The European Hotel Industry:

Introduction

In the last edition we introduced the Otus Hotel Brand Database and provided an overview of the hotel profiles of hotel brands in Europe. In this edition we will introduce the contextual and corporate profiles of the brands.

The contextual component of hotel chains in Europe

In the past, "location, location, location" might have served as a folksy shorthand for hotel success, but to understand the complexity of hotel brands we need to be more detailed. There are four variables that are crucial:

1. The structure of economies

Although the analysis of economic cyclicality provides an insight into the short-term performance of an economy, which is generally reflected in the hotel industry, it is not the only impact of an economy. The structure of an economy is a longer-term determinant of the volume of hotel supply and demand and is a necessary requirement for the portfolio management of hotel chains. The structure of economies is identified by measures such as:

- GDP/citizen
- % GDP from service industries
- % GDP from manufacturing industries
- % GDP from extractive industries
- % Employment in services
- % Employment in manufacturing
- % Employment in extraction
- The range of service industries
- The level of concentration in service industries

   The Otus system classifies economies into five types – experience economies, market service economies, citizen service economies, industrial economies and subsistence economies – which produce different sizes and structures of the hotel industries. Experience economies are the most developed and have the highest, broadest and most concentrated exposure to the service industries. Subsistence economies have the reverse.

   Currently, the UK is the only experience economy in Europe. There are eight market service economies including France, Netherlands Sweden and Switzerland. There are 10 citizen service economies including Germany, Italy and Spain. There are 22 industrial economies including Russia, Poland and Hungary. There are 11 subsistence economies including Albania, Bosnia and Georgia.

   The profile of hotel chains in the different economic structures in Europe is as follows:

Economic Structure and Hotel Chains: Overview

Sub- Variables	European Countries	Chain Hotels	Chain Rooms	Chain Rooms %	Chain Rooms/Country
Experience Economies	1	2,515	229,210	17.9%	229,210
Market Service Economies	8	4,000	376,420	29.5%	47,053
Citizen Service Economies	10	3,305	520,790	40.7%	52,079
Industrial Economies	22	843	149,710	11.7%	6,805
Subsistence Economies	11	12	1,980	0.2%	180
Total	**52**	**10,675**	**1,278,110**	**100.0%**	**24,579**

Source: Otus & Co

   As economies develop from subsistence to experience economies, the level of hotel concentration increases and the number of citizens per chain room declines:

Economic Structure and Hotel Chain: Supply Structure

Economic Structures	Otus Total Rooms	Chain Rooms	Citizens/Chain Room	Concentration %
Experience Economies	442,300	229,210	256	52%
Market Service Economies	969,400	376,420	297	39%
Citizen Service Economies	2,340,600	520,790	380	22%
Industrial Economies	1,290,500	149,710	2,718	12%
Subsistence Economies	42,900	1,980	44,472	5%
Total	**5,085,700**	**1,278,110**	**676**	**25%**

Source: Otus & Co

   In the three experience economies in the world – USA, UK and Canada – the structural economic conditions are in place to produce the highest levels of hotel supply, demand and concentration. These economies have the most developed service industries, which drive the highest volumes of business and leisure travellers. As the other economies develop so their service industries grow and in turn so do their hotel industries.

Size and Structure II

2. Conurbation size

Conurbation size is a powerful determinant of hotel demand. In the main, chains seek to locate hotels in cities where there is most demand. Consequently, those cities with the highest number of chain rooms also have the highest volume of demand and vice versa. Therefore, conurbation size is measured in terms of the number of chain rooms in each conurbation and is classified as follows:

• More than 30,000 chain rooms
• Between 6,000 and 29,999 chain rooms
• Between 1,500 and 5,999 chain rooms
• Between 500 and 1,499 chain rooms
• Less than 500 chain rooms

The current conurbation size profile in Europe is as follows:

Conurbation Size				
Sub-Variables	Number of Conurbations	Chain Rooms	Average Chain Rooms/Conurbation	Chain Rooms %
More than 30,000 rooms	2	112,630	56,315	8.8%
6,000 - 29,999 rooms	27	256,780	9,510	20.1%
1,500 - 5,999 rooms	118	325,510	2,759	25.5%
500 - 1,499 rooms	295	241,070	817	18.9%
Less than 500 rooms	2,560	342,120	134	26.8%
Total	**3,002**	**1,278,110**	**426**	**100.0%**

Source: Otus & Co

It is no accident that the largest conurbations also have the largest average size of hotels while the smallest conurbations have the smallest hotels.

3. Conurbation type

Conurbation type is a refinement of conurbation size and is needed because the different types of location impact on the hotel profiles of chain hotels. There are five conurbation types as follows:

• Urban
• Suburban
• Resort
• Highway
• Rural

The current conurbation type profile in Europe is as follows:

Conurbation Type				
Sub-Variable	Chain Hotels	Chain Rooms	Average Hotel Size	Chain Rooms %
Urban	3,720	533,620	143	41.8%
Suburban	3,060	291,910	95	22.8%
Resort	1,550	294,060	190	23.0%
Highway	1,535	101,140	66	7.9%
Rural	810	57,380	71	4.5%
Total	**10,675**	**1,278,110**	**120**	**100.0%**

Source: Otus & Co

The 23% exposure to resorts is dominated by chains based around the Mediterranean. They rely on tour operators to provide demand and the 190 room average hotel size is an effective response to their high volume, semi-captive demand.

4. The density of chain rooms per country

The density of chain rooms per country is calculated as follows:

• More than 200,000 chain rooms
• Between 40,000 and 199,999 chain rooms
• Between 10,000 and 39,999 chain rooms
• Between 3,330 and 9,999 chain rooms
• Less than 3,330 chain rooms

The European Hotel Industry:

The current density per country profile for Europe is as follows:

Density of Chain Rooms per Country

Sub-Variables	Number of Countries	Chain Rooms	Average Chain Rooms/Country	Chain Rooms %
More than 200,000 rooms	3	717,230	239,077	56.1%
40,000 - 199,999 rooms	2	216,970	108,485	17.0%
10,000 - 39,999 rooms	18	311,190	17,288	24.3%
3,330 - 9,999 rooms	4	18,440	4,610	1.4%
Less than 3,330 rooms	25	14,280	571	1.1%
Total	**52**	**1,278,110**	**24,579**	**100.0%**

Source: Otus & Co

Contextual conclusions

Economic structure, conurbation size and type and density provide the contextual profiles of hotel chains. Whereas the hotel profile of a brand represents the defining feature of the hotels in the brand, the contextual profile is the outcome of decisions made about the development of the brand. The data on individual hotel chains shows that the more they have grown, the more their contextual profiles have become sub-optimal. Weak contextual profile is the prime reason why the larger chains have struggled to deliver a big enough RevPAR premium over competing smaller chains and unaffiliated hotels.

The corporate component of hotel chains in Europe

The corporate component specifies the differences between hotel chains and unaffiliated hotels. The four corporate supply variables are as follows:

1. Affiliation structure

The relationship between each hotel and the chain to which it is affiliated is classified as follows:
• Owned
• Leased
• Management contract with equity
• Management contract without equity
• Franchised

The current affiliation profile in Europe is as follows:

Affiliation to Chain

Sub-Variables	Hotels	Rooms	Average Size	Rooms %
Owned	4,180	498,480	119	39.0%
Leased	4,095	472,980	116	37.0%
Management Contract With Equity	275	43,530	158	3.4%
Management Contract Without Equity	735	144,130	196	11.3%
Franchised	1,390	118,990	86	9.3%
Total	**10,675**	**1,278,110**	**120**	**100.0%**

Source: Otus & Co

The affiliation structure in Europe is top heavy with three-quarters of the rooms owned or leased by the chains.

2. Hotel chain length

Hotel chain length refers to the number of hotels in each chain. The longer a chain in any country or region, the more power it has to capture demand, yet no chain has enough hotels to cause monopolistic concerns. Chain length is classified as follows:
• More than 800 hotels
• Between 160 and 799 hotels
• Between 40 and 159 hotels
• Between 13 and 39 hotels
• Less than 13 hotels

Size and Structure II continued

The current hotel chain length profile in Europe is as follows:

Hotel Chain Length				
Sub-Variables	Chains	Hotels	Average Hotels/Chain	Hotels %
More than 800 hotels	2	2,875	1438	26.9%
160 - 799 hotels	9	2,370	263	22.2%
40 - 159 hotels	33	2,515	76	23.6%
13 - 39 hotels	79	1,740	22	16.3%
Less than 13 hotels	157	1,175	7	11.0%
Total	**280**	**10,675**	**38**	**100.0%**

Source: Otus & Co

3. Hotel chain size

Hotel chain size refers to the number of rooms in each chain and is classified as follows:
• More than 40,000 hotel rooms
• Between 8,000 and 39,999 hotel rooms
• Between 2,000 and 7,999 hotel rooms
• Between 667 and 1,999 hotel rooms
• Less than 667 hotel rooms
    The current hotel chain size profile in Europe is as follows:

Hotel Chain Size				
Sub-Variables	Chains	Rooms	Average Rooms/Chain	Hotels %
More than 40,000 hotel rooms	6	474,780	79,130	37.1%
8,000 - 39,999 hotel rooms	25	384,390	15,376	30.1%
2,000 - 7,999 hotel rooms	66	264,160	4,002	20.7%
667 - 1,999 hotel rooms	104	123,280	1,185	9.6%
Less than 667 hotel rooms	79	31,500	399	2.5%
Total	**280**	**1,278,110**	**4,565**	**100.0%**

Source: Otus & Co

4. Concentration per country

Concentration per country classifies each country according to its level of hotel concentration as follows:
• More than 40% of total hotel rooms
• Between 8% and 39.99% of total hotel rooms
• Between 2% and 7.99% of total hotel rooms
• Between 0.67% and 1.99% of total hotel rooms
• Less than 0.67% of total rooms
    The current concentration per country profile relates to the % of total hotel rooms that each chain has in each country in which it has a presence and is as follows:

Concentration per Country				
	Countries	Chain Hotels	Chain Rooms	Chain Rooms/Country	% Rooms
More than 40% of hotel rooms	7	7,475	783,570	111,939	82.7%
8% - 39.99% of hotel rooms	24	2,800	429,845	17,910	13.2%
2% - 7.99% of hotel rooms	13	395	64,120	4,932	3.6%
0.67% - 1.99% of hotel rooms	1	2	575	575	0.4%
Less than 0.67% of hotel rooms	7	0	0	0	0.0%
Total	**52**	**10,672**	**1,278,110**	**135,356**	**100.0%**

Source: Otus & Co

Conclusions

Theoretically, the larger the hotel chain the greater the demand outperformance. That this is not the case in reality is due to the failure of the chains in portfolio management. Portfolio management is about creating the most effective balance across the hotel profile, contextual profile and corporate profile of a brand.
    As the hotel industry in Europe consolidates apace a key differentiator of performance is the effectiveness of portfolio management. The problem is that most of the chains are doing it badly.

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