The changing face of Indonesian Hospitality

MARKET

HUMAN CAPITAL

Assessment

Indonesia has made remarkable progress since the 1998 economic and political crisis.

It is the largest economy in Southeast Asia, with a vibrant, pluralistic democracy and important success in reducing poverty.

Indonesia has weathered the more recent global financial crisis relatively unscathed and is enjoying increasing investor confidence and the benefits of recent movements in commodity prices.

As a member of the G-20 and the 2011 chair of Association of Southeast Asian Nations (ASEAN), Indonesia has assumed an increasingly important role regionally and globally.

Major challenges remain, however, in sustaining growth, strengthening poverty reduction and addressing environmental sustainability.

Assessment

To reach its potential, Indonesia needs to press forward with reforms to rapidly build the capacity of its institutions in creating employment opportunities and upgrading skills, improving public services and infrastructure, and reducing the legacy of corruption.

Today, Indonesia is a landscape of opportunity, with a population of 260 million.

- Even though more than 33 million Indonesians currently live below the poverty line and approximately half of all households remain clustered around the national poverty line.

Despite these conditions, Indonesia continues to post significant economic growth.

INDONESIA OVERVIEW

- As of April 2013, the country's economy is expected to grow by 5.9 percent in 2013 and increase to about 6 percent in 2014.

Labor Force: 135 million (est)
By Occupation: Services: 49.6% (est)

Asia Pacific Investment trends, project Jakarta as Asia top destination for infrastructure

OPPORTUNITY INDONESIA

Economic Analysis

- In terms of macroeconomic stability, Indonesia has managed to fulfill many of its fiscal targets, including a significant drop in Debt-to-GDP ratio from 61 percent in 2003 to 27.5 percent in 2009.
- The budget deficit by key economists is projected to be as little as 1.7 percent of GDP in 2016.

The current medium-term development plan covering 2009-2014 focuses on:

- Promoting quality of Human Resources
- Development of science and technology
- Strengthening economic competitiveness

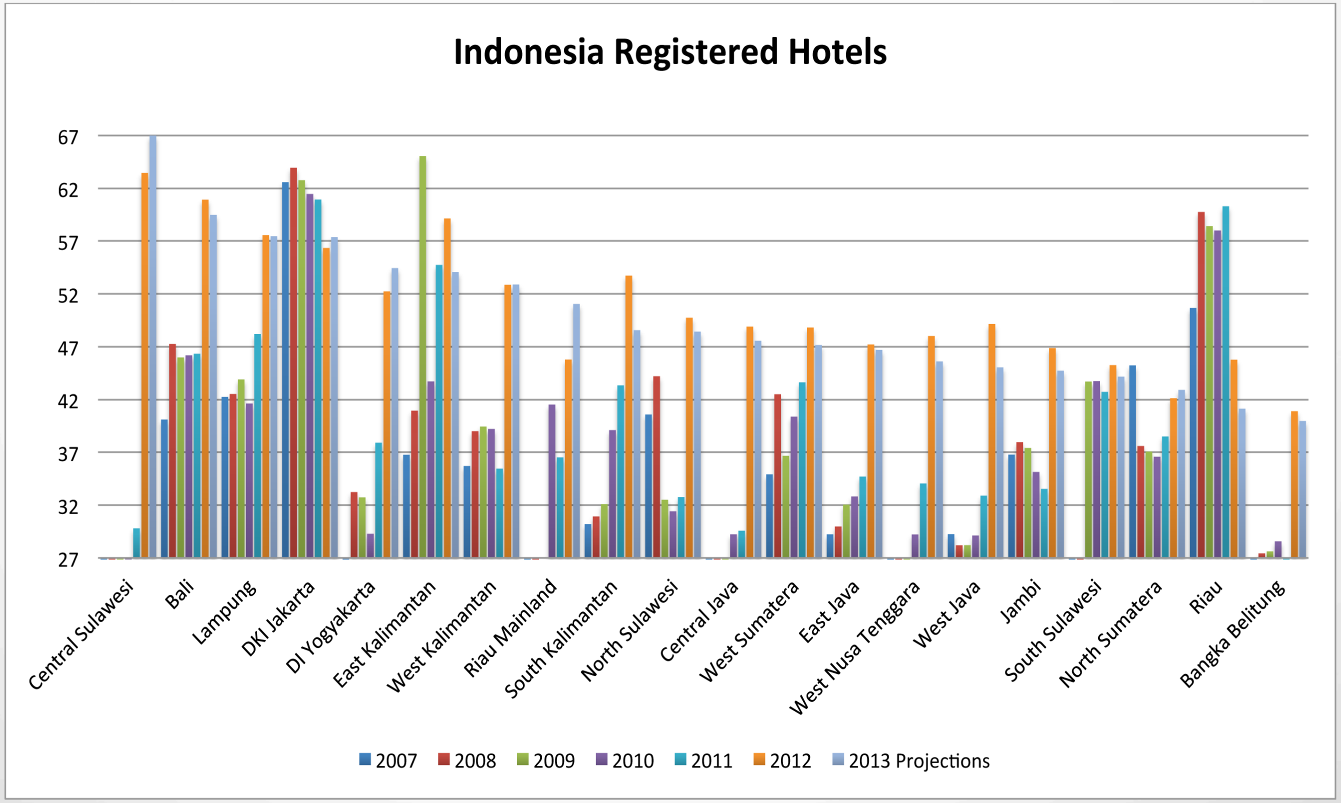
TOURISM AND DEMAND DRIVERS

Indonesia is the largest archipelago in the world, stretching 5.110 km along the equator from east to west and 1.888 km from north to south with more than 17,000 islands in total.

Foreign tourism is an integral part of the Indonesian economy. For the decade prior to the crisis of 1997 the tourism industry experienced strong growth, with large increases in arrivals of foreign tourists, tourist spending and investment.

Two Major Rating Agencies: Fitch (Dec 2011) and Moody's Investor (Jan 2012) upgraded Indonesia rating into INVESTMENT GRADE.

OCCUPANCY % PAST TRENDS



WHAT DOES

THE FUTURE MARKET HOLD?

JAKARTA / BALI- Opportunity or Challenge

In spite of a booming economy much private-sector property development, Jakarta's and Bali's spatial planning and infrastructure, as well as its service provision – transportation, green space, affordable housing, clean water, healthcare, and education – have not kept pace with demand.

In some instances, illegal and undocumented land leasing and landlord-tenant contracting is practiced. Both these cities have a long history of these informal settlements.

Strong and sustained growth in population and economy have resulted in a vast increase in the urbanized area, and land use change.

Traffic congestion is a major problem facing both cities, with only incremental efforts to relieve congestion through the development of public transportation.

Most prominently, the Trans Jakarta Bus way and now the upcoming plans of an MRT city rail besides the ongoing upgrade of Bali airport and planned upgrade of Jakarta airport soon.

Case study - JAKARTA

Five Star

5-star hotels in CBD with total rooms of **6,962 in Q-1 2013 achieved 65.1%** occupancy with room tariffs averaging **Rp971,106** per night.

In **South Jakarta** (excluding CBD), there were 624 rooms of 5-star hotels that were offered at **Rp 951,431 per night and achieved 67%** occupancy on average.

Meanwhile, in **Central Jakarta** (excluding CBD), the occupancy of 5-star hotel rooms was **62.7%** on average and they were sold at **Rp 659,598 per night.**

Case study - JAKARTA

Four Star

Four-star hotels also achieved positive growth.

The occupancy of the **1,570 rooms of 4-star** hotels in CBD Jakarta averaged **71.3 % in 2012**, while their tariffs were **Rp 571,134 per night** on average.

It was followed by:

- **South Jakarta (695 rooms; 71% occupancy; Rp 570,202 per night)**
- **Central Jakarta (4,193 rooms; 63.7% occupancy; Rp 433,403 per night)**
- **North Jakarta (888 rooms; 71.2% occupancy; Rp 493,972 per night); and**
- **West Jakarta (1,926 rooms; 70.5% occupancy; Rp 501,667 per night).**

Case study - JAKARTA

Three Star

3-star hotels recorded quite high occupancy in 2012.

In **South Jakarta**, 3-star hotels reached 1,570 rooms in total, and their **occupancy averaged 71.3%** while their room tariffs averaged **Rp 398.311 per night.**

Central Jakarta had 2,654 rooms with their tariffs averaging **Rp 302,731** while their **occupancy was 68.7%** on average.

In **North Jakarta**, there were 534 rooms with their **occupancy reaching 75.1%** and their room tariffs averaged **Rp 348,812**.

Meanwhile, **East Jakarta** had 158 rooms in total, which were priced at **Rp 289,216**, with their **occupancy averaging 68%.**

New Hotels coming to Jakarta/ Bali

In the next **36 months, 4000 new rooms** are projected to come into Jakarta and about **6000 new rooms in Bali** within the upper upscale and budget category of accommodations.

This can create a possible over supply of product for a short period of time besides a intellectual capital crunch in these key markets.

There is an influx of hotels coming into Jakarta and Bali as market sentiment over 2012 and 2013 has been positive with a stable demand from domestic as well as tourists and growing positive investment climate for Indonesia.

FDI investment for hotels has grown by over 200 percent

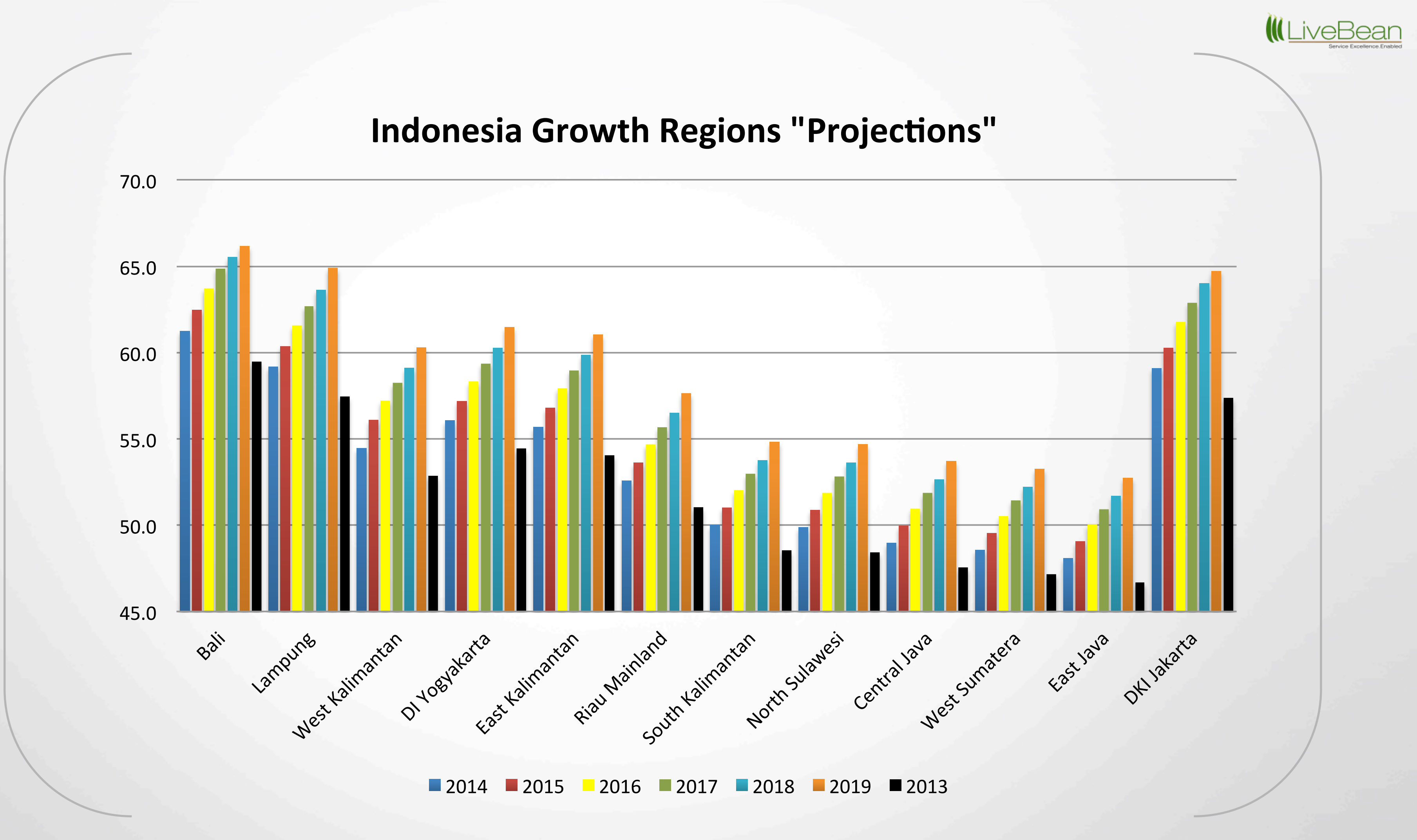
The Real Opportunity

New Hotels-rest of Indonesia

For the upcoming **3 years, nearly 17,000 new rooms** are projected to come into the rest of Indonesia within the upper upscale and budget category of accommodations

This supply of product will still not be able to sustain rising demand within domestic market for a short period of time and will also cause an intellectual capital crunch

There is a need for hotels in many secondary cities of Indonesia as market sentiment and domestic travel and business remains strong.



Indonesia Growth Regions "Projections"
70.0
65.0
60.0
55.0
50.0
45.0
Bali
Lampung
West Kalimantan
DI Yogyakarta
East Kalimantan
Riau Mainland
South Kalimantan
North Sulawesi
Central Java
West Sumatera
East Java
DKI Jakarta
2014
2015
2016
2017
2018
2019
2013

FUTURE INDONESIA LOCATIONS- BUDGET AND STAR RATED HOTELS

Growth Regions of the future	2013 PROJECTED OCC %
Bali	59.5
Lampung	57.5
West Kalimantan	52.9
DI Yogyakarta	54.4
East Kalimantan	54.1
Riau Mainland	51.0
South Kalimantan	48.6
North Sulawesi	48.4
Central Java	47.6
West Sumatera	47.2
East Java	46.7
DKI Jakarta	57.4

Other areas of challenges can be

- Quality vendors for developing hotels (Project cos and developers)
- Secondary city infrastructure and its development pace
  - Understanding the needs of domestic travellers (they are not tourists or are they)
- No detailed govt subsidy Benefit Package
- Banking loans – today at 13 % rate of interest from 10 % 7 months prior
- The instability of the IDR (in the last month huge FDI has withdrawn)
- Quality Flights capacity and Airports infrastructure
  - Try booking a flight to a city like Balikpapan via Garuda 24 prior to flying
- **Last but not least – CRITICAL – The human resource talent pool**

The
HR Challenge..

Present Scenario

- **Trained Staff - Limited supply**
- **Hotel Schools - Limited supply**
- **New Hotels Opening very high**
- **Demand vs. Supply - skewed**

The present scenario exists where there are many more hotels opening with not enough trained resources available.

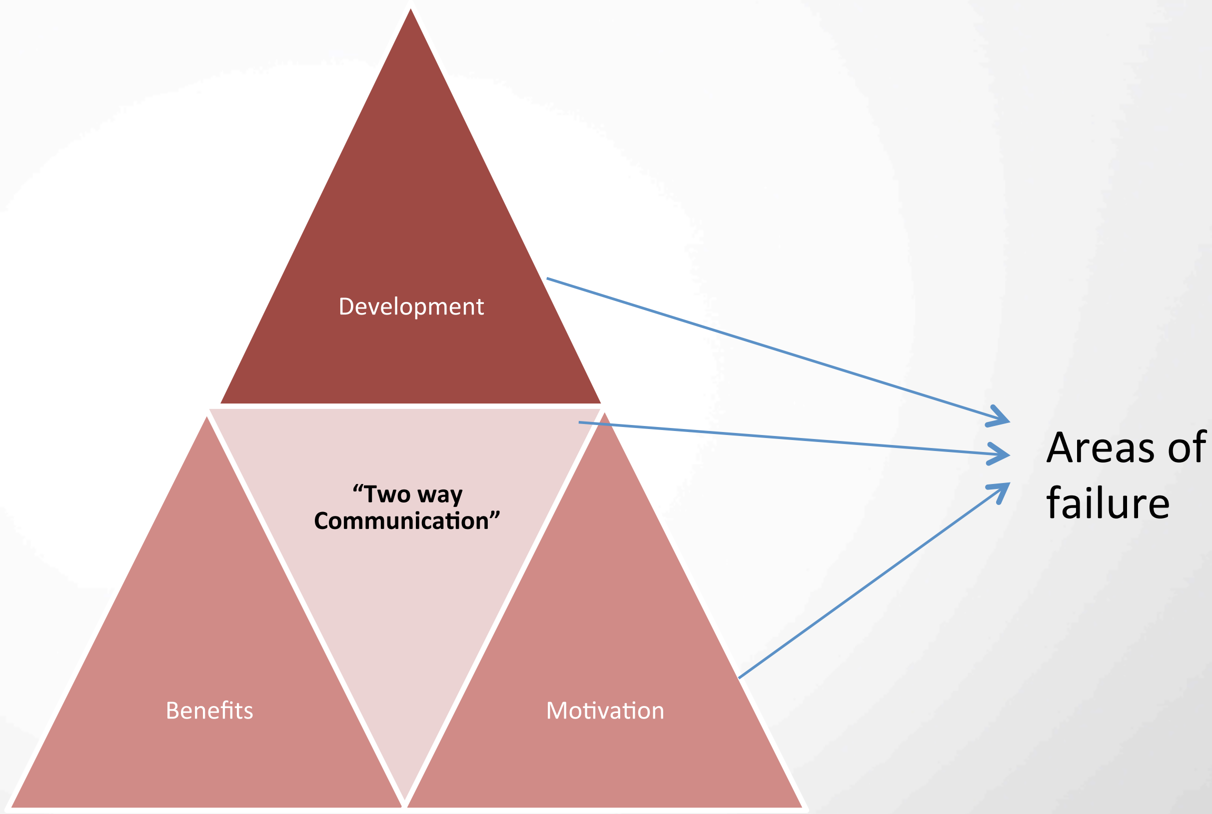
This works in staff benefit as staff have more opportunities and hence turnover starts to be very high in markets like Jakarta , Bali , Surabaya etc.

  - And yet as people grow faster , do they have the requisite experience to take the role

The Indonesian resource and his needs

- Staff is a mixture of GEN X, Y and baby boomers, so what does Indonesian Staff want?
  - Face is important, respect
  - Speed in action of promises made
  - Two way communication
  - Recognition needs
  - Motivational needs
  - Training needs
  - Development needs
  - One on one interactions and hand holding
  - Money and career path
  - Peer assessment and evaluation
  - Facilities (canteen etc.) and service charge
  - Management interactions and leadership

“The staff retention pyramid”



LiveBean
Service Excellence Enabled

The existing Gold Mine

- Hotels presently have staff at 4 different levels
  - Permanent staff - Full benefits
  - Contract staff - Semi benefits
  - Daily worker - Daily pay
  - Trainees - Limited pay

With each of these levels, staff can be motivated and retention techniques applied.

This staff many a times is taken for granted and so chooses to leave.

Studies have shown that that the cost of hiring a new staff to replace an existing performing staff are about 16 times more expensive , so where the hotel was spending USD 1 with existing staff .

Hiring , training & replacing a new staff in his place will cost the hotel USD 16 dollars.

Needs of Permanent staff

- **Recognition**
- **New Opportunity**
- **Cross Training**
- **Career Development**
- **One on One interaction**

ENGAGEMENT

Not all staff are looking for promotions or more money and benefits, many a time staff can be happy at what they are doing but are looking at some recognition and motivation, all they need is engagement from their supervisor / leader.

E.g. Drivers, Doorman, Room attendants , Managers, Even Ex-com and GM's

HEAR / LISTEN – Staff do care about your hotel, take suggestions and if management promises are made, ensure they are kept.

Needs of Contract Staff

- **Permanent role**
- **Benefits**
- **Recognition**
- **Opportunity and**
- **One on One interaction**

OPPORTUNITY

This is one of the most common hiring styles in hotels and the contract staff is normally hired for a 1 year contract and extendable.

Most of these staff are looking for stability and this way limits the hotels risk and allows hotels to screen and either extend or end contract after one year.

The opportunity and risk here is very high:

- **Opportunity** - identifying the staff with potential and offering them proper career development and paths for retention.
- **Risk** - staff is always looking for a better opportunity for a stable career and job and benefits.

Needs of Daily Worker

- **Service Charge**
- **Contract or permanent role**
- **Benefits**
- **Opportunity**

FINANCIAL

Short term hiring used mainly in areas like F&B service , Housekeeping etc , this is also a risky proposition as this kind of staff is always looking for an opportunity where a hotel will give them a contract role as the salary scale completely changes.

Many a times hotels find legal short cuts (cost savings) and have semi trained staff as daily workers working for years with the hotel, this is not only risky from a legal standpoint but also may result in mediocre performance by staff.

This staff are always looking for a proper stable job.

The opportunity lies in identifying staff that has potential and offering them contract roles initially and then moving them to permanent with career development

Needs of Trainee

- Learning
- Job
- Experience

DEVELOPMENT

Short term hiring often used as staff for basic services without proper training or monitoring .

This is a great talent pool that should be monitored closely and talent identified that can be developed to join hotel post finishing school , ideal way to monitor this resource is a buddy system with existing trained staff who can also mentor and report on trainees progress.

Staff Development- The key to retention

- Most hotels have these today
  - More like a tick on the box, but do they work ?
- What is a good development program?
- Mindset change from the top and not just HR.
- Talent Development starts at junior most level (doorman, waiter)
  - Starts with a Training Needs Analysis and identification of staff.
  - Followed up with quarterly performance evaluation.
  - Set a career development plan from 6 months to two years.
    - Monitored by HR and Division Head
  - Success and challenges monitored , monthly documented discussion with mentor on progress.
  - Success model shared.

E.G attached.

The How of attracting new staff

- Talent Development Programs
- Management Trainee Programs
- School trainees development programs
- Hotels Benefit Package
- Management and leadership
- Looking at alternative talent pools

ABOUT LIVEBEAN

Founded in 2007, LiveBean is a leading hospitality consulting firm specializing in providing the hospitality and tourism industry with solutions geared towards service excellence and growth of shareholders profitability.

With over a 150 years of hospitality management experience the team at LiveBean offers hospitality related concepts, efficiencies and performances, whilst providing practical and simplistic strategies, solutions and services that focus on Revenue Generation and Profitability for its clients

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