

Small is beautiful



Urban myths abound – not least within the hotel industry.

Food and beverage is at best a loss leader; unbranded hotels cannot compete with against the major global brands; location, location, location; fill your hotel then push up the price; boutique hotels will always win out.

Recently, we've conducted some unique research that throws light onto some of these assertions. We dug into the Deloitte Hotelbenchmark™ database and extracted data relating to three European cities well-known as upmarket leisure destinations – Edinburgh, Florence and Prague.

We wanted to understand how small hotels (defined here as four- and five-star hotels with less than 100 rooms and including some hotels with as few as 18 rooms) which are largely unbranded fared against the branded hotels which tend to be larger than 100 rooms.

Our findings

- In the last five years, small hotels are more likely to under-perform larger hotels (most of which are branded) – and that small hotels trail in particular, on achieved average rate;
- In two of the three European cities surveyed, small hotels real RevPAR (excluding inflation) has declined in the five year period 2003 -2007 which we suggest is likely to have led to loss of asset value.

Trends not rules

In at least one city, Edinburgh, hoteliers managing small hotels (<100 rooms) have proved that it is possible to outperform the majors consistently and grow asset value in real terms. We suggest that this is the case if the right product, guest experience and operating skills are brought to bear in the right location. 'Twas ever thus' you'll rightly say.

If there is a hypothesis, we'd suggest it is that, in cities with strong year round occupancy (>70%), small hotels can find a profitable niche that seems to be off the radar screen of the major brands.

And we'd put down a new challenge to managers of branded hotels in such cities.

Building revenue streams

Build your RevPAR not just by stealing share from traditional branded competitors and growing demand through your branded channels but also by marketing experiences that are attractive to the individuals successfully targeted by the smaller niche players that you may be ignoring today.

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