A HOTEL INSIDE A THEME PARK? A NICE IDEA...

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...but not always a good idea.

The natural tendency by theme parks management companies is to try to aggregate as much leisure offering around their parks as possible: surfing swimming pools, water slides, branded restaurants, and, of course, hotels.

One would think that the principle of creating critical mass and generate visitor traffic could justify almost any investment. In truth, looking at the big picture, the ROI calculation is not easy to desegregate within the different components of a park. Indeed, we can always refer to successful examples of a theme park within our competitive set (in the theme park world, “competitive set” means “in the same country or continent”) that prove us right. These examples feature themed branded hotels inside a park that seem to be contributing positively to the overall profitability of the project.

Unfortunately, the reality is not so straight forward. It is very clear that in order to increase the average stay per visitor in a theme park, the location needs to be offering an adequate hotel supply nearby or within a close radius. However the key factors to be analyzed by the owners/managers of a theme park when they are evaluating the possibility of developing their own hotels to ’support’ their core business, should really be the following:

1. What is the business mix of these hotels in the area, besides the revenue that our own park is providing them?

2. Are these hotels playing in the same purchasing power segment that our park wishes to target for its visitors?

3. Most important of all, and usually completely overlooked in the analysis, does the peak season of the park overlap with the peak season of the surrounding hotels, or do their respective seasons complement each other?

Let’s assume the relationship between the hotels in the area and the park is mostly balanced and they both need each other for business purposes.

Let’s suppose also that the ADRs of the hotels surrounding the park are aligned with the demographics of the visitor we are trying to attract to the theme park (a big assumption to make since parks are often in peripheral locations where the hotel profile is mostly limited service or budget hotels).

Then the remaining key factor to analyze is if the peak season of the park is going to complement the low season of the hotels that surround the park, or on the contrary, if the peak season of the park and the peak season of the surrounding hotels are exactly the same.

This last point is essentially the ultimate decisive factor to go ahead or not in developing a branded hotel inside a theme park. There is no point whatsoever for the theme park to get in the hotel business and developing its own hotel(s) if the seasonality of the surrounding hotels is the opposite to the seasonality of the park (the summer in the periphery of large urban locations is usually low season for limited service hotels and high season for the theme parks).

On the contrary, if the park and the surrounding hotels have exactly the same seasonality (the example would be a theme park that is in a peripheral urban area but near the sea), then the only way for the theme park to source hotel capacity for its visitors at reasonable prices (an retain the hotel margin) is to develop its own hotels, and not just one, but several hotels.

As obvious as this analysis may seem, it is very often overlooked when running feasibility studies for hotels in theme parks.

And no, it is not possible to increase by 400% the ADR of hotel just by placing it inside a theme park and by adding a consumer brand into the mix. A 10% or 15% ADR increase, maybe 20%, is more like it.