

**Select** an industry, such as the gambling industry, or any industry in which **you are familiar** to complete a SWOT analysis.

Access the profile overview for the selected industry:

- In the University Library, click **Company Directory and Financials**.
- Click **Hoover's First Research**.
- Click **Continue**.
- Click **Submit**.
- Type *gambling* (or your selected industry) in the search box, and click to continue.
- Gambling (or the selected industry of choice) should be first in the list.

**Read** the industry profile overview, including the website links, on the page.

**Complete** a SWOT analysis for the selected industry. The SWOT analysis allows a business to understand how a competitor is positioned in the environment by assessing its strengths, weaknesses, opportunities, and threats. An understanding of a competitor's position can be a key for a business to determine where funding and resources should be allotted to create new products or services.

**Use** information in the industry profile overview and other scholarly sources as needed. The SWOT analysis should include each of the following:

- Strengths
- Weaknesses
- Opportunities
- Threats

**Write** a 1,050- to 1,500-word paper, including the following attributes:

- SWOT analysis, including a SWOT chart
  - Identify opportunities (either product or service) that could improve the customer experience.
- Strategy evaluation
  - Define strategic tasks.
  - Assess the industry's capabilities.
  - Identify the barriers to strategy implementation.
- A response to the following:
  - Based on the SWOT analysis and strategy evaluation, what are some creative actions the industry can pursue to include innovation as a component of their strategy?

**Write** in third person

**Include** at least two references/citations.

**Format** your paper consistent with APA guidelines



FULL INDUSTRY PROFILE

5.2.2016

# Hotels, Motels & Resorts

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NAICS CODES: 72111

SIC CODES: 7011

## Industry Overview

Companies in this industry operate short-term lodging facilities, including hotels, motels, and resort hotels. Major companies include Hilton, Hyatt, Marriott, Starwood, and Wyndham (all based in the US), as well as Accor (France), InterContinental Hotels Group (UK), Jin Jiang Hotels (China), and NH Hotel Group (Spain).

The global hotel industry generates more than \$500 billion in revenue per year, according to Statista. The most popular travel destinations include France, the US, Spain, China, and Italy. Fast-growing international tourism markets include Japan, South Korea, India, and Mexico. Emerging regions are expected to drive worldwide tourism industry growth over the next 15 years, led by the Asia/Pacific region.

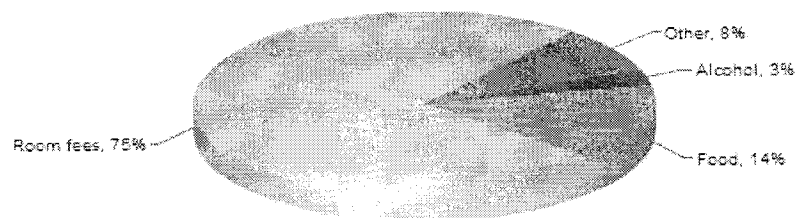
The US hotel, motel, and resort industry consists of about 40,000 companies that operate about 53,000 properties with combined annual revenue of about \$160 billion. The industry does not include casino hotels and resorts, which are covered in the Gambling industry profile.

## Competitive Landscape

**Business** and **tourist travel** drive demand. Both are affected by the strength of the economy. The profitability of individual companies depends on **efficient operations**, because many costs are fixed, and on effective marketing. Large companies have advantages in economies of scale in operations, can more easily raise capital, and have strong **name recognition**. Small companies, such as **boutique hotels**, can compete effectively in favorable locations and by providing specialty services. The US industry is fragmented: the 50 largest companies generate about 45% of revenue.

## Products, Operations & Technology

### Revenue by Product - Census Bureau



Major industry product lines are room fees (about 75% of industry revenue) and sales of food, alcoholic drinks, and merchandise.

Basic **operations** of hotels and motels consist of providing sleeping accommodations, housekeeping, maintenance, and a variety of personal services. Hotels may provide restaurants, meeting rooms, event hosting, business services, and resort services such as golf, tennis, swimming pools, and fitness centers. **Labor** is a significant operating expense, requiring efficient **personnel management**. Key industry metrics, in addition to retail sales, are **occupancy rates**, average **room prices**, and **revenue per available room** (RevPAR), which is a hotel's occupancy rate multiplied by its average daily room rate (ADR). The average occupancy rate for the industry is about 60%.

Most companies **own and operate** their own hotels, but other arrangements are common. Some hotel companies are operators that receive the majority of their revenue from **management fees**. Companies may **franchise** their brands to other owners, manage hotels that belong to other owners, or lease hotels from other owners. Some companies also manage **time-share** properties.

### Technology

Most hotel chains use **central reservation systems** (CRS) to manage reservations for multiple properties and to interface with third-party booking websites and travel agencies. Many hotels, motels, and resorts allow guests to book rooms through their **websites**, which are also important marketing tools. Hospitality companies also use computer programs to track room charges, coordinate guest services, manage employee schedules, and oversee other administrative tasks. Many establishments provide **wireless Internet access** in guest rooms and common areas.

### Sales & Marketing

Typical customers are business and leisure travelers; about 40% are **business travelers** and 60% are **tourists**. Major sales channels include lodging company websites, traditional travel agencies, and **online travel agency** (OTA) websites such as Expedia and Priceline. Hotel operators typically pay commissions of 15% to more than 20% for bookings made through OTAs, which now account for about one-third of all online hotel reservations, according to Hotel News Resource; their market share is on pace to reach 50% by 2018. Consolidation among OTAs, such as Expedia's acquisitions of Travelocity and Orbitz, is making it more difficult for hotel operators to negotiate favorable terms in their contracts with the online agencies.

Instead of trying to appeal to all travelers, hotels usually specialize in a particular **market segment** defined by price, service level, and location. Price segments range from economy to luxury. Service levels are full-service, limited service, and all-suites. Location categories include urban, suburban, airport, and resort. Large hotel chains often have several brands that operate in different or overlapping segments.

Major types of marketing include ad placements on travel websites; **social media**, email, and **mobile** marketing; keyword advertising campaigns (such as Google AdWords); magazine and newspaper ads; and **loyalty programs** that reward customers who use the same hotel or chain on repeat stays. The industry relies heavily on bookings made through online travel agencies, which have access to major proprietary reservation systems. Hotel operators may pay to promote their listings on OTAs and **metasearch** travel websites such as Kayak, which aggregate room rates from multiple services such as Booking.com (owned by Priceline) and Hotels.com (owned by Expedia). Google and TripAdvisor have also introduced features that allow users to book rooms directly within search results without having to click through to another site.

**Franchise marketing** includes national TV and print advertising, and agreements or alliances with travel agents and reservation systems, airlines, credit card companies, other corporations, and business and travel associations. For hotel operators, primary attractions of joining a franchise are name recognition and participation in the chain's national reservation system.

Generally, hotel price categories are **luxury** (more than \$200 per night); **upscale** (usually more than \$100); **midscale** (about \$60 to \$100); and **economy** (under \$60). Prices vary by region, season, and occupancy rates. Prices usually are higher in the Northeast and California, and in prime downtown areas of large cities. The average room rate is about \$115 per day.

### Finance & Regulation

Hotel industry revenue is highly seasonal, with peak seasons varying according to location. Gross margins commonly exceed 80% of net sales. The hotel business requires **high levels of investment** and is sensitive to interest rates and capital availability. Facility maintenance and redecorating are ongoing expenses that relate directly to a hotel's marketability. Computer technology and liability insurance are important expenses. Housekeeping, restaurant, and landscaping services often are outsourced. The industry is **labor-intensive**: average annual revenue per employee in the US is about \$110,000.

**Franchise agreements** allow a local hotel operator to receive name recognition, a reservation system, and programs and processes for effective hotel management. In exchange, the operator typically pays the hotel company an initial **franchise fee**, which can be about \$300 per guest room, as well as ongoing royalty fees that are calculated as a percentage of gross room revenue (about 5%, though **fees vary greatly** by franchise and category of hotel). Some franchise agreements also include royalties on food and beverage sales. Franchisees must meet certain operating and service standards.

### Regulation

Hotel and motel operations are primarily regulated by state laws and local ordinances covering food, health, and safety issues, as well as building codes, zoning laws, and business permits. The industry is also subject to federal and state

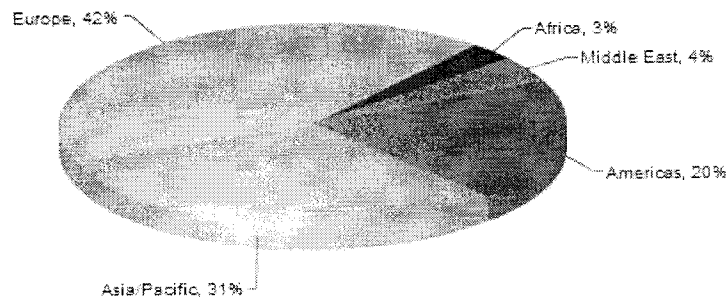
laws governing general franchises. The **government** scrutinizes the hotel industry for labor infractions, due to its history of hiring undocumented workers to fill the recurring high number of low-paying job vacancies.

### International Insights

The global hotel industry generates more than \$500 billion in revenue per year, according to Statista. The most popular travel destinations include France, the US, Spain, China, and Italy. Fast-growing international tourism markets include Japan, South Korea, India, and Mexico. **Emerging markets** are expected to drive worldwide tourism industry growth over the next 15 years, led by the Asia/Pacific region, according to the UN World Tourism Organization. Major hotel and motel companies based outside the US include Accor (France), InterContinental Hotels Group (UK), Jin Jiang Hotels (China), and NH Hotel Group (Spain).

The global tourism industry, which includes spending on accommodations, transportation, and entertainment, generates about \$1.2 trillion in sales, according to the UNWTO. Economic growth in emerging economies and increasing globalization should help the tourism industry expand by more than 3% per year through 2030. The hotel industry is mostly concentrated in markets with high numbers of tourists and business travelers. **Europe** accounts for more than 40% of the market for international tourism. Asia and the Pacific islands combine for about 30% of industry revenue, and the Americas claim about 20%. Hotels throughout the European Union provide 2.6 billion nights of accommodations annually, according to the European Commission.

International Tourism Markets, by Revenue - UN World Tourism Organization, 2013



Growth rates in traditional travel destinations such as Europe and North America are slowing while growth rates are rising more rapidly in emerging markets like **China**, which is experiencing increasing importance in the global economy. China is the fastest-growing tourism source market in the world, and the top international tourism spender since 2012, according to the UNWTO.

The increasing affluence of the **middle class** in China could mean more Chinese tourists and higher demand for services tailored to their needs. Hotels that cater to guests from China, either with signage or staff that can speak Mandarin, could be in a better position to profit from this trend. International hotel chains could also increase their **marketing efforts** in China through mass media and the Internet.

More people across the world are using the Internet to book their travel arrangements. Online reservations now account for about two-thirds of all travel bookings worldwide, according to ITB Berlin and IPK International. In Asia, the market share of online bookings was about 60% in 2014, nearly double what it was five years earlier. Consumers are increasingly making travel arrangements using **mobile devices** — analysts predict that about 35% of online travel bookings will be made on mobile platforms by 2018, according to Euromonitor. Smartphone bookings currently have a 10% market share in China, 7% in the US, and 5% in Japan. Other emerging trends in global online travel include **big data analytics** and peer-to-peer accommodation services.

### Regional Highlights

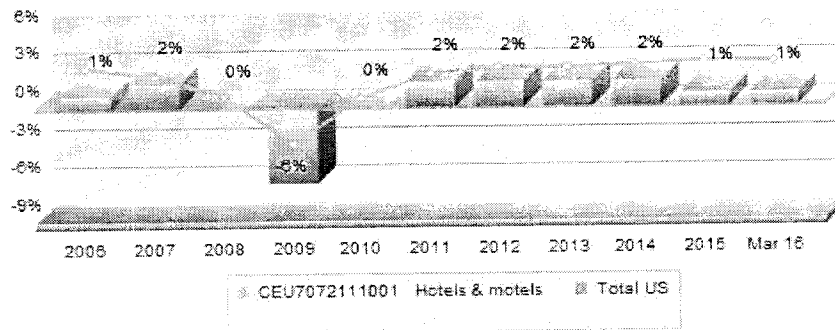
US states with the most hotels are California, Texas, and Florida, mainly due to year-round tourist attractions. About a third of hotel locations are found in suburban markets and about 30% do business in small towns, according to the American Hotel & Lodging Association. About 15% of hotel properties are located along interstate highways.

### Human Resources

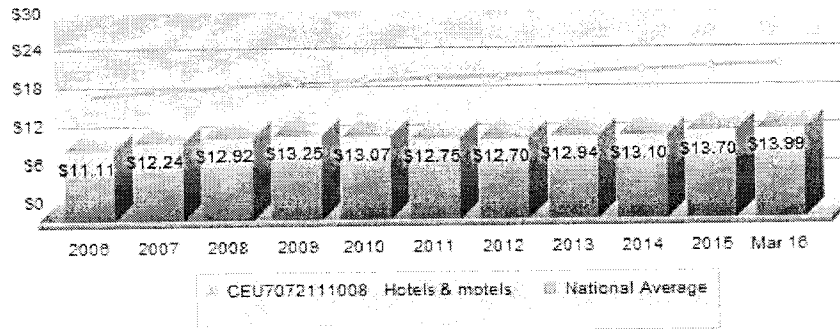
Hotel management and business degrees benefit workers in the industry's professional positions, but most hotel jobs require few special skills. Accordingly, average hourly industry wages are significantly lower than the national average. Annual personnel turnover in the hotel and restaurant industry is significantly higher than the US average due to low

wages and high ratio of part-time employees. The hotel and motel industry's injury rate is almost 70% higher than the national average. The majority of injuries are sprains and strains that result from falls. Unions are active in the industry.

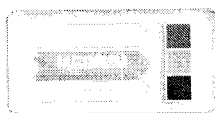
#### Industry Employment Growth Bureau of Labor Statistics



#### Average Hourly Earnings & Annual Wage Increase Bureau of Labor Statistics



#### Industry Growth Rating



Demand: Depends on business and leisure travel  
Need efficient use of low-cost labor  
Risk: Economic health impacts travel spending

#### News and Social

**SM Prime to build 8 more BPO office towers, 5 hotels** Manila Bulletin 22-May-2016

SM Prime Holdings, Inc., one of Southeast Asia's biggest integrated property developers, is planning to use the P9.91 billion proceeds of its planned bond offering to partly fund the construction of 8 office towers and five hotels. In a disclosure, SM Prime said the initial offering of P5 billion in bonds will help fund the construction of SM Clark BPO Towers, SM Sta. Rosa BPO, and

**InnVest Real Estate Investment Trust Enters into Definitive Agreement with Bluesky Hotels and Resorts** Hospitality Financial Consulting Group LLC 22-May-2016

TORONTO, May 10, 2016 (hospitalitybusinessnews.com) InnVest Real Estate Investment Trust and Bluesky Hotels and Resorts Inc., a privately-held Canadian company, are pleased to announce that they have entered into an arrangement agreement pursuant to which Bluesky will acquire all the issued and outstanding units of InnVest for \$7.25 in cash per unit, pursuant to a court-approved plan of

**Tourism crisis leads Pyramisa Hotels to close 2 hotels** Arab Finance 22-May-2016

Arab Finance: Pyramisa Hotels' (PHTV) Board of Directors was convened on May 19. BoD approved to settle all claims and disputes filed by the company and Egyptian Resorts Company (EGTS), as well as paying the remain value of purchasing Saf Hashesh land plot amounting to \$3.027 million. Moreover, BoD ratified to terminate management contract of Sharm Hotel with Egypt Bgas and

**Hotel occupancy rates plunge 32 pct in Istanbul: Association** Hurriyet Daily News 22-May-2016

Hotel occupancy rates in Istanbul dropped 32 percent in April compared to the same month of 2015, outstripping the average nationwide drop of 22 percent, a leading tourism association has said, according to Anadolu Agency. While hotel occupancy rates decreased by 22 percent to 52.2 percent across Turkey in April compared to the same month of the previous year, the rates decreased by

**Genting's Resorts World Las Vegas Gets Regulatory Approval** Casino News Daily 22-May-2016

The site of the former Stardust Resort and Casino and the failed Echelon project will now be occupied by a multi-billion-dollar powered by

## Quarterly Industry Update

### 5.2.2016

**Trend: Luxury Casino Hotels Coming to Macau** - Casino hotel operators in Macau are investing in extravagant new resorts as part of an effort to establish China's gaming hub as an international tourism hotspot. Las Vegas Sands, Wynn Resorts, and Louis XIII Holdings are completing work on three luxury hotel projects that will add almost 5,000 rooms to the world's top gambling market by the end of 2016, according to *Travel Weekly*. MGM, SJM Holdings, and Melco Crown plan to open multibillion-dollar casino hotel projects in 2017. The companies are hoping that the new properties will help them overcome a number of financial and regulatory setbacks that have caused gaming revenue in Macau to drop steadily since mid-2014. Government crackdowns on corruption and tighter restrictions on gaming promoters have contributed to a decline in visits from wealthy Chinese gamblers, and business has suffered more recently as a result of China's economic slowdown and the subsequent devaluation of the yuan. Visits to Macau fell 2.6% in 2015, and per-capita visitor spending dropped about 15%, according to the Statistics and Census Service of Macau. Hotel operators in the region are slashing prices to lure tourists back: the average room rate in the first quarter of 2016 was about \$180 per night, compared to about \$220 per night in early 2015, Bloomberg reports.

**Industry Impact** - As Macau's luxury resort market becomes more competitive and casino revenue levels off, hotel operators will be under pressure to price their rooms affordably while increasing revenue from nongaming segments such as premium amenities and services.

### 2.1.2016

**Challenge: Cyber-Attackers Target US Hotel Chains** - Major US hotel chains are increasingly being targeted by hackers attempting to steal guests' credit card numbers and other personal information. Some chains are even buying insurance policies to cover costs associated with data breaches. Since November 2015, Hyatt, Hilton, and Starwood have each reported data breaches that resulted in the theft of payment information of millions of customers, according to *The Wall Street Journal*. Hackers target hotels because security tends to be uneven from property to property. Industry consolidation is partially to blame for this: as large hotel companies offload many of their properties to outside management firms and franchisees, data security is largely left up to individual property owners due to concerns about legal liability. Hotels are also appealing targets for hackers because they often keep credit cards on file for frequent guests, and some high-end establishments also store more detailed personal information. Hotel restaurants, spas, and gift shops operated by third-party vendors are frequent targets because they tend to have more lax security measures than the hotels themselves.

**Industry Impact** - Hotel companies are moving quickly to improve network security as data breaches can negatively impact a hotel brand's reputation and may threaten relationships with important corporate customers.

### 10.26.2015

**Opportunity: Google Expands Hotel Booking Features in Search Results** - Hotel and motel operators could see significant increases in bookings made through Google now that the search giant has expanded a feature that allows users to reserve rooms directly on the search results page. "Book on Google," a component of the company's Hotel Ads program that previously appeared only on smartphone searches, was rolled out to desktop and tablet devices in summer 2015. Now, when someone searches for hotels in a particular area, Google can accept reservations and facilitate payments without sending the user to another page. Once the payment has been processed, the hotel manages confirmations and customer service. In September, Google gave its hotel partners the option to pay commissions on each booking rather than paying a fixed cost-per-click (CPC) rate, a model that can often be pricier and riskier for small and independent hotel chains, Skift.com reports. In addition to allowing users to book directly with hotels, Google's updated hotel search portal also lists results from online travel agencies (OTAs) such as Expedia and Priceline. Some hotel operators are concerned that the OTAs — which charge their own commissions on each booking — will lure away customers who otherwise would have made their reservations directly on hotel websites.

**Industry Impact** - The Book on Google feature may help hotels increase their visibility and book reservations on more favorable terms compared to the major online travel agency networks.

## 7.20.2015

**Opportunity: Hotels Welcome Fast-Growing Fitness Chains** - Hotel operators are beefing up their fitness amenities and partnering with popular fitness brands to satisfy guests who increasingly expect high-quality exercise facilities. By leasing studio space to fast-growing companies like Exhale and SoulCycle, hotels can offer better amenities without having to hire their own instructors or manage fitness center operations. These studios offer exercise programs that are most popular among women and younger travelers, which are key growth demographics for the hotel industry, *The Wall Street Journal* reports. And because the classes are typically open to the public, hotels have an opportunity to leave a positive impression on potential future guests. About 85% of properties had fitness centers or exercise rooms in 2014, compared to about 65% in 2004, according to the American Hotel & Lodging Association. Some hotel companies are developing entire brands that focus specifically on fitness and wellness: InterContinental Hotels Group recently launched a new line of properties that offer staff-led group workouts as well as in-room "fitness zones" stocked with yoga mats, exercise balls, and fitness videos.

**Industry Impact** - Hotel operators could generate additional revenue and win more business from key customer groups by upgrading their exercise facilities and partnering with popular fitness brands.

## Industry Indicators

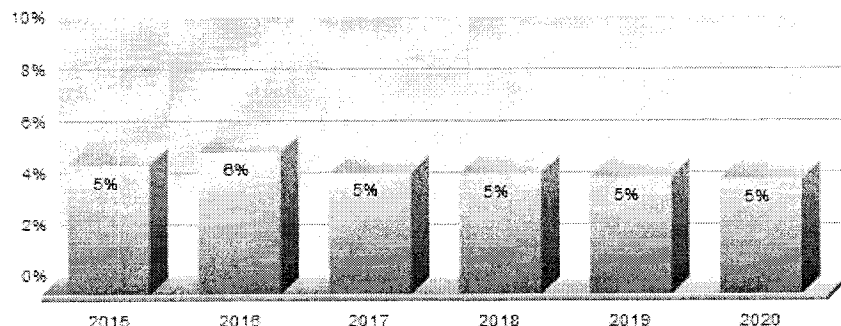
The average US retail price for diesel and regular gas, which determines how much people travel domestically on vacation or on business, fell 20.9% and 18.3%, respectively, in the week ending May 16, 2016, compared to the same week in 2015.

US personal income, which drives consumer spending on hotels and motels, rose 4.2% in March 2016 compared to the same month in 2015.

US tourism spending on traveler accommodations, an indicator for hotel and motel revenues, increased 5.9% in the fourth quarter of 2015 compared to the same period in 2014.

## Industry Forecast

Revenue (in current dollars) for US hotels is forecast to grow at an annual compounded rate of 5% between 2016 and 2020. Data Published: February 2016



First Research forecasts are based on INFORUM forecasts that are licensed from the Interindustry Economic Research Fund, Inc. (IERF) in College Park, MD. INFORUM's "interindustry-macro" approach to modeling the economy captures the links between industries and the aggregate economy. Forecast FAQs

## Industry Drivers

Changes in the economic environment that may positively or negatively affect industry growth.

Data provided by First Research analysts and reviewed annually



**Consumer Spending** Change in overall level of consumer spending on goods and services

## Critical Issues

**Demand Highly Sensitive to Personal Income, Corporate Profits** - The hotel industry is sensitive to the health of the economy, which affects the number and frequency of business and tourist travelers, the major customer segments. National personal income, employment levels, and corporate profits are key economic indicators influencing travel and hotel stays. Hotel employment and operating profits can decline faster than the national average during a recession, because hotels have high fixed costs and need relatively high demand and occupancy rates to break even.

**Dependence on Online Travel Agencies** - The hospitality industry relies heavily on bookings made through online travel agencies (OTAs), which have access to major proprietary reservation systems. Hotel operators typically pay commissions of 15% to more than 20% for bookings made through websites such as Expedia (which owns Orbitz, Travelocity, and Hotels.com) and Priceline (which owns Booking.com and Kayak). Many hotel chains are willing to pay the extra cost in order to reach the growing number of consumers who book through those services. However, rapid growth and consolidation among online agencies is making it more difficult for hotel operators to negotiate favorable terms in their contracts.

## Business Challenges

**Energy and Sustainability Costs** - Hotels face high energy costs and sustainability issues. Guests often demand green initiatives, but may not be willing to pay extra for those amenities. LEED certification, in which a building is constructed according to certain environmentally friendly standards, is also difficult for hotels, even new construction, to achieve. In offering environmentally sound services, hotels aim to preserve existing standards of quality.

**Ongoing Capital Needs for Refurbishing** - Because heavy use of hotel facilities results in rapid wear-and-tear and deterioration, hotels often need capital for repairs and refurbishing. With competition strong in most markets, hotels rapidly lose customers if their facilities appear to be rundown. Tight credit conditions can hamper access to financing.

**High Employee Turnover Affects Profits** - With a turnover rate of around 60% for low-level employees, employee attraction and retention is a top issue for the hospitality industry. Executives and general managers must balance the industry's relatively low wages with training and management-track programs, as well-trained employees increase customer satisfaction. However, hotels sometimes find they are training employees for competitors, as employees will jump from hotel to hotel for better pay.

**Pricing and Revenue Management** - Maintaining rates and managing revenues are top priorities for hotel managers. Especially during an economic downturn, or times when travel drops drastically as in the aftermath of 9/11, hotels must continue to configure pricing to reflect the market. Hotels must maintain rate integrity in the face of these market downturns, even when the inclination is to drop rates to drive reservations.

**Competition from Alternative Lodging Services** - Websites offering short-term home or guest room rentals -- such as Airbnb and HomeAway -- are beginning to draw bookings away from the hotel industry. These services have a larger impact on lower-end hotels and motels than on luxury accommodations. The industry is lobbying for local and state laws that would prohibit third-party rentals.

## Business Trends

**Acquisitions, Consolidation** - Hotel chains' marketing efficiencies drive acquisitions, and increasingly, so do REITs. REIT managers acquire companies to take them private or, conversely, to take them public; the trend goes in cycles. In times of tight capital markets or slower hotel profit growth, consolidation usually slows but doesn't stop.



**More Corporate Services** - Building on relationships with corporate travelers, hotels are providing a wider array of business services. Among the most popular are technical support for meetings, catered functions, food service, business communications, printing and copying, rewards programs, and extended-stay facilities for corporate employees. Many hotels market customized meeting packages to draw business groups and conventions. Meeting planners' demand for T1 lines, wireless Internet, and high-speed Internet access is becoming the norm.

**Extended-Stay Hotels** - The number of extended-stay rooms has been growing, in part because the properties tend to have lower guest turnover and operating costs. The segment has seen significant growth in demand, occupancy rates, and average room rates in the last five years, and those increases are expected to continue as major hotel chains expand their extended-stay brands, according to STR. Extended-stay hotels typically offer lower prices than traditional hotels, and many units have efficiency kitchens and limited housekeeping service. Some chains offer more upscale amenities.

**Green Initiatives** - The hotel industry is developing green initiatives in response to consumers' growing environmental concerns. Many hotel companies have an environmental specialist, and the American Hotel & Lodging Association has a certification program that includes inspections. Current green efforts affect the frequency of laundry operations, types of lighting, and packaging of bathroom supplies. Conservation efforts, such as washing linens only on customer request, reduce hotels' environmental impact and operating expenses.

**Boutique Hotels and Corporate Services** - Meeting and event planners, long the bread-and-butter of corporate services revenues at large hotels, are increasingly turning toward boutique hotels for their events. Although boutique hotels tend to be smaller than their chain counterparts, they are often known for their quality of service and attention to detail. Their meeting rooms tend to be less impersonal than large spaces, and often the entire property can be contracted, allowing the full staff to focus on the event.

## Industry Opportunities

**Loyalty Programs** - Hotel loyalty programs give incentives to travelers for repeat business, and provide a way for hotels to quickly accumulate information about their target market. Data gathered through loyalty programs and frequent customer visits help hotels keep their databases current for marketing. Loyalty program databases are an important hotel asset.

**Time-Share Resorts** - Rather than rent rooms or suites on a per-night basis, some hotel companies are selling them. Time-share properties function similarly to hotels, with housekeeping, services, and maintenance. Located in resort areas, time-share companies collect monthly operating fees from the rooms' owners, who may pay over \$50,000 for the right to occupy their rooms for one week each month. The resort manages rental of the rooms or suites when the owners aren't using them.

**Mobile Media and Social Networks** - With the mass adoption of smartphones and tablets, hotel operators are spending more of their marketing budgets on mobile-enabled websites and applications in order to cater to those customers. A majority of travel planning already begins online, and US smartphone penetration now exceeds 75%, according to ComScore. In addition to catering to mobile Internet users, more hotels are using social networks such as Facebook and Twitter to connect with their customers.

**Electronic Check-in** - Operators can help busy travelers avoid long waits at the hotel desk by giving customers the option of electronic check-in. Using this system, guests may be sent a room key card in advance of their stay and confirm their arrival by text message. The key card is activated electronically and the guest can go directly to their room. YOTEL, a small chain of business hotels, was one of the first hotel brands to start using electronic check-in.

**Middle East Tourism** - The hotel industry in the Middle East has been expanding rapidly in recent years. Much of that growth is concentrated in Dubai, where officials expect the average annual number of tourist visits to reach 20 million by 2020 (compared to about 10 million in 2012). The emirate plans to meet the additional demand by adding about 60,000 new hotel rooms between 2014 and 2020, according to the Dubai Corporation for Tourism and Commerce Marketing. Although Dubai is known for its luxury hotels, about half of the new rooms will be priced at mid-market rates to entice visitors with different budgets.

## Executive Insight

### Chief Executive Officer - CEO

#### Differentiating Properties

To compete effectively, hotel executives must differentiate their properties from competitors and other brands within the corporation, especially within a brand family. Two-thirds of US hotels are brand-affiliated, making differentiation essential. Many companies have properties in several segments, such as full-service, select-service, extended-stay, budget, and time-share. Differentiation typically occurs in amenities, location, and price. Executives of Marriott, Hilton, and Starwood, for example, position and market their respective properties differently in various segments.

#### Monitoring Room Rates

Maintaining rates and managing revenues amid changing market conditions are top priorities for hotel managers.

Especially during an economic downturn, hotels must continue to configure pricing to reflect the market. Hotels must maintain rate integrity in the face of market downturns, even when the inclination is to drop rates to drive reservations.

### **Chief Financial Officer - CFO**

#### **Financing Refurbishments, Renovations**

Hotel management periodically needs to modernize and refurbish their properties, due to heavy use and competitive pressures. Careful financial analysis and capital management are needed to assure that the company can recover the additional investment in a reasonable time frame. Major companies, including Marriott, set aside a reserve from operating income to cover continuous refurbishment programs.

#### **Acquisitions and Consolidation**

The hotel industry is in a continuous state of acquisition and consolidation. Hotels buy and sell properties and re-flag (brand) them. CFOs must ensure the company has sufficient capital to buy and refurbish properties or other hotel chains. Companies also sell properties that no longer fit their operating strategy.

### **Chief Information Officer - CIO**

#### **Improving Online Capabilities**

With travelers increasingly booking trips and hotel stays via third-party reservation systems, online reservation capability is paramount for hotels. Travelers expect to see hotel service descriptions, rates, and photos online. Marriott was early to invest in providing upgraded information and multiple pictures of each of its properties on its website. Many hotels give incentives for customers booking online, and a user-friendly reservation system is necessary to compete with third-party sites.

#### **Smart Cards vs. Mag-Stripe Cards**

Smart card systems are becoming the new key technology, with cards holding customer information and room preferences. Smart cards can also be used in loyalty programs and other customer retention initiatives. However, smart cards with their computer chip technology are five to ten times more expensive than mag-stripe card technology.

### **Human Resources - HR**

#### **Immigration Issues and H-2B Visa Reform**

The hospitality industry is marked by wages lower than the national average, and many hotel workers are immigrants. The human resources department must ensure that its workers are documented and legally allowed to work in the country. Most hotels support reforms to the H-2B visa program to allow more seasonal and temporary non-farm workers to work in the US.

#### **Hiring, Retaining Workers**

With the hotel industry's 60% personnel turnover rate, retaining a good workforce is a challenge. Many hotels are unionized. Management must balance wages for essentially low-skilled labor against ensuring that workers are properly trained in providing guests with appropriate customer service. To do so, they offer incentives that reward good service and quality work. Hotels may also provide transportation for their employees such as buses from a central location if public transportation is not available.

### **VP Sales/Marketing - Sales**

#### **Increasing Repeat Business**

Sales executives enhance loyalty programs to attract and keep repeat customers and to update information about the hotel's target market. Many chains aggressively market loyalty programs to business travelers and reward staff for enrolling new members. Loyalty programs give incentives to frequent customers and provide a way for management to keep databases current for marketing purposes.

#### **Using Social Media**

Social media such as Twitter, and technology such as mobile phone advertising, have become increasingly important to effective branding initiatives. Hotel marketers are using Twitter to draw tourists and locals to their hotel bars and restaurants by promoting events, free drinks, and other incentives. The advantages of social media include the ability to get the message out across multiple platforms and allow recipients to become part of the marketing effort through viral marketing.

## **Executive Conversation Starters**

### **Chief Executive Officer - CEO**

#### **What is the company's strategy for differentiating its properties?**

Differentiation typically occurs in amenities, location, and price.

#### **How does the company set room rates?**

Maintaining rates and managing revenues are top priorities for hotel managers.

**Chief Financial Officer - CFO****How does the company meet the ongoing need to refurbish and renovate facilities?**

Many hotels keep a reserve from operating income to cover continuous refurbishment programs.

**How has the company managed its acquisition strategy?**

The hotel industry is in a continuous state of acquisition and consolidation, even during downturns.

**Chief Information Officer - CIO****What plans does the company have to improve the effectiveness of its website?**

Many hotels give incentives for customers booking online, and a user-friendly reservation system is necessary to compete with third-party sites.

**What plans does the company have to update its key card technology?**

Smart cards can be used as key cards, to store customer information, and to facilitate loyalty and rewards programs. However, they are more expensive than magnetic-stripe cards.

**Human Resources - HR****Where does the company stand on immigration and H-2B visa reform?**

The hotel industry employs a large percentage of immigrants, and supports H-2B visa reforms that ease regulations governing temporary foreign workers.

**What strategies does the company use to find and retain employees in an industry with a 60% turnover rate?**

Balancing wages for low-skilled labor with the need for customer service, companies offer a variety of incentives to retain and motivate employees.

**VP Sales/Marketing - Sales****How does the company build loyalty and expand services to customers?**

Sales executives enhance loyalty programs to attract and keep repeat customers, to update marketing databases, and to better target marketing and sales efforts.

**How does the company incorporate social media into its marketing and sales efforts?**

Social media such as Twitter, and technology such as mobile phone advertising, have become increasingly important to effective branding initiatives.

**Call Prep Questions****Conversation Starters****How does the company handle ups and downs in business and leisure travel?**

The hotel industry is sensitive to the health of the economy, which affects the number and frequency of business and tourist travelers, the major customer segments.

**Which reservation systems are most important to the company's success?**

The hospitality industry relies heavily on bookings made through online travel agencies (OTAs), which have access to major proprietary reservation systems.

**What is the company's strategy to increase energy efficiency and sustainability?**

Hotels face high energy costs and sustainability issues.

**What are the key features of the company's loyalty and rewards programs?**

Hotel loyalty programs give incentives to travelers for repeat business, and provide a way for hotels to quickly accumulate information about their target market.

**How do timeshares fit into the company's strategy?**

Rather than rent rooms or suites on a per-night basis, some hotel companies are selling them.

**What is the company's mobile media and marketing strategy?**

With the mass adoption of smartphones and tablets, hotel operators are spending more of their marketing budgets on mobile-enabled websites and applications in order to cater to those customers.

**Quarterly Industry Update****How many luxury properties does the company operate, and how many are of them are located outside of the US?**

Casino hotel operators in Macau are investing in extravagant new resorts as part of an effort to establish China's gaming hub as an international tourism hotspot.

## Operations, Products, and Facilities

### How many hotels or motels does the company operate?

Large companies operate multiple hotels, but franchisees and independents often operate a single property.

### In what market segment(s) does the company operate?

Hotel market segments are defined by price, service level, and location. Prices range from budget to luxury; service levels are full-service, limited service, and all-suites; and locations include urban, suburban, airport, and resort.

### What is the age of the company's hotel(s)?

A large number of hotels have been built in the past decade. Older hotels typically require more maintenance and renovations.

### What environmental or energy conservation programs does the company have in place?

Green efforts affect the frequency of laundry operations, types of lighting, and packaging of bathroom supplies. Conservation efforts, such as washing linens only on customer request, reduce hotels' environmental impact and operating expenses.

### How do weekday and weekend demand differ for the company?

Weekday and weekend demand depends on a hotel's location and if it caters mainly to business or tourist travelers.

### What security measures does the company use? How satisfied is the company with the level of security?

Electronic locks, access-control devices, in-room safes, closed circuit TV, and security personnel are common security measures.

## Customers, Marketing, Pricing, Competition

### Does the company cater mainly to business or tourist travelers?

About 40% of the US hotel industry's customers are business travelers and 60% are tourists.

### How important are conventions and other groups to the company's revenue?

Many hotels market customized meeting packages to draw business groups and conventions.

### How dependent is the company on bookings from national reservation systems?

Access to one of several large computer reservation systems is critical to the success of most hotels, as a vast majority of bookings is through the large systems.

### How important is the local market to the company's business?

Many hotels host local events and business meetings.

### Does the company market regionally or nationally?

Chains and resort hotels have national marketing programs.

### What types of promotions or incentives does the company use?

Hotels offer incentives to loyalty program members and run special promotions during off-season and other times when occupancy rates are low.

### How does the company attract customers to its loyalty programs?

Hotels use customer databases to create marketing programs that encourage repeat customers.

### What hotels are major competitors to the company?

Most markets have a large number of competitors in their price range.

### How are pricing decisions made?

Managers often change prices according to demand.

## Regulations, R&D, Imports and Exports

### What concerns does the company have about regulation regarding undocumented workers?

The government scrutinizes the hotel industry for labor infractions, due to its history of hiring undocumented workers to fill the recurring high number of low-paying job vacancies.

### What challenges exist in meeting health and food safety regulations?

Hotels that serve food must meet a variety of health regulations that can vary according to local ordinances.

### How does the company ensure safety regulatory compliance?

Management oversight and employee training help ensure regulatory compliance.

### How dependent is the company on demand from foreign travelers?

Demand from foreign travelers can fluctuate with currency exchange rates.

## Organization and Management

### To what extent does the company cross-train staff to perform multiple job functions?

Cross-training helps some hotels improve productivity and compensate for job vacancies.

**Is security performed by in-house staff or is it outsourced?**

At larger hotels, the security department is often in-house, while smaller properties usually have one or two staff trained in security, a contract security company, or both.

**If the company has several hotels, how much decision autonomy do local managers have?**

Chains and franchisees establish standards for marketing and pricing, but allow property managers to make decisions within set parameters.

**Does the company own its hotels, manage hotels for others, or lease hotels from others?**

All three business models are common.

**Financial Analysis****How satisfied is the company with its profitability in recent years?**

The profitability of individual companies depends on efficient operations, because many costs are fixed, and on effective marketing.

**What is the typical occupancy rate at the company's hotels?**

Occupancy rates vary widely by type of hotel and market. The industry average is about 60%.

**What is the typical average daily room rate (ADR) at the company's hotels?**

ADRs vary widely depending on location, season, and hotel type.

**Is the company a franchiser or franchisee?**

The majority of US hotels are affiliated with regional or national chains.

**If the company is a franchisee, what annual fees does the company pay the franchiser?**

Typical franchise fees are about \$300 per guest room, plus about 5% of gross room revenue.

**Business and Technology Strategies****What is the company's outlook for growth in its markets?**

Economic and personal income growth affect the level of business and tourist travel.

**What is the company's view of the long-term effect of air travel costs on business travel?**

Better electronic communication and meeting technologies provide businesses with alternatives to air travel.

**What plans does the company have for expansion?**

Hotels apply successful hotel concepts to additional markets.

**Does the company have foreign operations?**

Many of the large chains own, manage, or franchise foreign hotels.

**If the company is an independent, is it considering affiliation with a national chain?**

Independents converting to national chains is common.

**How might expanding green initiatives affect company operations?**

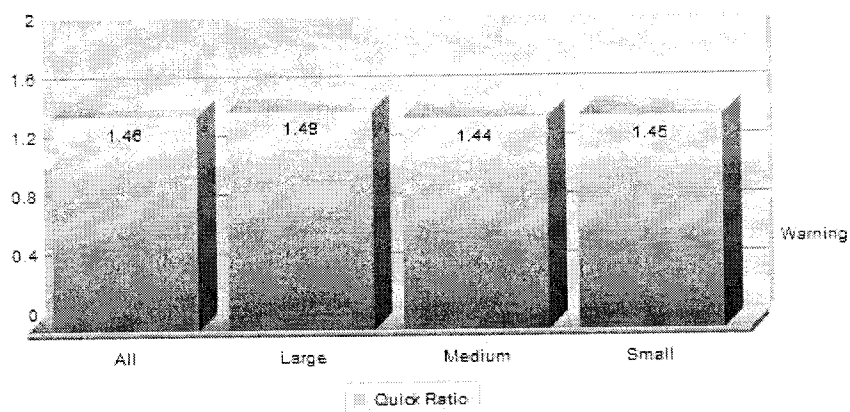
Green initiatives and conservation efforts reduce hotels' environmental impact and operating expenses.

**What plans does the company have to improve its website and online capabilities?**

Hotel websites with reservations capability have become major marketing and sales tools.

**Financial Information****COMPANY BENCHMARK TRENDS****Quick Ratio by Company Size**

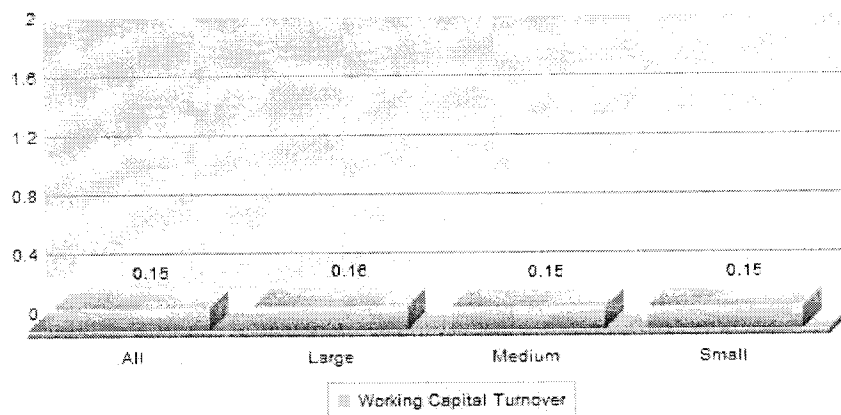
The quick ratio, also known as the acid test ratio, measures a company's ability to meet short-term obligations with liquid assets. The higher the ratio, the better; a number below 1 signals financial distress. Use the quick ratio to determine if companies in an industry are typically able to pay off their current liabilities.



Financial industry data provided by MicroBilt Corporation collected from 32 different data sources and represents financial performance of over 4.5 million privately held businesses and detailed industry financial benchmarks of companies in over 900 industries (SIC and NAICS). More data available by subscription or single report purchase at [www.microbilt.com/firstresearch](http://www.microbilt.com/firstresearch).

#### Working Capital Turnover by Company Size

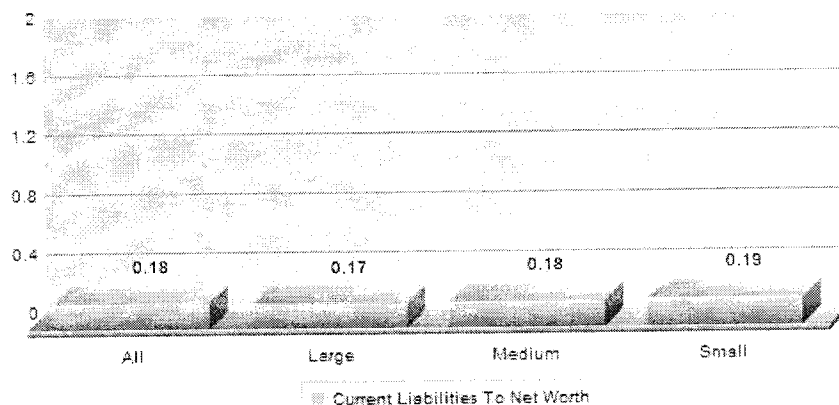
The working capital turnover ratio, also known as working capital to sales, is a measure of how efficiently a company uses its capital to generate sales. Companies should be compared to others in their industry.



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#### Current Liabilities to Net Worth by Company Size

The ratio of current liabilities to net worth, also called current liabilities to equity, indicates the amount due creditors within a year as a percentage of stockholders' equity in a company. A high ratio (above 80 percent) can indicate trouble.



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### COMPANY BENCHMARK INFORMATION

NAICS: 72111

Data Period: 2014

Last Update April 2016

Table Data Format

Mean

Company Size	All	Large	Medium	Small
Size by Revenue		Over \$50M	\$5M - \$50M	Under \$5M
Company Count	34868	81	1136	33651

#### Income Statement

Net Sales	100%	100%	100%	100%
Gross Margin	84.6%	84.9%	84.0%	84.7%
Officer Compensation	1.4%	1.0%	1.0%	2.3%
Advertising & Sales	2.3%	2.4%	2.3%	2.2%
Other Operating Expenses	74.9%	75.3%	74.9%	74.4%
Operating Expenses	78.6%	78.6%	78.2%	78.9%
Operating Income	6.0%	6.2%	5.8%	5.8%
Net Income	1.2%	1.4%	1.2%	1.1%

#### Balance Sheet

Cash	6.7%	6.7%	6.7%	6.8%
Accounts Receivable	3.9%	4.1%	4.0%	3.7%
Inventory	0.9%	0.9%	0.9%	0.9%
Total Current Assets	16.4%	16.6%	16.4%	16.1%
Property, Plant & Equipment	67.1%	66.2%	67.4%	67.9%
Other Non-Current Assets	16.5%	17.2%	16.1%	16.0%

<b>Total Assets</b>	100.0%	100.0%	100.0%	100.0%
<b>Accounts Payable</b>	1.6%	1.6%	1.7%	1.6%
<b>Total Current Liabilities</b>	8.2%	8.2%	8.3%	8.1%
<b>Total Long Term Liabilities</b>	45.6%	43.0%	46.1%	48.5%
<b>Net Worth</b>	46.2%	48.8%	45.6%	43.4%

## Financial Ratios

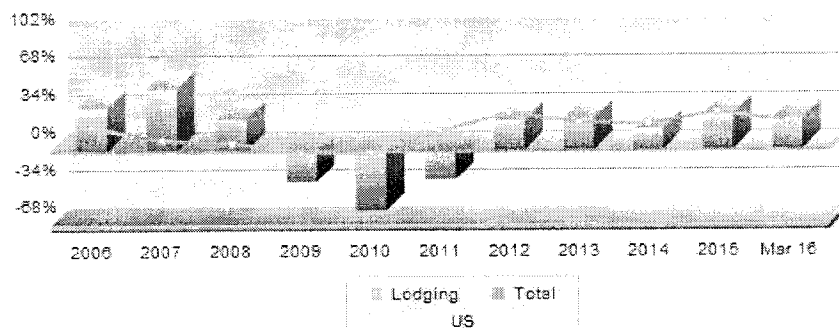
(Click on any ratio for comprehensive definitions)

<b>Quick Ratio</b>	1.46	1.49	1.44	1.45
<b>Current Ratio</b>	2.00	2.04	1.98	1.98
<b>Current Liabilities to Net Worth</b>	17.7%	16.7%	18.2%	18.7%
<b>Current Liabilities to Inventory</b>	x8.99	x8.68	x9.54	x9.12
<b>Total Debt to Net Worth</b>	x1.17	x1.05	x1.19	x1.30
<b>Fixed Assets to Net Worth</b>	x1.45	x1.36	x1.48	x1.57
<b>Days Accounts Receivable</b>	27	27	27	26
<b>Inventory Turnover</b>	x9.07	x8.68	x9.93	x8.96
<b>Total Assets to Sales</b>	187.6%	186.3%	185.3%	191.2%
<b>Working Capital to Sales</b>	15.4%	15.8%	15.1%	15.2%
<b>Accounts Payable to Sales</b>	3.0%	3.0%	3.1%	3.1%
<b>Pre-Tax Return on Sales</b>	2.0%	2.3%	1.9%	1.7%
<b>Pre-Tax Return on Assets</b>	1.1%	1.2%	1.0%	0.9%
<b>Pre-Tax Return on Net Worth</b>	2.3%	2.5%	2.2%	2.1%
<b>Interest Coverage</b>	x1.28	x1.33	x1.28	x1.23
<b>EBITDA to Sales</b>	14.7%	14.5%	14.7%	14.9%
<b>Capital Expenditures to Sales</b>	10.2%	9.5%	10.7%	10.7%

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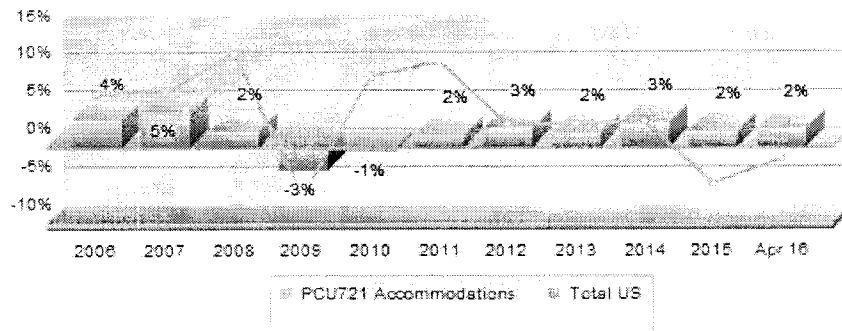
## ECONOMIC STATISTICS AND INFORMATION

## Annual Construction Put into Place - Census Bureau





Change in Producer Prices - Bureau of Labor Statistics



## VALUATION MULTIPLES

### Hotels, Motels & Resorts

Acquisition multiples below are calculated using at least 10 US private, middle-market (valued at less than \$1 billion) industry asset transactions completed between 1/2006 and 1/2015. Data updated annually. Last updated: November 2015.

Valuation Multiple	MVIC/Net Sales	MVIC/Gross Profit	MVIC/EBIT	MVIC/EBITDA
Median Value	0.3	0.5	1.9	1.7

**MVIC (Market Value of Invested Capital)** = Also known as the selling price, the MVIC is the total consideration paid to the seller and includes any cash, notes and/or securities that were used as a form of payment plus any interest-bearing liabilities assumed by the buyer.

**Net Sales** = Annual Gross Sales, net of returns and discounts allowed, if any.

**Gross Profit** = Net Sales - Cost of Goods Sold

**EBIT** = Operating Profit

**EBITDA** = Operating Profit + Noncash Charges



SOURCE: Pratt's Stats, 2014 (Portland, OR: Business Valuation Resources, LLC). Used with permission. Pratt's Stats is available at <http://www.bvresources.com/prattsstats>

## Industry Websites

### Alberta Hotel & Lodging Association (Canada)

News, publications, events, FAQs, and links.

### American Hotel & Lodging Association

News, statistics, publications, newsletters.

### Cornell University School of Hotel Administration

Industry news, in-depth articles on hotel and restaurant management.

### Hospitality Net

Industry news, supplier news and list, events, links.

### Hospitality Trends

Industry, management, technology news; market research.

### Hotel Association of Canada

News, FAQs, events, and links.

### Hotel Interactive

News, articles

**Hotel Management**

News, articles. List of top hotel companies.

**Hotel News Now**

Lodging industry news, trends, and market data.

**HVS Hotel Management**

Articles on hotel management.

**Lodging Magazine**

News, trends, statistics, publications.

**National Real Estate Investor**

Articles for hotel developers and operators.

**STR Global**

News searchable by state; industry glossary.

**Glossary of Acronyms**

**ADR** - average daily rate

**AHMA** - American Hotel and Motel Association

**CRS** - central reservation system

**OTA** - online travel agency

**RevPAR** - revenue per available room

**UNWTO** - United Nations World Travel Organization