Hotel Chains in Scandinavia

Introduction

Scandinavia – Denmark, Finland, Norway and Sweden – accounts for only 3.5% of the European population and unlike the southern European countries its hotel demand does not get much of a boost from foreign visitors. Domestic hotel demand generates almost 2.5 times more room nights than inbound visitor demand, a significant proportion of which is inter-Scandinavian, but the picture is not uniform across the region. In Denmark, inbound hotel demand accounts for half of the total demand, while in Finland it accounts for around 25%, Norway, 30% and Sweden, 20%. However, the size and structure of the hotel industry in Scandinavia is more significant than the potential volume of demand, because its economies are among the most developed in Europe. Denmark, Norway and Sweden are market service economies and Finland is a citizen service economy. As a result Scandinavia accounts for 4.5% of total hotel room stock in Europe, but 8.1% of affiliated hotel room stock.

Hotel brands in Scandinavia

There are 738 affiliated hotels in Scandinavia with 104,380 rooms and with 38% hotel chain consolidation, the region is materially ahead of the European average of 28%.

	Denmark	Finland	Norway	Sweden	Total Scandinavia
Total hotel rooms	40,500	55,700	79,400	98,800	**274,400**
Affiliated hotel rooms	13299	21356	34514	35208	**104377**
Hotel consolidation %	33%	38%	43%	36%	**38%**
Hotel brands	17	14	11	17	**35**
Average rooms per brand	782	1525	3138	2071	**2982**

Source: Otus & Co

Of the 35 hotel brands with a presence in Scandinavia, the four largest – Scandic, Radisson, Quality and Rica – account for half of the affiliated room stock.

23 of the brands have a presence in only one Scandinavian country, while only four brands – Scandic, Radisson, Quality and Comfort – have a presence in each country.

16 of the brands, accounting for 60% of the affiliated room stock, were developed in Scandinavia, but have failed to develop an effective presence elsewhere. Scandic is the only Scandinavian brand that has achieved the size, the brand power or the access to capital needed to expand outside of the region, but its attempts over the past 10 years have not been effective. The current initiative by Hilton Group, which acquired Scandic in 2001, to develop the brand outside of the region is at an early stage, but is the only realistic prospect.

19 of the brands accounting for 40% of the affiliated room stock are international brands that have entered the region. Formula 1, Holiday Inn, Holiday Inn Garden Court, Le Meridien, Luxury Collection, Marriott, Mercure, Novotel, Ramada, Sheraton, Sofitel and Sunwing each have only a token presence of less than 1% of the affiliated room stock. Comfort, Clarion, Park Inn, Ibis and Hilton each account for between 1% and 4% of affiliated room stock. Radisson and Quality are the only brands with more than 10% of the affiliated room stock at 12% and 11% respectively. The presence of international brands is so small that the cash flow generated from the hotels is hardly sufficient for the brand to be proactive in generating demand in the region. The issue for these brands is how quickly and how effectively they will reach a scale to enable them to become a force in the region. The outcome is not obvious. Thus far, organic development has not delivered and at historic growth rates it is unlikely that it will deliver the necessary brand size, effectively. Brand acquisition has not been much better. Hilton Group achieved scale in the region through its acquisition of Scandic, but its performance has been impeded by the economic and other constraints of the past three years. Much hope rests on a high rate of recovery in the emerging economic cycle.

Market level

The market level profile of affiliated hotels in Scandinavia is very narrow. The mid-market dominates with 71% of the rooms followed by the up-market with 19%. There is only one affiliated deluxe hotel, the Kamp in Helsinki, part of the Starwood Luxury Collection. There are only four budget hotels, all Formula 1 and all in Sweden, while economy hotels account for less than 9% of the affiliated rooms.

Market level	Denmark	Finland	Norway	Sweden	Total rooms
Deluxe	0	186	0	0	**186**
Up-Market	4303	1865	7691	5814	**19673**
Mid-Market	7942	17925	21990	25992	**73849**
Economy	1054	1380	4833	3078	**10345**
Budget	0	0	0	324	**324**
Total	**13299**	**21356**	**34514**	**35208**	**104377**

Source: Otus & Co

The mid-market is very crowded in comparison with most other countries. It accounts for 84% of affiliated rooms in Finland and 74% in Sweden. Norway is lower at 64% and Denmark is lowest at 60%. There is a sense in which the dominance of the mid-market reflects the egalitarian tradition in the region.

53% of the up-market hotel rooms are in 35 hotels in the four capitals – Copenhagen, Helsinki, Oslo and Stockholm. The remaining 48 up market hotels are in 31 cities.

Hotel configuration

Hotel configuration	Denmark	Finland	Norway	Sweden	Total rooms
Hotel Resorts	0	229	0	35	**264**
Full Feature	8348	11417	17477	23820	**61062**
Basic Feature	3897	9511	14758	7951	**36117**
Limited Feature	1054	199	2279	3078	**6610**
Room Only	0	0	0	324	**324**
Total	**13299**	**21356**	**34514**	**35208**	**104377**

Source: Otus & Co

There is a heavy presence of full feature and basic feature hotels at 59% and 35% of the rooms respectively. There are only three hotel resorts in the region, two in Finland and one in Sweden. The room only hotels are the four Formula 1s in Sweden and limited feature hotels account for only 6.3% of the affiliated rooms.

The prime reason why there is a high proportion of full feature and basic feature hotels is that the provision of restaurants and leisure clubs throughout provincial Scandinavia is limited and, thus, hotels need to provide them for customers. Once hotel brands establish the non-room facilities, they seek to attract demand such as conference packages and leisure packages that require the facilities. Typically, they discount the meals and provide the leisure facilities as an amenity, the implication of which is to produce non-rooms margins that are often unsustainably low. The response by several of the brands has been to reduce non-rooms operating costs, which has contained rather than solved the problem.

Conurbation size

Conurbation size	Number of conurbations	Denmark	Finland	Norway	Sweden	Total Scandinavia
Major	0	0	0	0	0	**0**
Primary	4	7183	6244	9243	9796	**32466**
Secondary	6	0	1531	6397	5697	**13625**
Tertiary	32	1178	6574	5698	9473	**22923**
Quaternary	216	4938	7007	13176	10242	**35363**
Total	**258**	**13299**	**21356**	**34514**	**35208**	**104377**

Source: Otus & Co

In Scandinavia there are no major cities, those with more than 30,000 affiliated rooms. The four primary cities, those with between 6,000 and 29,999 rooms are the capitals, which, with 31% of the affiliated room stock are critical to the hotel business in the region. Denmark has 54% of its affiliated rooms in Copenhagen, Finland, more than 29% in Helsinki, Norway, 27% in Oslo and Sweden, 28% in Stockholm. The primary cities also have the largest hotels with an average of 207 rooms per hotel.

The six secondary cities with between 1,500 and 5,999 rooms, account for 13% of the affiliated room stock, but the pattern is not uniform. Denmark has no primary cities. Finland has one, Tampere. Norway has three, Bergen, Stavanger and Trondheim and Sweden has two Gothenburg and Malmo. When taken together the 10 largest hotel cities in the region account for 44% of the affiliated rooms. In Denmark, one city accounts for 54% of the inventory; in Finland two cities account for 36%; in Norway four cities account for 45% and in Sweden three cities account for 44%.

The 32 tertiary conurbations with between 500 and 1,499 rooms each are also not evenly spread. 31% of the Finnish affiliated rooms are in tertiary conurbations while only 9% of Danish rooms are in tertiary conurbations.

The 216 quaternary conurbations with less than 500 affiliated rooms each are a notable feature of Scandinavia where they account for 34% of the room stock. Denmark has 31 quaternary cities, Finland 51, Norway 77 and Sweden 57. There are 335 affiliated hotels, almost half of the hotels in the region, in these conurbations. Their performance benefits from little competition, but also suffers from limited volume of demand and their mostly mid-market, full feature positioning.

Hotel Chains in Scandinavia continued

Conurbation type

There are clear patterns in conurbation type, which are linked to the market level, hotel configuration and conurbation size profiles. Around 80% of the affiliated rooms in each Scandinavian country are in urban and suburban locations. 4.5% of the rooms are at airport locations. The four airport hotels at Copenhagen are the only ones in Denmark. The four at Helsinki are the only ones in Finland. Norway has four at Oslo, two at Bergen and one each at Stavanger and Trondheim. Sweden has four at Stockholm and one at Vasteras.

The small number of economy and budget hotels is reflected in the highway exposure of affiliated rooms of only 2%.

Affiliation structure

The main affiliations between hotels and hotel brands in the region are leasing and franchising. Leasing is the predominant affiliation and this has given rise to specialist hotel real estate companies with the following exposure at end 2003:

Hotel real estate owner	Denmark	Finland	Norway	Sweden	Total hotels
Capona	3	2	3	32	**40**
Norlandia	0	0	33	6	**39**
Pandox	1	0	0	36	**37**
Olaf Thon Gruppen	0	0	35	0	**35**
Dividium	0	32	0	0	**32**
Home Invest	1	0	7	17	**25**
Wenaas	6	0	18	0	**24**
Rica Eiendom	0	0	19	1	**20**
Host Hotelleiendom	2	0	5	10	**17**
Kapiteeli	0	16	0	0	**16**
Tapiola	0	13	0	0	**13**
Vital Eiendomsforvatning	0	0	10	0	**10**
Nordisk Renting	0	2	0	7	**9**
Total Hotels	**13**	**65**	**130**	**109**	**317**

Capona

Franchising is emerging in the region with Choice, Carlson and Accor the most active companies.

Conclusions

In the context of Europe, the high relative number of rooms to population, the low relative number of foreign visitors and the high relative level of hotel consolidation means that life for the chains in Scandinavia is not that easy. This is particularly the case for most of the international brands whose token presence means that they react to the market rather than lead the market.

The continuing developments in the structure of the Scandinavian economies coupled with the emerging cyclical upturn provide a more positive economic context for the hotel business. In short, demand is improving and is being boosted by the growth in low cost airlines operating routes from other parts of Europe to Scandinavia. This is delivering more and much needed foreign visitors into the market. The increasing demand from this source is likely to be concentrated on the capital cities, which are the destinations of the low cost carriers. The Scandinavian capitals are already heavily hotelled so it will take acceleration in low cost flights and/or a fast growth in domestic demand to justify new hotel development in the immediate future. The likelihood is that at least one of these will happen.

The narrow profiles of market level, hotel configuration, conurbation size, conurbation type and affiliation structure has produced a high degree of uniformity in the Scandinavian hotel business, unlike others in western Europe. There has been little creativity since Scandic developed Eco rooms in the mid 1990's. Creative solutions will need to be found to solve the poor non-rooms performance in the region. The issue is who has the talent to deliver it.

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