The global hotel industry is a $525bn industry, made up of 18 million rooms. 54% of rooms are affiliated with a global or regional chain (‘branded’), up from 50% in 2012, and 48% are unaffiliated (‘independent’). The top five hotel groups, IHG, Marriott, Hilton, Wyndham and Accor account for 25% of market share, up from 19% in 2012, and for 58% of the global development pipeline of hotels in planning or under construction.

In what is a fragmented market, competitor pressures in the branded space are intensifying as all major players pursue growth strategies through acquisitions, organic growth or diversification. As the digital landscape has evolved, consumer choice of where to stay and how to book has developed and hotel companies compete in an environment that includes Online Travel Intermediaries and alternative lodging solutions, such as peer-to-peer home rental companies and serviced apartments.

There are several metrics that recognise industry performance. RevPAR is an important indicator of the value guests ascribe to a given hotel, brand or market and grows when guests stay more often or pay higher rates. Rooms supply is significant because it is reflective of the attractiveness of investing in the hotel industry from an owner perspective and is influenced mainly by the profitability of a brand or market.

Driven by strong economic fundamentals, the global hotel industry has seen growth in both RevPAR and rooms supply for the past nine years as part of a larger travel and tourism sector. It also plays an important role economically, accounting for 1 in 10 jobs around the world.

The hotel industry is cyclical; long-term fluctuations in RevPAR tend to reflect the interplay between industry demand, supply and the macroeconomic environment. In the short term, at a local market level, political, economic and natural factors such as terrorism, oil market conditions and hurricanes can impact demand and supply.

The hotel industry can be categorised by price level:
- Luxury
- Upper Upscale
- Upscale
- Midscale
- Economy

Hotel industry growth drivers: 10-year annual growth rate
- Global GDP +2.5% CAGR
- Global household income +2.8% CAGR
- Global corporate profits +4.2% CAGR

Indicator of economic growth – hotel performance correlates with GDP
Growing consumer spending and leisure travel, supported by cheaper air travel
Good indicator of business travel demand – continues to grow

Global Industry RevPAR ($) *
RevPAR growth suggests solid lodging demand

Global Industry rooms supply (m rooms) *
Supply growth reflects the attractiveness of the hotel industry

Hotel business models
- Owner-operated, asset-heavy model
  - Owned – operated and branded by the owner who bears all of the cost but benefits from all of the income.
  - Leased – similar to owned, except the owner-operator does not have outright ownership of the hotel but leases it from the ultimate owner.

Asset-heavy business models allow tighter control over hotel operations, whilst asset-light models enable faster growth with lower capital investment.

Strategic Report
From growing consumer demand for branded hotels, to an expanding middle class and greater disposable incomes, we operate in an industry with growth potential.
Trends shaping our industry

Demand for branded experiences
Growing consumer demand for branded experiences requires hotel companies to continue to find new ways to work with owners and partners to meet expectations. Owners recognise the strength of a branded offer, and in addition to traditional opportunities, are looking for ways to affiliate with a brand through light-touch conversions or low-cost construction techniques, combined with features that reduce operating costs. The recent addition of multiple new brands by big-branded players illustrates the level of capacity in the market and industry appetite.

Over the last decade, IHG has added our wellness focus brand, EVEN Hotels, a brand tailored to the Chinese consumer, HUALUXE, and following acquisition, expanded Kimpton in the global luxury space. We have also launched avid hotels in the mainstream segment, upscale brand voco, which is principally focused on conversions, and acquired both Regent and Six Senses Hotels Resorts Spas in the top tier of the luxury segment. This reflects a continued strategic focus on offering more tailored experiences to a diverse guest base in the highest opportunity segments and markets.

Diverse consumer needs
The consumer landscape continues to evolve – from millennials seeking increasingly unique and authentic experiences, to baby boomers with money and time to travel, both of whom increasingly expect technology to aid, inform and enrich their stays.

From intuitive booking apps, chatbots, and mobile check-in/check-out, to smart artificial intelligence assistants and seamless wifi, today’s guests expect technology to be integrated into many areas of the travel experience. To meet this trend, the ability of hotel companies to work in partnership with the right technology providers has become increasingly important.

IHG has made good progress in this area: from bespoke online payment solutions to Artificial Intelligence Smart Rooms in some of our InterContinental hotels, which allows guests to use voice commands to control opening the curtains through to ordering room service; and the development of IHG Studio with our avid brand, which allows seamless direct casting of entertainment from guest smart devices to in-room TVs.

Power of the cloud
Data generation, storage and use has never been as prevalent and important as it is today. Cloud storage has further changed the game, giving accommodation providers easy access to real-time diverse data, that enables a more personalised and efficient service.

Operationally it allows providers to use data to tailor guest experiences faster, and drive a more personalised relationship with them. With this trend comes a growing responsibility to handle data responsibly, respecting consumer preferences and rights.

IHG is a pioneer in data-centric technology innovation, from loyalty to reservations and hotel solutions. See IHG Concerto™ case study on page 21 for more details.

20% \(^a\)
New brands launched in the last decade by the top five hotel groups

46% \(^b\)
Of predicted US business trip spending will be by millennials, by 2020

90% \(^c\)
Data in the world was generated in last two years

\(^a\) Source: STR, Inc  
\(^b\) Source: Boston Consulting Group, Inc  
\(^c\) Source: Forbes Media LLC