



An Eye on West Africa

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With Africa being touted as the next big thing by the likes of Michael Wale, head of Europe, Africa and Middle East at Starwood Hotels & Resorts, in an interview with Financial Times for its website, it's no surprise that the African hotel industry has received a lot of attention from the international press recently. Websites like the Financial Times site and Travelmole are running stories about the expansion of the major chains into hitherto "uncharted territory".

Last year we tracked over 200 new branded African hotel deals with 40,000 rooms in the chains' development pipelines. A conservative estimate of the total investment would be in the order of \$8 billion to \$10 billion! And that excludes investments being made into unbranded hotels, and the renovations being undertaken by many existing hotels.

But hotel business models can be baffling and often lead to confused journalists reporting incorrect information about how international chains intend to operate businesses when entering the African hotel market. How often have you seen headlines stating that "ABC international hotel chain is building a new hotel in XYZ city"? It's a headline that is almost always inaccurate - by and large, the hotel chains neither invest in nor build hotels.

Of course, there are exceptions to this rule. Tsogo Sun owns its Southern Sun hotels in Lagos, Dar es Salaam (Tanzania) and elsewhere. Carlson Rezidor, through its co-owned Afrinord fund, has invested in Bamako (Mali) and other locations. Even Hilton, which like most everyone else in the industry operates an asset-light model, owns a chunk

of the Nairobi Hilton (Kenya), although that's a 'legacy' from many years back.

So how does it work, at, for example, the InterContinental in Lagos (Nigeria), or the Holiday Inn in Accra (Ghana)?

Both brands are owned by the UK-based InterContinental Hotels Group (IHG). Both hotels receive branding, marketing and distribution services from IHG. But neither hotel received a penny of investment from IHG. It's not what (most) hotel chains do, but in these instances it's working well.

The InterContinental Lagos is owned by the Milan Group, and operated under a management contract by IHG, which provides management, branding and marketing services to the owner. IHG is responsible for managing the hotel efficiently and, hopefully, profitably, while looking after guests. It is not, however, an IHG hotel, nor an IHG business - and when things go wrong, you will, eventually, end up dealing with the owner's lawyers, not IHG's.

Then there is the Holiday Inn in Accra, which is owned and managed by the Royal Airport Hotels Group (RAHG). There is no-one in between guests and the owner. IHG provides branding and marketing services to RAHG under a franchise contract, but other than regular quality control audits, has no day-to-day input into the running of the hotel. It does not manage the operations.

RAHG believes that it has no need to pay IHG for management services. Like hundreds of thousands of hotel owners around the world in branded (franchised) and unbranded hotels, RAHG feels it can manage its establishment independently.

Milan, on the other hand, felt that the benefits of IHG's management experience (and brand recognition) outweighed the money it would spend in management fees.

Would the average guest know the difference between these two models of hotel operation? No. And nor should they. That's the point - the brand promise is a brand promise, regardless of who is delivering it.

The franchise model, such as the one in operation at the Holiday Inn in Accra, is very common in the USA, and on the rise in Europe. It is far less popular in Africa, mainly due to the lack of management expertise that dogs the industry. To be successful in the industry, hotels require expert management, which is found primarily in large international firms. To the best of my knowledge, most franchised hotels in sub-Saharan Africa are managed not by individual owners but by the major, experienced players - African Sun manages Holiday Inn franchises in Zimbabwe, Tsogo Sun manages InterContinental franchises in South Africa, UAG (United Africa Group) manages Protea franchises in Namibia, and so on.

So now you know the difference between a managed hotel and a franchise. You won't notice any difference. As long as the brand promise is being delivered, it matters not who is behind the service you receive. ■

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