it is evident that the old model is no longer adequate. The issues affecting the industry globally and in Ireland are not amenable to resolution by partial strategies, and especially not by the traditionally favoured method of incremental adjustments.

There is a need to move more decisively into the future, to stimulate the industry to a greater awareness of the forces of change, and to enable it – and its stakeholders – to make the changes necessary for success. Finally, in moving to a new model for the industry, it is also important that we do not throw the baby out with the bathwater, but that we ensure that the key strengths of the industry are retained.

4.2 CRITERIA FOR A COHERENT DEVELOPMENT STRATEGY

The criteria used to guide the drafting of the development strategy for the hotel and guesthouse industry are identified in Figure 15. They comprise: relevance, effectiveness, practicability, integration and flexibility.

Figure 15: Criteria for a Coherent Development Strategy for the Hotel & Guesthouse Industry



4.2.1 Relevance

A primary consideration determining the effectiveness of any strategy is whether it is relevant to the objectives and requirements of the parties whom it is supposed to serve. The following principles may be used as measures of relevance in the case of a strategy for the hotel and guesthouse industry:

- **Appropriate:** the strategy must take into account the essential characteristics of the Irish hotel and guesthouse industry, as outlined in Section 2.3, and map out a development path that is appropriate to this industry as it is today.
- **Industry-wide Applicability:** the strategy should be applicable to all parts of the industry as it stands at present, from small, independent 1-star guesthouses through to 5-star chain hotels.
- **Participative:** the strategy should ensure that the key stakeholders who are actively involved in the industry have the opportunity to participate in the implementation and future evolution of the strategy.
- **Long-term:** the strategy should be designed to accommodate change as needs and priorities evolve over time – it should incorporate a process to enable updating and revision.

- **Clarity:** the strategy and the measures proposed to enable its implementation should be clearly focused; moreover, administrative and other procedures required for implementation should be kept simple and transparent in the interests of efficiency and confidence-building.
- **Communication:** the strategy and the associated enabling measures must be communicated accurately to all stakeholders, and steps should be taken to ensure that this is a two-way process of communication so that feedback and input can be gathered by those engaged in implementing the strategy at industry level.

4.2.2 Effectiveness

The success of the development strategy will depend fundamentally on its ability to provide for effective development of the industry. To achieve this, the strategy must address the issues that are affecting, or will affect, the performance of hotels and guesthouses on an industry-wide basis. The strategy should draw on and augment the existing strengths of the industry and enable it to accommodate change, to take advantage of opportunity and to withstand adversity.

4.2.3 Practicability

There is little point in devising a strategy that cannot be implemented. It is necessary to take into account the realities of existing structures, policies and attitudes that prevail in the hotel and guesthouse industry in Ireland. Movement from an existing position, no matter how unsatisfactory that position, inevitably involves a certain amount of give and take, but the process of change should be undertaken as far as possible with a view to cooperation and accommodation rather than confrontation.

Practicability also refers to resources. The necessary resources of finance, personnel, knowledge, technology etc. should be available or be capable of being made available within a realistic timetable. Constraints in these areas must be taken into account.

4.2.4 Flexibility

It is impossible to look into the future and forecast what will happen with absolute certainty. The further into the future one attempts to look, the greater the degree of uncertainty. Therefore, while the strategy set out in this document has a long-term perspective, it must be adaptable as circumstances change over time. It is important that it does not propose a model for the industry which eventually becomes a straitjacket and disables rather than empowers the industry to develop successfully.

4.2.5 Integration

The hotel and guesthouse industry is large and contains many diverse elements. Moreover, the issues that must be addressed by the development strategy are themselves diverse and range across the entire breadth of industry structure and operations. The strategy must therefore have the capacity to encompass and integrate a diverse range of responses to the various issues in a coherent structure.

4.3 VISION FOR THE INDUSTRY

The proposed strategy should map out a clear development path for the Irish hotel and guesthouse industry. The destination of this development path is represented by the following vision:

The vision for the future of the Irish hotel and guesthouse industry is that of a profitable, internationally competitive industry delivering an excellent product and outstanding service.

The core strategic objective is to provide a platform upon which this vision can be realised. This will involve the identification and implementation of measures that need to be taken with respect to the key factors governing industry performance.

The vision itself may be broken into its components, each of which can be considered a strategic objective in its own right. These are described in the panel in Figure 16.

Figure 16: The Components of the Strategic Vision



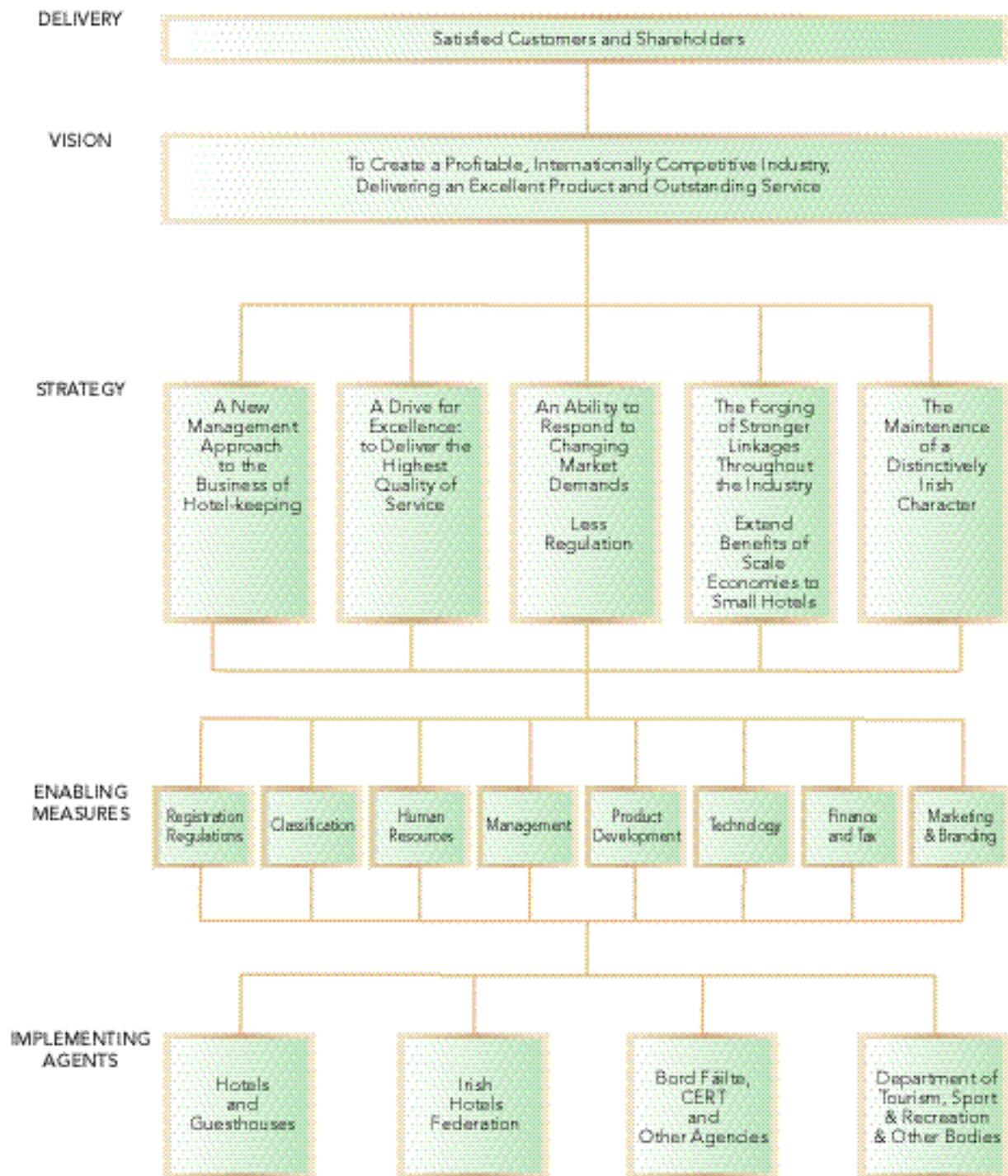
4.4 STRATEGIC FRAMEWORK

The defining concepts of the proposed development strategy are set out in this section. The specific measures required to give effect to the strategic vision are detailed in Chapter 5.

The strategic framework for the hotel industry is depicted in Figure 17. It comprises four main components:

- Vision
- Strategy
- Enabling measures
- Implementing agents of change.

Figure 17: Strategic Framework for the Hotel and Guesthouse Industry



The strategy for creating a new model for the Irish hotel and guesthouse industry comprises five pillars which are described above.

4.4.1 A New Management Approach: the Hotel as a Business Enterprise

We have noted earlier the shift in management culture in the international hotel industry. Rather than focusing purely on internal operations, the emphasis now is on asset productivity based on maximising the value-adding capability of the property. This change in emphasis does not mean that hotels should be unresponsive to the demands of their customers – quite the opposite: satisfying the customer through delivery of

superior service will be of even greater importance. In a dynamic market where customers are increasingly better informed and more demanding, hotels will need to seek out competitive advantage through the scope and quality of the services that they deliver.

The difference between the new model and the old model lies in the strategies employed by management to achieve competitive advantage while ensuring that they generate a good return. For example, in the traditional model, great emphasis was placed on maintaining a formal restaurant and constantly seeking to improve its standard with less attention paid to its contribution to profit. Under the new model, the potential of a restaurant to contribute a positive cash flow is evaluated carefully. If the potential level of contribution is inadequate or negative, alternative solutions are sought. These might include outsourcing, use of convenience catering products or even ceasing to operate a conventional restaurant. An example of the last-named is the Cliveden Town House in London which is a 5-star hotel but which does not have a restaurant and offers food by room service only.

This shift in management approach is simply bringing hotels into line with most other businesses. The most immediate implication is the need to reconsider how hotel managers are trained. As stated in a recent IH&RA report⁷, *“Hospitality education will move from a heavily skills-based focus with strong operational content towards a general management emphasis with value-adding at the central core”*.

The change in the hotel industry model does not mean that there will be no place for independent, family-run hotels. Indeed, it can be anticipated that such properties will continue to play a major part in the industry in Ireland. However, family-run hotels will come under pressure to become increasingly professional in their management and to focus on the issues of creating competitive advantage and adding value in the same way as any other hotel.

4.4.2 The Drive for Excellence: an Overriding Emphasis on Quality

Quality is at the heart of successful enterprises in the 21st century. Most industries in the manufacturing and service sectors have prioritised quality as a critical success factor, and this is reflected in initiatives such as Total Quality Management, World Class Manufacturing and ISO 9000 Certification.

The hotel industry in Ireland must also prioritise this issue. Achieving quality in the physical aspects of an hotel generally is a question of materials, design and craftsmanship, all of which can be readily purchased or copied. Competitive advantage in quality terms relates more to service, and hotels will distinguish themselves less by their physical attributes than by the attention to detail in service quality. One commentator⁸ has stated that *“service, service, service”* is replacing *“location, location, location”* as the maxim for hotels.

⁷ IH&RA *“Leading Hospitality into the Age of Excellence”*, an IH&RA White Paper, Paris 2000

⁸ Dr. Marvin Ceeron, president of Forecasting International, writing in Jonathan Hart *“Global Hotel Strategies”* Financial Times Business Ltd., 1999

In the publication, “*Global Hotel Strategies*”, Jonathan Hart notes that “*well-trained people make successful hotels, regardless of market segment*”. Every time that guests come into contact with hotel staff, their experience of the hotel is up for evaluation. A good experience therefore depends on the effectiveness of the training of all staff, and their knowledge of their responsibilities and of the hotel. Service standards must be meticulously defined and their implementation led by management, with a policy of continuous improvement.

Training by itself is also not enough. It must form part of an overall human resources policy, encompassing recruitment, training, motivating and retaining staff. This aspect of operations and management has become one of the most difficult challenges for hotels. In the future, the industry will have to pay far greater attention to career development, competitive salaries and more attractive conditions of work to ensure that it attracts and retains talented people.

4.4.3 Responsiveness to Changing Market Demands: less Regulation

Like any other business seeking to create competitive advantage, hotels need to identify their target markets and to develop their products and services to satisfy the needs of those markets. This demands that management continuously monitors the market environment and assesses, or even anticipates, changes that offer opportunities to hotels. However, the ability of management to respond to a dynamic marketplace and, for example, to exploit opportunities in niche markets, requires greater flexibility in the regulatory regime than exists at present.

The regulations governing the registration of hotels were introduced in 1944 at a time when the modern Irish hotel industry was at an early stage of development. Their purpose was to stipulate a set of minimum standards for hotels and thereby provide a guarantee to customers. This was an important measure for a nascent tourism industry.

Now, almost sixty years later, the circumstances have changed. The industry has matured and has become more professional and market driven. Secondly, the market itself has changed significantly, and will continue to change. Thirdly, a substantial body of legislation covering consumer protection, food hygiene, fire safety, planning and building etc. has developed and hotels are governed by this. In fact, a book on legislation for the Irish hotel and catering industry⁹ lists no less than 75 statutes, statutory instruments and orders that apply to hotels.

In the light of these changing circumstances, there is an opportunity to lighten the content of the hotel and guesthouse registration regulations. The objective would be to enable the industry to be more responsive to the changing demands of the market and to allow for the development of alternative types of hotel product. Many of the requirements now contained in the regulations could be transferred to the classification system, again to enable greater flexibility in hotel operations and market positioning.

⁹ Francis J. Dempsey: “A Handbook of Essential Law for the Irish Hotel and Catering Industry” 3rd edition, CERT, 1998

4.4.4 Forging Linkages: Extending the Benefits of Scale Economies

The primary concern in this component of the strategy is with intra-industry linkages. At present, the larger chains are realising the benefits to be gained from scale in terms of marketing and distribution, procurement, administration, technology applications and human resource recruitment and development. Independent hotels and guesthouses in general are excluded from these benefits. Although a significant number of hotels (244 in 2000) are members of various marketing affiliations, the scope of activity of these affiliations tends to be limited to trade marketing.

There is considerable scope within the industry to build linkages which embrace a wider range of activities and which will extend the benefits of scale economies to independent small and medium sized hotels. In turn, this will help to improve competitiveness and drive growth. The basic building blocks are already there in the form of the IHF and the marketing affiliations. The areas of opportunity include:

- **consumer marketing / branding:** a number of the marketing affiliations are already making progress in this area.
- **outsourcing:** the buying-in of services including food services, maintenance, marketing, accounting, cleaning, housekeeping etc. can be accomplished more effectively on a group basis.
- **procurement:** although independent hotels have tended to shy away from joint purchasing activities because of the need to support local suppliers who are also their customers, there are areas of joint procurement which would be non-contentious because of the dominant position held by national suppliers. Examples include information and communications technology, catering and bar equipment, alcoholic and soft drinks, bathroom supplies, crockery and cutlery.
- **Human resources:** one of the major difficulties experienced by independent hotels is retention of staff. The problem can be particularly acute for seasonal hotels. By linking together, hotels can form networks which offer greater scope for career path development, the potential to retain staff for seasonal properties, and the possibility to transfer or place staff for training purposes. Moreover, training programmes can also be developed and tailored more cost-effectively for a group of hotels than for an individual hotel.
- **Property management:** the separation of the functions of property ownership and operational management is likely to increase as the industry looks to new sources of capital and will lead to the development of new ownership and management groups; this will also create opportunities for younger managers who do not have the capital to acquire their own hotels.

The development of linkages will depend on the willingness of hotels to form networks, and to contribute adequate resources.

4.4.5 Maintaining a Distinctive Irish Character

The fifth pillar of the strategy stresses the importance of maintaining a distinctive Irish identity in the hotel industry. Research among visitors to Ireland has repeatedly demonstrated that the core values of Irish tourism are the friendly, hospitable people and the unspoiled, natural environment. As the economy has boomed and the towns, cities and many parts of the country have visibly changed, these values have been threatened. In response, the Irish Tourist Industry Confederation has been organising the People & Place Programme, an initiative that is fully supported by the IHF.

It is not enough, however, for the hotel and guesthouse industry to rely on this programme. The industry needs its own programme to ensure that hotels and guesthouses place increasing emphasis on environmentally-friendly operational practices, and that this is communicated to guests.

It is equally, if not more, important that the natural qualities of traditional Irish hospitality are maintained throughout the hotel and guesthouse industry. While it is possible to create a distinctive ambience by virtue of exterior and interior design, the most important element in providing a uniquely Irish experience lies in the character of the service delivered to guests. The challenge for owners and management is to maintain this character when employing a multi-national staff. As with so much else in a service industry, the solution lies in effective training.

The potential to develop distinctively Irish brands is also to be explored. This extends beyond the Irish-owned chains, who already draw on their Irish character and the Irish reputation for warm hospitality in their international operations. Areas of opportunity lie in the creation of brands built around product type (e.g. spa hotels) or activities (e.g. golf) or regional themes.

5. ENABLING MEASURES

The strategy set out in Chapter 4 offers a vision for the future of the Irish hotel and guesthouse industry, and proposes a platform on which this vision can be realised. There is a range of measures that must be implemented in key areas in order to give effect to this strategy.

We have identified eight key areas or factors that have a fundamental influence on the performance of the industry. These are:

- Registration Regulations
- Classification
- Human Resources
- Management
- Product Development
- Information Technology
- Finance / Tax
- Marketing / Branding

In the following sections, we recommend a series of strategic measures that should be taken with respect to each of the key factors. All of the actions have a direct relationship with one or more of the five pillars of the overall strategy. It is important to note that the various measures do not comprise a set of stand-alone projects but should be implemented in an integrated manner in order to realise the full benefits of the strategy.

5.1 REGISTRATION REGULATIONS

5.1.1 Background

The regulations governing the registration of hotels and guesthouses are drawn up and implemented by Bord Fáilte in exercise of the powers conferred on it by the Tourist Traffic Acts 1939-1995. The regulations are detailed and have been infrequently updated. The current hotel regulations came into force in 1988 while those for guesthouses were introduced in 1986. Updates of both the hotel and the guesthouse regulations were drafted by Bord Fáilte in 2000, but have not been finalised.

The registration regulations cover virtually all aspects of the physical structure, technical plant and furnishings of hotels and guesthouses. Certain elements of operations are also covered, most notably the scope and content of food service. The regulations originated in a commendable desire to establish minimum standards of accommodation and service, and thereby provide a form of guarantee to customers. Although a classification system was subsequently introduced which covered the same territory, and added further requirements in accordance with the respective grades, the regulations continued to specify minimum standards in considerable detail. The draft updates of June 2000 are, if anything, even more detailed and extensive in scope.

A second piece of legislation central to the registration of hotels is the Hotel Proprietors Act, 1963. This Act sets out the legal definition of an hotel and specifies certain duties, liabilities and rights of hotel proprietors. Under the Act, an hotel is “*an establishment which provides or holds itself out as providing sleeping accommodation, food and drink for reward for all comers without special contract and includes every establishment registered in the register of hotels kept under Part III of the Tourist Traffic Act, 1939*”.

The combination of the Hotel Proprietors Act and the registration regulations has laid down an inflexible model for all hotels. The introduction of new hotel types, such as all-suite hotels and budget hotels, has been impeded by regulations that, inter alia, require that all hotels shall serve food and drink and operate a restaurant. Effectively, the regulatory regime obstructs hoteliers in their attempts to respond effectively to changing market conditions and demands. It also interferes with the efficient management of properties, at times obliging hoteliers to maintain loss-making services. It constitutes, in effect, an implicit tax on room sales.

5.1.2 A New Taxonomy for the Hotel Industry

In the interests of market-led development and profitable operations, as well as to provide customers with more accurate information, we recommend that a new taxonomy of hotels be introduced. This involves the abolition of the guesthouse category and the recategorisation of hotels and guesthouses into four categories of hotel, as described below.

It is emphasised that the names used for the four categories are working titles only. The titles that are ultimately used should be determined during the consultative process described in Section 5.1.5 below.

(i) Full Service Hotels: Full-service properties, offering sleeping accommodation, food and beverages to all-comers, as is the case with the existing category of hotels. The type of food service and dining facilities offered would be at the hotelier’s discretion, within parameters set by the classification system (see Sections 5.1.3 and 5.2).

(ii) (Town and Country) House Hotels: This category will largely replace the current guesthouse category. Properties should offer a high standard of sleeping accommodation and breakfast with other food and beverage service being at the discretion of the hotelier. In general, these would be smaller, family-run properties offering a distinctive, personal style of hospitality.

(iii) Budget Hotels: This category would encompass hotels offering limited or largely automated service with the provision of sleeping accommodation of a specified minimum standard being the principal requirement. Breakfast service would also be a requirement but other food and beverage services would be at the discretion of the hotelier.

(iv) Aparthotels: This category would include aparthotels and all-suite hotels. Sleeping accommodation would be provided in studios, suites or apartments. No other services would be specified.

The increase in the number of categories is intended both to facilitate the development of hotels to meet the demands of different market segments and to enable hoteliers to run their businesses profitably. Certain other countries have established larger numbers of categories – Portugal, for example, has seven different categories of hotel, with six of these being classified separately. However, our view is that the four categories above, augmented by classification within each category and by branding initiatives, will offer sufficient guiding information to the market and flexibility to the industry.

We anticipate that the majority of properties currently registered as hotels will remain in the Full-Service Hotel category. Some, especially those in the one and two star classes, may choose to move to the Budget Hotel category. Most guesthouses are likely to choose to be recategorised as Town House or Country House Hotels. It is anticipated that the Budget Hotel and Aparthotel categories would have much smaller number of properties than the other two categories.

5.1.3 Minimum Standards

It is recommended that the scope of the minimum standards enforced under the registration regulations would be significantly reduced. The emphasis should be on defining the basic, mandatory requirements of properties for registration. Much of the detailed specification should be transferred to the classification system. It is proposed that the common mandatory requirements for registration would cover the following:

- **Statutory Requirements:** all properties must comply with the relevant requirements of statutes relating to planning, public buildings, fire safety, food, food hygiene, water supply, sewage disposal etc. Relevant legislation includes (but is not confined to) the following:
 - Local Government (Planning and Development) Acts, 1963-1993
 - Fire Services Act, 1981, and regulations issued under this Act
 - Building Control Act, 1991
 - Food Hygiene Regulations, 1950 to 1989
 - European Communities (Hygiene of Foodstuffs) Regulations, 1998
 - European Communities (Official Control of Foodstuffs) Regulations, 1998.
- **Minimum Capacity:** the present minimum requirement for hotels is 10 bedrooms (20 in County Boroughs), while guesthouses must have 5. From the hotel industry and customer point of view, these are arbitrary figures. In fact, in the case of guesthouses, it gives rise to some confusion since approved bed & breakfast operations may have up to six bedrooms. In many countries, the minimum capacities are set at much lower levels – in Sweden, for example, a hotel must have five bedrooms, while in Scotland and Wales it must have six.

In order to avoid overlap with the bed & breakfast sector, our view is that the minimum number of bedrooms in all hotel categories should be set at seven, regardless of location. However, until liberalising changes can be made to the intoxicating liquor licensing legislation, the minimum capacities for hotels with public bars will remain at the existing levels.

- **Minimum Size of Bedrooms:** the regulations currently in force prescribe the same minimum bedroom sizes for hotels and guesthouses, without stating whether or not they are inclusive of bathrooms. If they are inclusive, these sizes have now been exceeded by the minimum requirements for Irish Homes.

It will be necessary to define new minimum bedroom sizes for each of the four categories of hotel, taking into account the particular characteristics and market focus of each category. The minimum standards should be explicit on the minimum bathroom area to be included in the overall room size.

It is strongly recommended that, in addition to minimum standards, a schedule of recommended bedroom sizes be drawn up based on international standards. This would be made available to investors, planners, architects and other interested parties as an advisory guide.

- **Public Areas:** the minimum requirements for the facilities to be provided in public areas should continue to be specified (i.e. provision of reception, cloakrooms etc.) but should be tailored to the specific product concept of each of the four categories. The specification of minimum sizes for public lounge areas should be retained at existing levels and adjusted to suit the category of hotel – e.g. Aparthotels do not need to have public lounge areas.
- **Food Service:** the minimum standards for registration should cover only the minimum scope of food service required in each category of hotel. The detailed requirements should be addressed in the classification system. Within each category, the scope of mandatory food service should be as follows:
 - **Full-Service Hotels:** Breakfast and evening meal service required, with format and content of service not specified.
 - **Town / Country House Hotels:** only breakfast required, again with format and content of service left to hotels' discretion.
 - **Budget Hotels:** as for Town / Country House Hotels.
 - **Aparthotels:** no food service required.

5.1.4 Licensing

The legislation governing the licensing of premises to sell alcoholic beverages is convoluted. It comprises a long series of statutes enacted between 1833 and 2000 which, inter alia, place considerable restrictions on the right of hotels and guesthouses premises to serve alcohol to their customers. In brief, hotels must have at least ten guest bedrooms (twenty in a County Borough) to be licensed to serve alcohol. They may obtain a full spirit retailer's on-licence (i.e. a publican's licence) entitling them to operate a public bar provided that they extinguish an already existing seven-day publican's licence

and comply with various other terms and conditions. Alternatively, they may obtain a hotel licence (the so-called “hatch licence”) which permits them to serve drinks to customers, but not to operate a public bar.

Tourist accommodation premises that are not registered as hotels with the specified minimum number of bedrooms are usually not entitled to be licensed to sell alcoholic drinks to guests. This restriction affects guesthouses in particular. However, there are exceptions to this position. These are where the premises form part of a licensed public bar, or where premises contain a restaurant with a special restaurant licence. A further limited exception is where a premises has a wine retailer’s on-licence, but this limits the range of drinks that may be sold to wine and the service of beer with meals.

There is a need to simplify and liberalise the licensing legislation. The matter is currently being reviewed by a specially-formed commission, and it is anticipated that significant changes will be recommended by this commission. Until this happens, we propose the following as an interim measure:

- all hotels in all four categories should be entitled to sell alcoholic beverages to their resident guests;
- all hotels (excluding Aparthotels) should be entitled to operate a public bar in accordance with existing legislation, but the requirements to extinguish an existing licence should be dropped;
- special restaurant licences should be available to all hotels operating restaurants, regardless of category, but the initial licence fee should be reduced to that of a wine retailer’s on-licence.

5.1.5 Implementation and Outcome Expected

The implementation of the recommendations on registration regulations primarily involves the amendment of certain statutes and the registration regulations themselves. The key pieces of legislation to be amended are:

- the Hotel Proprietor’s Act, 1963
- the Registration Regulations for Hotels, 1988
- the Registration Regulations for Guesthouses, 1986
- the Tourist Traffic Acts 1939-1995 (with regard to the registration of bed and breakfast premises)
- the Intoxicating Liquor Acts, 1833-1995 (with reference to residents, and with respect to the special restaurant licence).

The implementing agents are the Department of Tourism, Sport & Recreation, the Department of Justice and Bord Fáilte. The drafting of amendments to the legislation and regulations should incorporate a consultative process involving all key stakeholders. Given the scale of change proposed, it is likely that the period of transition from the present system to the new will take two to three years.

The proposed measures would bring about significant change to the structure of the hotel and guesthouse industry. They would:

- in conjunction with the classification system, enable consumers to identify more easily the properties that meet their specific needs.
- lay the basis for the delivery of better-quality product and service to consumers.
- promote more efficient and profitable management of hotels.
- enable the development of new types of hotels to meet the demands of different niche markets.
- provide for more open but also more balanced competition in the hospitality industry.

SUMMARY OF KEY MEASURES

- Recategorise hotels and guesthouses into four categories of hotel, and abolish the present guesthouse title; the working titles of the four categories for the purposes of this study are: Full Service Hotels, (Town and Country) House Hotels, Budget Hotels and Aparthotels - the final titles should be determined through a consultative process.
- Reduce the scope of Registration Regulations to statutory requirements, minimum capacity, minimum size of bedrooms, public areas and minimum scope of food service; detailed specifications should be left to classification.
- The minimum number of rooms for hotels should be reduced to seven, although the provisions of current licensing legislation will require hotels with public bars to adhere to existing minimum capacities.
- Full Service Hotels will be required to provide breakfast and an evening meal; Town and Country House Hotels and Budget Hotels will be required to provide breakfast; no food services will be required of Aparthotels.
- The content and format of food service will be at the discretion of hoteliers.
- The liquor licensing legislation should be simplified and liberalised - all hotels should be entitled to sell alcoholic beverages to resident guests.
- The drafting of legislative and regulatory amendments should incorporate a consultative process involving all key stakeholders.

5.2 CLASSIFICATION

The weaknesses of the present classification system were outlined in Section 2.2.9. There is clearly a need to overhaul the system, not only to address these weaknesses, but also to accommodate the new categories of hotel recommended above.

In particular, it is essential that a revised system addresses the concerns of the many hoteliers who have opted out of the present system. To be effective and credible, the revised system must attract support from all quarters of the industry.

Although most European countries, apart from Norway, Sweden and Finland, operate a classification system, there is no international standardisation of systems. Both HOTREC and IH&RA oppose standardisation and, therefore, it is unlikely that it will occur in the foreseeable future. As a result, we cannot rely on an international system to solve the current difficulties.

The hotel industry in countries where there is no classification system tends to be characterised by a much more extensive incidence of branding. This effectively operates as a substitute for classification. However, it is difficult to envisage conventional hotel brand development becoming a dominant feature of the Irish hotel industry for so long as a high proportion of properties continue to be independent, family-owned operations. Moreover, the small physical size of the country means that the travel patterns of foreign and domestic tourists are less conducive to chain brand development.

The classification systems operated in the majority of European countries are applied on a compulsory basis. Even in countries where participation is voluntary, such as Britain and Denmark, there is almost universal participation by the industry. A further interesting point about Britain is that the official Tourist Board system has been merged with those of the motoring organisations [AA and RAC] to produce a single unified system.

Taking the various points into account, we consider that the implementation of an effective classification system is an important mechanism to ensure the delivery of a quality hotel product to consumers. Our recommendations are as follows:

- The classification system for Full Service Hotels needs to be comprehensively revised. The principal requirements are:
 - to upgrade the 5-star category so that it is more consistent with 5-star standards in other, leading destinations
 - to sub-divide the 3-star category into 3-star and 3-star deluxe, with the latter being an intermediate position between the current 3-star and 4-star grades; the 3-star deluxe category would be characterised by such attributes as finer dining and wines, bedroom equipment, front desk services etc.
 - to consider dropping the 1-star category, which is seen as a negative classification in marketing terms and which is shrinking rapidly in any event – current 1-star properties should upgrade to 2-star level or, perhaps, shift to the Budget Hotels category. Some 2-star properties might also shift to this category.
- Food service in Full Service Hotels should extend to breakfast and evening meal in all categories. The type of service and dining facilities would be at the discretion of the hotels, but this would be addressed in the classification rules for different grades.
- Appropriately tailored classification systems need to be introduced for the other three categories of hotel. It would not be necessary to have a full 1 to 5 star range in each category – three classes might be adequate for Budget Hotels and Aparthotels while Town and Country House Hotels might continue the guesthouse formula of four classes (but revised to range from 2-star to 5-star).
- The presentation of classification systems in various guides should be revised – instead of starting at 5-star and working down, which tends to emphasise the negative, it should start at the bottom and work up thereby emphasising the benefits, which increase as one moves up the scale.

- Finally, once the classification system has been fully revised, participation should be mandatory for all hotels. The current situation, whereby an increasing number of hotels are opting out of classification, undermines the entire system. If the system is to be effective as a national guide to quality standards for hotel customers, then it should be adequately resourced and should cover all properties. Features of an improved system would include an enhanced advisory service for hotels.

The changes to the regulatory regime and the industry structure should facilitate the participation of properties in the revised classification system. It would also make sense to establish the reasons for non-participation in the current system and to address these in the course of revising it.

A working group comprising Bord Fáilte, IHF, the Bord Fáilte appointed inspection contractor and other relevant parties should be established to review and revise the system in the context of the changes to the regulations.

SUMMARY OF KEY MEASURES

- Research the reasons for non-participation in present classification system
- Overhaul the current classification system for Full Service Hotels to address weaknesses
 - Bring 5* category more in line with international standards
 - Sub-divide 3* category into 3* and 3* deluxe
- Introduce an appropriately tailored star classification system for the new categories of Town and Country House Hotels, Budget Hotels and Aparthotels
- Presentation of classification system in various guides to be revised to elaborate from lower to higher grades to emphasise positive benefits of each grade
- Following the comprehensive revision of the classification system, participation should be mandatory for all hotels

5.3 HUMAN RESOURCES

In Section 2.2.5 we highlighted the human resource problems currently being experienced by the Irish hotel and guesthouse sector. These include: a shortfall in the supply of available labour, high staff turnover, recruitment and retention difficulties, skills shortages and an insufficient emphasis on modern Human Resource Management practices. Many of these problems are also affecting the industry internationally, as described in Chapter 3.

A number of measures have already been introduced in Ireland to tackle these issues. The following are recommended additional measures that could be taken:

- **Continue to Increase the Pool of Available Labour:** every effort should be made to encourage Irish workers to return home, and non-Irish workers to relocate to Ireland. We commend the efforts being made by the Department of Enterprise and Employment, the Department of Foreign Affairs, CERT, the IHF and a number of private agencies in this regard and recommend that the recruitment drive in Ireland and overseas be sustained. The hotel and guesthouse industry should also seek to

enhance the image of the industry as a career option and to attract workers from other sectors by improving employment terms and conditions in the industry. Improved working conditions and benefit packages might also tempt people who are not currently working to take up employment in the industry.

- **Improve the Skill Base of the Existing Personnel in the Sector:** research has found that staff training results in higher staff productivity, higher guest satisfaction, higher staff retention and improved profitability. On-going investment in improving the skill base of employees is a must for hoteliers. A separate budget heading for training should be created in all hotel and guesthouse accounts and a budget of 2-4% of turnover should be invested in training on an on-going basis.
- **Develop a Multi-Skilled Workforce:** an increasing number of hoteliers are training their staff to build their skills across a number of areas. This is a logical step which increases productivity since
 - staff can more easily cover for absences
 - rostering is simplified
 - split-shifts can be minimised or avoided
 - overall staff numbers can be reduced
 - staff gain greater job satisfaction.In-house and external training programmes at craft level should have increasing emphasis on multi-skilling.
- **Improve Staff Retention and Reduce Staff Turnover:** more than ever before, the hospitality industry must compete with other sectors for a shrinking pool of available labour. Within this environment it must make itself an attractive place to work, otherwise staff will migrate towards other sectors. Pay is a significant issue in this regard but it is not the only solution. The development of creative non-cash benefit packages can have a significant impact on reducing staff turnover and improving staff retention. The availability of employee training, employee tailored working hours, employee empowerment, non-pay benefits and recognition for length of service can help promote staff retention. These types of benefits need not be expensive, and greatly increase the attractiveness of working in the sector.
- **Implement Modern Human Resource Management (HRM) Practices Throughout the Sector:** the Quality Employer Programme (QEP) introduced by the IHF a number of years ago has been very successful in encouraging hoteliers to improve their HRM practices. When it was first introduced, the QEP was a high standard for hoteliers to aim at, but it has since become the norm that should be expected from the industry. During our research a number of hoteliers suggested that attaining and maintaining the QEP standard should become a criterion for membership of the IHF. We endorse this view and recommend the on-going development of the QEP as a vehicle to improve Human Resource Management practices throughout the industry.
- **Develop Networks to Support Human Resource Development:** to date, networking among independent hotels has focused almost exclusively on trade marketing. Much greater value can be gained from networks through the application of innovative

strategies in a number of other areas. The ability of small independent hotels to recruit, manage and retain personnel at all levels would be greatly enhanced if they exploited the potential of networking for human resource development. This would enable member hotels to:

- share costs in recruitment and training
- develop career paths for staff
- deal more effectively with peaks and troughs in labour demand through staff swaps/rostering between properties
- gain training advantages through placements
- retain key staff if they close during the off-season by placing them with other hotels.

The development of these HRD networks will require that participating hotels agree common standards with regard to personnel management, staff codes etc. Existing marketing affiliations could expand the scope of their activities into HRD. The IHF and CERT at regional level could also facilitate the development of HRD networking among its members.

- **Expand the Range of Training Methods and Subjects:** the rapid changes occurring in the industry globally and in Ireland will require that greater attention be given to both the format and the content of staff training. Among the areas for consideration are:
 - training in information and communications technology, covering the latest developments in hotel information systems
 - training in customer relations and interpersonal skills for all staff, not just the apparent front-line staff in reception
 - use of wordless video-based training for multi-racial staff
 - development of “Irish hospitality” training programmes for foreign workers.
 CERT, IHF, private sector training providers and hoteliers themselves all have roles to play in this area.

SUMMARY OF KEY MEASURES

- Continue to increase the pool of labour by enhancing the image of the industry, improving employment terms and conditions, and conducting recruitment drives in Ireland and overseas
- invest in training - all operators to allocate 2%-4% of turnover to training
- Develop multi skilled staff through training
- Develop creative non-cash employee benefit packages to improve staff retention
- Introduce better HRM practices through QEP and make the QEP mandatory for IHF membership
- Develop networks of independent hotels to support staff training, staff retention and career path development
- Expand range of training methods and subjects, especially in fields of hotel information systems, customer relations for all staff, video-based training for multi-racial staff, and ‘Irish Hospitality’ programmes for foreign staff

5.4 MANAGEMENT

The shift from a craft skills based, operational focus in hotel management towards general management with emphasis on value-added will require significant investment in training for existing managers and for new trainees. Key measures are as follows:

- **Update the education curricula of hotel management colleges to reflect the new shift in focus:** many hoteliers in Ireland have received no formal training, but in recent years the numbers of college-trained managers has increased considerably. In light of the shift in emphasis from operations to adding value, there is a need to revise the curricula at Irish hotel management colleges accordingly. Key subjects for inclusion in future management training are:
 - pricing, yield management and per customer revenue maximisation
 - understanding investor / shareholder expectations
 - hotel information technology
 - new age sales and distribution channels
 - communication skills.
- **Encourage continuous professional development of existing managers including senior management:** as the business and regulatory environment is constantly changing, managers must continuously update their skills. There is a need to introduce a programme of continuous professional development for existing managers to ensure their knowledge and skills are kept up to date. Some of the larger hotel groups already organise training programmes for their managers but on-going management training is not as evident amongst independent hotels. Indeed, senior management have traditionally shied away from structured training, believing it to be more for their junior colleagues, or believing they would appear lacking in some way if they “needed” training.

Irish and international experience in many sectors shows that continuous professional development (CPD) is increasingly important for management personnel. The IHF, in conjunction with CERT, should examine how best to meet this need in the hotel and guesthouse industry with a view to designing and introducing a structured CPD programme.

- **Introduce a Structured Approach to Developing Young Managers:** a high proportion of hotel management graduates leave the industry after a few short years of post graduation experience, and the industry fails to benefit from their energy and talent. This is a major cause of concern for the hotel colleges. Some of the reasons highlighted for leaving the sector were: being ‘thrown in at the deep end’ without adequate senior management support, being excluded from contributing to the overall management of the hotel in any meaningful way, being used on a permanent basis as replacements for staff members, and because there is better pay and conditions available in other industries. Many senior hotel managers have also highlighted this issue and point out that young managers need to be guided and nurtured through their early years in the industry.

The IHF, with technical support from CERT should introduce a structured mentoring programme for hotel management graduates for the first few years of their industry careers, whereby an experienced manager acts as a mentor to a younger manager starting out. There are many industry leaders who already take-on this type of mentoring role with young managers on an ad-hoc basis. If this service was more widely available it would greatly help young managers to grow and develop and improve management retention within the sector.

- **The Benchmarking of Best Practice Initiative should be Developed as a Management Tool for the Industry:** CERT has already outlined the key steps that it intends to take in rolling out this initiative, encompassing:
 - communication of the benefits of best practice (already initiated by the conference held in November 2000)
 - provision of a practical benchmarking tool
 - providing management development support
 - developing a business excellence recognition scheme.

We endorse this approach and further suggest that it should form a central theme of a comprehensive in-service training strategy for the hotel and guesthouse industry.

SUMMARY OF KEY MEASURES

- Update the education curricula of hotel management colleges to give greater emphasis to general business management knowledge and skills
- Introduce a structured continuous professional development programme for existing managers at all levels
- Introduce a structured approach to developing young managers through a mentoring programme
- The benchmarking of best practice should be developed as a management tool for the industry, and used as the basis for an in-service training strategy for the industry

5.5 PRODUCT DEVELOPMENT

With the regulatory changes proposed in this document, hotels in the future will have much greater liberty to design their product offering to meet the specific requirements of their target markets. It would be inappropriate to specify exactly what direction product development should take, since this is a matter for the market and individual operators to determine. Key areas are likely to include:

- the development of different types of hotel, including aparthotels, true budget hotels (with high automation levels), budget convention hotels, boutique hotels, eco-resorts etc.
- in-room developments in the areas of technology, business services, entertainment, health and fitness, gender orientation, age orientation, bathroom/bedroom configuration etc.
- safety, security and health related developments

-
- application of technology to product and service delivery throughout the hotel
 - alternative food and beverage options.

The responsibility for product development lies with the industry itself and specifically with investors, owners and managers. They can be supported and stimulated in this area by a number of focused measures, notably:

- Research into product development internationally
- Collection and dissemination of information on new products, using publications, the Internet and seminars
- Promotion of good exterior and interior design
- Training in the development of enhanced new services, and in new product management techniques
- Continuous quality improvement processes and monitoring.
- On-going research into the culinary arts by CERT, in association with the colleges.

The facilitating agents for these measures include the IHF, CERT, Bord Fáilte, the hotel and tourism colleges and the Bord Fáilte appointed inspection contractor. The mechanisms to be employed include:

- provision of information and advisory services
 - commissioning and conduct of research, and dissemination of information
 - the introduction of industry product and service quality schemes.
- **Outsourcing and Procurement Networking:** a growing field of interest in the hotel industry, which straddles product development and management, is that of outsourcing. This is a growth area internationally with hotels seeking to enhance product quality, gain efficiencies and improve returns by sourcing a range of services from specialist providers. The scope of outsourcing includes:
 - catering services
 - use of convenience catering products
 - cleaning and housekeeping
 - maintenance / facility management
 - accounting services
 - marketing

The development of a service supply industry to meet outsourcing needs will depend on demand. Given the regional spread of hotels and guesthouses, an effective approach to stimulating the supply side would be to form purchasing networks at regional level. This could be facilitated by the IHF for members interested in exploring this area.

Outsourcing by networks could be extended to procurement in general in order to enable small independent hotels to realise economies of scale. While recognising the barriers to joint procurement arising from hoteliers' commitment to local suppliers, it would be possible to take advantage of its potential by focusing on product

categories which are dominated by national suppliers. Marketing affiliations, the IHF at national and regional levels, and other networks in the industry all should determine how best to exploit this opportunity.

SUMMARY OF KEY MEASURES

- Conduct research into product development internationally
- Disseminate information on new products to the industry, via the internet, publications and seminars
- On-going research by CERT to further improve culinary arts
- Promote good interior and exterior design in the industry
- Provide training in the development and delivery of new services
- Introduce industry product and service quality schemes
- Develop networks of independent hotels for outsourcing of services and joint purchasing of supplies

5.6 INFORMATION TECHNOLOGY

From an initial position of being “in denial” about technology, (as Jonathan Hart described it)¹⁰, the international hotel sector has begun to embrace the opportunities provided by advances in information technology and eCommerce. It is giving more investment priority to this area which is reshaping almost every aspect of the business from guest facilities and product development to marketing and communications, sales distribution, procurement, human resources and management systems.

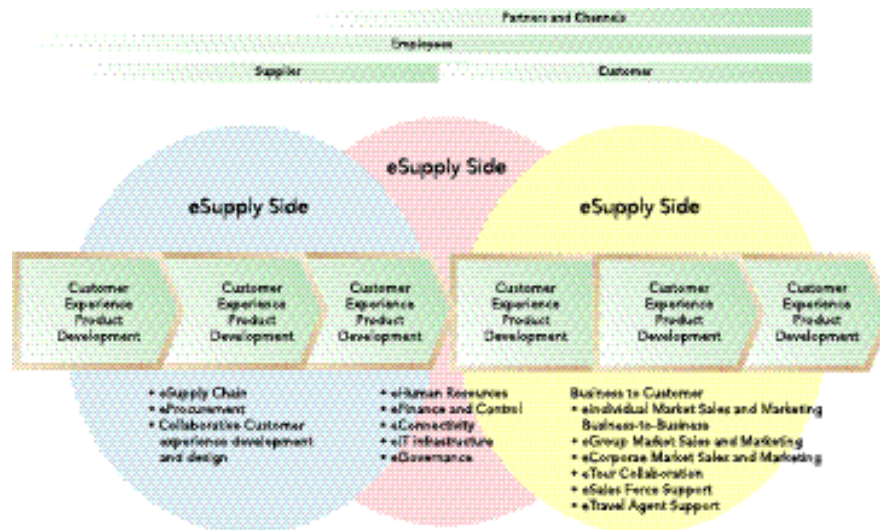
Within this context, the following measures should be taken in Ireland to ensure the sector derives the benefits available from new technology.

- **Improve Industry Knowledge of Technology:** the hospitality sector in Ireland has been slow to invest in technology by comparison to other countries. This is mainly as a result of a lack of knowledge on which to make informed decisions but also as a result of scepticism about the benefits that technology can bring. There is an urgent need to improve the general knowledge of the sector regarding technological advances and the availability of new technology products. A series of technology information events (seminars, shows etc) should be run by CERT/IHF for operators in the industry to ensure that Irish operators are knowledgeable about developments in technology and the products and services that are available.
- **Promote Knowledge and Use of eCommerce Opportunities:** to be internationally competitive, the Irish hotel industry will need to invest in the development of its eCommerce capabilities. The areas of opportunity are illustrated in Figure 18. The enabling measures include the provision of training seminars and information. We also recommend that a scheme to support investment in eCommerce capabilities on a network basis should be introduced. This would, for example, support the cost of engaging specialist eCommerce consultants to design eCommerce solutions for networks of hotels.

¹⁰ Jonathan Hart: *Global Hotel Strategies*, Informa Publishing Group, London, 1999

Figure 18: eCommerce Opportunities

eCommerce has the potential to deliver value not just in sales but across the entire Lodging Value Chain and affect the interaction with customers, suppliers, employees, partners and channels



- **Systems Development for Small Properties:** in preparing this report, we found a strong level of demand for a customised property management and accounts system for independent small and medium sized hotels. The IHF should consider carrying out a review of existing systems and seek to identify and/or customise a system tailored to the needs of the Irish sector. It could then pilot the system and, assuming it was successful, endorse it to its members and encourage them to install it.
- **Shared Use of Technology:** small independent hotels face a higher proportionate cost when investing in new technology. For many, the cost of good advice is as prohibitive as the cost of the technology itself. Again the use of networks to achieve savings is an efficient strategy. Similar measures as suggested above for eCommerce could be implemented with respect to the purchasing of expert advisory services, as well as software and hardware. It would also be possible for networks of hotels to invest in sophisticated systems run from a central server. The IHF could take on a central role in systems development and provision of technology services for shared use by members.

SUMMARY OF KEY MEASURES

- Organise technology information events (seminars, shows, etc.) for hoteliers, so that they know what is available to suit their needs
- Provide information and training seminars on eCommerce
- Introduce eCommerce consultancy scheme to enable networks of hotels to engage eCommerce specialists
- Develop a customised property management system for small and medium sized Irish hotels which could be provided by the IHF through a central server
- Promote the shared use of technology by networks of hotels

5.7 FINANCE / TAX

- **Retain & Extend Capital Allowances for Buildings used for ‘Hotel-Keeping’:** investment incentives for hotels and guesthouses in Ireland have become increasingly circumscribed over the past decade (see Section 2), but the availability of capital allowances has enabled the sector to attract significant new investment to upgrade existing facilities and develop new properties.

It is vital that the availability of capital allowances for ‘buildings used for the purpose of the trade of hotel-keeping’ provided for in section 268 (d) of the Taxes Consolidation Act, 1997, are retained. This will enable the sector to continue to attract investment capital in an increasingly competitive investment market. Of particular importance, it will ensure that the industry can provide for its ongoing renewal including new product development and continuous improvements in product quality.

Pending the proposed changes in the categorisation of hotels and guesthouses, it is further recommended that guesthouses registered under the Tourist Traffic Act 1939 be deemed to be buildings or structures in use for the purpose of the trade of hotel-keeping and thereby entitle them to capital allowances.

Furthermore, where hotels and guesthouses provide sleeping accommodation for their staff members, these buildings should be eligible for capital allowances.

- **Introduce Measures to Facilitate the Transfer of Ownership of Hotels and Guesthouses:** the future growth and development of the Irish hotel and guesthouse industry will involve changes of ownership of various kinds including: the transfer of properties within families from one generation to another, the disposal of properties for cash or in exchange for shares in other operating companies, amalgamations of groups of hotels, and leasing properties to management companies. Enabling the ease of change of ownership is good for the industry as it introduces more liquidity to hotel investment, facilitates the introduction of new capital and the introduction of new and/or younger operators. At present there are a number of financial impediments to transfers of hotel ownership causing serious problems for hoteliers who wish to retire.

In order to counter these impediments, there is a number of technical taxation measures which should be introduced. These measures are as follows:

- the claw back of Family Business Relief for Capital Acquisition Tax (relief is presently 90% of relevant value of relevant business property), should only be applicable where there has been a disposal for cash.
- the size of the Capital Gains Tax Retirement Relief threshold should bear a realistic relationship to present values of businesses and Roll Over Relief should be available when part of the proceeds are invested in a pension fund.
- relief from Stamp Duty should be available where hotel lands and buildings are transferred from an individual or individuals to a company controlled by the same parties.

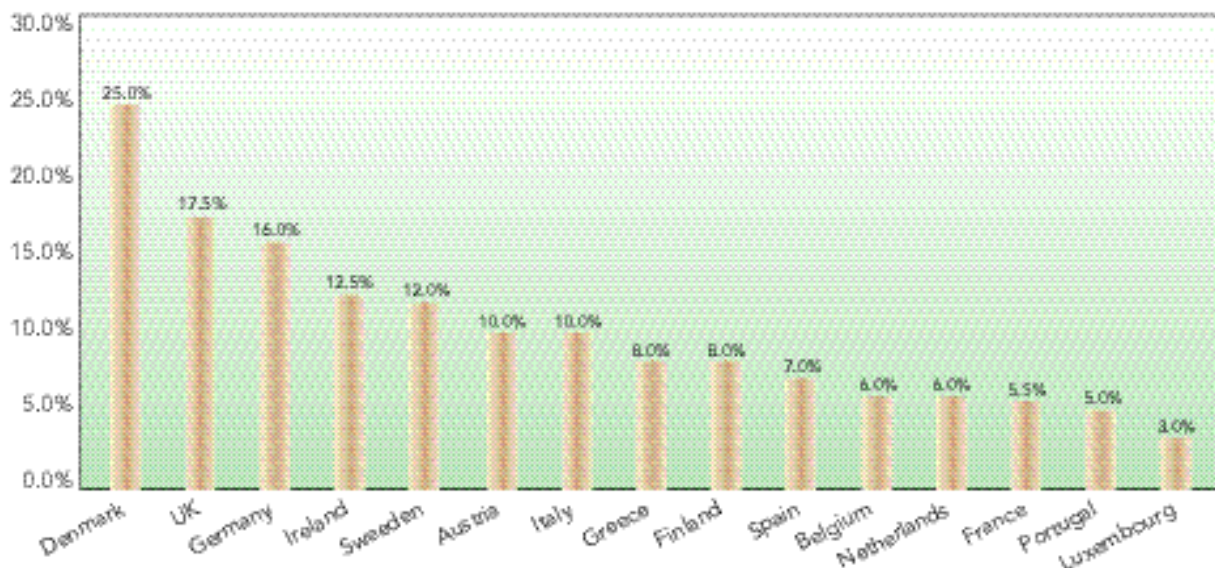
These measures are part of a separate detailed IHF submission to the Minister for Finance and we endorse them fully.

- **Communicate the Financial Performance of the Sector to Investors and Financial Institutions:** coupled with the availability of capital allowances, the sector needs to communicate its financial performance to financial institutions and investors more effectively. As pointed out in Section 2.2.6, the lack of realistic feasibility studies and independent market data on the financial performance of hotels in Ireland was cited by some banks as a major problem in evaluating loan applications for hotels.

The Horwath Bastow Charleton annual hotel review goes some way towards providing the required information but there is a requirement for more up-to-date information to be made available on a regular basis. The IHF should consider conducting a quarterly survey of key performance indicators among its members and publishing the results so that investors and financial institutions have more up-to-date information on which to base their decisions. Moreover, in conjunction with estate agents, a capital appreciation index of hotel properties should be established and published regularly.

- **Double Tax Relief for Investment in Training:** the crucial role of training in the future development of the industry has been highlighted throughout the report. Many of the recommendations involve investment in training. In order to stimulate the industry to move from its present position of under-investment in training to one where training is a priority, we recommend that double tax relief be available on expenditure on management and staff training.
- **Reduce the VAT Rate on Hotel Accommodation and Meals to 10%:** with greater international transparency in prices in Europe, courtesy of the Euro and the Internet, and in the context of higher inflation in Ireland, we recommend that the VAT rate on hotel accommodation and meals be reduced to 10%. At this level, it would be in line with the average for the 15 Member States of the EU – see Figure 19.

Figure 19: European VAT Rates on Hotel Accommodation



SUMMARY OF KEY MEASURES

- Retain capital allowances for hotel buildings
- Pending proposed changes in regulations and classification, extend the availability of hotel capital allowances to guesthouses
- Extend capital allowances to buildings used for staff accommodation
- Introduce taxation measures to facilitate the transfer of ownership of hotels and guesthouses
- Conduct and publish the results of a quarterly survey of key performance indicators in the industry
- Publish a regular capital appreciation index of hotel properties
- Allow double tax relief on investment in training
- Reduce the VAT rate on hotel accommodation and meals to the EU average of 10%

5.8 MARKETING AND BRANDING

Responsibility for marketing lies primarily with hotels and guesthouses themselves. The following are measures for implementation on industry basis:

- **Promote Cooperative Marketing Linkages among Independent Hotels:** the current extent of networking for marketing purposes is summarised in Table 5.1.

Table 5.1: Current Level of Branding, Group Ownership and Marketing Affiliations

Type	No. of Groups	No. of Properties	No. of Rooms (rounded)
Branded Hotels	23	102	10,980
Non-branded Hotels	9	55	4,690
Hotel Affiliations	11	271 (hotels) 37 (g'houses)	13,655 650
Guesthouse Affiliations	1	60	730
Total	44	428 hotels 97 guesthouses	29,325 1,380

Note: Figures include groups and affiliations of 4 or more properties.

As indicated by these figures, there are some 420 independent hotels and 392 guesthouses that are not members of groups. The advantages to be gained from networking have already been spelled out. It is recommended that the potential to develop networks among the 812 premises that are currently unaffiliated be explored with respect to marketing (as well as in the context of other networking benefits in the fields of human resources management, outsourcing and procurement, and shared use of technology).

-
- **Extend Scope of Marketing Activities of Affiliations:** to date, the emphasis of virtually all of the existing marketing affiliations has been on trade marketing. There are indications now that a number of the leading affiliations, such as CMV hotels, are moving to brand development for consumer marketing, including reservations. This is to be welcomed and encouraged.
 - **Greater Emphasis on Product Branding:** we have noted that the ownership structure of the Irish hotel and guesthouse industry and the small size of the country are not conducive to the development of conventional brands. Although it is likely that branding will become more prevalent, it is unlikely to reach the levels experienced in the USA, Britain and other, larger countries. There is, however, an opportunity to develop alternative types of brands which draw together and promote groups of independent hotels on the basis of factors such as product type, activities available or regional location. The development of such brands would be a distinct marketing asset and could be readily aligned with the product marketing initiatives being taken by Bord Fáilte.
 - **Establish Strong Links between Existing Domestic Reservation Services:** the “*irelandhotels.com*” on line reservation system is under development and due to be launched later this year. This is a positive step in the marketing of Irish hotels and guesthouses, and complements the “*Be Our Guest*” guide very well. It is essential for its success that:
 - all participating hotels and guesthouses actively work the system with regard to allocations and pricing
 - the system be effectively marketed both in Ireland and overseas
 - the system be linked wherever possible to other key Irish tourism sites
 - where appropriate, hotels and guesthouses should utilise the optional website template available on the system.
 - **Promote Better Spatial Spread and Improve Utilisation:** as indicated in Section 2.1.5, there is considerable under-utilisation of plant in particular regions and during particular months of the year. Within the wider tourism development context, emphasis must be given to improving the spatial spread of tourism demand and further extension of the season.
 - **Develop New Markets:** outside of the Dublin region the industry is highly dependent on the US and Domestic markets for holiday/leisure business. With the US holiday market vulnerable to any significant appreciation of the Euro vis-à-vis the US\$, priority must be given to the development of new markets. Within the traditional British and European markets, the focus should be on identifying and promoting to customer segments which have a greater propensity to use hotels.

SUMMARY OF KEY MEASURES

- Continuously strive to improve product and service quality
- Encourage more networking and co-operation amongst independent hotels for marketing purposes
- Extend scope of marketing activities of affiliations to consumer marketing
- Place greater emphasis on product branding based on product attributes - facilities / activities / location etc.
- Establish strong links between “irelandhotels.com” and other on-line reservation services
- Promote better spatial spread and improve utilisation
- Develop new markets

6. ACTION PLAN

6.1 TIME FRAME

The development strategy set out in Chapters Four and Five involves major change throughout the Irish Hotel and Guesthouse Industry. It will be given effect through the implementation of an extensive programme of recommended enabling measures that will affect all aspects of the industry.

The scale of change involved means that the implementation process will take time. We have already stated that the changeover from the present regulatory regime to the new one will require a transition period of up to three years. Other key recommendations, such as the development of new management training curricula, will also require a number of years to plan, devise, pilot and introduce. Overall, therefore, the time horizon for full implementation of the strategy is likely to be 2004-2005.

6.2 AGENTS OF CHANGE

The principal agents of change in the proposed strategy are:

- the IHF
- hotel and guesthouse owners and managers
- CERT
- Bord Fáilte
- Department of Tourism, Sport and Recreation.

Each of these agents will have a continuing role throughout the implementation process and will need to work in partnership with each other to achieve positive results. Specific interventions from other agents such as the Department of Justice (with respect to the licensing laws) and the Department of Finance (with respect to taxation) will also be required. In Section 6.3 we recommend the formation of a Strategy Working Group, comprising representatives of the principal agents of change, to coordinate the implementation of the strategy.

The agents of change involved in the implementation of each of the enabling measures are identified in the matrix in Table 6.1. It is evident that the greatest demands will be placed on the industry, the IHF, CERT and Bord Fáilte. The IHF, as the representative body for the industry, has a particularly important role to play. In addition to its established functions of representation, protection and promotion of its members and their interests, the IHF will need to take on a leadership role in the strategic development of the industry.

It is recognised that this may have resource implications for the Federation and it may have to seek additional funding from external sources. It is also likely that the Federation will have to recruit a suitably qualified executive to work full-time on the implementation of the strategy and related matters. It is essential that the IHF secures the resources

necessary to lead and coordinate the implementation of the strategy in the industry – if it does not take on this role, the degree of fragmentation in the industry is such that it will be impossible to implement the strategy fully and in an integrated way.

6.3 FIRST STEPS

The first steps to be taken in moving forward with this strategy are:

- Approval of the strategy by the Steering Committee;
- Initial presentation of the strategy to the Industry at the IHF Annual Conference, 2001;
- Dissemination of the strategy to the members of the industry and other stakeholders;
- Debate and adoption of the strategy by the Council of the IHF;
- Debate and adoption of the strategy by the other key agents of change – Bord Fáilte, CERT and the Department of Tourism, Sport & Recreation;
- Formation of a Strategy Working Group (SWG) comprising representatives of the key agents of change – i.e. the industry, IHF, Bord Fáilte, CERT and the Department of Tourism. The SWG will have a critical role to play: its objectives will be to set out a critical path for the implementation of the strategy, allocate responsibilities and oversee the implementation. The SWG would also make adjustments to the strategy as and if required and should conduct a detailed review of progress at the end of three years.
- Promotion of the strategy to the industry.

6.4 PRIORITIES

The strategic recommendations are wide ranging and cover all aspects of the industry. It is impractical to be prescriptive on the rank ordering of priorities at this point since progress will have to be made on many fronts simultaneously. The Strategic Working Group will have an important role to play in prioritising measures on an annual basis. As a general guide, the following broad priorities are suggested:

- In the short term (next twelve to fifteen months) the key priorities should be the recommendations on registration, classification, finance and tax, human resources and marketing.
- The medium term priorities (next two to four years) are the recommendations on management, technology, product development and branding.

These are broad guidelines only – there are elements of the recommendations in the medium term priorities that should be addressed as a matter of urgency, especially those relating to network development in the industry in the areas of technology and marketing.

Table 6.1: Summary of Enabling Measures

Factors	Issues/Obstacles	Actions/Enabling Measures Required	Action by
<p>Regulations:</p>	<ul style="list-style-type: none"> • Outdated – no longer reflect market demand • Restrictive – ‘straight-jacket’ for industry • Too narrowly defined – do not allow for new accommodation products • Leads to lack of product differentiation • Anomalies in liquor licensing • Constrain productivity and therefore are an implicit tax on rooms 	<ul style="list-style-type: none"> • Recategorise hotels and guesthouses into four categories of hotel, and abolish the present guesthouse title; the working titles of the four categories for the purposes of this study are: Full Service Hotels, (Town and Country) House Hotels, Budget Hotels and Aparthotels – the final titles should be determined through a consultative process. • Reduce the scope of Registration Regulations to statutory requirements, minimum capacity, minimum size of bedrooms, public areas and minimum scope of food service; detailed specifications should be left to classification. • The minimum number of rooms for hotels should be reduced to seven, although the provisions of current licensing legislation will require hotels with public bars to adhere to existing minimum capacities. • Full Service Hotels will be required to provide breakfast and an evening meal; Town and Country House Hotels and Budget Hotels will be required to provide breakfast; no food services will be required of Aparthotels. • The content and format of food service will be at the discretion of hoteliers • The liquor licensing legislation should be simplified and liberalised – all hotels should be entitled to sell alcoholic beverages to resident guests. 	<ul style="list-style-type: none"> • Bord Fáilte • Dept. of Tourism, Sport & Recreation • Dept. of Justice • Consultations with all stakeholders

Factors	Issues/Obstacles	Actions/Enabling Measures Required	Action by
<p>Classification:</p>	<ul style="list-style-type: none"> Does not communicate accurately with market Not mandatory Lack of standardisation internationally 3* category is too broad 5* category is out of line with international standards 	<ul style="list-style-type: none"> Research the reasons for non-participation in present classification system Overhaul the current classification system for Full Service Hotels to address weaknesses <ul style="list-style-type: none"> Bring 5* category more in line with int. standards Sub-divide 3* category into 3* and 3* deluxe Introduce an appropriately tailored star classification system for the new categories of Town and Country House Hotels, Budget Hotels and Aparthotels. Presentation of classification system in various guides to be revised to emphasise positive benefits of each grade Following the comprehensive revision of the classification system, participation should be mandatory for all hotels. 	<ul style="list-style-type: none"> Bord Fáilte, IHF, Bord Fáilte appointed inspection contractor (consultation with operators)
<p>Human Resources:</p>	<ul style="list-style-type: none"> Labour shortfall High staff turnover Recruitment and retention difficulties Skills shortage Insufficient emphasis on modern human resource management practices Lack of investment in training Perception of low pay 	<ul style="list-style-type: none"> Continue to increase the pool of labour; enhance image, improve employment terms and conditions, domestic and international recruitment drives. Invest in training – all operators to invest 2% to 4% of turnover in training Develop multi-skilled staff through training Develop creative non-cash employee benefit packages to improve staff retention Introduce better HRM practices through QEP and make the QEP mandatory for IHF membership Develop networks of independent hotels to support human resource development Expand range of training methods and subjects, especially in the fields of hotel info. systems, customer relations and Irish hospitality. 	<p>CERT, IHF, operators, Dept. of Enterprise & Employment, Dept. of Foreign Affairs</p> <p>Operators</p> <p>Operators, CERT, IHF</p> <p>Operators, IHF</p> <p>Operators, IHF, CERT</p> <p>Operators, IHF, CERT</p> <p>CERT, IHF, private training companies, operators</p>

Factors	Issues/Obstacles	Actions/Enabling Measures Required	Action by
<p>Management</p>	<ul style="list-style-type: none"> • Revenue rather than profit focused • Operations rather than asset focused • High turnover of junior managers • Perception of low pay • Need for continuous professional development of existing managers 	<ul style="list-style-type: none"> • Update the education curricula of hotel colleges to give greater emphasis to general business management knowledge and skills • Introduce a structured continuous professional development programme for existing managers at all levels • Introduce a structured approach to developing young managers through a mentoring programme • The benchmarking of best practice should be developed as a management tool and used as the basis for an in-service training strategy 	<p>Hotel colleges</p> <p>IHF, CERT, operators</p> <p>Hotel colleges, IHF, operators</p> <p>CERT, operators</p>
<p>Product Development:</p>	<ul style="list-style-type: none"> • Product is often designed to meet regulations rather than customer requirements • To urist/tour operator product satisfaction levels slipping • Identity crisis for guesthouses • Gaps in product range • Health & safety requirements of product increasing 	<ul style="list-style-type: none"> • Conduct research into product development internationally • Disseminate information on new products to the industry, via the Internet, publications and seminars • Promote good interior and exterior design in the industry • On-going research by CERT to further improve culinary arts • Provide training in the development and delivery of new services • Introduce industry product and service quality schemes • Develop networks of independent hotels for outsourcing of services and joint purchasing of supplies. 	<p>IHF, CERT, Bord Fáilte, Bord Fáilte appointed inspection contractor</p> <p>CERT, colleges</p> <p>IHF, CERT, Bord Fáilte, Bord Fáilte appointed inspection contractor</p> <p>IHF, operators</p>

Factors	Issues/Obstacles	Actions/Enabling Measures Required	Action by
Information Technology:	<ul style="list-style-type: none"> • Low level of use by hoteliers / guest house owners • Lack of systems integration • Lack of knowledge 	<ul style="list-style-type: none"> • Organise technology information events (seminars, shows etc.) for hoteliers, so that they know what is available to suit their needs • Provide information and training seminars on eCommerce • Introduce eCommerce consultancy scheme to enable net works of hotels to engage eCommerce specialists • Develop a customised property management system for small and medium sized Irish hotels which could be provided by the IHF through a central server • Promote the shared use of technology by networks of hotels. 	<p>CERT, IHF, operators</p> <p>Bord Fáilte, IHF, operators,</p> <p>IHF, operators</p> <p>IHF, operators</p>
Finance / Tax:	<ul style="list-style-type: none"> • Investment incentives and product development grant-aid curtailed • Becoming more difficult to raise borrowings to fund new projects – banks more selective • Heavy tax burden imposed for certain transfers of ownership of hotels • Lack of quality information available on the financial performance of the sector 	<ul style="list-style-type: none"> • Retain capital allowances for hotel buildings • Pending proposed changes in regulations and classification, extend the availability of capital allowances to guesthouses • extend capital allowances to buildings used for staff accommodation • Introduce taxation measures to facilitate the transfer of ownership of hotels and guesthouses • Allow double tax relief on investment in training • Reduce the VAT rate on hotel accommodation and meals to the EU average of 10%. • Conduct and publish the results of a quarterly survey of key performance indicators in the industry • Publish a regular capital appreciation index of hotel properties 	<p>Department of Finance</p> <p>IHF, operators</p>

Factors	Issues/Obstacles	Actions/Enabling Measures Required	Action by
Marketing/Branding:	<ul style="list-style-type: none"> Overseas customer satisfaction levels slipping Characteristics of domestic market shifting from long stay to short breaks Costs of marketing are rising No. of distribution channels are multiplying, driven by IT and eCommerce Large number of properties remain non-aligned to marketing groups or brands, therefore incurring higher costs & achieving less market coverage Underutilised capacity in particular areas and times of year High dependence on few source markets outside of Dublin 	<ul style="list-style-type: none"> Continuously strive to improve product and service quality Encourage more networking and co-operation amongst independent hotels for marketing purposes Extend scope of activities of marketing affiliations to consumer marketing Place greater emphasis on product branding based on product attributes – facilities/activities/location etc. Improve spatial spread of tourism Measures to further extend the season Develop new markets and new product niches within existing markets which have higher propensities to use hotels 	<p>Operators</p> <p>Bord Fáilte, IHF, operators, marketing companies</p> <p>Marketing affiliation companies</p> <p>Bord Fáilte, IHF, operators,</p> <p>Bord Fáilte, operators</p>

7. ANNEX

MEMBERS OF THE STEERING COMMITTEE

Name	Organisation
Mr. Jim Murphy, <i>(Committee Chairman)</i>	Managing Director, PremGroup
Mr. Dick Bourke	Jurys Doyle Hotel Group
Ms. Mary Cloherty	Carna Bay Hotel
Ms. Mary Fitzgerald	President IHF / Woodlands House Hotel
Ms. Emelyn Heaps	Glanworth Mill Country Inn
Mr. Terry McCoy	Redbank Restaurant
Mr. Gerry O'Connor	Blarney Park Hotel
Mr. John Power	Chief Executive, Irish Hotels Federation
Mr. Shaun Quinn	Chief Executive, CERT
Mr. Ciaran Tuite	Manager – Product Development, Bord Fáilte

