Fellows Broadsheet

The Institute of Hospitality Fellows Broadsheet is a monthly thought-leadership article written by a member of our esteemed College of Fellows. Celebrating the wealth of professionalism, knowledge and expertise within our diverse, worldwide hospitality family. The Fellows Broadsheet is published on the first Sunday of every month, exclusively for members.

Building local hotel investor knowledge in Africa

Dr Belinda Nwosu FIH has been a member of the Institute of Hospitality since 1999. She is currently a faculty member in Organisational Behaviour and HRM at the Lagos Business School (LBS) in Nigeria.

She has worked in vocational hospitality education and training and has substantial consulting experience in sub-Saharan Africa.

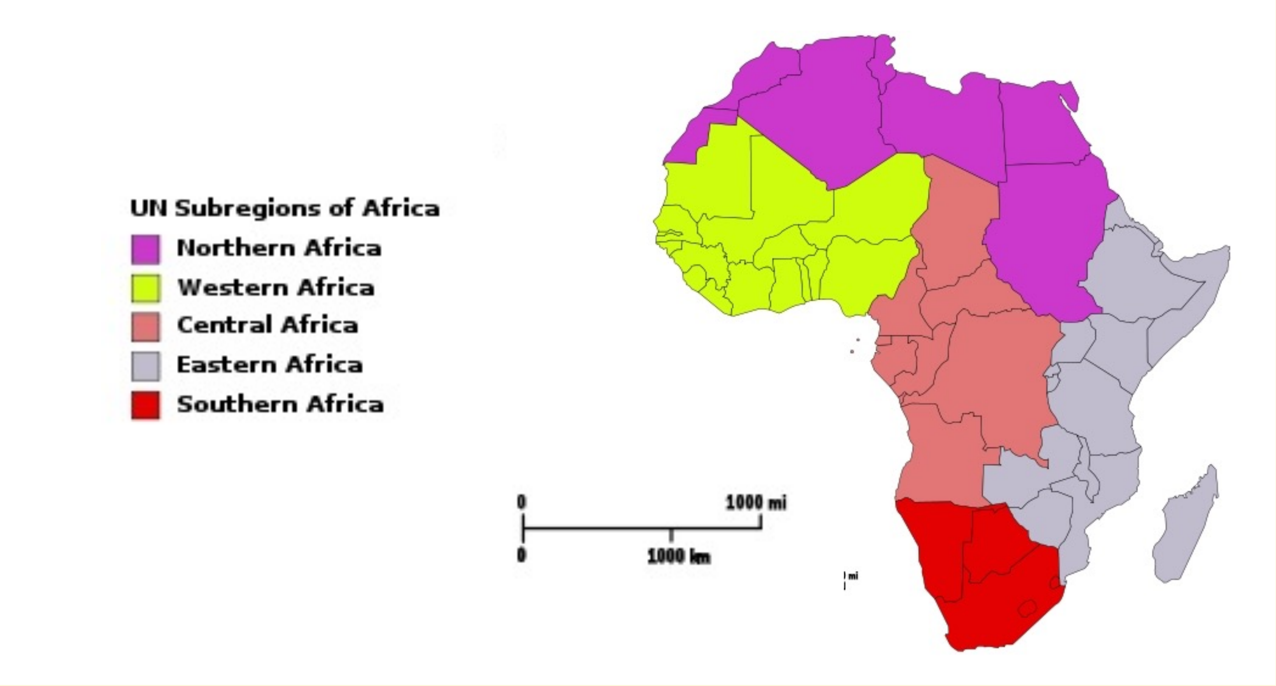
Examining 'Building local hotel investor knowledge in Africa' our latest Fellows Broadsheet sees our Fellow consider why hotel investor knowledge lacks the sophistication needed to become a more strategic and competitive contributor to the regional African economy. And how it can and is starting to be addressed across the region.

Background

Compared with what we observe in the tech sector in West Africa, investor knowledge in the hotel sector is still rudimentary. The hotel sector pre-dates the tech sector by decades, yet investor knowledge in the tech sector is nothing short of phenomenal [1].

Savvy, enterprising, and innovative thinking have shaped the tech start-up landscape on the continent. Nigeria, South Africa, Kenya, and Egypt alone accounted for 87 per cent of tech start-up funding in Africa between 2010 and 2020.

Profiling sectors like oil and gas, financial services, and telecommunications confirm that the hotel investor knowledge lacks the sophistication needed to become a more strategic and competitive contributor to the regional economy.



Investor Knowledge

Having engaged with local hotel investors over the last two decades, what stands out is the lack of in-depth knowledge about the sector.

The idea of owning an 'ego asset' in this part of the world extends beyond owning a Bentley, a Benetti yacht, or a Thoroughbred horse. It is not uncommon to have an investor in the oil and gas industry, for example, aspire to build a 'five-star' behemoth as a testament to their status.

Sadly, the idea of hotel investments requires a lot more than the apparent prestige that goes into owning one. The quality of investor engagement ought to be addressed if the hotel sector in West Africa is to thrive.

Addressing the Gaps

After several encounters, the idea to create a platform to engage hotel investors across the continent began to emerge. One specifically committed to providing seamless access to global best practices contextualised for the African continent. We could achieve this by providing investors with a platform to engage African hospitality leaders.

The strategy was clear. If we could get more industry leaders engaging with and mentoring investors, this would create much-needed input for creating a climate for informed and innovative investments.

In March 2022, we launched the LBS Hospitality and Tourism Network initiative to make this vision a reality. In an inaugural webinar, Mossadeck Bally, CEO and Founder of Azalai Hotel Group, shared his thoughts and experiences for driving hotel investments in West Africa.

Rationale

Why should anyone be interested in investing in the hotel sector in West Africa?

The sector is a primary foreign exchange earner; it creates jobs and employment opportunities. In some cases, it contributes to the region's infrastructure, e.g., water treatment plants and access roads that benefit local communities.

The main reason for investment should be driven not only by monetary benefits but by the impact of those investments in the community.

The Challenges

Hotel investors are bound to encounter challenges related to the cost of urban land, lack of experienced hotel development teams, market expertise to support investment decisions, skilled labour, adequate tourism infrastructure, political stability to increase investor confidence, and access to finance.

Knowing the Market

The real issue that hotel investors fail to address, mainly out of ignorance, is that the return on investment (ROI) takes an average of ten years to achieve. Achieving the breakeven point will take three to four years at the earliest. It is essential to understand the demand drivers, know the target market, and establish what this market needs or wants.

Therefore, it is best practice to engage a specialist team involved from the start of a hotel development project, who will provide the much-needed market and financial expertise.

Finding Funding

Funding can be addressed through commercial banks apart from private equity firms, though not advisable given the 8-year payback window.

Also, government pension funds and insurance funds are an alternative, and these can offer more long-term loans. Development Financial Institutions (DFIs) provide a 12-year window, but the engagement process requires fulfilling stringent conditions. One of which is the due diligence report on ESG (Environment and Sustainability).

It poses specific challenges as there is little room for contextualising the playing field that the investor is operating from, volatile exchange rates, and the sheer length of the application process.

Conclusion

Improving the climate for hotel investments in West Africa needs to start with the developing potential and existing hotel investors.

Knowledge gaps exist that significantly impact the quality of the decisions that these investors make. We can solve these issues from within by creating a platform where experts on the continent engage with and mentor investors. Such engagements can only benefit the entire tourism ecosystem in West Africa and beyond.

Perhaps we could and should looking at more creative and innovative sector developments in the future to help hotel investment thrive.

About the author

Dr Belinda Nwosu FIH has worked for 15 years in vocational education and training in hospitality and has initiated several developmental programmes related to empowering women through hospitality education.

Her consulting experience has spanned several countries in sub-Saharan Africa and includes market and financial research, human capital development, and service excellence.

Belinda is actively involved in research, teaching, and consulting at the Lagos Business School, Nigeria. Her main engagement area is in the hospitality, leisure, and tourism industries.

She holds a Doctorate in Business Administration (DBA) from the University of Southampton, UK. She also holds two undergraduate degrees - Mathematics and Statistics from the University of Lagos in Nigeria and Hospitality Management from Manchester Metropolitan University in the UK. Her Master of Arts in Hospitality Management is from University of West London, UK.

She was the first Area Consultant (West Africa) for EuroCHRIE, the official federation for Europe, the Mediterranean Basin and Africa of the International Council for Hotel, Restaurant, and Institutional Education. In addition, she is qualified as a Certified Hotel Industry Analyst with STR Global.

Belinda volunteers as an advisor with Wonder Foundation, a UK-based charity dedicated to empowering women and girls through quality education and access to good work.

In October 2019, hosted by MP Paul Scully, she presented a paper at the Houses of Parliament on the transformational impact of vocational education on African women.

Further resources

[1] Tony Blair Institute for Global Change. Report on Supercharging Africa's Start-ups: The Continent's Path to Tech Excellence. Feb 15, 2022

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To find out more about Lagos Business School Hospitality and Tourism Network, please email.

Connect with Belinda on LinkedIn