

**PROPOSAL TO ESTABLISH A HOTEL CLASSIFICATION SYSTEM FOR  
HONG KONG**

**INTRODUCTION**

Hotel owners world-wide have recognized the importance and benefits of belonging to a benchmark. To remain competitive, they opt for joining an international hotel chain and get slotted into that chains' multi-tiered branding system or by paying to have independent rating agencies inspect regularly their properties and to validate their claims on services and facilities. International hotel chains have always had an edge over independent hotels by virtue of brand recognition. It is this reason why brands protect and maintain their service and quality standards so vigilantly. This is their key to successful marketing. Their customers will experience **no surprises** but more importantly, no shocking experiences. Having a recognized classification system will make competition fairer.

The Federation would like to explore if the possibility of an internationally recognizable hotel classification system would be beneficial to the hotel industry in Hong Kong. If so, what are the economic impacts, what are the problems and opportunities for our industry and consumers, what are the rating criteria, who are the qualified international independent hotel experts to carry out a fair grading criteria. Would it be acceptable to hotel owners, hotel managers as well as consumers and why, how is it being maintained.

**OBJECTIVES OF THE HOTEL CLASSIFICATION SYSTEM FOR H.K.**

***1. Assisting the HKTA to market Hong Kong to the different market segments.***

Assisting the Hong Kong Tourist Association to fully understand the quality in terms of service and facilities of its diverse portfolio of hotels, and to enable them to market and position Hong Kong in the different market segments. Presently, it is extremely difficult for HKTA to market Hong Kong as a preferred destination due to Hong Kong's average room rates that hovered amongst the highest in the world before the Asian crisis.

The current classification system is out-dated and inadequate and it is time to implement a classification that is internationally comparable and meaningful.

***2. Coping with the age of information technology***

In to-day's world of B to B, B to C way of doing business, more and more hotel guests (consumers) base their purchase decisions on information (rates, star rating, facilities, service and location) published in the web-site. With a hotel classification system, hotels in HK could be compared with hotels located in other cities in the region. At the moment, rack rates of Hong Kong hotels published in the Internet have created a wrong impression to consumers that Hong Kong is too overpriced. To justify these rates, a globally recognized hotel classification system is vital to help them gauge value to price in their selection of hotels. With the system, we expect the variance between posted room rack

rates and achieved room rates to be narrowed and thus projecting more realistic prices to consumers.

### ***3. Protecting consumers***

With a system, international travelers will appreciate that the hotels in Hong Kong are built and managed to international standards and services. The system will provide them with the knowledge that Hong Kong hotels continually upgrade and enhance their facilities and services meeting changing consumer's expectations and needs. It also provides individual travelers to Hong Kong with 'no surprises' in their selection of hotels as the chosen hotels could now be evaluated on an international basis.

### ***4. Providing a barometer***

A well-designed classification system will provide a quantitative definition to subjective descriptions for quality facilities and services – a definition that is expected to be understood internationally.

### ***5. Increasing opportunities for local independent hotels***

A globally recognized hotel classification system will allow independently owned and managed hotels compete with regional and international chained hotels on a fair basis given that the independent hotels have the same if not better services and facilities.

### ***6. Protecting travel agencies, airlines and travel associations***

Enabling global travel agencies, airlines and travel associations to confidently recommend Hong Kong hotels that will fit each of their customer's need. With the system, they are at least assured that someone from a reputable independent agency has been making regular site inspections and the hotels would most likely deliver "no surprises" to their clients on arrival.

**PERCEIVED BENEFITS/CONCERNS OF A CLASSIFICATION SYSTEM AFFECTING:**

The Federation has summarized the following benefits, concerns and comments received so far for the adoption of a hotel classification for the industry.

**HOTEL OWNERS**

As the key objectives of this exercise is primarily marketing driven, hotel owners should benefit substantially in its hotels being recognized and accepted as a key member within that grouping of hotels.

***Benefits***

<b>Benefits:</b>
1. Better match of customers' expectations, resulting in consumers being more confident in purchasing higher rated rooms.
2. Clear market positioning of the owned hotel.
3. Locally owned and managed hotels will be measured fairly against international operators.
4. Easier comparison of operational results against the hotel's own competitive segment.
5. Policy benefit: at this moment, it is difficult to separate purposely-built hotels from guesthouses under the Hotel and Guesthouse Ordinance because there exists no system of any hotel classification.
6. Their hotels are validated regularly by an independent agency.

## HOTEL OWNERS

### *Concerns and Comments*

<b>Concerns</b>	<b>Comments</b>
Owners will need to spend money on bringing their properties up to par initially.	<i>This would be a one-time cost that could be phased in over a reasonable period based on operational projections. Besides, most hotels in Hong Kong are already built to very high international standards and only superficial improvements may be required to bring them into compliance with each classification</i>
Hotels may need to be upgraded in facilities and amenities annually to meet market needs and to maintain its star rating.	<i>Built in flexibility within the classification system could ease this concern.</i>
Banks and other lending institutions may need to adjust to a new rating system	<i>In reality, banks and other lending institutions rely on cash flow and operating results and not on a 'star rating' for valuation purposes.</i>

## HOTEL MANAGERS

Hotel managers may express dissatisfaction with a classification system because they may be concerned that they could personally become 'branded' along with the managed hotel as a two star or three star manager and thus become less in stature to a four star or five star manager.

### *Benefits:*

<b>Benefits:</b>
1. Should help in the market positioning of the hotel.
2. Easier comparison of operational results against the hotel's own competitive segment.
3. Would assist them planning for capital replacement needs to upgrade to required standards.
4. More realistic published rates can be advertised through the internet and improved average rates and occupancies may result.

## HOTEL MANAGER

### *Concerns and comments*

<b>Concerns</b>	<b>Comments</b>
1. To be rated or branded personally as a manager of lower stature	<i>Employers do realize that operating a two to three star independent hotel could be even more challenging and difficult than a five star international chain property. Hotel Managers with good performance track records should not be concerned with this classification for hotels.</i>
2. Money that will be spent on initial upgrade of property.	<i>This is a one-time cost that could be phased in over time.</i>
3. Money that may have to be spent continually to meet annual improving standards.	<i>Increased average rates that customers are happy to pay because of direct responses to their changing travel needs should more than compensate for the costs of minor upgrades annually.</i>
4. That the classification is not designed and implemented by a fair and knowledgeable 'agency' and what recourses are available.	<i>Representation from the Hongkong Hotels Association will be sought for membership on the Committee that will interview and award this assignment to the consulting agency. An arbitration panel made up of members from the agency, Federation of Hong Kong Hotel Owner Association and Hong Kong Hotels Association could be set up to address all appeals.</i>
5. That the annual upgrade requirements are excessive, unreasonable and expensive.	<i>A good 'agency' would work in step with the growth of the hotel industry in Hong Kong and make recommendations based on affordability, timeliness and market demands.</i>

## CONSUMER MARKET – END USERS

A properly designed classification system is expected to benefit and protect the consumers immensely. This will reduce a great amount of uncertainty for the travelling public and install confidence in experiencing: No Surprises on arrival.

### *Benefits*

<b>Benefits:</b>
1. Improved awareness of the selected hotel's service and facilities standards.
2. Easier valuation of price value relationships between choice
3. Achieve No Surprises.
4. An additional avenue for complaint of poor experiences.

### *Concerns and comments*

<b>Concerns</b>	<b>Comments</b>
1. Classified or rated hotels may command higher room rates to compensate for the maintenance of ever-improving standards	<i>Travellers would be better informed consumers and can make wiser purchase decisions in determining value for money.</i>
2. That the classification is not done by an internationally knowledgeable 'agency'	<i>Consistency and fairness in the application of the classification system should minimize this concern</i>

## OTHER INTERESTED THIRD PARTIES

Third parties including the Hong Kong Tourist Association, Travel Agents world-wide, Airlines should all find a properly designed hotel classification to be a major benefit in marketing and recommending hotels in Hong Kong.

## **RECOMMENDATIONS AND CONCLUSION BY THE FEDERATION**

The Federation is of the opinion that a classification system will benefit all hotels, owners and consumers in the medium to long term. We aim to establish and adopt an acceptable system in Hong Kong as soon as possible. The Federation of Hong Kong Hotel Owners Limited will source, interview and appoint a qualified international third party to establish a professional, fair, internationally recognized classification system that will be acceptable to hotel members in Hong Kong. The agency will have the following criteria and mandates:

- 1) Have had experience in designing a globally recognized classification system.
- 2) Demonstrated extensive working knowledge of the uniqueness of hotels in Hong Kong.
- 3) Recommend a classification system that does not create unnecessary disturbances and excessive expenses for existing hotels.
- 4) Build in a flexible timetable for compliance to recommended standards.
- 5) Conduct extensive consultations with each hotel owners and manager.
- 6) Complete the assignment as soon as possible.
- 7) A detailed plan for policing and upgrades regularly.
- 8) Local representation.

The Federation believes that the system would benefit our industry because of the following:

- a) Assist HKTA to market Hong Kong as a reasonable destination for travellers. For example, more realistic published rates can be advertised and improved average rates and occupancies may result.
- b) The new classification system will appropriately position Hong Kong's hotels in the international market place.
- c) An internationally recognized classification will validate the quality of existing hotels in Hong Kong.
- d) A well-designed classification system will identify where new hotel rooms inventory should be increased.
- e) All interested parties, owners, hotel managers, customers and other parties will speak a common language when they discuss 'quality' of hotels in Hong Kong.

### ***Recommended Actions***

If this proposal meets with Owners' approval, a more high ranking working group, which must be representative but efficient, should consider to be formed including the Tourism Commission to work out details of the scopes and objectives of the study, the appointment of a qualified consultant and the cost of the study.

*P.s. We have identified a list of classifications systems that may be suitable as a base for review and these are briefly described in Appendix A .*

## **APPENDIX A**

### **OVERVIEW OF HOTEL CLASSIFICATION SYSTEMS USED BY OTHER COUNTRIES**

Most leading countries have established their own hotel classification system either initiated by their governments or by recognized agencies. Each rating system uses a comprehensive set of standards and specifications that addresses the physical plant, ancillary services, recreation facilities. It also applies a large portion of the weighting to a set of subjective guidelines and consequently, each system has its share of detractors. Each system is reviewed and updated at least annually as the market changes according to the perceived needs and expectations of hotel customers.

The International Hotel and Restaurant Association (IH&RA) has been working with the International Organisation for Standardization (ISO) and CEN (the European standardisation body) to develop international standard terminology and criteria to describe the services offered by hotels. The aim is to improve consumers' understanding of the product or service offered. The ISO's previous proposal for an international hotel classification system had been widely opposed due to its high costs to hoteliers. Although there is currently absent one unified system that is adopted globally, the criteria used in each of these rating systems in each country is available for inspection at any time. This makes it sufficient for customers, travel agents and other related groups to make a diligent purchase decision for travel into that particular country.

A list of some of these systems follows:

#### ***1. UK Harmonized Quality Standard***

Internationally recognized stars are used as symbol for hotels and diamonds are used for the other guest accommodation including guesthouses, inns, farmhouses and bed and breakfasts. The ratings range from one to five with progressively higher quality standards as it moves up the scale with the emphasis on good customer care and the quality of service.

#### ***2. New Zealand – Qualmark***

Throughout New Zealand, accommodation establishments are rated by the Qualmark system. The Qualmark system operates on a one to five star scale, with each star level representing a combined range of facilities, service quality and standards.

#### ***3. Swiss Hotels Association Standards***

In Switzerland, most hotels are members of the Swiss Hotel Association. The Association sets a set of standards and the members are rated according to those regulations. The rating system has five scales, ranging from Basic (one-star) to Deluxe (5-star) and prices are set according to the star rating of the hotels.

**4. *Canada Select Accommodations Rating Programme***

The Hotel Association of Canada along with provincial bodies operate the voluntary national accommodation rating system called the Canada Select Accommodations Rating Programme. Properties are divided into seven categories, from Hotel to Fishing and Hunting Lodges, and a star rating between one to five, as well as half star is awarded based on the range and quality of the physical facilities and services offered. In some provinces, the rating system is tied into licensing and that licensed accommodation facilities must qualify for at least one star.

**5. *Taiwan – Plum (Blossom) Rating System***

Hotels in Taiwan are rated by plum or blossom and there are two quality levels, four and five plums.

**6. *AAA Diamond Rating System***

The American Automobile Association (AAA) rate hotels in America using a diamond symbol on a one to five scale. The basis for rating is a combination of criteria including facilities, amenities, service quality and comfort. It is one of the most widely accepted hotels rating systems in America.

**7. *Mobil Travel Guide Star Award***

The Mobil Travel Guide evaluates restaurants and lodgings that are listed in the Guide annually. Hotels are rated on a combination of quality, amenities, service and price. The rating criteria for each star level are specific, but are regularly revised and updated to accurately reflect the changing tastes and expectations of travellers. The Mobil Travel Guide covers all of the United States and Canada in 12 volumes.

**8. *Official Hotel Guide Classification System***

The Official Hotel Guide, published by Reed Travel Group, offers a classification system of ten rankings, from the highest “Superior Deluxe” to “Moderate Tourist Class”. The directory reviews and ranks its hotels and resorts around the world on a regular basis, making it one of the major authoritative resources of its kind in the hotel industry.

**9. *Australia – National Hotel Classification Scheme***

Serviced accommodation facilities in Australia are classified by the National Classification Scheme operated by the National Royal Motor Association (NRMA). The system has five scales, from one-star to five-star.

**10. *Michelin Red Guides***

The Michelin Red Guide rates hotels and restaurants across Europe using a set of internationally recognized standards. The Michelin Red Guide awards hotels between one and three stars and the system is widely used in Europe.

***11. China***

Hotels in China are rated in a five-point scale. Their methodology employs varies considerably from a multi-point analysis to a simple review based upon a subjective set of criteria which may be altered according to relations established with the body assigned the task of determining the position of a specific hotel in the rating scale.

***12. Singapore***

Based on information obtained from the Singapore Tourism Board, there is no star-rating being applied due to various reasons. However, hotels and travel agents rate themselves based on their own knowledge, experience, location and rates.

***13. Thailand***

Based on information obtained from the Tourism Authority of Thailand, there is no star rating applied, however, hotels rate themselves by their rates. The highest rates command the most stars.

***14. Vietnam***

Based on information released by the Vietnam National Administration of Tourism through internet ([www.vietnamtourism.com](http://www.vietnamtourism.com)), hotels are rated on a five-point scale and non-classified. Their hotel inventory is listed by categories as follows:

- 1 star (1)
- 2 star (23)
- 3 star (35)
- 4 star (18)
- 5 star (4)

**THE END**