Hotel Chains in Italy

Introduction

Italy is an enigma. It has one of the largest hotel industries in Europe, yet it is also one of the most backward with all the structural logic of a bowl of spaghetti. The Italians in the hotel industry and the Italian capital markets have created this mess over the 20th century and it will not be made rational in a hurry. However, the Italian industry is too big, too significant for the Italian economy and the growth prospects are too attractive for it to continue on its ramshackle way. We attempt here to unravel some of the spaghetti.

Hotel demand patterns

Italy is a citizen service economy and thus domestic business demand and domestic leisure demand into hotels is less than in market service and experience economies. Within the European context Italy has a large agricultural sector accounting for 2.5% of GDP compared with less than 1% in the UK. This sector provides the least domestic business demand into hotels. The industrial sector is still significant accounting for 28.5% of GDP and although it provides a greater source of business demand for hotels than agriculture, it is declining compared with the service sector. Government involvement in the service sectors, around 36% of GDP, provides a further source of domestic business, but it is smaller and at lower market levels than service business demand. The Italian service businesses, accounting for around one-third of GDP provide most domestic business demand, is growing faster than any other sector, but it is constrained by its narrow range and mostly very small businesses.

The domestic short break demand into hotels in Italy is much smaller than in more structurally developed economies such as UK and Holland, because Italian consumers and Italian credit access has not yet progressed enough from buying consumer durables to buying services.

A critical feature of the Italian economy is the high volume of foreign holiday demand that it receives. The WTO estimates that Italy receives more than 60 million overnight foreign visitors per year, which provides the highest volume of demand into Italian hotels.

The Italian hotel industry

The WTO record that there are 33,420 hotels and similar establishments in Italy amounting to 60 citizens per room. Otus estimates that hotel room stock alone in Italy amounts to 735,000, which equates to a 14% share of European hotel room stock and 78 citizens per Italian hotel room. When it comes to hotel chains the picture is radically different. Italy accounts for only 57,155 rooms and is less than 8% consolidated the lowest level of hotel consolidation in the EU and more than 1,000 Italian citizens per affiliated room, the highest in the EU. The 670,000 unaffiliated hotel rooms in Italy have an average size of only 33 rooms.

The hotel industry in Italy suffers from the Italian economic diseases. It is dominated by very small family owned hotels, informal equity and bank debt in very small lots. One implication of this is that generating effective returns has not been a high priority. Another is that Italy provides a high proportion of low skilled and semi-skilled hotel jobs rather than careers and the involvement of its universities in providing undergraduate and postgraduate degrees in hospitality management is absent.

Conurbation type

Conurbation type	Hotels	Rooms	Average size	% Share
Urban	227	31575	139	55.2%
Suburban	70	9715	139	17.0%
Airport	6	1340	223	2.3%
Resort	90	12615	140	22.1%
Highway	4	595	149	1.0%
Rural	15	1315	88	2.3%
Totals	**412**	**57155**	**139**	**100.0%**

Source: Otus & Co

Unaffiliated hotels dominate the Italian resorts and this makes them even more precarious businesses. Not only are they small hotels, but also most of them close for several months per year making them dead assets during the closed period and a low skilled and semi-skilled jobs market.

In comparison with Spain, which also relies heavily on foreign holidaymakers, the Italian resort market is very different. The Spanish resort market is closely tied to north European tour operators, which deliver high volumes of demand. The Italian resort market is less packaged and deals with lower volumes. The WTO estimates around 15 million fewer overnight stays in Italy by foreign visitors than in Spain.

The Spanish resort hotels are on average half as big again as the Italian resort hotels to accommodate the high volumes of foreign holidaymakers delivered by the tour operators. Consolidation of the Spanish resort hotels is also high. More than two-thirds of the chain rooms in Spain are in resort locations. In contrast, less than a quarter of chain rooms in Italy are in resort locations. Whereas Italy has 90 affiliated hotels in its resorts, Spain has 757.

The very low number of airport hotels is itself an indicator of the low level of domestic and international business demand into Italy. It also reflects the high reliance on the holiday market, which invariably does not stay in airport hotels.

Market level

Market level	Hotels	Rooms	Average Size	% Share
Deluxe	43	4825	112	8.4%
Up-Market	123	22960	187	40.2%
Mid-Market	203	25280	125	44.2%
Economy	43	4090	95	7.2%
Budget	0	0	0	0.0%
Totals	**412**	**57155**	**139**	**100.0%**

Source: Otus & Co

In terms of market level profile, Italy is out of kilter with the rest of Europe. It has 8.4% of its affiliated rooms at the deluxe level, whereas in Europe as a whole deluxe rooms account for only 2.1% of affiliated room stock. The deluxe hotels in Italy do not end there. There are a further 36 unaffiliated deluxe hotels with 2,850 rooms that are members of hotel consortia, before any wholly unaffiliated deluxe hotels are considered.

The picture is similar with up-market rooms. 40.2% of affiliated rooms in Italy are up-market compared with only 27.8% in the whole of Europe. Only 7% of the Italian chain rooms are in economy hotels against 19% in Europe as a whole and there are no chain budget rooms in Italy compared with 6% in Europe. It is only at the mid-market that Italy is in line with Europe.

Hotel configuration

Hotel Configuration	Hotels	Rooms	Average Size	% Share
Hotel Resorts	56	10105	180	17.7%
Full Feature	208	32270	155	56.5%
Basic Feature	97	10270	106	18.0%
Limited Feature	45	4040	90	7.1%
Room Only	6	470	78	0.8%
Totals	**412**	**57155**	**139**	**100.0%**

Source: Otus & Co

For a country so reliant on holidaymakers it is notable that the number of affiliated hotel resorts is low at 56 compared with Spain, which has 384.

The 56.5% of full feature hotels is ahead of Europe, which has only 41%. Italy has half the proportion of limited feature hotels in Europe and only a trace of room only hotels. The hotel configuration profile, with three-quarters if the chain rooms in full and basic feature hotels, suggests a hotel industry without much innovation. The bulk of the small unaffiliated hotels in Italy are also full feature and basic feature hotels and taken together with the chain hotels paint a picture of the Italian hotel industry constrained by a petit bourgeois inertia.

Brand profile

In 2003, 56 hotel brands operated 370 hotels with 53,455 rooms. In 2004, five brands entered the Italian market: Bulgari, Dorchester, Kempinski, Park Hyatt and Renaissance, all with one hotel each and all but Renaissance are deluxe brands.

Overall the net increase in affiliated portfolios was 42 hotels and 3,700 rooms, a 7% increase in affiliated room stock. The on-going trend distinguishes between the development of foreign hotel brands in Italy and the stagnation of Italian brands in their own market. The 42 foreign brands operating in Italy added 41 hotels and 4,475 rooms, a 17.5% increase. In contrast, the 19 Italian brands achieved a net addition of only one hotel and a net reduction of 775 rooms, a 2.8% slippage.

25 of the 61 brands retained unchanged portfolios in 2004. Among these brands were several high profile international brands such as, Comfort, Hilton, Melia and Quality.

The hotel brands in Italy are short brands. Only 16 of the 61 brands have more than 10 hotels in the country. The longest brand, Jolly Classic has 37 hotels, followed by Holiday Inn with 30 hotels. It is inescapable that hotel brands have only a token presence in Italy and this detracts from their power. The international brands alone have the chance of subsidising their Italian exposure to generate a demand premium by taking room nights increasingly from unaffiliated hotels and short domestic chains.

Conclusions

For a material improvement in the state of the Italian hotel industry, the economy needs to develop more significantly towards the service sector. Natural processes are moving it in that direction, driven by the reducing competitiveness of Italian manufacturing in the European and Global economies. However, there is too little evidence of fiscal impetus to the growth of service businesses and as Italy currently lags most of the EU members in terms of its economic structure, the current rate of development is unlikely to improve its relative position and there is a danger that it will face relative decline if the structural stimulus is insufficient.

The prize for the hotel industry if the structure of the Italian economy improves is that new domestic markets will open up more fully. Domestic short breaks into hotels will grow from a very low level. Domestic business demand will increase and the conference and meetings markets will grow, materially. These markets are the preserve of hotel brands and in every other country that has developed beyond the current economic structure of Italy the hotel brands have grown to dominate these markets.

This leaves the Italian resorts and the issue is how far they will decline and corrode as happened in the UK or how far they will develop as they have done in Spain. The Italian climate is the best defence against the UK resort demise, but the change needed to bring them to the Spanish position is so radical that it cannot be forecast.

The current structure of the Italian hotel industry condemns the Italian hotel capital markets as the most primitive in Western Europe. There is only microscopic professional equity in the Italian hotel industry compared with the UK. Even Germany is much further ahead than Italy in developing effective hotel capital markets.

It is encouraging that the foreign hotel brands in Italy have begun to outpace the Italian brands and to pressurise unaffiliated hotels. It suggests that Italian banks and equity sources are wakening to the reality of hotel economics. However, Italy will need a tenfold increase its affiliated room stock for it to achieve the same number of citizens per affiliated hotel room already achieved in the UK. Even to reach the same ratio as Germany will require an increase of 6.5 times. This will not happen quickly, but we anticipate that the international chains will continue to grow their share of supply, demand and performance way into the future.

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