Marco-Lajara et al., J Tourism Hospit 2016, 5:1
DOI: 10.4172/2167-0269.1000201

Journal of Tourism & Hospitality
ISSN: 2167-0269

Research Article | Open Access

Do Hotels Benefit from Agglomeration?

Marco-Lajara B*, Claver-Cortes E, Ubeda-Garcia M and Zaragoza-Saez PC

Department of Business Organization, University of Alicante, Carretera de San Vicente Del Raspeig, Carretera de San Vicente del Raspeig, S/N, 03690, Alicante, Spain

Abstract

The present article reviews some of the most important works published about the generation of economies of agglomeration in the tourism sector. It has traditionally been argued that hotels and other firms in this sector are geographically concentrated around the resources demanded by tourists (demand-side perspective); however, a number of studies show that supply-side externalities also exist in the tourism sector. The article also refers to the tourist district theory–which is still in its early stages of evolution. The work finishes with a summary of the main conclusions drawn from the study and a suggestion of possible lines of research for the future.

Keywords: Agglomeration economies; Location economies; Tourist districts

Introduction

Most hotels tend to concentrate in specific geographical areas. The main reason behind this trend has traditionally been found in the so-called economies of geography [1], which explain why hotels are located together along the beach or close to a theme park, a highway, the airport or in the center of a city close to its landmarks or historic or monuments. In fact, this reason has to do with the demand perspective, insofar as hotels tend to be situated where visitors come in search of tourist resources (e.g. sun, sea and sand; complementary tourist services; museums…).

Nevertheless, the geographical concentration of hotels around the resources demanded by tourists is likely to generate agglomeration economies that will benefit establishments in the form of cost reduction and/or increased income. From this point of view, the question that arises is whether the managers' decision about the location of their hotel establishment must be exclusively based on the availability of resources demanded by tourists (demand perspective), or whether it is also important to consider the existence of large agglomerations of tourism companies that can bring benefits in the form of externalities generated at the destination (supply perspective).

Researchers have traditionally thought that these supply-side agglomeration externalities are mainly generated through the concentration of industrial firms and not through the concentration of service businesses such as tourism firms and hotels. However, several studies published in recent years have shown that the aforementioned externalities can also be generated by hotel companies, and this is precisely what our paper will trying to prove.

For this purpose, the work is structured as follows. After briefly reviewing the different types of agglomeration economies and their potential benefits for the concentrated firms–regardless of whether they are industrial or tourism and hotel firms–the foundations of the tourist district theory are established on the assumption that hotel agglomerations in holiday areas usually become tourist districts. The following section offers the results achieved by several studies that analyze economies of agglomeration in tourist districts, which provide clear evidence that the supply-side economies of agglomeration also take place in the tourism sector. The subsequent final section summarizes the main conclusions reached and suggests possible lines of research for the future.

Agglomeration Economies in the Hospitality Industry

Marshall [2] was the first to see the impact of external geographic economies on company decisions and profitability. He analyzed the reasons why similar firms might group together in Principles of Economics (1890/1920). Taking this work as their reference, numerous researchers from the fields of economics and management have investigated the origins and implications of business geographic clustering.

As a matter of fact, Marshall only studied one kind of agglomeration, and business concentration can adopt a wide variety of forms. As a general rule, the benefits or externalities derived from firm concentration are known as agglomeration economies. When the agglomeration takes place between firms belonging the same industrial sector, the benefits come to be termed as 'location economies' or 'Marshall's economies'–since the latter were firstly studied by this author. Instead, when the spatial agglomeration involves a wide range of different firms, the term used is 'urbanization economies,' or externalities that result from the concentration of economic activity. The conclusion reached is that diversified cities or regions stand a better chance of generating new innovations than less diversified ones because diversity encourages new ideas across industries. Jacobs [3] is the best known proponent of such externalities; hence why they are often referred to as 'Jacob's externalities.'

Glaeser et al. [4] as well as Henderson, Kuncoro, and Turner [5] draw a distinction between static and dynamic externalities. The latter have to do with knowledge spillovers between firms and help to explain firm location and the growth or development of agglomerated firms over time. As for the former, which make it easier to explain firm location but not growth over time, they are rather associated with proximity to suppliers, greater demand generated in a certain geographical area and the potential for agglomerated firms to share certain inputs such as specialized labor. Both static and dynamic externalities can refer to location externalities when they are generated between firms in the same sector, or to urbanization externalities when agglomerated firms are in different industrial sectors.

***Corresponding author:** Marco-Lajara B, Department of Business Organization, University of Alicante, Carretera de San Vicente del Raspeig, S/N, 03690, Alicante, Spain, Tel: +34 965 90 34 00; E-mail: bartolome.marco@ua.es

Received January 07, 2016; **Accepted** February 25, 2016; **Published** February 29, 2016

Citation: Marco-Lajara B, Claver-Cortes E, Ubeda-Garcia M, Zaragoza-Saez PC (2016) Do Hotels Benefit from Agglomeration? J Tourism Hospit 5: 201. doi:10.4172/2167-0269.1000201

Copyright: © 2016 Marco-Lajara B, et al. This is an open-access article distributed under the terms of the Creative Commons Attribution License, which permits unrestricted use, distribution, and reproduction in any medium, provided the original author and source are credited.

What happens in the hotel sector? Hotels tend to be concentrated in large cities but also at holiday destinations. In countries such as Spain, where holiday tourism is highly developed, most hotels are precisely located at holiday tourist destinations, usually in coastal municipalities where tourism has become the main economic activity. Therefore, the possible agglomeration economies generated in these circumstances will rather be location economies, since these are destinations characterized by the concentration of firms belonging to the tourism sector.

In any case, as shown above, the question that needs to be answered is whether hotels are concentrated in the coastal municipalities because this allows them to benefit from the externalities generated through the agglomeration of tourism businesses, or rather, they merely seek to settle at destinations where the resources demanded by tourists–the beach in this case–are available.

According to McCann and Folta [6], hotels gather along beaches due to the geographical characteristics of the area in question but not because of any potential agglomeration externalities generated by the presence of other companies. In turn, Canina et al. [7] go a bit further and add that, if any positive externalities do arise, they tend to be associated with demand enhancements–highly visible in the hotel industry–rather than with production enhancements, which are more typical of technologically sophisticated manufacturing industries such as the automobile sector or the computer manufacturing industry.

In this regard, it must be remembered that Marshall [2] describes two types of gains related to the externalities generated by the agglomeration of companies, namely: production enhancements; and heightened demand. Agglomeration causes heightened demand in industries where consumers need to personally inspect goods, insofar as sellers can reduce consumers' search costs through spatial concentration. Demand externalities acquire more relevance in customer service businesses which sell products or services consumed at the business location, hotels and restaurants being illustrative examples. In this case, firms are located close to one another for the consumer's convenience. The key consideration is that geographic clustering helps consumers by reducing their search costs [8,9]. According to Fisher and Harrington [10] firms show a clear tendency for clustering when a great amount of consumer search is required as a consequence of product heterogeneity within sectors. This happens in the hotel industry, where the service offered by the establishments turns out to be highly heterogeneous even amongst hotels of the same category, the reason for this lying in the fact that they differ in features such as: location close to historic monuments and city centers, room capacity, customer care, service quality, and the delivery of special services–e.g. car park, restaurant, safety service, wireless internet connection, gym and spa facilities, business center, etc. Therefore, consumers are forced to spend a large amount of time and effort in finding the hotel with the features that they want and need. Clustering enables hotels to make consumer search less costly.

Nevertheless, it is also possible the generation of production enhancements or supply-side benefits. In this respect, agglomerated companies have three advantages: (1) exploiting the common resources and infrastructures developed in the geographical area around them and having a better access to local suppliers and distributors; (2) the creation of a large labor market with specialized as well as efficient workers; and (3) knowledge spillovers resulting from the proximity to other companies belonging to the same sector. Several studies focused on the tourism sector have shown that these externalities also arise, finding a positive correlation between firm agglomeration and hotel profitability [7,11]. Moreover, other studies suggest that hotels tend to be located where other hotels already exist because it allows them to improve both their efficiency and their chances of survival [12-15].

It can therefore be said that hotel location possibly results from a combination of both factors, i.e., geographical economies and supply-side economies. The latter usually derive from the concentration of businesses in very specific geographical areas termed as 'industrial districts' in the literature. Considering that hotels agglomerated at holiday destinations usually end up becoming tourist districts, the generation of such supply-side externalities seems possible. Below can be found the conditions needed for us to be able to speak of tourist districts.

Tourist Districts

Pearce [16] wrote one of the first studies where the concept of tourist district was mentioned. However, his paper adopted a demand-oriented approach to the concept of tourist district, i.e., as a destination or place which can attract large numbers of tourists by its resources.

Nevertheless, the concept of tourist district can also be applied from a supply-oriented point of view. It is there that the tourist district theory emerge's theory which has its roots in the industrial district theory initiated by Marshall and later rescued by Becattini. The main idea underlying this approach is that the small and medium enterprises (SMEs) located in an industrial district outperforms those which are not located therein due to the appearance of agglomeration economies linked to geographical concentration (the so-called 'district effect').

Becattini [17] defines an industrial district as "a socio-territorial entity characterized by the active presence of both a community of people and a group of companies in a naturally and historically delimited area". Sengenberger and Pyke [18] additionally point out that the most important components of a district are the following: (1) the presence of highly dynamic SMEs belonging to the same industrial sector that are geographically concentrated and have strong cooperation and competition links with one another, as well as high productive flexibility levels and relatively abundant specialized labor; and (2) interpersonal relationships, social cohesion and interaction amongst companies, all of which favors an acceptable industrial climate, offering the trust and cooperation needed to ensure efficiency in the productive system. According to the above ideas, three requirements are necessary for the existence of an industrial district in a given territory: a high geographical concentration of companies in the same industry; that the firms are small and medium enterprises (SMEs); and, finally, that a community of companies and individuals exists.

The most obvious conclusion drawn from this theory is that SMEs tend to settle close to other companies of the same industrial sector seeking both to provide benefits in the form of externalities and to obtain better results.

This theory has only been applied to the tourism industry since recent times and, therefore, it is considered that research on tourist districts still finds itself at an early stage. It becomes clear that a destination can only be described as a tourist district from the supply point of view when tourism firms constitute the main source of economic activity in the destination and its resident population forms an integral part of that activity. This leads to the generation of externalities in the area which benefit tourism firms.

It is of paramount importance to select the base territory in such a way that the local productive system represents a community of companies and individuals. Some studies use administrative provinces,

but some of these may be too large for the notion of 'community'; others prefer town councils, but this criterion also turns out to be unsuitable at times, since some districts spread over different municipalities; finally, some authors use local labor systems (LLSs) defined on the basis of residence-work mobility data, which, in turn, are obtained from population census statistics. An LLS reflects the area where people live and work, thus proving the rule according to which the industrial district settles in a territorial unit where the condition of overlapping between population and firms is verified.

The latter approach, known as ISTAT methodology, has been amply developed by the Instituto Nazionale di Statistica in Italy [19,20]. Its implementation takes place through a two-stage procedure: the first one serves to identify the LLSs which constitute the territorial base for industrial districts–for which the residence-work mobility data obtained from census statistics are used; during the second stage, a calculation is made of several indicators for the purpose of determining the degree of economic concentration/specialization in the LLS (e.g. the Gini index, the Maurel-Sedillot index or the Herfindahl index), additionally checking if production is mostly organized around small- or large-sized firms.

This same methodology has already been applied to the tourism sector by various authors, amongst who stand out Lazzereti and Capone [21] in Italy and Marco-Lajara et al. [22] in Spain. As already highlighted above, the main idea is to check the extent to which belonging to a tourist district constitutes a determining factor for a hotel's performance. This is very hard to prove because the vast majority of vacation hotels in a country choose to be located in tourist districts. The main reason for this trend lies in the fact that these destinations own many resources demanded by consumers and have become relevant tourist centers with a high concentration of companies associated with the industry. Consequently, the possibility does remain for research on whether the agglomeration of tourism companies at a destination affects their profitability.

Degree of Aglomeration in Tourist Districts and Hotel Performance

The work of Marco-Lajara et al. [22] appears as one of the first studies to analyze the degree of tourist district agglomeration and its impact on hotel profitability. As explained before, this paper follows the ISTAT methodology, identifying the local labor systems (LLSs) existing along the Spanish coastline and verifying which of them can be defined as tourist districts for having a concentration of tourism firms. In fact, LLSs were already identified in Spain by Boix and Galletto [23], which is why the work merely consists in finding the specific LLS to which each one of the 231 municipalities existing along the Mediterranean coastline–according to the Spanish Ministry of Agriculture and Environment–belongs. This leads them to identify 113 tourist LLSs. A subsequent second stage serves to estimate the degree of tourist agglomeration and specialization reached in each one of those 113 LLSs, considering that a tourist district exists when employment in small and medium-sized tourism enterprises exceeds the Spanish average, for which the result of the equation (tourism employment LLS/total employment LLS)/(tourism employment Spain/total employment Spain) must be greater than 1.

It follows from the results obtained that practically all LLSs constitute a tourist district, which could be expected because the study revolves around Spanish coastal municipalities characterized by having a higher hotel concentration. This means that the data available do not suffice to verify if the hotels located in a tourist district are more profitable that those located elsewhere; hence why the authors analyze the extent to which tourist district agglomeration levels affect hotel profitability, using a sample of 2003 resort hotels to that end.

According to the initial hypothesis, agglomeration causes positive and negative externalities. In the case of tourism firms, positive externalities can affect both revenues and costs. On the income side, tourists travel to destinations which are relatively attractive because they offer a large complementary supply [24], but tourists are unlikely to travel to a destination with a low concentration of firms and services. The exchange of knowledge among firms based in the area could additionally help hotels to improve their management and to reduce their costs. These positive externalities do not arise with low degrees of agglomeration because knowledge exchange between two rival firms which are the only competitors at a destination seems quite unlikely; such an exchange would be more likely to occur when more firms operate in the area [25]. In this same respect, the greater the concentration of firms, the higher the number of knowledge-intensive business services (KIBS) such as consultants, advisors or research centers that can meet the needs of local firms and increase knowledge-sharing [26].

However, some forces may counteract these spatial economies. These costs associated with clustering come from higher competition due to homogeneous products and/or local product consumption, competition for scarce input resources, or due to some kinds of knowledge spillover (stronger firms do not benefit when their knowledge spills over to weaker firms).

The negative externalities arise from certain characteristics of service industries such as their inseparability and perishable nature [27]. In effect, the hotel industry, like any other service, provides a service that people have to consume in the place where the firm produces its products. The firm providing the service (the hotel) not only has to convince the customer to buy its product but also persuade the latter to visit its establishment and pay the ensuing travel costs. Moreover, due to the perishable character of the hotel industry, if a hotel room is empty for one night, the chance to sell that night no longer exists. All of the above makes competition more difficult for service companies than for industrial ones and, therefore, any concentration of companies, however small it might be, will generate negative externalities in the form of aggressive price wars and lower income levels [28,29]. This happens because hotels based in the same destination strongly compete with one another to fill their own establishments, usually through price reductions [30]. Negative externalities can also impact on the cost side, more precisely in terms of competitor surveillance [31]. Higher density amongst similar firms can also lead to higher competition for factor inputs; if more and more firms chase the same workers, land, and other inputs, their prices will rise as a result [6].

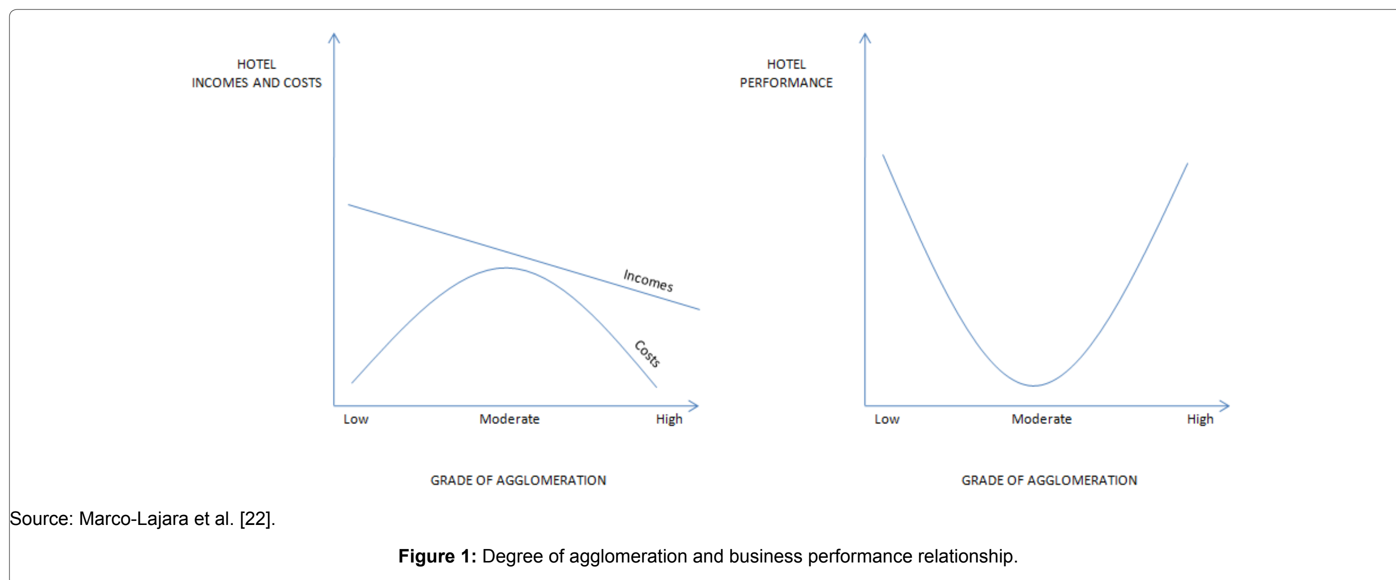
It thus becomes obvious that agglomeration can generate both positive and negative externalities and, a priori, the resulting net effect on business performance consequently remains unclear. If these externalities are fundamentally positive, profits grow along with agglomeration, but if negative externalities have a stronger presence, then profits will decrease. However, if the relative significance of positive and negative externalities varies with the level of company agglomeration, the relationship between profits and agglomeration will not be linear but curved.

Most interestingly, though, this study presents separate conclusions for income and costs. The results suggest that income always decreases

regardless of the agglomeration level, whereas costs grow for low degrees of agglomeration but noticeably decrease when agglomeration is high. From this point of view, income always keeps a decreasing linear relationship with the degree of agglomeration, whereas the relationship between costs and agglomeration has an inverted U-shape. Furthermore, when the degree of agglomeration is high, the reduction in costs exceeds that achieved in income, as a result of which the net results of firms (i.e., profits) ultimately grow. This behavior explains the existence of a U-shaped relationship between agglomeration and profitability (Figure 1).

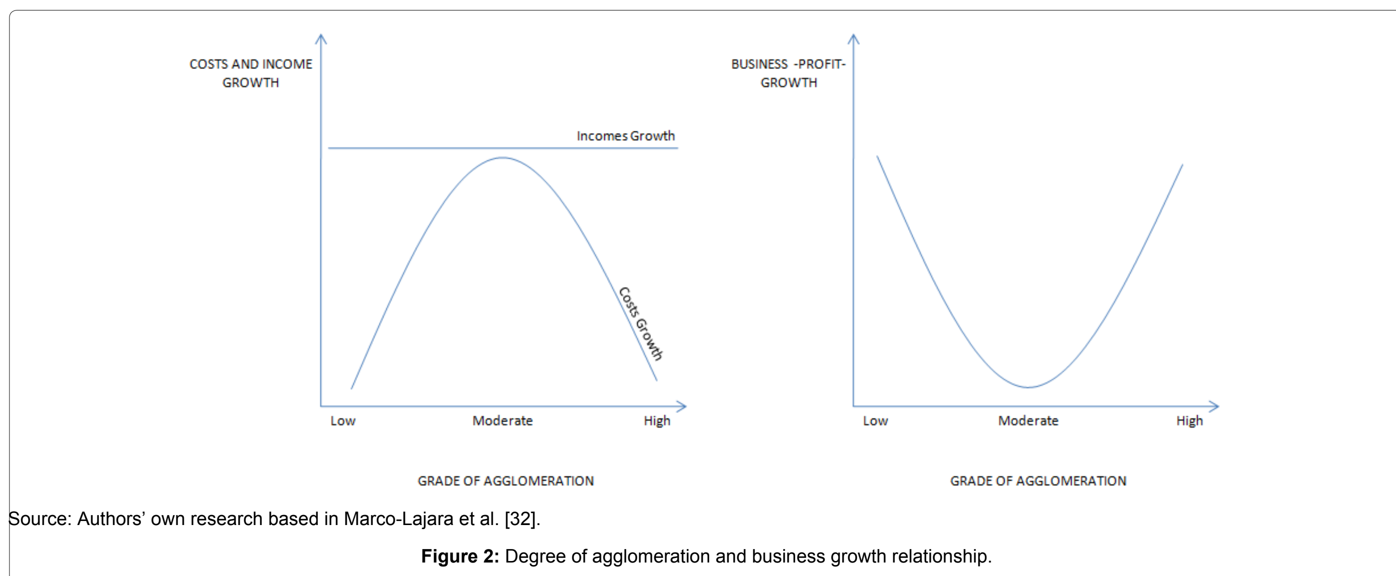
In a new work Marco-Lajara et al. [32] use a dynamic approach to analyze the relationship between agglomeration and hotel performance. In other words, the purpose of this study consists in checking if the relationship between the two variables remains constant over time or can vary with the passage of years. For instance, although the positive effects of agglomeration may be greater than the negative ones and firms will be more profitable with a specific level of agglomeration at a given point in time, the negative effects can grow and profits may fall as years go by.

The focus of interest is now placed on the relationship between agglomeration and business growth, although other time the study obtains conclusions for costs growth and income growth separately. In this case, the findings suggest that the growth of hotel costs follows an inverted U-shaped relationship with the degree of tourism firm agglomeration, while the growth of income does not correlate with the degree of agglomeration. This conclusion means that the relationship between agglomeration and business profit is U-shaped, and also that hotels located at tourist destinations where the degree of agglomeration is very high turn out to be increasingly competitive, because their costs decrease over the years and their income does not grow (Figure 2). Expressed differently, the externalities derived from business concentration do not only occur at a certain point in time, they actually increase with the passage of years. The results obtained in the present study consequently reinforce the hypothesis of a U-shaped relationship between agglomeration and performance verified with the previous work from a static point of view.



Source: Marco-Lajara et al. [22].

Figure 1: Degree of agglomeration and business performance relationship.



Source: Authors' own research based in Marco-Lajara et al. [32].

Figure 2: Degree of agglomeration and business growth relationship.

Conclusions

This article offers a brief review of the literature dedicated to economies of agglomeration in the tourism sector. Unlike the traditional vision, which defends that tourism businesses, including hotels, are concentrated geographically around the resources demanded by tourists (demand-side perspective), more recent works show that firms of this sector equally take advantage of positive externalities generated with the same concentration of businesses, thus improving their profitability (supply-side perspective). The impact caused by agglomeration on hotel profitability is obviously not as high as in the industrial or technological sectors but, in any case, agglomeration undoubtedly affects hotel profitability levels to a greater or lesser extent.

These externalities are mainly generated in tourist districts where service firms predominate, externalities linked to cost reduction being most relevant for business profitability. In other words, the exchange of knowledge between firms belonging to the same sector as well as the acquisition of knowledge from technical and academic institutions located in the area mainly help firms to reduce their costs rather than to increase their income. Therefore, costs become the determining factor for the achievement of better hotel profitability levels when the degree of agglomeration is very high.

A theoretical implication derived from the aspects mentioned above is the origin of the tourist district theory, which has its roots in the industrial district theory. The most important conclusion is that positive externalities do not only come from the concentration of industrial companies but also from the concentration of service companies, where the tourism sector belongs [33]. Moreover, a number of practical implications around hotel decisions when it comes to choosing their location [34] are derived too, insofar as the advantages brought by being located in a tourist district with a high degree of agglomeration also seem unquestionable.

The truth is that the theory of tourist districts still needs to be further developed, with numerous topics still remaining to be investigated. By way of example, it is still unclear whether agglomeration is always equally beneficial for hotels in different market segments such as 'sun, sea and sand', 'adventure' or 'urban tourism'. More in-depth research must be carried out with regard to agglomeration and strategy: competitive strategies probably vary depending on the degree of agglomeration that each tourist district has. Other topics/aspects, such as the influence of agglomeration on corporate strategy (internationalization) have already been analyzed in some recent research works [35].

References

1. Ellinger R (1977) Industrial location behavior and spatial evolution. Journal of Industrial Economics 25: 295-312.
2. Marshall A (1920) Principles of Economics. MacMillan, London.
3. Jacobs J (1969) The economy of cities. Random House, New York.
4. Glaeser EL, Kallal HD, Scheinkman JA, Shleifer A (1992) Growth in cities. Journal of Political Economy 100: 1126-1152.
5. Henderson V, Kuncoro A, Turner M (1995) Industrial development in cities. Journal of Political Economy 103: 1067-1090.
6. McCann BT, Folta TB (2008) Location matters: Where we have been and where we might go in agglomeration research? Journal of Management 34: 532-565.
7. Canina L, Enz CA, Harrison JS (2005) Agglomeration effects and strategic orientations: evidence from the US lodging industry. Academy of Management Journal 48: 565-581.
8. Stahl K (1982) Differentiated products, consumer search and locational oligopoly. Journal of Industrial Economics, 31: 97-113.
9. Stuart C (1979) Search and the spatial organization of trading. In: Lippman SA, McCall JJ (eds.) Studies in the Economics of Search. North Holland, Amsterdam, The Netherlands.
10. Fischer JH, Harrington JE (1996) Product variety and firm agglomeration. Rand Journal of Economics 27: 281-309.
11. Chung W, Kalnins A (2001) Agglomeration effects and performance: A test of the Texas lodging industry. Strategic Management Journal 22: 969-988.
12. Kalnins A, Chung W (2004) Resource-seeking agglomeration: A study of market entry in the lodging industry. Strategic Management Journal 25: 689-699.
13. Kalnins A, Chung W (2006) Social capital, geography, and survival: Gujarati immigrant entrepreneurs in the US Lodging Industry. Management Science 52: 233-247.
14. Barros CP (2005) Evaluating the efficiency of a small hotel chain with a Malmquist productivity index. International Journal of Tourism Research 7: 173-184.
15. Yang Y, Wong KKF, Wang T (2012) How do hotels choose their location? Evidence from hotels in Beijing. International Journal of Hospitality Management 31: 675-685.
16. Pearce DG (1998) Tourist districts in Paris: structure and functions. Tourism Management 19: 49-65.
17. Becattini G (1990) The Marshallian industrial district as a socio-economic notion. In: Pyke F, Becattini G, Sengenberger W, Loweman G, Piore MJ (eds.) Industrial districts and inter-firm co-operation in Italy. ILO, Geneva.
18. Sengenberger W, Pyke F (1991) Small Firm Industrial Districts and Local Economic Regeneration: Research and Policy Issues. Labour and Society 16: 1-25.
19. ISTAT (1996) The situation of the country in 1995. Printing Office and Mint, Rome.
20. ISTAT (1997) The local system of work 1991. Printing Office and Mint, Rome.
21. Lazzereti L, Capone F (2008) Mapping and Analyzing Local Tourism Systems in Italy, 1991-2001. Tourism Geographies 10: 214-232.
22. Marco-Lajara B, Claver-Cortés E, Úbeda-García M, Zaragoza-Sáez PC (2014) Hotel performance and agglomeration of tourist districts. Regional Studies.
23. Boix R, Galletto V (2005) Sistemas Locales de Trabajo y Distritos Industriales Marshallianos en España. Universitat Autònoma de Barcelona, Spain.
24. Papatheodorou A (2001) Why people travel to different places. Annals of Tourism Research 28: 164-179.
25. Boix R, Galletto V (2009) Innovation and industrial districts: A first approach to the measurement and determinants of the I-district effect. Regional Studies 43: 1117-1133.
26. Smedlund A, Toinoven M (2007) The role of KIBS in the IC development of regional clusters. Journal of Intellectual Capital 8: 159-170.
27. Kotler P (1996) Marketing management: Analysis, planning, implementation and control.
28. Baum JAC, Haveman HA (1997) Love thy neighbor? Differentiation and agglomeration in the Manhattan hotel industry, 1898–1990. Administrative Science Quarterly 42: 304-338.
29. Baum JAC, Mezias SJ (1992) Localized competition and organizational failure in the Manhattan hotel industry, 1898-1990. Administrative Science Quarterly 37: 580-604.
30. Lee SK, Jang SS (2013) Asymmetry of price competition in the lodging market. Journal of Travel Research 52: 56–67.
31. Francis DB, Sawka KA, Herring JP (1995) Competitors: Who to watch, what to watch, who to ignore, and how to tell the difference. Competitive Intelligence Review 6: 41-46.
32. Marco-Lajara B, Claver-Cortés E, Úbeda-García M, Zaragoza-Sáez PC (2016) A dynamic analysis of agglomeration and performance relationship. Journal of Business Research. 69: 1874-1879.
33. Ehrl P (2013) Agglomeration economies with consistent productivity estimates. Regional Science and Urban Economics 43: 751-763.
34. Alcácer J, Chung W (2014) Location strategies for agglomeration economies. Strategic Management Journal 35: 1749-1761.
35. Marco-Lajara B, Claver-Cortés E, Úbeda-García M, Zaragoza-Sáez PC (2015) Grado de aglomeración de los distritos turísticos españoles y procesos de internacionalización de empresas hoteleras. Economia Industrial 397: 21-35.