



## Article Title

Assessment of the Lodging Industry Profitability Performance: Invest in Independent or Chain Ownership?

## Citation

Kapiki, S., Mu, L., & Fu, J. (2014). Assessment of the lodging industry profitability performance: Invest in independent or chain ownership?

## Abstract

The purpose of this article is to evaluate the economic results of the independent hotels in comparison with the chain hotels as well as to propose suggestions for the viability of the lodging industry. The survey took place in Greece concerning the period 2008-2011 and it was conducted via on-line questionnaires among 165 hotel units. The average means of efficiency and profitability indicators of the sampled hotels are benchmarked and the data of 2009 are utilized to further compare their ratios by using ratio analysis. Furthermore, ANOVA test is used to conduct mean difference analysis in order to identify the differences among the means along with their associated variables between independent and chain hotels. The main findings of the survey show that, generally, the independent hotels tend to be more profitable than chain hotels. The sector's good practices that have been identified through this study are highlighted as suggestions for the viability of the lodging industry both in Greece and worldwide. Based on the findings of the survey, investors and hotel operators may have a clearer picture of whether it is preferable to invest their funds in the development of an independent hotel or they should turn to chain ownership.

## Methods

In order to gather the required information, as well as to financially analyze the hotel companies and to identify the industry's best practices towards viability, the authors applied a methodological approach that includes the following steps:

- The lodging enterprises operating in Greece are grouped into two major segments: individual properties and chain hotels.

- An on-line questionnaire was developed and sent to 200 independent hotels and to the headquarters of 250 hotel chains (the latter publish consolidated balance sheets), aiming to collect key financial data for the period 2008-2011 as well as identify those practices having contributed to their viability. The hotel categories vary from 2-5 stars (although the responses from 2-star hotels are quite few) and the vast majority are city and resort hotels.
- Benchmarking is conducted in the average mean between the independent and chain hotels during the period 2008-2010, aiming to identify the tendency of the efficiency and profitability performances between independent and chain hotels.
  - The authors focus on the data presented in 2009, and conduct a ratio analysis on the four indicators of profitability performance between the two types of the sampled hotels, whose profitability exceeds the average mean.
  - Then an examination of whether the means of the profit indicators are significantly different for the two types of hotels is implemented by using ANOVA analysis. The data are processed and presented via SPSS 17.0.

## Results/Conclusion

The decision to be an independent or chain affiliated hotel is one of the most critical decisions in a hotel investment. The present study has proved that the independent hotels in Greece gradually perform better than the chain hotels during the period 2008-2011, but have not taken a dominant position at least in the year 2009. All the Efficiency and Profitability Indexes of the independent hotels for the period 2008-2011 are much improved in relation to the respective indexes of the chain hotels based on an average mean analysis. The EBITDA Margin in particular of the individual hotels is much higher in 2011 (25.40%), a year during which the Greek upper class hotels increased sales and market size (in value). To conduct a financial analysis on economic performances, not only the average mean but ratio analysis and mean differences should be considered as well. Irrespective of a hotel's development process, both chain and unaffiliated (independent) hotels should focus on sustainable earnings and value. Towards this goal effective asset management is expected to be applied in the complete cycle of a property's development and operation. The Greek as well as all the hotel enterprises in the world perpetually struggle for profitability and viability.