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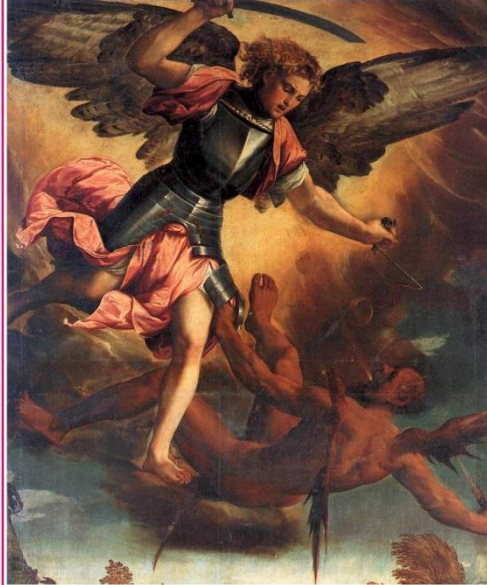
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Hotel Development Tendencies in the Russian Federation

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Abstract

The article is dedicated to the analysis of development tendencies in the hotel business in the Russian Federation. It has been established that the current national operators should create hotel chains with a universal set of services and high-quality service. They can do this by purchasing and renovating currently available low- and mid-level hotels and by increasing their star ratings. The establishment of such chains in the market can bring advantages via market dominance. It has been proved that for the expansion of the hotel business, it is essential to create a favorable investment climate at the macro level, which includes attractive and predictable economic conditions in the country, and at the micro level, comprising fiscal, customs and other benefits for enterprises that specialize in hotel services for the purpose of drawing domestic and foreign capital.

Keywords: hotel business, tourism, service, product, enterprise, services, hotel, standard.

Tendencias de desarrollo hotelero en la Federación de Rusia

Resumen

El artículo está dedicado al análisis de las tendencias de desarrollo en el negocio hotelero en la Federación de Rusia. Se ha establecido que los operadores nacionales actuales deberían crear cadenas hoteleras con un conjunto universal de servicios y un servicio de alta calidad. Pueden hacerlo comprando y renovando hoteles de nivel medio y bajo disponibles en la actualidad y aumentando sus calificaciones de estrellas. El establecimiento de tales cadenas en el mercado puede traer ventajas a través del dominio del mercado. Se ha demostrado que para la expansión del negocio hotelero, es esencial crear un clima de inversión favorable a nivel macro, que incluya condiciones económicas atractivas y predecibles en el país, y a nivel micro, que comprende fiscal, aduanas y otros beneficios para empresas que se especializan en servicios hoteleros con el fin de obtener capital nacional y extranjero.

Palabras clave: hotelaría, turismo, servicio, producto, empresa, servicios, hotel, estándar.

Introduction

The topic of the research is urgent because nowadays in order to develop the hotel business, it is necessary to build such a system of service that will provide customers with proper attention and high-quality services. At the same time, many countries of the world recognize that tourism plays an important role in their economies. Tourism accounts for nearly 10% of global gross domestic product and constitutes roughly 11% of global consumer spending. The tourism sector is among the three largest export industries.

Furthermore, this industry is one of the most difficult and promising employers in the world. One out of fifteen persons in the world is currently employed in hotel and tourism business. The Russian Federation, as a modern country, holds ample hospitality resources. More and more often foreign tourists take an interest in the country, but the development of the hotel industry is hindered by the lack of relevant infrastructure.

We have seen positive changes in hotel and tourism business over the past few years. World-class events such as the 2018 FIFA World Cup and

others, which are conducted in the country, have contributed to this. This sparked the construction of new hotels and renovation of existing hotels and other means of accommodation that meet global standards.

The examination of issues related to the operation of accommodation facilities and the analysis of their activities was reflected in the works by (Efremova, 2016), (Koroleva, 2016), (Lankina, 2015), (Lysenko, 2017), (Oborin, 2018), (Tyrina, 2014), etc. In these works, the researchers consider development basis of the hospitality and tourism industry, examine the development of territorial segments of tourism and hospitality, and analyze reasons that influence the development of the tourist and hotel industry in the country.

1. Methods

The theoretical and methodological basis of the research is the abstract logical method, the techniques of deduction, analysis, synthesis and systemization aimed to substantiate the approach to the identification of development tendencies in hotel business, statistical economic and graphical methods aimed to examine the degree and tendencies of changes in hotel parameters and their visual presentation, as well as the weighing methodology aimed to determine hotel ratings based on the efficiency of management.

The information base of the article consists of statistical data from public authorities, legislative and statutory documents that govern the assessment of operating efficiency of hotels, and results of conducted scientific surveys.

In the course of the research, we plan to improve approaches to the assessment of hotel development, to develop measures to coordinate activities carried out among main hotel business participants, and to substantiate a provision on stable development of hotels at various levels of operating expenses and economic efficiency.

2. Results

Surveys showed that Russian hotels expanded rapidly in the late 1970-80s. The analysis shows that at that time, nearly all hotels, motels, camping areas, sanatoriums, recreation centers, and tourist facilities were built based on designs that did not meet international standards. During the period of mass tourism (1960-80s), they were used intensively, and complete overhauls and scheduled repairs were not conducted on time. As a result, many buildings of this kind were demolished, and their interior was changed.

The number of double rooms in hotels that were built during this period was much higher than required. According to the European standards 70-

80% of a hotel's rooms, on the contrary, should be single rooms and have one big bed. Russian hotel rooms are small, with an area of under 30 sq. m, which is general-ly accepted in Europe. In order to solidify material resources of hotels, it is, therefore, necessary to conduct renovation and up-grade programs in the hotel sector, to start the construction of ac-commodation facilities using funds held by enterprises and in-vestment, including from abroad.

Certainly, hotels that are situated in the center of a city raise their prices, while those on the outskirts and outside of cities have to reduce prices and offer additional services and high-quality customer service. Four-star hotels actively offer discounts to regu-lar clients, as well as weekend deals, and cooperate with travel firms.

State-owned hotels cannot introduce a discount system be-cause this vio-lates some of the approved standards. All of them quite often report mod-est occupancy rates. This prompts hotels from this segment to work on their images. Demand in the five-star hotel segment is the lowest even though demand for first-class services is quite strong and tends to grow.

Having analyzed the structure of hotel business in Russia, it can be con-cluded that holiday homes, camping areas and motels as forms of hotel business are very developed in other countries but are underdeveloped in Russia. However, upon analysis of foreign experience, it can be said that these forms can lead to substantial development of the hospitality industry and create more jobs.

Unfortunately, current Russian laws do not give any clear definition of hotels as part of the tourist services sector and the authorities they should report to. For this reason, in order to de-velop hotel business, it is neces-sary to raise demand in the hotel services consumer market, to create and enter the market of small hotels, and to develop a draft law on hotel busi-ness development. Provisions of the law should determine the economic, legal, and organizational basis of competitive relations and their further de-velopment in the hotel market.

Transportation routes are important for the development of the hospitali-ty industry. They should comply with international requirements for fast, reliable, safe, and comfortable transporta-tion. They are the first link of the chain of success in the attraction of foreign tourists. However, Russian roads do not always meet the relevant requirements, they are often at odds with international standards, and they virtually lack any modern facilities to provide services to tourists who travel by car.

To integrate Russia's road and transport network into the in-ternational

transport system it is essential to build new and reno-vate current accommodation facilities that should mandatorily include cafes, restaurants, hotels and other facilities in order to offer services to people who travel by car in line with international standards.

The high level of comfort is not enough to improve the quality and culture of customer service, as well as competitiveness, in the global hotel services market. A hotel should also offer a wide range of additional services. It is reasonable to organize hotel services not by demand, but by supply. The variety and range of additional services are constantly growing. While in the past, their list numbered 10, nowadays, the figure exceeds 60 (the number of additional services offered in modern hotels reaches nearly 300).

Quality matters when it comes to the provision of hotel services. Unable to offer high-quality services, a hotel cannot attain the necessary goals. The global practice of development of various hotel chains and corporations shows that the high quality of services leads to profit. Surveys show that when a client looks for a hotel the main criterion is the quality of services that he/she is offered during his/her first stay. While it is possible to attract a client for the first time by means of ads or curious interior, he/she will stay at a hotel for the second time only given the professional work of staff and premium service.

A broader list of additional services is an inexhaustible reserve to improve the quality of tourist services in accommodation facilities. In addition to conventional services, every hotel, given its specific features and the category of tourists, can constantly broaden and narrow its range of services. There are some hotels that target businessmen, offering fishing, water trips, hunting, etc. as additional weekend services. In order to expand and solidify business contacts, hotel executives organize meetings, roundtables, as well as art exhibitions, directly at enterprises.

Results show that hotels mainly provide catering services. This is such an inseparable element of hospitality that it is often included in accommodation prices. The type of catering is always indicated in the list of hotel services (breakfast, half board, full board). Half board (two meals per day) includes breakfast and lunch or dinner. Full board includes three meals per day. The type of guest services (the Swedish table, etc.) is also important. Based on UNWTO data, around 1 billion journeys are made annually worldwide, with European countries accounting for over 52%. In EU member states, tourism raises aggregate gross domestic product by 8%, the economy expands by 11% and jobs in the tourism and hospitality industry account for roughly 12% of all jobs.

Figure 1 shows the breakdown of foreign tourists who visit Russia for various purposes. The figure shows that private journeys go first, followed by business and diplomatic trips, and tourism is in the third place.

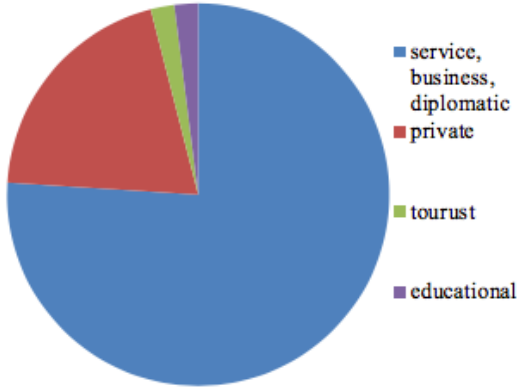


Figure 1 – Breakdown of foreign tourists who visit Russia for various purposes

Analyzing the influence of the 2018 FIFA World Cup on the hotel sector, it can be noted that the average occupancy rate in modern Moscow hotels reached 71.5-73.7% for six months in 2018, which means it grew by 4.6-7%. The average room price climbed by 42-47% against the same period of 2017 to roughly 9,300-9,400 rubles per room. During the first half of 2018, the average daily revenue per available room jumped by 48-54.8% to 6,600-11,500 rubles in the Moscow market, while the indicator in the premium segment was 72-73%.

Hotel owners achieved impressive results during the 2018 FIFA World Cup group matches. In June 2018, the average occupancy rate in Moscow hotels increased by 12.8% compared to the previous year to 88-89.1%. Meanwhile, the average occupancy rate in all segments exceeded 83%. The average price per room grew more than twice – by 204-208% (from 7,600 to 23,500 rubles).

Overall, in the first half of 2018, the capacity of Moscow classified hotels (excluding hostels and apartments) reached around 60,000 rooms. Within the older Moscow, supply growth was modest (only 171 rooms in one hotel project). Supply grew substantially near the airports Domodedovo, Sheremetyevo, and Vnukovo, with three new hotels (776 new rooms) opened.

Hotels in Saint Petersburg faced tougher conditions than in Moscow. According to our surveys, price indicators in diverse segments varied. While room prices in the medium price segment jumped by 20%, room prices in the premium segment, on the contrary, decreased by 15% compared to 2017. In other words, the revenue per available room in the upper segment declined by around a third following a contraction in both room prices and the occupancy rate.

The 2018 Football World Cup did not increase the demand for hotel services in Saint Petersburg as compared to Moscow, but “dampened” conventional tourist demand. One standard room in the premium segment cost 38,000 rubles per day in June 2018. Experts pointed out that during the Saint Petersburg International Economic Forum, which was held in May 2018, the average price per room in the premium segment was 27% higher than in June.

In the first half of 2018, the average revenue per available room in the market increased by 10% to 4,700 rubles. However, the occupancy rate in Saint Petersburg-based chained-brand hotels decreased to 54-57% in the first half of 2018. The average price per room rose by only 1.6% during the 2018 FIFA World Cup and by 13-16% during the six-month period to 8,800-9,600 rubles. It should be noted that 7 new hotels (982 rooms) were opened in Saint Petersburg in the first half of 2018, with two of them under the management of international operators. As of late June 2017, the hotel market in Saint Petersburg consisted of 18 five-star hotels (3,717 rooms), 58 four-star hotels (10,992 rooms), and 71 three-star hotels (7,203 rooms).

3. Discussion

The reliability of the given approaches is confirmed by the fact that in the near future the Russian Federation will see an increase in the number of high-quality hotels in all market segments under the management of both national operators and international brands. In addition, the Russian hotel market is rich with four- and five-star hotels. This is the most profitable sector, but free niches will be filled soon and investor attention will shift to small and mid-sized hotels with a modest list of services, i.e. two- and three-star hotels. The sector targets domestic tourists. Services provided by operating hotels from this sector are poor in terms of quality and for this reason, it is important to improve the quality of service.

Existing national operators should create hotel chains with a universal set of services and the high level of service. This can be done through the acquisition and renovation of existing small and mid-sized hotels and by raising their star ratings. The creation of such chains in the market can

bring advantages via market dominance.

For the expansion of the hotel business it is essential to create a favorable investment climate at the macro level (attractive and predictable economic conditions in the country) and at the micro level (fiscal, customs and other benefits for enterprises that specialize in hotel services) to encourage an inflow of domestic and foreign capital, direct state participation, and support of major hotel projects, to expand the list of additional services, to improve the quality and culture of customer service, as well as to bring roads into compliance with international standards.

Conclusions

To sum up, it can be pointed out that in the nearest future hotel business will be in the low season. This concerns hundreds of hotels, including apartments, flats designed for daily rent, hostels, and hotels. It will be difficult to do business due to high competition since supply exceeds demand. Hotels from the medium price segment will expand activities in large cities. Meanwhile, the construction of a hotel with the relevant infrastructure, e.g. with a neighboring business center or retail and entertainment facilities, as a rule, makes such a project more interesting.

However, there is a shortage of high-quality three-star hotels in Russia. The 2018 FIFA World Cup proved this since rooms in two-, three-star hotels and hostels were booked in the first place. The market for small accommodation facilities has recently rapidly expanded. Worries emerged that apartments and flats designed for daily rent will grab some demand from traditional hotel formats. However, the two formats suit guests who pursue different goals.

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