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# HOTEL yearbook 2013

Scenarios for the year ahead

Puneet Chhatwal, Steigenberger's new CEO,  
shares his thoughts on the challenges in the year ahead

Dorchester Collection CEO Chris Cowdray on leadership

How will 2013 shape up for the key hotel markets worldwide?  
30 exclusive country reports from Horwath HTL

Special section: "Spa 2020"  
Leading experts explore the next decade in the spa industry

How is your company visualizing its future business landscape?  
Woody Wade on scenario planning in the hotel industry

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# Africa, luxury, power and responsibility

**CHRISTOPHER H. CORDEY**, STRATEGIC FORESIGHT ADVISER AND FOUNDING DIRECTOR OF THE **SUSTAINABLE LUXURY FORUM**, ASKS WHAT ROLE LUXURY COMPANIES PLAY, AND COULD PLAY, IN SOLVING ENDEMIC ENVIRONMENTAL, ECONOMIC AND SOCIETAL ISSUES IN EMERGING-MARKET COUNTRIES. FOOD FOR THOUGHT FOR KEY SEGMENTS OF THE GLOBAL HOTEL INDUSTRY.

Today, we are at a crucial moment of history. A moment in which the human race is faced with a radically new challenge. For the first time, its prodigious dynamism collides with the limits of the biosphere.

The story is one of growth in population and consumption compounded by inadequate governance and policy responses necessary to manage this growth. The result is simply degradation of the environment and societies.

In 2013, the collective challenge we will be facing is, how do we take advantage of increased population and consumption? How can we work collectively to find and drive solutions to manage the negative consequences that this growth generates?

By 2050, we will need to feed 9 billion people. Of the additional two billion compared to today's world population, 40 % will be living in Sub-Saharan Africa, and about 50 % in the Muslim world. Many people will be moving up the economic ladder toward a middle-class standard of living, consuming more resources per capita.

Meanwhile, in Western Europe we will need to find solutions to welcome 10 times more legal migrants from Central Europe and the South. Energy and resource shortages could spark regional wars, create famine, and in any event continue to affect the political, social, financial and economic spheres. A healthier – but aging – population in the Western world will require longer care, which will impact negatively on existing retirement and social plans.

A knowledge dependent society and free access to knowledge will continue to increase competition from low-wage countries, thus forcing companies to prototype new business models... or risk disappearing.

So how can we collectively address these issues? Research shows that luxury brands at large were slow – compared to other industries – to engage toward sustainable excellence & transparency, but some show progresses.

## AFRICA, THE NEW LUXURY ELDORADO

Tomorrow, it won't only be about the BRICS, but also about "Africa, the new luxury Eldorado," as Suzy Menkes described it while introducing the 2012 International Herald Tribune luxury event.

Aside from the "200 hidden African billionaires" (according to the Templeton Emerging Market Group) who have most probably already established themselves outside of Africa, the real opportunity is the emergence of the new middle class throughout the continent. But rather than as a continent, Africa must be considered as 54 separate and distinct countries, with a wide array of political, economic, geographical, cultural and social features.

"Sub-Saharan Africa has a newfound global confidence, fuelled by its burgeoning economic prowess," says Euromonitor. With double-digit growth, oil, gas and resource-rich countries such as Kenya (with Nairobi probably bidding to welcome the 2024 Olympic Games), Ghana, Tanzania, and Nigeria are becoming the magnet of foreign investments.

Even a single country like Nigeria – 170 million people (44 % under the age of 14, 70 % below the poverty line, 250 different

**The real opportunity is the emergence of the new middle class throughout the African continent**

ethnic groups, 500 languages) – is set to post the second-strongest gain in total champagne volume by 2016, trailing only France.

But across Africa, tremendous inequalities, wealth disparities, health, education, infrastructure, safety and corruption issues are to be solved. The question is, must these issues be addressed first and foremost, or in parallel?

# Africa, luxury, power and responsibility cont.

How will the executives of luxury brand companies and hotel groups balance the tremendous but risky business opportunities with poverty alienation, regional famine, illiteracy or endemic health issues in an extremely poor, young but populated continent – one accounting for 15 % of worldwide population, half of whom are younger than 25 ?

Africa is obviously on the radar of several luxury brands, for example :

- Porsche: "The opening of Porsche Centre Lagos is an important development for the brand's presence on the African continent. We are excited about this new venture and we look forward to developing in the Nigerian market."
- Burberry: "We absolutely will look to expand in the region."
- Ermenegildo Zegna Group "There is a new focus on Africa."
- Prada: "We want the younger generation to experience the world. That doesn't mean spending time in places like New York, Paris, and Los Angeles. Prada needs young people who know something about Africa."

## HOW FRAGILE IS CHINA ?

On the other side of the planet, how fragile is China ? With the existence of one million Chinese USD millionaires and a rapidly growing aspirational middle class, the country is set to become the second largest luxury market by 2017.

Based on its average income, China is still a poor country, with 150 million people (10 % of the population) living on less than \$1 per day (the United Nations standard of poverty). For China to become "a modern, harmonious and creative high-income society by 2030", in the words of the World Bank, the country will have to deal with growing public concerns about the widening income gap.

The government has already implemented some new regulations to mitigate the income gap perception, for example by banning outdoor advertising for luxury products and cracking down on cars and watches bought (or sometimes simply "received") by government officials.

Back in 2011, on the sustainableluxuryforum blog, we were already referring to the "Chinese Luxury Syndrome" as coined by Zhou Ting, executive director of the research centre for luxury goods and service at the University of International Business. "Luxury goods have become indicators for social problems; the source of the problem is not the luxury goods, but the society itself."

His view is corroborated in the newly published book *The End of the Chinese Dream*, in which Gérard Lemos analyzes how China's community and social problems threaten the ambitious nation's hopes for a prosperous and cohesive future. And why protests will continue and a divided, self-serving leadership will not make people's dreams come true.

## WEAK SIGNALS

As we experience a period of global power and political shifts and growing inequalities and instabilities, these are weak signals to consider. Western public opinion (the 99 % or "the Rest" as coined by *The Economist*) is awakening against the growing divide in wealth.

How can we not be concerned when we see that South African miners have to riot (and die) merely to get a salary increase from their current \$500. What about kidnapping threats in "promising but fragile southern countries" ?

Radical transparency, or the concept of removing all barriers to free and easy public access to corporate, political and personal information, is on the rise. It forces companies to react and/or adapt when inappropriate activities are spotted. This will be an issue for luxury goods companies and hotel groups operating in these markets.

There are numerous examples where renowned high-end fashion and luxury brands have been caught engaging unethically. Browse the ethical consumer web site to rate famous fashion brands on various factors such as animal testing, environment, human rights, political activities or product sustainability. The results are extremely damaging for a number of well-known high-end fashion brands.

# Africa, luxury, power and responsibility cont.

Take the Good Guide app, for example, a consumer tracking and rating system for beauty, fashion and apparel products. The app draws on 200 databases to help anyone find safe, healthy, and sustainable products, currently providing this information for more than 50,000 products and companies. How could the hotel industry be affected by such scrutiny?

## TODAY

The days of awareness raising are long gone. Farsighted and progressive luxury companies are already taking advantage of ethical sourcing, traceability, product labelling, ethical certification or RFID tracking; thus addressing the greater needs of transparency of stakeholders. But what are the impacts?

For the last three years, we have monitored a growing number of progressive luxury companies engaging their organization toward sustainable excellence, either starting strategic philanthropy programs or engaging their organization in compliance exercises.

The good news is that despite all economic, financial and social turmoil, the luxury industry is in excellent shape and has shown overwhelming resilience over the years. Hermes grew 22 % in

the first quarter of 2012, with all regions posting double-digit growth. LVMH grew 16 % in 2011, and Richemont's sales grew 24% in that same year. Should board members accelerate the pace of investment in corporate sustainability?

## 65 % IN DEFENSE MODE

We guesstimate that 65 % of luxury companies are still in the defensive phase, i.e. denying practices, outcomes or responsibilities. Some 30 % are in the compliance phase, adopting a policy-based compliance approach as a "cost of doing business", and about 5 % are in the managerial phase, i.e. embedding societal issues in their management process.

Some within the industry object that it is not an easy task for luxury executives (who are normally evaluated on sales, profit or EBIT criteria) to deal with ethical, human rights, governance, prostitution, biodiversity, environmental damage or corruption issues, while at the same time empowering their team to design, create and market high added-value goods and services.

## WHAT'S COMING IN 2013?

Three years ago, corporate sustainability was a "nice to have"



# Africa, luxury, power and responsibility cont.

option for luxury companies. Since then, it has become (at minima) a reputational imperative to avoid being – directly or indirectly – associated with air/soil/water pollution, genocides, unethical sourcing, civil wars, child labor and prostitution, whether in mining zones or tourist destinations. But it goes further than just mere reputation.

The highly ignitable blend of wealth divide, instabilities, inequalities, reputational and human risks, mixed with the irresistible industry resilience and business opportunities in “promising but fragile countries”, should spur forward-looking luxury and hotel executives to reassess their mid-term strategies in emerging countries, beef up their corporate sustainability engagement and allocation of resources to ultimately create positive and lasting socio-economic impacts in these countries.

As in other sectors, luxury brands won't be able to operate in emerging countries without ensuring that they enable communities in which they do business to benefit, thrive and prosper as well. Even more, luxury brands, because of their aspirational values, can play a much greater role in enabling societal and behavioral change.

Industry best practices, comfortable margins, industry certification, NGO or academic support, experienced CSR specialists, dedicated training for senior or future luxury executives and specialized forums are widely available, and can facilitate the required organizational and behavioral transition as it materializes.

With tomorrow's global economic, demographic, environmental, financial and social challenges, business is about sustainable innovation, about creating sustainable competitive advantage, but also positive socio-economic impacts creation for the 99 %.

In a recent paper on “elegant disruption”, I pointed out the inspiring role, but also responsibility, that luxury executives have: “If luxury executives want to continue influencing what young people dream about, then they had better take that responsibility far more seriously than the way they do now.” Another academic wondered, “As the Ying and the Yang of our behaviors, power and responsibility are how we balance our relations with ourselves with the interests of others, which is at the core of what we mean by ‘our values’.” ■



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