

The Economic Ascent of the Hotel Business

11

Second Edition

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11 The British Hotel Business: 1980–2010

Introduction

During the period from 1980 to 2010 the British agricultural and industrial segments declined and public services continued to grow, but the definitive feature of the period was the growth in service businesses and experience businesses, which propelled the economic ascent of the British hotel business. Hotel demand grew, but it was the rapid growth of hotel chains and the widening diversity of demand that had the biggest effects on the changes in the patterns of hotel supply.

The root of these changes was the shift in economic policy. When Margaret Thatcher came to power at the end of the 1970s the British economy was in a mess, having endured a decade of slow economic growth, industrial relations trauma, high inflation and high levels of unemployment. Manufacturing, parts of which were controlled by the government, and mining, which was also a nationalised industry, were declining sharply. Public services had received almost half a century of high government investment. Service businesses and experience businesses were neither large enough nor growing fast enough to soak-up the rising volume of unemployed. The new government instituted wide-ranging changes to boost the economy including greater flexibility in the labour market, fewer restrictions on setting up businesses and lighter regulatory control of financial services, which enabled the growth in home ownership, the extension of personal credit and the privatisation of businesses controlled by the government. In parallel, the Conservative administrations introduced fiscal and strategic initiatives to wean tracts of the population away from reliance on the government to resolve a wide spread of economic and social problems. In the Labour administrations of Tony Blair and Gordon Brown from 1997 to 2010, the rate of government investment and growth of employment in public services accelerated again, but the growth momentum in service businesses was the main source of new jobs and the segment generated the highest rate of growth in hotel demand throughout the period.

From 2007 to 2010, the credit crunch and recession had a severe impact on Britain and resulted in the most severe economic trauma since the Great Depression. The causes of the credit crunch and recession as well as the impact that they had on the Western economies is discussed in Chapter 10. As was the case with the US,

the credit crunch and recession had a negative impact on British hotel demand, but coming late as they did, the impact over the three decade period to 2010 was less severe. The economic ascent of the British hotel business over the period was slower than the US ascent. Nonetheless, the British hotel rooms supply ratio grew from 6.8 rooms per 1,000 citizens in 1980 to 8.3 in 2010. Room nights sold increased from 66 million to 102 million and rooms concentration from 29% to 61%.

British economic structure and hotel demand

Otus estimates that by 2010 total hotel demand grew to 102 million room nights, up by 66 million, an annual average growth of 1.4% from 1980, which is not impressive given the ascent of the economic structure and is explained by the pattern of demand growth over the period. Domestic business demand doubled its number of room nights to 44 million due to the structural ascent of the economy. In contrast, domestic leisure demand added a mere two million room nights as increasing numbers of Britons took both long and short holidays out of the country. The growth in wealth and access to credit over the period was used to buy foreign holidays far more than it was to buy domestic holidays.

Foreign demand added a mediocre 12 million room nights to 43 million. Governments over the period missed the opportunity to compensate for the fast growth in foreign holidays taken by Britons by accelerating initiatives to attract foreign visitors into Britain. Consequently, Britain got the worst of both worlds. The increasing rate of foreign holiday taking by Britons, *de facto*, increased imports materially, while the mediocre growth in foreign visitors into Britain, *de facto*, produced mediocre growth in exports. The result was a widening tourism balance of trade deficit that reached £14 billion in 2010. (International Passenger Survey)

Within the overall growth in hotel demand there was a material shift in the structure of the hotel business as hotel chains grew to capture 72% of demand, an annual average growth of 4%, whereas unaffiliated hotels demand shrank by 12 million room nights to account for 28% of demand.

During the period, the four factors that are indicative of the shifting structure of an economy to service businesses and experience businesses all progressed well. Human and civil rights legislation was expanded to enable the growing diversity of British society to be reflected in its institutions, in employment and in opportunities. The social sciences became commonplace in a wide range of undergraduate and postgraduate degrees and they entered the school curriculum. The expansion of ownership of long-term appreciating assets such as homes, insurance policies, pension schemes and other saving mechanisms made the provision of personal credit more widespread. Business and personal travel expanded materially in terms of the numbers travelling, the frequency of travel and the distance travelled.

Over the period, the pattern of employment in the economic segments shifted towards service businesses and experience businesses, but the growth was not

uniform, as recorded in Tables 11.1 and 11.2. Politically, the period fell into two parts, first there was the period of Conservative government until 1997 when the employment focus was on slowing the rate of growth in public services and enabling the service businesses to accelerate their rate of growth and then there was a period of Labour government to 2010 in which the employment policy priority was reversed to return to faster public services growth.

Table 11.1: Employment by segment in Britain: 1980–2010 (m)

	Agriculture	Industry	Public Services	Service and Experience Businesses	Total
1980	0.7	10.5	8.5	7.6	27.3
1990	0.7	9.0	9.0	10.5	29.2
2000	0.6	7.5	9.5	12.0	29.6
2010	0.5	5.4	10.5	13.8	30.2

Source: Office of National Statistics and Otus

Table 11.2: Employment by segment in Britain: 1980–2010 (%)

	Agriculture	Industry	Public Services	Service and Experience Businesses	Total
1980	3%	38%	31%	28%	100%
1990	2%	31%	31%	36%	100%
2000	2%	25%	32%	41%	100%
2010	2%	18%	35%	46%	100%

Source: Office of National Statistics and Otus

Agricultural demand into hotels

In 1980, agriculture and fisheries employed 0.7 million, accounting for 3% of the British workforce. Otus estimates that by 1980, agricultural business travellers generated 0.15 million room nights in British hotels for less than 1% share of total domestic business demand. Over the period to 2010, employment in agriculture declined progressively at an average annual rate of 1% and at the end of the period accounted for only 1.5% of the total workforce. There was some consolidation among agricultural firms and there was increased use of hotels. Otus estimates that by 2010 agricultural demand was unchanged from 1980, but the agricultural share of total domestic business demand fell to only a trace.

Industrial demand into hotels

In 1980, industrial companies employed 10.5 million, 38% of the British workforce. Otus estimates that the industrial business travellers generated seven million room nights into British hotels for a 31% share of domestic business demand. Over the three decades to 2010, employment in the industrial sectors – manufacturing, utilities, construction and mining – declined by an average of 2% per year with the loss