

CHAPTER 2: THE PROBLEM

Business overview

Accor is a leading company in the hotel industry in Australia possessing hotels in 6 of the biggest cities in the country. According to Michael Issenberg, CEO for Accor Asia-Pacific, despite the peaks and troughs, Accor has done very well in Australia and now dominates the local industry with 130 properties under management and 20 per cent of TAHL (Tourism Asset Holdings Limited). Australian accommodation market conditions, currently, are the best they have been since the 1980s. Demand is strong in all key markets and the French hotel giant is forecasting annual room rate rises of 10 per cent for at least the next couple of years (Kelly, 2007).

Since 2006, the company has been expanding its market horizons by targeting motels and serviced apartments as part of its move into the hotel property franchise sector which has seen it offer its All Seasons brand to owners of self-contained apartments, motels and small resort complexes due to the huge potential for growth in the Australian-New Zealand market. Accor has said that more than 60 per cent (approximately 3,200 properties) of the market in Australia and around 50 per cent (approximately 1,600 properties) of the hotel market in New Zealand was made up of small unbranded properties (Hospitalitymagazine.com.au, 2005).

In an article entitled “Asian growth lures Accor”, Issenberg makes the point that in Australia, Accor is looking more up-market, therefore, the hotel group is launching its new five-star Pullman brand in Sydney. The \$50 million AUD hotel at Olympic Park will be owned by TAHL and completed by the middle of next year. Pullman will play an important

global role in the Accor brand portfolio, allowing the company to re-brand numerous Sofitel properties that do not fit that brand's new "luxury" positioning (Accor intends to have 250 properties under the brand by 2015).

In contrast, Simon McGrath, Accor vice president for Australia says that for most corporate accounts, 2008 will be the year of guaranteeing last minute availability. For that reason, the hotel group will continue to focus on delivering what the corporate clients want, in other words, availability in locations where there is limited supply and rising demand.

Despite the downturns in the financial international system during the last weeks, that has affected directly and indirectly the Australia economy, according to McGrath 2008 will be a very good year for Australian tourism and hotel industry. In order to attract a 'fairer' rate, the hotel group will keep on providing the highest level of service and quality for the right price. McGrath tells pricing becomes secondary if the number one priority for any guest (service) is not delivered and this is a perfect time for the industry to focus on service and strong hospitality principles. At the same time refurbishments and product improvement must be high on every hotelier's list of considerations for 08/09. "We need to reinvest in the infrastructure that underpins the businesses that make up the industry" (McGrath, 2008, p.5).

On the other hand, since the late 1980's Accor has established its headquarters in Australia for the Asia-Pacific region, which administrates hotels in China, Hong Kong, Japan, Thailand, Indonesia, New Zealand, Fiji, the French Polynesia and Australia. As the Asian markets grow and become more attractive to the tourism industry, the headquarters

are soon going to be transferred to Singapore for strategic purposes, in order to be closer to lure new markets in the region, China and India.

In the late 2006, the hotel group signed an agreement with EMAAR Properties (a Dubai-based Public Joint Stock Company and one of the world's largest real estate companies) to build 50 Formule 1 hotels over the next five years, 10 hotels are scheduled to be opened late this year. Accor's development strategy for India covers the full spectrum of the market including budget Formule 1 hotels, economy Ibis hotels, mid-market Novotel hotels and deluxe Sofitel properties (Australia India Business Council, 2006).

Despite the overall success that Accor has experienced in Australia and its recent investments, there is reason to believe that the implementation of Accor's growth strategy may be threatened due to its dependence on reliable and qualified personnel. Some properties in Australia appear to be suffering in performance due to the high level of employee turnover. This phenomenon is described in the following section.

Symptoms

Although the environment has been favourable for the tourism industry in general, Accor's performance has not gone very well in its Sydney location. Despite the fact that it has long term contracts with corporate clients and its location promotes itself, as it is strategically situated in one of the most exclusive areas of Sydney's CBD. To illustrate, revenues have fallen; in 2006 DHH did not achieve a substantial amount of the revenues from the year before. This will be explained in the following pages.

It is believed that one of the reasons for this drop in revenue is due to the quality of service given by the company's staff that has deteriorated. In the first semester of 2006 Accor's DHH suffered several changes, internally, in order to increase its revenues, as well as, make the system and the management of the hotel more efficient. Therefore, the company's executives decided to make some changes in key departments like Sales & Marketing Reservations and Revenues, eliminating some job positions and delegating more responsibilities to others, transferring personnel to other areas, firing unnecessary workers and recruiting some others. This would mean that organizational changes had an impact on clients, which led to the assumption that the majority of customers noticed the decline in the quality of service and the tense environment that the employees were under within the hotelier complex during this period.

Another reason is due to the raise of the room rate charges to the customers that has a direct impact on the market demand. According to some internal files of the hotelier complex that I worked with, average rates rose approximately 6% from the previous year

(this percentage is the result of an estimation of the value of the rooms, taking into account the inflation rate and the growth rate of the hotel industry for the current year).

This could either mean there is a possibility that the reduction in the demand (room occupancy) is directly related with the increase in the average room rate or that room rates had been miscalculated and customers did not perceive the same value for money in the quality service they had been receiving. Thus, they are not ready to pay that price. But while this may be useful in constructing an idea of the performance of the hotelier complex, it is hardly useful in piecing together, in a rational way, the scenario *ad hoc* that caused the decline in the company's revenues and accomplishments.¹

Last but not least, during my internship in the organization, I identified a big rate of employee turnover. Employee turnover rate exists in every company and in Accor is in a way one of the group's advantages as it is a key element that conforms "L'esprit Accor". In fact, Accor promotes to its employees the free will of mobilizing within the Group in order to work in other areas of the hotel industry and grow professionally. However, the increase in the turnover rate may be caused by the organizational changes mentioned before. This also raises the question of whether the decisions taken by the company's executives have been positive in the short term, what the results will be in the long run and how the problems brought about can be solved.²

As in the following examples it may be gleaned from the charts that revenues fell from 2005 to 2006. This supports the assertions made in the previous paragraph and that

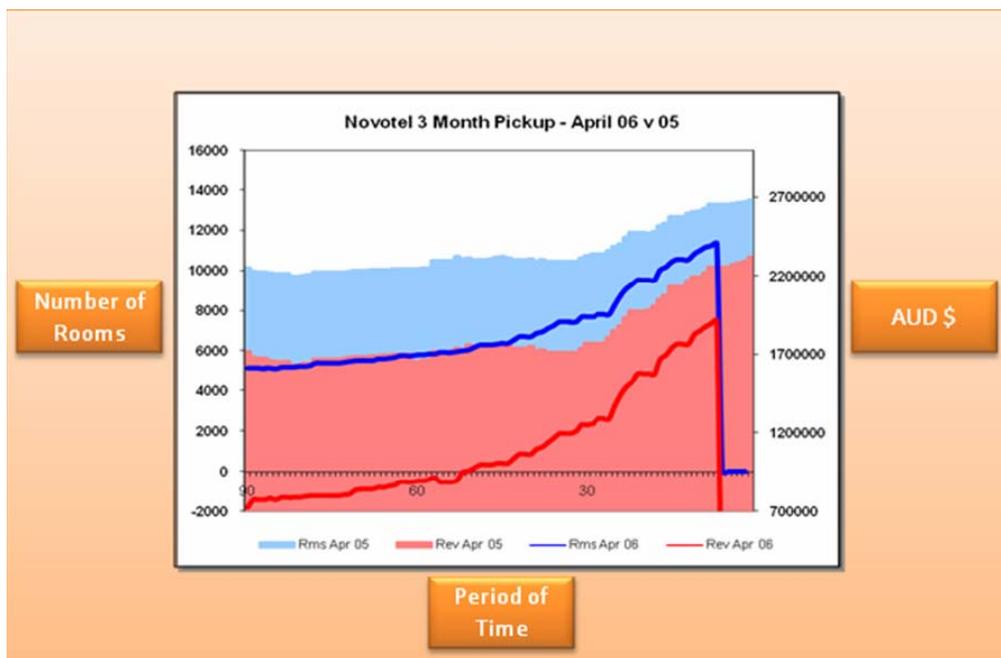
¹ A chart analyzing occupancy in the market niche, in June 2006, is shown in Addendum

² An Organization Chart comparison is shown in *Addendum*

imply the symptoms mentioned before, that company performance has been on a downhill slide.

In the chart shown below, it is noticeable that neither room capacity (Rms Apr 05/Rms Apr 06) nor revenues (Rv Apr 05/Rv Apr 06) on Novotel Darling Harbour succeeded or at least achieved the mark settled the year before. Occupancy has dropped 14.1% generating revenues of \$2,047,177 AUD, in contrast, the same period last year the hotel achieved 85.7% of the whole room capacity, generating revenues of \$2,316,698 AUD.

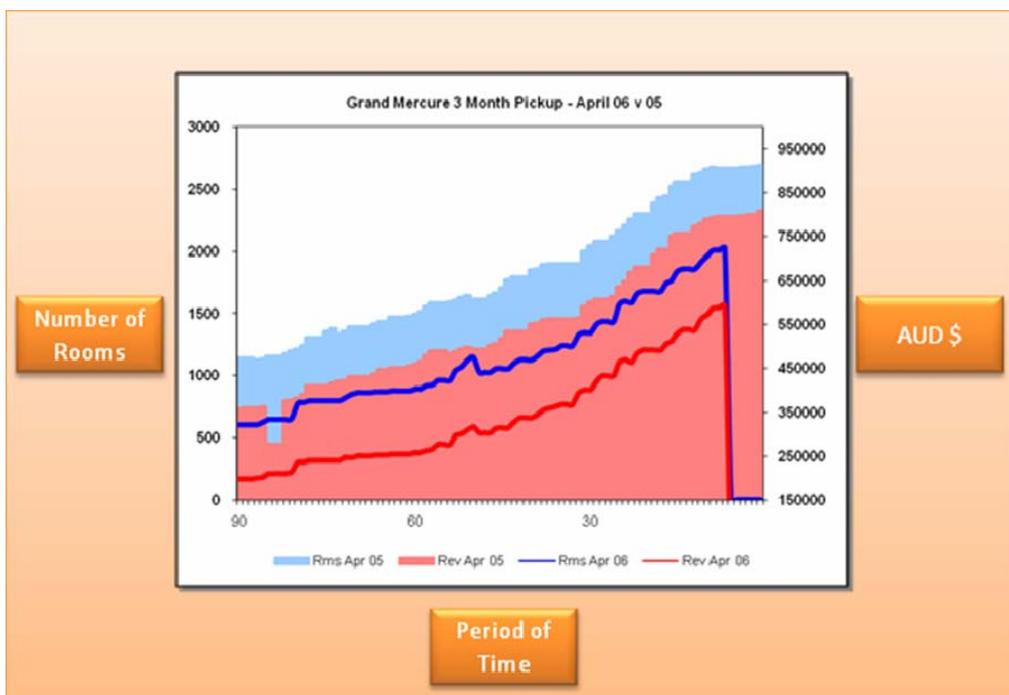
Chart 1. 3 Month Revenues-Rooms Occupation Pickup Graph for Novotel



Source: Accor's DHH internal documentation 2006

In second place, Gran Mercure Darling Harbour reported an amount of rooms sold of 2,584 (Rms Apr 05/Rms Apr 06), 100 rooms less than last year, that is to say, 3% less occupancy. Revenues in spring 2005 were \$806,918 AUD while in 2006 these were \$799,464 AUD (Rv Apr 05/Rv Apr 06).

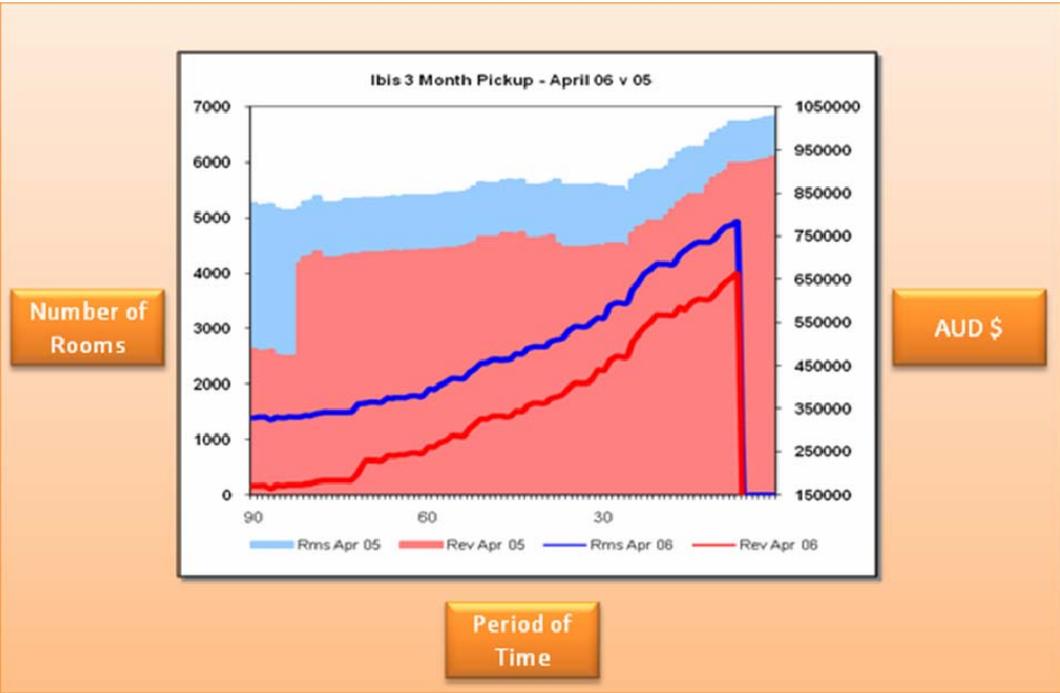
Chart 2. 3 Month Revenues-Rooms Occupation Pickup Graph for Grand Mercure



Source: Accor's DHH internal documentation 2006

Additionally, Ibis Darling Harbour reported revenues of \$870,467 AUD and 5,990 rooms sold (Rms Apr 05/Rms Apr 06 and Rv Apr 05/Rv Apr 06), when in April 2005 the 3 month pick-up dropped revenues of \$932,362 AUD and 6,818 rooms sold from the hotel's system.

Chart 3. 3 Month Revenues-Rooms Occupation Pickup Graph for Ibis



Source: Accor's DHH internal documentation 2006

In brief, the charts provide a snapshot of the situation that the company passed through in the first three months of 2006. Revenues dropped, from one year to another by an average of 8.35%, having the biggest decline was the Novotel Darling Harbour with 11.65%, and the smallest gap the Gran Mercure Apartments with a 0.92% decrease in revenues, all this considering the lack of occupancy rate.

On the other hand, there is evidence that corroborates the assumption adduced about the impact of organizational changes on the customers and their awareness of the deteriorating quality service delivered by the employees. During the period January-June 2006 the Sales & Marketing team received some complaints about the quality of service on the customer services line and on the company's websites. Subsequently the information was analyzed and a table was elaborated.

Table 1. Inquiries & Complaints

| | January 06 | February 06 | March 06 | April 06 | May 06 | June 06 | Total |
|---------------|---------------|----------------|-------------|-------------|-----------|------------|-------------|
| Accommodation | 310 | 171 | 340 | 242 | 226 | 101 | 1390 |
| C & C | 20 | 17 | 32 | 38 | 58 | 12 | 177 |
| Liquid | 8 | 2 | 3 | 1 | 6 | 3 | 20 |
| Facilities | 3 | 4 | 6 | 1 | 3 | 9 | 26 |
| Others | 9 | 6 | 10 | 4 | 18 | 7 | 54 |
| Dish | 18 | 13 | 21 | 20 | 14 | | 86 |
| | | | | | | | 1753 |

Source: Accor's DHH internal documentation 2006

According to the table above, the three main areas of complains were accommodation, conference & catering, and the ibis restaurant. Customers weren't satisfied by the service delivered in these three areas, arguing that in many cases the information delivered by the Sales Executives was incorrect or that the contract stipulations were not accomplished, in other cases, the rooms were not properly allocated to the intended customers.

Prevailing Problems

As the previous analysis points out, the decline in revenues has been caused, in part, by a lack of quality service. The quality of the service is an important element that determines the response of the accommodation's demand, because as the analysis also supposes there is a significant customer flow to other hotelier establishments that, in consequence, reflects the reduction of occupancy percentage.

The following figure tries to explain in a graphic way the different problems that the hotelier complex has faced.

Figure 1. IOWA Model of Problems faced by the Hotelier Complex

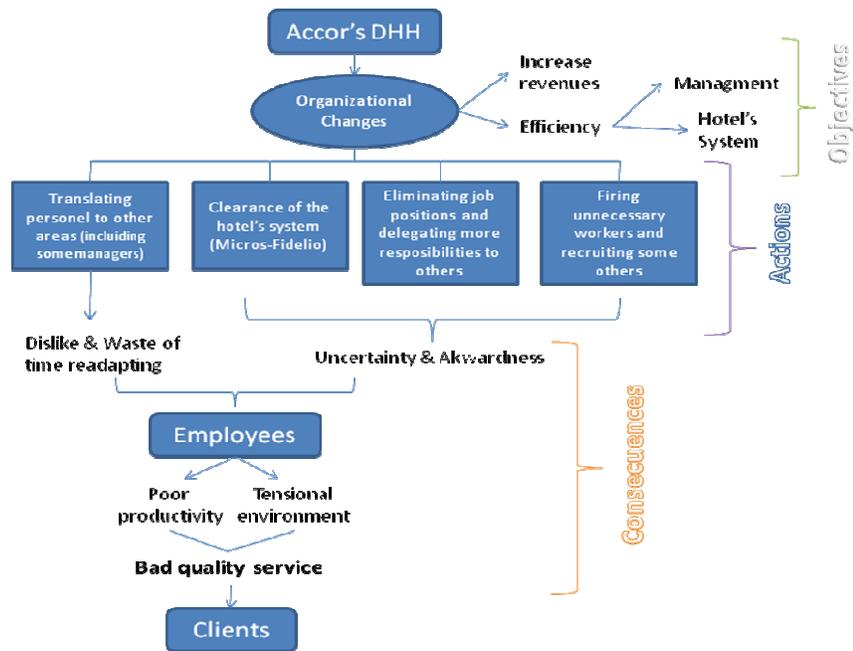


Source: Elaborated by Humberto Rodríguez Torres 2008

Moreover, the analysis highlights the importance of the employee turnover that in recent time has increased notably considering the uncertainty and awkwardness that the organizational changes carried to the employees, as a result, a downturn in the productivity, as well as, in the quality of service delivered. There is lack of evidence to corroborate this factor, however, in my own experience the rate seems to be alarming, with approximately 50% of the employee turnover just in the departments of Sales & Marketing, Revenues and Reservations, during my time as an intern, that is to say, in less than a 6 months period. Now, one year and eight months later, it can be seen on the complex's principal website (Novotel Darling Harbour website) that the rate remains around the same percentage of the employee's turnover taking into consideration that 50% of the employees that persisted in those departments in July 2006 are not working in the hotelier complex anymore.

The following figure explains the process that the hotelier complex had been facing since 2006, the objectives they tried to achieve, action taken by the manager in order to achieve these objectives and the consequences of these actions.

Figure 2. Graphic Approach of Accor's DHH problem



Source: Elaborated by Humberto Rodríguez Torres 2008

Thus, it appears that the deficiency in the service delivered to the customers has been caused by the all the changes done in the first months of the year. Here are some examples of problems faced and mistakes committed during the organizational changes that led to a drop in the productivity and, as a consequence, the delivery of poor quality service.

- In order to make more efficient the hotels' system (Micros-Fidelio) the management department designated a team of employees of different departments (Sales executives, Reservation assistant, etc) to perform a clearance on the system. During this process, the team helped to delete all the unnecessary information that was saved on the hotels' system. This information was unnecessary as in many occasions it was duplicated considering that the previous teams did not find a client's profile because it was named differently and they deliberately created a new block, neither performed a clearance on the system, nor deleted the blocks of clients

that were no longer customers of the company. Due to the lack of instructions and awareness, many people of the team committed mistakes such as deleting erroneously some important information. The information lost caused problems for the new department teams, wasting time trying to recover information, looking for possible existing blocks (customer's profiles) and delivering an unspecialized assistance, as a result, all these troubles led to a decline in the productivity.

The following paragraphs describe some specific problematic scenarios that I observed during my internship:

- The constant restructuring of the departments carried, as a consequence, a remarkable disruption with customer's portfolio assistance, a fact that left a negative image on the customers' perception. For example, on one occasion a group of Japanese corporate clients arrived to the hotel for a conference that was happening in the SCEC and the Sales executive responsible for the group of corporate clients' assistants allocated them in twin rooms when there was a note in the corporate block saying that because of cultural differences this clients preferred to be allocated single rooms considering that they felt an invasion of privacy if they shared a room with a colleague.
- Transitions weren't completed adequately, especially, because there wasn't any procedure to follow, many operation procedures and information were unrevealed in many cases workers had to ask colleagues for advise and help, delivering a slow service and sometimes even incorrect. For example, on another occasion a Sales executive attended a call from an important PCO asking for an event's room and a

catering service budget, subsequently the executive sent the proposal via fax and later on the PCO phoned the Sales & Marketing Director asking why the significant increase in the prices proposed, the Director apologized to the PCO arguing that the proposal was mistakenly elaborated as it did not take into account the discount assigned to that particular PCO. Later on, that evening, the executive was reprimanded.

- During this period of time, some of the most productive people in the hotelier complex decided to leave. That was the case of Mr. El-Kwang, a Singaporean-Australian citizen who was in charge of the business development area in the Sales & Marketing Department. For the period of his stay in the department, he brought significant business to the hotelier complex, however, after working hard for several years in the company and not being promoted for it, suddenly he received an offer from another hotel (from the Groupe Accor) and decided to be transferred.
- Meanwhile, due to the changes that had been taken into action, the working environment became stressful and productivity levels decreased. There was a sensation of distrust and indolence towards working. Furthermore, employees inside the Sales & Marketing Department were not satisfied with the arrival of the new Sales & Marketing Director, they argued that the management style was very autocratic and that impeded them from adopting the new changes. Besides, they started talking behind the Sales & Marketing Director's back. It was evident that communication channels were not working in the right way.

In conclusion, based upon the examples mentioned previously, it seems evident that turnover may be the cause of the problems being faced by Accor's DHH. The uncertainty and awkwardness that organizational changes caused influenced employees in their decision on being transferred to another hotel within the Accor Group or even quitting their jobs. In addition, the incorporation of new department directors was not always positive to everyone, as it disrupted the working environment *status quo*, some managers did not work in the same way which, caused difficulties for the teams, causing dislike, poor productivity and a waste of time in adapting to the new manager's way and this can be aggravated if these changes become often. It is evident that workers are not feeling comfortable in the working environment; as a consequence, this led to the rise of the employee turnover rate.