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HARD TIMES FOR THE HOTEL INDUSTRY

The Economic Contribution

The World Wars and the consequences of the Great Depression have played a more than modest role in the evolution of the Swiss hotel industry and its important contribution to the Swiss economy. Owing to these circumstances, Swiss hoteliers have attempted to consolidate their position within the domestic economic framework, and to maintain their competitiveness on the international tourist market. However, the hotel industry is a ramification of a complex tourist infrastructure. It is therefore essential to isolate the factors that have contributed to the decline of the Golden Age of the Swiss hotels and those that have brought about the tourist age of today.

Before the First World War, the revenue derived from tourism enabled the Swiss to cover practically the entire deficit of their balance of payments. Until recently, this compensating factor has preserved its efficacy much to the benefit of the Swiss economy. However, drama often begins in an atmosphere of euphoria inspired by bumper annual profits precluding all depressive predictions on their possible non-continuation. Yet the choric mood of the past has changed to a weary hindsight as the vision of overflowing coffers recedes. As recently as the end of the 1960s the current account deficit was covered by tourist earnings by 60 per cent. This in monetary terms represented 2,000 million Swiss Francs. In 1973 this surplus attained new heights, and the record figure of 2,640 million francs was registered with wide acclaim. Yet the current account deficit was covered only by 40 per cent. This disparity was the direct result of the increased expenditure of Swiss tourists abroad and of the large capital investments for the expansion of the tourist infrastructure. However, the empiric analysis of these figures should be left to economists and statisticians, who have a well-recognised tendency to predict — with increasing accuracy — that better times are coming. When the situation deteriorates, they will continue to escalate their predictions and provide

by John D. Glaus

laymen with predictions liable to confuse or disillusion them.

Historical aspects and the role of Switzerland in tourism

In the days when the names of Seiler and Ritz were mentioned with immoderate reverence, and when to own a hotel was almost a license to print money, certain criteria enabled hoteliers to administer their "palaces" with such nonchalance that they have been, more than partly, responsible for the

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perpetuation of this "money-making" myth. The conspicuous opulence of the leisured classes who frequented the resorts of St. Moritz, Davos, Gstaad and Lausanne, their financial dispositions and indolent life-styles were such that their contribution to the maintenance of the hotel industry as a profitable enterprise could be equated to their willing ability to be separated from their money. Nonetheless, this clientele hindered the real vocation of the hotel industry. It prevented it from developing anything



Gala Dinner at the Hotel des Bergues, Geneva, (SNT0)

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that could be considered as a precursor to a co-ordinated national, regional and local marketing policy. The time would come when the war was eminently more important.

Benumbed by two world wars, international tourism inexorably shifted direction and composition. A new breed of tourists was generated whose predilections differed from the luxurious tastes of their predecessors. The rapid transition encouraged by the post-war return to normalcy, opened a new market drawn from the entire spectrum of economic life, a market noted for its greater variety and tastes. For Switzerland, the most noticeable change has been the disappearance of crowned heads and their patrician retinues, this being mainly due to a world-wide redistribution of wealth. The ranks of foreign travellers have been inflated by a plethora of reasonably affluent people instead of a few appallingly rich ones.

In the past thirty years, Switzerland has gained international repute on the international tourist circuit and has also enjoyed the prerogative of being the most favoured tourist nation thanks to the impeccable standards set by Swiss hotels. Switzerland's scenic beauty has enchanted Americans and Europeans alike. In turn, the Swiss have been affable and hospitable even to the cynics who do not believe and to the blind, who although they cannot see, can at least feel it.

This dominant position and inherent competitive advantage have enabled the Swiss to frequently surpass their most optimistic estimates as to the number of tourist nights booked in their country. In 1945, 14.4 million tourist nights were registered. This figure had reached 30 million by the middle 60s and by 1972 had attained 35.2 million. But the most recent publication released by the Union Bank of Switzerland revealed that expansion has ground to a halt and that a 1.5 per cent decline was registered in 1973. By the second half of 1974, the rate had further increased to 5.5 per cent.

The insidious position of the hotel industry today and immediate projections to the future can be deceptive if not seen in a proper perspective because the solution is not to be found in solving one problem alone. Account must be taken of a highly complex network of inter-related

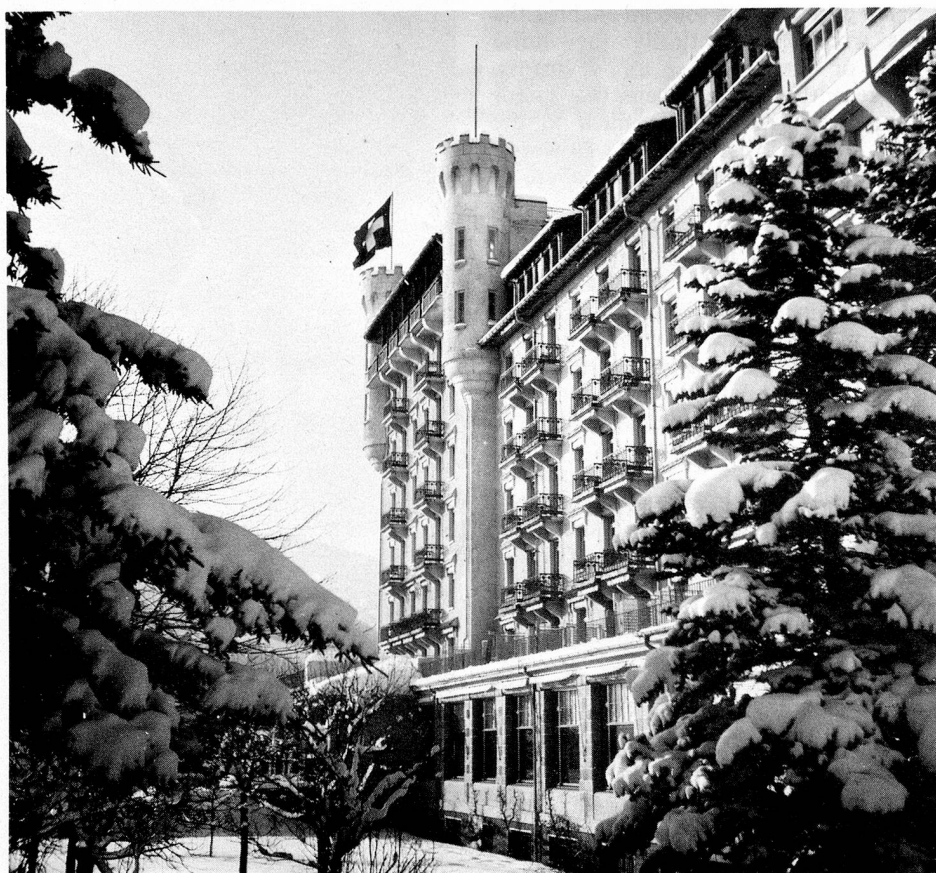
factors and international trends. Moreover, those who attempt to compare the present generation of hotel magnates with the Seilers of an earlier age can hardly escape reproach because it is a rather academic exercise to produce parallels between then and now. It can also be said that it is a conservative pastime to indulge in the observation of booms as they balloon and deflate. A sense of elation is fortunately derived from having seen it happen before. All sectors of the economy have monotonously risen and fallen enough to suggest that all industries, Swiss tourism included, are subject to immutable laws of folly. However good the lessons of the past, these laws are bound to be continually and ritualistically enacted...

Influence of currency re-valuation

One fundamental element in the present state of this cycle pertains to the

major currency devaluations of the past three years. These have been more than moderately instrumental in reducing the number of tourist nights spent in Switzerland. The first currency upheavals of May, 1971, produced little effect on the number of tourists arriving in Switzerland. Although the exchange parities had shifted in Switzerland's favour, tourists continued to arrive and the market remained buoyant. Even the 1972 revaluation had limited repercussions and had an only selective effect on foreign currencies. It was not until 1973-74 that the accumulative effects of the overall foreign-currency devaluation against the Swiss franc was seriously felt in the hotel field. Retrospectively, the Americans have seen their dollar devalued by 36 per cent by 1973, and by the end of 1974 the effective devaluation was 47 per cent. Furthermore, the Swiss franc has appreciated to the tune of 60 per cent in two-and-a-half years, with respect to the pound. The international monetary instability has been one of the contributing factors to affect the Swiss tourist growth rate.

There is at any rate little doubt that the Americans, the British and many Europeans will prefer to remember the past nostalgically rather than commit themselves to rather costly self-indulgence. In contrast to the pre-war clientèle, the tourist of today is more resourceful and mobile. International air travel has opened wider horizons and made him much more money-conscious. These are the major deterrents which the Swiss hotel and tourist infrastructure



The Palace Hotel, Gstaad (SNT0)

must contend with. Under no circumstances can they allow impassivity to compromise decisive action or to foster a further entrenchment into what was once a traditional monopoly.

New Structures and Integration are inevitable

A problem with which the hotel industry will have to contend with is its present composition and ownership. The industry is composed of a large number of independent units. It is fragmented, and this will in due course constitute a major liability in its pursuance of a co-ordinated marketing policy bearing on communal, cantonal, regional and national promotional campaigns. Co-operation within the various branches of the hotel industry and the bodies responsible for promoting tourism appears to be minimal, according to recent reports. The problem of accommodation is a critical element of the picture. If there is a qualitative or quantitative discrepancy between what is needed and what is provided (and how this is correlated with what is promoted) there inevitably arises confusion, ill-feeling and a waste of resources.

As an example, the hotel industry is at present following a much too regimented marketing policy which has seriously neglected the current demand for collective tourism. The reorganisation of the tourist trade and re-adaptation of available accommodation must be resolved by acknowledging the demand created by three distinct categories of

travellers. Those concerned with pleasure, business or conferences. There is a collective element in all three groups, but the motivations, growth rates, travel patterns and spending habits of each are different. If the hotel industry hopes to arrest its progressive recession and bring back the buoyancy it was used to, it will have to lay more emphasis on the spending power of the three groups. This is a determinant factor, but the way its importance will be reflected in hotel policy will depend on a changing pattern of ownership, either through horizontal and vertical integration, which will eventually lead to greater economies of scale.

Figures released by the Swiss Hotel Association reveal that 70 per cent of hotel units are independently owned. This has meant that the industry is under-capitalised and therefore relying heavily on federal allowances in terms of credit facilities. In future, the pattern of ownership will be based on the capacity of independent hotel owners to create co-operative hotel associations at either regional, cantonal or even communal level. Each unit would be assured of its independent existence and administration whilst benefiting from the advantages of generalised purchasing schemes and the access to increased sums generated by the cash-flows of such associations. Although credit facilities provided in 1973-74 (by the Union Bank of Switzerland) totalled 215.9 million francs, this sum was not only appropriated by hotels but was also spent on a tourist infrastructure allowing

expansion and renovation. As an interesting point, the negative vote in the December Referendum on tax increases provides evidence that the Confederation will severely restrict credit allowances. If credit restrictions are not relieved in future, the construction and renovation of the hotel industry will be further jeopardised and the smaller, marginally profitable units remaining outside co-operative associations, will be afflicted by massive and selective brutality should they need to borrow money. The future thus provides two evident alternatives: economic pressure will force the financially unviable units out of business or promote the existence of co-operative associations.

Of more outstanding importance will be the effect of horizontal integration whereby companies operating in other fields will extend their interests to accommodation. The operation offers viable financial prospects, especially if the interests are complementary. Moevenpick-Holding is an example. It was originally conceived as a catering operation but has extended its interests to include hotels presently operating in Switzerland and Germany. It has also concluded a franchise agreement with Holiday Inn, the American giant, whose predominant asset lies in its considerable share of world accommodation outlets. There is little doubt that the Moevenpick affiliation will have considerable success.

The progression of complementary industries into the accommodation field will tend to lessen the exclusive



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dependence on accommodation of traditional hotels associated within the framework of a co-operative enterprise, and move them into expanding elsewhere. Their main advantage in doing so is that they own the best sites which were developed at yesterday's costs. Further expansion in the way of construction within a context where land is a prime factor and credit restrictions likely to continue, is likely to take place on inferior sites at today's costs and throw away the competitive advantages of these hotels. The future objectives of the traditional hotel industry, whether integrated in a co-operative association or subsisting as individual units of marginal profitability, would be to stake on an ability to move with greater facility into other complementary industries rather than rely on a providential growth factor. This, in view of the present recessionary trend in the demand for accommodation, is likely to keep to a downward slope.

Employment: No solution in sight

Two problems are a constant cause of concern to Swiss hotel circles; the continuing maintenance of high Swiss standards of service and their world reputation and the current restrictions imposed by the Federal Government on the employment of foreigners. The labour intensiveness of the hotel business requires a large amount of manpower and the service offered is directly correlated with its ability to recruit from a diverse foreign labour force. The resounding disapprobation of the October Referendum was an obvious reaction to the political radicalism of the National Action, whose success would have constituted a major threat to the political mores and brought Switzerland to the brink of economic disaster. However, the bell has tolled and this apparent victory has left few hoteliers with more than a modest reprieve. The steady flow of petitions from the hotel sector has been met with more stringent curtailments, and the referendums occurring with regular frequency have more than justified the anxiety of the hotel industry. Although rationalisation through modern techniques and equipment have enabled hoteliers to achieve a more judicious use of

manpower, the employment question has been answered only peripherally.

In an attempt to improve this situation, salary rises have been awarded, wage differentials instituted and disparities in fringe benefits between the hotel industry and the other sectors of the economy finally adjusted. These initiatives have been late in arriving. Nonetheless, they have come to a sector of the economy traditionally plagued with a high labour-turnover and absenteeism. It is too early to know whether the "contrat collectif" which came into effect in July, 1974, will have more than a superficial impact in consolidating a skilled work-force for the continuation of high Swiss standards of service.

However, the increases of 12.5 per cent awarded during 1973-74 were a necessary step in the indexation of wages and in reducing large existing disparities. Yet it is likely that these provisions will have been taken at the cost of creating a new and monumental problem, an inflationary trend resulting from a wage-prices spiral. Switzerland is not immune from this universal problem. Even though 1975 is likely to be the tightest financial year in the Confederation's history, this tendency will continue to show itself even under conditions of severe fiscal and monetary restraint. But the Swiss hotel industry will not be able to compensate this financially by increasing its rates, because higher prices will defeat price accessibility and accelerate the decline of tourist frequentation.

Modification to Swiss hotel services

Accepting that the composition and demands of tourists have undergone a certain metamorphosis, decisive actions should soon be forthcoming. If not, the hotel industry will be forced to radically alter the realm of individualised service. It is therefore an inevitable consequence that future goals in the way of accommodation, especially in resorts where seasonal demand for hotel beds and manpower are high, will have to be reconsidered or at best be modified. The establishment of a hotel whose dependence on manpower will be reduced to the absolute minimum will be a

solution to labour recruitment and an acknowledgement of the change in tourist demand for more competitively-priced accommodation. This would also provide a competitive alternative to an exclusive reliance on high and traditionally Swiss standards of service. These should be maintained for the benefit of those who can still afford it, as there are no doubt many people who are still willing to be separated from their money.

Although the experience has been attempted and met with considerable success, there are still strong resistances to overcome. The innovators will have to continue promoting this new concept as a practical solution to the employment crisis and as an alternative to the highly-selective prices offered in the traditional hotel. The risk and uncertainties involved in the venture will not be eliminated until the clientèle is acclimatised to this new brand of hotel system. But the progressive reduction of errors through a better definition of marketing concepts and through experience will eventually prove to the traditional hotelier that "*la tradition n'est pas comestible*".

The new generation of hotel owners realise that the changes and improvisation necessary to meet new demands is their responsibility, and that it entails "sticking one's neck out". If one takes the trouble to examine the attributes which have made Switzerland attractive — its hotels, its gastronomy, its countryside, its opportunities for leisure — then it becomes evident that its prestigious names will never die. Like old soldiers, they will only fade away.

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