Country Snapshot – Italy

A Combination of 20 Regional Entities

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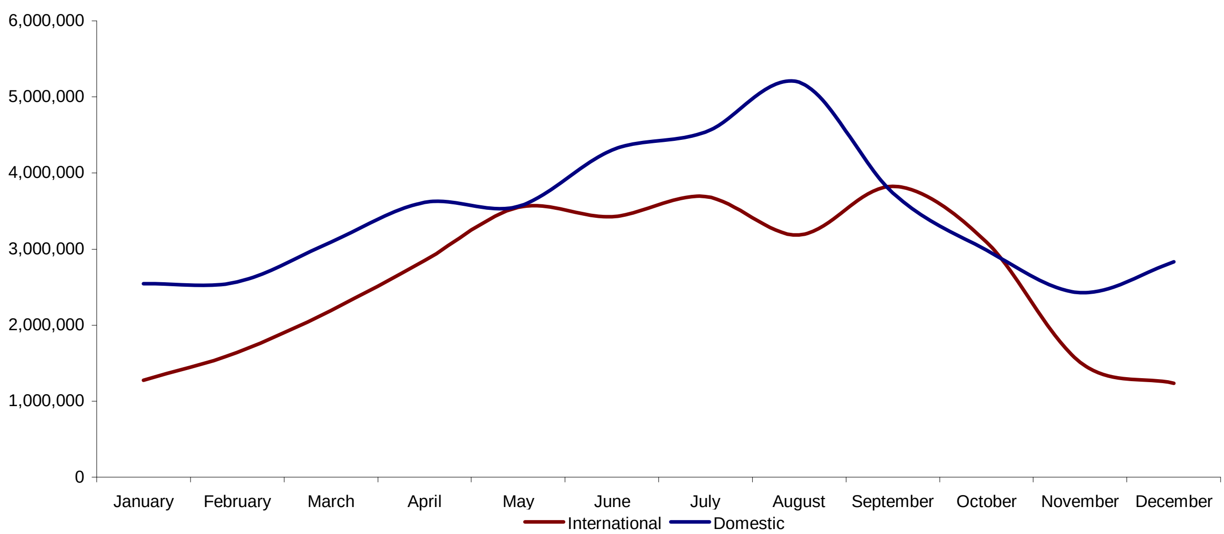
Andrea Macchiavelli, Professor of Tourism Economy at the University of Bergamo and Director of CeSTIT (Centre of Studies on Tourism and the Interpretation of the Territory), affirms that "Italian tourism is characterized by a widespread decisional system depending on multiple small-sized subjects, mainly family-run businesses. Each of these subjects, either public or private, decides autonomously on its strategy and does not have any power of enforcing a unitary program. Italian tourism can be compared to a firm which is composed by many departments but lacks a Board of Directors". Furthermore, he adds, a form of networking among the different tourist subjects would be beneficial to the overall market.

This overview on the Italian tourism industry will highlight how this very characteristic of the Italian market could become an opportunity for hotel development.

Visitation

Total arrivals at hotels in Italy are approximately 73 million on average for the period 2003 to 2007. International versus domestic demand indicates different patterns, with domestic arrivals at hotels showing a more seasonal trend, recording a peak in the month of August, as illustrated in Graph 1.

Graph 1 **International and Domestic Arrivals at Hotels by Month – Italy 2003–07 (average)**



Source: National Statistical Service of Italy

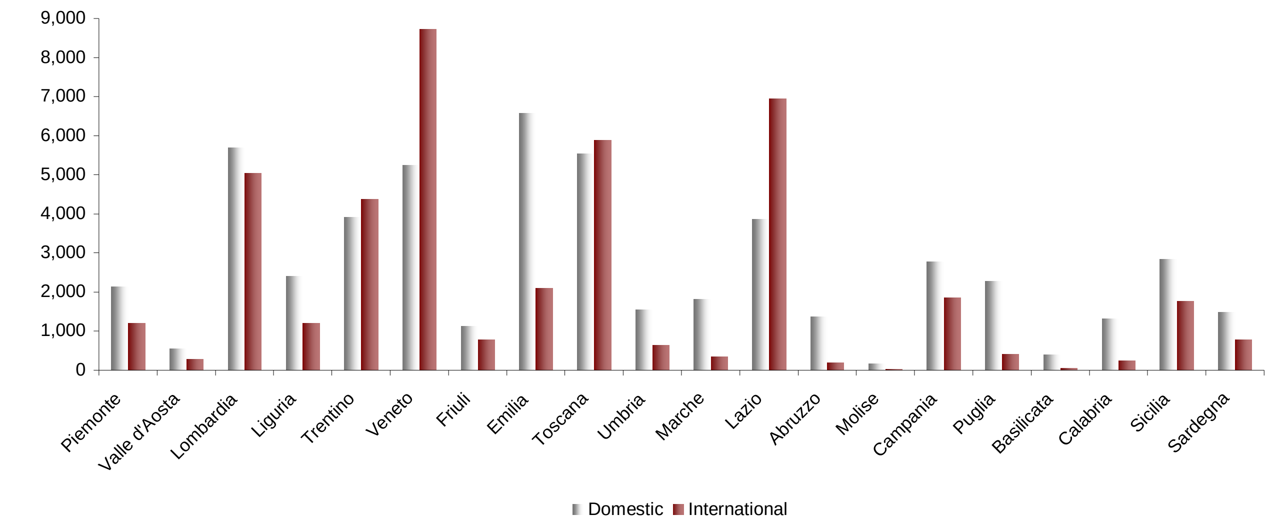
International arrivals at hotels show a stable flow from May until September, with numbers fluctuating between 3.2 million in August and 3.8 million in September. A sharp decrease of about one million hotel arrivals in October is followed by a further decrease in November, December, and January. International arrivals start increasing from February. Domestic demand exceeds international demand by 19% on average, except in May when the two are about even, and October when international demand outpaces the domestic. The lowest arrivals at hotels on average are registered in the month of January with a 3.8 million people.

Total international visitation to Italy in 2007 was approximately 71 million whereas international arrivals at hotels were about 34 million, or about 48% of total international visitation. Another 9 million of international arrivals at hotels, or about 12% of total international visitation, represented arrivals at different types of accommodation facilities such as youth hostels, rental houses, camp sites, agro-tourism units, country houses, bed-and-breakfast units, etc.

Total domestic arrivals at lodging facilities in 2007 were 53 million, with 42 million (about 79%) at hotels and 11 million (about 21%) at other types of accommodation facilities.

Demand for transient accommodation changes according to the region. Graph 2 shows international and domestic arrivals per region for 2007.

Graph 2 International and Domestic Arrivals at Lodging Facilities by Region – Italy 2007



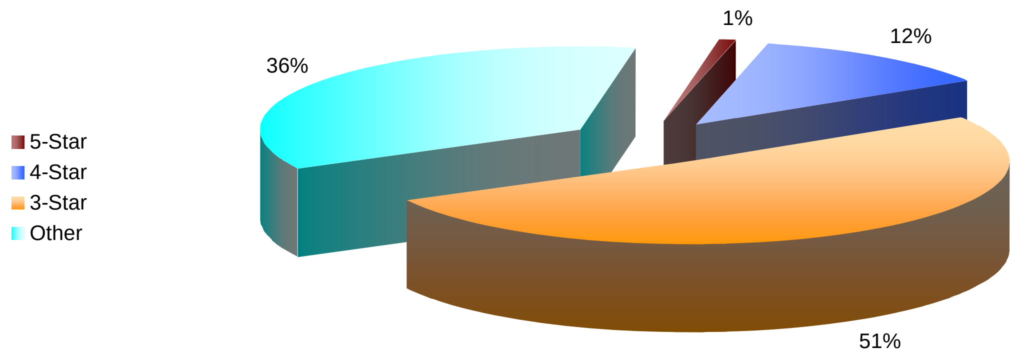
Source: National Statistical Service of Italy

The regions with the highest number of arrivals at any lodging facility are Veneto (14 million), Toscana (11 million), Lazio (11 million), and Lombardia (11 million). With the except of Lombardia, these are also the regions that show a higher share of international arrivals compared to domestic arrivals, probably due to the fact that these are the regions of Venice, Florence, and Rome, respectively. Arrivals in the poorer – and under many aspects still underdeveloped – southern regions of Basilicata, Abruzzo, Calabria, and Puglia primarily experience domestic arrivals (more than 90% of the total). This is due not so much to accessibility issues as to a lack of adequate supply and marketing.

Supply of Hotel Accommodation

Graph 3 illustrates the hotel supply by category in Italy for 2007.

Graph 3 Hotel Supply – Italy 2007

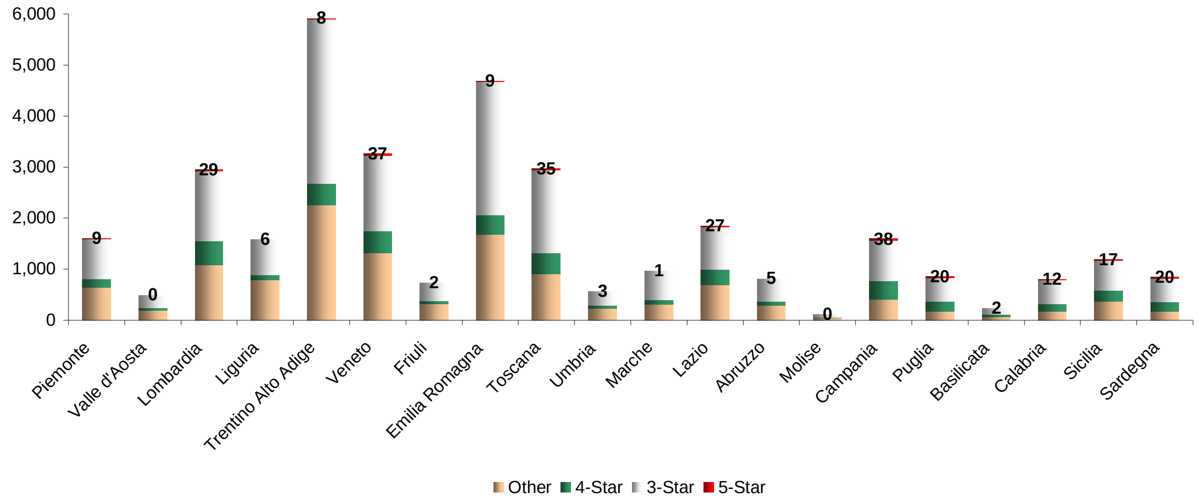


Source: National Statistical Service of Italy

About 1% of the total supply of 34,058 hotels represents five-star properties. More than half of the hotels are categorized as three-star, while four-star hotels account for 12% of total supply. Two- and one-star properties account for about 22% and 14%, respectively. The same breakdown can be observed amongst the 20 different Italian regions.

Graph 4 illustrates the hotel supply by region for 2007. Five-star properties are indicated by the total number for each region appearing at the top of each graph column.

Graph 4 **Hotel Supply – Italy 2007**



Source: National Statistical Service of Italy

Trentino Alto Adige and Emilia Romagna are the regions with the highest hotel number of five-star units. Trentino Alto Adige is also the region with the highest hotel density: 0.43 hotels per square kilometer or almost three times the Italian average of 0.11. Veneto, Toscana, Lombardia, and Lazio follow, showing an above-average hotel count as well as hotel density. Of great significance is the fact that the regions with the highest number of five-star properties are the ones that are the most internationally-recognized destinations, including the cities of Naples (Campania), Venice (Veneto), Florence (Toscana), Milan (Lombardia), and Rome (Lazio).

The Italian Tourism Industry

A global study conducted by FutureBrand[1] and Weber Shandwick[2] revealed that Italy ranks fourth in the 2008 Country Brand Index (CBI) after Australia, Canada, and the United States. The CBI examines how countries are branded and ranked according to key criteria such as art and culture, ideal place for business, infrastructure, ease of travel, etc.

Worth noticing is that Italy owes its score to the fact it has been ranked first in art and culture and fine dining, followed by history and desire to visit. The country ranked 9th in ease of travel and is not in the top ten for issues such as resort and lodging options, safety, ease of conducting business in, and political freedom. This is a symptom of how Italy

[1] A leading brand consultancy (NYSE: IPG).
[2] A leading global public relations agency.

maintains its international recognition and appreciation despite the fragmentation of its tourism policies.

The strength of the tourism industry in any area is based on more than just the cultural and the natural resources it offers. The degree to which these resources are accessible to and enjoyable by the tourist constitutes the area's competitive advantage. The slowdown in the growth of bednights and revenues and the decrease in the international appeal of Italy as a destination in the course of the last decade have been determined by:

- ***Lack of consistent tourism policy.*** Italian tourism development and marketing are fragmented into many different regional and local entities. This results in a blurred perception of the country (not only by the tourists but also by prospective developers and investors) that diminishes the competitiveness of Italy in the international marketplace.

- ***Fragmentation of existing hotel supply.*** Independent hotels represent 93% of the total supply. Family-run properties are prone to a misleading sense of competition which does not allow cooperation in view of a long-term improvement of the overall market. This is made worse by the lack of a nationally-structured action plan for tourism development.

- ***Higher Operating Costs.*** Fixed costs for hotels in Italy, especially labor costs, are high when compared to those of Spain, its main competitor[3]. Fixed costs for four-star hotels in Rome are around €1,000 per room, whereas for the same type of hotels in Barcelona fixed costs amount to approximately €800 per room.

- ***Lack of quality hotel supply.*** Demand from Brazil, India, Russia, and the United Arab Emirates is increasing. These tourists show a strong interest not only for the Italian art and culture, but also for products made in Italy, from fashion and design to fine dining and life style. Nonetheless, they lament the substantial deficiency of hotels relating to the quality of the facilities as well as for the services provided.

[3] A study conducted on foreign tourist's on-line booking behaviour by Roberto Brenner (Industry Leader Travel for Google Italy) concluded that Italy is one of the most on-line searched countries but that the final choice goes to Spain 41% of the times.

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Recent Performance

Italian tourism in 2008 witnessed deterioration due to the global crisis, the strong Euro, the problems with Alitalia, and the garbage issues in Naples. The government must intervene with measures to minimize a further deterioration in 2009. Data released by Confturismo[4] for the months of January and February 2009 is not encouraging, indicating a decrease in accommodated bednights of 7% and 10%, respectively, compared to 2008. Confturismo, together with CISET[5], and the University Cà Foscari of Venice presented last December a proposal for a fiscal adjustment to release the pressure on hotels which has already been submitted to the Italian Prime Minister.

Table 5 shows the hotel performance variances for Italy and for six selected markets for the first ten months of 2008 as compared to 2007.

Table 5 Year-to-October Results for Selected Italian Markets (2008 vs. 2007)

Location	Occupancy	ADR	RevPAR	RevPAR (€ 2008)
Italy	**-6%**	**-2%**	**-8%**	**92**
Florence	-10%	-6%	-15%	105
Rome	-9%	-2%	-10%	107
Venice	-6%	-10%	-16%	144
Bologna	-5%	-2%	-6%	52
Milan	-3%	2%	-2%	114
Torino	10%	10%	18%	57

Source: STR Global

Italian hoteliers experienced declines in revenue per available room (RevPAR) that started in May 2008. When compared with the same period of 2007 the results show a 6% decline in occupancy to 61% and a 2% drop in the average daily rate (ADR) to €150.

Torino represents a countertrend not only because of its increased marketing activities and cultural and MICE events but also, and mainly, because of the effort made by the region of Piedmont to enable the development of uniform tourism policies and structured marketing strategies.

Uniform policies have been pursued with laws on tourism passed by the Piedmont region that transformed the old policy of scattered incentives

[4] Confturismo, established in 2000, is the largest Italian organisation representing the tourism industry. It comprises several industry federations including Federalberghi (Hotels Federation).

[5] The International Centre of Studies on the Tourist Economy (CISET) is a non-profit research organisation established in 1991 by the University Cà Foscari of Venice, the Italian Touring Club, and the Veneto regional government.

into integrated actions capable of encouraging investments and stimulating competition and innovation. The process was triggered by the event of *Torino 2006 Winter Olympics* which was seen as an opportunity to improve the region's tourism system and has become the catalyst for the spur in development.

The success of these development policies can be measured in figures. In the first three years of implementation, from 2000 to 2003, investments for tourism in Piedmont had reached the unprecedented figure of approximately €1.8 billion (for an average growth rate of 448.6%, the biggest growth ever recorded in Italy in this sector). The region had financed €500 million involving 1,216 hospitality projects (including hotels) over these three years.

Another measure of the success of the policies implemented by the Piedmont region is the presence of international and Italian hotel chains such as InterContinental Hotel Group, Choice Hotels, Starwood Hotels and Resorts, Best Western, Accor Hotels, AC, NH Hotels, Envergure, Golden Tulip Worldwide, the luxury chain Turin Hotels International, Spacehotels, and Starhotel.

Regarding marketing strategies, Piedmont's Regional Tourist Board (ATR) was able to promote its tourism offer on foreign markets as an organized and recognizable product. A measure of success is the compound annual growth rate of 4.5% for total arrivals at hotels reached by Piedmont between 2003 and 2007. This result, well over the Italian average of 3.76% over the same period, was attained notwithstanding the injection in the market of new hotel supply for the winter Olympic Games of 2006. For this event, 171 brand new hotels were opened and, in addition, 76 were either new or completely renovated four- and five-star properties.

Conclusion

What Italy needs is a well-structured, usable, and competitive tourism product. The region of Piedmont is an example of what structured policies on regulation and financial support and on marketing could do if undertaken for the entire country. Doing business in Italy has to take into consideration the regional differences which are what Italy is made of. An investor could easily take advantage of the weaknesses (policies and marketing fragmentation, higher operating costs, and proliferation of small disorganized independent hotels) of the Italian hospitality industry by transforming them into business opportunities.

The fragmentation that characterizes the country might engender in the foreign investor a psychological deterrent towards conducting business in Italy but, as the case of Piedmont proves, regions have great decisional power on tourism matters, discretionary power on funding and subsidies, as well as on tourism promotion. Regions are also much more flexible and fast than the central bureaucratic system in carrying out due diligence activities relating to development projects.

Organized businesses, such as big hotel chains, would be able to take advantage of economies of scale to reduce costs that are not available to the fragmented supply market that characterizes Italy. Hotels affiliated with international brands would be able to easily establish themselves and gain market share and recognition thanks to the structured nature that characterizes them.

In line with the ancient Romans strategy summarized by the catchphrase “divide et impera” (Latin for “divide and rule”) which served them well to build their empire, the hotel chains could take advantage of the lack of structured competition.

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About the Author

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