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Luxury Hotels and Recession: A View From Around the World

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Luxury Hotels and Recession:
A View From Around the World

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Introduction

The escalating recession is causing serious problems for many hotels and for luxury hotels in particular. This paper examines the changes occurring to the global luxury hotel market from both the guest and manager perspectives.

Methodology

A survey of the luxury hotel market, including guests and hotel managers from around the world was conducted with The Leading Hotels of the World.

Conclusions:

- 1** All geographies are not created equal.
- 2** Many luxury travelers intend to travel through the recession
- 3** Use of the internet is growing fastest among luxury hotel guests
- 4** The luxury guest is changing
- 5** Hotels are protecting the guest experience and ADR

Summary

Analysis and implications of the study.

Luxury Hotels and Recession

A VIEW FROM AROUND THE WORLD

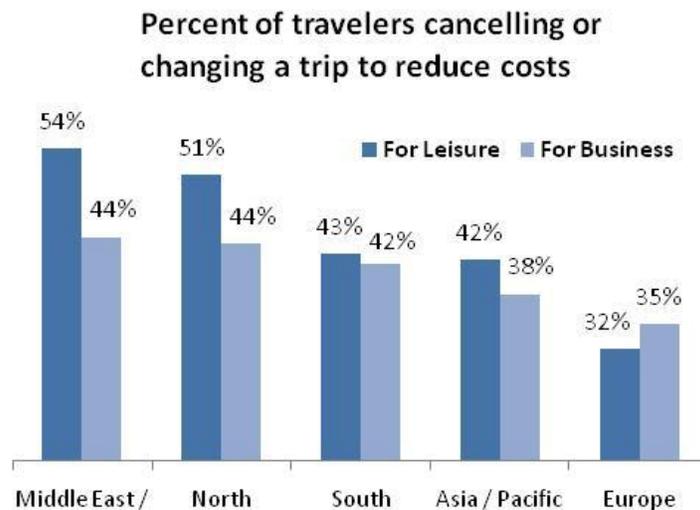
INTRODUCTION

The escalating recession is causing serious problems for many hotels and for luxury hotels in particular. However, many properties remain optimistic. Hotels in certain global markets, especially those catering to leisure travelers, are less affected. And the popularity and growth of the luxury hotel segment in recent years suggests that a strong rebound may not be farfetched.

This study is based on a survey of 211 luxury hotels located in 95 countries. This article provides highlights from this study and other recent research.

All geographies are not created equal | Conclusion 1

Overall, 42% of global respondents said they've canceled or changed a trip to reduce costs. These results, however, vary widely by region. Travelers from the Middle East and Africa appear to be the most affected by the economy while persons traveling from European countries report fewer cancellations and changes to their itineraries. Although these results describe the patterns of persons living in these areas (not traveling to these areas), local markets are important revenue sources for hotels.



Overall, 42% of global respondents said they've canceled or changed a trip to reduce costs, but the results vary widely by region.

By country, about half of all American and Canadian travelers report altering their travel plans. But in Europe, travelers from many countries (e.g., Spain, Germany, Sweden, Switzerland, Austria, Netherlands) seem to be less affected and report fewer modifications to their travel patterns. One likely explanation is that the social safety net in many European countries has

softened the blow and helped leisure travelers preserve their prized holidays.

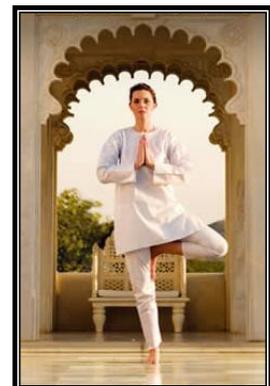


Although 51% of U.S. respondents claim to be canceling or changing trips, no more than 23% of consumers in any European country said they've canceled or changed a trip to reduce costs.

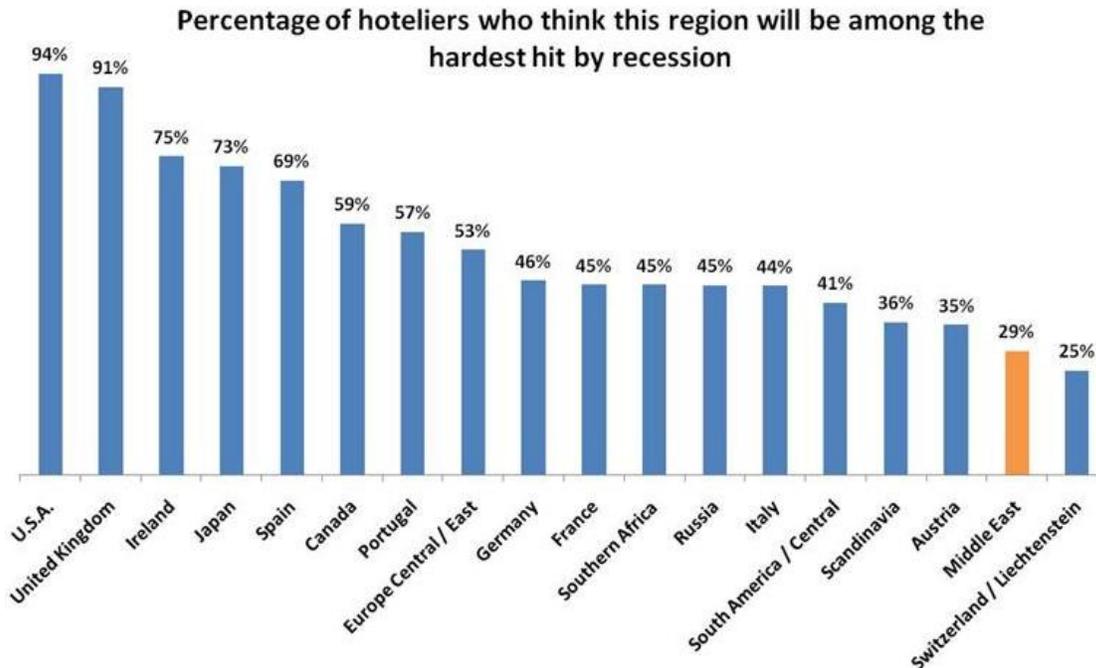
The destinations that will be hardest hit by the recession, according to global hotel managers, include the US, UK, Ireland and Japan. The least impacted areas, according to managers, will be Switzerland and the Middle East. Pockets of strength are seen in cities where demand has, until recently, outstripped supply (e.g., Middle East). Recent occupancy and rate numbers confirm these forecasts.

For example, in March 2009 hotels in Saudi Arabia posted gains in occupancy (+11.8%) and revPAR (+25.1%). Middle East hotels still maintain the world's highest hotel occupancy rates and collect the highest room rates.

Guests from 95 countries completed surveys for this study.



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Hoteliers generally concur about which regions will be hardest hit by the recession. Most believe that the Middle East will fare better than most other global hotel markets.

Hotel managers predict hotels in Switzerland and the Middle East to be among the regions least affected by the economic downturn. Hotel professionals are more optimistic (less pessimistic) about the future of luxury hotels in these areas than they are about the prospects of other global hotel markets.

Many luxury travelers intend to travel through the recession | Conclusion 2

While leisure travel is down globally, interest rate cuts, and lower inflation are starting to take effect and are likely to create more discretionary income. The appeal of travel has not subsided and leisure travelers, especially high end travelers, appear to be adjusting to the recession.

More than half of respondents worldwide (56%) indicate that the global economic situation has had no impact on their intent to travel in 2009.

Travel plans are either unchanged or will increase in 2009 for this group. In fact, for a small percentage (15%), the current state of the economy may be an incentive to travel more and take advantage of lower rates.

But the business traveler is more affected. More business travelers report adjusting their plans compared to leisure travelers. 44% of business travelers say they'll travel less in 2009 compared to only 30% of leisure

"Independent hotels are suffering less from "the AIG Effect" because they are not associated with the big name, big chain brands."

travelers who say they will reduce their travel in the coming year. Companies are canceling meetings and conferences to avoid any whiff of extravagance that may trigger the government's ire. Also called "the AIG Effect" (named for the insurance company that made headlines last fall for spending on a lavish spa retreat after receiving federal bailout funds), companies are shifting travel down-market or eliminating it altogether.

Why is business travel suffering more? After all, leisure travelers tend to be more sensitive to worsening economic conditions than business travelers.

Beyond the AIG effect, the difference in behavior may be rooted in the importance placed on travel. The overwhelming majority of leisure travelers (90%) say leisure travel is important to them and may delay or cancel other leisure activities before canceling or delaying travel in 2009. Conversely, the majority of business travelers surveyed said their company has changed

Where the data came from:

Leading Hotels of the World Guest survey, April 2009

- 2031 completed surveys
- Leaders Club and Non members
- Guests from 95 countries

Leading Hotels of the World Manager survey, April 2009

211 completed surveys

Market Metrix Hospitality Index (MMHI)

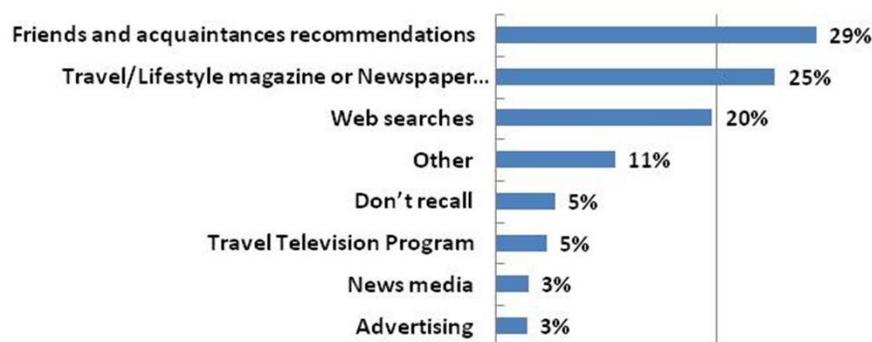
35,000 customer surveys
conducted each quarter

travel policies to reduce travel expenditure. For example, executives are pushing alternatives to face-to-face meetings, including phone- and Web-conferencing.

Use of the internet is growing fastest among luxury hotel guests | Conclusion 3

The travel media continue to have a big influence on our choice of vacations. Nearly one-third of all travelers say they turn to a travel/lifestyle magazine, newspaper or travel TV show to find a new leisure travel destination. Media coverage not only contributes to direct bookings, it also adds to the buzz about destinations. The importance of word-of-mouth communications is rapidly growing and critical for hotels to attract and maintain business. Nearly 30% of all luxury guests are inspired to choose a travel destination from friends' recommendations and another 20% search the web for holiday ideas.

Consider the last time you visited a new destination for leisure. What inspired you to travel to that particular location?

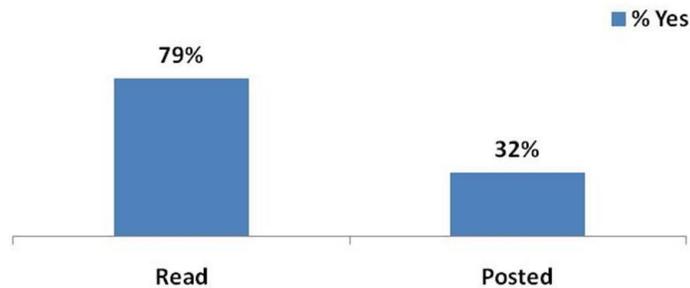


Nearly one-third of all travelers say they turn to a travel/lifestyle magazine, newspaper or travel TV show to find a new leisure travel destination.

The role of user-generated reviews is exploding. Nearly 8 of 10 respondents said they have read user-generated reviews online, and 1 in 3

has posted a review after their stay. These rates of usage among luxury guests are higher than industry averages.

**Have you ever read/posted a user-generated review?
(TripAdvisor.com, IgoUgo.com)**



More luxury guests read reviews prior to booking compared to guests in other hotel segments

This reliance on reviews among luxury guests is significant. Word-of-mouth adds a layer of credibility and is more effective than other more formal forms of promotion. With an increasing number of user-generated reviews and people reading and acting on them, the impact of guest satisfaction and dissatisfaction is multiplied and has a quicker economic impact.

As a result, more managers are focusing on the guest experience and engaging guests on their experience before the guest speaks to the world. Many hotels now monitor the buzz on their hotel and respond on the website (if permitted) or directly to the guest.

More luxury hotel guests are booking online. For making hotel reservations, all segments have increased their use of the internet but luxury hotel guests have shown the biggest jump in usage over the past 2 years. Luxury hotel websites have improved their navigation, design, usefulness of information, ease of booking and other critical components of the online experience.

Percent Booked on Internet

2006 vs 2008

Economy	+ 4.8%
Midscale w/ F&B	+ 3.5%
Luxury	+ 8.2%
Casino	+ 3.1%

The ability to get lower rates closer to departure date has also fueled the popularity of online booking. Although the industry would like reservations further in advance, people are prepared to wait for the late deals. Travelers are still determined to take a holiday, but not willing to commit six months ahead.

Because luxury travelers are increasingly using the Internet to book hotel reservations, the online interface is becoming a more important part of the overall experience. The quality of the experience with the website can influence customers' decision making, ultimately reinforcing loyalty or losing customers for the brand.

The luxury guest is changing | Conclusion 4

Less pampering, more entertainment. The current economic climate is not only impacting spending patterns, it is also affecting the type of experience travelers are seeking. Luxury hotels known for pampering guests are now in less demand than hotels that will deliver an enriched experience. In 2007 the guest experience that was most sought after among luxury hotel guests was to feel "Pampered." But in 2008, feeling pampered was not a priority for luxury guests and instead, feeling "Entertained", "Excited" and "Inspired" were the most sought after experiences at luxury hotels.

Luxury hotels with high loyalty excel in delivering these emotions:

2007	2008–2009
1. Pampered	1. Entertained
2. Entertained	2. Excited
3. Inspired	3. Inspired

A variety of new trends demonstrate the changing face of the luxury traveler. From transformational travel to kids clubs, the focus is on enriching the guest experience. The up-and-coming markets for educational tourism and adventure travel focus on our desire for “personal growth”. These trends have intensified as hoteliers recognize their marketing value.

Another luxury travel trend is that women are traveling alone or with female companions (sisters, mothers, best friends) in record numbers. According to the KWE Group, female-friendly offerings and getaways will multiply and the most successful will target special interests (women and wine, adventure women, surfing women, cancer survivors, etc.).

What is your preferred turn-down gift or service?		Which complimentary amenity which would you choose?	
Local gift	28%	Daily Champagne	29%
Chocolate	24%	Unlimited minibar	24%
An aperitif	24%	Complimentary Wi-Fi Acce	7%
A Small Dessert	11%	Spa Treatment	7%
Other	5%	Dinner	6%
Soft music on the radio	4%	Airport Transfers	4%
Eye mask	3%	Extra night free	1%
White noise machine	1%	Room upgrade	1%

The luxury travelers in this study would prefer a local gift rather than any other turndown item or service. This could be seen as part of a broader trend – that luxury travelers want authentic experiences. Baby boomers, in

particular, have the time, savings and desire for intercultural pursuits, such as shopping at local markets for groceries, having a coffee at the neighborhood café or practicing their foreign language skills at the dry cleaner.

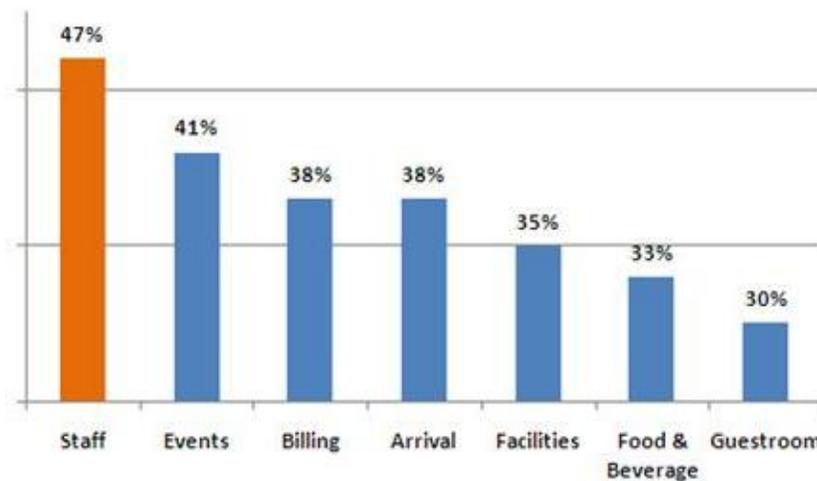
How will luxury guests cut back? Many respondents indicated that they may reduce their travel experiences in the coming year. But how will luxury guests cut back? About half of the luxury travelers polled said they would reduce their expenses by making fewer or shorter trips, travel shorter distances or change destinations entirely. But far fewer said they would downgrade to economy class flights (15%) or downgrade from 5–star hotels (15%). This is certainly good news for the airline and hotel industries. Luxury travelers would rather change their destination or itinerary before downgrading their airline or hotel accommodation. And nearly one–fifth of travelers will not make any changes at all to their current travel plans or spending.



More people would prefer to stay home rather than downgrade from a five-star hotel.

Hotels are protecting the guest experience and ADR | Conclusion 5

It is well documented that staff failures have the biggest negative impact on guest loyalty. In fact, a poor service experience explains why 68% of customers shift brands. In hospitality, staff failures have the biggest negative impact on guest loyalty.



In hospitality, staff failures have the biggest negative impact on guest loyalty

As budgets get tighter and tighter, labor costs become likely targets for cutting. But according to results of this study, hotel managers are trying to avoid staff reductions. Here are comments from hotel managers about cutting their budgets:

We are reducing work time and salaries to cut payroll – not cutting staff.

Less spending on light, heat and power.

We are placing the work force more effectively, not just firing staff.

We are very very careful to not cut front staff only back office.

We are not cutting staff, but adjusting staffing levels to demand.

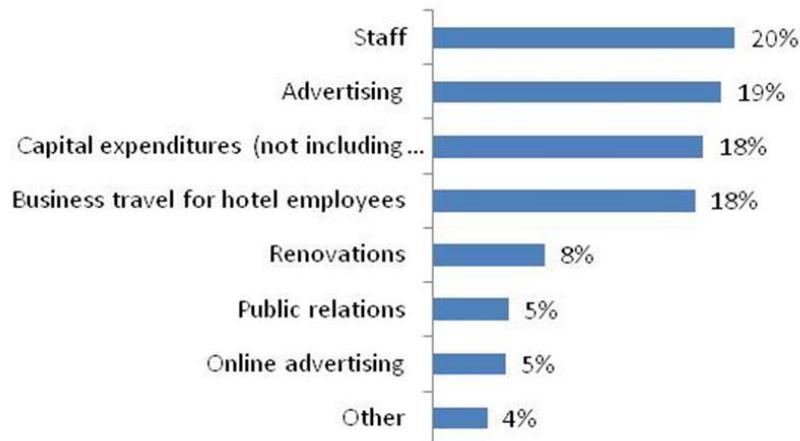
Reducing costs that do not affect the quality of our service.

Negotiate with suppliers.

More than cutting, we are optimizing every spent dollar.

According to the hotel managers polled for this study, most are likely to reduce their budgets in four areas: staffing, advertising, capital expenditures, and business travel for employees.

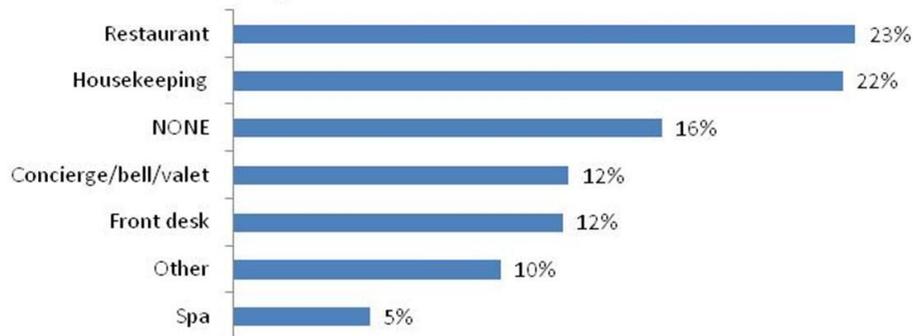
What, if any, areas of your budget are you most likely to cut?



Initial hotel budget cuts will focus equally on staff, advertising, capital expenditures and travel for employees

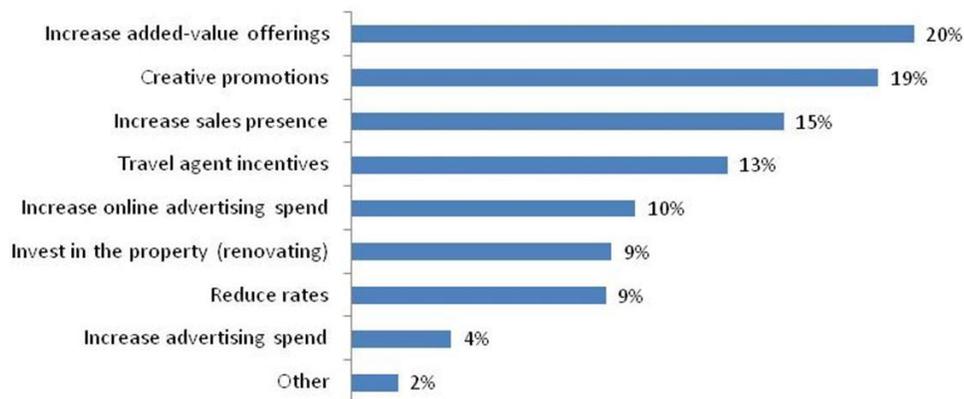
When hotels are forced to reduce staffing, restaurants are the most likely target. This is likely because food and beverage services have less of an impact on the hotel experience of most guests.

In which, if any, of the following areas do you plan to reduce staff?



Food and beverage services have less of an impact on the hotel experience of most guests.

What marketing/pricing strategies will you be implementing in light of the current economic crisis?



Only after trying other options to attract business will hotels reduce their rates.

Although rates among luxury hotels have fallen sharply in the past several months, historically, luxury hotels have maintained significant price strength. This underlying price strength is due, in part, to a positive supply and demand situation and may help rates recover as the economy improves. There are not many luxury hotels and the number of guests able to afford luxury accommodations has risen dramatically in the past few years. This positive relationship will continue as long as the number of new luxury properties does not grow faster than the number of persons willing to pay their premium prices. While the luxury segment represents only a relatively

minor percentage of the total guestrooms globally, they're a much greater factor in the revenue arena.

Summary

This research indicates that the majority of luxury travelers will resume much of their travel spending but will alter their travel destination or itinerary to reduce spending.

The impact on business travel is less certain. The 'AIG effect' will tone down lavish business events. But for how long? Businesses usually cut back on luxury travel spending in tough times, but new image concerns raise additional worries. But many companies, instead of canceling events and business dinners are revamping the way they plan them. This study confirms this new mood.

Luxury may be going through some re-definition, at least temporarily and in certain segments. For many travelers today, "entertaining" has replaced "pampered" as the buzzword in luxury accommodation. To accommodate , which could more means drastic changes

What should a luxury hotelier do?

Careful pricing. Slashing prices as a reaction to the recession is never good for business in the long run, and could also erode brand image. Bundled packaging and promotions are great temporary salves which provide bargains but signal the special and temporary nature of the offerings.

Focus on core/signature services and service recovery. Hoteliers need to take an aggressive approach to keep paying customers happy. Market share is more important than ever in a downturn, as changes that occur during downtimes can stick after a recovery.

During more frugal times, that means holding the line on extra fees and complementary services and amenities. But maintaining investments in service recovery and loyalty programs, as well as providing incentives and strong staff leadership for providing exceptional service and maintaining 'can-do' attitudes and high levels of guest recognition can go a long way to mitigating negative effects of reduced amenities.

Of course budget cuts will put your service levels at risk. If your service standards aren't met, engage the guest with fast, complete and personal service recovery. With your outreach to the dissatisfied guest, you on average improve that guest's likelihood to recommend and return up to 15%.

Narrow your marketing focus. This study shows that marketing budgets will inevitably be cut. Your efforts should therefore be more focused on the areas most likely to pay off in a down-turn. Target those guest segments that are still most likely to travel and pay a premium for the luxury experience. If there is a unique aspect of the experience that can be used as the anchor for more focused marketing, utilize that premium experience element in conjunction (if necessary) with special offers and bundled packaging.

Marketing to your previous guests and loyalty club members with special offers is a great way to reinforce the special bond you have.

Plan for recovery. Coming out of the recession with your reputation in tact is essential. If you have achieved this, it will soon be time to recover business in areas that were most damaged and to nurture new clientele and segments that may have found you through promotions or other means.

The risk that the corporate business travel buyer permanently down-grades his travel policies to four star or lower is real. Luxury's reputation for added fees and costs, along with the AIG effect will mean that luxury hoteliers that

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wish to re-win corporate business travel may have to be creative in bundling and pricing to re-win this business.

Luxury travelers of all types value the uniqueness of their travel experience. Finding unique experiences only becomes more difficult in the future. Returning to the basics of great service and unique experiences will in the end put the luxury hotelier with the right product back on track.