Virginia Tech
Pamplin College of Business

The Feiertag Academy-to-Industry Collection

Department of Hospitality & Tourism Management

362 Wallace Hall (0429)

295 West Campus Drive

Blacksburg, VA 24061

Article Title

Strategic Hotel Development and Positioning

Citation

O'neill, J.W. & Mattila, A.S. (2006). Strategic Hotel Development and Positioning. *CORNELL UNIVERSITY*.

Abstract

A study of more than nineteen hundred U.S. hotels for the years 2002 and 2003 found that a hotel's net operating income percentage is most closely tied to its occupancy, although average daily rate (ADR) has a strong influence, as does market segment (also known as chain scale), the age of the property, and brand affiliation. A hotel's size (that is, number of rooms) and location (e.g., urban or highway) also influence net operating income (NOI), but a hotel's region does not significantly affect NOI percentage. The year 2002 data particularly show the importance of heads in beds. Hoteliers cut ADR heavily in that recession year, and those hotels that maintained strong occupancy were the ones that enjoyed strong NOI. While resorts and urban hotels generated the highest NOI in raw dollar volume, economy hotels had the highest NOI percentage and midscale hotels with food and beverage service (F&B) had the lowest NOI percentage.

Conclusion

Overall, our findings suggest that all other things being equal, hotel properties with higher occupancy and ADR (that is, higher RevPAR) are more profitable properties, with higher NOI percentage. However, we contend that dollars are what counting the final analysis, so we conclude that the most profitable hotel business model is one that generates the greatest room revenue. To the extent that food, beverage, or ancillary facilities generate additional room revenue (not merely additional total revenue), through the attraction and accommodation of new, additional segments of lodging demand, such as groups desiring these ancillary facilities, it supports this profitable business model.