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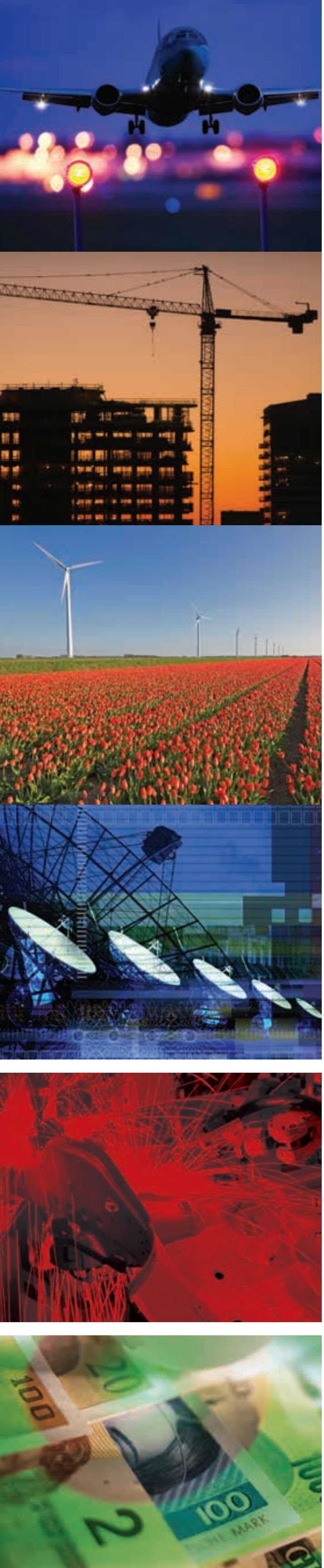

A Profile of the Hospitality Industry

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BEP BUSINESS EXPERT PRESS

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Abstract

The hospitality industry is generally referred to as businesses that provide accommodation and foodservice. Traditionally an entrepreneurial business, it now includes organizations ranging from small independent cafes to large multinational corporations. Businesses in the hospitality industry have many organizational structures to include whole ownership, franchising, consortia, and management contracts as key configurations. Affected by capital investment, travel and tourism trends, threats and opportunities, the hospitality industry has proved resilient.

The hospitality industry is unique in many aspects of organization and strategy. In addition, the hospitality product is generally part service and part product, produced and consumed simultaneously, and includes the customer as part of the delivery process. Inventory is perishable. Human resources plays a significant role as the hospitality industry is labor intensive.

Because the hospitality industry is so diverse, governmental regulation and policies influence many aspects of the industry. Of primary concern are policies that promote or restrict tourism and travel. Guest and employee safety are highly regulated. Hospitality businesses are subject to labor provisions, food safety laws and requirements for accommodations for customers with disabilities. Global expansion is also highly regulated with requirements for partnership and governmental ownership in foreign development and investment.

The hospitality industry is ripe with opportunity and challenges. Global expansion is increasingly a part of the modern hospitality industry. The hospitality industry faces many challenges. The ongoing threat of terrorism to travel remains a concern. Cost and availability of capital for expansion can be an obstacle in some markets. Technology has changed the distribution of the hospitality product. Pricing transparency in lodging and accommodations threatens commoditization. Social marketing, while presenting opportunities, has also destabilized the ratings and information process of hospitality products, putting control of information in the hands of the consumer. Greening, or sustainability efforts, provides both opportunity and challenge as hospitality organizations embrace market, methods, and processes which renew and replenish resources.

Keywords

Hospitality, Hotel, Motel, Inn, Resort, Restaurant, Foodservice, Quick Service, Lodging, Catering, Gaming, Casino, Tourism

Contents

CHAPTER 1

Introduction

Travel is often considered everyone's favorite pastime.[1] Thus, it is no wonder that many consider the hospitality industry to be one of the world's biggest industries. It is estimated that 1 in 11 jobs worldwide is a part of the hospitality industry.[2] So pervasive is the hospitality industry that quick service restaurants and their related franchises are considered one of America's largest and best exports.[3]

The hospitality industry is generally referred to as businesses that provide accommodation and foodservice. The North American Industry Classification System coding system developed for the U.S. Census Bureau classifies Accommodation and Foodservice together. The hospitality industry is composed of several smaller industries: lodging, foodservice, and travel-related recreation. Hotels, motels, resorts, inns, and bed and breakfasts make up most of the lodging or accommodation industry. The foodservice industry is diverse and is often classified into Quick Service, Casual, Full Service, On-site Foodservice (contract), Private Clubs, Bars and Beverage Management, Catering, and Event Management.[4] Gaming or casinos are often considered a component of the hospitality industry where they intersect with hotels and restaurants.

The hospitality industry is very diverse: from small mom and pop diners to large multi-thousand hotel room complexes. The industry is located throughout the world in many facets, structures, and designs. But, the hospitality industry is more than just a place to stay or a meal to eat. It often serves as the hub of a community.[5] Restaurants and hotels also serve as a center for commodities, capital, and information.[6] People gather to hotels and restaurants in pursuit of commerce, conversation, and culture. Conrad Hilton believed hotels and restaurants become the "focal point for the exchange of knowledge between millions of people … who have come there because they want to know each other better, trade with each other and live with each other in peace."[7] As economies and communities develop, hotels and restaurants play a vital role beyond the provision of beds and meals.[8] The hospitality industry contributes to a community's economic, social, and cultural development.[9]

The hospitality industry has often been charged with helping to facilitate a global economy, often known as an ambassador to the community or country.[10] Many believe that international travel can help establish world peace.[11] In the years following World War II, several hotel companies were recruited to build hotels internationally as part of the "good neighbor policy."[12] Hilton Hotels developed a corporate motto during that era that reflected the view of many: "World Peace through International Trade and Travel."[13] Conrad Hilton believed this philosophy of establishing world peace by increasing international trade by opening hotels in many international cities. InterContinental Hotels was formed to help facilitate world trade with the belief that world peace could be achieved by enriching and strengthening economies of smaller countries throughout Latin America and the rest of the globe, thereby lessening the appeal of dominant countries and further world wars.[14] The hospitality industry has helped to unite warring factions in other countries such as Guatemala and India.[15]

The hospitality industry is composed of many pieces in various structures and processes. The industry is diverse in its history, with chronicles of many different key players. The hospitality industry is composed of many small businesses as well as several large multinational businesses. There are many independent hotels and restaurants with varying affiliations. Acquisitions and mergers have been abundant in the hospitality industry, resulting in a small number of large multinational companies.

The hospitality industry has several key components that set it apart from other industries. Service is as much of the product as the tangible room or meal. As such, the customer is highly woven into the product and service delivery. Inventory is highly perishable. While brands and large company ownership are prevalent, the majority of the hospitality industry is still owned and operated by individuals. While not unique to the hospitality industry, labor is a key component.

The Origins of the Hospitality Industry

Where does the hospitality industry begin? As long as people have had a need to travel and eat, there have been accommodations and foodservice. There are mentions of lodging and foodservice in ancient Babylonian, Greek, Hindu, Islamic, and biblical histories.[16] Japanese history tells of *ryokans*. There were *caravansaries* along the China Silk route, *dharamshalas* in India, and *pandocheions* in ancient Greece.[17]

History has many periods of travel through the exploration and expansion of empires, nations, and continents, giving birth to the lodging and foodservice industries. The early hospitality industry was developed to meet the basic lodging and meal requirements of early travelers. Taverns, inns, and "ordinaries" were built to accommodate people as they migrated and traveled.[18] Throughout history, it was common for a hotel or restaurant to be one of the first buildings as new towns were built.[19]

Lodging and foodservice had many faces through early history. Travelers often stayed in private homes, cottages, and keeps. Foodservice in early years was basic and rudimentary: simple meals served at set meal periods, with travelers eating together, often from the same bowls or troughs.[20]

Since those early years, the lodging industry developed as a place for business travelers to stay and for developing forms of leisure travel. Hotels evolved from places of simple accommodation to a range of facilities today; from small bed and breakfasts to mega-resort complexes.[21] Foodservice progressed from simple fare meeting basic dietary needs to elaborate entertainment intertwined with extensive food and beverage offerings. Restaurants today encompass everything from single-owned small restaurants to worldwide quick service enterprises to grand luxurious dining experiences.

Casinos

Gambling as entertainment or sport has been around since the early civilizations of man.[22] Casino gambling as a part of the hospitality industry traces its origins to Europe with food, drink, and rooms. Venice and Monte Carlo are often credited with the first casinos.[23] The history of gambling is varied with most countries, states, and territories going back and forth between embracing and outlawing gambling.[24]

Today, casino hotels are scattered across the globe. Most well-known are the large destination gaming communities of Las Vegas, Atlantic City, Macau, Monaco, Singapore, Australia's Gold Coast, and the territories of South Africa.[25] Expansion of the casino resort industry is rapid with casino development on six of the seven continents of the world.[26]

How the Book Is Organized

This book begins with an overall history of the hospitality industry, highlighting key developments and changes that have occurred. Due to the complexity of the industry, the history is not all contained in Chapter 2. As elements of the industry are introduced in further chapters, those pieces of history are discussed there. For example, as the concept of franchising is introduced in Chapter 3, a brief history of franchising for the hospitality industry is included. Chapter 2 also includes a brief summary of key players for the hotel, restaurant, and gaming industries. Because the industries are so complex with such a long history, it is not possible to introduce all the key players from all the time periods within the bounds of any book. But this chapter highlights a few details of many of the key players.

Chapter 3 discusses the organization of the industry. The hospitality industry is very complex with many models of management, ownership, and branding affiliations. With more than half of the hospitality industry consisting of independent owners and operators, organization has many formats. This chapter introduces the concepts of franchising, consortia, and management contracts, discussing their history and role in the hospitality industry. A brief discussion of the role of branding in the hospitality industry is also included in this chapter. The hospitality industry has weathered many economic cycles. A brief outline of these cycles and factors which affect expansion and contraction of the industry are included in this chapter.

The hospitality industry has many factors that make it unique. Chapter 4 introduces these factors and explains their influence on the hospitality industry. The hospitality product is part product and part service. Chapter 4 discusses this complexity including the role of customer service, and perishability of the product. The chapter also explains how the hospitality industry is often location-bound, limiting outsourcing.

Chapter 5 outlines the competitive strategies commonly deployed by the hospitality industry. The role of loyalty programs and revenue management within the industry are explained. The chapter also discusses pricing strategies, economies of scale, diversification, barriers to entry, and strategic alliances.

Chapter 6 discusses the outside market forces and their relationship to the hospitality industry. The chapter reviews how availability and cost of transportation and travel impact the hospitality industry. The chapter discusses the changes technology has brought to the distribution of the hospitality product. The chapter includes a discussion of the substitutes for the hospitality industry and the role of partnerships with other industries. This chapter also outlines the regulations and policies that affect the hospitality industry. A discussion of visas and regulations which promote and deter travel ensue. Other regulations such as food safety and security, guest and employee safety, and wage and labor regulations are discussed.

Chapter 7 presents a view of the challenges and opportunities that face the hospitality industry. Many factors present both opportunity and challenge for the industry. For example, technology opens new markets and communications with customers and streamlines many operations. However, the hospitality technology industry is very fragmented and keeping up with changing technologies presents a challenge to many hospitality operators. Chapter 7 discusses the opportunities and challenges in changing consumer values, sustainability, and differentiation. The hospitality industry is threatened by many factors such as the decline of leisure time, varying economies, terrorism, war, natural disaster, governmental restrictions, adverse weather, transparency of pricing, cost and availability of land, and the need for refurbishment of much of the hospitality product. Overall outlook for the hospitality industry is very positive with many opportunities for growth. Chapter 7 closes with a discussion of growth opportunities, particularly within the international markets.

CHAPTER 2

How the Industry Operates

The hospitality industry is composed of many entities in many different structures and processes. The industry has an expansive history, with chronicles of diverse key players. The structure of the industry has a dichotomy. There are many independent hotels and restaurants. Conversely, the hospitality industry also has a small number of very large multinational corporations. Throughout the industry there are varying affiliations and organizational structures.

History

Hotels

There are many mentions of lodging, inns, and hotels throughout history: from the biblical script of "no room at the inn" to tales of travel by explorers and conquering nations. Throughout the ages people have sought accommodation as a part of travel as well as in everyday life. Early hotels or lodging were simple and often communal, with travelers sharing rooms and beds. Accommodations were rudimentary, providing travelers simply a safe place to rest for the night, and safe was a relative term. Hospitality and service were scarce, with many lodging establishments unclean and run by "disreputable and unprogressive" owners.[1] Lodging accommodations varied from rooms above or behind taverns to extra rooms in homes and castles. Some eras of history even saw the use of monasteries and churches to house travelers.

The oldest known still-operating lodging facility is the Flower Inn in Basel Switzerland, opened in the year 1032 AD. It was renamed Les Trois Rois during the reign of the Roman Empire over Switzerland.[2] The actual word "hotel" is French in origin, and was commonly used to define lodging establishments throughout the latter part of the 1700s.[3]

Hotels have had many names throughout the ages and still do today: house, guest house, road house, coach house, inn, lodge, hotel, motel, resort, khan, caravansary, ryokan, etc.

The industrial revolution spawned the development of hotels in larger cities to meet the needs of the growing demand associated with increasing commerce. People had the freedom and capital to travel. This time period also saw a rise in the "leisure class" and so the hospitality industry evolved from providing only the basics to providing entertainment and experiences.[4] This era also marks the beginnings of resorts as the newly mobile upper class sought escape from the rising industrialized cities.

Hotels through the next century had many faces, from rustic inns along newly expanding travel routes to palaces of the people serving as popular public gathering places. These grand hotels were sources of community pride, often resembling the grand palaces of Europe in architectural design.[5] By the end of the 1800s some of the world's finest hotels (the Waldorf Astoria in New York, The Bristol in London, and The Palace in San Francisco) were built.

The 1800s were a time of reformation of the hotel and lodging industry. This reformation began with the building of hotels such as the Tremont House in Boston. Opened in 1829 the Tremont was the largest and most expensive building in the United States at the time.[6] The Tremont had many innovations that modernized the hotel industry: private rooms, locks on the doors, each room had a bowl and pitcher, and a free bar of soap. Hotel staff were "trained, and instructed to treat hotel guests with dignity and respect."[7] This spurred a change in the hotel industry as many other cities across the United States, and Europe developed hotels to compete and surpass the Tremont House.

Ellsworth Statler, considered by many to be the father of the hotel industry, brought the next great transformation in hotel development.[8] With the opening of the Buffalo Statler in 1908, Statler was the first to put in private baths, full length mirrors, and telephones in each room.[9] His vision of hotels shaped the industry for the next 40 years.[10]

The early part of the 1900s saw a burst of hotel building in the United States. Some of the world's largest and most luxurious hotels were built during this time: The Waldorf Astoria, The Hotel Pennsylvania, The Stevens (now the Chicago Hilton & Towers). Train travel was at a peak and the automobile was gaining in popularity. Hotels sprung up along routes of travel, and people were seeking restaurants with roadside service. It was during this early part of the 20th century that many of what became large hotel companies began: Hilton built his first hotel in 1919: the Mobley in Cisco, Texas. Howard Johnson and J.W. Marriott both opened their first restaurants in the 1920s.[11]

The 1930s brought the Great Depression to the United States and much of the world, as well as expanded wars and turmoil on the European continent. Many hotels went into financial receivership, with more than 80 percent of U.S. hotels in foreclosure or receivership.[12]

The end of World War II and decades following saw rapid development of hotels and motels as populations expanded and became more mobile. Economic growth in many regions of the world spurred business travel, and expanded transportation encouraged pleasure travel. Howard Johnson opened his first travel lodge, Kemmons Wilson launched Holiday Inn, and Walt Disney opened Disneyland. Hilton bought the Statler Company. Franchising for hotels and motels took off. There were more roadside properties offering expanded service and bigger rooms. Airport hotels began to spring up in many locations.

Hotel development was not limited to the United States. In 1934 M.S. Oberoi purchased the Clarke Hotel in Shimla, India, beginning the Oberoi Hotel Group. M.S. Oberoi was instrumental in developing the hotel industry in much of India, Indonesia, Mauritius, Egypt, Saudi Arabia, and Australia.[13]

Motels

Another word often used to describe lodging is “motel” derived from motor hotel. Motels appeared on the horizon in the 1920s. Appealing to the traveling motorists, early roadside accommodations often began as upgraded camping cabins with garages. Overtime these motor hotels adapted and changed as the consumers’ vehicle and travel needs changed, offering many of the same amenities as hotels. Motels initially began primarily as independent mom and pop establishments. But as they grew in size and complexity professional management became more common, and many of them associated with larger companies.[14] Appealing to the traveling motorists, the 1950s and 1960s saw the advent of budget motels with names such as Howard Johnson's Travelodge, Motel 6, and Ramada Inn.[15] Motels initially developed along highways outside of cities and along rural routes of travel.[16] But today, motels can be found just about anywhere from urban to remote locations.

The hotel industry continued to expand throughout the latter half of the 1900s with many hotels being developed. Segmentation became popular with economy, extended stay, and all-suite hotels entering the market. Casino resort communities built mega resorts with thousands of rooms and extensive dining and entertainment options.

The history of the hotel industry was not all golden. There have been many periods of stagnant growth and even recessions. Overbuilding and over-supply occurred in some markets. Changing routes and types of travel made some hotels and motels obsolete.

Recent years have seen significant expansion of the hotel industry throughout the world, particularly in the Middle and Far East. As business centers develop in newly industrialized countries, rapid hotel expansion follows.[17] Overall the hotel industry continues to grow, develop, and expand. The industry continues to adapt to changing traveler needs and preferences. New products and services are developed to appeal to new market segments.

Restaurants

Finding the origin of the restaurant or foodservice industry is a debatable process, since food and the serving of food to one another originated with early man. The Roman Empire has many credits toward the origin of the restaurant industry with elaborate service of foods and wines.[18] Foodservice prior to the 17th century generally consisted of travelers sharing meals together around one table. The menu was basic with little to no selection, and was often served in a communal trough or bowl.[19] Foodservice was a necessity more than an experience for pleasure. While taverns and similar places of lodging served meals, free standing restaurants did not become popular until the late 1700s.

During the 18th century most villages and towns had a tavern, and cities had several hundred. However, for many of these establishments the primary purpose was to serve alcohol. Most taverns and boarding houses of that era included meals in the price of lodging, thus limiting the need for additional restaurants. As cities grew and transportation improved, the need for free-standing restaurants increased.

Early foodservice establishments had many names: eating house, dining room, victualing house, dining hall, tavern, etc… In the United States the first foodservice was the American Tavern opened by Samuel Cole in 1634. The word restaurant comes from the word restaurer which means to restore. Boulanger was credited with a shop in Paris serving a restorative broth in 1765. Boulanger's restaurant was quickly copied and many similar "restaurants" opened across Europe.[20] Menus quickly expanded as entrepreneurs and customers embraced the concept of dining away from home. By the year 1804 France had more than 2,000 restaurants.[21] As French influence was expanded throughout much of the world, this form of dining expanded to other continents.[22]

The beginnings of restaurants and foodservice cannot be discussed without the inclusion of Mari-Antoine Careme (1784–1833) and Auguste Escoffier (1846–1935); both were considered the founders of professional cooking and culinary techniques, skills, and principles.[23] The French Revolution is accredited with changing the face of foodservice and restaurants across the European continent. The monopolistic cook's guilds were abolished during the revolution, forcing many chefs of aristocrats to parlay their skills in new ways, encouraging a growth in restaurants.[24] There are many colorful tales of chefs narrowly escaping beheading along with the aristocracy during the French Revolution. Some historians refute the role of the revolution in establishing restaurants, noting that many early French restaurants started by former chefs of the bourgeois were started prior to the revolution, and mostly in the spirit of entrepreneurship.[25] Regardless, culinary traditions and techniques were greatly altered during this era.

Delmonico's of New York is important in restaurant history in the United States.[26] John and Peter Delmonico opened a wine shop and bakery in 1827, expanding to their first full-service restaurant in 1831.

Delmonico's went on to open many other restaurants throughout its history, progressing to larger buildings and more prosperous neighborhoods as the restaurants progressed. While the Delmonico brothers were not the first restaurateurs in America, they were some of the first to "capitalize on an undeveloped idea and to expand," changing American dining.[27]

By the 1800s, restaurants had begun to evolve from places to eat to places to entertain, and in which to be entertained.[28] The restaurant industry continued to grow. Ethnic foods became more popular with expanding migrant communities.

Quick service

Just as the advent of the automobile changed the lodging industry, it also affected the restaurant industry. The concept of quick service (also known as fast food) began in an era of expanded mobility. Automobiles allowed people to travel further to work. During this time more women entered the workforce. These two factors combined resulting in less time to prepare meals at home.[29] Many early pioneers of quick service strategically placed their restaurants along the roads that people frequently commuted and traveled. Thus, picking up dinner from a restaurant became convenient and fast.

The quick service restaurant industry traces its origins to two pioneering restaurants: White Castle and the Pig Stand. White Castle hamburgers opened in Wichita, Kansas, in 1921. Edgar Waldo "Billy" Ingram developed a method for cooking hamburgers by flattening the ground meat and cooking it with onions on a flat griddle, thereby inventing the modern day hamburger.[30] Ingram changed the perception of the hamburger from an undesired menu item to the "most preferred menu item in America in the 1940s."[31] Jesse Kirby pioneered the drive-in restaurant concept in 1921 in Dallas, Texas. With an eye toward expanding automobile travel, Kirby developed the Pig Stand with car hops racing to serve customers in their automobiles.[32]

Many quick service fans point to In-N-Out Burger as another pioneer. Harry Snyder opened In-N-Out Burgers in 1948 in Baldwin Park, California. Snyder is credited with many innovations in the industry to include the first two-way speaker phone for drive thru restaurants.[33]

McDonald's is one of the most well-known quick service giants throughout the globe with over 36,000 restaurants in more than 100 countries in 2015.[34] The original McDonald's concept started in 1940 by the McDonald's brothers, Richard and Maurie, in San Bernardino, California. This first McDonald's restaurant was counter service only with no seating.[35] Ray Kroc, a milkshake machine salesman, saw the potential of the McDonald's concept and partnered with the McDonald's brothers to expand the company. Kroc later bought out the McDonald's brothers and expanded and developed the company into the large multinational conglomeration known today.[36]

The quick service industry had other transforming pioneers. Truett Cathy transformed the quick service industry from a menu based on hamburgers by bringing the boneless chicken sandwich to popularity in 1961. He named the sandwich the Chick fil-A. Within a few years he started the quick service restaurant company with the same name.[37] Glen Bell introduced America to fast Mexican food with Taco Bell,[38] Harland Sanders opened the first Kentucky Fried Chicken in Salt Lake City in 1952, and Dave Thomas began his Wendy's Old Fashioned Hamburgers chain, which he named after his daughter, Melinda "Wendy" Thomas, in 1969. Carl Karcher started Carl's Jr with several hot dog stands,[39] and Matthew Burns and Keith Cramer started Burger King in Florida in 1952 (under the name Insta-Burger).

Quick service embraced the assembly line process popularized by the automobile industry. In quick service restaurants "work was divided into simple tasks that could be performed with a minimum of training."[40]

The hamburger and quick service restaurants still reign today as some of the most popular restaurant concepts. Interestingly, White Castle and In-N-Out were some of the few quick service companies that did not embrace franchising early on, and were quickly surpassed by companies such as McDonald's, Wendy's, Taco Bell, and Burger King.[41]

The quick service concept has spread across the globe, with McDonald's, Burger King, Subway, and Kentucky Fried Chicken having restaurants on six of the seven continents.[42] Internationally, most of the quick service restaurants offer small adaptations to the menu such as the addition of sweet and sour sauce, but the menus remain largely unchanged.[43] It is projected that quick service makes up more than 25 percent of total restaurant sales worldwide (Table 2.1).[44]

Table 2.1 Top quick service restaurants worldwide by number of restaurants[45]

Company Name	Country of Origin	Food	Number of Restaurants
Subway	United States	Submarine sandwiches, salads, and pizzas	43,848
McDonald's	United States	Hamburgers, chicken, cheeseburgers, french fries, soft drinks, milkshakes, and desserts	36,258
Starbucks	United States	Coffee, tea, pastries, and smoothies	21,878
KFC	United States	Fried chicken	14,189
Burger King	United States	Hamburgers and french fries	13,960
Pizza Hut	United States	Pizza	13,595
Domino's	United States	Pizza	11,629
Dunkin Donuts	United States	Donuts	11,300
Baskin Robbins	United States	Ice cream and frozen treats	7,500
Wendy's	United States	Hamburgers, chicken sandwiches, and french fries	6,515
Taco Bell	United States	Tacos, burritos, and Tex-Mex foods	6,228

Casual dining

The concept known today as casual dining took off in the late 1900s. A concept between formal dining and quick service, casual dining allows a more affordable menu price, yet still employs sit-down table service. Casual dining is the second largest segment of the food service industry today, following close behind quick service. There are examples of casual dining early in restaurant history with eateries such as A&W and Hot Shoppes. Norman Brinker is accredited with expanding or contributing to the development and growth of casual dining with chains such as Steak and Ale, Bennigans, and Chili's' restaurants. Brinker founded Steak and Ale in 1966. He started the Bennigans restaurant chain in 1976.[46] Brinker developed a number of restaurant concepts, which he sold to Pillsbury. Brinker later went on to manage Chili's restaurants, helping to grow the company expansively. Casual dining included many other developments such as TGI Friday's, Houlihans, Houston's Red Lobster, Applebee's, and Olive Garden.

Ethnic restaurants

Ethnic restaurants began to appear in the restaurant industry as early as the late 1700s, the most popular of which were French cuisine restaurants in New York City and Philadelphia. Throughout the 1800s famines, wars, revolutions, and perceived opportunities spurred increases in migrant populations. Along with the migrant populations came expansive ethnic cuisine.

Ethnic cuisine filled several roles in foodservice. The new migrant populations were seeking foods and menus from their home countries. They also took pride and gained comfort in long established culinary traditions. French, Italian, Chinese, German, Irish, Greek, Polish, Thai, and many other ethnic cuisines soon became part of the restaurant industry. Ethnic food also fills another role: customers like to try something different when dining out, adding to the popularity of ethnic restaurants. Ethnic cuisine also meets the needs of the wanderlust by bringing a sense of travel to the dining experience.[47]

Managed foodservice

Managed foodservice refers to foodservice for airlines, airports, schools, colleges and universities, health care facilities, military, government centers, business and industry, and stadiums, arenas, and entertainment centers. The difference between managed foodservice and other types of restaurants is that the key purpose of the foodservice is to support the venue, organization, office, or business. In contrast, for restaurants, the key purpose is profit-related foodservice. Some managed foodservice operations are not-for-profit, while some do indeed turn a profit. For many managed foodservice operations, the audience is captive with little or no other choice for foodservice such as in a hospital or school. In many of these instances, the customer eats at the foodservice operation daily, while for others such as a stadium or airport, the customer may only eat at the foodservice operation one time.

Managed foodservice has many origins, with some crediting foodservice offered to early train and airline customers. However, military feeding has existed for millenniums. Early managed food service was primarily airline catering systems. Hot Shoppes Restaurants began providing airlines with food for on-flight service in 1937. Hot Shoppes was also the forerunner in government contract food service, with a contract to feed U.S. Treasury employees in 1939.

In 1948 three World War II veterans were attending Hobart College in Geneva, New York, under the GI Bill. While attending college, they took over management of the dining hall. After graduating two years later, they expanded their expertise to other colleges and universities, eventually creating Saga Corporation, one of the first nationwide providers of educational foodservice. Saga was later acquired by Marriott and eventually sold to Sodexo, which is a leading contract food service company today. Aramark, another of the leading contract foodservice companies, got its start in 1936 when an entrepreneurial peanut salesman stalked an aircraft plant into putting peanut dispensers on the factory floor. Merging with another vending machine company in 1959, Automatic Retailers of America (ARA) was formed. During the next decades, ARA expanded into sports arenas and stadiums, followed by corporate dining facilities, hospitals, and schools. ARA later changed its name to Aramark.[48]

Like other areas of the hospitality industry, managed foodservice can be operated independently or affiliated with a large corporation. Recent developments in managed foodservice include additional use of branding, such as branded quick service restaurants located within airline terminals and on college campuses. Some reports indicate that more than half of managed foodservice outlets incorporate restaurant brands.[49]

Nutrition and health concerns are an integral part of managed foodservice in health care, education, and prison settings. Foodservice operations in these areas are often under strict regulations and guidelines for nutrition.

Casinos

Gaming or gambling as an industry has many forms. Gaming intersects with the hospitality industry where casinos are a part of or connected to restaurants, hotels, or resorts.

In understanding the historical, present, and future role of the casino gaming industry, it is important to recognize the relationships of casino gambling and governments' desires for additional revenue.[50] Governmental regulations banning and limiting casino gambling have a profound influence.[51] Casino gambling has been legalized and had the legalization rescinded many times throughout world history.[52] Recently, many governments have done an about-face in their attitudes toward gaming. Once viewed as an evil to society, today gaming is often accepted as a means to generate additional tax revenues or to expand a struggling economy.[53]

Gaming first began to intersect with the hospitality industry during the late 1800s in Monte Carlo. Known for its lavish casinos, restaurants, and resorts, Monte Carlo established itself as an entertainment and gaming destination. The next big development in casino gambling came in the 1930s with the passage of the Wide Open Gambling Act in the United States and the state of Nevada subsequently legalizing gambling. But gaming and the opening of casinos was slow in the beginning. The El Rancho Vegas, the Last Frontier, and the Desert Inn opened in 1941 offering hotel accommodations and recreational amenities to guests.[54] In 1946 Benjamin "Bugsy" Siegel opened the Flamingo Hotel in Las Vegas, Nevada, offering Hollywood style entertainment.[55]

Creating a grand scale resort with extensive recreation, entertainment, and gambling was the next phase for the casino industry.[56] In the mid-1960s, a hotel entrepreneur, Jay Sarno envisioned a different kind of casino, one with European flair, and thus Caesar's Palace was born.[57] Other large-scale casino resorts began to open in Vegas, each one upping the ante to the large megaresort casinos that grace Vegas, Macau, Dubai, and many other destinations today.

The casino industry began to interweave further into other sectors of the hospitality industry by attracting some of the large multinational hotel companies. Hilton entered the gaming market in 1971 with the purchase of the International and Flamingo hotels, later restructuring the company to add a gaming division to its corporate structure in 1977.[58] Harrah's was the first solely gaming company to list on the New York Stock Exchange in 1971.[59] This brought a sense of legitimacy to an industry whose reputation was often questionable.

Beginning in the 1980s, other destinations began to legalize casino gaming, expanding the market beyond Vegas. In the United States, Native American Tribes were given permission to operate casinos in 1988 with the passage of the Indian Gaming Regulatory Act. Considered a high investment risk by most traditional lending sources, the first Native American Casinos turned to overseas capital sources for initial investment. The Foxwood Casino in Connecticut was initially financed by a company from Malaysia.[60] Riverboat gambling, which began in the United States in the 1990s, intertwined legalized gambling with restaurants.[61]

The casino industry was also expanding in other parts of the globe. The 1960s saw casino gambling in Puerto Rico and the Bahamas. Several other Caribbean island nations also opened casinos, however most were only open to foreigners. Local residents were forbidden to gamble. Egypt, South Korea, and several other countries similarly opened casino resorts barred to nationals but open to foreigners. Malaysia also developed casinos in the 1960s, with restrictions. Muslim Malaysians were forbidden to gamble, while Muslims from other countries and non-Muslims were welcome to gamble.

While gambling in many forms had been legal for decades in Australia, the first casino resort hotel, the Wrest Point Hotel Casino in Tasmania was opened in 1973. Development of resort casinos in Australia and New Zealand took off rapidly with many casinos built during the 1980s and 1990s.

South Africa had strong laws against gambling until the creation of "independent black homelands" in 1976 which allowed for legalized gambling in several independent states. Bophuthatswana and Transkei built large Vegas-style casinos that attracted many South Africans of varied cultures. These casinos were caught in the controversy of Apartheid. Some claim that the ability of South Africans to mix interracially at casinos helped facilitate interracial relations throughout the country. South Africa legalized casino gambling across the nation in 1996, which brought a rush of casino development to the country. Casino development across the rest of the African continent has been scarce, with mostly small casinos that limit patronage to foreigners. Recent years have seen some interest in casino development by other African nations as they eye the tax advantages and revenues of casino gaming.

South America has had an interesting history of casino gaming altering between state and private ownership. Panama, Uruguay, Chile, and Argentina permitted casino gambling in various forms, under various rules and regulations. It was not until the 1980s that large-scale casino resorts were widely developed throughout the continent.

Casino gambling across Europe has had a mixed history, with varied monarchs and dynasties embracing or outlawing various forms of gambling. Starting in 1907 with France legalizing some forms of gaming, the casino resort industry began to expand across Europe. Wars, occupations, and other turmoil dampened casino development for much of the early part of the century. Countries throughout Europe began to earnestly develop casinos after World War II in various forms, structures, and governance, stripping Monte Carlo of its centuries-old monopoly.

Russia had developed many small gambling halls during its Soviet Union years. This came to a screeching halt in 2009 when gambling was outlawed in all but four designated zones, which today have limited casino resort development.[62]

Gaming, wagering, and gambling have a long rich history in China. So, it is no surprise that the Chinese love to visit Macau. As the sovereignty of Macau was returned to the Chinese Government in 1999, three gaming concessions were initially granted through a bidding process. The first went to legendary gaming tycoon Stanly Ho; the second to Steve Wynn, and the third to Che-woo Lui, the real estate developer and hotel franchisor known for bringing international hotel standards to Hong Kong.[63] Macau expanded rapidly, passing up Las Vegas in gambling revenues within its first decade.[64] Macau is also host to the largest casinos in the world. Viewing the success of Macau, gaming is expanding into other parts of Asia. Taiwan, the Philippines, and South Korea are currently building casino resorts. Casino hotels and resorts are also expanding rapidly with developments in Cambodia, Laos, Indonesia, Malaysia, Myanmar, Singapore, Thailand, Vietnam, Japan, and Cyprus.[65]

Casino gambling has often touted its success to the imbalance of supply and demand. Regulations and societal concerns have kept supply limited in many markets, while demand has grown. That balance is beginning to level off. Due to the benefit of tax revenues, many local jurisdictions have legalized many forms of gaming operations.[66]

Gaming today is a worldwide entertainment industry with mega casino resorts in Las Vegas, Macau, Singapore, and Dubai offering gambling, entertainment, dining, spas, shopping, theme park attractions, and lodging all at one resort.[67] As the social and economic acceptance of gaming moves forward globally, we can expect significant expansion in future years.

Top Players in the Industry

A discussion of the history of the hospitality industry cannot include all of the pioneers, as the nature of the businesses within the industry has allowed many to become successful hoteliers and restauranteurs.[68] Mergers and acquisitions of both assets and operating companies are a constant in the hospitality industry. Thus, any list of key players is fluid and changing almost daily. Because the hospitality industry is comprised of many companies, listing all key players to the industry would not be possible within the bounds of any single work. We have included a brief summary of many of the key players (presented in alphabetical order).

Hotels

While many of the largest companies in the hospitality industry are U.S. based, there are companies of varying international origin in the top tiers (Table 2.2).

Table 2.2 Top 10 hotel groups worldwide, March 2015[69]

Hotel Group	Country of Origin	Number of Hotels 2015	Number of Rooms 2015
InterContinental Hotel Group	Great Britain	4,840	710,295
Hilton Hotels	United States	4,278	708,268
Marriott International	United States	4,117	701,899
Wyndham Hotel Group	United States	7,645	660,826
Choice Hotels International	United States	6,376	504,808
AccorHotels	France	3,717	482,296
Starwood Hotels and Resorts	United States	1,207	346,599
Best Western	United States	3,900	302,144
Home Inns	China	2,609	256,555
Jin Jiang	China	2,208	128,952

AccorHotels

Headquartered in Paris, France, AccorHotels began in 1967, when Paul Dubrule and Gerard Pelisson opened the Lesquin Novotel. AccorHotels today has more than 3,700 hotels in over 92 countries. Brands in its portfolio include Sofitel, Pullman, MGallery, Grand Mercure, The Sebel, Novotel, Suite Novotel, Mercure, Mama Shelter, Adagio, ibis, ibis Styles, ibis budget, hotelF1, and Thalassa Sea & Spa.[70]

Best Western

Best Western is headquartered in Phoenix, Arizona, U.S. Best Western is considered the largest and most well-known referral group or consortia for hotels and motels.[71] Best Western commenced its referral group in 1946 when a motel owner from California, Merile Guertin, wanted to associate with a group of motels who maintained similar high standards.[72] He toured 507 motels and selected 66 to become part of Western Motels, which later changed the name to Best Western.[73] Best Western has more than 400 hotels in over 100 countries under the names Best Western, Best Western Plus, and Best Western Premier.[74]

Carlson Rezidor

The Carlson Rezidor Hotel Group is headquartered in Minnetonka, Minnesota, U.S. Carlson Rezidor was started in 1960 when Carlson acquired 50 percent interest in the Radisson Downtown Hotel in Minneapolis. Today the Carlson Rezidor Hotel Group has more than 1,370 hotels in over 110 countries and territories. Brands in its portfolio include Quorvus Collection, Radisson Blu, Radisson, Radisson Red, Park Plaza, Park Inn by Radisson, and Country Inns & Suites.

Choice Hotels International

Choice Hotels International is headquartered in Rockville, Maryland, U.S. Choice Hotels began as Quality Courts United, a marketing cooperative between seven motor court owners in Florida in 1939.[75] Started as a referral group, the company has grown and expanded to an impressive hotel management and services company with more than 6,300 hotels in over 35 countries or territories. Brands in the Choice Hotels International portfolio include Ascend Hotel Collection, Comfort Inn, Comfort Suites, Quality, Sleep Inn, Clarion, Cambria Hotels & Suites, MainStay Suites, Suburban, Econo Lodge, and Rodeway Inn.

Club Mediterannee

Club Mediterannee is headquartered in Paris, France. Club Med was established in 1950 by Gerard Blitz as an all-inclusive get away. Blitz set up his first sports activity destination with 200 tents on Alcudia beach in the Balearics. Considered one of the world's largest all-inclusive destination resort companies, Club Med today has 80 resort villages on five continents.[76]

Dusit International

Dusit International is a luxury hotel company headquartered in Bangkok, Thailand. Dusit International was established in 1948 with the opening of the Princess Hotel in Bangkok. Brands in its portfolio include Dusit Thani Hotels & Resorts, Dusit Devarana Hotels & Resorts, dusitD2 Hotels & Resorts, and Dusit Princess Hotels and Resorts. Dusit International also operates Devarana Spa and several hospitality schools, such as Le Cordon Bleu Dusit and Dusit Thani College.[77]

Four Seasons Hotels and Resorts

Four Seasons Hotels and Resorts is headquartered in Toronto, Ontario, Canada. Isadore Sharpe, an architect, built his first Four Seasons hotel in 1961. Focused on the luxury segment, Four Seasons Hotels and Resorts has approximately 100 hotels in 39 countries, all under the single brand name.[78]

Hilton Worldwide

Hilton Worldwide is headquartered in McLean, Virginia, U.S. Conrad Hilton began investing in hotels in 1919.[79] Hilton Worldwide now has more than 4,300 hotels and resorts in over 94 countries and territories. Brands in the Hilton portfolio include Hilton Hotels & Resorts, Waldorf Astoria Hotels & Resorts, Conrad Hotels & Resorts, Canopy by Hilton, CURIO, DoubleTree by Hilton, Embassy Suites Hotels, Hilton Garden Inn, Hampton Inn, Homewood Suites by Hilton, Home2 Suites by Hilton, and Hilton Grand Vacations.[80]

Homeinns Hotel Group

Homeinns Hotel Group is headquartered in Shanghai, China. A relatively new player to the hospitality industry, Homeinns Hotel Group was started in 2002 in China. Focused on the economy segment, Homeinns has over 2,668 hotels in China. Brands in the Homeinns Hotel Group portfolio include (English translation) Homeinn, Motel 168, Fairyland, Homeinn Plus, and Yitel.[81]

Hotel Okura

Hotel Okura is headquartered in Tokyo, Japan. The first Hotel Okura opened in 1962 in Tokyo, Japan. The Hotel Okura group and its subsidiary companies own more than 75 hotels, more than half of which are located in Japan. The Hotel Okura group also owns majority shares of JAL Hotels. Brands in the portfolio include Nikko Hotels, Okura Hotels, and Hotel JAL.[82]

Hyatt Hotels Corporation

Hyatt Hotels is headquartered in Chicago, Illinois, U.S. Jay Pritzker purchased the Hyatt House motel adjacent to the Los Angeles International Airport in 1957. Hyatt Hotels Corporation now has more than 559 properties in over 50 countries. Brands in the Hyatt Hotels Corporation portfolio include Hyatt, Park Hyatt, Andaz, Grand Hyatt, Hyatt Centric, Hyatt Regency, Hyatt Place, Hyatt House, Hyatt Zilara, Hyatt Ziva, Hyatt Residences, and Hyatt Residence Club.[83]

InterContinental Hotels

InterContinental Hotel Corporation is headquartered in Buckinghamshire, United Kingdom. InterContinental Hotels was founded by Pan American Airlines in 1946 as a part of an investment process by the U.S. government after World War II.[84] The development of InterContinental Hotels followed a different path from many hotel companies which concentrated initially on local regional development, later expanding internationally. Recognizing the relationship between air travel and hotel accommodations, InterContinental opened hotels along its Pan Am air routes in South America, the Caribbean, Europe, and later Africa and the Middle East.[85] Almost a reverse from most U.S.-based lodging companies, InterContinental did not embrace hotel development in the United States until much later in its history, in the 1970s.[86] Today InterContinental Hotels has more than 4,921 hotels globally. Brands in the portfolio include InterContinental Hotels and Resorts, Crowne Plaza, Hotel Indigo, Holiday Inn, Holiday Inn Express, HUALUXE Hotels and Resorts, Even Hotels, Candlewood Suites, and Staybridge Suites.[87]

Jin Jiang International Hotel Management Company

Jin Jiang International Hotel Management Company is headquartered in Shanghai, China. Jin Jiang International Hotel Management Company is one of three core businesses of Jin Jiang International. Jin Jiang Hotels has over 1,339 hotels and inns across China. Jin Jiang Inn, which focuses on budget hotels, has a 50/50 joint venture with Thayer Group of Interstate Hotels and Resorts. Jin Jiang Hotels' portfolio includes brands such as Jin Jiang Hotels, DuChen, Jin Jiang Inn, JinGuang, and BESTAY. In addition, Jin Jiang hotels has a partnership with KFC, Yoshinoya, and other restaurant and foodservice providers to run more than 480 restaurants, contract foodservices, and catering outlets.[88]

Jumeirah Group

The Jumeirah Group is headquartered in Dubai, United Arab Emirates. Founded in 1997 in Dubai, Jumeirah Hotels, Resorts and Residences focuses on the luxury segment. A member of Dubai Holding, The Jumeirah Group has 23 properties in Europe, the Middle East, and Asia to include the flagship property Burj Al Arab Jumeirah. Brands in the portfolio include Jumeirah Hotels and Resorts, Jumeirah Living Residences, Talise Spas, Wild Wadi Waterparks, and Venu Hotels.[89]

Louvre Hotels Group

The Louvre Hotels Group is headquartered in Paris, France. Louvre Hotels has more than 1,100 hotels in 48 countries. The Louvre Hotels Group is owned by Jin Jiang International Company. Brands in the Louvre Hotels Group portfolio include Première Classe, Campanile, Kyriad, Tulip Inn, Golden Tulip, and Royal Tulip.[90]

Mandarin Oriental Hotel Group

Mandarin Oriental Hotels is headquartered in Hong Kong. Mandarin Oriental Hotels began in 1963 with the opening of The Mandarin in Hong Kong. Acquisition of the famed Oriental Hotel in Bangkok in 1974 created the brand Mandarin Oriental Hotel Group. Focused on the luxury segment, the Mandarin Oriental Hotel Group has 27 hotels in 24 countries under the names Mandarin Oriental and The Excelsior.[91]

Marriott International

Marriott International is headquartered in Bethesda, Maryland, U.S. Marriott, like Howard Johnson, started in foodservice, later expanding to hotels.[92] Marriott opened its first hotel, the Twin Bridges Marriott, in Washington DC in 1957.[93] Marriott Hotels today has more than 3,900 hotels in over 72 countries worldwide. Brands in the portfolio include Marriott Hotels & Resorts, JW Marriott Hotels & Resorts, Renaissance Hotels & Resorts, EDITION Hotels, Autograph Collection, Courtyard, AC Hotels by Marriott, Residence Inn, Fairfield Inn, TownePlace Suites, SpringHill Suites, The Ritz-Carlton, and Marriott ExecuStay.[94]

Meliá Hotels International

Meliá Hotels International is headquartered in Balearic Islands, Spain. In 1956 Gabriel Escarrer opened the Hotel Altair in Palma de Mallorca, Spain, beginning what is known today as Meliá Hotels International. The company currently operates more than 350 hotels in 35 countries and four continents under its brands: Meliá, Gran Meliá, ME by Meliá, Paradisus, Innside by Meliá, TRYP by Wyndham, Sol Hotels, and Club Meliá.[95]

Oberoi Hotels

Oberoi Hotels is headquartered in Delhi, India. The development of the Indian and much of the Asian hotel industry is attributed to M.S. Oberoi. M.S. Oberoi purchased the Clarke Hotel in Shimla, India, in 1934 in what became the beginning of the Oberoi Hotel Group. M.S. Oberoi was instrumental in developing the hotel industry in much of India, Indonesia, Mauritius, Egypt, Saudi Arabia, and Australia.[96] The Oberoi Group today has more than 30 luxury and five star hotels in its portfolio under the brand names Oberoi and Trident. In addition, the Oberoi Group is also engaged in flight catering, airport restaurants, and several other travel- and aviation-related services.[97]

Starwood Hotels and Resorts

Starwood Hotels and Resorts is headquartered in Stamford, Connecticut, U.S. Starwood bought its first hotels in 1993. Starwood Hotels and Resorts has more than 1,200 properties in over 100 countries. Brands in its portfolio include St. Regis, The Luxury Collection, W Hotels, Westin, Le Méridien, Sheraton, Four Points by Sheraton, Aloft, Element, and Tribute Portfolio.[98]

Taj Hotels, Resorts and Palaces

Taj Hotels, Resorts and Palaces is headquartered in Mumbai, India. The Tata Group, parent company to Taj Hotels, started as a family business in 1903 when Mr. Jamsetji Nusserwanji Tata, opened The Taj Mahal Palace Hotel, Mumbai, India. Taj Hotels concentrates its business on luxury full-service hotels, resorts, and palaces. Today Taj Hotels are in 17 countries, and the company controls about 25 percent of the hotel market share for India.[99]

TSOGO Sun

TSOGO Sun is headquartered in Johannesburg, South Africa. Hotelier Sol Kerzner founded Southern Sun Hotels, now part of TSOGO Sun in 1969 in South Africa. The company today has more than 92 hotels, primarily located in Africa. Brands in the portfolio include Southern Sun Hotels, SunSquare, Garden Court, StayEasy, Southern Sun Resorts, InterContinental Hotels, and SUN1.[100] The TSOGO Sun Group also owns 14 gaming and entertainment destinations and over 250 conferencing and banqueting facilities.

TUI Group

TUI Group is headquartered in Hanover, Germany. TUI Group has more than 300 hotels and resorts in 24 countries. TUI Group consists of TUI Hotels and Resorts and TUI Travel PLC. Brands in the TUI group include Riu Classic, Riu Palace, Riu Gran Palace, Riu Plaza, Riu ClubHotels, Grupotel, ROBINSON Club, Iberotel, Grecotel, Sol Y Mar, Jaz, DORFHOTEL, aQi, Atlantica Hotels & Resorts, Hôtel Club Nouvelles Frontières, Nordotel, and Gran Resort.[101]

Wyndham Worldwide

Wyndham Worldwide is headquartered in Parsippany, New Jersey, U.S. Wyndham Worldwide spun off from Cendant Corporation in 2006. Wyndham has more than 7,410 resorts and vacation ownership products. Brands in the Wyndham Worldwide portfolio include Wyndham Hotels and Resorts, Wyndham Grand Hotels and Resorts, Wyndham Garden Hotels, TRYP by Wyndham, Wingate, Hawthorn Suites, Microtel Inn & Suites, Ramada Worldwide, Baymont Inn & Suites, Days Inn, Super 8, Howard Johnson, Travelodge, Knights Inn, Dolce Hotels and Resorts, Wyndham Vacation Rentals, Landal GreenParks, Novasol, Club Wyndham, Wyndham Vacation Resorts Asia Pacific, WorldMark by Wyndham, Shell Vacations Club, Margaritaville Vacation Club, RCI, and The Registry Collection (Table 2.3).

Table 2.3 Top 15 hotel brands worldwide, March 2014

Hotel Brand	Hotel Group	Country of Origin	Number of Hotels 2013	Number of Rooms 2013
Holiday Inn + Holiday Inn Express	InterContinental Hotel Group	Great Britain	3,392	424,612
Best Western	Best Western	United States	4,024	311,611
Marriott Hotels Resorts	Marriott International	United States	558	204,917
Comfort Inns & Suites	Choice Hotels International	United States	2,509	194,262
Hilton Hotels & Resorts	Hilton Worldwide	United States	551	191,199
Hampton Inn by Hilton	Hilton Worldwide	United States	1,880	184,765
ibis	AccorHotels	France	1,667	182,496
Home Inns	Home Inns	China	1,438	164,325
Sheraton Hotels & Resorts	Starwood Hotels	United States	427	149,784
Days Inn of America	Wyndham Hotel Group	United States	1,826	147,808
Super 8 Motels	Wyndham Hotel Group	United States	2,314	147,512
Courtyard by Marriott	Marriott International	United States	929	136,553
Quality Inns Hotels	Choice Hotels International	United States	1,479	133,515
Ramada Worldwide	Wyndham Hotel Group	United States	850	115,811
Crowne Plaza	InterContinental Hotel Group	United States	392	108,307

Hotel Management Companies

Some hotel management companies do not own or license their own brand names. Instead they develop and manage hotels under franchise and management agreements, or as independents. The following are a few of the top hotel management companies (presented in alphabetical order).

Aimbridge Hospitality

Aimbridge Hospitality is a hotel investment and management company. Headquartered in Plano, Texas, U.S., Aimbridge manages more than 200 hotels in the United States and the Caribbean.[102]

Hersha Hospitality Management (HHM)

Hersha Hospitality Management (HHM) is a hotel management investment and development company. Headquartered in Philadelphia, Pennsylvania, U.S., HHM manages approximately 126 hotels.[103]

Interstate Hotels & Resorts

Interstate Hotels & Resorts is a hotel management contract company. Headquartered in Arlington Virginia, U.S., Interstate manages approximately 460 hotels. Interstate is a wholly owned subsidiary of a joint venture between Thayer Lodging Investment Group and Jin Jiang Hotels.

White Lodging Services Corporation

White Lodging Services Corporation is a hotel ownership, development, and management contract company. Headquartered in Merrillville, Indiana, U.S., White Lodging Services manages approximately 161 hotels primarily in the United States.[104]

Hotel Ownership and Development Companies

Hotel ownership and management structures can be complicated, with hotel ownership and management often divided between two or more companies. Some companies focus primarily on hotel investment and ownership. Table 2.4 shows a few of the top hotel ownership and investment companies.

Table 2.4 Hotel ownership and investment companies

Company Name	Headquarter Location	Hotel Rooms Owned	Hotels Owned	Brand Company Affiliations
Host Hotels & Resorts, Inc.	Bethesda, MD	60,000	114	Marriott, Starwood, Hyatt
Hospitality Properties Trust	Newton, MA	43,977	291	Marriott, IHG, Sonesta
Apple REIT Companies	Richmond, VA	29,423	235	Marriott, Hilton
Ashford Hospitality Trust	Dallas, TX	22,809	115	Marriott, Embassy Suites, Hilton
RLJ Lodging Trust	Bethesda, MD	22,324	147	Marriott, Hyatt
Hersha Hospitality Group	Philadelphia, PA	20,000	140	Marriott, Hilton, Hyatt
John Q. Hammons Hotels & Resorts	Springfield, MO	18,988	78	Hilton, Marriott, IHG
FelCor Lodging	Irving, TX	17,817	61	Hilton, Wyndham, Marriott
TPG Companies	Cranston, RI	15,783	58	IHG, Marriott, Hilton, Starwood, Hyatt
Sunstone Hotel Investors, Inc.	Aliso Viejo, CA	13,760	29	Marriott, Hilton, Hyatt[105]

Restaurants

Bloomin' Brands

Bloomin' Brands is headquartered in Tampa, Florida, U.S. Bloomin' Brands has approximately 1,510 restaurants in the casual restaurant segment. Brands in their portfolio include Outback Steakhouse, Bonefish Grill, Carrabba's Italian Grill, and Flemings Prime Steakhouse.[106]

Brinker International

Brinker International is headquartered in Dallas, Texas, U.S. Brinker has approximately 1,615 restaurants in the full-service and casual segments. Brands in their portfolio include Chili's Grill and Bar, Maggiano's Little Italy.[107]

Darden Restaurants

Darden Restaurants is headquartered in Orlando, Florida, U.S. Darden has approximately 2,232 restaurants in the full-service and casual segments. Brands in its portfolio include Olive Garden, LongHorn Steakhouse, Bahama Breeze, Seasons 52, and The Capital Grill.[108]

Denny's

Denny's is headquartered in Spartanburg, South Carolina, U.S. Denny's has approximately 1,599 restaurants in the family dining segment under the Denny's and Denny's Café brand.[109]

Dicos

Dicos is headquartered in Changhua, Taiwan. Dicos has approximately 2,034 restaurants in the Chinese quick service and Western style food segments.[110]

DineEquity, Inc.

DineEquity, Inc. is headquartered in Glendale, California, U.S. DineEquity has approximately 3,667 restaurants in the family and casual segments. Brands in the portfolio include IHOP and Applebee's Neighborhood Grill.[111]

Domino's

Domino's is headquartered in Ann Arbor, Michigan, U.S. Domino's has approximately 4, 986 restaurants in the quick service segment all under the brand name Domino's Restaurants.[112]

Dunkin' Donuts

Dunkin' Donuts is headquartered in Canton, Massachusetts, U.S. Dunkin' Donuts has approximately 11,300 restaurants in the beverage, snack, quick service theme.[113]

IKEA

IKEA is headquartered in Delft, Netherlands. IKEA has approximately 371 Cafeterias in their home good stores, in more than 40 countries. IKEA Cafeterias offer traditional Swedish food, with some variations.[114]

JD Wetherspoon

JD Wetherspoon is headquartered in Watford, United Kingdom. JD Wetherspoon has approximately 891 restaurants in the bar and casual dining segment.[115]

McDonald's Company

McDonald's Company is headquartered in Oakbrook, Illinois, U.S. McDonald's has approximately 36,258 restaurants worldwide in the quick service and café concepts, all carrying the McDonald's name.[116]

Restaurant Brands International

Restaurant Brands International (RBI) is headquartered in Oakville, Ontario, Canada. RBI has approximately 19,000 restaurants in the quick service segment. Brands in their portfolio include Burger King and Tim Horton's.[117]

Starbucks

Starbucks is headquartered in Seattle, Washington, U.S. Starbucks has approximately 21,878 restaurants in the beverage, snack and fast casual theme.[118]

Subway

Subway is headquartered in Milford, Connecticut, U.S. Subway has approximately 43, 848 restaurants in the quick service sandwich segment. [119]

Sukiya

Sukiya is headquartered in Tokyo, Japan. Sukiya has approximately 1,967 units specializing in curry, gyudon, and donburi (rice-bowl dishes).[120]

Wendy's International

Wendy's International is headquartered in Dublin, Ohio, U.S. Wendy's has approximately 6,515 restaurants in the quick service segment all under the Wendy's Old-Fashioned Hamburgers brand name.[121]

Yum! Brands

Yum! Brands is headquartered in Louisville, Kentucky, U.S. Yum! has approximately 41,000 restaurants in the quick service and casual segments. Brands in their portfolio include Pizza Hut, Taco Bell, KFC, and WingStreet (chicken).[122]

Restaurant Franchisee Companies

Carrols Restaurant Group, Inc.

Carrols Restaurant Group, Inc. is headquartered in Syracuse, New York, U.S. Carrols Restaurant Group is the franchisee for approximately 564 Burger King Restaurants.

Flynn Restaurant Group

Flynn Restaurant Group is headquartered in San Francisco, California, U.S. Flynn Restaurant group is a franchisee for approximately 650 restaurants primarily in the Applebee's and Wendy's brands.[123]

NPC International, Inc.

NPC International, Inc. is headquartered in Overland Park, Kansas, U.S. NPC is the franchisee for approximately 1,354 restaurants primarily under the Pizza Hut and Wendy's brands.[124]

Summit Restaurant Group

Summit Restaurant Group is headquartered in Richardson, Texas, U.S. Summit Restaurant Group is the franchisee for approximately 372 restaurants primarily under the IHOP and Applebee's brands.

Managed Foodservice

Aramark

Aramark is headquartered in Philadelphia, Pennsylvania, U.S. Aramark has approximately 3,141 units in managed foodservice. Most of their units are in sports and entertainment venues, health care, and educational foodservice.[125]

Compass Group, PLC

Compass Group, PLC is headquartered in Charlotte, North Carolina, U.S. Compass Group has approximately 10,900 units in managed foodservice. Most of their units are in corporate dining, education, and health care foodservice.[126]

Sodexo, Inc.

Sodexo, Inc. is headquartered in Gaithersburg, Maryland, U.S. Sodexo has approximately 9,000 units in managed foodservice. Most of their units are in college and university foodservice, hospitals, and corporate dining.[127]

Other International Restaurant Companies

Restaurants associated with a brand or company name are more common in the United States than throughout the remainder of the world. The presence of brands or large restaurant companies is growing internationally. Many global brands are gaining foothold with concepts such as Jollibee, Ippudu, Al Baik, and Oporto. Table 2.5 presents a list of international chain restaurant companies, listed alphabetically.[128]

Table 2.5 International chain restaurant companies (listed alphabetically)[129]

Company Name	Country of Origin	Food Segment
Al Baik	Saudi Arabia	Fried, broasted chicken
Burger Ranch	Israel	Burgers, chicken sandwiches, fries
Giraffas	Brazil	Steaks, burgers, stroganoffs
Hamburguesas El Corral	Columbia	Hamburgers, milkshakes, fries
Ippudu	Japan	Ramen
Jollibee	Philippines	Filipino food
Kungfu	China	Steamed dishes, soups, noodles
Nordsee	Germany	Seafood (raw, cooked, and smoked), sandwiches
Oporto	Australia	Portuguese-style chicken, burgers, wraps
Quick	France	Burgers, sandwiches
Steers	South Africa	Burgers, “chips”, hero rolls, ribs
Supermac’s	Ireland	Burgers, fish, pizza, ice cream
Telepizza	Spain	Pizza, Salads
Teremok	Russia	Russian crepes (blini), soups, porridge
Toast Box	Singapore	Curry, toast
Wagamama	United Kingdom	Noodles, curries

Casinos

The following are the six largest casino gaming companies (presented in alphabetical order).

Caesar’s Entertainment

Currently headquartered in Las Vegas, Nevada, U.S., Caesar’s began in Reno, Nevada, U.S. Caesar’s Entertainment Corporation has more than 50 casinos and resorts on three continents.[130]

Galaxy Entertainment Group

Galaxy Entertainment Group is headquartered in Hong Kong. Galaxy Entertainment has eight casinos and resorts in Macau, China.[131]

Las Vegas Sands

Headquartered in Las Vegas, Nevada, U.S., The Las Vegas Sands Corporation also has a subsidiary company Sands China Ltd. The Las Vegas Sands has more than seven casinos and resorts in the United States, Macau, and Singapore.[132] The Las Vegas Sands Corporation also owns and manages extensive meeting and exhibit space.

MGM Resorts International

MGM Resorts International develops and operates destination resorts and casinos in the United States, Macau, and Sanya, China. Headquartered in Las Vegas, Nevada, U.S., MGM owns and operates more than 13 resorts with 50 percent investment in several other resorts. It also has 51 percent interest in MGM China Holdings Limited which owns the MGM Macau Resort.[133]

SJM Holdings

SJM Holdings is the holding company for Sociedade de Jogos de Macau S.A. (SJM). Headquartered in Hong Kong, SJM has more than 17 casinos in Macau, China. SJM also owns and operates the Grand Lisboa Hotel, and has 51 percent ownership of the Sofitel Macau at Ponte 16.[134]

Wynn Resorts

Headquartered in Las Vegas, Nevada, U.S., Wynn Resorts Limited has large multi-resort and casino properties in Las Vegas, and Macau. Wynn Resorts Limited owns 72 percent of Wynn Macau, Limited.

CHAPTER 3

Industry Organization and Competition

The size, structure, and growth of the hospitality industry are generally functions of the prevailing economy. The more developed an economy, the larger and more diverse the hospitality industry.[1] A more advanced economy has more frequency and reasons for its need for hotels and restaurants. While the hospitality industry tends to follow the general economy, expansion and contraction of the hospitality industry is not that simple. Many other factors such as access to transport, attitudes toward and ease of travel, and availability of capital all significantly affect the hospitality industry.

Because the hospitality industry is comprised of many companies, both large and small, the organization of the industry varies. With more than half of the hospitality industry consisting of independent owners and operators, organization and industry structure has many formats.

Industry Structure

Traditionally, the hospitality industry has been an entrepreneurial business. The last century has seen a movement toward corporate ownership. The bulk of the industry is independently owned and operated establishments. Yet, in contradiction, the dominant players are large multinational companies. Overall, the hospitality industry is "composed of a relatively small number of large multinationals and a large number of locally operated small and medium-sized enterprises."[2]

The hospitality industry is an incredibly diverse industry with many differences in ownership and management structures. Even among large corporations, the structures differ broadly.

Chain Affiliation

Chain affiliation refers to two or more units owned by a company with similar target markets, products, and concepts.[3] Oftentimes, chain affiliation will carry the same name or brand, but that is not true for all chains or products. While many hotels and restaurants today are associated with a brand or company name, this is a fairly recent phenomenon. For many parts of the world, chain affiliation in the hospitality industry is still just beginning.

Some of the first chain names in the hospitality industry were Cesar Ritz and Fred Harvey.[4] Cesar Ritz, a Swiss hotelier, created a small hotel company with hotels in Europe and Africa in the 1890s.[5] Ritz further licensed the use of the Ritz Carlton name for The Ritz Carlton Hotel in New York City in 1907. Fred Harvey contracted with the Atchison, Topeka, and Santa Fe Railway companies to provide foodservice along expanding railroads in the United States. [6] Two years later, Harvey opened his first hotel in Florence Kansas, again negotiating contracts and exclusive rights for expansion along the rail routes. Harvey employed the same railroad companies to deliver food to his Harvey House restaurants (with no freight charges), thus allowing for expanded menus beyond locally produced food. The lack of shipping costs also allowed Harvey to keep menu prices low, even in isolated locations.[7] Harvey was able to demand better quality food product at lower prices and to control the distribution processes. Fred Harvey also pioneered vertical integration, or the owning of components of the supply chain, in purchasing large cattle ranches to supply the beef needed for his restaurants.[8] Harvey pioneered the central commissary concept to help standardize and control food quality. Under this concept, some of the food for the restaurants was prepped in central commissaries, and distributed to the restaurants, rather than each restaurant ordering food and products locally. Fred Harvey demanded quality in his restaurants in the product, employees, and service thus changing the face of restaurants along the rural U.S. frontier. Harvey was also a pioneer in customer service and menu offerings. He developed menu offerings at his restaurants so that patrons traveling with the railroad would not encounter the same food in consecutive meal periods.[9]

The hospitality industry as a whole did not begin to embrace chain affiliation until the mid-1900s.[10] In fact in 1950 there were only three major hotel chains: Hilton, Sheraton, and Statler.[11] The next few decades saw a rapid expansion of the chain concept in the hospitality industry.[12]

The beginnings of the chain concept for restaurants is often traced to the mid-1800s when successful restauranteurs such as Delmonico's of New York and Lovejoy and Brown opened additional restaurants at different locations, using the same name, similar menus, décor, and formats. It was common for a successful restaurant owner to open additional restaurants in the same city. Expansion beyond the local community for restaurants was not common until the 1940s and 1950s when restaurant companies such as A&W Root Beer, Bob's Big Boy, Dairy Queen, White Castle, In-N-Out, and Burger King embraced regional and national expansion. Despite their popularity, chain restaurants were initially few in number with only about 4 percent of all U.S. restaurants affiliated with a chain in 1958.[13] Today chain restaurants comprise almost half of the U.S. market with 46 percent of all restaurants in 2014 affiliating with a chain.[14]

Chain affiliation is not as complete through the entire modern world.[15] France and Germany, for example, still have more unaffiliated hotels than chain hotels.[16] And yet, one of the large multinational hotel corporations, AccorHotels, is headquartered in France. Hotels and restaurants in South and Central America have traditionally been independent, but branding is slowly becoming a part of the hospitality industry there as well.[17] Despite the movement toward chain affiliation, experts and travelers predict that there will always be a place in the market for unique independent hotels and restaurants, which are "able to cultivate a loyal following based on its uniqueness."[18]

Hotels

The structure of the hotel industry has evolved over the years. Once an industry composed of all independents, the hotel industry now has many formats of ownership and chain affiliation. Generally hotels and hotel companies can be classified into the following categories: (1) independently owned and operated hotels; (2) hotels that are independently owned but have a franchise affiliation; (3) hotels that are independently owned but are managed or operated by a management company; (4) chain owned and managed hotels; and (5) hotels belonging to referral groups or consortiums. Hotels may also have a combination of these categories.[19] For instance, an independently owned hotel may have a management contract in addition to a franchise with an international hotel chain. Many of the large international hotel chains engage in both management contracts and franchise affiliations, further complicating the structure.

Like many other businesses, hotels were initially independent "mom and pop" establishments, and many are still independent today. The industry began to evolve during the Great Depression of the 1930s. Many hotels and hotel companies went into receivership. Ownership shifted to banks and insurance companies. Many of these asset holding companies had no interest in operating the hotels. Thus the concept of management contracts began to take hold.[20] Today, many hotels are owned by asset management companies and not the traditional hotel owner or hotel companies.[21]

Divestiture of the real estate product

During the latter part of the 20th century, large corporate hotel companies began to divide into two parts: one that owns and invests in hotel assets and one that manages or franchises properties.[22] Hotel companies sold off the real estate or property assets and concentrated on management contracts and franchise agreements, separating the asset ownership from operations.[23] In some instances the companies split into separate companies: one with real estate, and the other with franchises, management contracts, and management leases. Some of the driving force in this separation was that the two separate business models (real estate and hotel operations) were valued very differently on stock markets. Separation was said to allow for more focused investment.[24]

Dividing the operations from real estate ownership allowed hotel ownership companies to focus on real estate acquisition, project feasibility, and project financing, while hotel management companies focused on the operations of the hotels.[25] Marriott is said to have begun this asset-light movement with the sale of its owned hotels in the early 1990s to Host Marriott, emphasizing management rather than ownership of hotels.[26] Host later diversified its portfolio, buying a large portion of Starwood's hotel assets and dropping Marriott from the name of the company.[27] Other hotel companies followed suit with many varied forms of divestiture and sale of assets.[28] Most of the large multinational hotel companies today own very little real estate and concentrate on management and contract business.[29] This asset-light structure is expected to continue into the future.[30]

Nevertheless, there are still more independent hotels worldwide, than those affiliated with a brand.[31] Yet because independently owned and operated hotels are often smaller in size, there are more hotel rooms worldwide affiliated with a brand.[32] Overall, independent hotels tend to be concentrated in the economy, or lower priced segment, in suburban or small town locations, and typically in hotels with fifty rooms or less.[33]

Like many other aspects of the hotel industry, ownership and operating structure varies by region. In the United States about 30 percent of hotels today are independent, with the other 70 percent associated or affiliated with a brand or chain.[34] For the remainder of the world, the ratio flips: between 60 to 70 percent of hotels as independent and only 30 to 40 percent associated or affiliated with a brand or chain,[35] with many countries estimating more than 85 percent of their hotels to be small independent hotels (Table 3.1).[36]

While branding through large multinational hotel companies is becoming more common in Europe, it is still the minority and varies by country.[38] Europe has many independent hotels and regional hotel companies. Recent years have seen some of these small regional companies acquired by other companies. Most of the prime real estate has already been developed, so hotel companies seeking a foothold in Europe often do so through acquisitions and mergers.[39]

In developing countries the hospitality industry is primarily comprised of smaller independent establishments. As the country's economy improves, higher quality hotels and restaurants are sought after by international business travelers.[40] This is accompanied by foreign interest and investment

Table 3.1 Percentage of hotels independent versus chain affiliation[37]

Region	Country	Percentage of Hotels which are Independent (%)
Europe	France	54.3
	Germany	82.5
	Greece	93.6
	Italy	89.1
	Norway	49.3
	Romania	85.4
	Spain	66.9
	United Kingdom	63.1
Russia	Russia	81.6
Asia-Pacific	Australia	70.8
	China	54.5
	India	78.3
	Japan	45.2
	Singapore	70.0
	Thailand	71.7
Mideast/Africa	Egypt	65.2
	Morocco	81.5
	South Africa	61.6
	Tunisia	87.2
Americas	Brazil	68.6
	Canada	77.6
	Mexico	80.1
	Panama	62.8
	Peru	77.6
	United States	30.0

in the hospitality industry. Additionally, while no equity investment is usually required from hotel management or franchise companies in the United States, most other countries require equity investment in hotel projects.[41] Restaurants, in contrast, often require an equity investment by management companies, even in the United States.[42]

Multinational hotel companies can take several forms. Most of the companies engage in franchising and management contracts with little or no ownership involvement. In the United States, the hotel industry is primarily comprised of management contracts, franchise agreements with large multinational companies, and referral systems, all emphasizing the brand. Europe has a more integrated system, with large multinational company owned and operated hotels interspersed among smaller hotel companies and independent hotels.[43]

Timeshare and vacation ownership

Timeshare and vacation ownership is a concept that crosses between the real estate industry and the hotel and resort industry. Timeshares or vacation ownership allow a consumer to "own" a portion of a hotel or resort through a real estate or travel club investment.[44] The methods and models differ; however, most consumers own a deed to a week in time for a unit in a hotel or resort. Many trust-backed models and travel clubs are altering the method of conveyance, but essentially the consumer invests in the real estate portion of the hotel or resort and pays an annual fee for maintenance and operation of the property. In return, the consumer has usage rights to the hotel or resort.

Timeshare and vacation ownership have been some of the fastest growing segments of the lodging industry. There are more than 5,300 timeshare and vacation ownership resorts in the world today.[45]

Vacation ownership has intersected the hotel and resort industry with many of the key international lodging companies having vacation ownership in their portfolio at one time or another. Marriott and Disney were the first major hotel players to enter the timeshare and vacation ownership arena in the 1980s with Hilton, Hyatt, Starwood, and Accor following suit in the next decades. Today many of the hotel companies have begun to spin off the vacation ownership portion of their portfolio in response to stockholder pressure that the returns and investments in vacation ownership differ from those in hotel management. This move is similar to the divestiture of hotel assets in previous decades.

Restaurants

Restaurants have many names, menus, and formats. Restaurants serve a wide variety of foods in varied styles of service and delivery.[46] Some of the more common names for restaurants are café, bar, eating house, dining room, coffee shop, tavern, grill, saloon, tapas bar, tea room, trattoria, traiteur, bistro, snack bar, cafeteria, canteen, espresso bar, etc…[47] Add to the list concepts such as slow food and fast casual and the diversity of the industry continues. There are literally millions of restaurants that comprise the global market.[48]

The structure of the restaurant industry is very similar to the hotel industry, but with many more independent establishments.[49] Worldwide, most restaurants are owned and operated by independents.[50] By the same token, restaurants rely more on local patrons than hotels. Overall, the restaurant industry reports that three in four customers are local, with only one in four customers related to travel.[51]

Restaurants are typically divided into three structures: (1) independent, (2) chain owned and operated, and (3) franchised.[52] Differing from hotel companies, most large restaurant chains both franchise and own restaurant units.[53] Restaurants also sometimes employ a reversal in the franchising ownership arrangement. A restaurant company may initially own the restaurant and then seek both a lease and a franchise agreement with a local operator.[54]

Most independent restaurants have a small business structure typically employing 20 or fewer employees.[55] Owners are generally highly involved in the day-to-day operations of an independent restaurant. Many independent restaurants are family owned and operated.

In some parts of the world, franchising and chain affiliated restaurants comprise a large part of the industry. In the United States, just over half of all restaurant revenue is generated by restaurants affiliated with a chain or large company.[56] Nevertheless, three out of four restaurants are single-unit operations. Like hotels, restaurants outside of the United States are significantly more independent in ownership structure.[57] Recent years have seen chain restaurants gaining an increasing share of the market worldwide.[58]

Franchising

Franchising is a major means of expansion and growth for the hospitality industry.[59] Franchising allows a more rapid expansion and growth than is possible through traditional forms of hotel or restaurant ownership and management.[60] Franchising lowers both the profit and the risk to the franchisor. In many foreign countries where the cultural and geographic distances are great, franchising has shown to be more successful.[61] The restaurant industry, in particular, is abundant in franchises: most of the top franchising companies year over year are restaurants.[62]

Franchising for the hospitality industry originated in Germany and England in early 1900 with taverns and breweries. The first known hospitality franchise is often attributed to the Ritz Development Company franchising the Ritz Carlton name for a hotel in New York City in 1907.[63] Howard Johnsons, A&W, and Dairy Queen Restaurants also entered the franchising arena in the early 1900s, bringing the franchising concept to foodservice and restaurants.[64] Howard Johnson, known for his orange-roofed restaurants, is also known as the man to take franchising in the restaurant industry to mass deployment.[65] By the 1960s Howard Johnsons was the "second largest provider of meals outside the home, second only to the U.S. Army."[66]

Two of the most noted franchising endeavors in the hospitality industry are McDonald's and Holiday Inns.[67] Ray Kroc is credited with selling the first franchises for McDonald's brothers' hamburgers in 1954. Later in 1961 Kroc bought out the McDonalds brothers, expanding the company rapidly.[68] McDonald's is currently the largest restaurant franchisor and one of the largest foodservice companies worldwide.[69]

On the hotel side of the business, Kemmons Wilson embraced the franchising concept, building his first Holiday Inn in 1952 in Memphis, Tennessee.[70] By 1964 there were 531 Holiday Inns. He is said to have changed the hotel industry from fragmented, disorganized, and inconsistent "flea bag" local hotel businesses to standardized properties run by international corporations.[71] Wilson is said to have "set the standard for the modern lodging industry."[72] Many other hoteliers began using the franchise model in subsequent years such as Ellsworth Statler, Conrad Hilton, Scott King (Travelodge), and J.W. Marriott.[73] Franchising became popular for hotels, with many new franchised hotels being built and as well as independents joining allegiance with franchise companies.

Despite the gains of franchising, independent mom-and-pop hotels and motels dominated the industry until well after World War II. The early 1960s found fewer than 2 percent of U.S. lodging properties associated with a franchise. By the late 1980s as many as 64 percent of U.S. lodging properties were associated with a franchise chain. In addition to new construction, many independent hotels sought the affiliation of a franchise during these years.[74] Marriott is considered to be the largest hotel franchisor in the world today.[75]

Table 3.2 Top 20 Hotel franchisors by worldwide sales

	Top Hotel Franchisors	Parent Corporation
1	Marriott Hotels, Resorts & Suites	Marriott International
2	Hilton Hotels & Resorts	Hilton Worldwide
3	Hyatt	Hyatt Hotels
4	Holiday Inn Hotels & Resorts	InterContinental Hotel Group
5	Sheraton	Starwood Hotels & Resorts Worldwide
6	Hampton Inn & Suites	Hilton Worldwide
7	Holiday Inn Express	InterContinental Hotel Group
8	Courtyard	Marriott International
9	Comfort Inn & Suites	Choice Hotels International
10	Westin	Starwood Hotels & Resorts Worldwide
11	Crowne Plaza Hotels & Resorts	InterContinental Hotel Group
12	Radisson Hotels	Wyndham Hotel Group
13	InterContinental Hotels & Resorts	InterContinental Hotel Group
14	Residence Inn	Marriott International
15	Renaissance	Marriott International
16	Hilton Garden Inn	Hilton Worldwide
17	Doubletree by Hilton	Hilton Worldwide
18	Embassy Suites	Hilton Worldwide
19	Ramada	Wyndham Hotel Group
20	Days Inn	Wyndham Hotel Group

Source: 2014 Franchise Times Top 200 Franchise Systems.

The restaurant industry experienced similar franchising growth with the number of franchised restaurants doubling between the years 1960 and 1970, and then doubling again by 1980.[76] Currently, the restaurant industry comprises the largest number of franchises of any industry worldwide, with Subway restaurants as the world's largest franchisor by number of restaurants, and McDonald's as the largest franchisor by sales volume.[77]

Table 3.3 Top 20 restaurant franchisors by worldwide sales

	Top Restaurant Franchisors	Parent Corporation
1	McDonald’s	McDonald’s Corporation
2	KFC	Yum! Brands
3	Subway	Doctor's Associates, Inc.
4	Burger King	Restaurant Brands International
5	Pizza Hut	Yum! Brands
6	Wendy’s	Wendy's International
7	Taco Bell	Yum! Brands
8	Domino’s	Domino’s, Inc.
9	Dunkin’ Donuts	Dunkin’ Donuts
10	Tim Hortons	Restaurant Brands International
11	Chick-fil-A	Chick-fil-A
12	Applebee’s	DineEquity, Inc.
13	Chili’s Grill & Bar	Brinker International
14	Panera Bread	Panera Bread
15	Sonic, America’s Drive-In	Sonic Corporation
16	Dairy Queen	Dairy Queen
17	Jack in The Box	Jack in the Box
18	Arby’s	Arby's Restaurant Group (18% owned by Wendy’s)
19	Papa John’s	Papa John's International
20	T.G.I. Friday’s	Sentinal Capital Partners and TriArtisan Capital Partners

Source: 2013 Franchise Times Top 200 Franchise Systems.

The franchising model is a common investment vehicle, reducing economic risk to the international brand, while meeting local regulations for national investment funds.[78] The franchise model allows international expertise for a local developer. In exchange, it also allows a large remotely located company to employ the local expertise of the franchisee.[79] When the host business environment is highly developed, the franchise model is preferred. In poorly developed markets the management contract is preferred. An exception to this is for larger luxury hotels: the management contract is almost always the preferred structure over a franchise.[80]

Franchising models help to solve or mitigate many of the problems associated with international expansion. International expansion brings many challenges. Upon entering new international markets, finding local reliable suppliers can be difficult. Similarly, finding skilled management can also be a monumental task.[81] Franchising helps bridge access to these resources.

High proportions of international hotels are operated under franchise agreements or management contracts.[82] A common form of international expansion is the master franchise agreement wherein rights to franchise for a geographic region are granted to an individual or company.[83] The master franchise agreement helps bridge the challenges of culture, and regional business practices in international expansion.[84]

Many franchise markets begin with joint ownership. Howard Johnson used co-ownership models, with local operators owning 50 percent of the product. This allowed for rapid expansion during a time of limited equity, and reluctant lenders. Travelodge and Imperial 400 motel chains were examples of other early lodging companies which also used co-ownership models.[85]

One disadvantage to the franchising system is when the company grows too large or too quickly. If standards are not well maintained, one poorly kept property can bring down the reputation of the entire brand. Many early hotel and restaurant companies started with the entrepreneur taking part in day-to-day operations, visiting properties and franchised units on a regular basis. As the businesses grew, this was no longer possible and so company structures, processes, and procedures had to adapt to maintain the quality of the brand. For some companies, this became their demise as quality control was not able to keep pace with expansion.[86]

Another emerging concern in franchising is reflagging. Once unheard of, it is no longer unusual for a hotel to reflag or change franchising companies (brands). Particularly as properties age, or franchise agreements expire, hotels may seek to reposition themselves through brand conversion.[87]

Consortium/Referrals

There is a hybrid between the independent hotelier and franchising called a consortium, or referral group. In a referral group or consortium, independent hotels group together to collectively gain expertise and support services.[88] The key difference is that the consortium typically operates on a cost recovery basis, the consortia members pay a membership fee and the hotels stay independently owned and operated.[89]

Hotels in consortiums typically have more say in the governance of the organization. Standards or requirements for uniform conformity are often more flexible allowing the independent hotel to still maintain its unique market strengths. Hotels in consortiums gain added credibility for financing and investment processes, and yet maintain independence in operations.[90]

Early referral systems often consisted of calls between hotel front desks, helping a guest to gain reservations at similar hotels while they traveled. Established in 1932, United Motor Courts was one of the more well-known of the early referral groups.[91] Later becoming Quality Courts, the company changed the structure in 1963 from a nonprofit referral group to a for-profit franchise chain. Today, Best Western lays claim to the world's largest hotel referral group, with more than 4,000 hotels.[92]

Initially, consortiums or referrals were established to share in marketing and reservations processes: maintaining reservations call centers, large-scale marketing campaigns, etc… With the reservation and marketing processes moving to the Internet, the primary advantage of consortiums has moved toward expertise such as revenue management, loyalty programs, quality assurance, purchasing, etc...[93]

Management Contracts

A management contract is a legal agreement between an owner and a management company to operate the business.[94] In a management contract, the management company oversees the day-to-day operations of the hospitality business. The management company typically earns fees through several methods. The management company may receive a percentage of the revenue, as well as incentives on profits. Additionally, the management company will often charge additional fees for services such as reservations, marketing, purchasing, and pre-opening development.[95] In a management contract, typically the owner does not make operational decisions but is responsible for supplying necessary capital and funds needed for expenses and debts. The management company receives a fee for their services, with the owner receiving all remaining profits.[96]

A key distinction between a management contract and a franchise is as follows: for a management contract, the management contract company is responsible for revenue generation, whereas for a franchise that responsibility falls to the franchisee or owner.[97] While management contracts are considered a growth mechanism, historically, hospitality chains that have undertaken management contracts have not grown as rapidly as those which have used only franchising models.[98]

Management contracts typically follow one of two models: brand affiliated companies or independent management companies. With brand affiliated management contract companies, the hotel is managed by the hotel brand company. Naming or franchising rights to the brand are often a part of the brand affiliated management contract. With an independent management contract company, the management company is not affiliated with a large hotel brand. The hotel may or may not have a separate franchising contract with a hotel brand. If there is an additional franchise contract, there are essentially three parties for the hotel: the owner, the management company, and the franchisor.

The hotel industry uses the management contract model more than other industries.[99] It is estimated that there are over 800 management companies managing more than 12,000 properties worldwide. Just over one-third of hotels utilizing management contracts are associated with a large multinational hotel brand, with the other two-thirds contracting with independent management companies.[100] Management contracts are used in U.S. hotels more so than in other areas of the world. Most hotel management contracts are long term, 20 years or more with opportunity for contract renewal or extension.[101]

An advantage to management contracts is that it minimizes risk for the operator or management company. Management contracts are not so tightly tied to the volatility of the real estate market.[102] This is particularly advantageous in foreign markets.

The origin of management contracts in the hospitality industry is often disputed. Fred Harvey was one of the pioneers of the management contract system utilizing management contracts for his restaurants and hotels in the expanding railroad eras of the late 1800s.[103] Management contracts were also highly utilized by U.S. hotel companies in the 1940s to expand into overseas markets.[104] InterContinental ran many of its Latin American hotels under management contracts in the 1950s.[105] Four Seasons was one of the first hotel companies to use solely management contracts, instead of owning any hotels.[106]

Consolidation of the Industry

Brand Collectors

When Ellsworth Statler was asked what the three most important things are for a successful hotel, he replied "Location, location, location."[107] Often when a company expands into a new market there is a shortage of prime or key locations on which to build hotels or restaurants. Thus, an acquisition or merger provides a process for the company to gain access to the strategic locations. Acquisitions are often used to penetrate new markets and new geographical regions.[108] Clearly this has been the case for many of the mergers and acquisitions for the lodging industry.[109]

Acquisitions have been prolific as hotel companies have pursued new markets and new products.[110] As hospitality companies have sought to expand and grow, smaller regional companies could often be acquired for less capital than it would take to build comparable new hotels. For some markets this has been particularly true. Due to overbuilding of luxury hotels, purchase of existing luxury hotels has generally been 30 percent less expensive than the cost to build a new hotel.[111]

One of the first well-known acquisitions was Associated Hotels of India by the Oberoi Group in 1944.[112] Another well-known early acquisition was the purchase of the Statler chain of hotels by Hilton in 1954. It was considered to be the largest real estate transaction that had ever occurred at that time.[113] Another noted hospitality industry merger of the mid-century was Trust House, which merged with Forte to create Trusthouse Forte Hotels in 1970.[114]

Acquisitions of hospitality companies were common in the mid- to late-1900s with many hospitality companies acquired by large corporate conglomerates in various portfolio strategies. Sheraton hotels, for example, was bought by ITT in 1968, and later purchased by Starwood.[115]

Beginning in the 1980s the hospitality industry experienced unprecedented acquisitions and mergers that some have labeled the era of brand collectors or brand consolidation.[116] In the year 1997 alone, lodging acquisitions reached 419 deals worth over 43.4 billion.[117]

Equity Real Estate Investment Trust (REIT) structures of the 1990s spurred the creation of several acquisition companies.[118] Another factor contributing to the acquisition run of this era was that many of the hospitality companies were now publically held companies whose performance was "no longer evaluated solely on day-to-day operations and property level performance."[119] As "lodging, leisure, and gaming" became its own equity sector on Wall Street, publically held hospitality companies were now judged on the ability to increase shareholder value.[120] Acquisitions of other hospitality companies allowed these companies to increase shareholder value. One of the most well-known of these is Starwood. Starwood Capital Group purchased the Hotel Investors Trust REIT in 1994. Using the paired-share status of the REIT and favorable market conditions, Starwood went on to purchase many hotels and hotel companies, becoming the largest hotel REIT in the world by 1997.[121] Growth and expansion accelerated during this era with many other companies engaging in acquisitions and mergers: Hilton merged with Promus; Marriott acquired The Ritz Carlton Hotel Company in 1995 and Renaissance Hotels in 1997; Cendant and Intercontinental Hotel Group began acquiring a number of small hotel companies.[122] Cendant later spun apart into four separate companies, acquiring Wyndham Hotels and renaming the hotel portion of the corporation Wyndham.[123]

Mergers and acquisitions may start as joint ventures.[124] Joint ventures have often been used in investment and acquisition processes in the hospitality industry. Joint ventures may exist as part of a branding strategy. An example of this is Marriott International which entered a joint venture with Bulgari Spa to open a series of luxury hotels and resorts under the Bulgari Hotel and Spa name.[125]

Acquisitions and mergers are often part of corporate strategy to expand. Large multinational companies developed strategies to have a product at every price, purpose, and place.[126] The mantra was that they would "have a hotel for every reason to travel." Hospitality companies sought to serve multiple market segments by having product in each segment of the market.[127] This resulted in both consolidation and further segmentation of hospitality companies.

Some of the impetus for the consolidation of the industry can be attributed to the love of the brand by U.S. consumers. Mergers and acquisitions in the lodging industry have been less common in areas of the world that are not as loyal to the brand. Outside of the United States, the independent hotel is more predominant. A hotel with a long history and good reputation is not as in need of the brand loyalty as a new, unfamiliar hotel. Thus, mergers and acquisitions have not been as significant.

The last few years have seen this beginning to change. As international hospitality companies seek for a larger international presence, brand proliferation is expanding geographically.[128] Consolidation brings other advantages of economies of scale and market power.[129]

With the globalization of travel, more acquisitions and mergers are expected to follow the patterns seen within the United States.[130] Independent hotels and restaurants are finding it increasingly more difficult to remain competitive in the global marketplace, gradually merging with larger international hospitality companies.[131]

Sometimes acquisitions are part of international expansion strategies. Companies seeking to expand into new geographic regions and countries are acquiring existing hospitality products in foreign countries in addition to building new hotels or restaurants. Marriott, for example, acquired the Renaissance Hotel Group in 1997. The principal owner of Renaissance was a Chinese national with political ties to the top of the Chinese government, and very influential in tourism affairs.[132] This acquisition instantly gave Marriott a physical and political presence in China. Marriott's recent purchase of Protea Hospitality Holdings is another example of this type of acquisition. This transaction doubled their hotel presence in Africa.

Brand collection through mergers and acquisitions continues today. For the year 2015 there were 596 announced hotel deals worth 64.4 billion.[133]

Restaurants

There have been many mergers, acquisitions, and minority stock purchases throughout the restaurant industry with most of the major companies buying and selling over the last three decades.[134] Entrepreneurs sold out to larger companies, and large companies began to expand and diversify. Mergers and acquisitions in the restaurant industry mirrored hotel acquisitions, with multinational firms acquiring restaurant companies in other countries as part of the expansion process.[135]

The history of restaurant acquisitions and mergers has its roots in unrelated diversification. Much of the early consolidation in the restaurant industry was started by large food conglomerates such as General Foods, General Mills, Nestle, Pillsbury, and PepsiCo.[136]

In 1970, food giant, General Mills, acquired Red Lobster and began its national expansion of the chain, adding the Olive Garden concept in 1982. In 1995, General Mills decided to spin off its restaurant division in order to concentrate on consumer products, and Darden Restaurants was formed.[137]

PepsiCo Inc., the multinational food and beverage corporation, began building a fast food restaurant empire in the 1970s and 1980s with three acquisitions: Pizza Hut in 1977, Taco Bell in 1978, and KFC in 1986, to form Tricon Global Restaurants. In 1997, PepsiCo spun-off Tricon in order to focus on its core business. Tricon was renamed as Yum! Brands in 2002.[138]

Burger King has experienced decades of numerous changes in corporate ownership. The chain was first purchased by food maker, Pillsbury in 1967. After numerous attempts by Pillsbury management to reorganize and restructure the chain proved ineffective in strengthening financial performance, Pillsbury sold Burger King in 1989 to British liquor company, Grand Metropolitan, and its successor Diageo. The institutional neglect of the brand by Diageo resulted in the company's decision to divest itself of the loss-making chain and put the company up for sale in 2000. In 2002, capital investment firm Texas Pacific Group purchased Burger King from Diageo, and later sold the chain to Brazil-based 3G Capital in 2010. In 2014, Burger King merged with Canadian donut and coffee chain Tim Horton's in a deal worth $18 billion.[139]

Most of the large food conglomerates exited the hospitality industry at some point, spinning off or divesting the restaurant portions of their business.[140] This is similar to the divestiture process of the other segments of the hospitality industry. Mergers and acquisitions remain fluid today for the restaurant industry as companies seek to expand, and utilize resources effectively.

The casino industry

The casino industry has not been immune to consolidation through acquisitions and mergers. MGM acquired Mirage Resorts, and later acquired Mandalay Resorts. Harrah's Entertainment acquired Horseshoe Gaming, Ltd. Harrah's later merged with Caesars Entertainment, becoming the largest gaming company in the world.[141]

Expansion

Expansion in the hospitality industry typically follows several models: new independent units, new company owned units, expansion of a company through new franchise agreements, and extension of franchise agreements to new units.[142]

Expansion of the hospitality industry has traditionally followed population expansion, as well as the migration and travel patterns of people. As travel patterns and types change, so does the need for hotels and restaurants. The iconic motels and drive-in restaurants of the Historic Route 66 are examples of how the hospitality industry traditionally expanded along routes of travel. Hotels, motels, and restaurants were prolific along U.S. Route 66 during its heyday, but as freeways and interstates replaced Route 66, the hotels, motels, and restaurants were no longer sought after, eventually failing economically.

Expansion and Recession Cycles

The hospitality industry is prone to cycles of recession and expansion. When economies experience recessions, the hospitality industry is often hit hard.[143] Both businesses and consumers cut spending, with travel and dining away from home often the first expenses to be cut.[144] Prices decrease, and income decreases more sharply, in times of economic recession, yielding a double blow to the hospitality industry. Consumers have less discretionary income. They seek lower-priced goods and utilize hotels and restaurant less frequently.

The hospitality industry depends on disposable income for leisure consumption. Thus, when the costs of consumer commodities (housing, utilities, and food) increase, hospitality consumption decreases. During periods of higher unemployment, leisure spending decreases at an accelerated rate.[145] The restaurant industry is particularly sensitive to consumer confidence.

When economies are stable and expanding, the hospitality industry flourishes.[146] The hospitality industry thrives when people have "more money to spend, more leisure time, and greater freedom to travel."[147]

Some of the first significant recessions to hit the hospitality industry came with the world wars during the first half of the 1900s. In both World Wars, many hotels and restaurants in Europe were destroyed. All leisure travel and most business travel stopped. Hotels were often taken over by governments seeking to house troops or relocating citizens from devastated communities.[148]

The Great Depression of the 1930s was also devastating to the hospitality industry. Massive unemployment in the United States and Europe all but eliminated most travel and restaurant dining.[149] Many hotels and restaurants failed.[150]

The introduction of the automobile helped the hospitality industry with the emergence of traveling salespersons and vacationing families.[151] The increase in automobile production and ownership during the postwar periods spurred developments in both restaurants and hotels. Motels and quick service restaurants were rapidly developed to serve this new roadside market.

The hospitality industry is often faced with time periods or locations of overbuilding or excess capacity, resulting in fierce competition. The 1970s and 1980s brought an expansion and development surge to the hospitality industry due to changes in capital lending structures and a period of worldwide economic growth. Tax structures and inflation combined so that in some cases hotels were even able to borrow capital at negative interest rates.[152] These tax advantages contributed to a period of overbuilding and oversupply.[153] This bubble popped, leaving the U.S. lodging industry to face its worst recession since the Great Depression of the 1930s.[154] Compounding, the oversupply was a new concern over world warfare. In 1990 Iraq invaded Kuwait, setting off what is often called the Persian Gulf War. Concerns across the region rippled throughout the world, drastically decreasing travel and demand for the hospitality industry.[155]

REIT's

Real estate investment trusts (REIT's) are investment structures which date back as far as the 1880s. REIT's allow "individual investors to pool their capital, invest in commercial real estate, and avoid double taxation."[156] REIT's have had many structures and tax advantages throughout their history. REIT's have often been permitted to deduct dividends paid to shareholders from taxable corporate income, therein removing all tax burdens from the trust. This favorable tax model encouraged hotel investment. Hotel development was significantly affected by the mortgage REIT's of the 1960s through 1980s, and the equity REIT's of the 1990s. The mortgage REIT's of the 1960s to 1980s led to accelerated hotel development resulting in oversupply. The investment incentives were substantially reduced by the Tax Reform Act of 1986, slowing the pace of hotel development. The oversupply of the market resulted in many REIT's in default, creating an acquisitions market through the equity REIT model.[157] Equity REIT models allowed certain tax benefits in comparison with other forms of company structure, favoring company acquisitions. Non-REIT hotel companies lobbied the U.S. government and the unfair tax breaks were closed in 1998, ending a wave of hotel consolidation.[158]

Asia and the Pacific Rim

Asia and the Pacific Rim also experienced rapid growth of the hospitality industry in the 1980s. Japan was experiencing a time of prosperity and encouraged its workers to take more time away from their jobs, stimulating leisure travel. Japanese investment in the world economy also spurred business travel. The Japanese also invested heavily in development of the hospitality industry throughout Australia, New Zealand, Korea, and Taiwan. Korea experienced similar economic development in the late 1980s, mirroring Japanese patterns for travel and development of the hospitality industry. While generally not as expansive as Japan and Korea, many other Asian and Pacific Rim countries experienced similar development patterns.[159]

Turn of the millennium

The hospitality industry recovered quickly during the late 1990s and through the year 2000, experiencing some of its most profitable years and periods of growth. Expansion was rapid for many hospitality companies. For Choice Hotels expansion was so rapid during this era that for the year 1999, they expanded at an average rate of 30 rooms per day.[160]

But, in September of 2001, the United States experienced several large-scale acts of terrorism using commercial airplanes as weapons. Travel ground to a halt, with many businesses issuing moratoriums on travel. The result was a significant loss to the hospitality industry for several years.

The industry again rebounded quickly, with many hotels and restaurants setting record revenue and profit levels in the following years. This boom cycle was short lived. In 2008, the world began an economic recession spurred largely by turmoil in the housing and financial sectors. The hospitality industry throughout almost all regions of the world was hard hit during this time.[161] The hospitality industry rebounded with many companies once again setting record sales and growth numbers by the year 2015. Customer demand for restaurants grew again after the 2008 economic downturn and the trend looks to be steady.[162]

Other global economies have also suffered recessions that have affected the hospitality industry. Short-term recessions to the hospitality industry have been spurred by events such as economic crises in individual countries and regions similar to that suffered by Japan in the 1990s, and the rapid spread of SARS in some areas of South East Asia in 2002 and 2003, etc. But like most regions of the world, the hospitality industry recovers as the economy recovers.

The hospitality industry can be expected to continue in cycles of expansion and recession, but overall the future for the industry looks good. Growth in the industry is expected to outpace overall economic growth for the next 10 years.[163]

Brands and Branding Strategies

Branding is important to the hospitality industry. Much of the hospitality product is intangible, making it difficult for potential customers to distinguish between one hotel or restaurant and another. Brands help customers by adding some predictability among highly intangible products. Brands reduce the purchase risk to consumers. This advantage is accelerated in foreign or international travel. Travelers not familiar with hotels and restaurants in remote locations are more willing to use a brand that is familiar to them, than to risk the unknown. Brands promise quality and continuity of product, helping consumers to select a hotel or restaurant before they even set foot in the place.

Brands bring other advantages to hospitality entities. Oftentimes, the franchisor or management contract company has additional resources available for the hotel or restaurant. These resources can consist of participation in large advertising campaigns, training and staff development, technology infrastructure and systems, accounting, marketing, financial, legal, architectural, and facilities expertise.

Branding moderates risk to investors. In volatile markets, hospitality investors seek brand affiliation to reduce risk. While branding carries significant costs, other costs such as cost of capital, distribution, technology, etc. are often reduced, balancing the equation. Hotels and restaurants affiliated with a brand have found it traditionally easier to obtain financing than independent operations. Experts in the investment part of the hospitality industry indicate that capital is more readily available when the new hotel or restaurant is associated with a brand.[164]

Hotels and restaurants brand in several different ways. The most common is the franchise agreement. Management contracts may also include branding rights as a part of the contract. The third method for branding is the referral group or consortium.

Segmentation

The process of segmentation allows a company to offer a slightly different product or service to appeal to a specific market. Segmentation has the advantage of allowing a company to expand into new markets, while utilizing similar resources and expertise. Segmentation has been a part of the hospitality industry from its early years, with hotels and restaurants offering new products, locations, services, and menu items to capture diverse needs and desires of consumers. Segmentation accelerated during the 1970s and 1980s with the hospitality industry expanding rapidly through franchising and product segmentation.[165] Many new hotel and restaurant types and brands were introduced during this period, some say more so than any other time period. But, the current time period is also said to have introduced more brands and concepts than any other time period.

Hotels

One could say that segmentation has always been a part of the hospitality industry with dockside inns offering different products and services than local taverns or inns along stagecoach lines. Segmentation in the hotel industry became more pronounced with the development of motor hotels, or motels, in the early 1900s. These lodging facilities offered "no frills" sleeping rooms with sparse amenities for much lower costs than traditional hotels.[166] Offering the automobile traveler a place to stay, motor cabins offered bare cabin-like facilities without the expense and amenities of a full-service hotel. Over the next few decades motor hotels evolved, offering nice guest rooms with many of the amenities that hotels offered. Segmentation blossomed with hotels and motels offering various models of guest rooms, facilities, and amenities. Recognizing that there was still a market for the "no frills," lower-priced hotel product, William Becker started Motel 6; opening the first property in California in 1962.[167]

Prior to the 1970s, most hotels were full-service hotels with full-service restaurants, swimming pools meeting rooms, etc.[168] Hoteliers began to introduce a multifaceted range of hotel products.[169] Many of the newly developed hotels had fewer amenities with lower price points, tailoring the hotel to specific markets. Many hotel guests were not using the hotel restaurant, instead dining out in the local communities as the restaurant industry expanded. And so a full-service restaurant was no longer a required amenity for a hotel.[170] Hotel developers were discovering that these scaled-back hotels could be built in smaller markets which had not supported large full-service hotels. These hotels became known as limited service or select service hotels.[171] An example of this was when Marriot entered the limited service segment of the hotel industry with the addition of the Courtyard hotel concept in 1983. Prior to this time, Marriott operated only full-service hotels. The development of Courtyard and additional brand segments allowed Marriott to enter lower-priced hotel segments.[172]

Additional forms of segmentation for the hotel industry were also developed. Hotels began to develop all-suite and extended stay hotels, as well as to expand the luxury segments. The all-suite hotel was introduced with extended sitting areas and small kitchen facilities.[173] This market was developed for travelers who were not in need of extensive public facilities of most full-service hotels, but who instead desired separate sitting and sleeping areas in the guest room. Early examples of the all-suite segmentation were Embassy Suites, and Residence Inn. The extended stay market is a further segmentation of the all-suite market. Extended stay properties extend the all-suite concept by offering large living areas and full eat-in kitchens.[174]

Brand segmentation also expanded toward the luxury hotel market. While many argue the luxury segment already existed, Isadore Sharp's Four Seasons Hotel Company was dedicated solely to luxury rooms and amenities.[175] Four Seasons trademarks became luxurious amenities such as plush bathrobes, 24-hour room service, etc. Many other luxury hotel companies were developing across the globe. Taj Hotels, Mandarin Oriental Hotels, and the Jumeirah Group all focused solely on the luxury customer. The Oberoi Group embraced expansion into the luxury market in India with the advent of the Trident Hotel brand in the 1980s.[176] Many other hotel companies also began to develop or acquire luxury hotels, further segmenting the market within the brands.[177]

Segmentation provided the means for hotel companies to venture into markets previously untapped, as well as to reenter markets thought to be saturated with full-service hotel product. [178] Full-service hotels require large metropolitan markets with high volumes of upscale business and leisure guests. Many of the new segmented products could be built in smaller market areas without competing with the existing hotel products. [179] An added benefit was that hotels in these segments were designed to be "mass produced" allowing rapid expansion.[180] Companies saw segmentation as a way to rapidly expand.[181]

Segmentation for the hospitality industry also reduces risk by diversifying the products and markets.[182] For instance, luxury hotels and resort hotels were more affected than midscale and economy hotels in the economic recession of 2006-2012. Hospitality companies with diverse segmentation were better able to weather that recession.

Some would say that the hotel industry has become too segmented with so many hotel types that consumers have difficulty discerning between them. The number of hotel brand segments almost doubled from 2006 to 2015. By 2015 there were more than 500 hotel brands that comprising the global hotel industry.[183] Many of these are brand extensions or sub brands, or differentiated segments of larger hotel companies. Even within the segments we are seeing diversification and new brands. Segments such as the economy hotel and extended stay hotel now have low, mid-range, and high-level brands and properties.[184]

A recent trend in segmentation is rebranding or what the hospitality industry calls "reflagging." For many hotels, in particular, franchise and management contracts have reached expiration. Sometimes those hotels choose to contract with a different brand or "flag." Other times hotel owners seek to get out of management contracts or franchise agreements prior to contract expiration so that they may rebrand the hotel with a different brand, more closely matching markets, and needs of the hotel or the owner's philosophies. Tensions often arise when the franchise company implements brand standards requiring additional amenities or improved amenities, and the owner is seeking to improve the short-term profitability of the hotel. Other conflicts of interest in financial priorities, marketing processes, and fees also contribute to discord between franchisors and franchisees. Contract litigation of hotel franchise and management contracts has become a prospering business. Experts predict that as we move forward, brand or flagging rights will become more separated from management agreements, with separate fees and contracts for each.[185]

Restaurants

Restaurants also utilize the strategy of segmentation. However, for restaurants, segmentation was a part of its beginnings with different foods and fares being offered from the start. Restaurants are often segmented into quick service, cafeteria and buffets, casual dining, family dining, fast casual, ethnic foods, full-service dining, fine dining, and onsite foodservice. Many restaurants overlap markets and products and could be classified into more than one segment. Unlike the hotel industry, many of the segments have been around for centuries including ethnic foods, family dining, full-service, and fine dining. Quick service is, perhaps, the most well-known segmentation of the restaurant industry and the largest segment today.

One segment that has gained popularity in recent years is fast casual: a mix between quick service and full-service dining.[186] In fast casual dining, the customer orders and picks up their food from a counter; however, the menus are more expansive, with more fresh, higher-quality food than traditional quick service.[187] Another element of the fast casual segment is the open kitchen, where customers can see the food as it is prepared. A few of the popular names in fast casual are Chipotle Mexican Grill, Panera Bread, Baja Fresh, and Qdoba Mexican Grill. While some of the fast casual concepts have expanded, most are regional chains such as Pie Five, Burger 21, Café Rio, Zupas, etc. The fast casual segment of the restaurant industry is one of the fastest growing and is expected to reach 50 billion in sales by the year 2017.[188]

Another example of fast casual is the upscale coffee shop, made popular by Starbucks. Changing the atmosphere to include comfortable armchairs, softer lighting, and free Wi-Fi capability, Starbucks reintroduced the concept of gathering at the local coffee shop to meet friends and colleagues, rather than just for food. This is a departure from the concept of "turning and burning" tables and customers that restaurants had long employed. Restaurants moved from a focus on pushing as many customers as possible through in a meal period to creating an atmosphere where customers want to linger, work, connect via free technology, and then of course, buy more food and drink.[189]

An emerging theme of food as lifestyle has created new segments and markets. Consumers now consider dining out as a "holistic part of a complete lifestyle centered on a few essential concepts: speed, convenience, local and personal connection, empowerment through technology and health."[190]

Another new segment gaining popularity is the chef celebrity restaurants. Television-made chef celebrities are opening restaurants giving branding a new meaning.[191] Here the brand is the chef celebrity. While the first celebrity chef restaurants often featured regular appearances by the celebrity chefs, this market has expanded through franchising and management contract models, changing the nature of the segment. For most of these restaurants today, the celebrity chef is the franchisor and brand, and not necessarily a part of day to day operations.

Dual branded

As real estate becomes scarcer, dual branding is becoming common in the hospitality industry. Dual branding involves two or more distinct brands in one building.[192] Quick service was the first to embrace this concept by offering several different quick service concepts in one restaurant, such as Taco Bell and Kentucky Fried Chicken. Generally, the brands are owned by the same parent company. Hotels have recently begun to offer dual branded properties in markets with high real estate costs, and low real estate availability.

CHAPTER 4

Uniqueness of the Hospitality Product

There are many elements of the hospitality industry that make it unique from other industries. The hospitality product is part product and part service. The service element is often intangible, with the customer a key part of the service component. Hospitality products and processes are highly perishable, and often location-bound. The product and process generally cannot be outsourced.[1]

Part Service, Part Product

E.M. Statler, the father of the hotel industry, said "A hotel has just one thing to sell. That one thing is service."[2] The hospitality industry delivers a product that is part service and part physical product. They are inseparable. Service pervades every facet of the hospitality industry. A good restaurant meal consists of more than good food at a good price, more than the décor of the restaurant: it also depends on good service by a server. The same is true for hotels. While a good bed, clean linens, clean bathrooms, and functioning elevators are certainly a part of a good hotel visit, the service of the hotel staff at check-in and throughout the stay is a big part of the purchase and satisfaction. Ritz Carlton executives suggested that "the business of this luxury hotel chain is not really selling rooms and food, but rather service and cleanliness."[3]

Consumers are more interested in value than price, and a key part of that value is customer service competency. Bill Marriott taught his employees that this is a people business, and part of the product is service or people interacting with people.[4]

Offering of an Experience

Hospitality is all about creating experiences and providing environments for consumers to enjoy work and play.[5] It is more than just the product or service provided, it is the entire experience. Service, atmosphere, and other intangibles are part of the service experience. Hotels and restaurants are as much an experience as they are a product.[6]

In a service industry, the customer is part of the delivery process.[7] To compound this, different customers prefer different products and services, and the same customer seeks different products and services according to travel types. When guests travel for leisure, they may appreciate a relaxed hotel check-in conversing with the clerk about local amenities, etc… Yet, those same guests at the end of a business day may want a rapid check-in with little conversation. The same is true in restaurants. Service is an intangible product. The intangibility of the service portion of the hospitality experience makes the industry harder to standardize and to operate efficiently.

Simultaneous Production/Consumption

One of the challenges of the hospitality industry is the simultaneous production and consumption cycle. Because a part of the product is service, it is consumed or received at the moment of service, or production.[8] If an error occurs in service, it is often not possible to stop the production line and back up and fix the error, prior to the guest receiving the service. The guest has already received the poor or imperfect service product.

Perishability of Inventory

Hospitality inventory is highly perishable. A room not sold is lost forever. A restaurant seat that sits empty cannot be recaptured. Unlike manufacturing, the hospitality industry cannot sell twice its inventory of rooms next week to make up for lost sales this week. A guest cannot be asked to share a room with a stranger, or to check out in the middle of the night so the room can be sold twice in one night, to recapture forgone sales of previous days. This makes forecasting and pricing decisions crucial to the business. Compounding this is that location is a key element in the success of the business.[9] A hotel in one city cannot simply add more rooms to their current property in order to serve guests desiring to stay in another city.

Location

Location is an important element in the success of a hospitality business. The location or proximity of a hospitality business to convention facilities or tourist attractions is a critical component. Physical proximity to the origin markets of consumers creates a location-bound effect as well. While advances in transportation help to mitigate this factor, locations with expensive or cumbersome airlift patterns have less demand. For restaurants, location along commuting routes is a key factor for success. For quick service in particular, the distance a consumer will travel to get to the restaurant is very finite. The location of a hotel or restaurant also defines the competitive climate and balance of supply and demand in the local marketplace.[10]

Location places an additional burden on the hospitality industry. Because the product is part good and part service, very little of the process or production can be outsourced. Hospitality businesses cannot take advantage of readily available or less expensive labor in other markets to clean rooms or serve food to guests at a different location. Indeed, most of the tasks required in producing hospitality products and services are location-bound.

Non-Guest Buyer

Hotels have an additional unique factor. Approximately 10 to 30 percent of inventory is purchased by non-guest buyers such as travel agents, wholesalers, and contract rooms. Factors which may be important to a guest in the purchase process are often different than for a non-guest buyer. Non-guest buyers also bring an increased competitive environment, driving prices down.[11]

Human Resource Management

A hospitality firm's performance, effectiveness, and long-term competitive success rests largely on human resource management.[12] The hospitality industry is a labor-intensive industry.[13] It is estimated that between 40 to 50 percent of all hotel operations' dollars are spent on employee wages.[14] The costs of wages and employee benefits continue to outpace the increases in hotel and restaurant pricing and demand.

Many of the jobs in the hospitality industry are low in complexity and require little or no formal education.[15] More than 80 percent of the workers in the hospitality industry are unskilled, with no formal education.[16] Most workers learn job skills on the job. Wages are often at governmental minimum wage.

In most businesses of the world, an experienced sales or customer service representative meets with the customer. However, in the hospitality industry it is often an entry-level worker that deals day to day with the customer. Compounding this factor is the low skill and education level of the entry-level worker interfacing with the customer. Very few other industries have low skilled entry-level employees interacting regularly with customers.

Acquisition, Retention, and Development of Labor

Acquisition, retention, and the development of qualified employees are chief concerns for the hospitality industry.[17] The hospitality industry faces a growing talent shortage, with many countries reporting significant problems in attracting and retaining hospitality employees. Acquisition and retention of labor is a greater challenge for the hospitality industry than for most other industries. The World Travel and Tourism Council reports that 37 out of 46 countries show a talent deficit in the hospitality industry while only 6 out of 46 countries show a talent deficit overall.[18]

There is a critical labor shortage in the hospitality industry in many parts of the world.[19] Some experts predict that the expansion of many hospitality businesses is held up by the lack of available labor in the marketplace.[20] For some markets, projected GDP is restrained by lack of human resource talent for the hospitality industry.[21] Hotel development in Hong Kong, for example, has been deterred due to lack of trained labor.[22]

Availability of labor in some markets is a big concern. Many resorts, restaurants, and large hotels are built in communities with high real estate costs. Given the generally low hourly wage of the hospitality industry, finding workers in these markets becomes a challenge.

For the hospitality industry, often the real shortage is in skilled workers.[23] In some countries and cultures, basic concepts of customer service and sanitation are lacking. Sometimes the labor force is illiterate and unable to perform simple mathematical tasks.[24] Importing of expatriate workers is not an easy solution, as exporting, translating, and maintaining company standards in differing cultures and remote geographies is difficult.[25]

The hospitality industry has traditionally not paid very well in comparison to other industries. Hospitality workers on average earn less than half of what a construction worker earns. This also affects the ability to recruit qualified applicants.[26] In some regions of the world the hospitality industry relies heavily on migrant work forces from countries with depressed employment.[27] Recent years have seen increased globalization of the employment market with increasing cross border migrations.[28] While this helps reduce labor shortages, many of these workers are untrained and possess low skills.

For most of the developed world, employee turnover is higher for the hospitality industry than for most industries. In the United States, employee turnover for the hospitality industry stands at 62 percent while turnover for the overall private sector was reported at 42 percent.[29] For less-developed countries, where jobs are coveted, employee turnover is generally not as high.[30]

A high proportion of the hospitality workforce is part time, and seasonal, compounding high rates of employee turnover. The Bureau of Labor Statistics for the United States reports that hospitality workers average 25 hours worked per week. [31]Restaurants, particularly quick service, gather much of their workforce from high school age and other entry-level transitional work forces who have little interest in staying on the job for very long, thus contributing to turnover problems for the industry.[32]

Lack of retention in the hospitality industry can often be attributed to poor wages, poor working conditions, inadequate training, and the lack of a clear career path. In some countries the hospitality industry is held in high regard, as a profession. But for some other countries, service industry jobs are considered servitude, and therein carry a poor social status. This problem is compounded for the economy or lower-priced sectors of the hospitality industry, where social status of jobs is perceived to be lower. Economy hotels and quick service restaurants find it even more difficult to attract and retain labor.[33]

Company culture can help attract and retain employees. Bill Marriott, Jr., was known for his position that if you treat your employees well, they will be loyal, and in return will result in loyal hotel guests. Some companies go as far as to "brand" employment opportunities, or to recruit using the power of the brand.[34]

High turnover contributes to the problem of inadequate training. Hospitality companies are often reluctant to invest resources to train workers that turnover quickly. The attitude is: "why train someone to go work for my competitor, let my competitor train them." The hospitality industry is notorious for hiring employees from competitors, what is often called "raiding the competition."[35]

In some regions of the world, the hospitality industry has caught the attention of human rights groups for treatment of workers. Wages and living conditions in these regions for those that build and work in the hospitality industry have been deplorable. Efforts by labor organizations to mitigate the appalling working conditions have largely been ignored by many governments and businesses related to the hospitality industry. Often workers are guest immigrants working on conditional labor visas. If the workers report poor working conditions, there is a chance their visa could be revoked.[36]

It would be inaccurate to claim that the majority of the hospitality industry treats its employees poorly. Many hospitality companies have achieved awards for exemplary working environments for minorities, women, etc.

Looking forward, Human Resources is changing: outsourcing, international mobility, globalization, and an aging workforce are expected to change the culture and structure of Human Resources in the hospitality industry for the future.[37] These changes will bring about additional challenges and opportunities in Human Resources.

CHAPTER 5

Competitive Strategies

The hospitality industry employs many competitive strategies. Pricing strategies are varied from luxury pricing to value-based menus. Revenue management and transparency of pricing have revolutionized pricing strategies for the hospitality industry. The hospitality industry utilizes economies of scale through its various models of ownership, franchising, and consortia. Related diversification has been successful for most sectors of the hospitality industry. The hotel industry has high capital costs and therein high barriers to entry, while the restaurant industry has few barriers to entry. The hospitality product is easily imitated, making loyalty programs and customer service strategies crucial.

Loyalty Programs

Loyalty or frequent guest programs are an integral part of the competitive strategies for the hospitality industry. Hotels and restaurants offer incentives for frequent patrons. Marriott was one of the first companies to introduce a loyalty program in 1982, rewarding frequent stay guests.[1] Loyalty programs range from simple to complex, with programs at the far end of the scale collecting extensive data on guest behavior. This data is often used to help increase repeat sales. Data from loyalty programs can also be used to improve guest service by anticipating frequent requests. For example, a hotel loyalty profile that indicates a guest is allergic to feather pillows allows a hotel to anticipate the needs of the guest by placing non-allergenic pillows in the guest room prior to the guest's arrival.

The casino industry has been a leader in guest loyalty programs. Many casinos early on tracked customer behavior: how much their customers spend, where they spend it, how often they come, what they like to drink and eat, and many other personal gaming preferences. Casinos have used information from customer loyalty programs for a wide array of activities from marketing to surveillance. Using modern GPS technology, casinos now track customers on their properties: they "know exactly where many of their customers are at any given moment—whether they are sitting at a specific slot machine or playing blackjack."[2] Casinos use this information to direct customers to less crowded areas of the resort, or toward exciting gaming opportunities that match the customer's profile. All of which, of course, are intended to increase casino revenue.

Revenue Management

Revenue management programs were first introduced by the airline industry. Revenue management is a "revenue optimizing model to replace the simplistic capacity-maximization approach of 'putting heads in beds.'"[3] Rates and availability are based on demand rather than advance booking time. Revenue management for the hospitality industry surfaced during the 1980s. As technology advanced, hotels were able to capture more information about reservation booking pace, rate demand, and revenue patterns. Revenue management was introduced, helping hotels use historical demand patterns to set room rates and discounts. Prior to this time, discounted rates were offered to those booking far in advance, regardless of the demand. Revenue management changed this to a demand-based room rate process, with discounts offered during periods of low demand, regardless of when the reservation is made.[4]

Large corporations have become very sophisticated at tracking and predicting revenue, and pricing. Several research-based companies have also joined the hospitality industry in tracking and helping to predict revenues. Other companies which previously focused on accounting and feasibility studies likewise began to track hospitality industry revenue. Smith Travel Research, PricewaterhouseCoopers (PWC) and PKF Consulting are several of the large companies that assist the hospitality industry in revenue tracking.[5]

Pricing Strategies

Pricing in hospitality was once established by considering factors such as the cost to build and return on the investment. Today, pricing is primarily market driven.

Markets are now transparent, resulting in hotels and restaurants setting prices relative to their competition.[6] Pricing for the hotel industry, in particular, has become completely transparent. Online travel agencies and metasearch sites such as Kayak and Trivago, allow consumers to search across travel sites, quickly comparing pricing and amenities for many hotels at the same time. Other factors such as location and supply and demand are also a part of the pricing formulae in setting prices for a marketplace.

Often to the consumer, value is more important than price.[7] Consumers consider many factors in establishing value. The key to pricing success is for hotels and restaurants to ascertain what the consumer values enough for a price differential. For example, many consumers consider the ability to connect to the Internet while staying in a hotel part of the value equation. Consumers are willing to pay a small incremental price difference to stay at a hotel that meets their needs for connectivity.

Pricing for the quick service industry, in particular, focuses on value. Consumers purchase quick service for convenience and low-cost pricing. Offerings of dollar menus and value menus are common in the quick service industry.

Development of Product at Every Price Point

Multinational hotel companies have embraced the strategy of developing large brand portfolios with product ranging from small economy motels to large, luxurious hotels and resorts. During the last two decades, hotel companies have sought to develop different products at different price points, seeking to attract niche markets.

This competitive strategy has several goals. One is to capture complete customer loyalty regardless of the guest's reason for travel. Whether the guest is staying in a hotel for business, or pleasure, with family and friends or alone, on a company travel account or family budget, for a lavish honeymoon or a simple roadside accommodation, hotel companies want to be able to offer a guest a product for every reason to stay. Another reason behind this strategy is to diversify the portfolio, therein decreasing risk. Bill Marriott commented that segmentation allows the company to survive the slumps in demand in some segments over time.[8]

Diversification

For the latter part of the 20th century, hospitality companies owned and dabbled in many businesses: airline catering, healthcare, rental car, real estate, senior living centers, and computers to name a few. For the most part, these divergent interests were spun off or sold during the 1990s and early 2000s, resulting in hotel and restaurant companies with specialization strategies.[9] While a few of the companies own a few divergent businesses, these are generally held for accounting or tax purposes.[10]

Economies of Scale

Economies of scale are evident throughout the hospitality industry. The hospitality industry has benefited from economies of scale in marketing, standardized operational procedures, bulk purchasing, global marketing promotions, reservation systems, centralized commissaries, specialized knowledge in facilities design, development, architecture, construction, legal, technical, human resources, and financial.[11]

Marketing

Economies of scale in marketing for the hospitality industry can be powerful.[12] The ability to reach a large mass of consumers is often only affordable to large companies that can spread the cost among hundreds or thousands of hotels or restaurants. Additionally, bargaining power allows large companies to negotiate lower costs of advertising, media, and other marketing programs.

Worldwide brand name recognition brings a flow of customers.[13] Some companies estimate that as much as 80 percent of customers frequent their business because of the brand name.[14] It is also common for many large international businesses to purchase hospitality services centrally or to appoint particular hotels as "preferred suppliers," thus gaining an advantage of scale for the hotels and restaurants.[15]

Standardized Procedures

One of the most influential economies of scale in hospitality comes from standardizing procedures between units.[16] There are a few key early industry leaders who are given credit for bringing standardization to the hospitality industry. With many of his restaurants and hotels located in remote frontier areas, Fred Harvey was revolutionary with his high standards in purchasing, service, menu items, etc. Harvey was able to command a product and level of service that some claim civilized the Wild West.[17] Ingram was another early leader in establishing standards on food preparation, purchasing, and employee appearance for his White Castle Restaurants.[18] Ray Kroc is, perhaps, the most famous for bringing standard processes, products, and procedures to the restaurant industry with McDonald's. Kroc actually built a laboratory in suburban Chicago to devise and test methods for making french fries.[19] He wanted to be sure "that the french fries you ate in Topeka would be the same as the ones purchased in New York City."[20] Kroc later started "Hamburger University" in 1963, standardizing training for all managers and franchisors.[21] Kroc knew from the beginning that to achieve the mass expansion of the company he envisioned, he had to standardize operating procedures so that they were readily replicable.[22]

Hilton is well-known for first bringing standard operating procedures and management standards to the hotel industry.[23] Standardization of procedures has allowed many hotel companies to grow quickly. Marriott remarked that corporate efficiencies such as standard operating procedures and internal training programs were crucial in allowing the company to expand at a rapid pace.[24]

Purchasing

Many hospitality companies employ economies of scale in purchasing. Purchasing power can often transcend geographic boundaries resulting in lower costs of goods.[25] Some companies centralize the purchasing process, contracting with vendors for supplies companywide. Others offer lists of preferred vendors that offer discounts and other purchasing concessions to their hotels and restaurants.

When companies or related hospitality businesses purchase larger quantities of a product, they can often negotiate a better price. Even more, manufacturers are more willing to develop products to exact specifications without additional cost increments when the purchase volume justifies.[26]

Choice Hotels has streamlined purchasing through an online website (Choicebuys.com), through which franchisees can search for suppliers, compare costs, check product specifications, etc. This system gives its small franchised hotels the advantages of large purchasing contracts with the company.[27] Many other hospitality companies have similar purchasing systems.

Management Based

Economies of scale often occur in corporate or central offices.[28] Typically the portfolio of hotels and restaurants grows at a faster pace than the corporate offices, thus yielding economies of scale.[29] In addition, accounting, legal, architectural, research and development, and other similar functions can often be consolidated, reducing costs.[30] These economies of scale often allow multinational corporations to enter new markets faster and easier than potential new entrants.[31]

Economies of scale also occur in knowledge or information. The beginning of predicting or forecasting future numbers of hotel guests or restaurant patrons was a direct result of the information gathered between multiple hotels and restaurants. Hilton began to implement a forecasting system in the 1950s.[32] Chain affiliated hotel and restaurant managers today often receive up-to-date information on sales, costs, forecasts, and competitors on a daily basis.

Technology

One economy of scale that cannot be overlooked is technology. Technology often requires greater resources and expertise. This gives an advantage to larger hospitality enterprises. An example of such technology is reservation and information systems. Large companies can command reservation bookings through their own websites and call centers, presenting significant savings of commissions paid to other travel reservation sites.

Challenges to Economies of Scale

For the hospitality industry, economies of scale are most evident within local markets and within countries. Because hotels and restaurants are geography- or place-bound, the economies of scale are limited across large geographies and across international borders.[33] Most of the operations and consumption of product are location-bound and have to occur at the hotel or restaurant, and cannot be outsourced or combined with operations from other hotels or restaurants. This limits the cost savings of many economies of scale. Consumers and markets differ from country to country at least as much as they are similar, again limiting economies of scale. Labor markets are often unique, and since most of the labor in the hospitality industry is location-bound and cannot be outsourced, economies of scale can again be limited.[34]

Even within a country or region, limitations may exist. One company may own several hotels or restaurants in a local geographic region with differing amenities and services. While one hotel may serve the business clientele closer to the airport, another owned by the same company may be a beach resort with differing guests, services, and amenities. This fragmented nature of the industry also serves to limit economies of scale.[35]

An additional barrier to economies of scale is the varied owner and management models pervasive in the hospitality industry. A hotel owner can manage a hotel or employ an ownership contract to manage a hotel, with or without a franchise agreement. The diversity of affiliations requires more corporate structure and thus limits the economies of scale.[36] The most common model for operation in the hotel industry is management contract. Hotels and restaurants under management contracts have differing owners with varied business goals, purposes, and structures. This also serves to limit economies of scale.[37]

Another hindrance to economies of scale within a brand is the widespread use of franchising in the hospitality industry. Studies have shown that knowledge transfer, shared learning, and global efficiencies are limited in most franchising arrangements. Master franchise agreements overall seem to do better at capitalizing on economies of scale. For most master franchising arrangements in the hospitality industry, organizational efficiencies transfer between the master parent organization and the unit level.[38]

Hotels and restaurants have the challenge of presenting a "local feel" to the guest. This limits economies of scale. Management at the corporate level is often geographically and culturally distant from the local hotel or restaurant. An owner or management company without a local presence is often not in tune to the culture, traditions, or values of the local community.[39] Other concerns can arise from a lack of understanding for the socio-cultural needs of the employees.[40] Global strategy and corporate culture of the company may conflict with local labor laws, cultures, and practices.[41] All these combine to limit economies of scale.

Barriers to Entry

Hotels and restaurants face different barriers to entry. Hotels have high barriers with high fixed costs, while restaurants generally have low barriers to entry. Regardless, both restaurants and hotels require infrastructures of utilities and transportation systems to be successful. Similarly a source of employees and suppliers in the local marketplace is part of the consideration for opening a hospitality business.[42] Some argue that the high costs of marketing to compete against the large brands create a barrier to entry; however, technology is turning marketing upside down, allowing independent hotels and restaurants to reach target markets more efficiently and effectively.[43]

Hotels

The hotel industry is very capital-intensive. Hotels have a high fixed investment cost, and a low variable cost as compared to other businesses.[44]

Rising real estate and construction costs in key markets have further escalated this high cost of entry for the hotel industry.[45]

Restaurants

Restaurants, in contrast, have a low barrier to entry. This low barrier to entry for restaurants makes the marketplace fiercely competitive.[46] Capital requirements to start a new business are relatively low. The cost of opening a new restaurant is on average $500,000.[47] That is relatively low to start up a new business. Another factor contributing to low start-up costs is the franchise component of the industry which allows individual franchisees to benefit from lower start-up costs due to the buying power of the larger franchisor.

The restaurant industry also has a high failure rate.[48] Research suggests 17 percent of restaurants fail in their first year. Restaurants generally only have a median life span of 4½ years.[49] Some project that the low barriers to entry allow inefficient operators to venture into the restaurant industry, thus contributing to the high failure rate of restaurants. But, there are many other factors contributing to the high mortality rate of restaurants. These can range from location, marketing, human resource, and environmental factors to personal lives of restaurant owners.[50]

Easily Imitated

Products and services of the hospitality industry are easily and quickly imitated.[51] Restaurant menu items and hotel amenities are quickly copied and generally have limited protection. Bill Marriott said "We hold no patents; all we have is our name."[52]

The balance of supply and demand is an ever attendant concern for the hospitality industry. Because products are easily imitated, replication in markets is usual. As demand increases and a market becomes profitable, additional hotels and restaurants are built, therein swaying the balance back to excess supply. Competition is accelerating, with more restaurants and hotels introduced each day.[53] The key to success is to deliver a product and experience that customers will want to experience again.[54]

An example of the dangers of imitation and competition is Las Vegas, Nevada, once considered the gaming capital of the world. The last decade has seen gaming communities develop in Macau, China, and Dubai, UAE; some of which have outpaced Las Vegas.[55]

Low switching costs

Switching costs for hospitality consumers are low. Thus, loyalty of the consumer is limited. The abundance of hotels and restaurants in similar locations offering similar products allows guests to easily patronize different hotels and restaurants. Hospitality transactions are generally short term in nature, generally equating to one meal, or less than two nights at a hotel. There is little risk to the consumer in switching purchase from one hospitality business to another, or in trying another hospitality product. Compounding this is that consumers often seek variety and novelty in dining and travel. The proliferation of independent hotels and restaurants provides further hindrance to brand loyalty for the hospitality industry.

Corporate Strategies

Global Expansion

In the hospitality industry, the early years of global expansion and international development were primarily by U.S. companies.[56] Europe and North America still comprise the majority of the hospitality industry. For example, there are 14 times as many hotel rooms per capita for Europe and North America as for the rest of the world.[57] For most of these industrialized countries, markets for the hospitality industry are becoming saturated. Thus, companies seeking to grow must seek international or global expansion.[58]

International expansion carries many opportunities as well as risks. For the hospitality industry, the risks for international expansion are not that different than for many other industries. The primary risks are legal, political, economic, and fluctuating currency values.[59]

Brief history of international expansion

Development of the hospitality industry has occurred on many continents by both local and international companies. Most hospitality companies concentrated development in their home country for the early part of the 1900s. One exception to this was InterContinental Hotels, which expanded early into international countries. InterContinental Hotels was developed by Pan American Airlines to service travelers to foreign countries. Several other airlines followed this model. However, for most hotel companies, early development was local and regional.

Beginning in the mid-1900s, most hospitality companies began to expand to other countries. Some had limited initial forays by building one hotel or restaurant in another country. Others sought to expand through mergers and acquisitions of foreign companies. While the model for local initial development followed by expansion is still common, most of the hotels in the world affiliated with a brand are part of large multinational hotel companies.[60]

Restaurants were not far behind hotels in international expansion, but, the proliferation of internationally branded restaurants is not as significant as for hotels. There are still many more independent restaurants than hotels. In the United States, the ratio of independent restaurants to brand affiliated restaurants is two to one, with higher ratios reported for other countries.[61]

In recent years the domestic restaurant market in the United States has become largely saturated, and the expansion of U.S. restaurant firms into foreign countries is strong. Among the 500 largest restaurant chains, international unit growth has been about 9 percent, while the number of U.S. locations has only grown about 2 percent. International sales for the largest chains have grown at about 4 percent.[62]

Expansion of U.S. restaurants into international countries has been dominated by the quick service market, followed by fast casual. Other casual restaurant concepts such as Denny's, TGI Friday's, and International House of Pancakes are also expanding internationally. Several British-based conglomerates acquired U.S. restaurant brands and similarly expanded aggressively in the United States as well as other international markets, such as Grand Metropolitan PLC (owner of Burger King), and Allied Domecq PLC (former owner of Dunkin' Donuts and Baskin-Robbins).[63]

Expansion and development of the hospitality industry in global markets often follows the economy of the market. For instance, during the 1970s as the Middle East enjoyed an economic prosperity from oil, the hospitality industry expanded rapidly in the region. When the price of oil fell in the next decade, hospitality development decreased significantly. As China grew in world economic importance at the turn of the century, the hospitality industry in China expanded greatly. Similar patterns are seen in development of the hospitality industry throughout the world.[64]

Quick service restaurants have led the way in overseas expansion, generally due to smaller building size and property needs, limited menu offerings, and fewer managers needed per unit than in casual or upscale restaurants. The two quick service restaurant chains that have led the way in international expansion are McDonald's and KFC. McDonald's began expanding internationally in the 1960s when it opened stores in the Caribbean and South America. Today, McDonald's generates 60 percent of its system-wide sales from overseas units. KFC was the first U.S. restaurant chain to enter the Chinese market in the 1970s. Today, Yum! Brands, the parent of KFC, Pizza Hut, and Taco Bell, has more than 6,800 restaurants in more than 1,000 cities in China and plans to open 700 more in 2015.[65]

The casino market has seen significant international growth in recent years. Casino development has been strong throughout many regions of the world. The market has been split on casino development with some casinos owned and operated by nationals and national companies within the country. In most areas of the world, about half of the casino development is in affiliation with large casino brands, headquartered for the most part in Vegas.[66]

While the large multinational players in the hospitality industry are primarily U.S. based, the balance is beginning to change. Reversing traditional investment expansion patterns, recent years have seen international expansion and investment in the U.S. hospitality industry by companies from other countries.[67] The iconic Waldorf Astoria Hotel in New York City, for example, was recently acquired by a Chinese insurance company.[68]

International ownership structures

Ownership structures in international markets are dependent on the general state of the economy of the country, the maturity of the hospitality industry in the country, regulations regarding land and business ownership, tax structures, and government regulations.[69] Mirroring the hospitality industry as a whole, international ownership structures are often complex with varying ownership, management, and branding strategies.

For the hotel market, most of the foreign investment has been at the upper end of the scale with 3-, 4-, and 5-star rated hotels.[70] The economy segment and lower-priced hotels have generally been avoided by the multinational companies.[71] This has resulted in a dichotomy in the market where hotels in the lower-priced tiers are primarily domestically flagged and operated, while hotels in the upper-priced tiers are flagged and operated by multinational brand name companies.[72] This also presents a challenge to the entrepreneurial model for higher-end hotels. Independents and entrepreneurs are finding it increasingly more difficult to enter the top tier sector of the hotel industry.[73]

Joint ventures

Joint ventures are common in international expansion. In many countries, there are limits on foreign investment. As a result it is common to see a joint venture or other cooperative organizational ownership structure in the hospitality industry. Often the format is a joint venture between a local citizen, or a local company or government entity and the multinational organization seeking expansion into the country. The structure of these joint ventures gives rise to the use of the management contracting model in foreign development. Many companies employ management contract in foreign expansion wherein the owner is a local resident of the country and contracts with the larger multinational management company to operate the hotel or restaurant.[74] Generally, this management contract includes a franchise or branding agreement as well.

Joint ventures benefit both the foreign country and the expanding company. The country benefits from the infusion of foreign capital as well as management knowledge.[75] The company benefits from local knowledge, culture, and connections. For many developing countries, local expertise and knowledge may not be abundant, and the management contract allows a ready means to import the systems and standards required for international hospitality success.[76] The multinational company also benefits from investment and licensing and permission opportunities gained through the local resident owner. The developing countries gain knowledge and expertise.

Often the cost of capital and regulations governing investment and operations are more favorable to local residents than foreign investors. This encourages the development of a local hospitality industry in the developing country. In some cases, the local companies have grown to significance, as is the case with Home Inns and Jin Jiang Hotel International, ranked recently as the ninth and tenth largest hotel companies worldwide.

Recently, there has been a movement toward hospitality companies founded in other countries seeking mergers and acquisitions in the United States and Europe. An example of this was the strategic acquisition of the U.S.-based hotel management company Interstate Hotels and Resorts by Thayer Lodging and China's Jin Jiang in 2010.[77]

International travelers

International travelers often have different expectations of hospitality products and services than local consumers. While international travelers expect food and accommodations to reflect local cultures, they also expect international quality standards. In developing economies many of the local hotels and restaurants have lower quality standards. As a region expands internationally, the demand increases for hotels and restaurants at higher international standards. This results in growth of multinational hotel and restaurant brands. Generally, the local hotels and restaurants also improve in quality to compete with the new multinational operators.

While foreign travelers seek the international brand, often the local consumer does not fully adapt to the standards or styles of the international brand. Local consumers have different needs, motivations, and lifestyles, which may not be in harmony with the international brand. Rec ognizing this, many multinational companies are now developing new brands in foreign countries to more closely target the local consumers.[78]

Economic leakage

One of the concerns in international expansion is economic leakage. Economic leakage occurs when revenue generated by the hospitality enterprise does not stay in the local country, but is returned to the headquarter country for the hotel or restaurant or management company. This is a greater concern in developing countries, where skilled management and competent suppliers are fewer in number. Thus, the higher salaries and contracts for goods are awarded toward other countries and locations, bringing little benefit to the region of the hotel or restaurant.[79]

Strategic Alliances in the Hospitality Industry

Travel Agent Industry and Hotels

Relationships between the travel agent industry and the hotel industry have varied across history. Some hotel companies are part of larger corporations that also own travel agencies. For the hotel industry, the role of the travel agency has changed significantly in the past two decades. Prior to hotel room reservation distribution through the Internet, travel agencies were integral in the hotel reservation process. Many guests utilized travel agents to make hotels reservations. Hotels, in turn, typically paid travel agents a commission on reservations. Changes in hotel reservation distribution have changed this relationship between hotels and travel agencies. The abundance of information about hotels available for consumers to view directly through the Internet combined with the ability of a consumer to easily compare hotels through Internet sites have significantly reduced the role of travel agencies in hotel reservations. Many hotels today no longer pay commissions to travel agents, forcing the agencies to pass the commission along to the consumer, reducing consumers' use of travel agencies in hotel reservations. Some areas of the world still heavily utilize travel agencies, but for hotels overall the role has been minimized.

Partnerships with Governments

Tourism and travel bring dollars to a country, city, or region. For many countries tourism may be the only natural economic resource. As a result it is common for countries developing tourism infrastructure to seek partnerships with the private sector for finance and development of hotels and restaurants.

Some governments in developing economies provide economic or tax incentives to hotel and restaurant developers to encourage investment in their communities. Malaysia, for example, offered a five-year tax holiday to investing hotel companies in the 1970s.[80]

In some instances the government becomes a financial partner. This model was used when developing the Caribe Hilton in Puerto Rico in the late 1940s. Hilton proposed to the Puerto Rican government a structure in which Hilton would design and operate a hotel that would be paid for with government bonds. Hilton would lease the property with rent to be two-third of gross operating profits.[81] The endeavor proved profitable to both Hilton and Puerto Rico. In the first 5 years, Hilton had earned more than a million in profits and the Puerto Rican government had earned more than 2.8 million directly, and an additional 6 million indirectly as a result of the venture. Hilton used this model for international development in other countries, partnering with local governments and organizations for financing.[82]

Hotels are often statements of successful commerce. When a city builds a grand hotel, it conveys a message to the world at large that the local community is thriving. This may be some of the reason that hotels are occasionally financed through partnerships between local governments and investors. This model, while sometimes successful, has more often failed. When hotels were beginning to be established in the United States in the late 1700s, this model was attempted in several locations, but failed dismally. Even the famed Tremont house was unable to obtain government subsidy.[83] But the tradition continues today with governmental partnerships continuing to shore up hotels, convention centers, and other hospitality businesses.

Another strategic alliance in financing for hospitality businesses is an international or regional development bank. Many developing countries do not have the internal funds for hotel development. Regional and international development banks and corporations help to bridge the gap by providing access to debt and equity lending.[84]

Vertical Integration

Vertical integration has been a part of the hospitality industry from the early days of taverns. Often the taverns contracted with stage coaches to bring guests to the tavern for meals and lodging. In a similar pattern, it was common for railway companies to invest in hotels next to railway stations.[85] It could be loosely said that these rail company-owned hotels were the first hotel chains.

Similarly, in Britain, breweries opened pubs to serve the public. Some even sold rooms to the public. Another example of early vertical integration was J. Lyons & Co., a food manufacturer, which opened a series of restaurants in the early 1900s. They are more well-known, however, for building the Strand Hotel in London across the street from the Savoy, and the Regent Palace at Piccadilly Circus.[86]

At one time most airline companies owned hotels or hotel companies as part of a vertical integration strategy.[87] When airlines first began international flights, they discovered that many destinations lacked first class hotel accommodations travelers were seeking. Faced with the choice to "build more hotels or fly fewer jets" many of the early airline companies developed hotels.[88] The airline companies initially found hotels to be profitable ventures and continued investment in the hotel industry. Pan American Airlines developed the InterContinental Hotel Group, Trans World Airlines acquired Hilton Hotels, United Airlines owned Westin, American Airlines developed its own Americana Hotels, Swissair owned Swissôtels, Air France owned Le Meridian, Japan Airlines linked with Nikko Hotels, and All Nippon Air developed ANA hotels. Many other airlines had invested heavily in hotel companies such as Aer Lingus with Copthorne Hotel Group, KLM with Golden Tulip, and Lufthansa with Kempenski Hotel Group.[89] In a cross between related diversification and integration, Allegis Corporation owned United Airlines, Westin Hotels, and Hertz Rental Car.[90]

In addition to the relationship between air passengers and hotel rooms, the vertical integration of hotels and airlines allowed the hotels to utilize the air services to purchase and transport supplies for the hotels that would have otherwise been too costly because of distribution costs and availability. Hotels in developing countries could receive world class wines, spirits, food, and linens that were not available in local markets. Price and availability concessions due to economies of scale in purchasing further yielded a competitive advantage to these hotels that were not available in the local markets.[91]

Unfortunately, the similarities between owning hotels and airlines were too few and all but a few alliances have been abandoned.[92] The boom and bust cycles for hotels tended to follow the same patterns as airlines, minimizing advantages of diversification and allowing too much economic vulnerability. And, some airline-owned hotel chains were sold simply because the companies needed cash.[93] TWA sold off Hilton International in the mid-1980s. Pan American sold InterContinental in 1996.[94] Air France sold Le Meridien, Lufthansa sold Kempenski hotel group, and Aer Lingus was divested from the Copthorne Hotel group.[95] Very few alliances between hotels and airlines remain today.[96]

Hotels have integrated vertically in several directions. Numerous hotel companies own development and construction companies, reservation and travel networks, and hotel supply companies.

Many of the early hotel magnates had a hand in real estate development. Marriott was well-known for vertical integration in construction and development: identifying hotel sites, developing and constructing properties, and then selling the hotels and resorts to others while retaining the management contract.[97] Isadore Sharp started in the construction industry prior to establishing the Four Seasons Hotel Company.[98]

Hersha Group is an example of vertical integration in the hotel industry. Best known for Hersha Hospitality, the company also has a development corporation, construction services, and an interior design and supply company. The hospitality company has also followed the path of the larger corporations and is divided into a real estate investment trust (Hersha Hospitality Trust) and a hotel management company (Hersha Hospitality Management).[99]

Vertical integration has been employed in the casino market with most large casinos owning or affiliating with large resort hotels and hotel companies. Hilton was one of the first multinational hotel companies to form this relationship in 1971 by adding the International and Flamingo hotels and casinos to their portfolio.[100]

Vertical integration is abundant in travel and reservation services. The Oberoi Group in India was one of the first to integrate reservations to hotels, setting up its own travel agency, the Mercury Travels, in 1948.[101] Reservation systems became a key part of vertical integration for all of the hotel companies, beginning with Westin debuting Hoteltype, the first hotel reservation system in 1947.[102] Other hotel chains were quick to follow, with Sheraton using a Telex system for reservations in 1948 and then progressing to Reservatron, an electronic reservation system in 1958. Holiday Inn developed an automated reservation system, Holidex, in the mid-1960s.[103] InterContinental Hotels took reservation systems one step further in 1963 by integrating their hotel reservation systems with Pan American's flight reservation processes, providing Pan Am's customers easy access and encouragement to book hotel rooms with InterContinental Hotels.[104] Today several of the large hotel companies own or have partnership with Internet-based hotel reservation systems.

The hotel industry has also been a part of vertical integration of the travel agency and tour company industry. Many tour operators have part ownership in hotels.[105] And the reverse is also true; Carlson-Rezidor Hotels is part of Carlson, which also owns Carlson Wagonlit Travel.

Hotels have also dabbled in other types of vertical integration. In 1958, Hilton Hotels developed the Carte Blanche credit card system from a rebranded Hilton travel and entertainment credit card.[106] About 8 years later, they sold the credit card company off to a bank.

Vertical integration for supplies of goods and equipment is common in the hospitality industry. Holiday Inns developed the Inn Keepers Supply Company back in its founding years to provide a standardized inventory for its franchised hotels. Inn Keepers supply later expanded to hospitals, schools, and other institutions. Holiday Inn went on to create its own print shops, construction division, financing companies, and food packaging companies.[107] It purchased carpet manufacturers, furniture companies, and aircraft services. The company later divested itself of all these enterprises. Many hospitality companies have owned or had part ownership in supply companies over the years.

Central commissary or food distribution

Vertical integration in food distribution has been a part of the hospitality industry since its beginnings. Many early taverns and restaurants had gardens, farms, and stockyards to supply food. Fred Harvey owned cattle ranches. In addition, Harvey utilized the railroad companies which owned his restaurants to ship foods and goods to his restaurants. Inter-Continental Hotels employed a similar distribution system with Pan American Airlines.[108]

Central commissaries solve several problems in quality control for restaurants and foodservice. In addition to centralizing purchasing, commissaries partially prepare foods in a central location, shipping the product to the restaurant, where it is warmed, or prepared for service using simple methods. This system allows for better quality control of the product with uniform preparation at the commissary. It also allows restaurants or food outlets to employ kitchen staff with minimal skills to warm, fry, bake, and serve the product in preparation for service. Kitchens no longer needed to mix recipes, cut meat, or engage in other higher level culinary skills. White Castle, the beginnings of quick service restaurants, integrated extensively, beginning with "building its own restaurants to making its own buns."[109]

Howard Johnsons started its own food supply commissaries in the 1950s, pioneering convenience frozen foods.[110] Many of the menu items were made in Miami or Boston, and trucked to restaurants throughout the United States. This allowed impressive economies in labor for the restaurants. It also allowed for a consistent product.[111] McDonald's became known for their central commissary operations, producing the food in bulk, flash freezing, and distributing a ready product to the local unit. Many restaurant companies today follow a similar process.

Central commissaries have additional advantages. The foremost of which is the ability to commandeer better products and lower cost through volume purchases. In addition, they could devote time and money to improving the processes for production, distribution, and on-site preparation during a time when preprocessed foods were not yet available in the marketplace.[112]

Most commissaries for restaurants are regionally located for several reasons. The primary reason is distance and logistics. Additionally, menus and cuisine often have a regional or local flare, and so regional commissaries can better accommodate these differences in food items or preparation processes.[113]

Many restaurant and foodservice companies have extended vertical integration into supply origins. They own fisheries, slaughterhouses, and farms. Red Lobster (then part of General Mills) set up seafood distribution companies, which even included an experimental shrimp farm in the Honduras.[114]

Diversification

Related Diversification

The hospitality industry has embraced related or horizontal diversification.[115] Mergers and acquisitions of similar hospitality product have been common throughout the industry's history.

Hospitality skills can be applied to many industries. As a result, related diversification has often been used over time. Early application of this can be seen as Howard Johnson and Marriott expanded from restaurants to hotels.

Many of the hotel and foodservice companies expanded into airline foodservice, hospital foodservice, school foodservice, and contract foodservice with employee dining and catering. Camps, cruise lines, senior living communities, and theme parks also began to dot the portfolios of major hospitality companies.[116]

Many of the hospitality organizations have tried both related and unrelated diversification strategies throughout history. Some companies still have diverse portfolios, but most hospitality companies have sold off the other businesses, returning the focus to the hospitality industry. The Oberoi Group is one of the most diverse hospitality organizations remaining today, with holdings in hotels, airline catering, restaurants, bars, rental cars, travel and tour agencies, and corporate air charters.[117]

Unrelated Diversification

Unrelated diversification strategies have been tried throughout the history of the hospitality industry, but they have generally not been successful.[118] Most hospitality companies at one time owned or were owned by companies with unrelated or not closely related diversification. However, in the last 20 years, they have divested these companies and now primarily focus on hotels and resorts.[119] Marriott, which began as a foodservice company, divested itself of all foodservice business in the 1980s and is today strictly a hotel management and hotel franchise business.[120] At its peak of diversification, Marriott owned hotels, contract foodservice, quick service and full service restaurants, cruise lines, theme parks, senior living facilities, and airline flight kitchens.[121] Hyatt Corporation just recently sold off both its senior living and vacation ownership divisions. While some unrelated diversification remains today, generally it is for tax and investment strategies and not for corporate synergies.

CHAPTER 6

Outside Market Forces

The hospitality industry is influenced by many outside market forces. The availability and cost of transportation and travel affects the hospitality industry. Distribution is a key factor in the hospitality industry, and technology is bringing radical changes to the processes and expectations for both hotels and restaurants. The hospitality industry has many competing substitutes.

Demand for the hospitality industry is strongly influenced by the availability and pricing of travel.[1] Throughout the 1800s, when train travel became more efficient and economical, hotel demand in cities close to rail lines increased.[2] Today high speed rail has helped to increase demand for hotels and restaurants in Western Europe and Asia. Similarly, expansion of roadways and services for automobiles has resulted in increased demand over time. The expansion of the automobile industry was instrumental in the development and rapid expansion of quick service restaurants. The availability and cost of air travel also affect demand in the hospitality industry. Some markets have seen significant fluctuations in cost and availability of air lift, particularly long haul. Demand for hospitality products has reflected these fluctuations.

Types of Customers

There are many types of hotels and restaurants, and likewise many different customers. Customers visit hotels and restaurants for many different purposes: for business or for leisure, as part of a usual habit or to experience something new, alone, or with a group, internationally or locally.[3] Customers make reservations through many different channels and sources, and some customers make no reservations, simply leaving to chance the availability of a room or restaurant table. For hotels, the customer may not be the buyer, as many hotel room nights may be purchased through travel agents or by wholesalers or contracts.

Distribution Channels

Technology is changing the way customers research, find, book, and engage with the hospitality industry. The Internet has opened and expanded marketing and promotional channels.[4]

Hotels

The hotel industry has seen a complete transformation of the reservation and inquiry processes in the past 15 years.[5] Prior to the change of this century, hotels controlled distribution and information channels. Consumers seeking reservations called the hotel or its call centers, or sought information through travel agencies. Hotels controlled what information consumers received about pricing, hotel amenities, etc. The Internet and online travel agencies have changed that process.[6] Consumers now look to sites such as Expedia, Travelocity, Orbitz, Kayak, and TripAdvisor for information about hotels. Consumers can quickly and easily compare prices across markets, and products, giving them direct access and control. User generated content allows anyone to review and rate hotels and restaurants through the Internet. This has brought a transparency to hotel pricing and product.[7]

Another change brought about by electronic distribution is the leveling off the field for the independent hotelier. One of the primary advantages of the brand in previous years was a central reservation center. The ability to advertise and sell hotel rooms on the Internet without a connection to a brand has enabled hotels to distribute their product without the brand affiliation.[8]

The movement of reservations to the Internet also brought about a structural change for the hotel industry. Prior to the age of Internet reservations, hotel reservations were made primarily through the use of a Global Distribution System (GDS) utilized by travel agents, travel wholesalers, airlines and hotel companies. The costs of becoming a part of the GDS system were prohibitive for the small independent hotelier.[9] Thus many hotels turned to consortiums, referral groups, or franchises simply to become a part of the reservation systems. The shift from GDS-based reservations to Internet reservations has allowed the independent or small hotelier to compete without aligning with other hotels or hotel companies. The shift has also caused disintermediation for the travel agency industry as many hotels and consumers now bypass a travel agency and book reservations directly through the Internet.[10]

Restaurants

Technology has long been a part of the restaurant distribution process. An example of early distribution technology is the first two-way loudspeaker for ordering drive-up service pioneered by In-N-Out Burger in Baldwin Park, California, in 1948.[11]

Similar to the evolution hotels have experienced, technology is changing the distribution and selection process for restaurants. Restaurant apps allow consumers to search for menu offerings and prices and available reservation space across multiple restaurants. Directions, parking availability, and the ability to order special foods have become a part of the online process for restaurants.[12]

Location-based technology combined with restaurant recommendations allows customers to locate restaurants near their current location.[13] Food trucks are also using location-based technology to guide customers to their trucks. Customers can track the location of the food truck through apps, tweets, and email communication.

User-Generated Content

User-generated content has brought a change in the information distribution for the hospitality industry. Travel review sites such as TripAdvisor allow consumers to review and rate hotels and restaurants. As a part of the review process, consumers can add photographs, forcing a transparency of product and pricing. User-generated rating systems have replaced long-established review processes such as Mobil's star rating system and the American Automobile Association's diamond rating system. New user-generated restaurant rating sites such as UrbanSpoon, Zagat's, and Yelp have replaced the Fodor's guide book and made restaurant critics and food editors from newspapers obsolete.[14] Now every consumer can be a restaurant or hotel critic online.

Announcements of other technology companies foraying into hospitality reservation and information systems are plentiful. Retail and technology giants such as Google, Bing, and Amazon have all announced intentions to enter the online reservations market, giving rise to new directions for the hospitality distribution and reservation process.[15]

Substitutes for Hospitality

There are many substitutes for hospitality products and services. Restaurants have long faced the substitute of consumers eating at home. Increasing options in food-to-go from supermarkets and other sources provide strong competition.

Hotels have seen increasing competition in the use of holiday camps, rented villas, and second homes. Recent attention to renting rooms in homes through services such as AirBNB shows the possibility for stiff competition and substitution for hotels. AirBNB currently represents as much as 17.2 percent of hotel room supply in New York, 11.9 percent in Paris, and 10.4 percent in London.[16] Concerns over regulation, taxation, and safety cloud sharing economy markets. Nevertheless, consumers will always seek substitutes and more conveniences.

Other substitutions such as digital communications, video conferencing, and online corporate training threaten some markets. Consumers have less need to travel as they can meet, share, and convene using technology. Increasing options in entertainment always provide competition for hospitality goods and services, as consumers seek experiences and entertainment in many markets and products.[17] Years with significant advances in consumer entertainment often result in lowered demand for hospitality products. The key for the hospitality industry will be to capture and combine new advances in entertainment with hospitality product. An example of success in this endeavor would be a hotel which utilizes live streaming of a key speaker in meetings and events allowing a meeting to host a top speaker who could not travel to the event location.

Partnerships

The hospitality industry has many partners. Part of local and global communities, the hospitality industry partners with governments, industries, and consumers.

The hospitality industry often partners with other hospitality organizations in the development of hotels and restaurants. The Oberoi Group entered into several partnerships early in its expansion into the international luxury hotel market. They partnered with InterContinental to open the Oberoi Intercontinental in 1965, and in 1973 they partnered with Sheraton to open the Oberoi Sheraton in Mumbai. Oberoi's luxury brand, Trident Hotels, utilized a partnership with Hilton Hotels from 1988 to 2008.[18]

Similar partnerships were pursued in developing the hotel industry in Hong Kong. Che-woo Lui, a prominent real estate developer in Hong Kong, discerned that franchise relationships with major international hotel brands would prove successful in modernizing the Hong Kong hotel industry.[19]

It is not unusual for a partnership of private equity in the ownership structure, even for management contracts. In 2010, a venture between real-estate investor Thayer Lodging and China's Jin Jiang acquired Interstate Hotels & Resorts, known to be the largest independent hotel-management company in the United States. The deal was valued around $300 million.[20]

The hospitality industry often partners with governments in developing tourism. These partnerships range from financial investment to zoning decisions to supply of employee labor. There are many examples through history of governments assisting developers in obtaining financing to build hotels. In some instances, the financial partner has been the government, or governmental agency. The hospitality partners with governments in many other ways. Hotels and resorts in some communities have partnered with local governments and regional transportation companies to provide bus service for employees on weekends. Seasonal resorts often partner with governments from other countries to help supply seasonal labor. Many seasonal resorts often find a shortage of labor in the local community. Using guest worker visas, these resorts partner with other communities to find readily available labor to cover staffing in peak seasons.

Regulation

In some regions and jurisdictions the hospitality industry is highly regulated, while in others it is left to govern itself. Overall, as compared to many other industries, there are few governmental restrictions over the hospitality industry.[21] The industry is regulated in food sanitation, alcohol and gaming restrictions, wages, labor standards, and employee safety. Concerns and regulations over environmental impact also affect the hospitality industry. As places of public accommodation, the hospitality industry is often highly regulated in fire safety and construction modifications to assist those with disabilities.

Policies that Promote or Restrict the Hospitality Industry

There are many governing policies that can either promote or restrict the hospitality industry. The ability to travel has a strong impact on the hospitality industry. Attitudes and legislation that affect transport carriers can help or hinder the hospitality industry. Currency exchange rates can influence the number of foreign visitors as well as how much they are willing to spend in hotels and restaurants.[22] Attitudes and policies toward foreign investment affect development for hospitality businesses. Laws or regulations that affect human resources can help or hinder the hospitality industry.

Some governments recognize the economic importance of the hospitality industry and coordinate, organize, regulate, and promote tourism and hospitality, while others do not. The United States, for example, has resisted centralized federal planning such as exists in Europe and Asia, under the belief that "planned economies stifle individual endeavors."[23] As a result, many governmental policies, laws, budget allocations, etc. are passed in isolation without understanding or considering the larger scheme or impact. Often these processes negatively affect the hospitality industry. For example, in 2009, in response to an economic recession, the U.S. government recommended that business travel could be reduced, thinking only of the cost savings of travel for other industries, ignoring the devastation to the hotel and travel industries.[24]

Planning and prioritization at the national or federal level can have other unintended results. For instance, the development of robust and effective Internet travel sites, promoting and encouraging travel, has brought an increase to the hospitality industry. Yet many technologically advanced nations have lagged behind in development of national websites.[25]

The hospitality industry is a highly fragmented industry composed of many players. As a result, the hospitality industry has traditionally not done well in uniting or presenting a united presence for governmental affairs. For instance, during the global recessions of 2008 caused by the mortgage industry fallout, the mortgage and auto industries presented united concerns and received generous governmental bailouts. At the same time, citizens were being encouraged to reduce travel, further devastating the hospitality industry during an already difficult downturn. The hospitality industry is comprised of many independents and often the lobbying processes are not as well organized or apparent.

Fragmentation of the industry limits other aspects of the hospitality industry. Solutions for problems such as adequate infrastructure in resort locations and training and educational levels of workers across the industry are all hindered by fragmentation of the industry.[26]

Visas

The availability and ease of obtaining travel visas have a direct impact on the hospitality industry. Governmental decisions that restrict and encumber visa applications result in less demand for the local hospitality industry. In contrast, when governmental decisions make visas easier to obtain, demand for the local hospitality industry increases. The formation of the European Union facilitated travel between member countries, resulting in increased demand for the hospitality industry throughout that region.[27] Similar declarations of "free trade" zones also increase demand for the hospitality industry as business and leisure travel increase.[28]

The United States is certainly a country that can demonstrate the loss to the hospitality industry from visa restrictions. After experiencing several terrorist acts in 2001, the United States drastically changed the visa entry processes and requirements, placing various restrictions on visas for incoming foreign travel.[29] While the intent was to heighten security and protect its citizens, the result also constructed many barriers for foreign travelers, with a negative effect on the hospitality industry.[30] The hospitality industry estimates that as a result of restrictions to foreign visas, $94 billion in lost revenue occurred in the first 5 years after the 2001 attacks and more than 200,000 jobs were lost.[31] There were more international tourists to the United States in 1997 than in 2007, during a time period when world travel increased at a rate of 5 percent per annum. Travelers were staying away from U.S. hotels and restaurants.

In a similar manner, when Russia advanced on Ukraine in early 2014, the European Union mulled over whether to implement tourist visa restrictions on Russian Federation citizens as part of the "sanctions" against Russia.[32] Of course, an outcry came from the hospitality industry within the European Union, because the hospitality industry in the European Union would suffer economically from the sanctions. By midsummer of that year, the European Union, the United Kingdom, and the United States had all implemented sanctions impacting tourism as well as commerce that affected the hospitality industry.

Other travel restrictions can hinder the hospitality industry. High exit or entrance visa regulations regarding customs allowances, currency restrictions, and taxes on foreign visitors can also deter the hospitality industry.[33]

Other governmental policies

Regulations concerning gaming and alcohol consumption vary throughout the world. Prohibitions or restrictions on these have a strong influence on the local hospitality industry.[34]

The availability of transport to a destination affects hospitality business volume.[35] Travel is facilitated by increasing air lift, high-speed train routes, and other travel conveniences. Good transport often involves governmental financial support, bringing additional challenges.

Currency exchange rates can encourage or discourage travel to a destination.[36] When currency exchange rates are favorable, leisure travel increases.[37] The amount a guest spends at local hospitality businesses can be strongly affected by currency exchange rates. When rates are favorable, spending is higher in restaurants and hotels, and vice versa.

Development in the hospitality industry is affected by available capital. The availability of capital and the willingness of the lending market to finance hotels and restaurants affect development and expansion. Governmental regulations and policies over capital investments can strongly affect development of the hospitality industry. Common challenges include policies requiring a certain percentage of the equity that must come from local investors, land tenure regulations, zoning and land use requirements, policies which restrict or prohibit foreign investment, discriminatory taxes on foreign investment, and requirements for excessive government approvals.[38]

Development of the hospitality industry in emerging countries presents additional problems. History is ripe with tales of corruption, and politics gone awry. These problems are not limited to the hospitality industry but can be magnified as developing countries view tourism as a means of economic development. As a counter point, market entry for the hospitality industry is generally less regulated than for many industries.[39] Often the hospitality industry is welcomed due to tourism and employment benefits.

International operations can also be strongly affected by local regulations.[40] Restrictions on the transfer and remittance of funds, requirements to use local purveyors, restrictions on imported goods, subsidies to local companies, price control measures, currency exchange restrictions, and restrictions on expatriate personnel can all hinder international operations for the hospitality industry.[41]

Guest/Employee Safety

Guest and employee safety regulations strongly influence the hospitality industry. Regulations concerning worker safety, guest security and safety, and food safety are common. These regulations not only vary between countries, but often vary between cities and communities within a country.[42]

Workplace health and safety

For most countries, regulations regarding workplace health and safety do not specifically target the hospitality industry, but apply to all workers, across all industries. The Occupational Safety and Health Administration (OSHA) regulates workplace safety for all businesses in the United States. Most developed countries of the world have regulations and policies similar to OSHA. Regulations regarding workplace safety range from working conditions to reporting of employee accidents. Inspectors and regulators in some countries may have the authority to impose substantial fines or even to close businesses that are not in compliance.[43] Perhaps, of more influence is educating workers about safe practices. Most companies in developed nations understand the importance of worker safety and have robust workplace safety training programs.

Unfortunately, in many impoverished areas of the world, workplace safety is not regulated nor enforced. Compounding this factor is that workers facing high levels of poverty are more inclined to accept employment with risky work environments and to work for companies that do not provide safety equipment or training.[44]

Fire safety rules

As places of public accommodation, hospitality businesses are often subject to fire safety regulations. Fire regulations are often local and differ by geographic governance. In some areas governmental regulations exist but have no legal force; other areas may have suggested codes without requirements for adoption. Many governments do, however, stringently enforce fire safety regulations. Recent years have seen increased regulation and enforcement of fire safety regulations on hospitality enterprises.[45]

Food security

Food sanitation, safety, and security have become an increasing concern as the number of food service businesses increases. As more food products are produced off premises, the incidence of foodborne illnesses is expected to continue to increase.[46] The presence of Hepatitis A, *E. coli*, Listeria, and Salmonella have been reported in food supply chains. Training of proper food handling and preparation gain an increased importance in diverse cultures where these tasks may not be common place.[47] In developing countries, many international restaurants and hotels simply choose to outsource food and food products from countries with higher food safety processes. While a temporary solution, it creates tension among local economies as well as being contrary to environmental concerns, which seek to reduce carbon emissions in shipping goods internationally.

Food safety and food security are now part of the global security concern. Concerns of bioterrorism and wide-scale food poisoning are being monitored for prevention.[48]

Accommodations for those with disabilities

Regulations and policies in some countries require businesses to accommodate both employees and customers with disabilities. Like employee health and safety regulations, accommodation for those with disabilities is generally not targeted specifically to the hospitality industry. Most often, regulations are for places of public accommodation and employer-related requirements. In the United States, the Americans with Disabilities Act (ADA) sets accommodation requirements for disabled persons. Regulations affecting the hospitality industry often include building accommodations such as ramps and restroom access for wheelchair bound patrons, etc…[49] Recent regulations have gone beyond traditional accommodations in guest rooms to include access to all recreation facilities.[50] The ADA also requires employers to make reasonable accommodations for employees with disabilities.

Australia, Canada, and New Zealand have similar disability accommodation acts. Many other countries support disability accommodation. International standards often refer to the Convention on the Rights of Persons with Disabilities (CRPD). The CRPD is a declaration by the United Nations and has been ratified by more than 100 other nations. However, for most of these countries, supporting laws and regulations are few.[51]

Labor Practices

The hospitality industry is a labor-intensive industry. The United Nations International Labor Organization in Geneva estimates that one in ten workers worldwide is employed by the hospitality and tourism industries.[52] Regulations and policies that affect the availability and cost of labor strongly affect the industry.[53] Working conditions, wages, time off, healthcare, and other social benefits are often legislated. Labor unions also affect the hospitality industry.[54]

Wage and labor regulations

The costs of wages and labor are vital to the future profitability of the industry.[55] The hospitality industry is currently facing many challenges to employee wage rates throughout the world. Worldwide, minimum wage laws are under attack.[56] Across the hospitality industry, wages have been traditionally low.[57] Many countries are seeking to increase wages through "living wage" regulations.[58] In Australia, wages are regulated so that hotel and restaurant employees receive an hourly rate of $25 per hour (and no gratuities). Additional government regulations over wages were implemented, requiring double and triple wages for evenings, weekends, and holidays. Now many restaurants are closed during those times, because the wages are crippling the ability to operate with a profit. As a result, overall profits have decreased as well as interest in expansion and development of the hospitality industry within the country.[59]

In contrast, low wages in some countries make the hospitality industry very prosperous. In China, labor unions are under governmental control suppressing wages. A typical front desk receptionist in China is reported to make about $200 per month while its counterpart in Hong Kong makes an average of just over $1,300 per month.

The formation of economic unions among countries also affects human resources. The forming and continuing expansion of the European Union has expanded the labor market for many European workers and hospitality businesses. Countries with higher wages and lower unemployment become magnets for labor.[60] Meanwhile, countries with lower wages find it difficult to keep skilled labor and those with management skills. Many hospitality companies are reporting an increasingly multinational labor force as a result of the changes to labor laws in the European Union.[61] As the Asia-Pacific area looks to form an economic union, these human resource and labor concerns are at the forefront.[62]

Labor unions

In some countries, the hospitality industry is strongly affected by organized labor unions. Recent years have seen this increasing with a rise in the unionization of the hospitality worker.[63] The presence of organized labor unions is often seen as a threat to business.[64] Las Vegas shows an exception to that concept. The hospitality workers in Las Vegas have been successful in organizing into labor unions. Unlike most of the United States, entry-level hospitality jobs in Las Vegas pay a living wage, provide healthcare benefits, and paid vacations.[65]

Labor unions often result in restrictions to operations that are detrimental to the hospitality business. Regulations regarding employee scheduling, overtime, split shifts, and time off often compete with fluctuating demands of the hospitality industry. For example, many hotels employ incentive systems in housekeeping departments when need arises for workers to clean additional rooms beyond those assigned for a normal shift. Some labor unions prohibit this process, resulting in a loss of incentive wage to the housekeeper and scheduling difficulties for the hotel.

Taxation

Worldwide, the hospitality industry is a victim of increasing taxation. The industry is often viewed as an easy target for raising tax revenues by hard-pressed local governments.[66] Governments not understanding the economic impact of the hospitality industry raise tax levels of hospitality businesses, making it difficult for those businesses to compete against other locations with lower tax rates.

CHAPTER 7

Challenges and Opportunities for the Industry

The hospitality industry has many opportunities and challenges on the horizon. Consumers are becoming more knowledgeable and are seeking new products and experiences, yet demanding value.[1] Like many other industries, the hospitality industry is threatened by wars, terrorism, outbreak of diseases, and severe weather.

The overall outlook for the hospitality industry is positive with significant growth expected. International travel is increasing. New products and technologies are changing how we operate and interact with consumers. There is an ever-increasing global consciousness of protecting and sustaining the environment. Consumer behavior toward the hospitality industry is strongly affected by local and global economies.

Changing Customer

Customers are becoming savvier, yet demanding.[2] They are looking for more service and product, considering "value." Customers have the ability to read the entire menu online before they walk into the restaurant. They can view videos of hotel rooms and read reviews from other consumers before stepping onto the hotel property. Doing more to meet the needs of these evolving customers will be both a challenge and an opportunity for hospitality businesses that are able to delight the guest.

Health Conscious Consumers

Consumers are becoming more health conscious in their eating and dining patterns. A combination of governmental initiatives and media attention has brought the concern for nutrition to the forefront in the last few decades.[3] This brings both a challenge and opportunity to the restaurant industry, with additional regulations regarding food origins and nutrition transparency for consumers. Some experts have attributed the decline in popularity of several quick service chains to the slowness of those chains to include healthy menu offerings. The concern for healthy eating has also brought opportunity for menu items and entire restaurant concepts devoted to health conscious eating.

Concerns for healthy eating have led to an increase in demand for organic food and other items to be used in hotels and restaurants. This led to what some called the "Slow Food" movement, countering Fast Food. Slow food seeks to link the restaurant to the local community by emphasizing local regional cuisine, locally grown food and beverage, and local cultures.[4]

Begun in Italy in the 1980s, the Slow Food movement's goals include:[5]

- producing and preserving heirloom, organic varieties of vegetables and fruits
- celebrating the indigenous foods
- highlighting cuisines that are a part of the region's culinary heritage
- producing small-scale and family-operated farms
- discouraging fast food consumption.

Technology

We are at a tipping point in the effects of technology. Much that we know and do is changing rapidly as technology allows faster, better, and more effective processes. Technology facilitates purchase and delivery of hospitality products and services. Hospitality businesses are using technology to create a more personalized service for customers, to improve satisfaction while maintaining a connection with the customer.[6]

Technology is changing how we communicate with our customers, and with how our customers communicate with one another about our products and services. This brings both challenge and opportunity.

Travel is considered the most successful commercial endeavor in e-commerce. The overwhelming majority of consumers book hotel stays through the Internet. Technology is also changing the way restaurants market to consumers, opening new possibilities for relationships through online ordering, social media, and locational technology. Technology now allows a consumer to aim a smart device at a "streetscape and see a constellation of menus, reviews and notes left by business owners and customers."[7]

Technology also brings a wealth of business intelligence. Technology is expected to help streamline and automate some routine transactional work, allowing for cost savings and reallocation of labor to value-added activities.[8] In the front of the house or with the consumers, technology will help the hospitality industry reach out to and connect with consumers. We will also see technology increasingly used to track consumer profiles and preferences. In the back of the house, technology will continue to create efficiencies, streamlining Housekeeping, Maintenance, Accounting, and Human Resources. Technology helps hotels with electronic key card access, direct billing to the guest room from outlets, water and guest room energy management, and remote security.[9]

White Castle provides an example of how technology helps hospitality operations. Technology is used by White Castle to "reduce overall costs or improve customers' service and quality."[10] The company embraces technology in point of sale transactions and analysis, inventory management, food cost analysis, employee training, and administrative billing and operations.

Distribution networks

Technology has completely altered the distribution landscape and networks of the hospitality industry. The consumer market is influenced and controlled by the use of technology. Where consumers once called hotel companies directly through reservation centers, now hotel reservations are made primarily through third party vendors online.[11]

While the change for restaurants is not as radical, technology is beginning to change distribution of the restaurant product. OpenTable and other online restaurant technology allow customers to make reservations or order menu items online. Many customers in the fast casual segment, in particular, are embracing the opportunity to order their food online in advance of their arrival. Pizza delivery is another example of this transition with more customers ordering pizza online than through other means.[12]

Mobile technology is predicted to bring just as significant of changes to the hospitality industry as has the Internet.[13] Tablets and other touch screen technologies are changing how the hospitality industry interacts with consumers. Mobile devices are used in restaurants and throughout the hospitality industry to help efficiency, speed, and accuracy. For restaurants, tablets and smart phones are replacing menus and facilitating the ordering process, minimizing server interaction. Bill payment has also moved to smart phones and other similar technologies.[14]

Apps, location-based services, social media, and other uses of handheld technology allow customers to locate and research restaurants that are nearby as they plan an evening's meal, or across the globe. Location-based technology and face recognition are improving the ordering and delivery of food and drinks for crowded restaurants and bars.

Technology changes how we reach out to and connect with guests

Technology is expected to revolutionize customer care, helping hospitality businesses to capture customer preferences.[15] Hospitality businesses will be able to utilize customer data to offer more personalized service and to streamline operations. Hospitality businesses can anticipate guest needs and preferences in advance of arrival, helping to improve customer service. Mobile apps can be used to build customer interactions and loyalty.[16]

Connectivity of the consumer

Consumers are expecting and demanding to be able to access and use high levels of Internet connectivity in hotels and restaurants.[17] Once an added amenity, Wi-Fi connectivity is now a basic demanded standard for hotels. Restaurants are using Wi-Fi access to attract consumers, again changing the focus from turning tables more quickly, to inviting the customer to linger and use Internet access.

Challenges with technology

Technology in the hospitality industry has several challenges. The hospitality industry is very complex. Hotels and restaurants under the same brand name can have different owners and management companies, as well as different properties in size and product offerings. Adding to this challenge is the highly fragmented nature of hospitality technology suppliers. The "largest software providers and technology service providers each command less than one percent of the market, and the vast majority each hold less than one tenth of a percent."[18] Many of these diverse systems do not interface well with one another. As an example a hotel will often have separate systems with separate technologies from separate vendors for restaurants, reservations, property management systems, human resources, accounting, and purchasing. While some vendors have developed technology systems that incorporate several of these operations for a hotel, very few systems will perform all of the functions, well.

Another significant challenge for the hospitality industry with technology will be to gain efficiencies without losing service or the human touch. The opportunity is to use technology to complement the human service and enhance the service delivery experience for the consumer.[19]

Technology, while bringing many advances to casino gaming, also brings a significant threat. Advances in digital audio and video have allowed gaming machines to advance entertainment value. Technology has similarly allowed significant advances to loyalty programs and customer information for the casino industry. On the other hand, advancing technology also brings a significant threat to the casino industry as online gaming increases in popularity and legality.[20]

Sustainability and Green Concepts

Sustainability and scarce resources will affect the hospitality industry of the future. The hospitality industry often brings masses of people to a destination, bringing great economic benefits, but often at the cost of degrading the environment. The hospitality industry needs to develop products and facilities that are socially and environmentally sustainable.

Indeed, a major concern for the hospitality industry moving forward will be to minimize the ecological impact of restaurants, hotels, and resorts on the environment.[21]

Concerns of the impact hotels bring to the environment were raised by Rockefeller back in the 1960s. He believed that hotels and resorts should not intrude on the natural surroundings.[22] As pristine beaches and mountaintop oases become covered with resorts, environmentalists contest. While the hospitality industry brings needed jobs and resources, they also come at a cost to the environment in changing landscape, the use of scarce resources, and the production of caustic emissions.[23] Pollution, environmental degradation, and threats to loss of native cultures are blamed on the hospitality industry in some developing countries.

Resorts often seek pristine beaches and untouched mountain views. Unfortunately, development of resorts and the influx of tourists often threaten the fragile ecosystems of these environments. So the tradeoff for the local community is a balance between the economic resources that the hospitality industry brings and the pressure on environmental resources and ecosystems. Some countries have found a balance in the partnership of funds from the hospitality industry being used to preserve safari lands and national parks.[24]

Regulations on water usage are becoming more common. Hospitality businesses may be required to use gray water for landscaping and toilet flushing. In some areas hotels and resorts are required to provide their own water supply.[25] There are often regulations regarding discharge of laundry and dish water, and golf course fertilizer run off into local streams and habitats. Many countries have introduced environmental standards for hotels that rate and regulate the eco-performance of a hotel.[26]

Most hospitality organizations are including environmental sustainability as part of their corporate strategies.[27] While some sustainability efforts are costly, others such as water conservation through reduction of guest room laundry can help the industry save on expenses, while maintaining a good corporate image. Encouraging hotel guests to use the same towel for several days helps both the environment and the hotel. The hospitality industry will need to continue to develop and modify products and services that reduce environmental impact and promote sustainability.[28]

Green Concepts for the Hospitality Industry:[29]

- water usage, water control mechanisms, rainwater harvesting, use of gray water for irrigation
- composition and temperature of water discharged to the local environment
- renewable sources for electricity
- heating and lighting
  - use of low-energy lighting
  - energy management programs for guest occupancy
- use of recycled paper and plastic
- use of locally sourced foods and food items
- encourage linen and towel reuse in guest rooms
- waste separation (plastic, glass, metal), composting and recycling of organic wastes
- land use, environmental management, protection of fragile ecosystems.

Further Differentiation of the Hospitality Product

Consumers seek new products and experiences when traveling and dining out. As competition rises, hospitality businesses can stay competitive through product differentiation.[30] The opportunity lies in presenting the consumer something new or different, yet within their consumer comfort zone.[31]

In restaurants and foodservice, consumers are demanding new menus with greater flexibility and more choices. Product differentiation is relatively weak for restaurants because all segments of the industry are adding new or enhanced products and improving the quality of food and service.

Restaurant patrons are more educated and knowledgeable about food due to the popularity of chef television shows and increasing consumer information on the Internet. Consumers are demanding higher quality food and more fusion of regional foods and processes with trends and other ethnic menu items.[32]

Restaurants and foodservice will have more points of service combining with other establishments. In some cases foodservice will join with other foodservice entities to give the consumer more choice under one roof, such as the Taco Bell/KFC enterprises. Restaurants will also be innovative in joining with other types of businesses such as branded quick service in gas stations, retail, educational, and sporting venues.[33]

Irregular work patterns and busy lifestyles are resulting in less-traditional meal times, thus pushing the restaurant industry to longer hours and extended menus throughout the day. Consumers are seeking more snacks, yet the demand for healthy food is also increasing.[34]

Managed foodservice is also expected to continue to grow. As the population ages, managed foodservice is expected to see more demand in healthcare and senior living facilities.[35]

Additional products and forms of delivery are constant changes for the restaurant industry. Food trucks are currently making a comeback, but in a different way than food trucks of the past. Gone are the greasy spoon trucks, replaced by fresh, healthy menus and upbeat ethnic cuisine. Made popular by such TV shows as Food Truck Paradise and the Great Food Truck Race, food trucks are gaining popularity in many urban communities.[36]

Challenges

The hospitality industry faces many challenges in the years ahead. It is highly susceptible to downturns in local and global economies. The industry is also vulnerable to threats of nature, war, and terrorism. Transparency in pricing and product markets brings the threat of commoditization.

Decline of Leisure Time

The success of the hospitality industry is highly dependent on the ability and desire of people to travel and dine out. The amount of leisure time for workers has decreased steadily over the last five decades.[37] The decline of leisure time, globally, poses a threat to the industry.[38]

Slow to Innovate

The hospitality industry overall has been historically conservative, and slow to try new innovations.[39] There are several factors that contribute to this. Often innovation follows a brand or is part of a brand's strategy. However, for the hospitality industry many hotels and restaurants which are affiliated with a brand are independently owned, with a management contract or franchise affiliation. This structure often creates a business environment that is slow to innovation. The costs for innovation often fall back to the owners with much of the benefits of the innovation helping the operating company and franchisor's market reputation.

The majority of the hospitality businesses are owned independent of a brand. This adds to the slowness of the industry to innovate. Another factor which delays innovation for hotels is a per key or per room cost, making many innovations an expensive process. For example, technology permitting the use of bio-scanning, or the scanning of fingerprints etc. to open locks or authorize access, has long been available. However, deploying this technology to hotel room doors becomes staggering as hundreds of biosensors would be required—one for every guest room door and point of guest access.

Economy

The hospitality industry is greatly affected by the state of local and global economies. Highly dependent on discretionary spending, the hospitality industry suffers during times of economic stress or decline.[40] However, it is simplistic to equate the success of the hospitality industry solely on the state of the economy. Many other factors affect the hospitality industry.

Threats to the Industry

Terror in the air and bombings of hotels and restaurants along with major natural disasters such as earthquakes and typhoons, all negatively impact the hospitality industry.[41] In addition, wars and civil unrest discourage not only travel but also financial investment in the hospitality industry.[42]

The hospitality industry is particularly sensitive to acts of terrorism and violence. [43] Tourists, once immune from local terrorism and violence, are now increasingly caught in the cross fire.[44] Terrorism often affects an entire region and not just the finite country or city that was targeted.[45] Widespread news about terrorism and natural disasters accelerate traveler concerns.[46] Increases in terrorism have also been shown to reduce travel in general, affecting the hospitality industry globally. Beyond fears about travel, terrorism can reduce consumer confidence, bringing uncertainty and reluctance on the part of the consumer to spend money on leisure in their home communities, further affecting the hospitality industry.[47]

Terror in the air, bombings

Unfortunately, the hospitality industry has been the specific target of many terrorist bombings and attacks. In 1986, a Pan Am Flight in Pakistan was hijacked, resulting in the death of 140 passengers and crew. In 1988, over Scotland, another Pan Am flight was targeted, this time through a bomb, which resulted in 270 fatalities. These two attacks on Pan Am caused travelers to associate the terror with the company and travelers began to avoid the airline.[48] During this same time period there were attacks at the Rome, Vienna, and Athens airports as well as notable hijackings of other airplanes and ships. These incidents resulted in mass cancellations of travel and had a profound effect on the hospitality industry.[49]

Terrorism can have a ripple effect on the hospitality industry, beyond the immediate geographic target. The terrorist attacks on the World Trade Center of 2001 caused hotel profitability across the entire United States to decrease 45 percent as consumers became reluctant to travel. Kenya reported a 60 percent drop in hotel occupancy following terrorism attacks on a large shopping mall during 2013.[50]

The hospitality industry has often been targeted because it represents large numbers of people in relatively undefended locations. People tend to segregate themselves into convenient groups when using hospitality facilities, a religious wedding reception, a military banquet, and so on, making easy targets for terrorists. Hotels, in particular, have many points of entry, with many people coming and going, providing easy, undeterred access for terrorists. Hotels have been the target of several bombings in the last few decades. The Mansour Meliá Hotel in Baghdad was bombed in 2007.[51] Several hotels were bombed in Mumbai, India in 2008. The Islamabad Marriott Hotel in Pakistan was also bombed in 2008; as was the Serena Hotel in Kabul. Restaurants have also been targeted. Among many attacks targeting restaurants are the 2005 bombings of several restaurants in Bali, and in 2015 extremists' bombing of a restaurant in Nigeria.

Security systems with face recognition software and posted guards, while employed by many hotels and casinos, can only detect and deter a small fraction of terrorism. Terrorists use new couriers and conceal weapons in purses, backpacks, and luggage, making detection almost impossible.

The very nature of the hospitality industry is to welcome, not to exclude, screen or deter. The hospitality industry cannot invoke security measures ahead of public sentiment without significant loss to business. If the public considers the measures too extreme, they will seek out a competitor hotel or restaurant.[52] The challenge is to balance the concepts of hospitality, guest service, and security.

Wars and political instability

Wars, coups, and changing governmental structures affect many industries, but the hospitality industry is often especially hard hit. When Fidel Castro came to power in Cuba, the hotel industry was instantly affected. Travel to Cuba was curtailed for many people. Hotel occupancies in Cuba dropped to 14 percent.[53] The Cuban government later took over most of the hotels, delivering significant losses to the industry. Similar problems have occurred throughout warring countries, such as the takeover of the East Jerusalem InterContinental Hotel by the Israeli Government in 1967, and the takeover of the Margarita Island Hilton by Hugo Chavez in 2009.[54] Political crises, unrest, and martial law also profoundly affect the hospitality industry, reducing both travel to the affected areas as well as consumer use of local hospitality goods and services.[55] Political instability often affects the entire region, casting a negative aura over travel. During times of political unrest consumers are particularly afraid to travel and to spend money on hotels and restaurants.

In contrast, political instability or terrorism in one region of the world will often increase travel to other regions deemed to be safe. During the 1980s, as Europe experienced several acts of terrorism, travel to other areas of the world increased beyond expectations.[56]

Political instability worldwide is always a threat to the hospitality industry. As with most other industries, a look at historical expansion of the hospitality industry shows that political instability contributes highly to lack of growth. Many countries and regions of the world have been in a continual upheaval. Countries that seem stable today can be in an upheaval tomorrow.[57]

Outbreak of disease or illness

Widespread diseases can cause temporary disruptions or threats to the hospitality industry. During large-scale outbreaks of disease or illnesses, people tend to avoid travel and public gathering spots such as restaurants and hotels. In 1918, when the Spanish Flu hit, the hospitality industry suffered as consumers were afraid to travel or even dine out locally.[58] SARS, H1N1, and Ebola are examples of diseases in recent decades that have disrupted travel and dining out among areas of the world affected by the illness. In 2014 an Ebola epidemic occurred in Liberia, Guinea, and Sierra Leone. However, travel to all of Africa was significantly reduced. Despite the fact that most of the safari tourism was located more than 3,000 miles from the disease-stricken countries, safari reservations and inquiries in Africa declined by 70 percent for the year.[59]

Weather

While sunshine, good snow, and warm beaches are good for hotels and restaurants, weather can also bring catastrophic damage. Hurricanes, typhoons, earthquakes, and tsunami's can cause phenomenal damage to a region's hospitality industry. While physical damage to a property can be insured, it often takes travelers a while to return to a region. As in disease and terrorism, the affects from weather-related disasters are widespread. Some hotels and regions near the affected areas may not have been directly affected by the severe weather and have incurred no damage. Unfortunately, consumers often perceive the losses and damage have affected the entire region, and so they cancel or avoid travel to the entire area. For the hospitality industry, image is everything. If the consumer believes a region has been affected by a nearby natural disaster, they will not travel, and local hospitality businesses suffer.[60] Additionally, the mere forecasting of potential severe weather will bring losses to the hospitality industry as consumers avoid a region under a severe weather watch.

Transparency of Pricing Threatens Commoditization

The move of hotel reservations to the Internet has brought a pricing transparency. The significant role of Internet-based third party travel agencies in hotel distribution decreases the control hotels have over information to the consumer. These two facts combine to pose a threat of commoditization to the hotel industry. Consumers look to the Internet for hotel information and reservations. Most of these consumers use third party travel agencies or travel-related search engines to compare hotel pricing. Consumers often seek the lowest price or best value room reservation. Compounding this process is that hotels often have little control over the information posted on other travel-related websites. Thus, the consumer is left with price as the main deciding factor in making hotel reservations, threatening commoditization of the industry. The challenge for hotels will be to highlight value-added services and products, differentiating their product to consumers. Travelers have shown a willingness to pay small, incremental price increases for services and products that they value. The challenge is to communicate this value to the consumer through multiple distribution channels. Loyalty programs and encouragement for consumers to utilize hotel company-owned reservation sites also help to combat commoditization of the market.

Another strategy in deterring price commoditization is branding. Brands often require their member restaurants and hotels to meet certain product and service standards. Thus, the brand name often reduces the transaction risk to the consumer, allowing the brand to charge an incremental price difference.[61]

Cost and Availability of Capital

The cost and availability of capital will shape the future of the hospitality industry. There are many factors which affect the availability of capital to the hospitality industry, such as financial industry deregulations and re-regulations, tax law changes that induce or reduce the flow of capital to commercial projects, the flow of international investments, raising and lowering of interest rates and availability of government-sponsored investment funds.[62]

As is true for many industries, the availability of capital for investment in the hospitality industry fluctuates with the profitability of the industry. During periods of recession, capital is more limited, while in robust years, capital is more readily available.[63] Recent crises in lending markets have limited the availability of capital for development and investment overall. Changes to legislation regarding financial institutions and lending have further limited the availability of capital in many countries.[64]

As the costs of real estate continue to climb over time, returns on capital will become less favorable, resulting in a decrease in investment capital available for the hospitality industry.[65] In addition to normal gains in real estate over time, the availability of real estate in prime locations is becoming limited and more expensive.[66] Experts predict that this will also result in more capital available for hotel and restaurant acquisitions than for new construction of hotels and restaurants in the future.[67] This differs from the past several decades, during which most capital was used in new construction.[68] The costs of human resources and other operating costs continue to climb as well, making investment in the hospitality industry less desirable against other investments.[69]

Access to capital in foreign markets brings additional challenges.[70] This is especially true for hotels which require significant capital outlay. The rationing of private capital and funds deployed by foreign governments limits expansion in many markets.[71]

Refurbishment

One continual challenge that faces the hospitality industry is keeping the facilities, concepts, and menus current. For hotels this often requires a major outlay of capital. During the first decade of the millennium, Holiday Inn found itself with many properties at 40-50 years of age. Despite refurbishment, the design and structures of the early motels became outdated against the current market demands. Holiday Inn removed the outdated hotels from the brand, jettisoning some 100,000 hotel rooms.[72]

For many developing countries, many hotels are primitive in condition. It is likely that these structures will need to be razed due to dilapidation, poor safety, and health issues.[73]

For hotels and restaurants alike, refurbishment is a constant process with consumers demanding updated furnishings, new menus, and new products.[74]

Opportunities

The hospitality industry is a robust industry with many opportunities for growth. Few industries have realized the rapid and constant growth that the hospitality industry has sustained over the last 50 years.[75]

Growth in the hospitality industry is linked closely to growth in Gross Domestic Product (GDP) and in particular growth of per capita income.[76] Growth for the hospitality industry is also fueled by the increasing wealth of the middle class.[77] Many countries have an increase in the middle class, who are generally eager to dine out more often and to travel to more places.[78]

Economic forecasts call for a doubling of the global middle class with China, India, Indonesia, Vietnam, Thailand, and Malaysia to make up 64 percent of the world's middle class by the year 2030.[79] The Asian region is also expected to double the number of affluent consumers by year 2020.[80] This is good news for the hospitality industry as these consumers love to travel and dine out.

With countries such as India and China experiencing large increases in the middle class, exponential growth to the hospitality industry is expected. In addition, rising commerce is resulting in more business centers being developed in many newly industrialized countries. With these business centers comes a rapid expansion of the hospitality industry.[81]

As more countries and people continue to grow economically, there is a resultant increase in discretionary income and leisure time. Consumers are increasingly able to travel and to eat out.[82] "Indeed the history of humankind can be expressed as greater proportions of the population traveling further and traveling more frequently."[83] Traveling and dining in restaurants were once considered a privilege and extraordinary pleasure. Yet now, these are considered by many to be a basic right.[84] During the economic crises of 2008, consumers often lamented that they had to cut back on the number of nights per week that they dined out and how frequently they traveled. Utilizing the services of the hospitality industry had become an economic right to these people, and not just an occasional pleasure.

Future Growth

As long as people travel, gather, meet and eat, there will be a future for the hospitality industry. "The urge to travel is irresistible. Few seismic events have been able to suppress for long the motivation to travel."[85]

The hospitality industry has an overall positive growth pattern, despite short-term recessions and obstacles.[86] Growth in the hospitality industry is strong, outpacing overall economic growth worldwide.[87] It is estimated that this industry will grow an additional 4 percent annually for the next 10 years.[88] Growth in the restaurant industry specifically has outpaced population growths for the past decade.[89]

The hospitality industry has experienced a steady and rapid growth for centuries.[90] Yet, many markets are saturated with limited opportunity for expansion. Europe and North America, in particular, have many markets that face oversupply with underperforming assets.[91] Most expansion within these markets is through acquisitions or conversions of existing hotels or restaurants. The predictions are that the majority of the growth in hotel product will be affiliated with large multinational companies or chains, and mid- to low-tier product.[92]

Many countries lacking in natural resources turn to the hospitality industry for economic development. Investments in the hospitality industry are considered to require fewer resources, and result in more foreign exchange to the country than many other industries.[93] The hospitality industry is considered to be a "key driver of socio-economic progress through export revenues, the creation of jobs and enterprises, and infrastructure development for developing countries."[94] One region found that the economic return of the tourism and hospitality industry for whale watching surpassed the returns of commercial whaling; that returns for safaris which allow visitors to view wildlife surpassed the returns of hunting, and in arid or semi-arid lands that economic returns to the economy from the hospitality industry, outpaced even agriculture.[95]

Countries devastated by war often recognize the hospitality industry as an expedient process for economic recovery, because the infrastructure for the hospitality industry has fewer requirements than for many other industries. Post-World War II, many countries looked to the hospitality industry to help quickly revive their economy.[96] Hotel companies promoted travel to encourage world peace.[97] U.S. Marshall Fund Aid, which was offered to help in post-World War II reconstruction, was seen by many countries as a way to fund developing tourism industries.[98] Construction of new hotels became a priority to help encourage tourism and economic growth.[99] The French specifically insisted the post-war reconstruction Marshall Plan for their country include hotel room construction.[100] Tourism was seen as a key element in regaining economic stability for many countries and balancing world power.[101] In recent years the countries of Mozambique and Sri Lanka have aggressively sought tourism and the hospitality industry to help heal their economies after decades of war.

In the mid-1990s, the World Bank undertook many tourism studies to help support economic development in struggling countries.[102] The result was increased investment in the hospitality industry. The International Finance Committee (IFC) of The World Bank has many hotels in its portfolio of loans with the intent of spurring economic development.[103] So important is the hospitality industry to local commerce, that hotels in many countries have received various forms of assistance from their own governments in everything from initial financing to purchasing negotiations, all throughout the history of the industry.[104]

International Travel/Global Expansion

Expansion for the hospitality industry has generally followed the development of local and international commerce. As international trade and manufacturing increase, there is a need for hotels to facilitate business travel. Some countries, recognizing the ripple effect of the economic benefit brought by the hospitality industry, have developed incentives to encourage hotel development. Worldwide, the hospitality industry is expected to continue to grow and expand as international travel increases with more hotels and restaurants opening.[105]

There are regions of the world where the hospitality industry is still in infancy, and much opportunity abounds. In 40 of 47 African countries, the majority of the hotels do not yet meet international standards.[106] As these economies grow, so will the need for accommodations and restaurants at the international standard. As countries gain in wealth and resources, there is more inbound and outbound travel, resulting in additional increases for the hospitality industry.

Economists predict a shift in global economic power. No longer will the world economy be dominated by an elite few countries. This is good news for the hospitality industry, which expects an increase in travel not only to these countries, but also an increase in outbound travel from these countries.[107]

The balance in leisure travel is changing also. In 1950, the top 15 destinations in the world accounted for 98 percent of all tourist arrivals, whereas today that number is less than 50 percent.[108] As more countries develop the infrastructure and opportunities for leisure travel, the hospitality industry will expand in those countries exponentially.

Changing political climates can also bring increased opportunity to the hospitality industry. As recent decades saw the collapse of communist regimes that restricted both outbound and inbound travel, demand for travel to and from these countries skyrocketed.[109] Restaurants are also forecasting rapid expansion into Eastern Europe, Asia, and Africa with quick service leading the way.[110]

International expansion of hospitality companies often follows a hub and spoke method of development. When first entering a country, hospitality companies will develop hotels and restaurants in the economic centers, or hubs. Then, after successful deployment of these hotels and restaurants, the company will expand reaching out into surrounding or spoke communities. Hotel companies often develop larger, more upscale properties in the hubs with smaller select-service hotels in the spokes. For instance, when Six Continents was expanding the Holiday Inn concept into international markets, the traditional full-service Holiday Inn was developed in capital cities and economic centers, with the Holiday Inn Express brand being developed in the supporting communities.[111]

The BRIC (Brazil, Russia, India, & China) countries are forecast to have some of the biggest growth for the restaurant industry. While the traditional BRIC countries have many hotel projects under construction, many other areas are experiencing significant hotel growth. Countries predicted to have significant hotel growth in the near future are the United Arab Emirates, Vietnam, India, Thailand, Indonesia, South Africa, the United Kingdom, the United States, and Brazil.[112] Other areas in Europe and South and Central America will also experience growth at more moderate levels.[113]

Asia

Inbound tourism to Asia and the Pacific has outpaced global tourism in recent years.[114] This trend is expected to continue.

China is currently the third most popular tourist country in the world, and it is predicted to become the number one tourist destination country in the world by the year 2020.[115] China has seen a rapid growth in hotels and restaurants since the economic reforms initiated in 1978. A national tourism policy was created to increase tourism to China to help bring financial resources. China has experienced a 20 percent annual average increase in the number of hotels for the past 30 years.[116] International brand hotels are expanding at rates faster in China than anywhere else in the world.[117] Most of the increase has been at the upper end of the scale with 3-, 4-, and 5-star-rated hotels

China has remained a strong hotel market, fairly resilient to the bubbles of other economies.[118] As compared to the rest of the world, China has significantly fewer hotel rooms per capita representing a tremendous opportunity. As the Chinese economy improves, there has also been an increased demand for business travel, special events, and meeting businesses.[119]

China has experienced exponential growth in restaurants as well, particularly U.S.-branded restaurants. Quick service and fast casual restaurants are gaining popularity.[120] The Chinese are also the fifth largest wine-consuming country in the world, surpassing even Great Britain.[121]

Outbound Chinese travelers are not to be overlooked.[122] There are increasing numbers of middle and wealthy Chinese who now have both the opportunity and income to travel, as compared to recent years. As a result, outbound travel by the Chinese has soared in the past decade. Outbound Chinese travelers are currently the fourth largest market in the world.[123]In the year 2014 China had more than 100 million outbound tourists, an increase of almost 20 percent from the previous year. Predictions are that the demand for outbound travel from China will continue to increase faster than for other regions of the world.[124]

Most of the initial increase in Chinese travel has been to the Asia-Pacific region. As the Chinese are increasingly seeking to travel to new destinations, however, many countries will benefit from the increased demand for hotel rooms and restaurant meals.

The hospitality industry has experienced substantial growth in India as well.[125] Increased demand for leisure travel as well as a need for increased business travel has created a favorable market in India. With the rapid expansion of the middle class, the increase in disposable income and rise in number of workers outside the home has created exponential demand for the restaurant industry in India. [126] One limiting factor in India is the extremely high price of real estate.[127]

As the hospitality industry continues to grow in Asia, Asian hotel companies will seek to become major global hotel operators. Through expansion and aggressive joint ventures, companies such as Taj Hotels and Jin Jiang Hotels are seeking to expand operations as these markets increase.

Much of the growth for the hotel industry in this region will be in the 2- and 3- star rated hotels as well as the economy and budget hotel sectors. Likewise, growth into second and third tier cities will be stronger than for first tier cities, which are beginning to show some saturation of the hotel market.[128]

Middle East and Africa

Difficulties in economic stability, wars, and terrorism have made development of the hospitality industry sporadic for many sections of the Middle East and Africa. The Middle East has seen enormous growth of the hospitality industry in oil rich regions and, in particular, in Dubai.[129] That growth is expected to continue in regions that remain stable.[130]Dubai, in particular, is expected to double the number of hotel rooms by 2020.[131] Bahrain, Qatar, Abu Dhabi, Luxor, and Amman have also experienced significant growth in the hospitality industry in the last few decades.[132]

Africa is well-known for photo safaris, eco-travel, and heritage- and culture-related travel to its ancient sites. However, Africa has experienced many fluctuations in the hospitality industry throughout the last half century. While there is much opportunity, civil strife, poverty, terrorism, political instability, and pandemic disease outbreaks have limited growth in the hospitality industry in many regions of Africa.[133] Concerns over infrastructure and political stability leave some investors hesitant.[134] Africa is expected to see future growth of the hospitality industry in capital cities and major commercial cities.[135] Nigeria alone almost doubled the number of hotels in recent years.[136] As the region shows gains in economic and political stability, and vastly improving infrastructure, expansion of large multinational hotel brands as well as regional African hotel companies is expected to increase."[137] While Africa has some long-term expansion possibilities, the fragility of political and technological formations make it less desirable than the Middle East, India, and China.[138]

Another market that is on the horizon for the hospitality industry is Medical Tourism.[139] People will travel to receive medical services not available or less affordable in their home country. This sector has grown significantly in recent years. Cross border patient numbers for the year 2014 were reported at 11 million patients, with growth expected at a rate of 15 to 25 percent for the next few years.[140] Travel for medical purposes is expected to continue to increase.

The Future Is Bright

The future of the hospitality industry is bright. The hospitality industry will constantly evolve as lifestyles, economics, politics, modes of transportation, technology, and trends change.[141] While it will not be the same, the hospitality industry will always be a part of the global economy.

Resources for Further Study

The hospitality industry has many associations and organizations. Many countries and nearly every state in the United States have a Hotel & Lodging Association and a Restaurant Association, or a combination of the two often called a Hospitality Association. Most of them partner with a parent association such as the American Hotel & Lodging Association or National Restaurant Association. The following is a list of some of the many hospitality organizations:

1. International Hotel and Restaurant Association (IHRA) http://ihra.com/
2. World Tourism Council http://www.wttc.org/
3. World Trade Organization https://www.wto.org/
4. American Hotel and Lodging Association (AH&LA) https://www.ahla.com
5. National Restaurant Association (NRA) http://www.restaurant.org
6. US Travel Association (US Travel) https://www.ustravel.org/
7. International Society of Hotel Association Executives (ISHAE) http://www.ishae.org/
8. The Confederation of National Associations of Hotels, Restaurants, and Cafes in Europe (HOTREC) http://www.hotrec.eu/
9. International Forum of Travel and Tourism Advocates http://iftta.org/
10. Hospitality Sales and Marketing Association International (HSMAI) http://www.hsmai.org
11. Hospitality Financial & Technology Professionals (HFTP) http://www.hftp.org/
12. Travel and Tourism Research Association (TTRA) http://www.ttra.com/
13. Destination Marketing Association International (DMAI) http://www.destinationmarketing.org/
14. American Resort Development Association (ARDA) http://www.arda.org/

15. Hotel Asset Management Association (HAMA) http://www.hamagroup.org/
16. Global Business Travel Association (GBTA) http://www.gbta.org
17. International Society of Hospitality Consultants (ISHC) http://ishc.com/
18. Federated Hotel Association of South Africa (FEDHASA) http://www.fedhasa.co.za
19. Australian Hotels Association http://aha.org.au/
20. Restaurant and Catering Association of Australia http://rca.asn.au/rca/
21. Hotel Motel & Accommodation Association of Australia (HMAA) http://www.hmaa.com.au
22. Fórum de Operadores Hoteleiros do Brasil (FOHB) http://www.fohb.com.br
23. Hotel Association of Canada (HAC) http://www.hotelassociation.ca
24. Japan Hotel Association (JHA) http://www.j-hotel.or.jp
25. Asociación Méxicana de Hoteles y Moteles http://www.hotelesmexicanos.org
26. Singapore Hotel Association http://www.sha.org.sg
27. Caribbean Hotel Association http://www.caribbeanhotelassociation.com
28. Sociedad Hoteles del Peru http://www.sociedadhotelesdelperu.org
29. Hospitality Finance, Revenue Management and IT Professionals (HOSPA) http://www.hospa.org/
30. Hospitality Sales & Marketing Association International (HSMAI) http://www.hsmai.org/
31. Meeting Planners International (MPI) http://www.mpiweb.org/
32. International Hospitality Information Technology Association (iHITA) http://ihita.org/
33. Asian American Hotel Owner Association (AAHOA) http://www.aahoa.com/
34. National Association of Black Hotel Owners, Operators, and Developers (NABHOOD) http://www.nabhood.net/
35. International Council on Hotel, Restaurant, and Institutional Education (ICHRIE) http://www.chrie.org
36. Latino Hotel Association (LHA) http://www.latinhospitality.org

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96. Chathoth & Chon (2009); Karkaria (2003).
97. Oberoi (n.d.).
98. Starwood (n.d.).
99. Smith & Siguaw (2010).
100. TSOGO (n.d.).
101. TUI (n.d.).
102. Aimbridge (n.d.).
103. HHM (n.d.).
104. White Lodging (n.d.).
105. Hotel Business (2014).
106. Bloomin' Brands (n.d.).
107. Brinker (n.d.).
108. Darden (n.d.).
109. Nation's Restaurant News (2015).
110. Nation's Restaurant News (2014).
111. DineEquity (n.d.).
112. Nation's Restaurant News (2015).
113. Dunkin Brands (2015); Nation's Restaurant News (2015).
114. Nation's Restaurant News (2014).
115. Nation's Restaurant News (2014).
116. McDonald's (2014); Nation's Restaurant News (2015).
117. RBI (n.d.).
118. Nation's Restaurant News (2015); Starbucks (n.d.).
119. Nation's Restaurant News (2015); Subway (n.d.).
120. Nation's Restaurant News (2014).
121. Nation's Restaurant News (2015).
122. Yum! (n.d.-a).
123. Flynn (n.d.).
124. Franchise Times (2014).
125. Food Management (2015).
126. Food Management (2015).
127. Food Management (2015).
128. Lapetina (2014).
129. Lapetina (2014).
130. Caesars (n.d.).
131. Galaxy Entertainment (n.d.).
132. Las Vegas Sands (n.d.).
133. MGM (n.d.).
134. SJM (n.d.).

Chapter 3

1. Slattery (2012).
2. Brotherton (2003), pp. 142–143.
3. Brotherton (2003).
4. Pillsbury (1990).
5. Lattin (2009).
6. Fried (2010).
7. Pillsbury (1990).
8. Fried (2010).
9. Pillsbury (1990).
10. Gee (2008).
11. Lattin (2009).
12. Summers (2007).
13. Pillsbury (1990).
14. Statistica (2015).
15. Fried (2010).
16. Slattery (2012).
17. Higley (2015).
18. Brotherton (2003).
19. Gee (2008); Summers (2007).
20. Summers (2007).
21. Go & Pine (1995).
22. Geller (1998); Watkins (2013).
23. Bender et al. (2008); Brotherton (2003); Geller (1998); Go & Pine (1995).
24. Cunill (2006); Go & Pine (1995); Summers (2007).
25. Cunill (2006); Go & Pine (1995).
26. Jakle et al. (1996); Turkel (2009).
27. Cunill (2006); Turkel (2009).
28. Cunill (2006).
29. Baker (2013); Bender et al. (2008); Brotherton (2003).
30. Brotherton (2003); Honey (2008).
31. Rogerson (2011).
32. Gee (2008); Jakle et al. (1996).
33. STR (2013).
34. Dev (2012).
35. STR (2013).
36. Chand & Katou (2007).
37. STR (2013).
38. Gee (2008).
39. Go & Pine (1995).
40. Rogerson (2013).

41. Gee (2008).
42. Bernstein & Paul (1994).
43. Gee (2008).
44. Timothy & Teye (2009).
45. ARDA International Foundation (2012); Timothy & Teye (2009).
46. Brotherton (2003).
47. Pillsbury (1990); Timothy & Teye (2009).
48. Timothy & Teye (2009).
49. Brotherton (2003); Sturman et al. (2011).
50. Brotherton (2003).
51. Timothy & Teye (2009).
52. Brotherton (2003).
53. Bradach (1998).
54. Sturman et al. (2011).
55. Brotherton (2003).
56. Barrows & Powers (2009).
57. Sturman et al. (2011).
58. Brotherton (2003).
59. Brotherton (2003).
60. Gee (2008).
61. Contractor & Kundu (1998).
62. Brotherton (2003).
63. Walker (2013).
64. Lattin (2009); Mariani (1991); Summers (2007).
65. Turkel (2009).
66. Miller (2009), p. 57.
67. Walker (2013).
68. Roberts et al. (2009).
69. Maze (2013); McDonald's (2013).
70. O'Halloran (2009); Wilson & Kerr (1996).
71. Jakle et al. (1996); O'Halloran (2009); Turkel (2009).
72. O'Halloran (2009).
73. Cunill (2006).
74. Jakle et al. (1996); Vermillion et al. (2009).
75. Maze (2013).
76. Summers (2007).
77. Bradach (1998); Wong (2014).
78. Rodriguez (2002).
79. Bradach (1998).
80. Dev (2012).
81. Dev (2012).
82. Odedra (2014); Summers (2007); Whitla et al. (2006).
83. Brookes & Roper (2010); Brotherton (2003).

84. Summers (2007).
85. Jakle et al. (1996).
86. Miller (2009).
87. Jakle et al. (1996).
88. Margolies (1995).
89. Go & Pine (1995).
90. Sullivan (2013a).
91. Margolies (1995).
92. Best Western (n.d.); Margolies (1995); Turkel (2009).
93. Vermillion et al. (2009).
94. Vallen & Vallen (2013).
95. Summers (2007).
96. Cunill (2006).
97. Slattery (2012).
98. Cunill (2006).
99. Cunill (2006).
100. deRoos (2010).
101. Slattery (2012).
102. Jackson & Naipaul (2009).
103. Fried (2010).
104. Summers (2007).
105. Cunill (2006).
106. Jackson & Naipaul (2009).
107. Arbel & Pizam (1977).
108. Cunill (2006).
109. Kim & Olsen (1999).
110. Brotherton (2003).
111. Kim & Olsen (1999).
112. Chathoth & Chon (2009).
113. Turkel (2009).
114. Slattery (2012).
115. Vermillion et al. (2009).
116. Go & Pine (1995); Rogerson (2011); Vermillion et al. (2009).
117. Eisen (2015); Kim & Olsen (1999).
118. Lattin (2009).
119. Summers (2007), p. 73.
120. Summers (2007).
121. Lattin (2009).
122. Foucar-Szocki et al. (2009); Slattery (2012).
123. Slattery (2012).
124. Brotherton (2003).
125. Cunill (2006).
126. Cunill (2006).

127. O'Neill & Matilla (2010); Walker (2013).
128. Rogerson (2011).
129. Brotherton (2003).
130. Cunill (2006).
131. Timothy & Teye (2009).
132. Becker (2013).
133. Eisen (2015); Kim & Olsen (1999).
134. Smith (2011).
135. Lattin (2009).
136. Bernstein (1981); Bernstein & Paul (1994).
137. Darden Restaurants (2002).
138. Funding Universe (n.d.).
139. Burger King (n.d.).
140. Bernstein & Paul (1994).
141. Hashimoto (2009).
142. Bradach (1998).
143. Go & Pine (1995).
144. Cetron et al. (2010).
145. Timothy & Teye (2009).
146. Go & Pine (1995).
147. Summers (2007), p. 34.
148. Slattery (2012).
149. Slattery (2012); Vermillion et al. (2009).
150. Vermillion et al. (2009).
151. Slattery (2012).
152. Go & Pine (1995).
153. Lattin (2009).
154. Singh et al. (2012).
155. Go & Pine (1995).
156. Lattin (2009), p. 107.
157. This section based on Lattin (2009); Summers (2007).
158. Cunill (2006).
159. Lattin (2009).
160. Cunill (2006).
161. Cetron et al. (2010).
162. Restaurant Owner (2012).
163. World Travel & Tourism Council (2015b).
164. This section based on Brotherton (2003); Cunill (2006); Dev (2012); Go & Pine (1995).
165. Dev (2012).
166. Jakle et al. (1996).
167. Margolies (1995); Summers (2007).
168. Go & Pine (1995).

169. Brotherton (2003).
170. Turkel (2009).
171. Vermillion et al. (2009).
172. Foucar-Szocki et al. (2009).
173. Vermillion et al. (2009).
174. Summers (2007).
175. Jackson & Naipaul (2009).
176. Chathoth & Chon (2009).
177. Summers (2007).
178. Summers (2007).
179. Jakle et al. (1996); Summers (2007); Vermillion et al. (2009).
180. Turkel (2009).
181. Jakle et al. (1996).
182. Cunill (2006).
183. Dev (2012).
184. Walker (2013).
185. Dev (2012).
186. Summers (2007).
187. Barron (2012).
188. Barron (2012).
189. Barron (2012).
190. Barron (2012), p. 71.
191. Barron (2012).
192. Mandelbaum & McDade (2015).

Chapter 4

1. Becker (2013).
2. Summers (2007), p. 193.
3. Bernstein & Paul (1994), p. 39.
4. Foucar-Szocki et al. (2009).
5. Barron (2012).
6. Brotherton (2003).
7. Summers (2007).
8. Summers (2007).
9. Go & Pine (1995).
10. Go & Pine (1995).
11. Go & Pine (1995).
12. Sturman et al. (2011).
13. Barrows & Powers (2009).
14. Woodworth (2013).
15. Sturman et al. (2011).

16. Timothy & Teye (2009).
17. Barrows & Powers (2009); Deliotte (2014); Go & Pine (1995); Timothy & Teye (2009).
18. World Travel & Tourism Council (2015b).
19. Gee (2008); Walker (2013).
20. Barron (2012); World Travel & Tourism Council (2015b).
21. World Travel & Tourism Council (2015a).
22. Go & Pine (1995).
23. Gee (2008).
24. Walker (2013).
25. Brotherton (2003).
26. Lattin (2009).
27. Go & Pine (1995); Timothy & Teye (2009).
28. World Travel & Tourism Council (2015b).
29. National Restaurant Association (2014).
30. Chand & Katou (2007); Timothy & Teye (2009); World Travel & Tourism Council (2015b).
31. Bureau of Labor Statistics (2015)
32. Lattin (2009).
33. Go & Pine (1995).
34. Foucar-Szocki et al. (2009).
35. Go & Pine (1995).
36. Becker (2013).
37. Milburn & Hall (2014).

Chapter 5

1. Vermillion et al. (2009).
2. Tanner (2014), p. 4.
3. Brotherton (2003), p. 204.
4. Vermillion et al. (2009).
5. Go & Pine (1995).
6. Sturman et al. (2011).
7. Foucar-Szocki et al. (2009).
8. Turkel (2009).
9. Cunill (2006).
10. Bender et al. (2008).
11. Gee (2008).
12. Gross (1996).
13. Gee (2008).
14. Bender et al. (2008).
15. Whitla et al. (2006).

16. Go & Pine (1995).
17. Fried (2010).
18. Nusair & Parsa (2009).
19. Gross (1996).
20. Gross (1996), p. 177.
21. Roberts et al. (2009).
22. Gross (1996).
23. Baird (2009).
24. Turkel (2009).
25. Slattery (2012).
26. Turkel (2009).
27. Cunill (2006).
28. Brotherton (2003).
29. Slattery (2012).
30. Lattin (2009).
31. Go & Pine (1995).
32. Baird (2009).
33. Whitla et al. (2006).
34. Go & Pine (1995).
35. Whitla et al. (2006).
36. Slattery (2012).
37. Whitla et al. (2006).
38. Brookes & Roper (2010).
39. Brotherton (2003).
40. Go & Pine (1995).
41. Brotherton (2003).
42. Brotherton (2003).
43. Go & Pine (1995).
44. Brotherton (2003); Vallen & Vallen (2013).
45. Go & Pine (1995).
46. Brotherton (2003).
47. Restaurant Owner (2012).
48. Muller & Woods (1991).
49. Luo & Stark (2014).
50. Bernstein & Paul (1994); Parsa et al. (2011).
51. Summers (2007).
52. Foucar-Szocki et al. (2009), p. 40.
53. Barrows & Powers (2009).
54. Summers (2007).
55. Becker (2013); Schwartz (2013).
56. Lattin (2009).
57. Slattery (2012).
58. Go & Pine (1995).

59. Lattin (2009).
60. Summers (2007).
61. CHD (2013).
62. Maze (2014).
63. Summers (2007).
64. Gee (2008).
65. Yum! (n.d.-b).
66. Schwartz (2013).
67. Gee (2008).
68. Cole (2014).
69. Sturman et al. (2011).
70. Odedra (2014).
71. Rogerson (2013).
72. Gu et al. (2012); Whitla et al. (2006).
73. Whitla et al. (2006).
74. Whitla et al. (2006).
75. Gu et al. (2012).
76. Honey (2008).
77. Gu et al. (2012).
78. Gu et al. (2012).
79. Timothy & Teye (2009).
80. Summers (2007).
81. Summers (2007).
82. Baird (2009).
83. Sandoval-Strausz (2007).
84. Gee (2008).
85. Slattery (2012).
86. Slattery (2012).
87. Gee (2008); Summers (2007).
88. Potter (1996), p. 38.
89. Brotherton (2003); Gee (2008); Summers (2007); Turkel (2009); Vermillion et al. (2009).
90. Gaughan (2014).
91. Potter (1996).
92. Summers (2007).
93. Gee (2008).
94. Turkel (2009).
95. Gee (2008).
96. Summers (2007).
97. Foucar-Szocki et al. (2009).
98. Jackson & Naipaul (2009).
99. Turkel (2009).
100. Baird (2009); Vermillion et al. (2009).

101. Chathoth & Chon (2009).
102. Vermillion et al. (2009).
103. Jakle et al. (1996); Summers (2007); Vermillion et al. (2009).
104. Potter (1996).
105. Brotherton (2003).
106. Turkel (2009).
107. Jakle et al. (1996).
108. Potter (1996).
109. Nusair & Parsa (2009), p. 158.
110. Turkel (2009).
111. Miller (2009).
112. Perman (2009).
113. Pillsbury (1990).
114. Bernstein (1981).
115. Brotherton (2003).
116. Potter (1996).
117. Chathoth & Chon (2009).
118. Brotherton (2003).
119. Bender et al. (2008).
120. Barrows & Powers (2009); Turkel (2009).
121. Foucar-Szocki et al. (2009).

Chapter 6

1. Slattery (2012).
2. Go & Pine (1995).
3. Go & Pine (1995).
4. Timothy & Teye (2009).
5. Vermillion et al. (2009).
6. Sturman et al. (2011).
7. Timothy & Teye (2009).
8. Dev (2012).
9. Go & Pine (1995).
10. Brotherton (2003).
11. Barron (2012); Perman (2009).
12. Sturman et al. (2011).
13. Barron (2012).
14. Barron (2012).
15. Hertzfield (2014).
16. Mudallal (2015).
17. Gee (2008).
18. Afaqs (2008); Chathoth & Chon (2009).

19. Tsai et al. (2009).
20. Eisen (2014b).
21. Whitla et al. (2006).
22. Brotherton (2003).
23. Becker (2013), p. 347.
24. Becker (2013).
25. Becker (2013), p. 363.
26. Cunill (2006).
27. Gee (2008); Go & Pine (1995).
28. Go & Pine (1995).
29. Gee (2008); Timothy & Teye (2009).
30. Lodging (2014).
31. Becker (2013), pp. 353–356.
32. Fischer (2014).
33. Gee (2008).
34. Brotherton (2003).
35. Brotherton (2003).
36. Brotherton (2003).
37. Timothy & Teye (2009).
38. Gee (2008).
39. Whitla et al. (2006).
40. Brotherton (2003).
41. Gee (2008).
42. Gee (2008).
43. Morris et al. (2007).
44. Coulter (2009).
45. Gee (2008).
46. Barrows & Powers (2009).
47. Timothy & Teye (2009).
48. Timothy & Teye (2009).
49. Morris et al. (2007).
50. Taylor & Weisberg (2013).
51. United Nations (n.d.).
52. Becker (2013), p. 375.
53. Gee (2008); Go & Pine (1995).
54. Gee (2008).
55. Singh & Schmidgall (2005).
56. Milburn & Hall (2014).
57. Becker (2013).
58. O’Neill (2014).
59. Lodging (2014)
60. Jong (2014).
61. Timothy & Teye (2009).

62. Jong (2014).
63. Sturman et al. (2011).
64. Sturman et al. (2011).
65. Becker (2013).
66. Milburn & Hall (2014).

Chapter 7

1. Brotherton (2003).
2. Go & Pine (1995).
3. Barron (2012); Smith & Siguaw (2010).
4. Brotherton (2003); Timothy & Teye (2009).
5. Timothy & Teye (2009).
6. Giebelhausen (2014).
7. Barron (2012), p. 97.
8. Sturman et al. (2011).
9. Timothy & Teye (2009).
10. Nusair & Parsa (2009), p. 161.
11. Sturman et al. (2011).
12. Barron (2012).
13. Sturman et al. (2011).
14. Thorn (2014).
15. Go & Pine (1995).
16. Barron (2012).
17. Timothy & Teye (2009).
18. Summers (2007), p. 125.
19. Go & Pine (1995).
20. Schwartz (2013).
21. Gee (2008); Timothy & Teye (2009).
22. Vermillion et al. (2009).
23. Becker (2013).
24. Becker (2013).
25. Gee (2008).
26. Honey (2008).
27. Smith & Siguaw (2010); Sturman et al. (2011).
28. Dev (2012).
29. Compiled from Becker (2013); Dev (2012); Gee (2008); Honey (2008)
30. Brotherton (2003).
31. Barron (2012).
32. Barron (2012).
33. Brotherton (2003); Walker (2013).
34. Brotherton (2003).

35. Walker (2013).
36. Barron (2012).
37. Bureau of Labor Statistics (2015).
38. Go & Pine (1995).
39. Whitla et al. (2006).
40. Brotherton (2003).
41. Brotherton (2003).
42. Rogerson (2013); Timothy & Teye (2009).
43. Smith & Siguaw (2010).
44. Becker (2013).
45. Timothy & Teye (2009).
46. Gee (2008).
47. Timothy & Teye (2009).
48. Turkel (2009).
49. Gee (2008).
50. Aderibigbe (2014).
51. Cetron et al. (2010).
52. Cetron et al. (2010).
53. Summers (2007).
54. BBC (2009).
55. Gee (2008).
56. Gee (2008).
57. Cetron et al. (2010).
58. Vermillion et al. (2009).
59. DiBlasio (2014).
60. Becker (2013).
61. Foucar-Szocki et al. (2009).
62. Gee (2008).
63. Singh & Schmidgall (2005).
64. Timothy & Teye (2009).
65. Singh & Schmidgall (2005).
66. Gee (2008).
67. Singh & Schmidgall (2005).
68. Hanson & Smith (2003).
69. Singh & Schmidgall (2005).
70. Gu et al. (2012).
71. Walker (2013).
72. Turkel (2009).
73. Slattery (2012).
74. Vermillion et al. (2009).
75. Timothy & Teye (2009).
76. Go & Pine (1995).
77. Brotherton (2003).

78. Cetron et al. (2010).
79. Leggett (2014); Valli (2014).
80. Leggett (2014).
81. Go & Pine (1995).
82. Gee (2008).
83. Slattery (2012), p. 255.
84. Becker (2013).
85. Slattery (2012) p. 255.
86. Gee (2008).
87. World Travel & Tourism Council (2015b).
88. World Travel & Tourism Council (2014).
89. Barrows & Powers (2009).
90. Timothy & Teye (2009).
91. Go & Pine (1995).
92. Ford (2013); Slattery (2012).
93. Go & Pine (1995); Honey (2008).
94. UNWTO (2015).
95. Honey (2008).
96. Potter (1996); Turkel (2009).
97. Baird (2009); Potter (1996).
98. Gee (2008); Summers (2007).
99. Baird (2009); Gee (2008).
100. Becker (2013), p. 53.
101. Potter (1996); Summers (2007).
102. Honey (2008).
103. Honey (2008).
104. Potter (1996).
105. Go & Pine (1995).
106. Rogerson (2013).
107. Milburn & Hall (2014).
108. Timothy & Teye (2009).
109. Timothy & Teye (2009).
110. Lattin (2009).
111. Cunill (2006).
112. Deliotte (2014); STR (2013); Sullivan (2013b).
113. Higley (2015); Timothy & Teye (2009).
114. Valli (2014).
115. Becker (2013).
116. Gu et al. (2012); Lattin (2009).
117. Becker (2013).
118. Sullivan (2013b).
119. Gu et al. (2012).
120. Barron (2012).

121. Becker (2013).
122. Becker (2013).
123. Dev (2012); Honey (2008); Timothy & Teye (2009).
124. Smith & Siguaw (2010).
125. Lattin (2009).
126. Smith & Siguaw (2010).
127. Lattin (2009).
128. Smith & Siguaw (2010).
129. Lattin (2009).
130. Odedra (2014).
131. Dubai (2014).
132. Lattin (2009).
133. Lattin (2009).
134. Rodriguez (2002).
135. Shadare (2013).
136. Eisen (2014a).
137. Starwood Hotels and Resorts Worldwide (2013).
138. Baker (2013).
139. Becker (2013).
140. Woodman & Abbate (2015).
141. Gee (2008).

Index

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A Profile of the Hospitality Industry

Betsy Bender Stringam • Charles G. Partlow

The hospitality industry is one of the world's largest and oldest industries. *A Profile of the Hospitality Industry* provides an inside look to the strategies of this industry. This book reviews the developments, challenges, and opportunities for the hotel, restaurant, foodservice and gaming industries. The hospitality industry is unique in many aspects which makes this book a must read for hospitality students, business students and those interested in management strategy.

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