

Industry overview

Whether for business or leisure, the world is there to be explored. With more options, more time and more money, millions of people are looking for great places to stay and memorable experiences.

The global hotel industry

The global hotel industry is made up of 17.2 million rooms and can be segmented into hotels affiliated with a global or national chain ('branded'), and hotels that are unaffiliated ('independent'). 30% of hotel rooms are in the US, with Europe accounting for 29%. Greater China claims 14% and has increased rooms supply by +5.3% Compound Annual Growth Rate (CAGR) over the past eight years.

Several industry metrics are widely recognised to track performance, including revenue per available room (RevPAR) and rooms supply. RevPAR is important as an indicator of the value guests ascribe to a given hotel, brand or market and grows when guests stay more often or pay higher rates. Rooms supply is significant because it is reflective of the attractiveness of investing in the hotel industry from an owner perspective and is influenced mainly by the profitability of a brand or market. Driven by strong fundamentals, the global hotel industry has seen consistent growth in both of these indicators for the past eight years.

US industry demand growth accelerated in 2017, and has regularly outpaced GDP growth since 2010. US supply growth has been below the long-term average for eight years, and limiting factors indicate this will not significantly change in the short term. These dynamics have had a positive effect on RevPAR, driving US occupancies to an all-time high in 2017, and real average daily rate (ADR) to three per cent above its 2007 peak. Looking ahead, US fundamentals remain positive and industry forecasters expect robust room demand with RevPAR growth driven mainly by rate increases.

China has seen the fastest industry demand and supply growth of any major hotel market in recent history, driven by rapid expansion and urbanisation of the middle class. Historically, Chinese RevPAR has been suppressed by strong supply growth but grew in 2017 as the market matured and supply stabilised. In Europe, RevPAR has grown steadily since 2010 as demand growth has consistently outpaced supply growth.

The hotel industry is cyclical; long-term fluctuations in RevPAR tend to reflect the interplay between industry demand, supply and the macroeconomic environment. In the short term, at a local market level, political, economic and natural factors such as terrorism, oil market conditions and hurricanes can impact demand and supply.

The branded hotel market

IHG operates within the branded hotel market, which accounts for 53% of total rooms supply globally. Despite ongoing industry consolidation, with two of the largest hotel companies acquiring sizable players, the market remains fragmented. According to Smith Travel Research, five of the leading companies (IHG, Marriott, Hilton, Wyndham and AccorHotels) only account for 24% of global room supply and 58% of the development pipeline (hotels in planning and under construction, but not yet opened).

Branded hotel companies have consistently increased their share of the global hotel market since 2008, helped by consumers' trust in brands to deliver consistent stay experiences, and the advantages brands bring to owners, such as favourable financing and lower distribution costs. Large hotel companies benefit from economies of scale and have shown greater resilience during economic downturns.

Nevertheless, competitor pressures in the branded hotel market are intensifying as all major players pursue a growth strategy. Marriott has grown through acquisition and is leveraging scale, Hilton is organically launching new brands and Accor is diversifying inorganically within the travel space.

As a global business, with a footprint in nearly 100 countries, operating in the midst of change and uncertainty is something IHG is very used to and continues to be one of our greatest strengths. Our strategy of developing a strong brand portfolio and an industry-leading loyalty programme, together with our fee-based income streams and prevalent mainstream positioning, means we remain resilient through varying economic cycles.



Please see pages 20 to 22 to read about our risk management process.

Business models and competitive landscape

There are two principal business models in the industry:

- Fee-based
 - Franchised – owned and operated by parties distinct from the brand, who pay fees to the hotel company for the use of their brand.
 - Managed – operated by a party distinct from the owner, who pays management fees and, if the hotel uses a third-party brand name, fees to that third party also.
- Owner-operated
 - Owned – operated and branded by the owner who bears all of the cost but benefits from all of the income.
 - Leased – similar to owned, except the owner-operator does not have outright ownership of the hotel but leases it from the ultimate owner.

Although asset-heavy business models, such as owner-operated hotels, allow tighter control over hotel operations, the managed and franchised models offer quicker growth due to lower capital investments. However, they require strong relationships with third-party hotel owners.

Alongside traditional hotel providers and the launch of new hotel brands, hotel companies are increasingly competing with alternative lodging propositions. These include home rental and serviced apartments, as well as other digitally enabled propositions, giving consumers access to broader choice as to where they stay and how they book.

Key industry growth drivers

There are three major drivers of global long-term hotel industry growth:

- Long-term macroeconomic growth
 - GDP growth
 - Growth of disposable incomes
 - Corporate profitability
- Demographic changes
 - Ageing population, with greater desire and means to travel
 - Growing middle classes
- Socio/Political factors
 - Growth in air travel
 - Emerging markets expansion

Trends shaping our industry

Mobile expansion

In 2017, four out of five internet users went online via a mobile device. Rapidly expanding mobile connectivity continues to provide brands with the opportunity to explore new ways of interacting with customers across their entire guest journey. In particular, social media and other mobile apps foster instant, real-time conversations between guests, their networks and travel brands.

At IHG, we are constantly refining our award-winning mobile App, to offer guests easier ways to book, industry-leading loyalty redemption options and a richer stay experience. This resulted in over \$2bn of mobile revenue in 2017.



Please see Driving digital growth case study on page 17.



The IHG® App

4.9bn

unique mobile phone owners in 2017.

2.5bn

active mobile social media users in 2017.

Data power

Data generation continues to increase rapidly. Capturing this, and understanding it, can transform the level of insight a hotel company has into its guests, providing opportunities to enhance personalisation, operational efficiency and service delivery.

For IHG, cloud-based foundational systems such as IHG Concerto™ are being rolled out to ensure that we have the necessary agility and processing power to gather intelligence that can help us shape the way we interact with our guests and deliver more tailored experiences.



Please see IHG Concerto case study on page 17.



IHG Concerto™

\$3tn

value of the global data economy.

90%

of all existing data created since 2015.

Human connections

In an increasingly digital environment, human interaction remains a vital component of customer satisfaction. Personalisation and the personal touch are distinctly different. Whilst the use of data allows brands to offer a more personalised experience, a feeling of humanity – a unique emotional connection with a guest – can only come from hotel colleagues. When companies achieve both these elements, they can deliver particularly powerful experiences.

For IHG, a human connection is the most crucial element of our commitment to providing True Hospitality for everyone. Over 150,000 colleagues participated in our True Hospitality service training in 2017, which helps hotel staff to create personal, memorable moments with guests, as part of a tailored service. Meaningful connections lead to greater customer loyalty and encourage consumers to become powerful advocates for our brands. For IHG, this is extremely important, as our most loyal guests stay at our hotels more often and are more likely to book direct.



Crowne Plaza London – King's Cross, UK

87%

of customers increase business with and loyalty to companies who offer a real person to talk to when they need it.

80%

of people prefer human customer service to digital alternatives.