

# Shangri-la in china essay



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Introduction A huge market with 13 millions of population – China – often seem very lucrative for foreign investors to eager to share this huge economy pie to increase their profit margins, since China’s open door policy. Some companies have made their fortune from this big pie, and some have reported loss. What are the factors that determine the successfulness of a particular investment in China? This article discusses this question through using the example of a successful story of an international hotel chain – The Shangri-la Hotels & Resorts Group.

Inspired by James Hilton’s legendary novel Lost Horizon, “ A tranquil haven in the mountains of Tibet, Shangri-La casts a spell on all who resided there,” the hotel group has since adopted Shangri-La as their corporate brand to promote Asian hospitality, which mainly targets leisure and business travellers. Founded by the richest man from South East Asia, Mr Robert Kuok, it opens its first award-winning hotel in Singapore at year 1971. Currently operates 55 deluxe hotels and resorts in all key Asian markets, Shangri-la has since been expanding their network outside Asian market, counted 21 properties under development, such as the Living Shangri-La in Vancouver. Incorporated in Bermuda, based in Hong Kong, about half of its hotels (27 hotels) are located in China Mainland and yet eight hotels are still under development and scheduled to be opened as early as 2009.

It is quite strange to see Shangri-la as a foreign investment, which most of its properties are in China, and these hotels contribute more than 50% of the group’s profit. Hence, it is good to understand tourism market in China firstly in order to understand the reasons and factors why Shangri-la preferred to focus its business in China. Tourism Market in China From Chart 1, the

overseas tourists' arrivals are increasing from year to year where Hong Kong & Macau Chinese compatriots form the largest portion. There is a slightly drop in year 2003 because of SARS epidemics hit the region (Alan Clarke, 2007). There are two types of hotels in China; high-end luxury hotels with four and five stars and budget homegrown accommodations (Vella, 2008). Chart 2 shows the number of star rated hotels shows a steady grow.

All of these encouraging data indicate that China has a great potential in hotel industry. Chart 1: Number of Visitors from Year 2001 - 2006 (National Bureau of Statistics, 2007) Chart 2: Number of Star-rated Hotels from Year 2001 - 2005 (National Bureau of Statistics, 2007) First Enter into China Since China's open door policy, the number of international business travellers to China increases, but there is virtually no luxury hotel that able to satisfy these businessmen needs. Kuok forseen that there is a need in the hotel market. Besides, China's huge population, cultural heritages, lots of tourism hot spots and also the Asian culture that create warm welcome for international tourists are also the factors that influence Kuok to venture his newly established hotel into China. Political stability is also one of the factors because Kuok believes that a stable political condition is a must to encourage tourists activities.

Hence, Shangri-la ventured into Chinese market at year 1984 by opening its first hotel in Hangzhou. This made Shangri-la the first international hotel management chain enters China, and the first five stars hotel opened in China. It replaces the renowned Hangzhou Fan Dian (???? ) and the Shangri-la manages the hotel and has 45% of ownership in this hotel. The other part of shares is currently held by the Zhejiang Tourism Group (????????? ), which

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formally is Zhejiang Provincial Tourist Bureau (?????? ). It is the first international hotel chain to use the concept of “ integration of hotel management and ownership” as its first enter mode into Chinese market (Funding Universe, 2008).

Year 1985, with cooperation of the State Economic and Trade Commission (????? ), Kuok made his first investment in China –Beijing World Trade Centre. This project worth 3. 8 billions USD and it is an integrated building with offices, shopping complex, hotels and high-end service apartments. 2 of Shangri-la hotels are incorporated into this building complex, Traders Hotel and China World Hotel, which opened at year 1989 and 1990 respectively, where Shangri-la have 50% ownership in each hotel. The project has successfully positioned itself as one of the notable landmark in Beijing CBD. Before that, Kuok opened his second Shangri-la in Beijing at year 1986 (Li, 1995).

In year 1995, Kuok foreseen that there is lack of supply in high end commercial office in Beijing, he intended to invest another property in Beijing, Kerry Centre. The project is collaboration between Kuok’s property investment arm, Hong Kong’s Kerry Group, and Beijing’s Beiao Company (?????? ). This project includes the Shangri-la’s second hotel in Beijing. Hence, together with Shangri-la Kerry Centre Hotel, Shangri-la has 4 hotels in Beijing and 2443 rooms in total, make it one of the largest international hotel chain in Beijing (Shangri-la Asia Ltd, 2007). Shangri-la’s Expansion Since then, Shangri-la has expanded rapidly, especially during 1990s, where the number of hotels doubled. It expansion rate is aggressive which about one hotel per year.

The group has adopted the “ binary plan” strategy, which is hotel ownership and hotel management, as their expansion strategy since its entry to Chinese market. About half of its China’s hotel is fully owned by Shangri-la and the others are operated through joint venture where Shangri-la provides its expertise in hotel management. There are three phases in Shangri-la expansions. First phase is targeting China’s international cities through joint venture and total ownership, which the hotels appear in the form of single building or part of integrated office & shopping complex.

Beijing and Shanghai are the cities classified as international cities by Shangri-la, where each city has about four or more hotels managed or owned by the group. The reason is these two cities are the major gateways into China and highly renowned among international travellers. The second phase is introducing the Shangri-la brand into province capitals, which usually the meeting points for domestic business and lesuires travellers. Suprisingly, Shangri-la often the first and only five stars hotel operated in these capitals. This has given the company a golden opportunity to establish its brand and reputation in mainland China through introducing its high-end hotels that emphasis on fine Asian hospitality.

Introducing a popular brand hotel into secondary cities is the third phase. To date, the hotel group is now in the third phase expansion where it is targeting the secondary cities to open its hotels (Shangri-la Asia Ltd, 2007).

Creation of Luxury Brandings – Shangri-la, Traders and Kerry Centre There are 2 major brands currently operated in China, namely Shangri-la and Traders. Shangri-la, a brand of five stars hotel, is targeting leisure and premium business travellers, usually the customers are MNCs CEOs. Luxury

decorated lobby, fine Asian hospitality and beautiful Chinese garden are the Shangri-la selling points. The four stars brand, Traders, is mainly for businessmen.

It is indifferent with Shangri-la, in term of services and management. However, it put more emphasis in functionality, rather than luxury, to suit the businessmen needs. It has a smaller room and cheap room rate compared to Shangri-la. There are 2 minor brands, which are Kerry Centre and Shangri-la Resort. Kerry Centre is for young businessmen and Shangri-la Resort is mainly for travellers that looking for island and beach holidays. The purpose of setup three brandings can be viewed as to target different market segments.

Corporate Culture & Human Resources Strategy Shangri-la is a service industry based organisation. Thus, it emphasis on its enhanced and value added hotel services feature the fine Asian hospitality, where give the customers feel that the services received is worth more than what they pay. “Pride without arragont” is its core value in its operation strategy. It encourages its employees to be proud of their achievement internally, but still being humble about what they have achieved externally (Shangri-la Hotels & Resorts, 2008).

It is because they believe that a true success does not required excessive publicity. Shangri-la views its employees as its important asset. The management team believes that through a competent, happy and loyal employee, he or she can provide the best services to the customer and sastify the customer needs. Through a good service, customers may consider

to return to Shangri-la in the future and this helps the corporate to create a pool of loyal customers.

This is an important element in service industry, such as Shangri-la, to maintain its competitive advantages over its rivals. Hence, in order to achieve Shangri-la's mission – delighting customers each and every time (Shangri-la Hotels & Resorts, 2008) the group has implemented some policies to retain its talents. For example, training courses are provided for employees, from pre-employment to on-the-job training. Through training, it would provide an employee a clear mindset about his or her future career path. This will help Shangri-la to create the loyalty among its employees in order to retain its talents. Its Shangri-la Academy in Beijing proves that the hotel group is keen to provide the best training programmes for its employees.

Besides, Shangri-la provides a good remuneration package among its peer to attract talents. Employees promotion are based on their performance, which will create a healthy internal competition among employees and hence create the hotel competitiveness. For instance, employees in Shangri-la Pudong hotel has year end bonus with the basis of 4.5 months. The hotel also has a RMB 200 million budget for its employees, such as gatherings and also provides in-house facilities. This will create a sense of belongingness among the employees (Li, 2008).

In addition, employees have the certain rights in decision making in their working scope. This is different to the Chinese culture where all the decision makings are made at management levels and technicians are just following

the orders from managers and supervisors. The reason to give employees have certain power in decision making is to increase the efficiency in operation, as the employees, who are expert and experience in their daily chores, can make a quick and better decision. Moreover, most of its employees are sourced from local.

This is because Shangri-la believes in the locals ability and also provide customised services that familiar by the domestic customers. It is important because the management team foreseen that there is a strong and encouraging growth in China's domestic tourism (Ren, 2004). The sucessfulness of Shangri-la in China First Venture in China Shangri-la that able to make its first sucessful debut in China, mainly because of its visionary founder. Kuok is a businessman which able to visualise the long term plan. During his education in Raffles School in Singapore, he has been good friends of many prominent figures, such as Tun Abdul Razak and Tun Hussien Onn, the Malaysian prime ministers, and also the Lee Kuan Yew, Singapore mentor minister. These guanxi (relationship) have enable him to able to establish his empire rapidly in Malaysia and Singapore, which able to make him to accumulate his capital for future investments in China.

For example, through his good relationship with Malaysian Government, he is able to setup his sugar supply company, the Perlis Plantation Ltd, and able to create his sugar empire that control 10% of the world supply. This has made him to earn the title “ Sugar King” and also capital build up for his future investment in China. Hence, it can be concluded that Kuok is good in using his guanxi in order to create his business empire. It may sound dirty, however, Kuok views this guanxi as friendship. He understands the essential



of these guanxi for his future business empire because guanxi means future business partners. As an overseas Chinese, Kuok shares the Chinese culture about friendship, where the cultures define friendship as opportunity.

Through his understanding about guanxi, he is able to create a good relationship with famous figures, such as Cheung Kong's Lee Kah-Sing and CITIC Pacific's Larry Yung Chi Kin. This is one of the factors that Shangri-la is able to enter and expand aggressively in China (Li, 1995). In addition, other factor that made Shangri-la famous in China is mainly due to Kuok invited David Hayden and Robert Hutchinson to join his hotel's management team, as both are hotel industry professionals from Westin (Funding Universe, 2008). Rapid Expansion During its aggressive expansion period, Shangri-la decided to build its hotels in lesser-known and secondary cities in China.

Most of these secondary cities had more than five million populations or more and functioned as industrial growth areas (Funding Universe, 2008) Besides, China's good economy climate encourages domestic trading. This creates a need for luxury hotel for business negotiations in these secondary cities, which the cities often lack in these facilities. This often made Shangri-la the first and only luxury hotel in that particular city (Li, 1995). From an economy point of view, it is just a principle of demand and supply. Through targeting these cities, Shangri-la often "monopoly" the luxury hotel market in that given areas since it is the only supplier.

This shows that the company is able to plan for long term and understand the China economy developments. Branding Strategy that Target Different Segments of Market Through launching the Traders hotel as its second brand,

this enables the company to target executives that look for practicality. Although the services provided are indifferent to Shangri-la in certain level, Traders does act as a bridge between four stars and five stars hotels. It creates opportunity for the hotel group to develop the luxury market through paving a way for its five stars Shangri-la brand to enter the market (Funding Universe, 2008). Besides its ability to diversify its operation to target different segment of market, the company is able to establish the benchmark and definition of “luxury hotel” in China.

Its properties that often served as the first luxury hotel in the secondary cities help to gain the reputation among the locals. This is essential for the group future expansion in domestic and international market. Conclusion & Recommendation The successful of Shangri-la in China because of its ability to understand the market and visionary long term plan. Through Robert Kuok’s guanxi and cultural understand, this made Shangri-la has well ahead of its rivals, such as Intercontinental Hotel Group and Marriotts Group, to become the Asia largest luxury hotel management chain. Besides, its good staffing policy and branding strategy have enable Shangri-la to build its unique brand among the domestic and international travellers. Its distinctive Asian hospitality has won lots of awards from international travel organisations.

Its power release culture also creates a new phenomenon on China human resources strategy. However, since China accession to WTO, the market becomes more open and open. This creates a phenomom of oversupply of hotel rooms in certain cities, such as Beijing and Shanghai, as more big international hotel chains enter China, such as Hilton and Four Seasons Hotel

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(Clarke & Chen, 2007). Shangri-la should look into this issue seriously as its market share is reducing as more players enter into market. It is recommended that Shangri-la should expand its network outside East Asian market, such as key European and American cities.

This will help the company to capture the Chinese outbound travellers who travel to these mentioned destinations through the Shangri-la's reputation and the travellers familiarity of the brand. Hence, this will help to position Shangri-la as a true global player in world leisure market. Bibliography  
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