# The European Hotel Industry:

## Introduction

In terms of hotel supply, Europe is not only the largest market in the world, but also the most complex due to the diversity of its hotels and quasi hotels. However, the supply data on the European hotel industry is dire. The total number of hotels in Europe, far less the number of rooms and other hotel facilities are little more than a guess. Agencies such as the World Tourism Organisation record the numbers of "hotels and similar establishments", but they are at the mercy of rough data supplied to them by too few governments – in 2002, only 15 out of 52 European Governments supplied hotel data to the WTO. The problem is compounded by the absence of effective definitions to distinguish between "hotels" and "similar establishments".

Our estimates of the total hotel and hotel room stock in each European country are derived from the available national sources to which economic, industrial and social yardsticks have been applied before professional judgement has been exercised. Currently, we estimate the size of the European hotel industry as follows:

| European Regions | Otus Total Hotels | Otus Total Rooms | Average Hotel Size | Citizens/Room |
|---|---|---|---|---|
| 15 European Union States | 111,700 | 3,941,400 | 35 | 96 |
| 10 New EU States | 4,900 | 297,900 | 61 | 251 |
| 27 Non-EU States | 15,800 | 846,400 | 54 | 486 |
| **Grand Total** | **132,400** | **5,085,700** | **38** | **170** |

Source: National Statistics and Otus & Co

Although the total picture in Europe is insufficiently clear we are able to be much more precise when it comes to hotel chains. The Otus Hotel Brand Database includes all portfolios in Europe with more than four hotels. This amounts to 280 companies and a whopping 400 hotel brands. The current overview is as follows:

| European Regions | Chain Hotels | Chain Rooms | Average Hotel Size | Citizens/Chain Room | Concentration % |
|---|---|---|---|---|---|
| 15 European Union States | 9,675 | 1,119,700 | 116 | 337 | 28% |
| 10 New EU States | 429 | 68,430 | 160 | 1092 | 23% |
| 27 Non-EU States | 571 | 89,980 | 158 | 4572 | 11% |
| **Grand Total** | **10,675** | **1,278,110** | **120** | **676** | **25%** |

Source: Hotel chain data and Otus & Co

The structure of hotel chains in Europe is very inefficient. The largest 10% of chains account for almost two-thirds of the rooms, while the smallest 10% of chains account for only 0.5% of the rooms. The current hotel company structure is as follows:

| European Hotel Chains | Number of Companies | Rooms | Rooms/ Company | Total Chain Rooms % | Hotels | Hotels/ Company | Total Chain Hotels % |
|---|---|---|---|---|---|---|---|
| Largest 10% of chains | 28 | 834,067 | 29,788 | 65.3% | 6,843 | 244 | 64.1% |
| Second largest 10% of chains | 28 | 161,950 | 5,784 | 12.7% | 1,190 | 43 | 11.1% |
| | | | | | | | |
| Middle 50% of chains | 140 | 245,215 | 1,752 | 19.2% | 1,989 | 14 | 18.6% |
| | | | | | | | |
| Third smallest 10% of chains | 28 | 24,756 | 884 | 1.9% | 224 | 8 | 2.1% |
| Second smallest 10% of chains | 28 | 12,656 | 452 | 1.0% | 241 | 9 | 2.3% |
| Smallest 10% of chains | 28 | 6,000 | 214 | 0.5% | 188 | 7 | 1.8% |
| **Totals** | **280** | **1,278,110** | **4,565** | **100.0%** | **10,675** | **38** | **100.0%** |

Source: Otus & Co

Of the 280 companies, 108 have portfolios with less than 1,000 rooms. They have an average of only six hotels per company and 62 rooms per hotel. These chains are not only the smallest. Most have too little brand infrastructure, only informal equity and limited cashflow, all of which inhibit their growth and development.

# Size and Structure

### The Structure of the Otus Hotel Brand Database

Three components of supply impact on the relative demand of chain hotels and the performance they can deliver:
- The hotels themselves (hotel component)
- The context in which they are located (contextual component)
- The company to which they are affiliated (corporate component)

These three components form the framework of the Otus Hotel Brand Database.
Each component contains four supply variables.

The hotel component
- Market Level
- Hotel Configuration
- Rooms Configuration
- Hotel size

The contextual component
- The economic structure of each country
- The size of each conurbation
- The type of each conurbation
- Hotel concentration per country

The Corporate component
- The affiliation between each hotel and its brand
- The length of each brand
- The size of each brand
- The market share per country of each brand

The Otus Hotel Brand Database provides the most systematic and detailed supply analyses of hotel chains. It is updated annually and following significant transactions by the brands.

Without an effective, on-going, systematic understanding of hotel supply the alignment with hotel demand is compromised, hotel investment decisions rely more on intuition than on systematic analysis and the thus performance of the industry is reduced to chance rather than effective management.

In this note we will go on to examine the hotel component and in the next edition we will examine the contextual and corporate components.

### The Hotel Component of European Hotel Chains

#### 1. Market level

There is no universally accepted global system for classifying the market levels of hotels. The traditional systems are partial and often contradictory. They reduce all of the supply characteristics of a hotel to one measure represented by a number of stars, crowns, diamonds or percentage scores. Typically, they focus on only one country, include only a small percentage of the hotels and are designed as a customer information service rather than an analytical tool.

The Otus system focuses on hotels affiliated to hotel brands and each chain hotel is classified in terms of the material provision of its built fabric. The following examples of hotel brands at different market levels are used as benchmarks of each market level to classify other hotels within chains.

Market Level Benchmark Brands

| Deluxe | Up Market | Mid-Market | Economy | Budget |
|---|---|---|---|---|
| Conrad | Clarion | Country Inn by Carlson | Bastion | Etap |
| Four Seasons | Crowne Plaza | Courtyard by Marriott | Bleu Marine | Formula 1 |
| Kempinski | De Vere | Express by Holiday Inn | Campanille | Premiere Class |
| Luxury Collection | Firmdale | Forum | Comfort | Balladins |
| Manderin | Grand Hyatt | Four Points | Days Inn | |
| Orient Express | Hilton | Holiday Inn | Ibis | |
| Park Hyatt | Hyatt Regency | Holiday Inn Garden Court | Innkeepers Lodge | |
| Raffles | Intercontinental | Howard Johnson | Kyriad | |
| Ritz-Carlton | Jolly Master | Jolly Classic | Nuite d' hotel | |
| Rocco Forte Hotels | Le Meridien | Moat House | Premier Lodge | |
| Savoy Group | Maritim | Novotel | Sleep Inn | |
| St Regis | Marriott | Quality | Travel Inn | |
| | Melia | Ramada | Travelodge | |
| | Millennium | Scandic | Wetherlodge | |
| | Radisson | Sol | | |
| | Renaissance | Suite Hotels | | |
| | Shangri-la | | | |
| | Sheraton | | | |
| | Sofitel | | | |
| | Swissotel | | | |
| | Westin | | | |

Source: Otus & Co

# The European Hotel Industry:

The benchmark brands at each market level bear a close family resemblance and the market level of each hotel is a powerful determinant of the demand it captures. The Otus approach to market level is an improvement on other approaches, since it is only one of 12 supply variables applied to each hotel to produce a more systematic profile of each hotel and each portfolio.

The current market level profile for Europe is as follows:

| **Market Level** | | | | |
|---|---|---|---|---|
| Sub-Variables | Hotels | Rooms | Average Size | Rooms % |
| Deluxe | 159 | 24360 | 153 | 1.9% |
| Up-Market | 1919 | 358790 | 187 | 28.1% |
| Mid-Market | 4332 | 576470 | 133 | 45.1% |
| Economy | 3196 | 243300 | 76 | 19.0% |
| Budget | 1069 | 75190 | 70 | 5.9% |
| **Total** | **10675** | **1278110** | **120** | **100.0%** |

Source: Otus & Co

## 2. Hotel Configuration

Hotel configuration relates to the range of non-room facilities at each hotel. The Otus structure of hotel configuration for each hotel requires the following minimum facilities:

| Non-Room Facilities | Hotel Resort | Full Feature Hotel | Basic Feature Hotel | Limited Feature Hotel | Rooms Only Hotel |
|---|---|---|---|---|---|
| Restaurants | 1 | 1 | 1 | 1 | optional |
| Bars | 1 | 1 | 1 | 0 | 0 |
| Conference Rooms | 1 | 1 | optional | optional | 0 |
| Indoor Leisure | 1 | either | optional | 0 | 0 |
| Outdoor Leisure | 1 | or | optional | 0 | 0 |
| Retail Outlets | optional | optional | 0 | 0 | 0 |
| Casino | optional | optional | 0 | 0 | 0 |
| **Minimum Facilities** | **5** | **4** | **2** | **1** | **0** |

Source: Otus & Co

The hotel configuration variable enables hotels to be differentiated in terms of the range of facilities they provide. The Otus system defines each of the five hotel configurations in terms of the minimum facilities for the category. It is sometimes the case for hotels to have more than one of each facility without affecting its hotel configuration.

The current hotel configuration profile in Europe is as follows:

| **Hotel Configuration** | | | | |
|---|---|---|---|---|
| Sub- Variables | Hotels | Rooms | Average Size | Rooms % |
| Hotel Resorts | 786 | 173000 | 220 | 13.5% |
| Full Feature Hotels | 2947 | 521600 | 177 | 40.8% |
| Basic Feature Hotels | 3014 | 286270 | 95 | 22.4% |
| Limited Feature Hotels | 2259 | 185470 | 82 | 14.5% |
| Rooms Only Hotels | 1669 | 111770 | 67 | 8.7% |
| **Total** | **10675** | **1278110** | **120** | **100.0%** |

Source: Otus & Co

# Size and Structure continued

### 3. Rooms Configuration

Rooms configuration differentiates between hotels in terms of the pattern of room stock within each hotel. The Otus structure of rooms configuration is as follows:

- More than one room per key throughout the hotel
- Some suites - rooms, suites and/or apartments available in the hotel
- All rooms en suite
- Some rooms en suite
- No rooms en suite

The current rooms configuration profile in Europe is as follows:

**Rooms Configuration**

| Sub- Variables | Hotels | Rooms | Average Size | Rooms % |
|---|---|---|---|---|
| More than one room/key | 264 | 39875 | 151 | 3.1% |
| Some suites | 1903 | 342060 | 180 | 26.8% |
| All rooms en suite | 8135 | 868745 | 107 | 68.0% |
| Some rooms en suite | 39 | 2925 | 75 | 0.2% |
| No rooms en suite | 334 | 24505 | 73 | 1.9% |
| **Total** | **10675** | **1278110** | **120** | **100.0%** |

Source: Otus & Co

### 4. Hotel Size

Relates to the number of rooms or keys in each hotel. The Otus size classification of hotels is as follows:

- More than 1,000 rooms
- 200 – 999 rooms
- 50 – 199 rooms
- 17 – 49 rooms
- Less than 17 rooms

The current hotel size configuration in Europe is as follows:

**Hotel Size**

| Sub- Variables | Hotels | Rooms | Average Size | Rooms % |
|---|---|---|---|---|
| More than 1,000 rooms | 13 | 14610 | 1124 | 1.1% |
| 200 – 999 rooms | 1619 | 508310 | 314 | 39.8% |
| 50 – 199 rooms | 6700 | 671265 | 100 | 52.5% |
| 17 – 49 rooms | 2163 | 81930 | 38 | 6.4% |
| Less than 17 rooms | 180 | 1995 | 11 | 0.2% |
| **Total** | **10675** | **1278110** | **120** | **100.0%** |

Source: Otus & Co

### Conclusions

One of the more recent hotel developments is represented by brands such as Express by Holiday Inns, Courtyard by Marriott and Country Inns & Suites by Carlson. One conventional approach classifies them as three star hotels, which does not differentiate them from other three star hotels with more extensive non-rooms provision. Another approach classifies them as mid-market hotels without F&B, which is simply inaccurate.

Their Otus hotel profile is mid-market, limited feature, all rooms en suite and an average hotel size of 102 rooms. In next month's Hotel Analyst the profile will be extended to include the contextual and corporate components to create a more effective brand profile.

The profiling derived from this analysis not only positions hotel brands more effectively relative to the market, but also is needed to explain the demand they generate and their performance. Attracting capital and delivering the returns that capital markets demand will remain a very tough challenge without this.

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