Industry overview

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

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 46% 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.
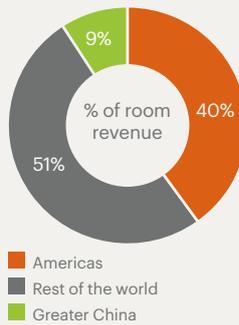
[a] Source: STR, Inc

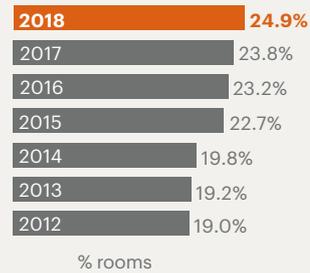[b] Source: Oxford Economics

Overview of global hotel industry

Geography
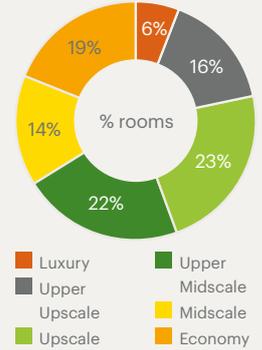The US is the largest hotel market, whilst China continues to grow[a]

% of room revenue
- 40% Americas
- 51% Rest of the world
- 9% Greater China

Branded hotels
The top five hotel groups have increased their market share by 6%[a]

Year	% rooms
2018	24.9%
2017	23.8%
2016	23.2%
2015	22.7%
2014	19.8%
2013	19.2%
2012	19.0%

Segment
The hotel industry can be categorised by price level[a]

% rooms
- 6% Luxury
- 16% Upper Upscale
- 23% Upscale
- 22% Upper Midscale
- 14% Midscale
- 19% Economy

Hotel industry growth drivers: 10-year annual growth rate

Global GDP

+2.5% CAGR[b]

Indicator of economic growth – hotel performance correlates with GDP

Global household income

+2.8% CAGR[b]

Growing consumer spending and leisure travel, supported by cheaper air travel

Global corporate profits

+4.2% CAGR[b]

Good indicator of business travel demand – continues to grow

Global hotel industry performance

Global Industry RevPAR ($)[a]
RevPAR growth suggests solid lodging demand

Year	$
2018	82.8
2017	79.8
2016	76.7
2015	75.2
2014	71.9

Global rooms supply (m rooms)[a]
Supply growth reflects the attractiveness of the hotel industry

Year	m rooms
2018	17.8
2017	17.4
2016	17.0
2015	16.7
2014	16.4

Hotel business models

There are two principal business models used by branded hotel groups:

- Fee-based, asset-light model
  - Franchised – owned and operated by parties distinct from the brand, who pay fees to the hotel company for the use of their brand.
  - Managed – operated by a party distinct from the hotel owner, who pays management fees and, if the hotel uses a third-party brand name, fees to that third-party also.

- 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.

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 Artifical 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 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

voco™ launched in 2018

Artificial Intelligence Smart Rooms

IHG Concerto™

[a] Source: STR, Inc

[b] Source: Boston Consulting Group, Inc

[c] Source: Forbes Media LLC

These pages should be read together with our principal risks on pages 26 to 30 and risk factors on pages 182 to 186.