

# Strategic Fit



The entry of Shangri-La Hotels and Resorts into Sri Lanka has been a pivotal point for the country as it signifies the Island being recognised as a global destination. The developments done by the Group in Colombo and Hambantota are the first of its kind seen in Sri Lanka. Madhu Rao, Executive Director and Chief Financial Officer of Shangri-La Asia explained the direction of the Group, where any investment ultimately has to be a strategic fit while always ensuring that brand integrity, values and culture of the organisation is maintained at all times.

By Udeshi Amarasinghe | Photography Mahesh Bandara

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**Shangri-La Hotels and Resorts is an international group with many brands under its name. Can you elaborate to us the background and expanse of the organisation?**

The organisation traces its origin to 1971, when the first hotel in Singapore opened its doors and over the last 44 years of its existence it has grown from that one hotel to 90 hotels today. It is not just the number of hotels that matter but it is also important to understand the scale of these hotels, which is very large in our part of the world. The 90 hotels account for over 38,000 rooms. We have continued to build our brand position at the top end of the market where we are competing and we chose to follow a very different approach in terms of crafting our own destiny. We prefer to invest in the hotels rather than manage hotels for third parties, which is what most of the other global brands have followed. Our group has been very firm in saying that we want to control the quality of the development. We want to be in control of our destiny. There are many synergies and benefits that come with ownership and we will grow at a pace that we can afford in terms of assuring that the integrity of the brand is maintained. We do of course manage hotels for other people but that is more of an exception than the rule.

**We Have Continued To Build Our Brand Position At The Top End Of The Market Where We Are Competing And We Chose To Follow A Very Different Approach In Terms Of Crafting Our Own Destiny.**

We have grown, coincidental with the growth of the Asian economies through the 70s, 80s, 90s and also the turn of the century. Because of our efforts to build up the brand, we have been able to create strong shareholder value in the underlying asset base. To that extent this Group is absolutely solid. Apart from the brand franchise, which has its own value, the asset base that we own and operate has tremendous value for the shareholders.

We started with Shangri-La, then we decided we would go for a mid market brand called the Traders, which has now gradually been morphed into Hotel Jen and it is more of a lifestyle brand in the four star segment.

We also have the family resorts and a few hotels under the Kerry brand, which are specifically identified with mixed use developments. We have attempted to address

all market segments including the family holiday market, the top tier luxury segment that is Shangri-La and the more affordable business segment of 'Traders' cum Hotel Jen. Though we started in Singapore, as the Asian economies continued to grow we started planting our flags in other economies such as Malaysia, Thailand, Philippines and finally mainland China even as the country was emerging from the aftermath of the cultural revolution. The Chairman of the Group took a very considered view of the potential, which led to our first investment in 1984, well before any foreign investor would have gone into the hospitality space. Today more than 43 hotels of our inventory are in mainland China.

### **Shangri-La has properties around the world, what is the strategy in selecting a destination?**

To borrow the word that you used 'strategy', ultimately any project has to be a strategic fit for us. As an Asian group, which is not only confined to hotels, we are intimately connected because of the other trading relationships within Asia. We are into commodities, real estate and several other areas. Due to the business relationships and the intimate knowledge about the various markets within Asia, our first port of call, so to speak, were all the Asian economies and then as travel and trade continued to proliferate, we went farther a field. With our business connections and associations we were invited to consider investing in those markets too. A classic point today is that we have almost become a brand of choice in mainland China. The whole world now knows the potential that mainland China has in terms of outbound tourism as well as internal tourism within their own country because they transformed the tourism landscape of many countries. And most countries have now started evolving strategies to try and court the Chinese visitor, whether it is Australia, France or other countries in Europe. With the spread of the brand we have in mainland China, it is logical for us to now start thinking as to where we should go next, where our customers are going, because the customers are demanding that we should be there. Because they feel that Shangri-La is a part of their home and specially in an unfamiliar location they want to feel that safety. That basically explains our strategy to get into Europe; we went to Paris, London and Istanbul. We are moving into Australia because Chinese tourists are going to Australia. The continent that we do not have a significant presence today is North America, again where many mainland Chinese and Asians visit.

We are an Asian brand and there is a very strong affinity to the region but we need

to have the right opportunity. As we become more and more of a global player we have different markets to address and strategies to formulate. It is not only mainland China, but also the Middle East because we felt that the Middle East was an important market for Asia after 9/11. Many visitors started moving out of Europe and North America and came into Asia. We were invited to the Middle East because they were impressed with our brand. We went into Dubai with one property but today we have six hotels in the Middle East, which is a very big market for Europe. We are continuously looking at opportunities to reinforce our presence in all the markets that matter to us. That is how strategies continue to evolve.

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**There is great expectation in Sri Lanka with the two properties being developed in the country. Can you elaborate on the thinking behind Shangri-La coming to Sri Lanka?**

It was a very obvious decision from our side to invest in Sri Lanka. Of course we were very fortunate that we had business partners who had the foresight to invite us and when we took stock of the situation we saw that there was sincerity to engage with investors. The other ingredients that contribute to the success of a tourism investment were already here in Sri Lanka; wonderfully warm and friendly people. It was so gratifying to see that at two o'clock in the morning when we were passing through the toll gate, the toll collector greeted us with a cheerful good morning. In which country do you get that? That small gesture basically points to the innate hospitality that is present in the people of this country. That is the starting point for the success of a tourism product. And this country has had a history of a very successful tourism business before the conflict. During the 30 years of the conflict there has not been any investment in the tourism product. To us as business people it presented a wonderful opportunity to engage with the government and try and bring a world-class tourism product to this market. We are very confident that the potential will be enormous and Sri Lanka will be a supply led situation. The moment there is supply, the latent demand comes to the surface and we will be addressing that requirement. We believe that Sri Lanka affords that opportunity, the people are wonderful, its natural resources, history, culture and beaches come together to provide a wonderful tourism experience. It will be very affordable as well. We do believe that the decision was a right one. And we were fortunate that we got unqualified support and cooperation from all the people that we engaged with, whether it is the government or the private sector. We are very

very happy to be here.

**Can you elaborate on the two properties being developed and why these two locations were selected?**

The property in Colombo facing the Galle Face Green will be the pride of our investment in Sri Lanka. It is a massive mixed use development project. The total floor area will be approximately 400,000 sqm. This will be comparable to other mixed use development projects in developed countries in the Asian context, whether it be Singapore, Malaysia or the Philippines. We are bringing a 540 key hotel, with a 1,800 sqm pillar-less ballroom, which is gigantic. When you walk into a ballroom of that size you are literally overwhelmed. Such a huge ballroom lends itself to attract conventions. That basically drives volumes into the country because we have the facility available. It will be a high-end hotel with approximately 50,000 sqm of shopping, because when we have conventions we need to have facilities that will induce people to come. They do not come only for meetings, they usually bring their families and would like to relax and shop as well. We are building an office tower, which has a height of 160m, and this will be a fairly tall structure. The two residential towers will have 406 apartments. The residences will be of the highest quality. There is no other development offering this quality in Sri Lanka at the moment. This will be a state of the art facility. The entire project will feature different elements nicely woven together.

We Are Very Confident That The Potential Will Be Enormous And Sri Lanka Will Be A Supply Led Situation.

The location is one of its kind in this country and I do believe that we will complement and do justice to the location. The investment is a little over USD 600 million, for a single project that is a huge amount of money. The development will obviously open in phases, with the hotel first, then the apartments followed by the commercial tower and offices.

The property in Hambantota is a 300 key resort and the total investment is USD 120 million. This property will have a golf course and yet again will be a top quality resort. We do believe that once the transport infrastructure is properly addressed, we know that there are some concerns about the airport but then again this is similar to the issue of the chicken and egg, the resort is done first and then you get the volumes and as a result transport infrastructure will also gather momentum. This will be a great opportunity for the industry to service the travelling public.

Our intention is to utilise our network of hotels, because each hotel basically starts selling for others in the network. We also have regional sales offices in all the key demand generating countries around the world whether it is North America or Europe, key cities in Asia or the Middle East. We will promote not only the hotels but also the destinations. We will speak with tour operators and travel agents and to that extent we will lend a greater leverage to the government's own efforts to start promoting tourism at various locations.

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**With the Sri Lankan properties to be completed in the next few years, do you think Sri Lanka is ready to cater to this market?**

In our terminology we call it as a supply led situation. There is latent demand; some of the demand is shying away because they have not seen a product, which they are used to. So the moment they get to know that there is a product they will come. In 1990 a decision was made to enter the Philippines. At that point in time the country had just come out of a political vacuum-post the Marcos era; they were in a debt trap, unable to pay their foreign currency obligations. The Group decided at that time to go into the country with not one but three hotels. Everyone was wondering, "what are these people seeing?" There had not been any real investment in tourism infrastructure for more than 20 years. At one time the Philippines was a tiger economy but everything had turned upside down. But we went in and today we have five hotels. The fifth property is just getting ready and it will be the third Shangri-La hotel in Manila.

We have done exceedingly well in positioning the country. Of course we have made a profit for our shareholders but we raised the profile of the country. Most visitors today gravitate to Makati Shangri-La, Edsa Shangri-La, Mactan Shangri-La and they will gravitate to Fort Shangri-La once it is open. Do you know where the demand came from? The demand was led by the product. At Shangri-La we provide service quality, comfort and security and guest want an environment that they are familiar with. The demand starts manifesting and we do believe that the same thing is going to happen for Sri Lanka too. In all these cases we have benefited from being the first mover.

**The Residences of One Galle Face has been launched, can you elaborate on this and also the response expected?**

In terms of quality, what we are bringing to the market with the Residences is something that Sri Lankans have not seen within this country, but they would have seen similar properties when travelling abroad. We invite everyone to come and visit the show apartment and they will be able to see the quality commitment that Shangri-La brings to the table. The brand name carries with it a promise and we will not fail in delivering that promise.

In terms of the quality of fittings, the conveniences and the way in which the layout of the apartments have been planned it is apparent that the apartment has been designed with the end-user in mind. There will be a health club and also the shopping complex, therefore when every element comes together, the mere convenience of having a location like that which you find in Hong Kong, Beijing, Shanghai, Manila and Singapore will all be brought home to Sri Lanka. And we are talking about absolutely top quality finishes. We are not going to compromise even on the hardware, which people do not see in terms of the bricks and the mortar. We are ensuring that all standards are maintained. We want everyone to come and see the show apartment, which will be a testimony to what we are talking about.

**Shangri-La focuses on creating a warm and embracing atmosphere in all properties Can you elaborate on this?**

The philosophy actually has its origin in the fact that though we are a publicly listed company Shangri-La is controlled by the Kuok family that started this brand. As an Asian family they have a very strong sense of Asian values such as sincerity, humility, care, respect, compassion and within the Asian context also whether it is India or Sri Lanka we always take the guest as an embodiment of divinity.

You basically welcome them and ensure that you make them feel at home and very comfortable. This may be different from very efficient but less personal hospitality that you get in many other countries because their cultures are different. Within the Asian context it is like making someone feel that they are a part of oneself; and therefore 'I will give you the respect the love and the warmth that any member of the family will get from me'.

The Shangri-La philosophy is to extend a warm welcome and provide the guests

with a comfortable and special experience, which will want them to come back and stay at our properties. It is not the controlling family or the directors who interact with the guests on a day-to-day basis but it is all our colleagues out in the field, in the hotels who are interacting with the guests and making them feel special. So how do they get into that culture? That culture is basically where the family concept comes in. We first treat our employees as an extension of the family and make them feel at home so that they imbibe those values and live the values, which is what the guests actually experience. It is not only the guests who come back because they feel at home at our properties, because they know what to expect even if they go to Dubai, London or Paris and stay at Shangri-La, but it is also the employees who have left us because of other opportunities. Usually when we go to another property we meet our former colleagues and they always come and speak to us. Even in Sri Lanka I have met a few former colleagues who are working here and they say that they are eagerly waiting for Shangri-La to come. It is very encouraging when they come and greet you and say we would like to come back to the Group because we worked with you for so many years and really loved it.

That alone basically sums up the culture at Shangri-La – a very unique one and there is an unseen bond, which still holds people together after they have left Shangri-La because that departure is only temporary.

### **Will we see Shangri-La looking at other locations in Sri Lanka for development?**

Yes, these two investments are huge commitments in terms of capital and of course we would like them to start producing returns because we are accountable to our shareholders too. We are very confident that if we become a catalyst for tourism growth and development resulting in more opportunities then definitely as sensible businessmen we would like to pursue these opportunities too.

### **Globally, what can we expect from Shangri-La in the future?**

This company has never stood still. I have been with the company for nearly three decades and when I started we were only nine hotels but by next year we will be more than a 100 hotels and the growth will continue. We may come to a phase in our life – a plateau – where we look at new horizons; what that horizon will be it is a little early to say but the brand has gained so much of traction and momentum today that we continue to receive many offers. It is not necessarily only for

development, we are getting opportunities from investors who have stayed with us at our properties. We do not know where our destiny will take us. Certainly North America is one area where we would like to be present at least in the gateway cities on the East and West coast.

**We Are Very Very Confident That Sri Lanka, Which Is Uniquely Positioned, Will Try And Realise Its Full Potential When It Comes To Tourism Infrastructure.**

There are many people who ask us why we are not going asset-light. Asset light is a term, which is used when you sell off all your investments and only engage in management contracts. I do not think that is going to be the route that we will take. We are very optimistic and whatever it is going to be it will be in the best interests of reinforcing our brand and expanding out network. The country does not matter, wherever there is an opportunity to make money to reinforce the brand and where our customers want us to be, we will be happy to go there.

**Final thoughts?**

We are very very confident that Sri Lanka, which is uniquely positioned, will try and realise its full potential when it comes to tourism infrastructure. We have come here with our fullest faith and it will be very exciting for us that one day all of us can celebrate and say that we have been a part of a process, which has helped this country to find its rightful place in global tourism.

