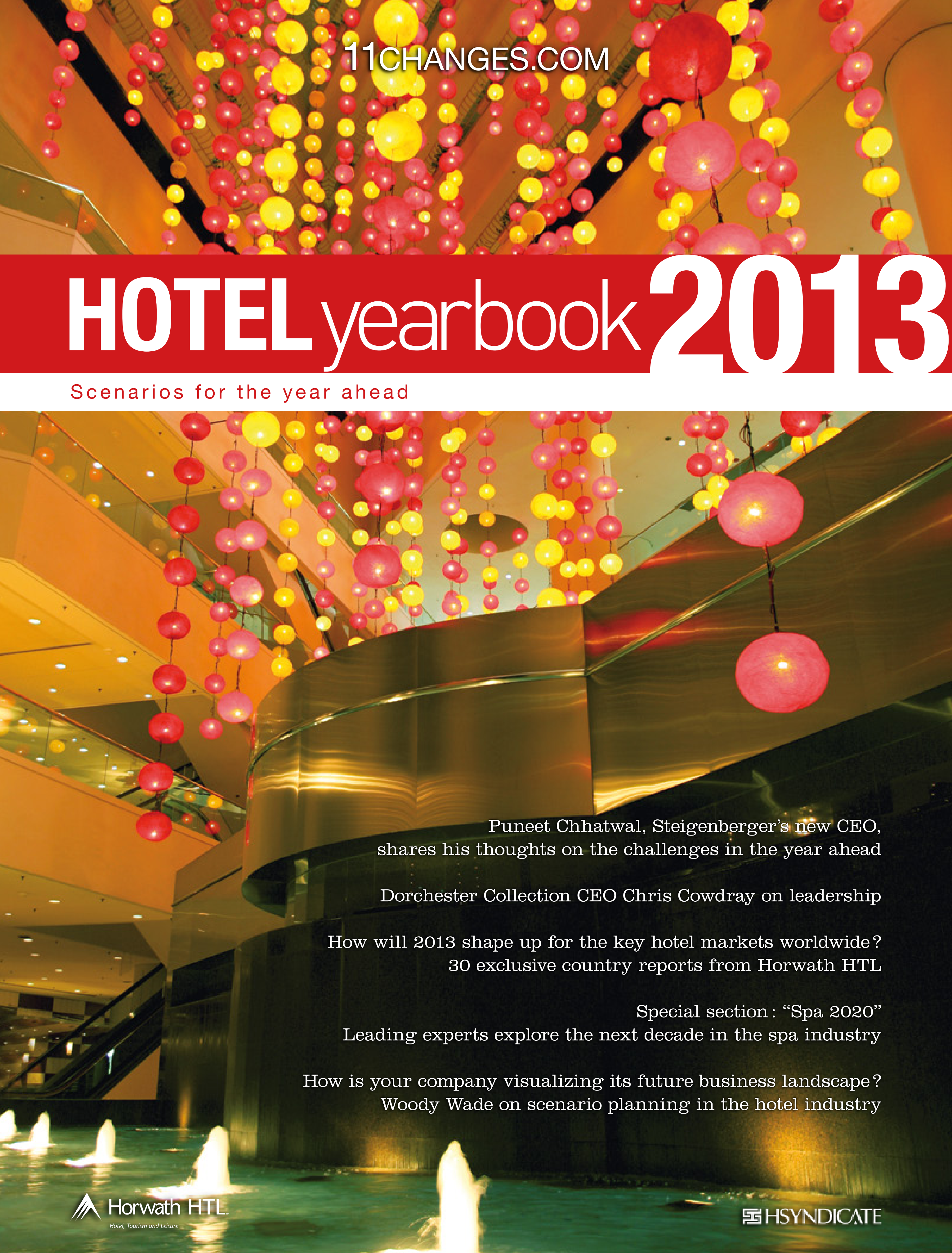

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HOTEL yearbook 2013

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This excerpt from the Hotel Yearbook 2013 is brought to you by :

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Wade & Company is a Lausanne-based consultancy that helps senior managers in the hospitality industry better understand how their future "business landscape" could change, affecting their competitiveness and creating new opportunities and challenges. Its scenario planning workshops give management teams a creative yet structured approach for envisaging alternative ways their future operating environment could realistically unfold over the next few years, depending on how current uncertainties develop. With these eye-opening insights, Wade & Company's clients can maximize the flexibility of their strategic plans and be better prepared for whatever future dies arise. More info is at www.11changes.com.

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Size matters

IN 2013, SIZE WILL MATTER EVEN MORE FOR HOTEL CHAINS, WRITES **NICOLAS GRAF** OF FRANCE'S **ESSEC BUSINESS SCHOOL.** *THE HOTEL YEARBOOK* ASKED HIM TO EXPLAIN WHY, AND HOW HE EXPECTS THE HOTEL CHAINS WILL ACHIEVE IT.

HOTEL CHAINS NEED TO GROW, AND THEY NEED TO GROW FAST

As this is being written, the advertising budget of the largest Online Travel Agency (OTA) by market capitalization – Priceline.com – is over $900 million, representing half of the gross profit of the largest hotel company (by market cap), Marriott International. The gross booking revenue of Priceline in 2011 was $21.7 billion compared to $12.3 billion for Marriott. While this is already scary, more terrifying is the number of participating hotels Priceline.com possesses in its online inventory: 235,000 vs. 3,718 for Marriott, or 4,480 for InterContinental Hotel Group (IHG). Because breadth of choice is one of the key features to attract consumers to online booking sites, and since booking costs represent 10 % to 25 % of room revenue, the battle for online market space is paramount for hoteliers. Are they ready for a fight? Not just yet. What they need is size, and they need it fast. Here are three growth engines that I believe will define 2013.

1) FIT FOR CONVERSIONS

The first engine of growth in the year(s) to come will be about conversions in mature markets. While fast-growing markets such as Asia-Pacific and Latin America will continue to attract most hotel companies and will remain the markets with the largest pipelines, North America and Western Europe will experience an increasingly intense race for conversions.

Although we have witnessed several years of independent-to-brand conversions, in the coming year(s), we will see many more brand-to-brand conversions. Several hotel companies have already signaled their intents with the adoption of conversion-friendly brands, including Starwood Hotels & Resorts Worldwide with Aloft®, Even™ Hotels by IHG, or Ibis Styles by Accor.

I can see at least two reasons for speeding-up conversions in mature markets. First, emerging markets are not growing fast enough to cope with the need for size for hotel chains. Second, in the fight with OTAs, increasing market share in mature markets can provide chains with more bargaining power as they could control a significant share of the entire supply in a region. In this way, chains could compete in size with OTAs in a specific region since they cannot yet compete on a global scale.

M&A – WHEN LIQUIDITY PERMITS

The second growth engine will involve Mergers and Acquisitions (M&A). This engine has already warmed up this year. For instance, Accor acquired two medium-sized companies, Mirvac in Australia and Grupo Possadas in Latin America. In October 2012, Indian Hotels of Tata Group made a bid to take over Orient-Express. Over the past summer, the super-sized merger of Marriott International with IHG was rumored and Marriott's CEO had to deny the story by saying they were already happy with the acquisition of Gaylord Entertainment Company's hotel brand and management company.

The typical drivers of merger waves are well known. First, an industry entering a wave of mergers is typically experiencing a slowing rate of growth which results in a need for consolidation to gain economies of scale and scope. While growth outlooks in emerging markets exist, it is clearly not sufficient for companies the size of Marriott, Hilton or Accor, who would need to add between 40,000 to 60,000 rooms each year to sustain double-digit growth (without considering the compounding effect).

Secondly, merger waves are usually triggered by the emergence of a disruptive technology that shocks an industry and ushers it into a new environment. For over 10 years now, the industry has struggled with third-party internet booking sites. At first, the industry was in denial and failed to commit sufficient resources to the technology. As discussed earlier, OTAs were quick to establish a dominant position in the market space, to a point that currently prevents hotel companies from gaining sufficient size by simple organic growth.

Third, mergers are also generally associated with times when liquidity is there and when financing is available. My argument here is that, while liquidity is not high by historical standards, the depressed levels from which we are emerging have prevented M&A activities, and the little improvements in liquidity we are witnessing will be sufficient to unleash appetites

for larger acquisitions. Hence, as all of the ingredients are coming together, I would not be surprised if a very large merger occurred in 2013, possibly joining major hotel companies such as IHG, Accor, Marriott or Wyndham.

WHITE LABELING TO SPEED-UP SIZE OF INVENTORY

The third prediction for 2013 is the emergence of what I call "white labeling" (for lack of a better term) of Internet booking engines by hotel companies. By this, I mean the sale of the hotel chains' own booking engine capabilities to independent hotels. In other words, I believe hotel companies will start to enroll independent hotels in their own systems, and sell their room inventory through a "white label" website. This is in a way very similar to what Marriott is offering with the Autograph collection, or what Best Western has been doing for years.

There are two main reasons to justify such a move. First, to compete with the advertising budgets of the OTAs, hotel companies must significantly and quickly increase their sales volume. If you imagine that a major hotel company, generating 6 billion Euros in yearly sales (about 300,000 hotel rooms, at 65 % occupancy and an ADR of 85 Euros), dedicating 5 % of total revenue to online advertising, it would only provide €300 million in budget. This is about one third of the budget of the major OTAs. Hence, the hotel chain would have to triple its room inventory to compete on a leveled playing field. Apart from gaining such a size by merging three major chains such as IHG, Marriott and Accor, the only other option I can think of to reach such a gigantic size is enrolling independents.

The second reason lies in the attractiveness of the chains' websites and booking engines. As breadth of choice is critical to drive consumers' preference, adding more choices through enrolling independents would not only benefit the volume of sales, but it would likely result in higher consumer preference for the entire system, thereby providing a positive network effect for existing branded properties.

THE FUTURE IS ABOUT MUCH MORE GROWTH AND MUCH FASTER

While growth has been on the agenda of all large multi-brand hotel chains for a long time, what is different in the year(s) to come is the need for much more growth – and much faster growth. Will the three growth engines run at full speed next year? Maybe not. The battle for the online market space started years ago, and the OTAs are dominant. Yet the industry finally seems to be ripe for striking back – but it will require significant consolidation. ■

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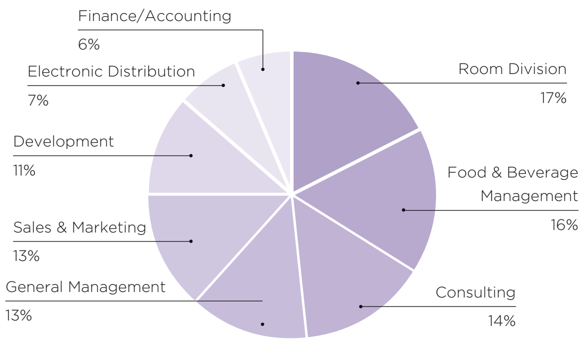

2011 MBA Hospitality Management (IMHI) Graduates by company type