

## **CHAPTER 3**

# **The international hospitality industry**

## Chapter objectives

After working through this chapter, you should be able to:

- Define the hospitality concept in global business environment
- Describe the structure of international hospitality industry
- Chart the international operating environment of hospitality organizations
- Recognize and understand the critical issues and trends in hospitality industry that are likely to impact on the future of hospitality

## ■ Introduction

This chapter sets out to describe the international hospitality industry and the ways in which it can be seen to be structured. The nature of the industry has changed considerably in the past decades and this explains why we think it is important to examine the underlying trends in the industry. Key issues like the internationalization of hospitality enterprises and chaining will be discussed. One of the primary tasks of this chapter is to analyse the market segmentation practiced by the major international hotel companies and the ways this structures their competition.

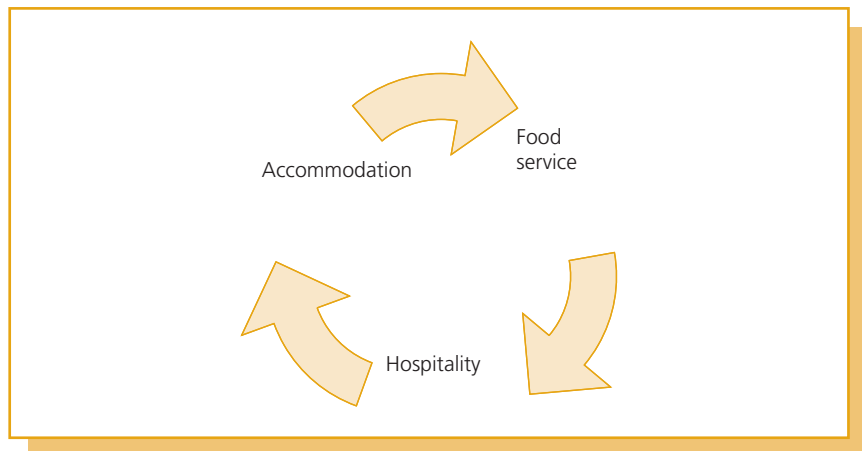
## ■ The elements of hospitality

What is hospitality and hospitality industry? Jones (2002: 1) explains “in essence, hospitality is made up two distinct services – the provision of overnight accommodation for people staying away from home, and the provision of sustenance for people eating away from home or not preparing their own meals. Both of these services meet very basic human needs – the need to sleep and need to eat.” He is borrowing from the work of Maslow in making this comment, but we believe he does not go far enough in thinking through the use that the analysis of the hospitality industry can make of the concept of needs. Maslow’s hierarchy of needs is one of the most famous of all management diagrams and has been much debated since it was first proposed in the 1950s (Figure 3.1). The basic model (1954) suggests that people have five levels of need in their lives but can only fulfil those needs once they have satisfied the lower level needs. Maslow himself revisited the idea (1968) adding several more layers to the analytical framework (Figure 3.2). However, the diagram is normally presented as a pyramid looking something like shown in Figure 3.1.

The suggestion is that satisfying the basic needs at the base of the pyramid is of paramount concern and that other needs will only be considered



**Figure 3.1** A version of Maslow's hierarchy of needs



**Figure 3.2**  
The elements and linkages in hospitality

once that concern has been satisfied, so once the need for basic food and shelter has been met individuals will begin to think in terms of security and then feel comfortable in thinking about more abstract concerns. We believe that this provides an interesting way to look at the structuring found in the hospitality industry as the offers target different markets and aim to satisfy different levels of needs. We will work through this in more detail, but to make the point clear the difference between a one-star hotel and a five-star hotel is not just summarized by the star rating classifications but also in the nature and spirit of the offer. The five-star hotel will provide shelter and security but it does more than this and its customers expect that the experience they will have will allow them to satisfy higher level needs.

## ■ International hospitality industry overview

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As we are discussing the management of the international hospitality industry, we need to understand the general situation of the industry. The international hospitality industry is characterized by an industry structure composed of a relatively small number of large multinational enterprises (MNE) and a large number of locally operated small- and medium-sized enterprises (SME).

The industry is heterogeneous. It has been split up into many different identifiable sectors, each with its own specific needs. Geographically, the hospitality industry is very widespread and dispersed, from metropolitan cities to remote rural areas. The industry is also a very large employer in most countries and offers a wide range of job opportunities and employment categories (Jones, 2002). The globalization of the hospitality industry has accelerated under the pressures of the advances in technology, communication and transportation, deregulation, elimination of political barriers, socio-cultural changes, and global economic development, as well as growing competition in a global economy (Teare and Olsen, 1999). Table 3.1 shows large hotel companies have been fully involved in global competition.

A fundamental question for senior managers of all large hospitality enterprises is why hospitalities companies have gone international. Hospitality companies become multinationals for a number of reasons and there are internal and external demands for international expansion. Some of the reasons are:

- A growing world market for their services and product. North America, European Union (EU) and Japan are traditional major markets. India, China, Russia, Brazil and other emerging markets now generate huge business opportunities for international hospitality companies.
- A desire to protect themselves from the risks and uncertainties of the domestic business cycle, for example Japanese companies tried to keep their profitability through their global operation during its domestic

**Table 3.1** Numbers of countries present of multinational hotel groups

Hotel group	Number of countries present
InterContinental	100
Accor	93
Best Western	85
Starwood	83
Hilton Group plc	74
Marriot	66
Carlson	66
Le Meridien	55
Golden Tulip	45
Hyatt	44

Source: Companies' websites, 2006.

economy downturn during 1994 to 2004. McDonald's future business growth depends not on the domestic market, but on the international market.

- A desire to reduce costs. Through global outsourcing and acquisition, most companies can gain from national economic advantages and develop their unique competences in the industrial competition.
- A response to increased foreign competition. Even hospitality companies focus on their domestic market; they cannot avoid the risks of foreign companies invading their traditional markets.

#### **Example: Accor to invest R\$43 million in Brazil in 2005**

French hotel chain Accor plans to open another three units of its Formule 1 hotel in Brazil by the end of the year – two in Sao Paulo and one in Curitiba, capital of Parana state. The investment is estimated at R\$43.8 million. The group has been in Brazil since 2001 and it plans to invest another R\$120 million over the next 2 years in the opening of more Formule 1 hotels throughout the country.

Source: [www.accor.com](http://www.accor.com)

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**ACTIVITY** Why is Accor making a direct investment in Brazil? Would they not have made more profit by putting these funds into a new France-based unit?

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Because foreign markets appear to be more risky, companies have tended to expand their operations abroad incrementally and cautiously. Setting up a wholly owned subsidiary is usually the last stage of doing business abroad. A typical internationalization process for a hospitality company producing a standardized service or product might begin with a licensing or franchising agreement: a contractual arrangement in which one company provides access to some of its management know-how and brand to another company in exchange for a fee or royalty. This is typically followed by foreign direct investment. International market entry modes will be discussed separately in detail later.

There are two major sectors in the hospitality industry, the accommodation sector and the food service sector. We will discuss these main segments in this chapter.

## ■ The food service sector

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The international food service industry is gigantic and complicated. It is a typical fragmented industry in most countries, which means it is hard to get any accurate data to present a global overview. We will mainly draw upon the United States and Britain as examples in this review.

In America, more than 10 million people are employed in food service and there are more than 835,000 food service facilities that operate in the United States. According to a restaurant customer study from Scarborough, published in July 2006; 96% of US adults dine out at a restaurant at least once per month. Two-fifths (40%) of the population visited a Quick Service Restaurant, such as McDonald's, Wendy's or Subway, six or more times during the previous month. About one-fifth (19%) of US consumers visited a sit-down restaurant (such as TGI Friday's or Chili's) six or more times during the previous month.

Between 2000 and 2004 the British market grew by around a fifth, with further growth (5%) anticipated in 2005, pushing the market to £28 billion. Once the effects of inflation are taken into account, the growth over the 2000–04 period is estimated by Mintel (2005b) to be around 5%.

There are important areas of overlap between the two sectors of the hospitality industry, most noticeably in the catering within hotels. In 2005 it was estimated that £4.1 billion would be spent on dining in hotels, out of a total eating out spend of £27.6 billion. Whilst the hotel catering market has grown from £3.8 billion in 2000, once inflation has been factored in, there has been a decline over the period of around 6%. However, the proportion of overall hotel revenue generated by food and beverage activity has risen over the period 2000–05 from 35.8% to a forecast 38.9%.

During the last few years the budget hotel sector has experienced considerable growth, as have those hotels that provide an upmarket product. These two types of hotel are almost at the opposite ends of the accommodation spectrum and this develops a polarity within the hotel catering market, with budget hotels paying little or no regard to catering, whilst

the full-service hotels often develop their hotel around a signature or branded restaurant.

## ■ Hotel food and beverage strategy: an evolving form

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The traditional hotel restaurant remains a dominant feature of mid-market hotels, whereby food and beverage facilities and services are provided as a valued-added incentive for in-house guests. However, some hotels have sought to also attract walk-in customers, primarily through the provision of all-day casual dining outlets. Also a number of luxury or premium hotels, particularly in London, now feature signature outlets, which are managed and marketed as separate entities to the hotel.

Other hoteliers have decided to outsource their food and beverage operations, contracting third parties to manage some or all food and beverage facilities and services. Notably, there is now a blurring of the lines between signature and outsourced outlets as renowned chefs develop partnerships with contract caterers to set up hotel restaurants.

Outsourcing is a growing trend and will increase alongside more innovative developments. The number of hotels outsourcing their food and beverage facilities are set to increase in the next few years, in particular in London, as establishments become more attracted to a secure revenue stream, and also to avoid the costs and expertise required to run a restaurant. The intense competition within the eating out market has restrained the growth of the hotel catering market, and it is likely that the market will continue to decline in real terms in the short term. It has been noted that a key factor holding back future developments in the hotel catering sector is the lack of food service specialists, who are able to drive the market forward, manage food and beverage operations efficiently and to develop effective marketing initiatives.

The contracting out of food and beverage services to third parties will continue to be a major trend in the hotel catering sector over the next few years, although this will be much stronger in London than in the provinces. As many hotels continue to remain sluggish owing to evolving consumer demand for food and beverages and intense competition from the high street, the attraction of outsourcing food and beverage services will become increasingly appealing.

Vertical integration between many hotel and restaurant groups has meant that the outsourcing decision is often not such a radical step to take for many hoteliers, as costs and revenues remain within the group. Most outsourcing is agreed on either a flat fee or percentage basis and this is expected to remain unchanged.

Outsourcing is not always a straightforward option for hotels to make however. To attract walk-in customers, a hotel ideally needs to be located where there is easy street access to the restaurant itself, and the location of the hotel itself (city centre, countryside, etc.) needs to fit with the clientele

that are being targeted – that is the product must be attractive to the passing trade. Despite these constraints, the number of outsourced restaurants is expected to increase considerably over the future.

## ■ The accommodation sector

In the past century, with fundamental developments in transportation and communication, the demand for accommodation as part of the international travel experience has increased dramatically for both business and leisure travellers.

Modern concepts of the accommodation (hotel) business developed from America from the beginning of 20th century, reinterpreting the older traditions of ad hoc development seen previously. These differentiated hotel products were first developed in the US market which is characterized by fierce competition, but which also offers the advantage of economies of scale to hotel companies. Europe still enjoys the largest hotel capacity of any region in the world, although capacity growth has considerably lagged the rest of the world. Europe claims about 36% of the total worldwide lodging capacity, which is still slightly more than that of North America (Marvel, 2004). Total room capacity in European hotels and similar establishments can be roughly estimated at 6.3 million, with the majority (over 60%) concentrated in five principal countries: Germany, France, the United Kingdom, Italy and Spain (Table 3.2). While hotels are different across the world, a majority of US hotel properties are purpose-built in conformity with strict market segmentation criteria, whereas in Europe hotel structures are typically older and not amenable to transformation to meet the standards of particular branded concepts. In fact, the hotel stock in Asia, Australia or the Middle East more resembles that of North America, as the units are generally larger and newer than those in Europe.

**Table 3.2** Number of rooms in hotels and similar establishments worldwide, 1998–2002 ('000)

Region	1998	1999	2000	2001	2002	% of 1998–2002
						<b>Total</b>
Americas	5,164	5,450	5,750	6,010	6,161	35.5
Asia/Pacific	3,487	3,680	3,865	4,004	4,124	23.8
Europe	5,935	6,050	6,150	6,240	6,300	36.3
Middle East	221	236	262	285	305	1.8
Africa	425	435	445	455	465	2.7
Total	15,232	15,851	16,272	16,894	17,355	100.0

Source: Mintel (2004).



## Chapter Case Study: Case: Olympic Games and Hotel Accommodation

London's hotel chiefs have joined forces to back the capital's 2012 Olympic bid and have agreed to provide 40,000 affordable rooms for the event. Speaking at the HCIMA's London Conference on 6th September 2004, Charles Wijeratna, Director of London 2012, the capital's bid vehicle, confirmed a deal had been struck after 9 months of dialogue with the major chains.

The International Olympic Committee (IOC) views provision of reasonably priced rooms as extremely important for new bids, after hoteliers in Athens doubled rates during this year's Olympics. As a result, many international tourists boycotted the games on cost grounds, leaving some events only half-full.

Using the Internet: Please check London Olympic Website ([www.london2012.org](http://www.london2012.org)) and other relevant websites to find information about accommodation for the 2012 Olympic Games. Compare it with the accommodation information for 2008 Beijing Olympic Games ([www.en.beijing2008.com/](http://www.en.beijing2008.com/)) and think about the business opportunities created by Olympic Games for hospitality companies.

*Source: www.london2012.org*

### ■ Chaining

The degree of hotel chain penetration worldwide varies considerably according to the region you are looking at (Table 3.3). Smith Travel Research (STR) estimates that 67% of hotel rooms in the United States are branded, mainly through franchise contracts. Estimates for other parts of the world are far less certain due to the lack of a centralized information source the equivalent of STR. Mintel (2005a) currently estimates that roughly 25% of European hotel rooms are branded. Similar figures can be estimated for other regions of the world. However, since hotel capacity in South America and the Middle East has been expanding at a rapid rate in recent years, mainly led by international hotel chains, it is quite possible

**Table 3.3 Chain penetration, by region in % of total hotel stock, 2004**

Region	Branded rooms as % of total
North America	65
East Asia	25
Middle East	>25
South America	>20
Europe	25

Source: Mintel (2005).

that the degree of brand penetration in those regions will be higher than estimated at the time of this study.

As shown in the table, hotel chain penetration in Europe remains well below that of North America, and is probably somewhat less than that to be found in the Middle East and South America, where hotel expansion is being primarily led by hotel chains. France and the United Kingdom have the highest proportion of branded rooms amongst the major European economies, estimated at 37% and 32% respectively (Mintel, 2005a). Accor is by far the number one operator in Europe, according to MKG Consulting, controlling 29% of all branded capacity in the core 15 European Union (EU) countries.

## ■ Market segmentations

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In an increasingly competitive global business environment, companies are obliged to target clearly defined niche markets with specialized products and services. The hotel industry is no exception. The last two decades have witnessed a proliferation of differentiated hotel concepts designed to serve specific market segments. Business hotels, budget hotels, airport hotels, boutique hotels, conference centres, convention hotels, condo hotels and casino hotels are some examples. Each one of these hotel categories offers particular features and services which allow it to meet the customer needs of a specific market segment.

We want to approach these offers from within the perspective of a critical usage of Maslow's model. We believe that the model would look something like this and will work through the categories in the subsequent pages.

Rather than provide a detailed account of all the different types of food service and accommodation available, we want to focus on how the offer has been shaped and structured by the industries attempt to identify and satisfy what it sees as a market need. In order to do this, we are adapting the hierarchy of need model that we introduced earlier and will comment on the variety of offers that proposes to match these categories. Fuller details about the categories and the definitions can be found on the book's website, where you will find more extensive discussions of all of the categories and more case studies demonstrating the differences between the types of offer.

## ■ Level 1: The basic offer of shelter and sustenance

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### Roadside catering

This may not appear to be the most exciting area of the international hospitality industry to begin our analysis with, but it is still a significant and distinct part of the food service sector. Moreover it is a significant market,

in the United Kingdom alone it was projected to be worth £491 million in 2004. It can be divided into two segments – motorway service areas (MSA) and off-motorway roadside outlets. The market is still dominated by three main players, Compass, Welcome Break and Roadchef, who have on the whole struggled to grow the profitability of their operations in recent years but are still the leading players in the sector.



**Plate 6**  
Beach catering Lake  
Balaton Hungary.  
Source: Vonzerö  
2005 bt.

All the beaches on the Balaton have versions of these catering outlets. The langós is a deep fried circular bread dough, served with a choice of toppings. Authentically this would be garlic oil but we have seen Bolognese and Chilli con carne on offer! This is catering done in small kitchens, contained in the hut, and produced by seasonal staff or members of the family. Everywhere will also sell cold drinks, including alcohol.

### Budget hotels

Compared with the traditional forms of accommodation, budget hotel is a relative new concept in most countries. It is difficult to define the term budget hotel precisely. Logically a budget hotel could be any hotel below four-star level. It normally has a minimum of 50 rooms, and will be branded by a major chain. Such hotels typically have a standardized appearance and offer a no-frills service, with limited food and beverage facilities. The budget hotel sector can be further divided into at least three sub-segments: “discount-budget”, “middle budget” and “super-deluxe budget”, or “upper economy” (Mintel, 2003).

Budget hotels were first developed in the United States with the creation of the interstate highway system. Quality hotel was founded in 1939

by seven southern motel operators; Holiday Inns was founded by Kemmons Wilson in 1952. In 1951, it was estimated by *Fortune Magazine* that there were 30,000 motels as compared to only 20,000 “true” hotels. In Europe, France is the most mature budget hotel market in Europe and the two major French operators, Accor and the Groupe Envergure control about two-thirds of the total European branded budget rooms. The second most developed budget hotel market is the United Kingdom, where two domestic mid-market budget brands, Whitbread’s Travel Inn and Compass’ Travelodge control 53% of the market. Express by Holiday Inn, the sub-brand of the InterContinent is only ranked 10th in Europe but is the third largest in the United Kingdom. The third budget market in Europe, Germany, is dominated by the Accor brands, especially Ibis and Etap. Budget hotels are known to be a particularly profitable sector of the hotel industry. A brief analysis of corporate strategy and accounts, as well as construction costs would seem to support this assertion. A glance at Whitbread’s 2000 results reveals that Travel Inn generated a 44% EBITDA margin as opposed to only 28% for the Marriott/Swallow operation. A key factor driving high margins in the budget hotel business is low labour costs and low land cost. A 100-room branded budget hotel can be run efficiently with a full-time staff of 20 (Mintel, 2003). Assuming an occupancy rate of 75% and an average daily rate of £36, an un-leveraged return of equity of greater than 12% should be achievable. In normal situation, an investor could reasonably expect a 20% return on equity and an internal rate of return of more than 30%.

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## Read the following two cases and present your view of the future of budget hotel **ACTIVITY**

Case 1: Corporate Enthusiasm for Low-Cost Airlines and Budget Hotels Appears to have Peaked, the Barclaycard Business Travel Survey Indicates

Currently, nearly one-third (30%) of all flights taken for business purposes are with low-fare airlines. EasyJet was ranked as the second favourite airline – after British Airways – for business trips, and is rated far and away the best low-cost airline.

However, looking ahead to 2015, Barclaycard boffins say: “Low-cost air travel is not expected to increase further, with the level of business travellers who have used these services staying at the 2004/05 level of 74%. Similarly, budget hotels are falling out of favour. This year, 58% of business travellers used budget accommodation, against 61% last year. And 42% of those who have avoided low-cost hotels have done so because of the lack of ‘extras’ and facilities. Tellingly, 15% of those polled say staying in cheaper hotels ‘doesn’t reflect my position’”.

The average spend on overnight hotel accommodation has gone up from £93 last year to £99.60 in 2005/06. Londoners, perhaps used to generally higher prices, spend an average of £115.70 per night.

Case 2: EasyHotel, the budget hotels division of easyGroup, is to open a second franchised outlet in Paris. Although the Premiere Classe and Formule 1 chains have hundreds of one-star hotels across France, easyHotel is confident in its central location and en-suite bathrooms will prove a success.

Source: Travel Industry Monitor by Mintel 16-02-2006 and Evening Standard 30-01-2006.

## Fast food

The share fast food has of the total eating out market is forecast to grow marginally between 2000 and 2005, accounting for about 27% of total sales. The shifts in market share in the restaurant sector will be relatively small as well, with only pub catering gaining any significant share in addition to value.



**Plate 7**  
Derbyshire pub  
food.  
Source: Vonzerö  
2005 bt.

Burger outlets such as McDonald's and Burger King still characterize the fast food sector and indeed the burger sector makes up around a third of fast food sales. Ethnic takeaways are the second largest category but tends to be characterized by numerous independents which are usually family owned businesses with no major national brands, although there are small chains concentrated within certain regions (e.g. Harlequin Group, Bombay Bicycle Club and tiffinbites). The pizza and pasta sector is characterized by a number of large chains including Pizza Hut and Domino's whose rapid expansion of outlets is helping to drive this sector forward.

The burger bar market has experienced phenomenal growth over the last few years, increasing in value by 31% between 2000 and 2004. This rapid expansion was due in part to the ambitious expansion plans of its market leaders McDonald's and Burger King.

Burger bars will no longer experience the rapid growth that characterized this market throughout the 1990s. Nonetheless, despite the slowdown in consumer demand, it is still poised for growth, although this is more likely to be through product innovation rather than through rapid outlet expansion.

McDonald's was the first player within the burger sector to respond actively to the changes in consumer preferences, and it initiated a radical programme to overhaul its menu and image in 2003 by introducing healthier options. McDonald's now offers a vastly different menu to 2 years ago with healthy alternatives such as porridge, bagels, fruit and an extensive range of salads being sold alongside traditional staples.

... but it is changing.

Increasing consumer concerns regarding the healthiness of fast food and rising awareness of diet issues have steered consumers away from the traditional exponents of the fast food concept such as McDonald's and Burger King towards newer brands such as Nando's, who have capitalized on the demand for fresh and healthy meals. This shift in public opinion has led to a radical rethink, and traditional fast food purveyors are now in the midst of redesigning their menus and recalibrating their brand image. The rapid opening of outlets has ceased as operators look to their food offer to build like-for-like sales (Mintel, 2005b).

## Pub catering

Pub catering is the largest sector within the eating out market (23%) and is responsible for driving much of the growth. Between 2000 and 2004 pub-catering sales grew by 23%. When the effects of inflation are stripped out, the market had grown by 8%.

Despite the decline in the number of pubs, pub catering will continue to be a key force behind the growth in the restaurant sector. Although other eating out concepts may be gaining ground, pubs will continue to hold their place as a popular eating out destination. Consumer research for this report found that 53% of UK adults or 26 million people have visited pubs in recent months.

The major players with an extensive catering offer include Greene King, Mitchell's and Butler, J.D. Wetherspoon, The Sprit Group, Whitbread and Wolverhampton and Dudley.

The pub industry is in the midst of change, with the sector shifting away from the overt theming and homogeneity of branding that characterized the trade in the 1990s. Instead, there is now an emphasis on creating individuality by cultivating a distinctive ambience and food and drink menu.

Food has become an increasingly important part of the pub trade as drink sales decline. The trend towards selling a higher proportion of food

is set to continue, particularly in suburban and rural areas. The catering share for the average pub has now reached 26% (compared to about a fifth in 2000) and there seems to be no evidence of this trend weakening. Meanwhile, the advent of “gastropubs” which feature restaurant quality meals in a pub setting has helped to raise pub-catering standards.

## ■ Level 2: Security

### Airport hotels

With the growth of air travel, especially the boom of budget flights, the airport hotel has become an increasingly distinct segment offering specific features to travellers whose length of stay in the hotel is usually very short. These hotels generally have smaller rooms and reduced common areas. However, Chon and Sparrowe (2000) point out that increasingly the airport hotels have come to recognize the need to reach larger markets and have begun a process of adding guestrooms as well as banquet and meeting facilities. They target local business customers and large organizations hosting regional conferences, offering good-sized, quality facilities that save participants precious travel time between the airport and a convention centre. Such a marketing strategy puts airport hotels in direct competition with convention facilities and traditional downtown business hotels.

Airport hotels generally adapt their service offering to their target market. For instance, check-in and checkout times are often very flexible. The laundry and dry cleaning service is accelerated to accommodate clients who only have a few hours to spare. Most airport hotels offer a shuttle service, which can constitute a significant operating expense for the property.

According to Mintel (2003) airport hotels generally enjoy stable year-round occupancy and usually have better weekend occupancies than urban hotels targeting business travellers. Even in the aftermath of September 11th and with the ensuing slowdown in air travel, airport hotels have maintained above-average occupancy levels.

The following two examples demonstrate the success of the chain restaurant, which we would argue is built around the safety of the brand recognition.

#### Example: Chain restaurants growth

The food service consultancy Technomic found that US systemwide sales for the Top 500 rose to an estimated \$199.9 billion in 2005, up \$13 billion over 2004 on a same-chain basis. The 500 largest US restaurant chains registered solid performance, posting 7% sales growth in 2005, outperforming the restaurant industry at large, which grew 5.6%. Growth continues to be driven by leading chains. The Mexican category was led by Taco Bell's 8.4%

sale growth and quick-casual standout Chipotle, which grew an estimated 27.1%. The doughnut category continues its growth with Dunkin Donuts' 13.8% sales and the category's increased sales of specialty coffee. Limited-service chains within the Technomic Top 500 accounted for 82% of all US fast food restaurants. As a whole, this group grew at an impressive rate of 7%. Other limited-service sub-segments with sales growth above the segment average include bakery café (27.8%), beverage (19.8%), Mexican (12.4%), other sandwich (12.0%), donut (11.5%), and chicken (9.4%). The Mexican, steak and Italian categories all posted strong results with sales growth of 8.3%, 7.6% and 6.6%, respectively. Family style restaurants continued to struggle, but remained static (Technomic Information Services, 2006).

Seeing Double? Hooters Opens Second Restaurant in China  
Thursday May 25, 2:50 pm ET

ATLANTA, May 25 /PRNewswire/ – Hooters of Pudong, located in Shanghai, hosted the grand opening celebration on May 19th. This is the 2nd Hooters location in China, of the 4 slated to be open by this year's end including one in Beijing and the other in Hang Zhou. "The original Hooters location in Shanghai is doing very well, and we expect the same out of the new Pudong location," explained John Weber, EVP of Franchising for Hooters of America. "Ex patriots are enjoying a taste of home and the Chinese are enjoying our fun, casual themed concept."

International expansion has been a focus for Hooters and by the end of this year the concept will be introduced to seven new countries. These new countries include Australia, Columbia, Japan, Greece, Panama, Puerto Rico and Spain, bringing the grand total to 57 international Hooters restaurants in 25 countries.

The first Hooters location opened its doors 23 years ago, and today there are over 425 locations. It did not take long for the concept to catch on in the United States followed by successful international expansion. Hooters is well known for its brand of food and fun, featuring a casual beach-theme atmosphere, a menu that features seafood, sandwiches and Hooters' signature spicy chicken wings, and service provided by the All-American cheerleaders, the Hooters Girls.

*Source: Hooters of America, Inc.*

## ■ Level 3: Belonging

### Conference centres and hotels

The conference market is a huge business. In 2000 alone, there were an estimated 1.3 million conferences in the UK generating sales revenues of



£6 billion. Conference centres are facilities including hotel accommodation which are specially designed to accommodate groups and meetings. Unlike ordinary commercial hotels with adjacent conference space which serve all market segments, conference centres concentrate on the meeting or exhibition market, sometimes even going to the point of excluding other business segments which might distract the conference groups (Mintel, 2003). Conference centres have the clear objective of providing an environment for successful meetings and training courses. Therefore, the properties are generally located in relatively isolated surroundings. Normally the conference centre should be within reasonable distance to a major airport and should be accessible by efficient transport links, like the Birmingham NEC. Conference centres also often include a full range of recreational facilities, such as gym, swimming pools, tennis courts, golf courses and fitness rooms which provide meeting participants with the opportunity to unwind. This begins to demonstrate the interconnectivity of sectors within the industry.

Conference hotels are designed to accommodate customers attending conferences or exhibitions. Common areas are extensive, with meeting space per guestroom, and typically include facilities such as ballrooms and break-out areas for meetings and conferences. Exhibition space for trade shows, sample and display rooms for sales meetings, 24-hour business centre, and extensive restaurants and lounges are necessary. Guestrooms are normally larger than in an average hotel and are equipped for work, often broadband, two telephone lines, speakerphone. The meeting rooms are equipped with the latest in the way of audiovisual and computer features. Typically, a conference package will include meeting planning services, accommodation, coffee breaks and meals. Banqueting is a very important service in conference hotel and should be running efficiently all year around with high standards. On the other hand, conference hotels should offer all the same recreational facilities as any ordinary commercial hotel.

### Business hotels

Jones (2002: 49) points out this market is so valuable to hotels not only because business customers can afford high average room rates but they have high food and beverage spends, which will bring in greater margins of profit to the hotels than other markets. Moreover business demands are also concentrated on different times to leisure travellers. Normally business customers use hotels during the working week, with March to May and September to December being their peak seasons, which is a very different profile from that of leisure customers.

The business traveller market is recognized as having particular needs, and bedrooms are being upgraded to provide better work areas, and facilities for laptop computers connected with broadband Internet (Jones, 2002: 49–51). Some business customers require their rooms with an executive style lounge with an area for meetings, a business secretarial service and complimentary refreshments. Fast check-in and checkout is a crucial service for business hotels and ample parking space, free of charge, is a

basic while necessary feature if the hotel is close to a motorway. For many executives, the lines between business and pleasure are blurring. According to a 2005 Deloitte Survey, some two-fifths of respondents claimed to be combined business and leisure travels. This is a significant trend, which can bring new opportunities and reshape the business hotel sector in the near future, especially when the Generation Xers become the main business travellers.

In most business hotels there are special corporate rates for company bookings, including a travel agent corporate rate for reservation through Thomson or American Express (Jones, 2002). There is also a local privileged rate for those local companies, which use the hotel regularly. In order to manage costs and maximize the value of hotel stays, corporate travel departments have been negotiating extra perks such as free breakfast and free high-speed Internet access in their contracts with hotel chains. Some companies have also attempted to fix rates with hotel chains for the next 2 to 3 years (Chon and Sparrowe, 2000).

During the recent economic downturn, corporate travellers and buyers traded down to mid-priced hotel chains to alleviate costs. As the hotel industry has strengthened, luxury and upper upscale properties, as well as mid-priced establishments without food and beverage facilities, made dramatic comebacks, outstripping the average rate of US growth in hotels by some one and half times (Mintel, 2005). However, despite these positive developments, the corporate world is no longer so generous with travel expenditure as it was in the past, with cost savings and tight travel policies now being the order of the day and the hospitality sector must look to react accordingly.

## Themed resorts

A themed resort is one that has a strong distinct identity, often one tied to some other place and time (Mancini, 2005). For example, the Venetian Resort Hotel in Las Vegas recreates the legendary elements of the city it takes its name from, by being equipped with canals and gondolas. Disneyland is the most famous themed resort and it creates different themes in the park, such as "The future", "Wild West" and "Snow White". The Disney hotel has become an important part of the Disney group. For example, there are two brands in Disney Resort Tokyo, the economic hotel brand – Ambassador ([www.disneyambassadorhotel.com](http://www.disneyambassadorhotel.com)) and Luxury hotel brand – Miracosta ([www.hotelmiracosta.com](http://www.hotelmiracosta.com)). Children and adults can continue their Disney experience in the hotel after spending a whole day in the theme park.

## Casino resorts

Casino resorts feature extensive gaming facilities in a destination where gambling is legal. Casino hotels are a huge growth area in the hospitality industry. Casino hotels are exemplified by the huge properties in the major

US gaming centres such as Las Vegas and Atlantic City. These hotels can have thousands of rooms and are accessories to the casino to which they are attached. For instance, the average size of Harrah's 23 casino hotels is 644 rooms, and the average space devoted to gaming areas is about 6,000 square metres. Most of their properties have convention centres too, which are very important for corporate customers. An important feature of casino hotel management is a detailed segmentation of the clientele, according to their gambling profiles (Mintel, 2003). Many different client profiles can be defined, separated into group and individual clients. Since the main profit generator is the gaming operation, the hotels can afford to be flexible with room rates, offering special discount to heavy gambling segments of their customer base. According to Harrah's market research, 27% of the US population gambles in casinos every year. In terms of age segmentation, the ageing "baby boomer" cohort, those in the 52–66-year-old age range, have an even higher participation rate at 31%. Also those in the above average income (over \$95,000 per annum) group are also more likely to gamble (35%). In Britain, there has been a huge debate about giving the permission for Las Vegas style super casino hotels. According to the BBC news in July 2006, London, Glasgow, Newcastle and Sheffield were the top four cities in the competition to host the first mega casino hotel in Britain. In Asia, Macau and Singapore will be considered to be the main destinations with mega casino hotel. Especially Macau, where it was thought that it had the potential to overtake Las Vegas to be the number one Casino destination when we began this book and it has achieved that target by the time we are going to press!. This will be discussed further in Chapter 10.

#### **Example: Macau to overtake Las Vegas Strip as world largest Casino market**

Macau's booming economy, based primarily on gambling, is set to overtake the Las Vegas strip as the world's leading casino market by 2007, according to Globalysis, cited by Agence France-Presse (AFP). The company predicted that Macau would generate US\$8 billion dollars by 2007, with more than US\$20 billion currently committed to the construction of 25 new hotels and casinos over the next 5 years. However, Globalysis emphasized that the Special Administrative Region was still some way from eclipsing all of Las Vegas's hundreds of casinos, which brought in a total of US\$9.1 billion dollars last year. The island's casino and gaming revenue is expected to be driven next year by substantial growth in non-casino amenities, in the form of new convention-centre venues and innovative entertainment facilities, which will be integrated into resorts to make the territory "a holistic leisure tourism destination". Most investments are to reportedly being directed at the Cotai Strip a gaming district currently being constructed by the Las Vegas Sands Corporation.

Massive US investment has helped to spur growth in the sector after the opening of the successful Sands Macau resort in 2004. The growth of the gambling sector has also been helped by the relaxation of travel restrictions on Chinese tourists, boosting visitor numbers to a record 18 million in 2005.

*Source: World Markets Research Limited August 04, 2006.*

## ■ Level 4: Self-esteem status

### Resort hotels

Resort hotels accommodate primarily leisure customers. Traditionally resort hotels have been known in the British hotel market as those hotels located in seaside resorts such as Blackpool, Scarborough and Brighton. Such towns have been dominated by small independent hotels. The resort hotels discussed in this chapter cover a wide range of types of accommodation. Internationally they are generally found in following environments: tourism destinations, ski resorts, beaches and theme parks. A ski resort hotel usually has many facilities for recreational activities, such as swimming pools, pubs, tennis courts and a golf course. It normally includes dining facilities as well.

Increased leisure time, the growth of the short-break market and annual weekend breaks, the increased demands of the grey market, and a great interest in sport, health and fitness activities have all contributed to the new popularity of resort hotels (Jones, 2002). Low-cost airfares mean that the leisure travellers in developed countries can now take their main holiday overseas, in destinations where there are better weather conditions and lower prices. British tour operators recognize the need to fight the British climate and have therefore invested in large-scale all-weather facilities, such as “Center Parc’s swimming paradise”.

Check the website of Center Parc’s ([www.centerparcs.co.uk](http://www.centerparcs.co.uk)) and list the facilities and service Center Parc’s provides. Compare it with a business hotel, such as Sheffield Hilton Hotel.

### ACTIVITY

## Chapter Case Study: Case: Rosewood Hotels & Resorts Seeks Global Growth

Dallas-based Rosewood Hotels & Resorts, the premier manager of ultra-luxury hotels and resorts throughout the world, announced the global expansion of its premier portfolio in June 2006. Dedicated to upholding the highest standards of service and offering guests one-of-a-kind amenities and experiences, Rosewood has announced plans to open, manage and build a host

of new hotels and resorts around the world. The new properties will join Rosewood's present collection of 15 extraordinary hotels and resorts.

Internationally, Rosewood is building on the success of Las Ventanas al Paraíso, A Rosewood Resort in Los Cabos, Mexico and will open The Rosewood Mayakoba, in Mexico's Riviera Maya in 2007. The stunning resort will offer an earthly paradise of white sand beaches, 120 state-of-the-art over-water and lagoon-nestled suites, a world-class spa perched on its own island and a nearby championship Greg Norman-designed golf course. Rosewood is also building its third Saudi Arabian hotel, Corniche, A Rosewood Hotel, located in Jeddah, opening in late 2006. Joining Rosewood's renowned Middle Eastern properties, Hotel Al Faisaliah and Hotel Al Khozama, Corniche will offer spectacular views of the Red Sea, an incredible roof-top pool and an array of exceptional dining.

Rosewood's development pipeline is the strongest in its history and includes several world-class hotel projects in Telluride, Costa Rica, Tahiti, Barbados and Fiji.

*Source: www.rosewoodhotels.com*

## ■ Country resort hotels

Country resort hotels tend to be located outside main cities or in the country with extensive leisure facilities. They enjoy not only a peaceful rural atmosphere, but also provide extensive and often exclusive recreational and leisure facilities. Jones (2002) argues that they have a very clear profit



### Plate 8

A different lake-side dining experience.

*Source: Vonzerö  
2005 bt.*

motivation compared with the traditional country house hotel. Now international chains have moved into this sector and operate on a large scale. They could operate in a converted country house or purpose-built new buildings. To generate more income, these country resort hotels use their comprehensive facilities to appeal to different customers, attracting the business and conference markets as well as leisure travellers. For example, there are 11 Marriott Country Club Hotels in United Kingdom, each has its own swimming pool, gym, sauna, and a health and beauty salon. There are also 18-hole championship golf courses in some hotels.

We would also stress that the categorization of need satisfaction is not an equivalence of price.

There are many restaurants around Lake Balaton offering excellent dining experiences, such as this one at Tihany. They are a far more expensive and exclusive offer than the beach bars and bufés that we pictured earlier!

## ■ Level 5: Self-actualization

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### Boutique hotels

It is generally accepted that boutique hotels date from 1981 with the opening of the first two properties: Anouska Hempel's The Blakes Hotel in South Kensington and The Bedford in Union Square, San Francisco, which was to become the first in a series of 35 hotels operated by the Kimpton Group. Boutique hotels are a mysterious segment of the accommodation industry but also one of its sexiest (Sangster, 2002). Various names are bandied about such as boutique, townhouse or design-led. There are no commonly understood definitions and when dealing with this type of offer the normal star ratings, the traditional yardstick of the industry, appears to have little meaning.

Boutique hotels attempt to offer the guest an alternative to the standardized international hotel chain brand formats which have increasingly dominated the hotel business since the 1970s. Boutique hotels differentiate themselves through architecture and design, which seek to create an intimate and distinctive atmosphere (Mintel, 2003). Personalized service is another hallmark of the boutique format. Customers are addressed by name and some hotels make an effort to anticipate guests' special needs, for example supplying the room with their favourite drinks and snack foods on arrival and prepare their favourite music.

It looks that boutique hotels do have a bright future in the long term. According to Sangster (2002), there are two important factors which are likely to support growth of the boutique segment. Firstly, the Internet is facilitating access to boutiques. Rather than depending on traditional channels for accommodation information and booking, such as travel agents and global distribution systems (GDS), customers can search hotel properties themselves if they want to. Secondly, big hotel companies are themselves opening boutiques. Starwood, Rezidor and Park Plaza have already

started their business in this niche market. Other operators entering the field include the Hilton Group with the opening of its Trafalgar in London and Marriott International through its joint venture with jeweller Bulgari.

### **Example: Kimpton Hotels announce the launch of Global Business Programme**

Founded by Bill Kimpton in 1981, San Francisco-based Kimpton Hotels & Restaurants is a unique collection of boutique hotels coupled with chef-driven, destination restaurants. While all Kimpton Hotels are thoughtfully appointed and managed to help guests maintain and enrich their lifestyles on the road, each is individually designed to reflect the energy, personality and pulse of its distinct location, history and architectural style. Featuring highly personalized guest services, comforting in-room amenities, and one-of-a-kind specialty rooms and suites, Kimpton Hotels provide travellers with welcoming atmospheres that embrace its signature elements of care, comfort, style, flavour and fun. Kimpton takes pride in its social responsibility, supporting select like-minded partners and is a leader in ecological practices. Kimpton currently operates 39 boutique hotels with restaurants throughout the United States and Canada. This includes 70 park avenue hotel, the first Kimpton in New York City, Hotel Solamar in San Diego, the renovation and relaunch of Mayfair Hotel & Spa in Coconut Grove, Miami and the newly acquired Caleo Resort & Spa in Scottsdale, Arizona. Kimpton will debut the Hotel Palomar, Washington DC in mid-2006 and the Hotel Palomar, Dallas in June 2006. Several additional projects are currently underway in New York, Texas, Florida and Virginia.

In May 2006, Kimpton Hotels announces the launch of its Kimpton Global Business(TM) Programme, an innovative programme geared towards acknowledging smaller- and mid-sized companies, associations and clubs, with specialty rates and exclusive benefits typically reserved for large-scale corporations. Membership in the Kimpton Global Business(TM) Programme is free of hassles, negotiations, contracts and volume caps. As a member of the programme, companies receive exclusive rates at all Kimpton Hotels, starting at 10% off the best available rate, 7 days a week. Additionally, guests enjoy signature Kimpton Hotels' amenities and services, such as complimentary Internet access and a late checkout (subject to availability), all without any membership fees. Rates and amenities are available across the Kimpton brand and will be offered to members at all hotels as Kimpton expands nationwide.

*Source:* [www.kimptonhotels.com](http://www.kimptonhotels.com)

If you doubted that the food service sector could contribute to self-actualization, we would ask you to read through the following two examples. The first comes from a press release:

### **El Bulli is voted best restaurant in world – again**

**11 April 2006**

BARCELONA – El Bulli, the haute cuisine eaterie run by chef Ferran Adrià, has been voted the best restaurant in the world again.

An international jury, selected by the British magazine Restaurant, said El Bulli was the best place to eat on the planet for the second time.

El Bulli, which only has 50 places and is permanently booked out with up to 400,000 applications for a place from all over the world each year, was opened in 1981 at Roses, near Girona in Catalonia.

Adrià says of El Bulli: "It is not a restaurant, it is place for investigation."

For the Catalan chef, the restaurant is a way of "seeing how far we can take cooking".

The restaurant is only open for 6 months of the year and an average meal costs from €150.

Adrià said one way to reduce demand would be to raise the price to €1,000 per person.

But this would be against his principles because he does not want haute cuisine to be considered elitist.

Adrià has worked with 20 charities to spread the use of haute cuisine ingredients to the Third World.

He says he only gets angry when he is attacked for charging €200 per meal while people are starving in the world.

Adrià, who, has been awarded three Michelin stars, spends 6 months of the year dreaming up new recipes at his "laboratory" in Barcelona.

*Source: EFE with expatriots [www.expatica.com/](http://www.expatica.com/)*

But even that is not as convincing to us as the second example and we make no apology for the disappointments that you will experience when you dine anywhere that offers less of an opportunity to self-actualize than our final example.

### **Example: Lunch at the world's best restaurant**

We would urge you to read the full review of a visit to the Fat Duck in Bray in May 2006 ([www.in.rediff.com/news/2006/may/29spec.htm](http://www.in.rediff.com/news/2006/may/29spec.htm)).



It was enough to make us feel we had been there as the reviewer lovingly recounts the delights of eating in the best restaurant in the world. It is not just a meal but a phenomenon. Heston Blumenthal was not just a chef but a “culinary alchemist” producing miracles in the kitchen and the restaurant. Our summary cannot do justice to the passion evoked by the writer as he describes the tastes and textures of this ultimate eating experience. As the reviewer salivates ... “Besides that are the wonder, awe and drama of its creation. Blumenthal has set the stage for the next 3.5 hours of delight, intense flavour, surprise and sheer joy.” Read the review and we guarantee you will want to understand how liquid nitrogen at minus 193 degrees Celsius, a smoking silver flask, a silver bucket and a silver pump-type foam dispenser combine into a tea infusion with lime and vodka mousse!

This is what Maslow was thinking about when he talked about self-actualization both for the chef and the diner!

## ■ Limitations to the framework

We have used the above analysis to introduce some of the range of provision in our industry in a relatively unconventional and we believe interesting manner. What we have to acknowledge is that the adaptation of Maslow’s hierarchy of need does have certain limitations. We would like to address two of them now. Firstly, our presentation cannot handle categories which are multifaceted. We were on safe ground using categories which were clearly defined and narrowly delimited, such as boutique hotels. However other categories have been created that are broad and all encompassing, such as the small establishments clustered together as Small Hotels, B&Bs and guest houses. These can cover the whole spectrum of properties from those offering shelter to social security claimants to magnificent individual properties, providing a service and an experience to challenge the five star. Secondly, we consider other forms of accommodation which are also multifaceted and which do not fit easily into the grid, such as serviced accommodation, Suite hotels and timeshare developments. Finally, we have to acknowledge that the framework cannot respond rapidly to change in the markets and we have relied upon the historically built sense of the category in making our decisions about where to locate various types of offer. However we recognize that our industry is subject to rapid change and would seek to explore this with a brief examination of the cruise sector. Traditionally this was seen as very exclusive, staking a claim for level 3 social or level 4 esteem rankings, but recent changes have challenged this image as we shall see and the nature of the offer has shifted (Figure 3.3).

Maslow's hierarchy	Food service	Accommodation	
5	The world's best restaurant	Boutique hotels	Self-actualization
4	Leading restaurants	Resort hotels	Status privilege
3	Themed restaurants	Business hotels	Belonging
2	Chain restaurants	Airport hotels	Security
1	Fast foods Roadside catering	Budget hotels	Shelter and sustenance

**Figure 3.3**  
Applying Maslow's hierarchy to the hospitality industry

## ■ Small hotels, B&Bs and guest houses

Although most industry and academic research focuses on the multi MNE, SME constitute the backbone of the international hotel industry. SMEs are generally defined in terms of the number of employees, with small enterprises having between 10 and 49, and medium, between 50 and 249 employees. In Europe, in general, and in Switzerland in particular practically all individual hotel units could be considered as SMEs by the above definition. Most chain hotels under franchise or management contract are still in reality SMEs to the extent that they represent individually owned units (Mintel, 2001). There are almost twice the number of SMEs in tourism (22.5%) as compared to the European average among all business enterprises (13%). More than 6% of the GDP of the EU is derived from tourism. Within the sector, the hotel, restaurant and café sector is the largest single component, generating more than 50% of all tourism turnover and employing more than 6 million people or 4% of all employment in Europe. The great majority of SMEs could be characterized as micro-enterprises employing less than 10 people.

There has been a growing awareness of the role of SMEs in the economy in recent years, which has resulted in a number of studies as to how governments could help in their creation and management. The European hotel industry is highly fragmented, and the hotel stock is often older and smaller than in North America and Asia Pacific. Small hotels typically lack resources and advanced management and marketing skills, particularly in inherited, family run businesses. According to Mintel (2001), this situation is further exacerbated by a lack of opportunities for economies of scale, both from the marketing/distribution point of view, as well as from

the operating expenses side. Although technology could be seen as widening the gap between the small independent hotels and the multi-nationals, it could also ultimately help the smaller operators to access a far wider range of distribution, purchasing and financial management possibilities than before.

In general, it is difficult to be optimistic about the future competitive position of SMEs with less than 50 rooms and which are neither affiliated nor particularly well located. They will find it difficult to attract the customers, while at the same time they will need to find the investment to maintain their position, which will be difficult unless they can focus on some special niche for themselves, with a unique identity.

## ■ Other accommodation sectors

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### Suite hotels

Suite or all-suite hotels are designed to serve individual business or leisure travellers. Hence, a distinguishing feature is a reduced common area (i.e. restaurant, lounge, meeting rooms and lobby areas), which allows more space to be allocated to the guestrooms. Thus, the individual units usually include a sleeping area and a separate living room space, which typically contains armchairs, a coffee table, a dining table, TV and a couch convertible into a bed. Most offer a kitchen with at least a microwave oven and a small refrigerator. The bedrooms are smaller than standard hotel rooms, but have the same furnishings.

### Serviced apartments

Serviced apartments or “extended stay” accommodation, as they are called in America, are a relatively new addition to the hospitality sector. These lodging facilities are designed for the guest whose stay is counted in weeks or months rather than days, as is the case for a traditional hotel. Typically, where the primary focus is on the business traveller, a property typically consists of one-bedroom units and studios. Each unit has a small kitchen, bathroom and living area. Serviced apartments need not be located in a central or prime position as would be the case for a full-service hotel. Nevertheless, proximity to central business districts, business parks, or at least transport connections is generally desirable given the primarily business traveller orientation of such establishments.

The concept was first developed in the United States in the early 1980s when Marriott introduced its Residence Inn brand which dominated the market for years thereafter. It was only in the mid-1990s; however, that growth in the segment accelerated to a rapid pace. According to STR, room capacity in the United States quadrupled between 1994 and 1999.

## Timeshare

Timeshare or “interval ownership”, as some developers prefer to call it, has been without a doubt the fastest growing segment of tourist accommodation in the world for the last two decades. Starting from a base of \$965 million in worldwide sales in 1981, total unit sales reached \$9.4 billion in 2002, which represents an annualized growth rate of 11%. North America accounted for \$5.4 billion of sales, with Europe and Latin America making up most of the rest. The number of resorts has mushroomed from 631 20 years ago to some 5,425 with 325,000 units, as the number of interval owners has expanded from 230,000 to 6.7 million, who own some 10.7 million weeks of timeshare accommodation. Currently, about 1,700 resorts (31%) are located in North America and 25% in Europe, although due to the larger average resort size (80 units per resort, as opposed to a worldwide average of 60), 41% of all accommodation units are found in North America.

The basic timeshare product consists of the right to inhabit a resort apartment, villa, chalet or bungalow for a week every year. Timeshares have an average duration of about 40 years, although some are for perpetuity. Such rights are usually transmissible to heirs. Thus each timeshare property is divided into 52-week-long tranches, although typically some of the weeks are not sold, either for seasonal reasons, or to allow for a maintenance period during the year. The classic product consists of a fixed week every year. However, greater flexibility has become the rule and timeshare promoters increasingly offer a floating week within a season, or operate on a points-based system. In fact, points-based systems have continually gained acceptance and now account for 43% of all purchases from developers in the United States. Normally, a timeshare resort will segment its offer into three different seasons, high, low and shoulder, and the weekly units will be priced accordingly. Globally, the average price of a timeshare unit in 2002 was \$10,600 per week-long unit.

Timeshare resorts are for the most part located in warm climates that have a minimum of seasonal variation, thus rendering a maximum number of weeks in the year attractive to timeshare purchasers. Therefore, it is not difficult to understand why the bulk of North American resort capacity is to be found in Florida (636 resorts), California (125 resorts) and South Carolina (119 resorts). In Europe, the number one location is Spain, especially the Canary Islands, which have an even, year-round temperature. Attractions and entertainments are the number one drawn for American timeshare purchasers, cited by 56% of survey respondents. Indeed, Orlando, home to Disney World and the Epcot Center, can rightly be labelled the capital of timeshare in the United States. Ocean beach and mountains are also high up on the list cited by 47% and 29% of respondents respectively. In Europe, the profile is similar, but the order is reversed with beach being cited by 59% and attractions/entertainment by 36%. Mountains are in the fourth place after history and culture cited by 26% and 29% of respondents respectively. The seasonality of Alpine locations, however, has proved a stumbling block for development of the concept in Switzerland or Austria.

From the point of view of seasonality, urban timeshare would seem an attractive possibility. Although a few units do exist such as Marriott's Boston, Paris and Mayfair properties, the concept has never really taken off due to the stiff competition from other profitable uses (office space, luxury apartments, full-service hotels) of prime central locations in major cities.

Timeshare owners in a mixed hotel/timeshare resort are generally good customers for the hotel's bars and restaurants, as well as any other service or leisure activities offered by the hotel such as fitness, golf, tennis, boating, horseback riding, spas, etc. Market research has demonstrated that timeshare guests are psychologically prepared to spend money on additional activities and meals, because their lodging is by definition already paid for when they depart on their holiday. Indeed, the average timeshare visitor party in the United States in 2002 spent \$1,459 on bars and restaurants, \$447 on entertainment and sports activities, \$253 on sightseeing tours and \$217 on gambling. In Europe the equivalent figures were somewhat lower but still significant at €464 on food and beverage, €53 on entertainment and sports and €60 on sightseeing tours.

There are also synergies in terms of operating costs. Once in operation, timeshare units require most of the same services as the rooms division of a hotel. A front desk is necessary to receive arriving guests and to distribute keys. Housekeeping services are also needed, at least once a week on the changeover day, although some resorts offer maid service 6 to 7 days a week. Another source of revenue for the hotel operator is maintenance fees, which are levied on a yearly basis to the timeshare unit holders to defray the cost of cleaning and upkeep. A difference between hotel-managed timeshare properties and those sold by independent developers is that the hotel company's property management infrastructure usually remains in place post-sale, whereas in the latter case, the promoter typically retires from the scene once the project is sold and a residents' association takes over the task of assuring cleaning and maintenance. Indeed, this situation can also lead to customer disappointments, since independent developers might keep maintenance charges artificially low, whilst selling off the units, leaving them to rise significantly once the owners' association takes over. Marriott realises about 10% of its timeshare-related revenues from maintenance fees.

Marriott's timeshare sales passed the \$1 billion mark for the first in 2001, and rose by 20% in 2002 to \$1.2 billion which means that the hotel group accounts for almost 13% of total industry-wide sales. Indeed, 32% of the firm's operating income in 2002 was generated by timeshare activity, which has proved far more resilient in the current economic and political climate than the traditional hotel business.

Most other upscale North American hotel chains have followed in Marriott's footsteps by entering the timeshare business, but usually with a lag of at least 8 years. Hilton's Grand Vacations Company timeshare product dates from 1992, and embodies many of the same features as that of Marriott. Purchasers of timeshares are awarded an annual allotment of HGVC points which can be used to purchase cruises, air travel or stays in

the 2,400 Hilton hotels worldwide, which include those of Hilton Group, the British-owned entity which has worldwide rights to the Hilton brand outside of the United States. Hilton has developed seven resorts, two in Orlando, three in Las Vegas and one each in Hawaii and Miami, which it markets as timeshare properties. Hyatt entered the timeshare business in 1994 and has just opened its 10th resort, the Hyatt Pinon Point in Sedona, Arizona, famous for its red rocks. The Four Seasons offers interval ownership in its four “Residence Clubs”, but has also developed “Private Residences”, that is to say they offer vacation properties for sale. Cendant, the leading hotel franchiser in the world, whose activities extend to car rental (Avis) and real estate brokerage (Century 21) has committed substantial resources to the timeshare business.

Timeshare has developed outside the United States, but at a slower pace. In Europe the sector encounters several obstacles beginning with the bad reputation the business acquired in the 1970s and 1980s.

## ■ Condo hotels

Condominium hotels represent an increasingly popular way of financing lodging developments, and the sector has experienced explosive growth in the past few years, especially in the United States (Mintel, 2006). Strictly speaking, a condo hotel is a property with units (apartments or guestrooms) that are managed centrally, like any other type of hotel. The difference is that, these units are owned by individual investors. The concept originated in Europe in the late 1950s, and then travelled to the United States. Now condo hotels are making a reappearance in Europe, as well as in the Caribbean. The condo hotel idea is gaining momentum due to declining hotel investment returns, and rising residential real estate prices. Especially prominent in prime resort areas and major cities, condo hotels combine investment features with those of second homes.

Condo units may or may not be operated by a major chain, although the current trend is towards branding by major upscale to luxury brands such as Fairmont, Sheraton, Trump International Hotel & Resorts, Four Seasons, Ritz Carlton, Kempinski, etc. Also, condo owners may or may not be restricted as to their individual use of the property. Marketing activities in the United States, where most condo hotel development has occurred so far, are severely restricted by SEC (Securities Exchange Commission) regulations. Condo hotel management contracts (between developers and hotel chains) may differ significantly from those involving traditional hotel properties.

The development of condo hotels have given the chains a new supply of properties with which to expand their brands and to generate fees from the management and franchising of the operations. In the past, management companies have been the developer or a group directly related to the developer. However, increasingly, the management company is a third-party hotel operator, such as Fairmont, Westin, Hyatt or Four Seasons, amongst

others, which the developer and unit owners agree should manage the guestrooms and facilities for unit owners (such as F&B outlets, recreational amenities and meeting space). The industry is currently shifting its management strategy towards the outright sale of the hotel management opportunity to nationally affiliated hotel companies, operating these properties similarly to that of a conventional hotel operation. The chains may also earn additional fees from renting out the units placed in the hotel rental management programme and for managing various condos. They may even participate in royalty fees, derived from licensing their names to the condominiums, and collect a percentage of the sales price of units sold.

These markets are varied and appeal to a variety of motivations from both the business and the leisure traveller.

### Cruises: re-establishing and repositioning

According to the Seatrade report, 25 million people will be taking cruises annually by 2015 (Travel Trade Gazette, 2006) which makes this a significant sector in the industry but it is one which has traditionally received little attention (Table 3.4).

**Table 3.4 Worldwide cruise supply/demand real/projected to 2015**

Year end	Berths	% increase	Passengers	% growth
2006	368,000	5.7	14,329,000	4.5
2007	395,000	7.3	15,260,000	6.5
2008	415,000	5.1	16,023,000	5.0
2009	438,000	5.6	17,064,000	6.5
2010	460,000	5.0	18,173,000	6.5
2011	487,000	5.9	19,263,000	6.0
2012	517,000	6.2	20,400,000	5.9
2013	549,000	6.2	21,582,000	5.8
2014	579,000	5.5	22,661,000	5.0
2015	614,000	6.0	23,839,000	5.2

Note: there is allowance here for loss of berths through service withdrawals/scraping.

Source: Mintel/TTI 2005.

It is only a conservative estimate to suggest that the last 5 years of the decade (to 2009) will produce more than 90,000 new berths. With most new ships now averaging 3,000 total berths, just 8 ships a year means 24,000 extra berths, and history suggests that industry demand will increase at approximately the same rate as capacity.

At the beginning of 2000, projections for the industry suggested there would be nearly 20 million worldwide passengers annually by 2010. In the immediate aftermath of 9/11, projections were revised downwards to just 17.25 million. There were many, both inside and outside the industry, who said that even this was far too bullish. Yet, despite the problems that have followed with wars on terrorism, and the situation in Iraq, Mintel revised those estimates upwards to more than 18 million by 2010, with the 20-million mark reached in 2012.

Beyond 2015, there is the prospect of even greater emphasis on building ships of increasingly large capacities if the Panama Canal goes ahead with its plan to widen its locks, and so increase the Panama limit.

## ■ Main markets

North America remains the number one source market and continues to show impressive growth. In 2004, there was an 11.1% rise to more than 9.1 million. In fact, in the 3 years since 2001 – generally accepted as being the most difficult in the history of the cruise industry – numbers have grown by nearly one-third (32%).

It is a similar situation in the United Kingdom, where numbers for ocean cruising rose by nearly 7% to top 1 million (1.03 million) for the first time in 2004, although, if river cruise passengers are included, it went above 1 million in 2003. This meant that the number of ocean cruise passengers had doubled in 7 years, and quadrupled in 10 years.

It has also meant a steady increase in cruising's share of the overall outbound tourism sector in the United Kingdom, especially as it has coincided with the recent decline in the package holiday market. Cruising's share of the UK's inclusive tour market has nearly trebled in 10 years, with 2004 showing a substantial increase to 5.2% from 2003's 4.9%.

The largest single market in Europe, Germany, maintained its recent healthy growth but the largest advance was made by Italy, which added 13% more passengers. This occurred despite the loss of Festival, for which Italy was the major market, underlining the rapid expansion of Carnival-owned Costa Cruises as well as the emergence of Mediterranean Shipping Company's (MSC) Cruises. Owned by the cash-rich Mediterranean Shipping Co, MSC is just as ambitious as Festival. However, unlike Festival, MSC has the financial resources to achieve its aim of becoming the industry's fourth major player.

Although Spain's rapid growth appeared to stall in 2004, this was a statistical anomaly as the new Spanish cruise lines, which have fuelled its recent rapid growth, are continuing to add capacity.

Elsewhere, Asia cruise numbers fell again as the main player, Star Cruises, reduced capacity. A resurgence is expected from 2006 as Star Cruises grows again and a Carnival brand for Asia is expected to emerge. There are signs of growth in the nascent Indian and Chinese cruise markets, too.



Australia's passenger numbers are growing through a combination of home grown and international products, whilst Dubai's substantial investment to attract ships to its homeport appears to be on the point of finally paying off with several lines close to deciding on an Arabian Gulf programme.

The two leading cruise companies generated US\$14.3 billion of revenue in 2004, suggesting the value of the worldwide industry is now more than US\$19 billion. This is because, between them, Carnival Corporation and Royal Caribbean Cruises (RCC) carried nearly three quarters (9.7 million) of the world's 13.4 million passengers.

Their combined profits also reached record proportions – at more than US\$2.3 billion – as yields through the industry arrested the decline that had set in since they peaked in 1999/2000 – a decline that had been exacerbated by 9/11 and the war in Iraq. With yields improving once more in 2005, record profitability is again predicted.

There was an 8.4% increase in worldwide cruise passengers in 2004 and, although there has been some slowdown in new ship ordering, which will slow passenger growth in 2005/06, capacity increases will start to accelerate again from 2007.

## ■ The changing offer and market

The trend which 9/11 stimulated for US-based cruise lines to increase their ex-North American port sailings continued in 2004. Known generically now as "homeland cruising", its impact can be gauged from one statistic: in 2004, 90% of CLIA member lines' 10.5 million passengers embarked their cruise at a North American port, compared with about 70% in 2002. It has also had several key side effects, notably the emergence of many more homeports as non-cruise ports and their surrounding communities recognizing the potential economic impact of attracting this growth sector of tourism. These have generally developed around the Gulf of Mexico in states like (northern) Florida, Texas, Louisiana and Alabama.

Homeland cruising has also helped turn Mexico into the world's most popular country cruise destination, with 7.6 million visits in 2004 (+15%) and the Mexican port, Cozumel, into the most popular cruise port of call, with 2.9 million visits (+7%). Mexico's cruise visitor numbers have doubled since 2001.

There was also an initial impact on destinations away from North America, with the Mediterranean (2002/03) and then Northern Europe/Scandinavia (2004) seeing their share of worldwide capacity drop.

Although homeland cruising appears here to stay, the lines now recognize it as a new business generator as it brings the cruise product within range of a broader public, both geographically and socio-economically. They are now simultaneously returning more ships to the Mediterranean and Northern Europe in their new policy – delayed by 9/11 – of sourcing more business from emerging source markets in Europe.

Then we have to consider the impact of new players in the sector, with the questions remaining as to what the offer and the target markets will be. The first is likely to be more traditional than the second example.

**Example: Disney Cruise Line to sail Europe in 2007!**

Summer 2007, a big time in Europe as Disneyland Resort Paris turns 15!

But wait! What is this? For the first time ever the Disney Cruise line will be sailing the Mediterranean Sea! 10- and 11-day cruises aboard the *Disney Magic* will depart from Barcelona, Spain. Also Disney is offering two 14-day trans-Atlantic cruises.

Carnival Freedom will debut in March 2007 with new 12-day cruises that include Carnival Cruise Lines' first visit to the Greek Isles and Turkey, as well as extended calls at a variety of Mediterranean ports.

**Example: EasyCruise to add two new vessels**

EasyCruise has signed a letter of intent with Greek shipbuilder Neorion Holdings for two 500-passenger ships and an option for a further two.

*Source: Travel Weekly 12-05-2006.*

It is also possible to examine other sectors that would only be subject to definition if the context in which they were operating could be established as the services and products they offer will be determined by their relations with other providers. We are here thinking of contract catering which could prove to be one of the major expansion opportunities in the future. The contract catering market has seen numerous changes, with the focus now shifted upon developing more commercialized and retail inspired concepts. This market is in the midst of consolidation. Although there are only a handful of very large companies in the contract catering business there are a plethora of small-to medium-sized businesses. The size of a business is therefore quite easily and radically altered by the acquisition of one or two large contracts.

Furthermore gains can be made by merging or purchasing similarly sized rivals. Companies have therefore not only been taken over by the giants of the business but by medium-sized operators seeking to gain scale. Over the past year there have been a number of changes of ownership namely the acquisition of Caterlink by Wilson Storey Halliday and on a larger scale the acquisition of the Eaton Group by ISS, Everson Hewitt by Compass and Catering Alliance by Aramark.

The business and industry sector is by far the largest sector of the contract catering market despite the fact that it has not been growing as fast as other sectors in recent years. In-store catering has been steadily expanding for some time, fuelled both by the growth in outlets and by the consumer's increasing desire for casual dining. Historically confined to supermarkets and department stores, there is now a diverse range of retail outlets offering in-store outlets. However contracts are very important in health care. The National Health Service (NHS) in the United Kingdom alone serves 700,000 meals a day or 300 million per annum at a cost of £500 million across 300 NHS trusts and 1,200 hospitals. Contract caterers serve approximately 4.7% of hospital outlets and only around 14% of meals so there is still considerable scope for growth.

Attitudes and behaviour with regard to eating out on the high street are also being identified within the contract catering sector. Often contract caterers are competing with high street rivals especially in the business and educational sectors. Shorter lunch breaks curb the propensity to sit down for a hot cooked meal and eating patterns are now intermittent and no longer fixed to specific periods. Snacking and on the go have become the norm amongst the UK's workforce. Contract caterers have had to adapt their offering to be available often throughout the day and to offer quick and filling snacks in preference to plated meals.

The provision of such an offer has called for a rethink not only in menu items but in the staffing and equipment requirements as well. Initially the loss of sales from a higher value main meal could have caused concern but the cost savings and better volumes from delivering what the customer wants has helped some contracts become more profitable.

There is still considerable potential for further growth within the contract catering industry, particularly for larger caterers. In many sectors of the market, most notably the public sector, contract caterers only make up a small proportion of the overall food service operators within the sector.

With changes in local authority and government procurement practices there has been considerable scope for development within sectors such as education, the prison service and other areas of public catering yet the majority of supply is still through direct service organizations (DSO). Public sector contracts often require substantial investment in equipment or infrastructure and hence only the bigger players will benefit from this opportunity.

## ■ Conclusion

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This chapter provides an overview of the international hospitality industry and enables students to gain an appreciation of the changing nature of the industry. We have presented the components of the international hospitality industry in terms of the sectors and what they seem to offer to the market. The new features such as international chaining, niche products development and multiple brands play an important role in the industry's

evolution and it is clear that the international hospitality industry is moving from being characterized as a fragmented industry towards appearing as a consolidated industry.

In this chapter, we have explained:

- Definition of hospitality industry and its latest changes.
- The structure of international hospitality.
- Accommodation sector, including business hotel, resort hotel, budget hotel, boutique hotel, timeshare, etc.
- Food service sector, including restaurant, fast food, hotel catering and contract catering.
- Other hospitality business sectors, such as cruise lines and contract catering.

This is more than a traditional description as it attempts to offer an analysis of both motivation and market that you would not find elsewhere.

In Chapter 4 we will address the techniques for exploring the operating environment in the industry and will further unpack some of the sectors we have considered in this overview.

## ■ Review questions

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- 1 Do you think that satisfying needs is an appropriate basis on which to catalogue the international hospitality industry?
- 2 Can you draw up a map of the range of the international hospitality offer that is comprehensive and meaningful? Explore the difficulties in undertaking such a task.
- 3 How would the different offers be seen in different cultures? Explain the differences with at least two examples.
- 4 Do you think the traditional cruise operations will feel threatened by the introduction of new competitors such as EasyCruise? Please explain your reasons.