Tourist accommodation businesses: small operations are falling by the wayside

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Whilst the number of hotels is falling, that of campsites and other forms of tourist accommodation (holiday residences and bed and breakfast style accommodation) is on the increase. Furthermore, the structure of the hotel industry is changing, with the smallest establishments gradually falling by the wayside. In terms of jobs, the share of hotels with fewer than 10 salaried workers fell from 51% in 1993 to 43% in 2006. The same phenomenon is true of campsites. Employment in other forms of tourist accommodation is no longer negligible as in 1993. It has risen from 9,500 people in 1993 to a figure of 34,500 today, an increase that can be attributed in the main to leading tourism brands. Hotel profitability suffered a marked decline in the wake of the 2001 tourism crisis. The 2006 financial year would appear to herald some breathing space amidst this decline, but only for the largest establishments.

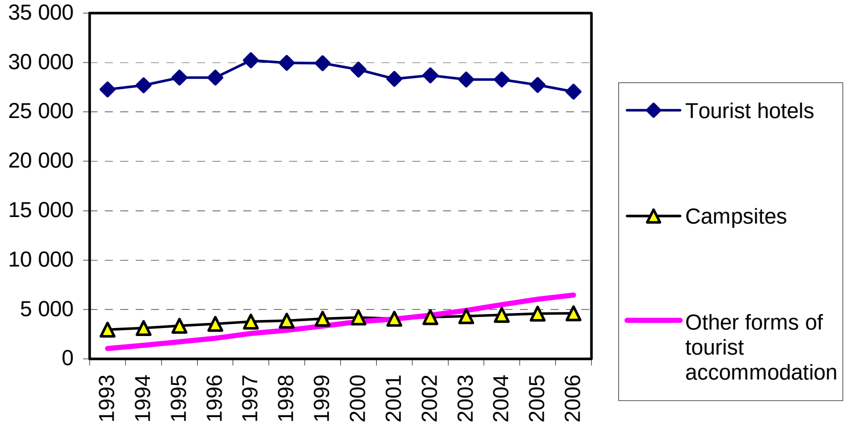
Important changes in the production fabric since the early 90s

The tourism industry *(see definitions)* has been continually expanding ever since the beginning of the 90s. Employment in hotels, on campsites and in other forms of tourist accommodation (holiday residences, bed and breakfast style accommodation etc.) rose by an average of 2.5% per year between 1993 and 2006, increasing from 180,000 to 250,000, with value added doubling. This expansion however masks the profound changes taking place in the sector's economic fabric. While large businesses are leaving the small and medium sized businesses behind, profitability in the sector as a whole has declined since the tourism crisis of 2001. The 2006 financial year would appear to confirm a return to the sort of margins last seen in 2005, but only for hotels with more than 50 salaried workers.

The number of small hotels is falling

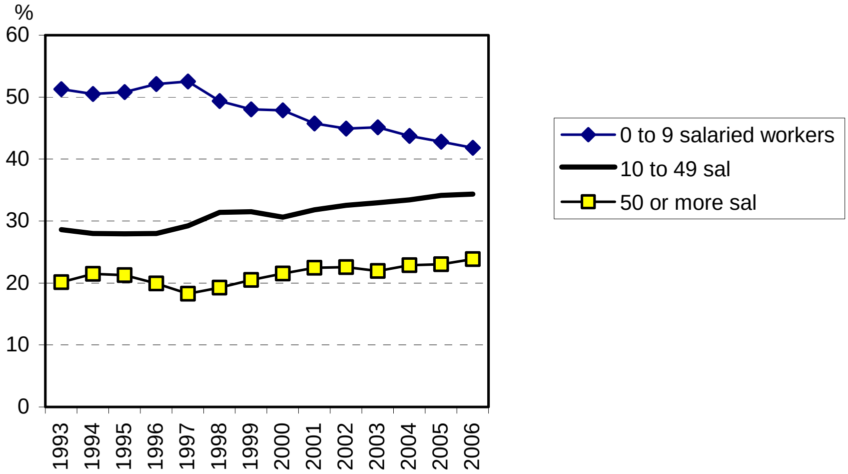
Whilst the number of hotels is decreasing, that of campsites and other forms of tourist accommodation (holiday residences and bed and breakfast style accommodation etc.) is rising steadily (*graph 1)*. The number of hotels fell by 10% between 1997 and 2006, from 30,000 to 27,000. Worst affected by closure are small hotels (4,000 hotels with fewer than 3 salaried workers closed between 1997 and 2006) whilst the number of hotels with more than ten salaried workers is on the rise (up 1,000 during the same period). In terms of employment, the share of hotels with fewer than ten salaried workers fell from 49% in 1997 to 38% in 2006 *(graph 2)*.

Graph 1: the number of small hotels is decreasing



Source: Insee, SUSE files
Coverage: Metropolitan France

Graph 2: the share of small establishments in hotel industry employment is falling



Source: Insee, SUSE files
Coverage: Tourist hotels (NAF 551A and 551C) Metropolitan France

All things being equal, the same phenomenon holds true for campsites. Private campsites have seen a marked increase in overall employment, which has more than doubled since 1993, mainly boosted by the largest establishments *(see table)*. In terms of employment, the share of campsites with fewer than three salaried workers dropped sixteen points in three years, and has since settled at 40% of total campsite employment. Very small campsites, which largely accounted for the majority of campsites in 1993, are lagging further behind every year, with the number of establishments with no salaried workers on the decrease since 2000.

Table: number of businesses and employment in tourist accommodation sectors

		Number of businesses				Employment*			
		1993		2006		1993		2006	
		Number	as a % of the total	Number	as a % of the total	Number	as a % of the total	Number	as a % of the total
Tourist hotels	0 to 9 salaried workers	24 531	90%	22 979	85%	84 527	51%	83 973	42%
	10 to 49 sal workers	2 535	9%	3 779	14%	47 138	29%	68 963	34%
	50 or more sal workers	208	1%	279	1%	33 251	20%	47 926	24%
	Total	27 274	100%	27 037	100%	164 916	100%	200 862	100%
Campsites	0 to 2 sal workers	2 417	82%	3 338	72%	4 205	56%	6 824	40%
	3 to 9 sal workers	477	16%	1 085	23%	2 331	31%	5 676	33%
	10 or more sal workers	50	2%	197	4%	995	13%	4 719	27%
	Total	2 944	100%	4 620	100%	7 530	100%	17 218	100%
Other forms of tourist accommodation	0 to 9 sal workers	955	93%	6 255	97%	2 187	23%	12 228	36%
	10 to 49 sal workers	60	6%	167	3%	1 268	13%	3 768	11%
	50 or more sal workers	8	1%	49	1%	6 088	64%	18 347	53%
	Total	1 023	100%	6 471	100%	9 543	100%	34 343	100%

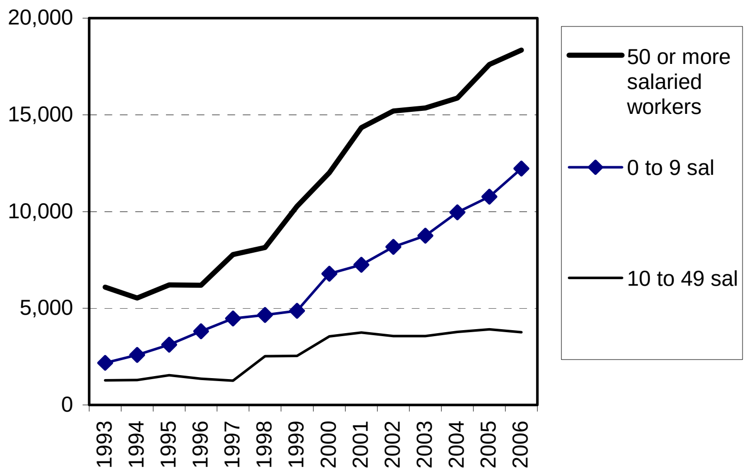
*employment: salaried employment taken from SUSE files plus non-salaried employment estimated using annual business surveys.
Source: Insee
Coverage: Metropolitan France

Employment in holiday residences continues to grow.

The disappearance of small hotels and campsites has been accompanied by an increase in alternative forms of tourist accommodation. The number of "other forms of tourist accommodation" overtook that of campsites in 2002. This type of accommodation groups together leading tourism brands such as Club Med and Pierre & Vacances, as well as holiday and leisure centres, often run as associations, and bed and breakfast style accommodation, which continues to expand. There are now more than 4,000 establishments with no salaried workers at all and offering less accommodation capacity than hotels, compared with the 500 on record in 1993. Large hotel residence complexes have also prospered. Employment in "other forms of tourist accommodation" is no longer marginal as in 1993. It rose from fewer than 10,000 people in 1993 to more than 34,000 in 2006, an increase that can be attributed both to leading brands and to bed and breakfast style accommodation *(see graph 3 and table)*. This makes it one of the rare sectors where non-salaried employment is on a sharp increase, numbering almost 12,000 people in 2006, a figure corresponding to around 24% of total employment in this sector, compared with just 10% in 1993, at the time when this composite sector was dominated by the leading brands. This share constituted no more than 9% of the traditional hotel industry in 2006, displaying a slow but steady decline. It remains relatively high for campsites (29% of their total employment) but has fallen by 10 points compared with 1993.

Under the combined pressure of holiday residences increasing and campsites holding firm, employment in tourist hotels represented no more than 80% of the sector in 2006, compared with 91% in 1993.

Graph 3: employment* in "other forms of tourist accommodation"



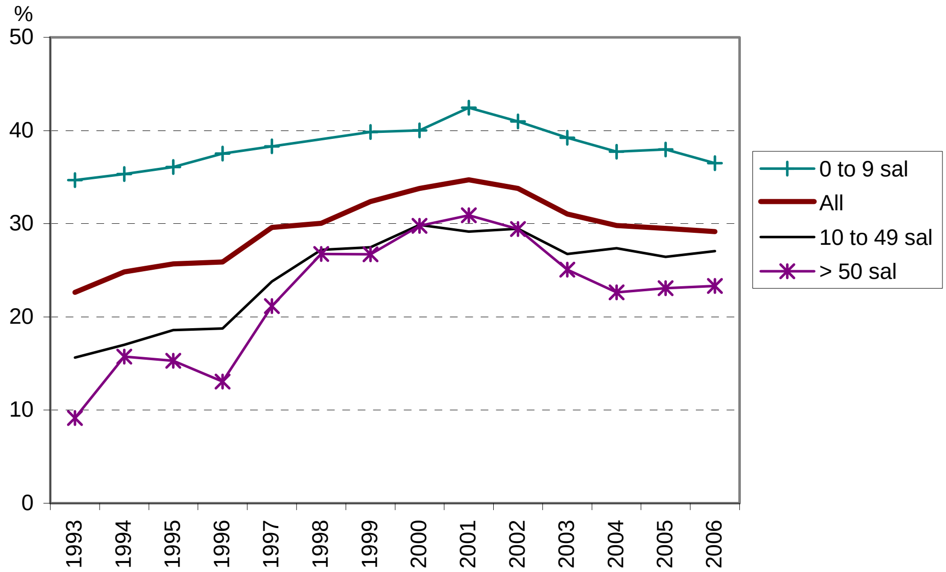
*employment: salaried employment taken from SUSE files plus non-salaried employment estimated using annual business surveys.
Source: Insee
Coverage: NAF 552A and 552E, Metropolitan France

Fall in hotel profitability since 2002

A series of events at the beginning of the 2000s contributed to the slowing down of tourism activity. These included the 11 September 2001 attacks, the eruption of war in Iraq and the severe acute respiratory syndrome (SARS) epidemic in Asia and the Pacific. Several additional factors in France also weighed heavily on the tourism industry, particularly in 2003, with the appreciation of the euro, the pollution from the *Prestige*, the heatwave, forest fires and cancelled festivals. In fact, the distribution of corporate added value between salaries and profits showed that profitability in the tourism sector fell considerably from 2002 onwards. Hotel margin rates *(definitions)*, estimated as the ratio between gross operating surplus and value added, reached their highest level in 2001, 34.7% of value added. They subsequently fell, mainly amongst the largest establishments *(graph 4).*

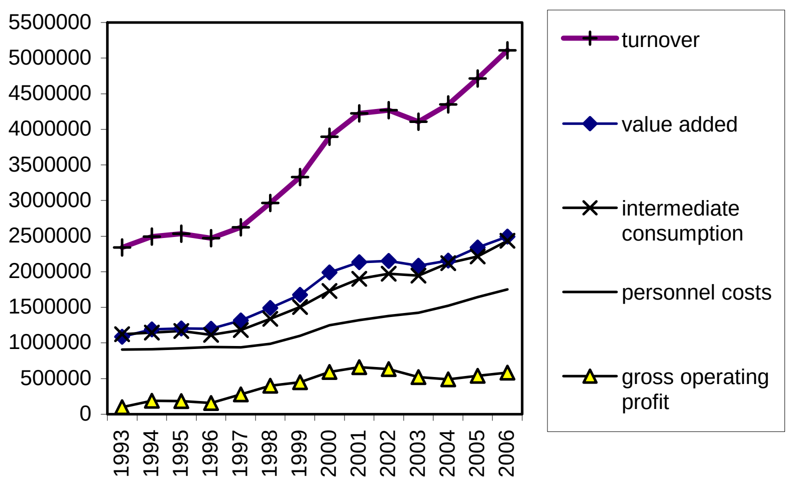
Between 1993 and 2001, hotels with more than fifty salaried workers saw their value added double *(graph 5)*, while those hotels with fewer than ten salaried workers experienced only a 35% rise. This difference can be explained by the ability of large sized hotels to balance turnover increases with intermediary consumption increases. During more prosperous times for French tourism, particularly from 1997 to 2001, personnel costs rose twice as slowly as value added, both for hotels with more than fifty salaried workers and for smaller establishments. Whilst margin rates rose in both categories, larger hotels experienced a more dramatic increase, as their initial margin rates were lower. These rates tripled between 1993 and 2001, while those of hotels with fewer than ten salaried workers rose from 35% to 42% in the same period.

Graph 4: fall in hotel margin rates since 2002



Source: Insee, SUSE files
Coverage: Tourist hotels (NAF 551A and 551C) Metropolitan France

Graph 5: from turnover to gross operating surplus



Source: Insee, SUSE files
Coverage: Tourist hotels (NAF 551A and 551C) with more than 50 salaried workers. Metropolitan France.

The economic downturn after 2001 particularly affected the financial health of large businesses in the hotel industry. Their turnover and value added slowed down in 2002 and even fell in 2003 *(graph 5)*, whilst other categories appeared to suffer less in these areas. This had an immediate effect on their profitability and margin rates began to fall in 2002.

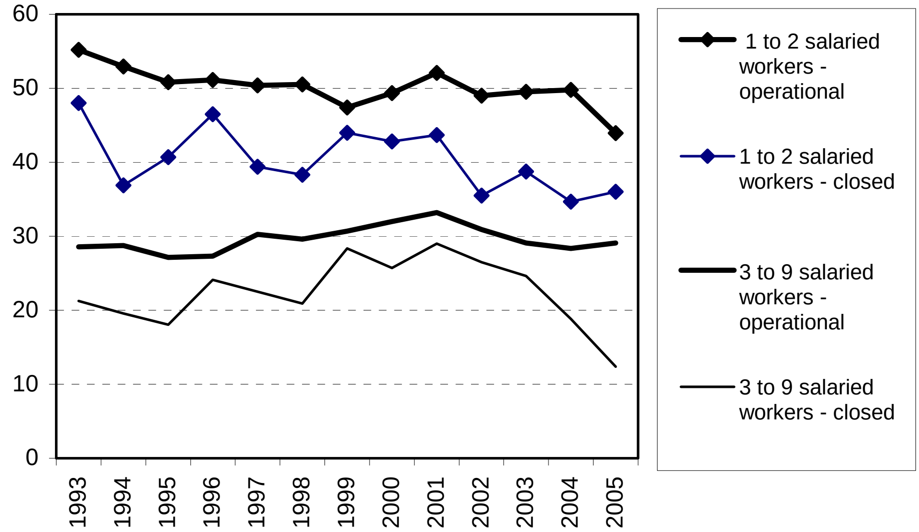
Recovery of margin rates since 2005, but only for the largest companies

The exit strategy for the crisis, however, appears to have produced a more profitable result for the large companies. 2004 saw their value added recover, whilst that of smaller hotels fell. The resumption of tourist activity in 2005 saw turnover and value added of large hotels increase at a rate of 8%, whilst virtually stagnating for hotels with fewer than ten salaried workers. The 2006 financial year provided confirmation of this trend towards recovery for larger establishments. These hotels were alone in seeing their personnel costs increase slightly less quickly than value added, whilst for hotels with fewer than ten salaried workers they increased almost twice as quickly as value added between 2004 and 2006.

Annual failure rates for small hotel businesses are high. This failure rate is higher for individual businesses with no salaried workers, and decreases with the size of hotel. For example, between fifteen and twenty percent of hotels with no salaried workers cease their business activity every year, compared with just five to ten percent for hotels with three to nine salaried workers. These business closure rates do vary according to the economic situation of the sector; they fell prior to 2001 and have since recovered.

It is the less financially sound businesses who are mainly affected by these closures. It therefore follows that margin rates are systematically lower for hotels that close than for those that continue their business activity. The gap has widened since the tourism crisis of 2001: average margin rates for hotels with three to nine salaried workers that closed during the 2005 financial year were no more than 12%, whilst those for hotels of the same size still operating in 2006 remained at 29% *(graph 6)*.

Graph 6: margin rates for hotels ceasing their business activity are lower than those continuing their business activity



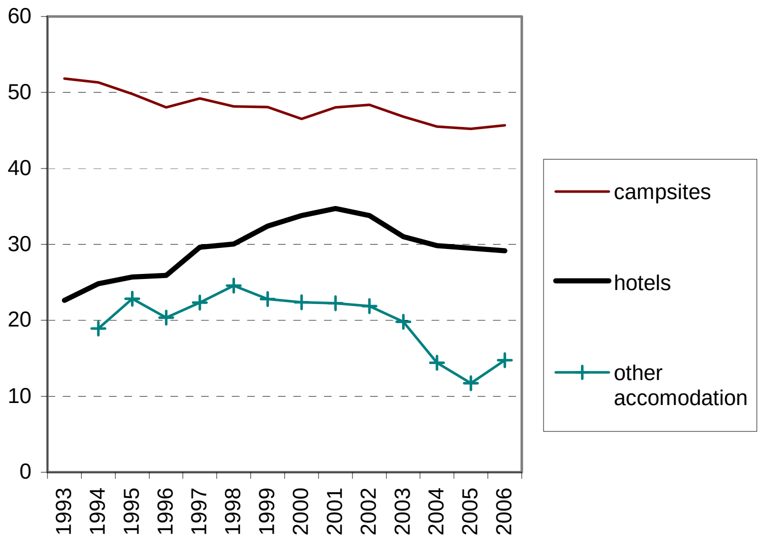
Source: Insee, SUSE files
Coverage: Tourist hotels (NAF 551A and 551C), Metropolitan France
Interpretation: Hotels with 1 to 2 salaried workers that were operating in 1993 and 1994 had an average margin rate of 55% in 1993. Hotels of the same size still operating in 1993 but no longer operating in 1994 had a margin rate of 48%.

Recent fall in margin rates for holiday residences

The average margin rates for campsites are higher than those for hotels and tourist residences *(graph 7)*. The share of salaried employment is actually much less because of the large number of very small businesses. Despite everything, this trend is also waning slightly, particularly as a result of the growing importance of large establishments with structurally weaker margin rates. Taken separately, the various campsite categories have generally stable margin rates that fluctuated slightly around 2002, rising slightly beforehand, and then reeling from the impact of the tourist crisis afterwards. The 2006 financial year appears to point towards a slight restoration of profitability.

The diversity of “other forms of tourist accommodation” makes it harder to understand the evolution of their margin rates. The large associations that make up part of this sector do not share the same accounting ratios as either the leading brands in this sector or the bed and breakfast style accommodation. Recently declining margin rates, which dropped from 22% in 2002 to 12% in 2005, became liabilities for all organisations, regardless of their size. But its recovery in 2006 (to 15%) can only be attributed to the action of the biggest companies. The average salary cost actually stabilised for companies with more than fifty salaried workers, at around 30,500 euros. On the other hand, the situation for medium-sized businesses failed to improve, with the average salary cost remaining vastly above that for hotels of the same size. For companies with ten to forty-nine salaried workers, for example, this average cost amounted to 31,600 euros, i.e. 25% more than in 2000, whilst their value added only rose by 17% during the same period. In 2006 the cost was 28,600 euros for hotels of the same size.

Graph 7: margin rate (gross operating profit / value added)



Source: Insee, SUSE files
Coverage : Metropolitan France

Sources

SUSE files are fiscal files provided by the Department of Revenue (*direction générale des impost*) and processed by Insee. Each business is classified according to its main activity sector depending on the level of turnover generated by this activity as a proportion of its total turnover. The business is a legal entity. It can either be independent or belong to a group.

Definitions

The **tourist accommodation sectors** selected for this study are defined by NAF Rev1 551A and 551C (tourist hotels, with or without restaurants, 5510Z in NAF Rev2); NAF 552C for campsites, sometimes called open air hotels (5530Z in NAF Rev 2); NAF 552A and 552E for “other forms of tourist accommodation”, which bring together four distinct activities: short term furnished accommodation (gites, holiday lets and bed and breakfast style accommodation etc.), holiday resorts and tourist residences, children’s holiday centres and youth hostels (5520Z in NAF Rev 2). SUSE files are unable to differentiate between bed and breakfast type accommodation and other forms of accommodation.

Operating profitability is measured here using the **margin rate**, the ratio of gross operating surplus (GOS) to value added. GOS is used to remunerate non-salaried workers and capital, with the balance corresponding to operating profit. Margin rate levels therefore depend on the scale of non-salaried employment and on levels of capital equipment, and comparison between different sectors may be difficult. On the other hand, short term developments essentially reflect developments in operating profitability and can be put into perspective.

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