CHAPTER 1

The Traditional Hotel Industry

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Hotels have their origins in the cultures of ancient societies. But the word “hotel” didn’t appear until the 18th century. It came from the French hôtel, large house, and originated in the Latin roots hospitium or hospes. Hospitality, hostile and hotels are all related words. The difficulty of identifying early travelers as friends or foes probably accounts for the conflict in meanings. Friendly travelers found security and accommodations through the hospitality of their hosts. As the number of travelers increased, personal courtesy gave way to commercial enterprise. The hotel was born carrying with it a culture of hospitality.

UNDERSTANDING THE HOTEL BUSINESS

The Service Culture

The hotel industry grew and flourished through the centuries by adapting to the changing social, business and economic environment that marked human progress. During modern times, these stages have been labeled for easy reference. The 18th century was the agricultural age; the 19th, the industrial age. The 20th century has been the age of service. The sale of services, such as medicine, banking, education and hotelkeeping, has outpaced the manufacture and distribution of goods. The 21st century has opened with that same service culture even as it launches what is likely to be the age of technology.

A Cyclical Industry

Hotelkeeping is a cyclical industry that closely follows the nation’s economic phases. Wide swings carry the hotel business between peaks of exceptional profits and troughs of outright distress. Unfortunately, the industry both lags the general recovery and precedes the start of the decline.

This rollercoaster has been very evident over the past half century. The entire travel industry, including innkeeping, was brought to its knees by the oil embargo of 1973. Hundreds of hotels’1 went through bankruptcy. Then came recovery. A decade later, the early 1980s, saw a second collapse when the federal government changed the income tax laws on real estate. That debacle took down many banks as well. (Remember: Hotels are pieces of real estate above all else, and real estate is the basis of bank loans.) Recovery followed once again. A dozen years later, late 1990s, hotel profits began to appear. Just as the recovery was consolidating came the tragedy of the World Trade Center (2001). Travel and tourism bottomed out again. Recovery was faster this time. About 100,000 new rooms were announced in 2005 alone. The 2004–2008 period has been one of great prosperity. Rising oil costs beginning in 2005 laid the groundwork for another scenario reminiscent of 1973. Equally devastating has been the industry’s rush to build.

Hoteliers stop building during the downturns. Three years is the typical span between planning and opening a hotel, even longer if there are special financing, zoning, or environmental issues. Over half of the projects are never built and those that are often have fewer rooms than announced. Hotel occupancy and profits boom before the competition revs up new properties. So new rooms usually come on as the cycle peaks. That increased inventory accelerates the next downward dip. Supply and demand play their traditional roles in hotel economics, as they do for general business. Overbuilding, excess supply, exaggerates the downturns far, far more often than does insufficient demand, fewer customers.

1In Australia, hotel means a bar or pub; on the subcontinent, it means a restaurant.
How Hotels Count and Measure

New hotels and hotel rooms are built at the cyclical peaks. Old hotels and old rooms are removed in the troughs. One can never say for certain, therefore, how many hotel buildings or hotel rooms are available for sale at a given time. Governmental agencies (Bureau of the Census), trade associations (American Hotel & Lodging Association, AH&LA) and private firms (Smith Travel Research) count, track, and report the statistics. Other interested parties include the World Tourism Organization (WTO) of the United Nations, the International Hotel and Restaurant Association (IH&RA), and several accounting/consulting firms (such as PricewaterhouseCoopers and PKF Consulting). As one would expect from such a dynamic industry and so diverse a group of reporters, none of the figures agree exactly.

The Bureau of the Census counts once every decade and then takes several years to report. By then, the dynamic industry has produced many more offspring. Estimates today suggest that there are approximately 65,000 hotels in the United States with some 5,500,000 hotel rooms. Averaging, the typical hotel has some 85 rooms. Industry professionals value hotels on a per-room cost, either the cost per room to build or the resale price per room—sometimes expressed as a per-key cost. Valuing each room at, say, $250,000, the worth of U.S. hotel properties is about $1 trillion. In “good times,” that investment produces industry profits in the range of $20-25 billion on total revenues of $120 billion.

Exhibit 1-1 illustrates what is apparent. Despite the swings, the industry continues to grow in size and importance.

Worldwide, there are an estimated 12,000,000 hotel rooms. Traditionally, Europe’s 3,000,000 rooms—Italy leads, with nearly half—and the United State’s ±5,000,000 rooms have accounted for some two-thirds of the total count. Rapid growth in developing Asia and the subcontinent as well as the rebirth of the Japanese economy are certain to change those percentages over the next decade.

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### The Hotel Industry: A Quarter Century of Growth

<table>
<thead>
<tr>
<th>Cisco Edition</th>
<th>Date Published</th>
<th>Estimated Number of Hotels</th>
<th>Estimated Number of Rooms</th>
</tr>
</thead>
<tbody>
<tr>
<td>8th</td>
<td>Current</td>
<td>58,000</td>
<td>4.8 million</td>
</tr>
<tr>
<td>7th</td>
<td>2005</td>
<td>56,200</td>
<td>3.5 million</td>
</tr>
<tr>
<td>6th</td>
<td>2000</td>
<td>48,000</td>
<td>3.1 million</td>
</tr>
<tr>
<td>5th</td>
<td>1995</td>
<td>40,424</td>
<td>2.9 million</td>
</tr>
<tr>
<td>4th</td>
<td>1988&lt;sup&gt;b&lt;/sup&gt;</td>
<td>27,000</td>
<td>2.8 million</td>
</tr>
<tr>
<td>3rd</td>
<td>1985&lt;sup&gt;b&lt;/sup&gt;</td>
<td>N/A</td>
<td>2.7 million</td>
</tr>
</tbody>
</table>

<sup>a</sup> Figures lag because the publication date may be 1–2 years after the authors researched and prepared the text.

<sup>b</sup> Source is Smith Travel Research, because this data was not included in the 3rd and 4th editions.

<sup>c</sup> Despite the huge growth in both hotels and rooms, the typical hotel still averages about 100 rooms.

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Exhibit 1–1 The lodging industry continues to grow in size and economic impact. It gains momentum at the top of economic cycles such as that of 2005–2008. Smith Travel Research reported total industry revenues for 2005 of $123 billion with profits of $23 billion. (Wall Street Journal, June 5, 2006, p. B7.)

<sup>2</sup>Facts about the lodging industry are reported in the SC Series.

<sup>3</sup>All-suite properties of 125 rooms or so cost about $120,000 per key.
Occupancy. Occupancy measures the economic health of the hotel industry. It reflects both supply and demand. An improving business environment encourages new construction. Falling demand seals the fate of old hotels. Worn-out rooms are kept in place only during boom periods, when there is a room shortage. They fall to the wrecker's ball or are converted when they are competitive no longer. Historically, many were renovated into dormitory rooms. Today, condo conversion is the hot move because residential rental values have overheated. There is more value in luxury residential units than in luxury hotel units. The conversion of New York’s world-famous Plaza Hotel pays witness to the contrast.

At any given time, the number of rooms available for sale reflects the mathematics of the old and the new (see Exhibit 1–2).

During the upward cycle, more guests are buying, but fewer rooms are available. It's just the opposite in a downward cycle: fewer buyers and more rooms. Customer demand is measured by the number of rooms occupied, also called the number of rooms sold. This information is counted every night by every hotel.

Although the number of rooms in the world is an estimate at best, hotel managers know accurately the number in their own hotels. Whether for the world, the nation, the region or the individual hotel, that number is called the number of rooms available for sale.

The relationship (or ratio) between the number of rooms sold (demand) and the number of rooms available (supply) is a barometer of the property’s health. It is a closely watched value that asks, “What is our share of the market? How well did we

<table>
<thead>
<tr>
<th>Year</th>
<th>2005&lt;sup&gt;b&lt;/sup&gt;</th>
<th>2006&lt;sup&gt;b&lt;/sup&gt;</th>
<th>2007&lt;sup&gt;b&lt;/sup&gt;</th>
<th>2008&lt;sup&gt;b&lt;/sup&gt;</th>
<th>2009&lt;sup&gt;b&lt;/sup&gt;</th>
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<tbody>
<tr>
<td>Rooms available at start of year (last year’s close)</td>
<td>4,355</td>
<td>4,400</td>
<td>4,500</td>
<td>4,600</td>
<td>4,725</td>
</tr>
<tr>
<td>Plus rooms completed</td>
<td>70</td>
<td>110</td>
<td>130</td>
<td>150</td>
<td>95</td>
</tr>
<tr>
<td>Total</td>
<td>4,425</td>
<td>4,510</td>
<td>4,630</td>
<td>4,750</td>
<td>4,820</td>
</tr>
<tr>
<td>Less rooms removed</td>
<td>25&lt;sup&gt;c&lt;/sup&gt;</td>
<td>10&lt;sup&gt;d&lt;/sup&gt;</td>
<td>30&lt;sup&gt;d&lt;/sup&gt;</td>
<td>25&lt;sup&gt;d&lt;/sup&gt;</td>
<td>20&lt;sup&gt;d&lt;/sup&gt;</td>
</tr>
<tr>
<td>Rooms available (Next year’s start)</td>
<td>4,400</td>
<td>4,500</td>
<td>4,600</td>
<td>4,725</td>
<td>4,800</td>
</tr>
</tbody>
</table>

<sup>a</sup> In thousands, add 000 to each figure.
<sup>b</sup> Figures are hypothetical based on historical averages, but represent the largest numbers ever recorded for the hotel industry.
<sup>c</sup> Some 42,000 rooms were lost to Hurricane Katrina along the Gulf Coast during the summer of 2005; some reopened before the year was out. In 2001, New York City lost rooms following the attack on the World Trade Center.
<sup>d</sup> Usually, fewer rooms are removed during “good times”; these estimates include conversions from guest rooms to condos.

Exhibit 1–2 The number of rooms available for sale is the net of available rooms at the start of the year (last year’s closing number) plus and minus rooms added and lost this year. The figure obtained (number of rooms available for sale) is the denominator of the fraction used to compute the national percentage of occupancy (number of rooms sold nationwide ÷ number of rooms available for sale nationwide).
sell rooms relative to the number of rooms that could have been sold?” That big
mouthful has a shortcut called the percentage of occupancy, or occupancy percentage
or, simply, occupancy.

The occupancy calculation is a simple division. The number of rooms available for
sale is divided into the number of rooms sold (see Exhibit 1–3):

\[
\text{percentage of occupancy} = \frac{\text{number of rooms sold}}{\text{number of rooms available for sale}}
\]

Occupancy can be computed by one hotel for one night, one month or one year.
Citywide occupancy, regional occupancy (the Northeast, for example), or national

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<table>
<thead>
<tr>
<th>Given</th>
<th>800</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of rooms in the hotel available for sale</td>
<td></td>
</tr>
<tr>
<td>Number of rooms in the hotel</td>
<td>820</td>
</tr>
<tr>
<td>Number of rooms sold to guests</td>
<td>600</td>
</tr>
<tr>
<td>Number of dollars received from guests for rooms</td>
<td>$48,000</td>
</tr>
<tr>
<td>Number of employees on staff</td>
<td>500</td>
</tr>
<tr>
<td>Number of guests</td>
<td>700</td>
</tr>
</tbody>
</table>

Computations

Percentage of occupancy is 75%.

\[
\frac{\text{number of rooms sold (to guests)}}{\text{number of rooms (in the hotel) available for sale}} = \frac{600}{800} = \frac{3}{4} = 75\%
\]

Sales per occupied room (average daily rate, ADR) is $80.00.

\[
\frac{\text{room sales (as measured in dollars)}}{\text{number of rooms sold (to guests)}} = \frac{48,000}{600} = 80.00
\]

Sales per available room (RevPar) is $60.00.

\[
\frac{\text{room sales (as measured in dollars)}}{\text{number of rooms (in the hotel) available for sale}} = \frac{48,000}{800} = 60.00
\]

Mathematical check:

\[
\text{ADR} \times \text{occupancy} = \text{RevPar} \quad 80 \times 0.75 = 60.00
\]

Number of employees per guest room is 0.625.

\[
\frac{\text{number of employees (on staff)}}{\text{number of rooms (in the hotel) available for sale}} = \frac{500}{800} = 0.625
\]

Percentage of double occupancy is 16.6%

\[
\frac{\text{number of guests} - \text{number of rooms sold}}{\text{number of rooms sold}} = \frac{700 - 600}{600} = 16.6\%
\]

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Exhibit 1–3  Hoteliers track the health of the industry through the measures and
ratios shown. Outside of the United States, bed occupancy percentage (number of
beds sold ÷ number of beds available) is often substituted for the percentage of room
occupancy. Bed (or guest or sleeper) occupancy of 50% approximates room occup-
pancy of 70%.
occupancy are tracked by many agencies. Among them are the hotel chains, convention bureaus, and state tourism offices.

Values become less accurate as the breadth of the count moves away from the individual property to a worldwide number. Nevertheless, everyone is engrossed in occupancy figures. More so when executives of major companies announce that a mere 1% rise in chain occupancy represents millions of dollars of improved profits. The mayor of Atlanta offered a different perspective. He said that each 1% rise in hotel occupancy represented 400 new jobs for his city.⁴

**Sales Per Occupied Room.** Occupancy measures the hotel’s “share of the market,” so it measures quantity. The quality of the business being done is measured by the amount received for each room sold, *sales per occupied room*. Sales per occupied room goes by another, more commonly used name, *average daily rate* (ADR). ADR is the second of several ways that hotels count and measure. It too is computed with a ratio or fraction:

\[
\frac{\text{room sales (measured in dollars)}}{\text{number of rooms sold}}
\]

Note that the number of rooms sold (or occupied) appears in both formulas (see Exhibit 1–3).

The health of the hotel business depends on a combination of occupancy and price. Normally, price (ADR) increases as occupancy percentage increases. That is, the more customers want rooms, the more they’ll pay. As the industry goes through a declining cycle, it is sometimes possible to keep the ADR climbing for a short time, sometimes even faster than the consumer price index, even as occupancy is falling. That’s true for both an individual property and the industry as a whole. As more vacancies occur, prices (ADR) begin to level off because front-office managers reduce rates to maintain higher occupancies. How well they do their job of filling rooms without cutting prices is what the next measure gauges.

**RevPar (Revenue Per Available Room).** RevPar is an old industry standby that has reemerged recently as a far more important value than it was 25 years ago when it had a different name, *average rate per available room*.⁵ Yield management has come onto the scene during that time. Yield management balances demand and price. Normally, as guest demand (occupancy) falls, price (room rate) declines. One hears that old standby, “hotels fill from the bottom up,” meaning that guests elect lower rates when an empty house allows it. The superior manager strives to stabilize or even increase both price and occupancy, especially during dips in the cycle. RevPar (sometimes written as REVPAR) measures that performance. It measures revenue (or sales) per room relative to the total room inventory available. In contrast, ADR measures revenue per room relative to the number of rooms actually sold.

Exhibit 1–3 illustrates the computation. Keep in mind that room revenue and room sales are two different terms for the same value! So the fraction is:

\[
\frac{\text{room revenue}}{\text{number of rooms available for sale}}
\]

---


⁵*Average rate per available room* was the terminology used in the first four editions of this book. The concept and the name fell into disuse only to reemerge as RevPar. Similarly, the *average daily rate* was originally called the *average room rate*. It, too, fell into disuse when some misinterpreted it to mean the rate the hotel was charging.
Both values, room revenue and the number of rooms available, are easily misstated. Room revenue must exclude room taxes, costs associated with free parking, and be net of any breakfasts included in the rate. Similarly, the number of rooms available should include vacant rooms, but exclude rooms that have been permanently removed from sale, converted to offices for example. Out-of-inventory rooms, permanent rentals, and the like are also excluded from rooms available. Some argue the contrary; they say measuring management's ability requires the denominator to be all the rooms in the house, not just those available for sale at the moment.

RevPar has become a key indicator of industry health. It’s a top-line indicator, meaning it measures demand above all else. RevPar showed double-digit growth in major U.S. cities during the fabulous recovery of 2005–2008. It was especially good for managers whose salaries and bonuses were based on RevPar.

RevPar is easy to compute, and that's its strength. It measures room income only, and that's its weakness. It does not reflect management's ability to control costs and produce sales and profits in other departments. For smaller, rooms-only hotels that lack other revenue departments, RevPar is an ideal measure.

Although not widely used (the computation is too lengthy), gross operating profit (GOP) per available room would better reflect management's overall strengths.

Double Occupancy. This term refers to any room in which there is more than one guest. So multiple occupancy is sometimes used. Therefore, the formula isn't exactly true:

\[
\text{number or guests} - \frac{\text{number of rooms occupied}}{2}
\]

Assume two rooms occupied with 3 persons in one room and 1 person in the other. The formula would be 4 - 2 = 2 ÷ 2 or 100% double occupancy, which isn’t the case. Double occupancy's impact on room revenue is much clearer. Additional charges may be levied for second and third occupants. Families, skiers, and tour groups are typical double-ups. Even business travelers share rooms as corporate management focuses on cost-cutting. Two execs to a room is standard procedure at company meetings and conventions because it promotes professional friendships. Casino/hotels want bodies on the casino floor, so they don't charge for dual occupancy. High double occupancy is a characteristic of resort properties. It skews upward both room revenue and ADR.

Another statistical fudge occurs when comp (complimentary—free) rooms are counted as occupied. There is no charge, so occupancy increases as ADR decreases. RevPar would not be affected since the denominator of the fraction, number of rooms available for sale, would be unchanged.

Just as the averages of individual hotels can be skewed, so too can the averages of the entire industry. Any computation of average is impacted by extreme numbers. National or regional occupancy, ADR, and RevPar figures are influenced by the large hotels, which tend to provide more information and more extreme data than do hotels of 50 rooms or less.

Break-Even Point. To break even is to have neither profit nor loss. At the break-even point, inflows from revenues exactly match outflows for costs. A large portion of a hotel's costs are fixed expenses: debt payment on funds borrowed to erect the building, for example. Reducing fixed costs such as interest rates drops the amount of occupancy needed to break even. Similarly, raising the ADR, or doing more food and beverage sales, increases the flow of income. More income per room sold, a higher RevPar, means that a smaller percentage of occupancy is needed to pay off the costs, to break even.
Break-even points are important because there are no profits until that point is reached. Until the business pays its fixed expenses (interest, for example), its semifixed expenses (power, for example), and its variable expenses (wages, for example), there are no profits. But once that point is reached, profits accumulate quickly. Each dollar before the break-even point has a mission: Pay off the debt, pay the electricity, pay the employee. Each dollar after the break-even point has a lesser mission because fixed expenses no longer need to be paid! Even some of the semifixed expenses have been met. Therefore, each dollar beyond the break-even point makes a huge contribution to profits.

Break-even points are expressed in percentage of occupancy. That value has been declining over the past decades. Better hotel design and better financing have held down costs, both variable and fixed. Changes in market mix and higher room rates have improved revenues, the other component of the computation. Break-even points have fallen throughout the past quarter-century. Whereas the break-even point was once in the 70% range of occupancy and later in the 60% range, it is now in the high 50% range: Great news for the industry’s economic health. The values of Exhibit 1–4 are the best the industry has seen!

Special Characteristics of the Hotel Business

Executives in the lodging industry have to work around several industry characteristics that limit management’s flexibility. Some are lodging-only issues and some are also found in other industries, especially the airlines.

Perishability. Vacant rooms are perishable. The industry’s mantra is an unsold room tonight can never be sold again. Unlike a can of fruit which inventories on the grocer’s shelf, hotel rooms are time restricted. No way to take last night’s empty room to meet an overflow situation tonight. Like empty airline, theater, or sport-arena seats, hotel rooms cannot be stored, cannot be saved, and cannot be used a new.

<table>
<thead>
<tr>
<th>Year</th>
<th>Percentage of Occupancy&lt;sup&gt;a&lt;/sup&gt;</th>
<th>Average Daily Rate (ADR)&lt;sup&gt;a&lt;/sup&gt;</th>
<th>Revenue Per Available Room (RevPar)&lt;sup&gt;a&lt;/sup&gt;</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>68.7%</td>
<td>$94.57</td>
<td>$64.97</td>
</tr>
<tr>
<td>2006</td>
<td>70.1%</td>
<td>$95.65</td>
<td>$67.05</td>
</tr>
<tr>
<td>2007</td>
<td>69.6%</td>
<td>$95.92</td>
<td>$66.76</td>
</tr>
<tr>
<td>2008</td>
<td>68.9%</td>
<td>$97.31</td>
<td>$67.05</td>
</tr>
<tr>
<td>2009</td>
<td>68.1%</td>
<td>$97.75</td>
<td>$66.57</td>
</tr>
<tr>
<td>2010</td>
<td>66.8%</td>
<td>$98.15</td>
<td>$65.56</td>
</tr>
<tr>
<td>Approximate Mean</td>
<td>68.8%</td>
<td>$95.60</td>
<td>$65.77</td>
</tr>
</tbody>
</table>

<sup>a</sup> Author estimates. Values vary widely among reporting agencies because there are many variables; ADR is one example. Luxury brands have ADRs 4–6 times greater than those of economy brands.

Exhibit 1–4 Industrywide statistics are estimates at best because the lodging industry is highly segmented (see Exhibit 2–2) and different reporting agencies use different data. However, several trends have been constant: ADR increases even as occupancy falls; and occupancy falls, in part, because new hotel construction (more rooms) is powered by good economic times.
Location. Ellsworth Statler, who sold his Statler chain to Hilton, has been credited with a frequently quoted expression. He cited "Location, location, location" as the three most important aspects of [hotel] real estate. Good locations are not easy to acquire. Changing neighborhoods and shifting demographics sometimes doom a hotel whose original location was good. Unlike an airline seat, there is no way to move the hotel room. A fixed location in an uneven neighborhood means management must depend more on good marketing and sales and less on location; more on a good reservation systems and less on drive-by and walk-in traffic.

Fixed Supply. Just as the hotel's location is fixed, so is its supply of rooms. Airlines adjust to demand by temporarily adding or removing flights. Not so with hotels. What you see is what you have.

High Operating Costs. Unlike manufacturing industries, which offset labor with large capital investments, hotels are both capital- and labor-intensive. The result is high fixed costs (a large nut in the jargon of the industry), which continue whether or not the hotel has business. Thus, a high percentage of occupancy is needed just to break even.

Seasonality. Throwing away the key is a traditional practice when a new hotel is opened. The act signifies that the hotel never closes. Yet hotelkeeping, even for commercial hotels, is a very seasonal business. The cyclical dip strikes the commercial hotel every seven days as it struggles to offset poor weekend business. The federal holiday law, which assigned Mondays to national holidays, reinforces the negative pattern of the commercial hotel.

Occupancy computations must account for this weekend phenomenon. Especially so since the business traveler—the one who is not in the hotel during the weekends—still accounts for the majority of the lodging industry's business. Given the usual profile of the commercial, urban hotel (see Exhibit 1-5), national occupancy percentages in the high 70s and 80s remain an elusive goal.

Annual cycles compound the problem. Commercial business is down even in midweek between Thanksgiving and New Year's Day and from May through Labor Day. But Christmas Day has been rising.

The resort pattern is the opposite of the commercial pattern. Weekends are busy and midweek less so. The slack period of the commercial hotel is the very season of the resort. At one time, resorts opened Memorial Day and closed Labor Day. This 100-day cycle was reinforced by the federal holiday law.

<table>
<thead>
<tr>
<th>Monday</th>
<th>Tuesday</th>
<th>Wednesday</th>
<th>Thursday</th>
<th>Friday</th>
<th>Saturday</th>
<th>Sunday</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>100%</td>
<td>100</td>
<td>90</td>
<td>90</td>
<td>40</td>
<td>20</td>
<td>20</td>
<td>460%</td>
</tr>
</tbody>
</table>

Average per 7 days 66%

Exhibit 1-5 The difficulty of achieving a national occupancy in the mid-70% range is highlighted by the typical cycle of weekly occupancy for commercial hotels. The challenge is convincing groups, whose members work all week, to hold conventions on the weekends. (Smith Travel Research now tracks U.S. occupancy daily and weekly as well as annually.)
pattern made the hotel’s success dependent on the weather. Two weeks of rain are dev­astating when the break-even point is 80 days of near-full occupancy.

Although the dates of the winter season differ, there are still only 100 days between December 17 and March 15.

Both winter and summer resorts have extended their seasons with groups, conferences, and special activities. Hotels that operate on the four-day season may be worse off now than those on the four-season year. At least the latter have a higher double occupancy.

TRADITIONAL CLASSIFICATIONS

Lodging is an industry of rapid transformation. The inns of old evolved from private homes located along the traveler’s route. Today’s hotel is often a point of destination even as it serves its traditional role of accommodating those in transit. Yesterday’s tavern offered meals with the family. Dining today is a created experience in design, décor and menu. Early inns were indistinguishable from their neighbor’s homes. Today’s edifice is a sharp contrast in style and packaging.

The industry still delivers the basic accommodations of shelter, food and hospitality. It’s the means of delivery that has changed. These variations have been marked by shifting terminology: hostel, tavern, public house, inn, guest house, hotel, resort, motel, motor lodge, motor inn, bed and breakfast, airtel, boatel, homtel, skytel, condotel.

In keeping with the pace of change, the industry’s trade association has undergone similar shifts in identity. What started as the American Hotel Association became the American Hotel & Motel Association, and more recently the American Hotel & Lodging Association. “Motel” has been replaced in the professional vocabulary with new hotel types, as we shall see throughout this chapter and the next.

Notwithstanding the changes, several traditional classifications have withstood the test of time. They are size, class, type and plan. These are not definitive, objective measures. Nor are they exclusive. Hotels fall into all categories or just some, and there are even degrees of belonging. Each category impacts differently on the text’s subtitle, “Managing Hotel Operations.”

Size

The number of rooms available for sale, the very same figure used in occupancy computations (see Exhibit 1-3) is the standard measure of size. Other possible measures such as the number of employees or gross dollar sales are simply not used. Of course, there is a relationship between them and the number of rooms available.

Counting available rooms is not as certain a gauge as one would first believe. More rooms may be advertised than are actually available. Older hotels have rooms that are no longer saleable. Newer properties lose guest rooms to unplanned offices and storage. As a rule, the older the hotel, the fewer rooms available relative to total room count:

\[
\text{number of guest rooms available for sale} \div \text{number of guest rooms originally constructed}
\]

Hotels are grouped by size for financial reporting, for the U.S. Census and for trade association dues. Traditionally, large hotels are 300 rooms, or more. Medium hotels are 100 to 300 rooms, and small hotels are less than 100 rooms. Recognizing that these definitions are getting dated, the AH&LA boosted its definition of small to 150 rooms. About 25% of the AH&LA's membership falls into the small category.
For hotels seeking government loans, the Small Business Association’s (SBA) definition of "small" is based on annual sales. They change that value periodically. At $3 million, an 80-room hotel with 70% occupancy and an ADR of $90 would qualify. It would only generate $1,839,600 annually (80 rooms × 70% occupancy × $90 ADR × 365 days per year).

Visualizing small and medium-sized hotels as the lodging industry is difficult when one thinks of famous hotels such as the Waldorf-Astoria in New York City with 1,852 rooms, or the New Otani in Tokyo, 2,057 rooms (see Exhibit 1–6). Small hotels are more common in Europe where traditionally they have been family owned and operated. The shift to chains and franchised hotel names has accelerated recently in both Europe and Asia and is changing the structure of the business there. Still, only 30% of Europe’s hotels are branded versus 70% in the United States.

**Mom-and-Pop Motels.** The term “motel” (motor + hotel) was coined after World War II when Americans took to the highways. The concept was refined by Kemmon’s Wilson, who created the Holiday Inn chain. Motels replaced the very limited facilities known as motor courts (see Exhibit 1–7). Many motels—the term has now fallen from favor—were family owned and operated. Whence comes the term “mom-and-pop”. There were some 60,000 mom-and-pop motels along the 1960s’ highways. Rising construction, financing, and labor costs headed a list of hurdles that such small entrepreneurs could not overcome. They did not purchase in quantity; they were unable to advertise widely; and they competed against the better management talent that worked for their chain/franchise competitors.

**Class**

The class of hotel is sensed as often as it is measured, although two objective measures are available. One is price (ADR); the other is rating systems.

**Average Daily Rate.** Delivering class, elegance, and service costs money. Larger rooms, costly construction, upgraded furnishings and extra employees incur larger financing costs, depreciation, energy, salaries, wages and more. All are recovered by higher rates. So too are better levels of maintenance, 24-hour room service, saunas, and similar extras. The better the class of hotel, the higher the rate.

Driven by inflation, ADR has been increasing industrywide for decades. So a higher room rate over time is not the measure. A higher room rate relative to competition is the critical number. Location, location, location also plays a role. Hotels in small towns are different from their big-city counterparts. A $55 rate in Los Angeles conjures up a totally different class of lodging than does that same rate in a small rural town. However, at a given time and with a judicious concern for size, type, and location, ADR is a fair measure of class.

Published rates help classify the nation’s hotels (see Exhibit 1–8).

**Full-Service to Limited-Service.** Hotels are as diverse as the traveling public that fills them. Responding to many varied needs, the industry has created a range of accommodations from the full-service high-rise to the squat motor inn. One group of hotel investors offers nothing more than a clean room and a good mattress. Guests do not need swimming pools, closets, or lobbies, goes the argument. This hotelier offers limited service at minimum prices (see Exhibit 1–8).

One hundred eight degrees away is the full-service, upscale property. This hotel has superior facilities and a full complement of services. Limited services means lobby vending machines or a nearby restaurant servicing several properties in the area. Full-service has a menu of dining options and a range of extras such as lounges, room service, newspapers to the room, exercise facilities and a wide range of electronic options. Expense-account travelers patronize the full-service property, although something less costly may do when the family travels.
<table>
<thead>
<tr>
<th>Hotel</th>
<th>Number of Rooms(^a)</th>
<th>Location</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asia-Asia</td>
<td>6,500(^d)</td>
<td>Dubai, United Arab Emirates</td>
</tr>
<tr>
<td>MGM Grand(^b)</td>
<td>5,000</td>
<td>Las Vegas</td>
</tr>
<tr>
<td>Ambassador City</td>
<td>4,700</td>
<td>Jomtlen, Thailand</td>
</tr>
<tr>
<td>Luxor(^b)</td>
<td>4,400</td>
<td>Las Vegas</td>
</tr>
<tr>
<td>Excalibur(^b)</td>
<td>4,050</td>
<td>Las Vegas</td>
</tr>
<tr>
<td>Circus Circus(^b)</td>
<td>3,700</td>
<td>Las Vegas</td>
</tr>
<tr>
<td>Flamingo(^c)</td>
<td>3,650</td>
<td>Las Vegas</td>
</tr>
<tr>
<td>Mandalay Bay(^b)</td>
<td>3,225</td>
<td>Las Vegas</td>
</tr>
<tr>
<td>Las Vegas Hilton</td>
<td>3,200</td>
<td>Las Vegas</td>
</tr>
<tr>
<td>Opryland Hotel</td>
<td>3,100</td>
<td>Nashville</td>
</tr>
<tr>
<td>Mirage(^b)</td>
<td>3,050</td>
<td>Las Vegas</td>
</tr>
<tr>
<td>Venetian(^f)</td>
<td>3,050(^f)</td>
<td>Las Vegas</td>
</tr>
<tr>
<td>Monte Carlo(^b)</td>
<td>3,000</td>
<td>Las Vegas</td>
</tr>
<tr>
<td>Bellagio(^b)</td>
<td>3,000</td>
<td>Las Vegas</td>
</tr>
<tr>
<td>Paris(^c)</td>
<td>2,925</td>
<td>Las Vegas</td>
</tr>
<tr>
<td>TI (Treasure Island)(^b)</td>
<td>2,900</td>
<td>Las Vegas</td>
</tr>
<tr>
<td>Bally’s(^c)</td>
<td>2,825</td>
<td>Las Vegas</td>
</tr>
<tr>
<td>Wynn(^c)</td>
<td>2,700(^c)</td>
<td>Las Vegas</td>
</tr>
<tr>
<td>Imperial Palace(^c)</td>
<td>2,600</td>
<td>Las Vegas</td>
</tr>
<tr>
<td>Aladdin</td>
<td>2,575</td>
<td>Las Vegas</td>
</tr>
<tr>
<td>Hilton Hawaiian Village</td>
<td>2,850</td>
<td>Honolulu</td>
</tr>
<tr>
<td>Atlantis</td>
<td>2,450</td>
<td>Paradise Island, Bahamas</td>
</tr>
<tr>
<td>Caesars Palace(^c)</td>
<td>2,425</td>
<td>Las Vegas</td>
</tr>
<tr>
<td>New York Hilton</td>
<td>2,000</td>
<td>New York City</td>
</tr>
<tr>
<td>Caribbean Beach</td>
<td>2,100</td>
<td>Orlando</td>
</tr>
<tr>
<td>Riviera</td>
<td>2,075</td>
<td>Las Vegas</td>
</tr>
<tr>
<td>New York, New York(^b)</td>
<td>2,000</td>
<td>Las Vegas</td>
</tr>
<tr>
<td>San Francisco Hilton</td>
<td>1,900</td>
<td>San Francisco</td>
</tr>
<tr>
<td>Adam’s Mark</td>
<td>1,850</td>
<td>Dallas</td>
</tr>
<tr>
<td>Chicago Hilton</td>
<td>1,550</td>
<td>Chicago</td>
</tr>
<tr>
<td>Gaylord Texan Resort</td>
<td>1,500</td>
<td>Grapevine</td>
</tr>
</tbody>
</table>

\(^a\) Room numbers have been rounded.

\(^b\) Identifies hotels owned by MGM Grand Hotels.

\(^c\) Identifies hotels owned by Harrah’s.

\(^d\) Under construction.

\(^e\) Additional rooms under construction.

**Exhibit 1-6** Megahotels, once exclusive to Las Vegas, are appearing worldwide. The Opryland Hotel, Nashville, TN, bills itself as the largest U.S. hotel outside of Las Vegas. With its Texan Resort (final entry) Gaylord Entertainment now has two entries, although it dropped the Opryland designation from all of its non-Nashville properties.
Exhibit 1-7  Tourist courts predated the highway motel, which gained momentum from the federal, interstate road construction boom following World War II. Kemmons Wilson's Holiday Inn chain (1952) set the initial standard for motels. Then came amenity creep (see Chapter 2).

Between the two lies the bulk of facilities. Services are added as competition demands and costs allow. Services are pared as markets shift and as acceptable self-service equipment appears. Chapters 2 and 3 introduce some newer in-between hotels.

**Number of Employees.**  Class as measured by full service or limited service refers as much to the size of the staff as to the physical amenities. Thus, the number of employees per guest room is another measure of class (see Exhibit 1–3).

Budget properties, those without restaurants or other amenities such as bars or room service, operate with as few as 0.25 (one-fourth) employee per guest room. An 80-room house might have as few as 20 employees. There's a limit to how small the staff can shrink. If the property wants the legal benefits of being a hotel, common law requires it to provide around-the-clock coverage. Add in staff days off plus a minimum housekeeping crew, night security, someone for repairs and maintenance, and the total grows.

Because a minimum staff is needed, a hotel of 60 rooms might have almost the same number of employees as one of, say, 100 rooms. Each property needs a minimum number at the desk, a manager, a head housekeeper, an accountant, and someone in maintenance. Housekeeping would be the major difference. If a housekeeper cleans 15 rooms per shift, every additional 15 rooms requires an extra employee and eventually a supervisor. Hotels minimize that number by using and paying for call-in housekeepers only when volume dictates.

The in-between class of hotel uses an in-between number of employees. That ratio ranges from 0.5 (one-half) an employee per room to as much as a 1:1 ratio. Depending on the services offered, a 300-room hotel could have as few as 150 employees or as many
Classification of Hotels by Average Daily Room Rate

<table>
<thead>
<tr>
<th>Category</th>
<th>Typical Room Rate</th>
<th>Hotels</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deluxe Hotels</td>
<td>$600 plus/night</td>
<td>Fairmont Hotels</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Four Seasons Hotels</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Ritz-Carlton Hotels</td>
</tr>
<tr>
<td><strong>Upper Upscale Hotels</strong></td>
<td>$400/night</td>
<td>Le Meridien Hotels</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Sofitel Hotels</td>
</tr>
<tr>
<td></td>
<td></td>
<td>W Hotels</td>
</tr>
<tr>
<td><strong>Upscale Hotels</strong></td>
<td>$300/night</td>
<td>Hyatt Hotels</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Marriott Hotels</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Omni Hotels</td>
</tr>
<tr>
<td><strong>Midprice Hotels with Food</strong></td>
<td>$150/night</td>
<td>Four Points (Sheraton)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Garden Inns (Hilton)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Best Western</td>
</tr>
<tr>
<td><strong>Midprice Hotels without Food</strong></td>
<td>$90/night</td>
<td>Amerisuites</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Hampton Inns</td>
</tr>
<tr>
<td></td>
<td></td>
<td>La Quinta</td>
</tr>
<tr>
<td><strong>Economy Hotels</strong></td>
<td>$65/night</td>
<td>Baymont Inns and Suites</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Red Roof Inns</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Super 8</td>
</tr>
<tr>
<td><strong>Budget Inns</strong></td>
<td>$60/night</td>
<td>EconoLodge</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Microtel</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Motel 6</td>
</tr>
</tbody>
</table>

Exhibit 1–8  ADR, average daily rate, identifies the class of hotel, offering consumers a range of accommodations from the bare-minimum budget facility to the full-service, super-deluxe property.

as 250 or so. The number is most likely to be about 200 to 225 if there’s food service and a bar that needs staffing.

Full-service hotels staff a full complement of departments, including bell service, restaurants, turn-down bed service, and telecommunications persons, among others. Hotels with theater shows, acres of grounds to be maintained, casinos, and 24-hour services require extra personnel and have still higher ratios, perhaps 1.5 employees per guest room. A 1,000-room hotel/casino operating fully over 24 hours could easily have 1,250 to 1,500 employees.

Hotels employ many low-wage workers. That point has been used to argue in favor of casino/hotels when there are moral objections.

Asian properties offer the best in service. Labor is less costly, so the number of employees per room is the world’s highest. At the Bangkok Shangri-La, for example, 1,073 staff members handle 697 rooms, a ratio of 1.5:1. Hong Kong’s Peninsula Hotel ranks better still, with a staff of 655 for its 300 rooms, better than 2:1.

Worldwide, the workforce is huge. The United States alone has some 2 million hotel workers. The privately funded World Tourism and Travel Council (WTTC) estimates 225 million employees in the world’s tourism industry. That includes about 13% of Europe’s total labor force.
Rating Systems. Room rates provide good guidance to the class of hotel even when rating systems are in place. Some rating systems have been formalized; some have not. Some are government run; some are not. Most are standardized within the single country, but not so across its borders. Members of the World Tourism Organization have done much to standardize their systems by adopting the WTO's five recommended classes. Deluxe or luxury class is at the top. First-class, which is not top-of-the-line despite its name, comes next. Tourist class, sometimes called economy or second class, is actually third in line. Third and fourth class (really the fourth and fifth ranks) usually have no private baths, no centralized heat, not even carpeting.

International travelers avoid third-and fourth-class facilities. They also know to discount the deluxe category of many Caribbean properties. Similarly, experienced travelers limit stays in Africa and the Middle East to deluxe properties.

Worldwide. There are some 100 rating systems. Almost all of them use stars for ranking, but coffee pots, alphabets, and even feathers have been used. Britain uses ticks for its holiday parks, which are upscale caravan parks.

Europe's system is the most developed. Its four-and five-star hotels have restaurants and bars. Hotel garni means no restaurant but a continental breakfast is usually served. That's the usage in England as well as on the Continent and both correspond to the U.S. phrase, "breakfast included."

The Swiss Hotel Association is unique because it is a private organization rating itself. Mexican hotels are also trade-associated rated. They use the WTO's five classifications plus a luxury class termed Gran Tourism or Gran Especial. The Irish Tourist Board takes a different tack, listing the facilities available (elevator; air conditioning; laundry) rather than grading them. Directories of the European Community do the same and also classify by location: seaside/countryside; small town/large city. European auto clubs go further by distinguishing privately owned from government-run accommodations.

Spain has standardized the rating system of its paradores ("stopping places") despite the great differences in physical facilities and furnishings. The government-operated chain of nearly 100 inns maintains approximately one-third at the four-star level. All but a few of the remaining group are two- or three-star properties.

Japanese ryokans, which are traditional inns, are rated according to the excellence of their guest rooms, kitchens, baths, and—of all things to Western values—gardens. These very traditional hotels serve two meals, which are often taken in the uncluttered guest room that opens onto those gardens. About 1,000 ryokans, have been registered by the Japanese Travel Bureau as appropriate for international guests.6

Like Japan, Korea has fine, Western-style hotels at top international standards. It also has budget-priced lodgings called yogwans (or inns). Unlike the ryokans, most yogwans have Western-style accommodations, including private baths. Upscale yogwans can be identified because their names end in jang or chang.

The United Kingdom probably has the largest number of rating systems by the greatest range of organizations. Among them are the National Tourist Board (NTB), the Automobile Association (AA), the Royal Automobile Club (RAC), and commercial enterprises such as Egon Ronay and the better known Michelin. The ratings are by crowns (NTB) and stars (both the AA and the RAC) and pavilions or small buildings (Michelin). Each classification is then subdivided by grades or percentage marks. Thus the AA might rate a property as Four Star, 65%.

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6International guests have been the savior of the ryokans, whose revenues have declined by half as resident Japanese forsake their complexity for Western-style hotels.
The U.S. System. The U.K. has both private and governmental rating systems. U.S. ratings rely solely on private enterprise. The American Automobile Association (AAA) has been one of two major participants. Mobil, the other, was started in the motor-lodge era of the late 1950s as a subsidiary of Mobil Oil. Both face a wide range of competitors that has Mobil urgently restructuring. Michelin, which is very popular in Europe, now has U.S. guidebooks. Zagat started with restaurant guides and only recently with hotel ratings. J. D. Powers, famous for ratings consumer goods, has also entered the market. Many Web sites (Expedia, for one) carry evaluations, as do a wide range of publications. There are bed-and-breakfast guides, magazine guides, regional guides, even one by the NAACP. None are government affiliated. All are crowding out the traditional star system of Mobil and the diamond ratings of AAA (see Exhibit 1–9).

Historically, a good Mobil listing boosted occupancy by 20% or so. Similarly, as much as 40% of volume in small hotels has been attributed to an AAA listing. Both agencies rely on on-site, anonymous inspections, each covering about 25,000 properties. AAA personnel identify themselves after their annual visit. Mobil inspectors come every 18 months but remain anonymous. Online reservation (res) systems such as Priceline also send inspectors, but they solicit business at the same time. AAA includes information for handicapped travelers; the Scottish Tourist Bureau does the same using three levels of accessibility. All travel guides accept input from their users.

By building different facilities for different markets, hotel chains have unintentionally created internal rating systems, but few consumers recognize them. Exhibit 2–1 illustrates the point.

Membership in Preferred Hotels, a loosely knit affiliation of independent hotels, requires ratings of superior or above from one of the recognized services. So just belonging to Preferred gives the property a superior-plus rating.

Not all guides are consumer oriented. Several list conference and meeting facilities, an American specialty. Others are important to travel agents and meeting planners. Among the publications that focus on the trade are the Official Meeting Facilities Guide and the Hotel & Travel Index. The Official Hotel Guide (OHG), whose ratings are favored by the cruise lines, uses subjective assessments of service as well as objective listings of actual accommodations.

We may eventually see a new environmental rating. Research from the United States Travel Data Center indicates a willingness of guests to pay more for environmentally friendly lodgings (EFLs). EFL could be another criterion for, or a completely separate rating from, the usual standards.

Type

Size and class, two of lodging’s four traditional classifications, have already been discussed. Now we exam number three, types of hotels. Type has three traditional subdivisions of its own: commercial hotels, resort hotels, and residential hotels. As with so many other definitions in a dynamic industry, there are sharp distinctions no longer. Chapter 2 goes further by describing emerging hotel patterns. Some are new concepts and some build on the traditional types.

Commercial Hotels. Commercial hotels, or transient hotels, make up the largest category of American hotels (see Exhibit 1–10). They service short-term, transient (not permanent) visitors. Businesspersons are the chief market of commercial houses. Conventioneers, engineers, salespersons, consultants and small businesspersons form the
The key criteria for every rating are cleanliness, maintenance, quality of furnishings and physical appointments, service, and the degree of luxury offered. There are some regional differences, as customers have different expectations for a historic inn in northern New England, a dude ranch in the Southwest, and a hotel in the center of a major city.

★
One-star establishments should be clean and comfortable and worth the prices charged when compared to other accommodations in the area. If they are below average in price, they may receive a checkmark for good value in addition to the one star. They offer a minimum of services. There may not be 24-hour front desk or phone service; there may be no restaurant; the furniture will not be luxurious. Housekeeping and maintenance should be good; service should be courteous; but luxury will not be part of the package.

★★
Two-star accommodations have more to offer than one-star and will include some, but not necessarily all, of the following: better-quality furniture, larger bedrooms, restaurant on the premises, color TV in all rooms, direct-dial phones, room service, swimming pool. Luxury will usually be lacking, but cleanliness and comfort are essential.

★★★
Three-star motels and hotels include all of the facilities and services mentioned in the preceding paragraph. If some are lacking, and the place receives three stars, it means that some other amenities are truly outstanding. A three-star establishment should offer a very pleasant travel experience to every customer.

★★★★
Four-star and five-star hotels and motels make up a very small percentage (less than 2%) of the total number of places listed; therefore they all deserve the description of “outstanding.” Bedrooms should be larger than average; furniture should be of high quality; all of the essential extra services should be offered; personnel should be well trained, courteous, and anxious to please. Because the standards of quality are high, prices will often be higher than average. A stay in a four-star hotel or motel should be memorable. No place will be awarded four or five stars if there is a pattern of complaints from customers, regardless of the luxury offered.

★★★★★
The few five-star awards go to those places which go beyond comfort and service to deserve the description “one of the best in the country.” A superior restaurant is required, although it may not be rated as highly as the accommodations. Twice-daily maid service is standard in these establishments. Lobbies will be places of beauty, often furnished in antiques. If there are grounds surrounding the building, they will be meticulously groomed and landscaped. Each guest will be made to feel that he or she is a Very Important Person to the employees.

Exhibit 1-9  The authors have created criteria for rating U.S. hotels, which are expressed traditionally with stars and diamonds. Other symbols are used worldwide where rating systems are usually government controlled. Private organizations, such as Mobil's Travel Guide, do the job in the United States.
Location, location, location is the mantra of commercial hotels, which serve several markets but chiefly business clientele. Thus, their usual locations are business parks, research centers, ring roads or urban downtowns. Courtesy of New York Marriott Marquis, 45th and Broadway, New York, New York.

The core of the customer base. Indeed, commercial guests are the backbone of the entire lodging industry. They are equally important to the urban property and the roadside motor hotel. Still, there are plenty of rooms to accommodate leisure guests, and commercial hotels do so with pleasure.

Commercial hotels locate close to their market—the business community, usually an urban area. As business centers have left downtown cities, so has the commercial hotel. Arterial highways, research parks, airports, and even suburban shopping centers have become the new locations for commercial properties.

Many businesspersons relax on weekends, which explains the poor weekend occupancy of the commercial hotel (see Exhibit 1-5). Attempts to offset this decline with tourists, groups, and special local promotions have been only moderately successful.

Large, commercial hotels are almost always full-service properties. Businesspersons are usually expense-account travelers who can afford four-star and even five-star accommodations. Travel offices of many businesses began to closely monitor employee travel costs following the dip in business after the World Trade Center disaster. Furthermore, Congress had enacted restrictions on the amount of tax-deductible business expenses.
Strong economic recovery beginning in late 2004 eased concerns about the demise of expense-account travelers. They’ve come on strong!

**Residential Hotels.** Unlike the transient nature of the commercial hotel guest, residential guests take permanent residency. This creates a landlord-tenant relationship that differs in legal rights and responsibilities from the traditional guest-innkeeper relationship. In some locales the room occupancy tax is not payable for residential (sometimes called permanent) guests in a transient hotel.

The last census reported two-thirds of all commercial hotels had permanent guests. New York City’s Waldorf-Astoria is a good example. Its Towers (a section of the hotel) houses residential, often famous, guests. Less common is the residential hotel that caters to transient travelers.

**Extended-Stay Hotels.** Extended-stay hotels are different from either commercial or residential properties. Rooms are designed differently because guests are there for long-term stays. But that timing is loosely defined. Guests are not in permanent residency as they are in residential hotels. Neither are they the transient, 2–4 day commercial guests.

Extensive travel and suitcase living quickly lose their glamour. Something different is needed for those persons moving locations or having extended business assignments away from homes and home offices. Keeping workers comfortable and productive takes more than a traditional hotel room. Extended-stay hotels provide kitchens, grocery outlets, office space, office equipment, fireplaces, exercise rooms, laundry facilities, and more—even secretarial support—but all with maid service.

Accommodations at an extended-stay hotel are similar to those at the all-suite hotel. In fact, the all-suite emerged from the extended-stay as management sought to broaden an otherwise narrow market. So the distinctions have blurred. The same building caters to both long-term business travelers and all-suite users (families, interviews, small in-room meetings, and the like).

**Resort Hotels.** Transient hotels cater to commercial guests, residential hotels to permanent guests and resort hotels (see Exhibit 1–11) to social guests—at least traditionally they do.

Economics has forced resorts to lengthen their operating period from the traditional summer or winter season to year-round operations. Resorts have marketed to the group and convention delegate at the expense of their social guest. As this began happening, the commercial hotel shifted its design and markets toward the resort concept, dulling once again the distinctions between types. What emerged is a mixed-use resort. Sometimes these resorts are found in residential areas as part of a master-planned community.

Many believe that the modified resort is the hotel of the future. It is in keeping with the nation’s move toward increased recreation and is compatible with the casual air that characterizes the vacationer. Unlike the formality of the vacationer of an earlier time, today’s guest is a participant. Skiing, golfing, boating, and a host of other activities are at the core of the successful resort.

**The Megaresort.** Megaresorts are large, self-contained resorts. Entertainment and recreational facilities are so numerous and so varied that guests need not leave the property during their entire stay. There are other self-contained resorts. The Sandals chain in the Caribbean is one example. Size distinguishes the megaresort from these other all-inclusive accommodations.
Exhibit 1-11  Resorts have broadened their appeal beyond the “social guests” that persisted through the middle of the 20th century. Amenities, including executive conference centers, spas, tennis clubs, water sports and more, appeal to groups as well as leisure guests. Courtesy of the Sagamore, Bolton Landing, New York.

Although megaresorts are a feature of Las Vegas (see Exhibit 1–6), they are not limited to that location. The 900-room Marriott Desert Springs and Spa near Palm Springs, California, and Hilton’s Hawaiian Village on Oahu (over 2,500 rooms) also represent this genre.

Single-feature, specialty resorts have also proven quite successful. They appeared even earlier than the hotel industry’s general move toward segmentation. Tennis clubs (all types of sports clubs), spas, and health resorts (“diet farms”) have opened and flourished (see Exhibit 1–12). Club Méditerranée became the prototype of a new style of resort: one that features an all-inclusive price, with tips included.

America’s changing demographics (age distribution) is certain to impact the type and variety of resort hotels. The wealthy baby-boom generation is moving toward retirement, and its children, generation X (or echo boomers), are reaching economic maturity. Condominium resorts are a favorite of the parents; all-inclusive resorts are a favorite of the offspring. In every case, weather and location play key roles. Geography is to the resort as commerce is to the transient hotel and population is to the residential property.

Plan

Plan identifies which meals, if any, are included in the quoted room rate. Rates are higher, obviously, if meals are provided. Classification by plan is more objective than
classification by any of the other three categories: size, class, or type. Either meals are included or they are not. With few exceptions, hotels in the United States operate on the European Plan: no meals.

**European Plan.** Rates quoted as European plan (EP) include room accommodations only. Meals taken in the dining room are charged at menu prices. Evidence of the widespread use of the European plan is its lack of designation. Guests are not told, “This is the European plan”; it is assumed unless otherwise stated.

**Continental Plan (Continental Breakfast).** More than any other meal, travelers eat breakfast in the hotel. European hotels often include a limited breakfast with the European plan. This continental breakfast (mainland Europe being the continent) consists of coffee or hot chocolate, a roll, and a bit of cheese (cold meat or fish in Holland and Norway). Breakfast is on the wane in Europe even as it gets a boost in North America. All-suite hotels have gained popularity by including free breakfasts as part of their marketing approach. It is a revival of America’s view of the continental plan, which took form in the no-restaurant format of the 1950s motel. In-room coffee makers, coffee in the lobby, or coffee and sweet rolls in the small proprietor’s kitchen were all touted as continental breakfast.

Continental breakfast has still other meanings. A coffee urn with sweet rolls and juice left in the lobby when the dining room closes is often called a continental breakfast. A similar setup at a group registration desk or at the rear of a meeting room during a speaker’s talk appears on the program as continental breakfast. Juice is included in the United States or when the delegates are Americans, but it is not usually served elsewhere.

In some parts of the world, this abbreviated breakfast is called a bed-breakfast. That should not be confused with the Bermuda plan, which includes a full breakfast in the rate. A very hearty breakfast called an English breakfast is served in Ireland and the United Kingdom. It includes cereal, eggs with a choice of meat, toast with butter and jam, tea, and coffee, but no juice. However, unlike the Bermuda plan, it is rarely included in the room rate quote.

*Café complet*, a midmorning or afternoon coffee snack, is mistakenly called a continental breakfast. The distinction is neither the time of day nor the menu items, but the manner of payment. *Café complet* is not included in the room rate.

The appearance of late afternoon tea as a pleasant supplement to the overworked happy hour is certain to bring further confusion in terminology. Many top U.S. hotels and cruise lines have latched onto that quintessential British ritual, afternoon tea. Delicate sandwiches and small sweets served with tea, or even sherry, comprise this light snack. It is not to be confused with high tea, which is a supper, a substantial meal almost always served with meat. High tea is a rarity today, even in British hotels.

**American Plan.** Rates quoted under the American plan (AP) include room and all three meals: breakfast, luncheon, and dinner. The American plan, which is occasionally called *bed and board*, had its origin in colonial America, when all guests ate at a common table with the host’s family. The plan was still in use when the affluent resorts of the Northeast began operating in the late 1800s. They adopted and held onto the plan until World War II.

New England’s resorts retained the American plan for the same reason that the colonial innkeeper offered it in the first place. Both were isolated, so there was no place else to eat. Better roads and better cars gave guests the mobility that spelled the end of the plan.
Europe’s full pension (pen’si-own) is almost equivalent to the American plan. Breakfast is the big difference. Full pension includes an abbreviated continental breakfast, not the complete breakfast of the American plan. To market the American plan to international guests, European hotels rely on the more descriptive “inclusive terms.” The pension of Europe is the guest house or boardinghouse of Britain and the United States, with residential hotels in Europe using the term en pension. Pensiones are usually longer-stay facilities with limited services, so guests become members of an extended family.

Adaptations of the American Plan. Many guests view the American plan negatively. It requires them to adhere to the hotel’s meal schedule and to pay a fixed price for the meal no matter what they eat. Although not as popular as it once was, the American plan is still alive but under different names.

Cruise ships provide American-plan dining, but they don’t use that terminology. Neither do the all-inclusive resorts of the Caribbean which add drinks, tips, and activities for one price.

A dine-around plan is another variation. AP hotels allow guests to dine at other hotels in the vicinity. The cooperating hotels might be members of the same chain or a local consortium of competitors that understands the marketing value of the option.

Conference centers, which cater to groups, call their variation CMP, complete meeting package. The quoted room rate includes room, meals, coffee breaks, meeting setups, and gratuities. Of the rate quoted, 50% might be attributed to rooms, 33% to food and beverage, 10% to gratuities and the remaining 7% to meeting space and audiovisual/electronic support. This accounting is for internal use and would not be communicated to the guest.

Modified American Plan. The modified American plan (MAP) is an astute compromise offered by some hotels, including those running a full American plan. The hotel retains some of the AP advantages, and the guest feels less restricted. Guests get breakfast and dinner as part of the room rate quote, but not luncheon. This opens the middle of the day for a flexible schedule of activities. Guests need not return for an inconveniently scheduled luncheon nor suffer the cost of a missed meal. The hotel retains the obvious benefits of a captive market for the dinner hour. In an effort to make the difference clear, some APs are now called FAP—full American plan.

Half-pension or demi-pension (DP) is the European equivalent of the MAP. It includes breakfast and one other meal along with the lodgings. Granting either luncheon or dinner gives the foreign guest the same flexibility of scheduling offered with the modified American plan.

Variations on the Themes

The hotel business is a dynamic one because it is run by clever hoteliers. They innovate by modifying the standard into something different even as the basic industry remains the same (see Exhibit 1–12). Bed and breakfasts and boutique hotels are two great examples.

Bed and Breakfast (B&B). Bed and breakfast surged onto the American scene so strongly that one might think it a whole new concept in hotelkeeping. It’s hardly that. Bed and breakfast in the United States takes its cue from the British B&B, the Italian pensiones, and the German zimmer frei (room available)—lodging and breakfast offered by families in their own homes. The Japanese B&B is minshuku.
### Specialty Hotels That Fit No General Category

<table>
<thead>
<tr>
<th>Specialty Hotel Type</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Backpackers</td>
<td>And camping</td>
</tr>
<tr>
<td>Club Med</td>
<td>Vacation villages</td>
</tr>
<tr>
<td>Couples only</td>
<td>Honeymoon resorts and gay groups</td>
</tr>
<tr>
<td>Dude ranches</td>
<td>For the horse set</td>
</tr>
<tr>
<td>Eco lodges</td>
<td>Safari lodges; wilderness accommodations</td>
</tr>
<tr>
<td>Exclusive-use</td>
<td>Resorts that limit use to one group of guests at one time</td>
</tr>
<tr>
<td>Floating</td>
<td>House boats; as hotel rooms in India</td>
</tr>
<tr>
<td>Grand dames</td>
<td>Ladies with aristocratic bearings; hence grand, elegant hotels</td>
</tr>
<tr>
<td>Historical</td>
<td>Buildings (not only hotels) listed with the National Trust</td>
</tr>
<tr>
<td>Ice hotels</td>
<td>Made of ice, popular in Iceland and Canada</td>
</tr>
<tr>
<td>Kosher</td>
<td>For Jewish and Muslim diets</td>
</tr>
<tr>
<td>Landmarks</td>
<td>Former jails and prisons; famous homes; lighthouses*</td>
</tr>
<tr>
<td>Luxury camping</td>
<td>With creature comforts</td>
</tr>
<tr>
<td>Mi Casa Es Su Casa</td>
<td>Joining families in private homes</td>
</tr>
<tr>
<td>Military hotels</td>
<td>The army alone has some 22,000 commercial hotel rooms</td>
</tr>
<tr>
<td>National parks</td>
<td>Operations, including rates, set by the government</td>
</tr>
<tr>
<td>Native American</td>
<td>American Indian operations</td>
</tr>
<tr>
<td>Nudists</td>
<td>Camps, colonies, beaches</td>
</tr>
<tr>
<td>Resident clubs</td>
<td>Private facilities, often with golf clubs</td>
</tr>
<tr>
<td>Retreats</td>
<td>Centers for rehabilitation from drug and alcohol addiction</td>
</tr>
<tr>
<td>Singles</td>
<td>May be religious affiliated</td>
</tr>
<tr>
<td>Sleep clinics</td>
<td>For giving polysomnograms, sleep tests</td>
</tr>
<tr>
<td>Tree houses</td>
<td>Popular in Turkey</td>
</tr>
<tr>
<td>Yurts</td>
<td>Round, cloth-covered tents</td>
</tr>
</tbody>
</table>

*After World War II, Europe’s old bomb shelters served as hotels for a brief period.*

### Exhibit 1–12
Innovative operators and marketeers have created many new hotel niches that do not fall within lodging’s traditional classifications of size, class, type and plan.

American B&Bs are modern versions of the 1930s rooming houses, once called tourist homes. Running a B&B is an adventure for some owners; for others a hobby; for many a livelihood. Guests take rooms with private families, who furnish camaraderie along with the mandatory second B, breakfast. The lack of privacy—conversation at breakfast and sometimes even a shared bath—forces the host and guest into a level of intimacy that brings new friendships along with new business.

Like the rest of the industry, change is part of the B&B’s vocabulary, and no one definition fits all the parts. There are many subcategories because the business is very individualized and localized. The B&B changes identity as it moves across the country. The B&B Inn, for example, is a product of California. It is a large version (over half the B&Bs in the United States are 8 rooms or less) and is usually the owner’s primary occupation. Another subcategory, the Country B&B, is an upscale boardinghouse because it serves all meals, not just breakfast. Country B&Bs have their origin in New England. Between the coasts are a variety of facilities serving their local markets (see Exhibit 1–13). Like other small businesses, B&Bs often lack staying power. Results can be ruinous where zoning laws prohibit even a “rooms-for-let” notice in the window. One positive sign is
Exhibit 1–13 Bed and breakfasts operate under a variety of names. B&B inns are popular on the west coast; country B&Bs in New England. In between are many wonderful stopping places with award-winning breakfasts and distinctive guest accommodations. Courtesy of The Inn at 410, Flagstaff, Arizona.

the new Yellow Pages listing of B&B referral organizations under “B&B” rather than under their previous category of “hotels, motels, and tourist homes.”

In one way, B&Bs are no different from other American hotels. They fight for business and rely on themselves for referrals. In Europe and Japan, government tourist agencies make B&B referrals and even rate them by price and accommodations. The French call them café-couette (coffee and quilt), and their rating system uses three to six coffee pots instead of stars. Since the U.S. government has never entered the tourist-rating business, several private rating and referral systems have emerged. Like the B&Bs themselves, these rating/referral systems come and go quickly, for they too lack staying power.

Boutique Hotels. Boutique hotels are the rage among the hip, the chic, and the cool. So sometimes the pool-party buzz that they create hides their true identity. They’re just hotels; hotels with special issues. Balancing paying customers and trendy clubgoers is one of those challenges. Using word-of-mouth rather than traditional advertising and restricting house guests from some of the parties contribute to the problem. Defining a boutique is even more difficult.

Boutique hotels have small inns as their prototypes, but they provide the amenities of fine hotels. Although many now number in hundreds of rooms, boutiques remain fashionable because of their good urban locations. They are proof positive of “location, location, location.” Two reasons account for their popularity in London, San Francisco, and New York. Relatively small, they can find affordable land in crowded urban areas. Indeed, once they were called urban inns. European-style hotels or, in Britain particularly, baby grand hotels were also once widely used. Secondly, the boutique’s guest is an urban-centric customer: One who willingly pays a 10–15% room premium for the design and excitement of the urban inn.

The very nature of boutique hotels—something different—precludes a single definition. The term has been attributed to Steve Rubell, one of the founders of New York City’s Studio 54, but the concept predates him. Asked to describe his hotel, The Morgans, Rubell said that other hotels are large department stores, but Morgans is a small boutique.7 Boutique suggests something different, very eclectic, always with

7Derived from the Greek for storehouse. “Perhaps that’s where the notion that boutique hotels need to be small began.” Jeff Higley, Editor-in-Chief, Hotel Design, October/November, 2005, p. 4.
flair, funky, and artsy (see Exhibit 1–14). The modern boutique aims to mirror its guests: Wannabes who often see themselves experiencing the lifestyle of celebrities. Nevertheless, boutique executives still talk about service, the guest’s experience, and the quality of the operating team, issues for any hotelier.

Ian Schrager, Rubell’s partner, helped develop the boutique concept, but left after the idea was widely adopted by the hotel chains. Starwood Hotels introduced the W Hotel (for warm, welcoming, and witty). Marriott redeveloped its Renaissance chain with a facelift into the unexpected. The brand chains have entered the fray because boutiques have higher RevPar and occupancy figures (lower break-even points) than traditional establishments.

The question remains whether a branded chain can deliver the unexpected and the quirky, which are the hallmarks of a boutique. Can a hotel be both mainstream and boutique? Can hotels larger than 100 to 150 rooms with banquet and meeting space maintain the connection that boutiques develop between guests and staff? (W Hotel’s flag­ship is the New York W, with 722 rooms.) Perhaps there is a second-generation boutique hotel coming, one with both style and substance. Meridian Hotels use the term Art and Tech: hotels that can be provocative and still provide the basics.

Exhibit 1–14  Boutique hotels have become a distinct segment of the lodging industry. Like the B&B, there is no one standard. Indeed, breaking the stereotype of the hotel is the very appeal of the genre. Courtesy of the Georgian Hotel, Santa Monica, California.
Trophy Hotels. Trophy hotels are those that add to the owner's reputation, similar to a trophy on the shelf. Many grand dame hotels of the hotel business have such wonderful reputations and historical lineage that hoteliers acquire them just to claim ownership. Some are profitable, ongoing properties, such as Denver's Brown Palace. But many trophy hotels struggle during economic dips, although they may be profitable during upcycles. Listing these unique buildings in the National Register of Historic Places provides some helpful tax relief if the hotel is a historical site or if the boutique hotel results from a historical conversion, as it sometimes does.

SUMMARY

The lodging industry continues to play an important role in the development of commerce and culture even as it undergoes rapid changes. Despite the introduction of many new lodging types, the industry retains its traditional measures of success: occupancy (%), average daily rate (ADR), and revenue per available room (RevPar).

To maximize the values of these measures, management must overcome several limitations that are inherent in the hotel business. These include a highly perishable product, an unmovable location, a fixed supply of inventory, a high break-even point, and seasonal operating periods. In addition, hotelkeeping is a cyclical industry, with long up and down waves that sometimes last a decade: tough hurdles all.

Understanding the industry's traditional identifications (size, class, type, and plan) helps in identifying the new permutations (all-suite, B&B, boutique) that keep the industry economically sound and exciting as a career. Competition sharpens the new direction, and rating systems keep the individual hotel attuned. As the changes continue, new classifications and new categories are needed. Those identities are provided in Chapter 2.

RESOURCES AND CHALLENGES

WEB SITES

http://www.lodging-econometrics.com (Lodging Econometrics—Portsmouth, NH. Hotel statistics from the research division of National Hotel Realty, dealing with the value of hotel real estate.)
http://www.rkmillerinc.com (Richard K. Miller & Associates—Loganville, GA. Lodging industry research.)
http://www.smithtravelresearch.com (Smith Travel Research—Hendersonville, TN. Statistical analysis of the lodging industry in conjunction with the AH&LA.)
http://www.census.gov (United States Census—Washington, DC. Counts the nation's lodging establishments.)

Web Assignment

Use references from the Web site (or elsewhere) to update the chapter's statistics. Provide national or local values as assigned by the instructor. Cite sources for the number of hotels, the number of rooms, the percentage of occupancy, ADR, and RevPar.
INTERESTING TIDBITS

- Mr. Chase Burritt, Ernst & Young LLP's hospitality group, says that half of the nation's 4,000,000 hotel rooms are owned by small, independent (non-chain affiliated) operators. *The Wall Street Journal*, December 11, 2001, p. B1.

- *Eloise*, a 1955 book about a 6-year-old girl who lived in New York's Plaza Hotel, helped the hotel receive a 1998 declaration as a "literary landmark." Eloise books, paintings, even a special room set aside for tourists were highlighted for the book's 50th year. The conversion of the Plaza into condos leaves Eloise's fate unclear. A recent novel, *Snowing on Palm Trees*, by Hubert de Maximy, has created a new hotel heroine, an adult businesswoman. The setting is Hilton's Paris Hotel, Arc de Triomphe.


Challenges

TRUE/FALSE

Questions that are partially false should be marked false (F).

1. A budget hotel would have a 1:1 employee to guest ratio, while a casino/hotel would provide better service, say, 0.5 employees to each room (0.5:1).
2. Simply put: Occupancy (%) measures quantity and ADR ($) measures quality.
3. Since there are about 100,000 hotels in the US and about 25,000,000 hotel rooms, the average hotel is about 250 rooms in size. That sounds about right.
4. The hotel industry is counter-cyclical: That is, it improves when the general economy falls and declines when the general economy booms.
5. As a member of the United Nations, the United States adheres to the hotel rating system adopted by the World Tourism Organization.

PROBLEMS

1. A natural disaster such as an earthquake or man-made disaster like the attack on the World Trade Center has an immediate effect on hotel occupancy. Explain step by step how you would estimate the loss in room income to New York City's hotels when approached by the news media. *(Hint: New York City has an estimated 63,000 rooms. Use figures and values from Chapter 1 and/or make assumptions; assumptions should be identified.)*

2. Create a checklist with two dozen objective listings that could be used by an evaluator inspecting guest rooms for a national rating system.

3. Explain where the hotel industry is in its economic cycle. Be specific. Is it at the bottom of the trough? The highest point of its rise? Somewhere in between? If so, moving in what direction? Submit evidence to support your position.
4. Give three to five examples of each type of expense that is used to determine the cost portion of a hotel's break-even point: fixed expenses; semifixed expenses; variable expenses.

5. How many rooms does the MGM Grand Hotel need to sell annually if it budgets operations on an annual occupancy of 82%? (Hint: See Exhibit 1-6.)

6. Using information contained in Chapter 1, justify or challenge the statement of Andrew Young, the former mayor of Atlanta, who said that a 1% rise in room occupancy creates 400 new jobs for that city. (Hint: You will need to know the approximate number of rooms in the city and an estimate of the staff-to-room ratio.)

AN INCIDENT IN HOTEL MANAGEMENT

Hit with a Stinging Towel

The resort was living up to everything the family had heard about it. The view was magnificent; the rooms were large, and the food was great. There were three swimming pools in addition to the beach by the ocean. Getting a towel was the big problem. An in-room sign read,

PLEASE DO NOT TAKE BATH TOWELS TO THE POOL OR BEACH; TOWELS ARE AVAILABLE THERE.

Except there were no towels for two days straight. The attendant said that the laundry couldn't keep up with the demand because the house was full. It was true that the beach and the pools were packed with crowds. So the children took towels from their bath on their final day. Kids! Both left their towels on the beach.

The family's upbeat vacation and positive image of the resort took a wide U-turn when they found a $22 charge on the bill for 2 towels missing from Room 319. And the dad said so aloud.

Questions: Was there a management failure here; if so, what?
What is the hotel's immediate response (or action) to the incident?
What further, long-run action should management take, if any?

ANSWERS TO TRUE/FALSE QUIZ

1. False. Values are reversed. A budget property would have an employee ratio of, say, one-half employee per room (0.5:1), and a full-service property would have a 1:1 ratio or even higher—1.5:1, or superior luxury properties even 2:1.

2. True. Occupancy measures the number of guests in the house relative to the number that could be accommodated (quantity). ADR measures what those guests pay. The higher the rate (the quality of the purchase), the higher the ADR.

3. False. The hotel industry is not that large; see Exhibit 1–1. Moreover, the answer is doubly false, because the typical hotel is closer to 100 rooms rather than 250 rooms.

4. False. The hotel industry follows the national economic cycle. Unfortunately it often precedes the national decline and lags the national recovery.

5. False. The United States government does not rate hotels. That job is left to private enterprise, typically AAA and Mobil Guides.