PRESS RELEASE

Greek Small and Medium Sized Hotel Businesses

The subject of the study is the problems and the perspectives of Greek small and medium-sized hotel businesses (SMHBs). For the purposes of the present study SMHBs are classified into four categories based on the number of rooms. These categories are: very small (1-29 rooms), small (21-50), medium sized (51-100) and large (more than 100 rooms) hotels.

Very small hotels account for 43% of country's hotel capacity, small for 37%, medium-sized for 13% and large for only 7%. Therefore, the analysis of SMHBs concerns 93% of the hotel accommodation in the country. These accommodations include, except from hotels, organized camps (campings), bungalows, furnished apartments and traditional accommodations.

70% of SMHBs are hotels, 21% furnished apartments, 4% bungalows, 3% traditional accommodation and 3% campings. There is a direct relationship between accommodation type and size, with bungalows being the largest (39 rooms on average) and traditional accommodations the smallest (11 rooms on average). The average of campings is 57. The analysis presented in this study concerns the total of SMHBs and rooms to rent are not included. As recorded in the appendix, the results do not differ significantly if the large category of classic hotels is analyzed separately.

Table 1
Classification of Hotel Businesses Based on Rooms

s/n	Hotel Size	Number of Rooms	Number of Hotels	Ratio of Hotels	Employment	
					Average	Maximum
1.	Very Small	1 – 20	3548	43%	1,4	10
2.	Small	21 – 50	3011	37%	4,8	25
3.	Medium-sized	51 – 100	1075	13%	15,0	60
4.	Large	101 -	610	7%	64,0	210
	Total		**8244**	**100**	**8,8**	**210**

Source: *Hellenic Chamber of Hotels, May 1999 and Sampling.*

An important feature of SMHBs is the employment of family members, in addition to the owner. 97.4% of SMHBs employed at least one member of the owner's family, while more than 50% of SMHBs employed three or more members of the same family (Table 2). 40% of hoteliers are also employed in other sectors and this conclusion does not differ significantly between young and older hoteliers. This indicates that hotel sector cannot offer sufficient income for a large number of hoteliers.

Table 2
Employment of Family Members in SMHBs

Number of Family Members	% of total	Cumulative ratio
0	2,6%	2,6%
1	16,5%	19,1%
2	30.1%	49,2%
3	22,4%	71,6%
4	17,8%	89,4%
5	6,4%	95,7%
> 5	4,3%	100%

Table 3 presents the significant quality differences between the hotel units, depending on their size. Very small hotels are privately owned, low category, with low level of services such as air conditioning, TV, bar and pool. The ratio of very small hotels that offers these services is less than 10%. On the contrary, most of large businesses are share companies (S.A.), belong to high categories and provide high level of services. 71% of large hotels have pool, 48% have air-conditioning, 41% have mini bars and 31% have televisions in the rooms. Between the features of these two types of hotels are the features of small and medium-sized hotels.

Table 3
Hotel features based on Size

Hotel Type / Feature	Very Small	Small	Medium-sized	Large
Company type				
Privately owned	74%	39%	16%	5%
S.A.	16%	44%	71%	88%
Hotel Category				
≤ C class	85%	74%	52%	13%
>C class	15%	26%	48%	87%
Air-conditioning	7%	14%	26%	48%
Television	9%	17%	29%	31%
Mini bar	9%	15%	27%	41%
Pool	6%	24%	42%	71%

Source: *Processing of Data of Hellenic Chamber of Hotels, May 1999.*

The average age of Greek hoteliers is 50 years, while 25% of them are under 40 years old. Significant differences are observed in the characteristics of the young (under 40 years old) and the older hoteliers. 98.5% of new hoteliers have completed at least high school, while 28% have specialized in tourism - hotel studies. All new hoteliers know at least one foreign language. All new hoteliers know at least one foreign language. The corresponding percentages for hoteliers over the age of forty are: 76% have completed at least high school, 84% know at least one foreign language and only 8% have tourism-related education.

Most of hoteliers built the hotel with their own funds (95%) and 50% of them used a privately owned plot of land that was originally intended for another use. A large percentage of hoteliers (79%) are satisfied with their profession, with a large difference between women (87%) and men (76%). 83% of hoteliers consider their hotel to be sustainable, with significant differences by hotel category. The cooperation between the hoteliers is limited, with the most important being the customer service and the common promotion.

Most of the construction costs of hotels in Greece were financed by the hoteliers themselves (73%). 20% was financed by loans and 7% by government grants. The amount of hotel debt of hoteliers is 320 billion drachmas, 34% by SMHBs and 66% by large hotels. However, there are significant differences, both between the size of the hotels and hotel category. The percentage of self-financing is higher for the smaller hotels in size and category. The participation of SMHBs in community and other funding programs is limited. Only 4% of SMHBs participated in such programs, while the corresponding percentage for large hotels is 44%.

There is a large variation in the room rates of hotel accommodation, both between the different hotel categories and between the different sizes, but there are no differences between the different sizes of the same category. The average room rate for SMHBs is 11 thousand, while for large hotels the corresponding price is 18 thousand drachmas.

Seasonality is a major problem for Greek SMHBs. Based on comparative data with other European destinations Greek tourism is in the most disadvantaged position. According to the results of the present study, 17% of SMHBs do not exceed four months of operation by year. The problem of seasonality concerns 70% of the SMHBs, while the rest are city hotels.

According to the results of the study, the arrivals in hotel accommodation in 1998 reached 15 million (60% foreigners and 40% residents), while overnight stays 81 million (75% foreigners and 25% residents). Significant variations are recorded in the number of arrivals and overnight stays by category and hotel size. For all SMHBs, the average number of clients was 1389 and they recorded, on average, 6384 annual overnight stays. On average, one very small hotel records 546 (2529) arrivals (overnight stays), a small 1631 (7368) and a medium-sized 3693 (17305).

Differences in demand also have a direct impact on revenue. The lowest revenues are recorded in the fourth or fifth class very small hotels (7 million drachmas on average in 1998), while a medium-sized hotel of the first category records, on average, revenues of 160 million drachmas. The average revenue of a SMHB is 34 million drachmas, 1,1 million by room and 5200 drachmas (by client) by overnight stay (Table 4). The most significant conclusion of the study is that there is no difference in revenue by room or overnight stay between the sizes of SMHBs.

There is, however, a big difference between SMHBs and large hotels, as the revenue by overnight stay of the SMHBs account for 65% of the corresponding revenues of large hotels.

The conclusions regarding hotel operating costs are similar to the above regarding revenue. In 1998, a hotel had an average operating cost equal to 61 million drachmas,

while the corresponding amount for a large hotel was 581 million and for a SMHB was 29 million. Significant variation was also recorded between SMHBs. A very small hotel belonging to the two last classes had an average operating cost equal to 5 million drachmas, while the corresponding first class hotel had an average operating cost equal to 29 million drachmas. For the total of very small hotels, the operating cost amounted, on average, to 10 million drachmas. The differences are similar for small and medium-sized hotels. Small hotels had an average operating cost of 31 million, while for medium-sized hotels the corresponding cost was 90 million drachmas. As in the case of revenue, there is no difference in expenses by room or by overnight stay, between the different sizes of SMHBs. There is, however, a remarkable difference between SMHBs and large hotels, where the costs by overnight stay of the SMHBs account for 65% of the corresponding costs for large hotels.

Table 4
Revenue by Overnight Stay in Hotel Accommodation, 1998
(thousand drachmas)

Hotel Size Hotel Category	Total	Large Hotels	SMHBs	Medium-sized	Small	Very small
Luxury	16,1	16,1	-	-	-	
A'	9,2	8,1	9,9	7,1	12,4	8,7
B'	7,5	7,0	7,6	5,9	6,1	12,4
C'	4,8	-	4,8	5,0	4,3	5,2
D'	3,2	-	3,2	3,1	3,0	3,3
E'	4,1	-	4,1	-	3,5	4,3
Total	5,4	8,4	5,2	5,5	4,8	5,4

The analysis of the revenue and expenses of the Greek hotel concludes that the category and size of the hotel have a significant impact on the total revenue and total operating costs of a hotel. More specifically, an increase in the number of rooms by 10% increases revenue and expenses by 12%. Respectively, a category increase (e.g. from C' class to B' class) cause an increase in revenue by 12% and in expenses by 15%.

Significant differences are recorded in the total profits of SMHBs. In 1998, very small hotels had, on average, profits of 2 million drachmas, small 4 million, medium-sized 11 million and large 53 million. Hotel category and size do not have an impact on profit by room or overnight stay. A very small hotel had profit equal to 197 thousand drachmas by room and 1700 drachmas by overnight stay, in 1998. The corresponding profits of small hotels were 125 thousand drachmas by room and 585 drachmas by overnight stay and of medium-sized hotels 188 thousand drachmas by room 748 drachmas by overnight stay. These profit indexes are, perhaps, the most important criterion for the viability of a hotel.

Turnover profitability forms hotel profits compared to total revenue. For the total of hotels, the profitability was around 11%, but there are significant differences between business legal forms. S.A. and Ltd. Businesses have negative profitability, while profitability of privately owned and GP Businesses reaches 20%. A remarkable fact is that in 1998 one out of four hotels recorded losses.

Loans are a big risk to the viability of many hotels. About 5% of the country's hotels have loan liabilities that exceed 50% of their hotel value and 2% of the country's hotels have loan liabilities of at least four times their annual revenue.

An important indicator of a hotel's financial performance is revenue by room. The econometric analysis of the factors that determine room performance presents a series of variables related to the hotelier (age), hotel (number of rooms, number of employees and plot dimensions), the structure of demand (total overnight stays, months of operation and country of origin of tourists), as well as the loan obligations of the hotel. The room performance is positively affected by the total number of overnight stays, the number of employees, the plot dimensions, the age of the hotelier, the months of operation and the number of Greek clients. On the contrary, the number of rooms has a negative impact on room performance and is an indication of low occupancy of hotels.

Related to the issue of hotel viability is the minimization of production costs. In the long run, the optimal size of a hotel is determined by minimizing production costs. The econometric analysis showed that there are three groups of hotels with distinct production technologies. The first group consists of fourth and fifth class hotels, with an average cost function that forms a Y letter. In this case, the minimum cost and the long-term balance of the business are succeeded at 7000 overnight stays by year. The second and third group consists of third class hotels and high class hotels respectively. The average cost of these groups is fixed, with different values. For the third class hotels, the average cost by overnight stay is around 3500 drachmas, while for the high class hotels it is around 6000 drachmas.

SMHBs have to to face and benefit from a new environment. In addition to globalization, there are four key features of this environment. The first is the establishment of the euro and the participation of Greece in the euro area since the beginning of 2001. The second feature of the new environment of Greek hotel companies is the hosting of the Olympic Games in Athens in 2004. The third and most important feature is the Third Community Support Framework for the years 2000-2006, an investment expenditure estimated to reach 15 trillion drachmas, the corresponding period. An expenditure of about 600 billion drachmas is intended directly for tourism. The fourth feature of the new environment is the development law. The enactment of the law in 1998 established a framework for supporting new and modernizing old hotel units.

Appropriate economic policy for SMHBs is necessary for the proper response to the new environment. The results of the study are a useful guide in order to form an economic policy framework to strengthen SMHBs. The main four axes of this policy are development policy and competitiveness of SMHBs, fiscal policy, financial policy for SMHBs and finally, education, training and employment in SMHBs. The study resulted in specific actions regarding the four axes as follows:

Development Policy to Promote Competitiveness

This policy mainly concerns the development law and general support for SMHBs. The proposal of the study is the support of SMHBs (mainly their modernization and the upgrading of the quality of the provided services) to become independent from the bureaucratic procedures of the development law. Third Community Support Framework provides such support and management structures in Greece, such as Hellenic Organization of Small and Medium-sized Enterprises and Handicrafts, are responsible for the implementation of this support.

The present study shed light to a severe problem, the lack of cooperation between SMHBs to address common problems. Development policy should strengthen the cooperation of SMHBs, especially regarding marketing issues.

According to the study, the percentage of the subsidy that would motivate SMHBs to proceed with the modernization of their hotels is around 40%. Particular emphasis should be given to the modernization of the hotels that will help to the extension of tourism season and the development of winter tourism and mainly to the third and second category city hotels.

Finally, it should be highlighted that the participation of the organized hotel industry in the various committees (both at national and local level) is considered necessary, for the formulation of an overall development policy concerning small and medium-sized hotel businesses.

Fiscal Policy

The present fiscal policy, especially the one that concerns the objective criteria, seriously affects the SMHBs and especially the privately owned businesses.

Many businesses are forced to operate for tax reasons, in the form of SA, which comes with significant costs for small hotel units.

Also, under the development law, tax reductions, whether for the creation of new beds or for modernization, should be an important part of policy support for small and medium-sized hotel businesses.

Financial Policy

Many hotels, due to the well-known issue of the interests due to late payment, cannot survive. For very small hotels, complete debt relief should be applied, but only in cases where it has been proven that this does not concern capital and legal interest, which should not include interest " penalty "due to late payment.

SMHBs face significant issues financing their operating needs from the banking system. The problem is large, because there are significant delays in the payment of amounts due to hoteliers, mainly by travel agencies and tour operators. The study has shown that payment of amounts due in some cases exceeds a year.

In addition, financial support for SMHBs is needed to cover the cost of the changeover to the euro. It has been estimated that converting all the activities of a small hotel business from drachmas to euro will require a cost that excesses 5% of revenue and which includes changes in advertising material, price list changes, software changes and staff training.

Securing Venture Capital for SMHBs is another measure that will help upgrade the sector. The idea that innovation is just what is happening in the industrial sector is outdated. The policy frame by the Ministry of National Economy regarding this type of funding should also include innovation financing in the hotel sector.

Education, training and Employment Policy

This issue has many dimensions. First, it concerns the hotelier himself, whose qualifications are not sufficient to provide quality services. In some cases, even the hotelier's education and training do not have a point, either due to advanced age or lack of basic knowledge. However, this is not one of the biggest problems that the hotel industry in Greece will face in the future, because the new generation of hoteliers is of a high educational level.

Secondly, the study depicted the big problem of lack of information about the offered education and training programs. The information should be provided directly by the organizer of such facilities to the hotel owner, by the local public bodies.

Thirdly, as the analysis of the data indicates, staff training programs are considered ineffective by hoteliers themselves, either because they are general or because the aid provided takes a lot of time in bureaucratic processes, resulting in the small hotelier dealing with on a daily basis with his hotel, not to have time to take advantage of these opportunities provided to him.

Fourthly, family employment seems to be a problem, especially in medium-sized hotels (51 to 100 rooms), where more specialized staff is required. The subsidy for the employment of non-family staff will have beneficial consequences, both in the hotel finances, but mainly in upgrading the quality of the offered services. Therefore, many employment support programs that exclude hotel businesses will have to be reviewed.

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