

# An Analysis of the Hotel/Lodging Industry

An industry can be defined as a group of companies producing products and services that satisfy a need, function, and use. Industry can narrowly be defined as a group of companies producing products and services which are close substitutes for each other. Hotel/Lodging is a part of a larger hospitality industry that relies heavily on the availability of leisure time and disposable income.

## Porter's Five Forces Analysis

**Competitive forces** of an industry will influence prices, costs and investment. The feasibility and potential profitability of a hotel can be determined by answering analyzing five forces. These five forces are threat of new entrants into the industry, power of suppliers, power of buyers, threat of substitute products or services, and intensity of existing competitors.

As it pertains to Hotel/Lodging, business is largely influenced by travel and tourism trends. It is very possible for someone or a group of people to enter into the industry in a rather "low-key" way by opening a small independent hotel or motel, though that investment is capital intensive. For a larger scale entrance, upfront investment in buildings, décor, furnishings, infrastructure, and staff is expensive. Regulations and buying real estate in different countries can be restrictive in some places. Also, purchasing or leasing, and then the management of property, may involve legal and financial complexities, making spending on professional services very necessary. Overall, the likelihood of new entrants is **moderate**.

Suppliers in this industry are property owners, developers, real estate companies, interior design and furnishing companies, architects, consultants, marketing companies, management and training services, as well as information and computer technology. Real estate companies will mostly be local smaller companies, which reduces their financial muscle and overall bargaining ability. Furthermore, hotels can integrate backwards and operate their own real estate business. The industry is labor intensive and really depends on the quality and availability of supplier services and equipment, therefore staff costs are significant. Overall, supplier power is **moderate**.

Hotel patrons are not as fickle as one may think. In the age of the Kayak's, Travelocity's, and Hotels.com, buyers are extremely loyal to, and aware of brand recognition. Also, when we couple the above mentioned services with high reliance on sophisticated technology and

systems, and the growing importance of mobile communication channels, supplier power may be even higher, but buyer power is relatively **low**.

The hotel industry in all major cities is not threatened by substitute products except that in time of recessions, where domestic travel might replace overseas or international travel, and certain less expensive destinations may replace more desirable locations on the grounds of cost. There is no major threat of substitute products specific to a hotel's product and service; threat of substitutes is very **low**.

Many providers in this industry means increased competition. Especially for independent operators. Many large operators are fairly well guarded from unpredictable market conditions because of geographical diversification. Larger operators have diversified to separate themselves from competitors by owning additional businesses such as casinos, restaurants, and shops. Other operators try to offer more and more complex packages and value-added services, such as free breakfast and parking, free third night, etc. There are also major hotel chains that cater to the more conscientious consumer who demands eco-friendly practices, social responsibility, and affordability. Overall, after analyzing the number of players in this industry, as well the diversity of services provided, intensity of existing competitors is **moderate**.

## Trends & Storylines

The sharing economy is influencing the market, and it will continue to grow. Airbnb is a simple idea that has had huge implications. More companies are expected to enter the sharing economy and compete for market share, but also expect the existing Hotel/Lodging brands to take a piece of the sharing economy when they can.

The economic impact of social shocks is undeniable, and has been more relevant more now than in recent memory. At the end of November, the French government estimated Paris had lost more than 2 Billion Euros as a direct result of the attack at the Bataclan Theatre. \$57.1 million a day was lost as a result of the Brussels attacks and lockdowns that followed. Global hotel brands with property in these areas were negatively affected.

- Continued evolution of hospitality software and consumer-facing technology that will influence purchase behavior.
- Marriott's acquisition of Starwood is finally approved by shareholders, consolidating the companies, creating the world's largest hotel operator, and making it easier to compete with Airbnb

