International hotel chains in Russia

The prospects and challenges of movement from megacities to smaller cities in Russian regions

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Abstract
Purpose – This study aims to investigate the recent changes in the strategies of international hotel chains in the Russian market, as well as their role in the sustainable development of small and medium towns as prospective local tourism destinations.

Design/methodology/approach – General observation of the local environment, statistical analysis and a qualitative approach were used to reveal current developments in international hotel chains’ strategy in Russia, and new opportunities for a number of small towns to be embedded in the development of the Russian tourism market. The current scenarios were examined using the available secondary data, including federal statistics and relevant empirical studies, as well as case studies and personal interviews with industry experts that allowed access to respondents’ opinions and market knowledge.

Findings – In recent years, investment in the Russian regions has become more attractive for international hotel chains. Findings of the study add to the literature on emerging markets by presenting an overview of the main challenges facing international hotel chains in the Russian market and by stressing the facilitating effect of foreign hotel chains’ upon tourism infrastructure development in small and medium towns in Russian regions. The statistics presented, as well as key opinions of hoteliers and local authorities, contribute to an understanding of the strategies used by international hotel operators in emerging economies with reference to new evidence from Russia.

Originality/value – The main output of this study is that it yields a better understanding of the strategic movement of international hotel chains into the Russian regions and new opportunities to develop tourism infrastructure in small and medium cities situated in Russian regions as prospective tourism destinations.

Keywords Russia, Entry mode, Tourism, Hospitality, Hotel chains, Small cities

Paper type Research paper

Introduction
Hospitality and tourism is one of the most promising sectors of the world economy, with high potential for long-term growth and its vital contribution to the economic strength and social development of the world (World Travel and Tourism Council, 2016). Not only are the most famous tourism destinations able to derive benefits from tourism, but there are also success stories from previously underdeveloped regions, cities and towns that became attractive to tourists and thus can achieve impressive growth. Still, at the very beginning,
there are many impediments to such growth, including the underdevelopment of accommodation facilities.

In Russia, a shortage of accommodation facilities, together with overall infrastructure issues, prevents rapid development of potentially attractive local tourism destinations (Sheresheva and Kopiski, 2016), including a lot of small historic towns and villages. The overwhelming number of Russian cities are small ones, with a population of less than 50,000 people; these settlements face a number of sociodemographic, economic, infrastructural and other challenges that are limiting factors for sustainable development. At the same time, many of them are “hidden gems” on the map of Russia, with ancient architecture and a picturesque natural surroundings. Therefore, tourism development could become an effective decision for them, especially if they are able to combine resources and boost the networking of municipalities, with the aim of creating synergistic “virtual size” as an attractive destination.

Infrastructure and work environments are among the most challenging issues facing small Russian cities. Therefore, the development of hospitality infrastructure can have a positive impact on socio-economic processes in smaller Russian cities to ensure their development. Still, the small and medium cities, being clearly interesting to international hotel chains, especially for brands operating three-star hotels, face a lot of constraints. Hospitality firms, like all tourism and hospitality businesses, “cannot be sustained indefinitely unless the government, investors and other stakeholders are broadly satisfied with the benefits derived” (Clayton et al., 2014).

The outlined problem is most relevant both to the strategic behavior of international hoteliers operating in Russia, and for the development of Russian regions and cities.

This paper presents an overview and analysis of international hotel chains’ strategy in Russia. General observation of the local environment, statistical analysis and qualitative approach were used to reveal current developments in international hotel chains strategy in Russia, and new opportunities for a number of small towns to be embedded in the development of the Russian tourism market. The current scenarios were examined using secondary data, including federal statistics and relevant empirical studies, as well as case study and personal interviews with industry experts that allowed access to respondents’ opinions and market knowledge.

The paper is organized around the following topics. First, we focus on the literature about internationalization in the hospitality industry. Second, we provide an overview of recent developments in the Russian tourism and hospitality market. Third, international hotel chains’ strategies in Russia are discussed. In the next sections, preliminary results of the exploratory research are presented. The paper concludes with a summary of the preliminary findings and suggests directions for further research.

Internationalization strategies of hotel chains

The studies on international competitiveness and internationalization strategies have been and still are important and popular in economics and management (Williams and Shaw, 2011; Olczyk, 2016). Over the past decades, there has been growing interest in research on the internationalization of the hotel industry. As competition in this segment of the world market is increasingly global, hoteliers seek new ways to grow, and customers have more alternatives to choose from (Yu et al., 2014). The foundational work of Dunning (Dunning and McQueen, 1981; Dunning and Kundu, 1995), showed that hotel chains are the most active actors in the hospitality internationalization process and because of this, they have received much attention in the literature (Kim and Olsen, 1993; Burgess et al., 1995; Go and Pine, 1995; Contractor and Kundu, 1998; Slattery et al., 2008; Brida et al., 2016).
When it comes to why international hotel operators can be successful in foreign markets, a number of mainstream theories can be helpful that inform and underpin research studies in the internationalization area. Market imperfection (Hymer, 1976), eclectic (Dunning and McQueen, 1981) and resource advantage theories (Hunt and Morgan, 1996) argue that firms should possess firm-specific, internationally exploitable advantages to compete in foreign countries and to compensate the costs of adjustment to the new conditions. This means that the competitive advantage of any hotel business is both firm-specific and market-specific.

On the one hand, international firms should be more efficient or different from their competitors. This can be the result of unique competitive advantages and advantages related to the business model, management or technology used by the particular firm. It is also important to take into account modern trends of sustainable development (Hopwood et al., 2010) and their dynamics (Leonidou et al., 2015; de Soto-Camacho and Vargas-Sánchez, 2015).

On the other hand, local market knowledge is a crucial success factor, along with business models and strategy adaptation. In the process of internationalization, it is necessary to consider not only physical and geographical distance but also elements such as cultural, political, ecological, economic and institutional dimensions (López-Duarte and Vidal-Suárez 2010; Boyen and Ogasavara, 2013). At the same time, it is a challenge to find the right balance between globalization and adaptation in the implementation of operating strategies for globalized markets (Liu et al., 2014; Yu et al., 2014).

As to international hotel chains, they can deploy their core competencies in hospitality business and also the advantages of networking. According to the broadly accepted definition of Ingram and Baum (1997, p. 68), hotel chains are:

Collections of service organizations, doing substantially the same thing (often the only differentiation is in physical space), that are linked together into a larger organization. The relationships between the components of a chain are horizontal, although typically there are centralized parts of the chain, such as a distribution facility, that have vertical relationships to the components.

This form of business organization helps to develop and maintain identifiable image and unified hospitality products, to multiply standards, to transfer knowledge and best practices and to produce guaranteed quality service in the globalized environment (Balaeva et al., 2012). “The chain presumably imposes mutualistic relationships between organizations of the same type and is therefore the source of some unique advantages” (Ingram and Baum, 1997, p. 68).

At the same time, despite the fact that affiliation with a chain in the hospitality business can be an important source of operating knowledge and economies of scale, it can be also a potential source of strategic constraint (Ingram and Baum, 1997).

Therefore, strategic decisions are of crucial importance to the hotel chain’s long-term well-being, including decisions concerning internationalization scope, choice of markets to enter and modes of entry. The contractual organizational forms used by international hotel firms include voluntary hotel chains, franchises and vertically integrated hotel chains (Ben Aissa et al., 2016).

The linkages between the chain and its components can take various forms, ranging from full integration in terms of ownership to various contractual arrangements (Ingram and Baum, 1997). One key issue is the degree of control that the hotel chain exerts over component hotels. A characteristic feature of the hotel industry is the separation of ownership and control (Brown et al., 2003). According to a commonly accepted definition (Contractor and Kundu, 1998), the control spans four aspects:
Therefore, the operations of a hotel chain can be organized in a number of ways, differing in terms of control that the chain owner has over its component hotels (Table I).

From the perspective of the hotel chain expanding to new markets, a decision about the organizational mode is a two-step process (Pan and Tse, 2000). First, it needs to decide whether to own the facility where the business will operate, and second, whether it will operate the business itself or contract the management to a local partner. These decisions are contingent on the applicability of the firm’s own knowledge on the foreign market, and provision of knowledge or resources by local partners (Dev et al., 2007).

There is a growing volume of research devoted to factors influencing a franchise decision-making process in the internationalization of hospitality firms. This is based on evidence that the franchise system has become the main growth strategy used by hotel chains, both locally and internationally (Contractor and Kundu, 1998; Pine et al., 2000; Cunill, 2006; Altinay, 2007; Cunill and Forteza, 2010). Most experts consider the franchising concept as the most suitable one for economies in transition. As such countries, including Russia, do not have a long history of entrepreneurship, franchising provides them with a clear working structure and best practices. It is also a source of competitive advantage for an entrepreneur to use a famous brand name and the existing reputation to attract brand-loyal customers.

In the past decade, specific features of international hotel chains’ strategy in emerging and transitory markets became the focus of a number of studies (Pine and Qi, 2004; Johnson and Vanetti, 2005; Aliouche and Schlentrich, 2011; Martorell et al., 2013; Ivanova and Ivanov, 2014; Sun et al., 2015). Most researchers agree that traditional concepts and business models, as well as management practices applied by firms in developed countries, cannot be equally successful in emerging and transitory countries. At least five key characteristics of emerging markets are radically different: market heterogeneity, sociopolitical governance, resource constraints, unbranded competition and inadequate infrastructure (Sheth, 2011). Therefore, the issue of adaptation is growing in importance when it comes to the strategic decisions of international hotel chains in emerging and transitory markets.

<table>
<thead>
<tr>
<th>Aspect of control</th>
<th>Fully owned hotel</th>
<th>Partly owned hotel</th>
<th>Management contract</th>
<th>Franchising</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Daily operational and quality control</td>
<td>Hotel chain</td>
<td>Hotel chain/joint venture partner</td>
<td>Hotel chain/property owner</td>
<td>Franchisee</td>
</tr>
<tr>
<td>(b) Control over the physical assets and real estate</td>
<td>Hotel chain</td>
<td>Hotel chain/joint venture partner</td>
<td>Hotel chain/property owner</td>
<td>Franchisee</td>
</tr>
<tr>
<td>(c) Control over tacit expertise embedded in the routines of the firm</td>
<td>Hotel chain</td>
<td>Hotel chain/joint venture partner</td>
<td>Hotel chain/property owner</td>
<td>Franchisee</td>
</tr>
<tr>
<td>(d) Control over the codified assets (such as brand)</td>
<td>Hotel chain</td>
<td>Hotel chain</td>
<td>Hotel chain</td>
<td>Hotel chain</td>
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</tbody>
</table>

Table I.
Alternative ways of organizing hotel chain operations

Sources: Contractor and Kundu (1998); León-Darder et al. (2011)
A number of studies discuss the current state of the Russian hospitality market and the specific features of doing hotel business in Russia (Karhunen, 2003, 2008; Geieregger et al., 2009; Burnatseva, 2010; Balaeva et al., 2012; Sheresheva, 2012; Dzhandzhugazova et al., 2015; Sheresheva and Yakuba, 2015; Sheresheva et al., 2016; Andrades and Dimanche, 2017). These studies add to the literature on the subject, but there are still many issues that are under-researched. Inter alia, most publications are devoted to the hotel business in Moscow and St. Petersburg, while the prospects and challenges of hotel chains’ movement to smaller cities, as well as their potential influence on the sustainable development of Russian regions, had yet to be thoroughly discussed.

Accommodation facilities in Russia
In 2010-2016, the number of officially registered accommodation facilities (hotels and other similar accommodation facilities: motels, boarding houses, etc.) and the volume of paid accommodation services in Russia had almost doubled (Table II). Their number has been growing since 2000, having increased about three times. In 2015, there were more than 13,900 hotels in Russia, and the Russian hotel market capacity was estimated at 300bn rubles (Dzhandzhugazova et al., 2015). The estimated fixed capital investments in collective accommodation facilities development were at about 80bn rubles but sharply declined in 2015-2016 owing to external and internal difficulties caused by sanctions. Sanatoriums, health resorts and other specialized accommodation facilities show modest dynamics in relation to growth (Rosstat, 2017).

Currently, Moscow and St. Petersburg account for more than half of the Russian hospitality market. Most hotels in Moscow are used to working with business travelers and typically do not provide enough entertainment for tourists. All extra services are geared to business needs (e.g. conference halls, business centers, etc.). Although the total room numbers in the Moscow market are growing, demand appears to be unpredictable (Sheresheva et al., 2016). Despite the fact that there is growth in total occupancy to coincide with key calendar events such as New Year holidays, revenue is not high. The increase in total occupancy during the New Year holiday period for example is mainly generated by

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</tr>
</thead>
<tbody>
<tr>
<td>Number of collective accommodation facilities</td>
<td>12,585</td>
<td>14,019</td>
<td>14,019</td>
<td>14,583</td>
<td>15,590</td>
<td>20,135</td>
<td>20,023</td>
</tr>
<tr>
<td>Number of employees, Thousand</td>
<td>394.2</td>
<td>391.3</td>
<td>386.4</td>
<td>375.3</td>
<td>399.2</td>
<td>402.6</td>
<td>466.6</td>
</tr>
<tr>
<td>Size of room fund, mill. (m2)</td>
<td>11.7</td>
<td>11.5</td>
<td>11.5</td>
<td>11.5</td>
<td>13.1</td>
<td>13.4</td>
<td>17.8</td>
</tr>
<tr>
<td>Number of Russian citizens in accommodation</td>
<td>27.2</td>
<td>29.3</td>
<td>31.8</td>
<td>32.5</td>
<td>33.8</td>
<td>35.5</td>
<td>48.2</td>
</tr>
<tr>
<td>facilities, mill.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of foreigners in accommodation</td>
<td>3.4</td>
<td>3.9</td>
<td>4.2</td>
<td>4.4</td>
<td>4.6</td>
<td>5.0</td>
<td>6.1</td>
</tr>
<tr>
<td>facilities, mill.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of beds, mill.</td>
<td>1.26</td>
<td>1.29</td>
<td>1.35</td>
<td>1.39</td>
<td>1.57</td>
<td>1.76</td>
<td>1.83</td>
</tr>
<tr>
<td>Volume of paid accommodation services, bill.</td>
<td>112.9</td>
<td>141.0</td>
<td>141.0</td>
<td>162.4</td>
<td>175.7</td>
<td>188.99</td>
<td>213.3</td>
</tr>
<tr>
<td>Fixed capital investments in the development</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>of collective accommodation facilities, bill.</td>
<td>20.6</td>
<td>41.2</td>
<td>27.6</td>
<td>67.4</td>
<td>80.5</td>
<td>32.6</td>
<td>30.4</td>
</tr>
</tbody>
</table>

Note: Without small businesses and micro-enterprises, and without investments not observed by, direct statistical methods
Sources: Fedstat (2015); Federal Agency for Tourism (2016); Rosstat (2017)
students and school groups, but they are characterized by low rates, high shock absorption and low package income (they do not usually consume additional services).

Although the share of high-quality supply is gradually increasing, the opportunities for development are far from exhausted. In fact, room stock is increasing mostly at the expense of luxury segment hotels, though demand is concentrated on hotels in the midscale and upper-midscale segments.

It is worth underlining that accelerated growth has occurred in the number of local accommodation facilities since 2010. This trend was especially noticeable in 2015: the number of accommodation facilities fixed by Rosstat increased by almost a third (+29.2 per cent) or by 4,500 (Rosstat, 2017). However, it should be borne in mind that it is often not just about opening new hotels run by international operators. Local hotel service providers operate mostly two- and three-star hotels (mini-hotels, boutique-hotels, hostels, condominium hotels, departmental hotels, motels and the short-term rent sector). They are quite active mainly in Russian regions, especially in those that are not yet attractive to international hotel chains.

In the hotel market, deals with long-term prospects are concluded for many years to come. Accordingly, hotel brands have to look a little further ahead than some short-term variations in the market and try to foresee what will happen tomorrow. How does a region develop its infrastructure, air communication and railway links? All these are very important considerations for hoteliers. All experts point out that the main concern of hoteliers is scarcity of cheap money, which prevents them from starting development projects even if they are cost-effective themselves.

Another issue is quality of project management. This is one of those factors that directly affect both the decision to open a new hotel and the financial component of the development project. Still, many experts admit that there is some improvement, mainly owing to the growing number of companies that provide professional project management services. There is also a growing understanding of hotel business specifics by potential investors and proper understanding of project stages by suppliers that are becoming more numerous and more professional.

**International hotel chains in the Russian market**

The history of international hotel chains operating in Russia dates back to the 1990s. The first foreign newcomers to Russia were the global majors operating worldwide who had the resources to invest in a demand-generating infrastructure (Sheresheva et al., 2016). The first newcomers in 1991-1993 were Accor, Intercontinental, Kempinski, Marco Polo, Renaissance and Radisson.

The entry strategy decision is highly dependent on the market structure and competition intensity in the market (Buckley and Casson, 1998; Chetty et al., 2015). Therefore, the most popular format for reconstruction and building new accommodation facilities in Russia were international joint ventures (IJV) and the first successful one was established by Radisson Hotels and Resorts Worldwide. It was a logical choice for entering a new, unknown emerging market as local partners’ knowledge about the formal rules and informal constraints are highly important, as well as formal and informal connections with local government.

Some international hotel chains prefer to choose management contract and/or franchising (Table III). The franchise system is the main expansion strategy used by hotel chains internationally:

The decisions with regard to franchising are driven by capital market systems trying to meet the demands of shareholders and also by a strong desire to protect core competences to meet the expectations of international customers (Altinay, 2007, p. 407).

Hoffman and Preble (2004) argued that the main factors favoring franchising in Russia in the absence of established local hotel chains related to consistent service standards,
improvement in the quality of hotel design and funding for hotel-related infrastructure in general. Owing to the capital intensity, political risk and duration, for many hotel projects in Russia a mixed strategy called “manchising” is a common choice – that is, management contract for two-three years – and later extended via a franchise (Sheresheva et al., 2016).

Now there are many international hotel chains operating in Russia, including global majors (Table IV), and their number is constantly growing (Table V). In 2015, according to the annual survey of the Russian hotel market conducted by Ernst and Young, there were 152 hotels in Russia run by international hotel operators, with a total room number of

<table>
<thead>
<tr>
<th>Company/brand</th>
<th>Mode of operation/entry in Russia</th>
<th>Main strategy/brand</th>
</tr>
</thead>
<tbody>
<tr>
<td>Best Western</td>
<td>marketing network, locally managed</td>
<td>marketing network, locally managed</td>
</tr>
<tr>
<td>Bass hotels and resorts</td>
<td>locally managed</td>
<td>locally managed</td>
</tr>
<tr>
<td>Holiday inn</td>
<td>consultancy contract</td>
<td>franchising</td>
</tr>
<tr>
<td>Inter-continental</td>
<td>consultancy contract</td>
<td>management contract</td>
</tr>
<tr>
<td>ITT Sheraton</td>
<td>franchising, management contract</td>
<td>franchising, management contract</td>
</tr>
<tr>
<td>Kempinski</td>
<td>management contract, joint venture</td>
<td>management contract</td>
</tr>
<tr>
<td>Marriott hotels, resorts and suites</td>
<td>franchising</td>
<td>management contract, franchising</td>
</tr>
<tr>
<td>Renaissance</td>
<td>joint venture (acquisition of share)</td>
<td>management contract, franchising</td>
</tr>
<tr>
<td>Radisson</td>
<td>joint venture, franchising</td>
<td>franchising</td>
</tr>
</tbody>
</table>

Table III. Examples of entry modes in Russia and general expansion strategies of international hotel chains (mother companies, subsidiaries or brands)

<table>
<thead>
<tr>
<th>Hotel brand</th>
<th>World chains rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>Four Seasons Hotels and Resorts</td>
<td>9.1</td>
</tr>
<tr>
<td>Lotte Hotels &amp; Resorts</td>
<td>8.3</td>
</tr>
<tr>
<td>Park Hyatt</td>
<td>8.1</td>
</tr>
<tr>
<td>InterContinental Hotels &amp; Resorts</td>
<td>7.7</td>
</tr>
<tr>
<td>Marriott International</td>
<td>7.5</td>
</tr>
<tr>
<td>Crowne Plaza Hotels &amp; Resorts</td>
<td>7.4</td>
</tr>
<tr>
<td>Hyatt Regency</td>
<td>6.5</td>
</tr>
<tr>
<td>Radisson Blu Hotels &amp; Resorts</td>
<td>6.5</td>
</tr>
<tr>
<td>Hotel Indigo</td>
<td>6.2</td>
</tr>
<tr>
<td>Radisson Hotels &amp; Resorts</td>
<td>5.4</td>
</tr>
</tbody>
</table>


Table IV. Top 10 best international hotel brands operating in Russia according to WCR rating

<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>Number of hotels</td>
<td>43</td>
<td>75</td>
<td>100</td>
<td>137</td>
<td>169</td>
</tr>
<tr>
<td>Number of rooms, thousand</td>
<td>10.9</td>
<td>19.5</td>
<td>24.8</td>
<td>31.5</td>
<td>37.6</td>
</tr>
</tbody>
</table>

Sources: Fedstat (2015); Rosstat (2017); Federal Agency for Tourism (2016); Ernst and Young (2017)
34,466 rooms. At the end of 2016, the number of hotels under international management operating in Russia had grown by 172 properties, with Carlson Rezidor Hotel Group, Accor Hotels, InterContinental Hotels Group and Marriott International holding about 66 per cent of the market share (Ernst and Young, 2015, 2016).

Two megacities, Moscow and St. Petersburg, hold a larger share of the Russian market (54 per cent of hotel room capacity), followed by Sochi (12 per cent), the Moscow region (6 per cent), Yekaterinburg (3 per cent) and other cities. The growth rates were 16 and 8 per cent for 2015 and 2016, respectively, which indicates a slowdown in the activity of international hotel chains in Russia, mainly owing to the current geopolitical situation. As to the dynamics of the opening of new hotels, there were 12 and 45 per cent decline for 2015 and 2016, respectively, similar to the dynamics of the room number in the hotel segment (Ernst and Young, 2016).

The main firm-specific competitive advantages that help hotel chains to be internationally successful are concepts, brands, supplier relationships and experience. The concepts are their business model and their knowledge on how to internationalize. After years of experience, leading international hotel chains have advanced strategies, management expertise and concepts that are internationally transferable. Still, they need to understand how they can build supply chains and establish their core concepts in emerging countries.

Our research has shown that international hotel chains operating in Russia prefer time-tested and long-standing business schemes. However, it is difficult to apply international standards to the Russian market directly because the strategy of international hotel chains in Russia depends on the local environment. Therefore, international hotel operators tend to adapt their strategies while keeping in line with their usual business schemes.

Strengthening of the OTAs in addition to lack of any organization among hoteliers generates “dumping”. The OTA dictates the way all the information about the property is provided. This leads to the fact that the well-known brand hotels within the OTA platform have fewer advantages (Sheresheva et al., 2016).

The strategy of international hotel chains in Russia differs from the local hotel chains strategy: Russian hotel chains prefer to buy assets, while international hotel chains manage hotels, Russian hotel chains are mainly focused on the two- or three-star level, while international hotel chains operate in upward segments of four- or five-star level. Overestimated expectations of Russian investors contribute to a slowing of the pace of new hotels commissioning, while the prevalence of old accommodation facilities stimulates greenfield investment, which gives way to building facilities in accordance with international standards that are consistent with the quality policy of international hotel chains.

The “first wave” of international hotel chains’ development in Russia led to a predominance of expensive hotels aimed at business tourism and leisure (a “bleisure” concept) in Moscow and St. Petersburg. The strategy of focusing on the top market segment is still in place. At the same time, there is an obvious deficit of facilities that are consistent with international standards, especially in the Russian regions as more tourists want to explore far-out locations, and more business travelers are visiting Russia. Small independent hotels in the regions are few in number and cannot provide adequate quality standards. There is a need for more hotels that would have fast and professional staff, business centers with all the necessary equipment, fast and free Wi-Fi in the hotel, among others.

All this makes the Russian regions very attractive for investment and new market players, and so, most international hotel chains in Russia implement a strategy of regional expansion. The geography of their presence becomes more extensive and covers large cities
in different regions of Russia. It is anticipated that international brands will open new hotels in Arkhangelsk, Chebaksary, Ivanovo, Kemerovo, Lipetsk, Naberezhnye Chelny, Nizhny Tagil, Novorossiysk, Pereslavl, Perm, Saransk, Saratov, Stavropol, Surgut, Suzdal, Tver, Togliatti, Ulyanovsk, Vladivostok, Vladimir, Khabarovsk, Yaroslavl, Zelenogradsk, Zavidovo and some others.

The expediency of global majors expansion refers to regions with high business activity (these regions attract high-income consumers who are oriented toward high standards of hotel service quality). The Hilton Hotel Corporation has committed to an increase of 4 per cent (from 8 to 12 per cent), which translates to an additional 524 rooms in three hotels opened in Novorossiysk, Volgograd and St. Petersburg. The Marriott International Inc. has almost doubled its room capacity (from 6 to 11 per cent), that is 1,153 new rooms in Krasnodar, Nizhny Novgorod, Sochi and Novorossiysk. Still, the top international hotel chains (Marriott International, Rezidor Hotel Group, Starwood Hotels and Resorts Worldwide and Accor Hospitality) are only interested in Russian cities with a population of 500,000 or more, preferably with good infrastructure (Korobkin, 2017).

There is also evidence of “small-size” international brands activity, but their number is growing very slowly because they have a number of adaptation problems in Russia. As an example, the cost structure of operating a hotel in Russia is different from that of most other countries in the world: the Russian climate demands more lighting and heating. In addition, the operators tend to hire extra security personnel. As a result, it is almost impossible to implement the standard budget-hotel model in Russia owing to operating costs that appear to be so high that hotels would need to charge higher prices. As a result, about 60 per cent of Russian hotels operate under little known brands (Berezina et al., 2016).

International hotel operators are expanding in the Russian market and are creating some trends in the local hospitality industry. One of the most important trends is growing the role of relationship marketing in the long-term success of any hospitality company. That means that the popularity of a hotel significantly increases if it builds sustainable relationships with suppliers of products and services, travel agencies and other actors in the market which in turn, helps to provide a wide range of services.

It is worth mentioning that new hotel construction rates are still too low in Russia: constructing new hotels in Russia requires significant investment and the payback takes a long time. Most of the international companies are unwilling to risk their own capital in the face of questionable rule of law and questionable security of foreign investments. At the same time, a relatively low proportion of local capital is directed toward hotel investments: In the face of more pressing need for investment in other asset classes such as industrial, residential, and commercial, each producing higher volumes of development opportunity and greater political support (Slattery et al., 2008).

Thus, it is not easy to find an investor for a hotel development project in any of the Russian cities.

In general, the supply in travel accommodation sector in Russia increases at the expense of launching non-network hotels. Hotels offering international standards still have a small market share in metropolises and hesitate to expand to other Russian cities. Even in large Russian cities (Yekaterinburg, Novosibirsk, Khabarovsk, etc.) there are not more than one or two hotels providing adequate international quality standards. The situation is even worse in smaller cities (Vladimir, Ryazan, Sarapul, Lipetsk, Irkutsk, etc.). The luxury hotel niche is still partly undeveloped, as well as some other niches, including the low price hotels segment. Therefore, there are many opportunities for hotel operators in the Russian regions.
In Russia, as in other countries, the challenge facing hospitality and tourism organizations is no longer limited to managing service provision and delivery but “managing the fundamental building blocks for long-term socio-cultural relationship and understanding” (Dioko, 2016). In the experience economy era, requirements are increasing for living conditions, quality of service, catering and other services to be provided as a single complex product to ensure positive consumer perceptions and emotions. In this complex product, hotel services are of crucial importance. Our research conducted in 2014 has shown, there is a need not only to cut prices but also to look for improving hotel services (Sheresheva and Yakuba, 2015; Sheresheva et al., 2016). Therefore, managers need to understand both satisfied and dissatisfied hotel customers.

For the Russian regions, it is highly important that foreign hotel chains bring capitals and technologies and invest in infrastructure. In some regions, local owners begin to build three- or four-star hotels and brand them immediately after the first international brand enters the city. Therefore, one can assume that the movement of foreign hotel brands into the Russian regions can have positive impact on the economic position of smaller cities.

Expert opinion concerning current market trends and challenges in the Russian hospitality market confirms our conclusions based on secondary data, but it also provides additional important information. In particular, experts focused on long-term relationships and guest loyalty, on positive experience as a way to gain loyal clients and the growing role of the internet. Most experts also emphasized that the joint efforts of hoteliers are required to improve the image of Russia as one of several key contemporary objectives.

A brief overview of the research results presented in this section confirms the need for improvements and shows that long-term strategic decisions based on understanding customer needs and perceptions, as well as focusing on relationships, is crucial for success in the current challenging environment.

**The case of Best Western Hotels & Resorts**

The short case of Best Western Hotels & Resorts serves as a good example of the opportunities and risks in the challenging Russian environment.

The key strategic focus of the Best Western Hotels & Resorts brand is that the company does not manage the hotels in the chain, leaving the management to owners. It can be a management company hired by the owner, or the owner taking personal responsibility for all decisions, from hiring staff to financial issues. This is the main difference from many other international hotel brands that focus on direct management. Best Western’s involvement in the operation of the hotel is to train staff, share knowledge about practices in the international market and ensure improvement of service quality.

Best Western focus on providing a category of two-three-star hotels of high standards and they offer guests a very good, quality product. The results of marketing research revealed that the two-three-stars segment is not particularly interesting for global majors, but Best Western consider this to be an important segment with high market demand, especially when a crisis environment prevails and guests tend to spend less.

Best Western managers in Russia have a very tight schedule for meetings with regional developers. Taking into account that in many regions there is no understanding of what revenue management is the company focus is on helping the hotelier to manage profitability and to do that more effectively. The transfer of best practices as well as training sales staff to sell and to promote is considered the main advantage of Best Western. Yulia Denisenko, a leading revenue manager in Best Western Hotels & Resorts, emphasizes this point:
If the hotel has never been in a chain, then a strong team rarely gathers in it. Therefore, it is necessary to conduct training, constantly keep in touch, to advise, to guide. But such activity brings its results.

The flagship hotel in Russia is the Best Western PLUS Vega Hotel & Convention Center – the largest, in a good location in the center of Moscow, close to Red Square. At the same time, Best Western is successfully moving to smaller Russian cities. Besides Best Western PLUS Vega & Convention Center in Moscow and Best Western PLUS Centre Hotel in St. Petersburg, there is the Best Western Russian Manchester in Ivanovo, Best Western Sebastopol, Best Western Kaluga and Best Western Spasskaya in Tyumen.

A representative of Best Western says that entering a smaller city where international brands have not yet come proved to be a very promising strategy. In fact, the first international brand is highly attractive for tourists and “begins to collect all the guests from other faceless hotels”.

The “dark side” of such a strategy is that there are risks of conflict and termination of contract. Art-hotel “Nykolaevsky Posad” in the ancient small city Suzdal was a member in the Best Western chain. It has grown to the level of a multifunctional tourist complex, an architectural ensemble in the style of a merchant’s estate, offering cozy rooms across various categories. Each building of the hotel is unique in its own way. There are several gyms and a full-fledged sports complex, seven modern conference rooms, as well as three restaurants, including one with traditional Russian cuisine. Art-hotel “Nykolaevsky Posad” provides a full range of services for the reception and organization of business meetings, conferences, sports events, weddings, corporate parties. Its capacity is up to 1,000 guests.

Development of these facilities, as well as staff training, was under the supervision of Best Western. However, a couple of years ago, the owner of the Art-hotel “Nykolaevsky Posad” terminated the contract. As a result, having invested quite a lot of effort in the development of the tourist complex, Best Western lost positions in Suzdal, an important tourism destination that attracts an increasing number of tourists and thus was highly attractive to Best Western in its move into the Russian regions.

**Conclusions and implications**

The main conclusions are as follows.

Over the past two decades, there has been major growth in the Russian hospitality sector, with foreign hotel chains being one of the catalysts of accommodation infrastructure improvement.

Recently, global majors have significantly increased their activities in the Russian regions, but they operate in up-market segments and give preference to large cities, and are less interested in opening hotels in small Russian towns, targeting only cities with a population not less than 300,000 (preferably 500,000 and more).

Many smaller international hotel chains, which also started operations in Russia, are seeking opportunities for growth in the budget segment. They are also considering the strategy of regional expansion but are hesitating to target smaller cities. Their main concern is the unstable tourist flow because in small towns, even in those that are attractive to tourists, event and educational tourism prevail. Another important challenge is the cost structure of operating a hotel in Russia, which is different from that of most other countries, mostly owing to climate specifics. It is almost impossible to implement the standard budget-hotel model in Russia owing to high operating costs. In addition, as the example of Best Western has shown, collaboration with local hoteliers is quite risky, misunderstanding and weak legislation can render the internationally approved strategy ineffective in Russia. This may lead to the termination of relationships, and to the loss of the hard-won niche positions.
One can conclude that the accumulated knowledge and expertise of internationally recognized brands is not easy to apply directly in the local market. Hotel chains have minimal brand infrastructure in the country, new hotel construction rates are still too low in Russia and there is an obvious need for significant investment in training and education to develop an effective hotel workforce. One of the main challenges for international hotel chains is strategy adaptation to the complex environment and building network relationships in the Russian hospitality market.

Our findings add to the literature on emerging markets by discussing the main challenges facing international hotel chains in the Russian hospitality market, and by stressing the facilitating effect of hotel chains’ upon tourism infrastructure development in small and medium towns in Russian regions.

The findings also suggest there is scope for further research. As the research presented in this article is qualitative and exploratory in character, there is a need to conduct quantitative research with a larger number of respondents. Cross-cultural comparison of international hotel chains in different emerging markets could help to reveal more precisely the role of networking in gaining competitive advantage in the hospitality sector. Regional operations of hotel chains in Russia and possible ways to attract hotel chains to small Russian cities that are promising tourist destinations but lack accommodation infrastructure will remain a promising avenue of further research.

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Further reading


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