CHAPTER 1: INTRODUCTION

1.1 Introduction

Since start of the Asian Economy crisis in 1997, most industries in Malaysia have been experiencing a difficult time. Tourism industry had to face several challenges such as currency fluctuations, negative media reports, stringent government policies, reduced market demands and global competition. The negative effects on the industry were compounded by the national economic slowdown, i.e., GDP contraction of 6.7 per cent in 1998. Tourist arrivals were also descended to a low of 5.5 million, compared to 6.2 million in 1997 (MATTA Annual Report 1998).

Malaysia's hotel industry, particularly those located in Klang Valley have faced extreme pressure in their business performance during this period. The two major factors contributed are as follow-

1. The economy downturn enticed significant decline in tourist arrival
2. Increased number of new hotels has given rise to over supply in room inventory in this capital city.

The issues mentioned led to fierce competitions among hotels of all categories. They embarked on aggressive promotional activities specifically price wars among hotels in the same category. It resulted in reduction in operating revenue and profit. In fact, many hotels are operating at a loss during this period and some are facing financial difficulties.

During the financial crisis in Asia, Malaysia, along with its capital city, Kuala Lumpur, had suffered from declining tourist arrivals, with slower growth straining the hotel and tourism industry. In its preparation for the 1998 Commonwealth Games, the government had initiated a tax incentive scheme, which had led to a "development frenzy" in Kuala Lumpur. New supply in the first class and luxury segment was projected at more than 3,400 rooms in 1999. This additional supply, primarily in the up-market segment, has further depressed hotel occupancy and room rate growth during that time (Arthur Andersen, 1998).

According to the Horwath International (1999), despite the cancellation or delay of many hotel properties in the Asian region, the hotel market was poised to face many challenges ahead in the next two years. In this report, Kuala Lumpur was one of the biggest losers in term of hotel revenue generation, after Yangon and Phnom Penh.

In 1996, the room occupancy rates for hotels located in Klang Valley once reached above 70% but now dropped to 50%-55% in 1998 and 1999. The 1999 Property Market Report released in March 2000 found that the occupancy rate in Kuala Lumpur declined to 49.2% in 1999 from 56.5% recorded in 1998. At the same time, hotel room rates also was knocked down. A survey by Arthur Andersen (2000) revealed that hotel room rate in the city were the lowest among 15 Asian cities polled. The average rate in Kuala Lumpur was only at US$39 in 1999, dropped by 16% compared with US$46 in 1998; while our neighbouring country, Singapore was at an average US$111 per night.

In Monthly Trends in the Hotel Industry (December 1999 issue), the statistics for major deluxe hotels in Kuala Lumpur that compiled by Hospitality Assets Advisors Pte Ltd (HAA) Singapore reported similar observations. A brief summary of this report is showed in Table 1.1.

Table 1.1 – Report of Room Business by Size of Property

	Average Room Rate (RM)			Occupancy (percentage)		
HOTELS	1999	1998	Variance	1999	1998	Variance
Over 600 rooms	182.27	191.77	-5.0%	60.7%	56.6%	7.1%
400 – 600 rooms	150.50	177.83	-15.4%	57.6%	45.8%	25.8%
Under 400 rooms	115.89	153.05	-24.3%	46.6%	49.8%	-6.5%
Overall Average	158.68	177.99	-10.9%	56.8%	50.3%	12.9%

Source: Statistics and Trends of the Hotel Business, Monthly Trends, December 1999, Hospitality Assets Advisors Pte Ltd.

In term of the hotel counters listed in KLSE, reduction in stock prices was more severe in comparison to other industries. Table 1.2 shows the stock prices for hotel counters from Year 1996 to 2000.

Table 1.2 - Share prices for hotel counters, 1996 - 2000

HOTELS	Stock Code	31.12.1996	31.12.1997	31.12.1998	31.12.1999	09.10.2000
Counter		RM	RM	RM	RM	RM
FABER	1368	2.39	0.525	0.600	0.510	0.245
GCE	5592	1.57	0.385	0.830	0.85	0.580
GPERAK	3263	1.97	0.890	0.940	1.15	0.950
LANDMARK	1643	3.26	0.565	1.010	1.230	0.600
SAUJANA	6408	N/A	0.630	0.870	0.950	0.650
SHANGRI-LA	5517	2.41	0.995	1.270	1.200	1.130

Source: Kuala Lumpur Stock Exchange summary.

According to the Danaharta Annual Report (2000), the collateral in non-performing loans (NPLs) under this asset management company included 27 operating hotels, 6 uncompleted hotels, 4 non-operating hotels, 4 golf resorts and 2 service apartments. This accounts for RM1.5 billion of NPLs under Danaharta at the end of last year, represents 3.3% of the RM45.5 billion in gross value of NPLs as at 31 December 1999. The reported noted that the local hotel industry was among the hardest hit during the last economic slowdown. Many hotels, particularly those in the Klang Valley, had been put up for sale by cash trapped owners. National Economic Recovery Plan (1998) recommended that, in view of the glut in hotel accommodation, new projects for the development of hotels should be rejected.

Considering the above observations, it is therefore recognised that there is a need to explore for the best possible solutions or recommendations for the hotel companies in Klang Valley as well as in other parts of the country, in managing their operations during this challenging time.

1.2 Objective of the Survey

Fierce price war has erupted among hotels due to the considerable fall in foreign arrivals and well-acknowledged oversupply in hotel rooms, particularly the capital city, Kuala Lumpur. Arthur Andersen (2000) reported that, resulted by stiff competition among the hotels, hotel rates in Kuala Lumpur are the lowest among all major cities in Asia.

The survey objective is to analyse and identify:

- How the hotel operators in Klang Valley respond towards this competitive environment

- What are the best practices or business strategies being executed during this challenging time

PERPUSTAKAAN UNIVERSITI MALAYA

1.3 Methodology

Research Propositions are as follow:

- Did the hotel operators revamp their focus or tactics due to the current environment?
- What are the best practices or business strategies they are corresponding?

Questionnaires were sent to general managers of the selected three, four and five star hotels in Klang Valley. Respondent data consists of background information of the hotel such as hotel chain, room size, achievement and business direction.

Several questions in the survey are structure with the Likert scale. Respondents are required to indicate their attitudes by checking how strongly they agree or disagree with the carefully constructed questions. For these, 5-point scale applies. In order to identify the respondents' preferences, ordinal scale questions are developed by asking them to rank order from the most preferred/significant to the least preferred/significant.

1.4 Structure of the survey

The survey questionnaire consist of four sections that are:

- To examine the respondent company's direct response toward the economic downturn
- To examine the respondent company's revised tactics corresponding to the over-supply market environment
- To explore best practices and solutions in respond to the challenges
- To explore the opportunities and threats in hotel industry