

CHALLENGES AND DEVELOPMENT PROSPECTS OF SMALL AND FAMILY HOTEL BUSINESS IN THE REGIONS OF GEORGIA

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Abstract: The number of family hotels in the Georgian tourism and hospitality sector is increasing year by year. A family hotel is a small-scale enterprise, but just as important and necessary as a large hotel. A family hotel is a means of accommodation with a small number of rooms and limited services. Small family businesses play a major role in the development of the peripheries of many countries. The depopulation of villages remains a major problem in rural areas of Georgia. Family business is a unique opportunity for the sustainable development of local communities. Small entrepreneurial activity in family tourism reduces unemployment, increases the quality of life, promotes the sale of local ecological products, attracts the recreational market, develops the local economy, protects the environment, and many other positive factors characterize the family hotel business. A family hotel tells the history of the region with its authenticity, cultural value, and traditions. The paper analyzes the trends in the development of the guest house market in the tourism market and its relationship with tourism development. The research identified challenges related to tax problems, service quality, practical skills, green entrepreneurship, pricing policy, ecological accommodation facilities, and digital marketing opportunities in the guest house business, etc.

Keywords: guest house; host; business; tax problems.

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Introduction. The accommodation sector in the tourism value chain plays a major role in the development of the country's economy. The sector increases incomes, creates jobs, attracts foreign investments, and promotes the development of small and medium-sized businesses. World practice shows the dynamic growth of the hotel services market and its direct connection with the development of tourism. Today, in regions where tourism development is at a certain stage, accommodation facilities are mainly represented by guest houses and guest houses. 43% of guests arriving for leisure, entertainment, and recreation throughout the country choose a guest house, guest house, or rented apartment for the night (Katsitadze, 2018).

According to 2024 data, there are 3,198 accommodation providers registered in Georgia, most of which are located in Samegrelo-Zemo Svaneti (19%), Tbilisi (17%) and Adjara (15%). The number of hotel rooms is 53,759; and the number of beds is 128,015. The country has the largest number of family hotels, which number 1,281. According to the National Tourism Administration, family hotels operate with a total of 8,167 rooms and combine 21,677 beds. In July-September 2024, the average price of 3-star hotels in Georgia amounted to 180 GEL, which is an increase of 3% compared to the previous year, the average price of a room in 4-star hotels amounted to 278 GEL (+3%), 5-star hotels amounted to 574 GEL (+12%), and as for family hotels, the average price decreased by 12% and amounted to 113 GEL (Mghebrishvili, 2024). The hotel price index in Georgia increased by 9.8% in October 2024 compared to October 2023, including the price index of 3, 4 and 5-star hotels increased by 8.8%, and the prices of family hotels increased by 4.2% (Policy and Management Consulting Group PMCG, 2024).

There is clearly an oversupply in the Georgian tourism market and hotel prices have also increased. According to a review by the PMC Research Center, the price increase was mainly due to price increases

in the family hotels and 5-star hotel categories. In contrast, a 2% annual decrease is observed in the prices of 3-star hotels. The country faces significant challenges in developing an adequate pricing policy.

The relevance of the issue is determined by the sharing of knowledge and experience in similar fields in foreign countries. As a result of the research, challenges were identified regarding tax policy, which often causes serious problems and affects the efficiency and competitiveness of the business. The current tax policy in the country is a challenge in the sustainable development of family hotels. The tax burden of this category of hotels is quite high. Also, seasonality and dependence on tourism create a weakness in the family hotel industry, because it is not possible to receive guests consistently and, accordingly, the hotel operates seasonally and the annual load factor is low. When it is very difficult to predict high and low seasonality, the revenues of the hotel business are also not stable. The main task in the hotel business is customer satisfaction and, accordingly, increasing profits.

Methods. Quantitative and qualitative research methods, comparative and statistical analysis methods were used. The service quality study was conducted using the questionnaire method. Analytical material presented in open sources was processed, literature, publications, data were collected and findings were discussed.

Discussion. The family hotel business has a fairly large share in the development of the hospitality industry in European countries. The overall employment in this industry is also quite high. Useful and pleasant, this is a unique opportunity for self-employment compared to other small businesses. The tourist season has a great influence on the family hospitality business, the hot season is followed by the passive season, during which income decreases, but the family at this time gathers natural forces for the new season. Both branded hotels and small family facilities require proper planning, operation, knowledge, practical skills, proper organization of hotel services, as well as planning of the necessary buildings, room arrangement and exploitation, etc. World practice shows that small and medium-sized family hotel businesses dominate in villages and peripheries. Therefore, rural tourism is mainly represented by family businesses. In addition, the number of people who, due to their lifestyle, prefer to start their own business in villages or mountainous areas on the periphery is increasing. Innovation and creativity are significant trends in the guest house business. Innovation is a special tool for entrepreneurs, through which they introduce innovations that allow them to start a new business or new products and services (Argutashvili, 2022).

Tourists are attracted not only by natural landscapes, but also by the old traditional architecture, buildings and construction styles characteristic of specific places, which in many cases are almost never repeated. In rural areas, the tourism business on private homesteads is made exclusive not only by age and purpose, but also by historical events associated with them. Currently, there are many hotels in rural areas in Georgia, each of which has the same characteristics as the corner it represents. Every corner has its own characteristic niche. The successful functioning of a „family hotel“ as a tour operator is largely determined by the hotel owner's (housewife's) complete knowledge of entrepreneurial activity as an individual entrepreneur and businessman (Kveladze, 2011).

Since ancient times, small hotels have existed in Georgia, located along the roadside. These hotels served travelers and merchants who needed a place to stay and rest. Over the years, family businesses have developed as a source of income for families.

Each hotel enterprise adapts its organizational structure to its own tasks and requirements. The organizational structure of the enterprise should be flexible and can be revised as necessary, taking into account the conditions of business activity, changes, and the growth of qualifications and capabilities. An effective organizational structure is created as a result of many years of experience in the functioning of the enterprise in the market and is considered one of the important elements of a dynamic strategy (Dolokashvili, 2021).

2024 was a successful year for the Adjara region, where the occupancy rate exceeded 90%. A 20-25% increase was recorded in Tbilisi hotels, while the average increase in the Kakheti region was 15-20%. According to data from the international research organization (STR global), in the first quarter of 2025, the occupancy rate of branded hotels increased. It is noteworthy that the prices of 5-star hotels are characterized by the highest fluctuations and increase sharply in the summer months, which reflects high demand during the season. In contrast, the prices of family hotels are characterized by the lowest fluctuations (Hotel Destination Report, 2024.).

According to the Department of Tourism and Resorts of Adjara, a new project „Good Host“ has been launched to encourage family-friendly hotels and improve the quality of service. The project is analogous to the European model „Good Host“ and aims to popularize and stimulate family-friendly hotels with outstanding hospitality, authentic environment, and visual appeal outside the city and develop the tourism business. Two family-friendly hotels in mountainous Adjara, „Skhalta“ and „Prongja“, have been awarded the status of „Good Host“. The criteria are based on the interior, exterior, food, service quality, and information accessibility of family-friendly hotels. At least 90% of them must be met to obtain the status of „Good Host“. The project was prepared by the Tourism Product Development Agency of the Adjara Tourism Department in cooperation with the European Rural Tourism Federation and the Estonian Rural Tourism Organization.

The status of „Good Host“ is a kind of quality mark awarded to a tourist facility, where the host of a rural family hotel offers guests well-kept rooms, maximally adheres to all the criteria accepted in the field of service, creates the necessary conditions for relaxation and a comfortable environment, takes care of the authenticity of the place where he lives, ensures the preservation of natural and cultural heritage, and at the same time makes every effort to present his family, village or country in the best possible light. Therefore, the status of „Good Host“ gives the owners of family hotels a privilege and inspires greater trust among visitors. This is a kind of guarantee that the host of a family hotel holding the status maximally adheres to the principles of hospitality and, at the same time, constantly cares about maintaining and developing the quality of service. (Tourism Product Development Agency, 2024).

Georgia's grant programs support the development of small and family businesses. LEPL „Produce in Georgia“ is the first state agency whose main goal is to promote the entrepreneurial environment, develop the private sector, attract investment funds and promote export development. The organization „Produce in Georgia“ combines three main components: business, export and investment. The goal of the direction is to develop business in Georgia, support entrepreneurs, create a new hotel or open and expand an existing hotel (Investment Climate and Opportunities in Georgia, 2019). The program aims to maximize and increase the hotel market in order to develop various services, and at the same time provide financial support. A successful project is the cottages on the territory of the writer Otia Ioseliani's house-museum, which has been hosting visitors for the past few years. Local investments can increase the local tourist area, create new accommodation in regions where the development of the tourist market is possible, create a hotel complex that will be tailored to any tourist, so that the given tourist destination can subsequently become a contributor to the growth of the tourist market and the regional economy, enable employment of the local population, and increase awareness of local attractions.

It is important for our country to take into account the best practices of leading European countries. Today, in France, income from rural/agritourism is 10% of total tourism. Today, Italy is the leading European country in the popularity of agritourism. Austria, which has become a tourist mecca thanks to its mountain resorts, is still actively investing in rural, agro and ecological tourism. By 2024, the profit from agritourism in Austria amounted to tens of billions of euros. Today, about 15% of farmers have the opportunity to offer guests a hotel on their farm. In total, Austrian farmers host about 10 million people per day, a quarter of which are foreign tourists (Travel, Tourism & Hospitality, Trending Facts and Information. 2024).

“Green hotels“ mean not only an environmentally friendly environment, but also that 70% of all consumed electricity is generated using renewable energy. One of the most favorable facilities for

installing solar panels in hotels and restaurants. Hotels and restaurants are among those businesses that consume a large amount of electricity and heat. Installing solar panels can reduce monthly costs by 70-80%. Research shows that there are only a few family-type hotels with solar panels in the region. Our country has more potential, in different countries of the world a 35% efficiency share is considered good, and in Georgia there is a possibility of more than 40%. If we also take into account the potential of hydro resources, the country has the opportunity to become energy independent and an exporter.

To reduce the negative impact of tourism on the environment, small and family hotels should create eco-friendly family hotels. A good example is Croatia, where there are small family hotels that carry the eco-label, a special logo that recognizes that the hotels take the best care of the environment. In Croatia, the eco-certification certifies that the facility is environmentally friendly, consumes less energy, and prevents energy loss. The certification also includes the sorting and collection of waste generated in hotels and subsequent recycling of the waste. The eco-label indicates and confirms care for the environment and the reduction of pollution. Eco-hotels have a direct impact on the guests, contribute to the creation of better quality, strengthen and consolidate their positions in the market. The eco-label distinguishes them from other hotels and gives priority to eco-products. An ecologically clean environment, as in other developing countries, also in Georgia, plays a very important role in reducing pollution and creating eco-products. Any tourist activity, such as family hotels, must adhere to the following environmental protection principles: 1) reducing costs, 2) protecting the environment and contributing to its activities, 3) creating and improving its image.

Conclusions. The development of the hotel sector in Georgia shows constant growth and dynamism, which is accompanied by the growth of the country's tourism potential. Significant problems have been identified in the development of family hotels, a complex approach is necessary, it is worth noting the improvement of the quality of service, which will play a major role in the advancement of the family hotel business. Development of practical skills, development of technological infrastructure and strengthening of training. We encounter problems in the direction of creating ecological family hotels. Knowledge of additional services is needed. Additional activities will make the family business more attractive, it is necessary to offer various additional attractions, planned events, master classes, etc. There are challenges in security issues, especially for family hotels located in high-mountainous zones, the provision of medical services is a problem.

An important issue is the taxation and pricing policy, when family hotels operate only seasonally and have financial stability only during certain seasons, family hotels are taxed throughout the year, which often ends in failure and ultimately the business collapses. High tax rates for hotels increase their operating costs, which is directly reflected in the prices of services. Various types of taxes, such as VAT (value added tax), income tax and local taxes, create an additional bureaucratic burden. Owners have to contribute their own capital to the state treasury. Or seek additional funds in the form of loans. Hotel owners are unable to make long-term financial planning, cannot predict the future tax burden. It has been revealed that seasonality and dependence on tourism create a weakness in the family hotel industry, as it is not possible to receive guests consistently and, accordingly, the hotel operates seasonally and at the current stage the annual load factor is low. Solving these problems requires several strategic changes. Tax rates need to be reduced and simplified, which will reduce the costs of hotels and increase their competitiveness. Improving and simplifying the tax system will support the development of small family businesses, increase their competitiveness and create a favorable environment. All this requires cooperation between the state and the business sector to create an effective, sustainable tax policy that will promote economic growth and development of the sector.

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