

Arcus Innovation Leaders Study

A survey of 1500 senior executives- Insights from executives in the Hospitality Industry

Strategic implications of emerging hotel trends

Trends	Implications
1. The importance of embracing a lifestyle	Consumers are increasingly looking for distinct hotel brand identities that reflect their values
2. The Latest Amenity: A Hypoallergenic Room	Addressing unique and niche customer needs can strengthen loyalty in a broader group
3. Yield Management – a Lesson from Airline Pricing	Flexible value strategies can increase brand resilience and profitability
4. No frills offering - Holiday express case	Finding a unique position linked to geographic context and trade offs for value
5. The mid-price chain has benefited from travelers who are trading down.	Luxury is being redefined as hotel brands cross lines and consumers down trade
6. Hotels are going green for guests	Green needs to be meaningful and grounded in brand values and imagery to be impactful
7. LEED-certified hotel- consumer awareness and understanding	Consumers are not willing to compromise comfort to go green, especially gen Y consumers.
8. Lack of consistency in guest experience	Meeting a promise of a consistent brand experience can be a competitive advantage
9. “Do more with less”	Testing a brand’s elasticity for customer loyalty can make the offering more relevant at a lower cost

Trend 1. The importance of embracing a lifestyle

It used to be enough to stay at a nice hotel; these days, guests are expected to embrace a lifestyle. An attitude. An expression of their inner hipster. That’s the message major luxury hotel groups are instilling in the minds of their guests. For example, 10 years after W Hotels first opened in midtown Manhattan — a new wave of “big-boutique” brands is democratizing the design hotel for the masses. And all with a personal touch. Arcus expects this style paradox to be among the principal trends in upscale travel over the next 5 years. For the market leaders, including Starwood, Marriott and Hyatt, it represents a fresh way to slip into the guise of something chic and independent, soulful and sexy.

For the luxury traveler, the newest incarnation of the lifestyle hotel means discovering a defined personality — the sort of personality in which, perhaps, you’d like to see your own image: urbane, sophisticated, and a cut above the style of that poor sap in accounting who just spent the weekend at a cookie-cutter five-star in a popular beach location. Checking into a lifestyle hotel is the hospitality equivalent of sporting a limited-edition pair of Pumas instead of the window-front generics at Foot Locker. It’s a brand choice.

And these newfangled brands are as quirkily named — NYLO, ANdAZ, aloft — as they are hip. The trend has been to set up chains-within-a-chain. The Reserve brand by Ritz-Carlton debuted in December and will be composed of ultra-luxe boutique resorts in out-the-way destinations (Molasses Reef in Turks & Caicos). ANdAZ, from Hyatt, is a new line of eco-luxury for urban hipsters and means “personal style” in Hindi — though the brand stands for “not pretentious and without attitude.” The first ANdAZ was recently unveiled in London, while a second is scheduled on Wall Street this year. And with a dozen new properties, Starwood’s aloft is already going head-to-head with NYLO to be the ultimate loft-style hotel (think open floor-plans, high-ceilings and swinging pod chairs).

Starwood has focused on being the world’s most artful and ambidextrous brand in hospitality — the same organization behind W Hotels as well as Sheraton (a brand that’s almost synonymous with mid-market travel). Edition — the new brand of Marriott and Ian Schrager is another example of the trend

towards embracing a lifestyle. The high end market of hospitality has also increased its emphasis on extensions into this space. Ritz-Carlton has partnered with the man who first pioneered the boutique concept nearly 25 years ago- with the first Edition slated for 2010.

Trend 2. The Latest Amenities for a “wow” factor: A Hypoallergenic Room

Arcus research indicates that it’s not uncommon for hotels to get special requests from guests with allergies such as special blankets, special pillows and no-spray in the rooms. Another example is introduction of lines of natural bath products in rooms for guests with sensitive skin and noses. But mostly, hotels see the creation of super-clean rooms as a way to gain an edge now that amenities like plush beds and flat-screen TVs have often become standard.

Hotels are also charging a 5 to 10 percent premium for “Pure rooms”. These include chains such as Marriott, Hilton Doubletrees and Wyndham. They are looking for things in their hotels that are extraordinary and give guests a wow factor. The concept isn’t aimed just at the allergic, but also at guests who are concerned with what might be called the germ factor. The trend is geared toward guests who are concerned about hygiene in an environment with significant guest traffic.

From the Fairmont Vancouver Airport hotel to the Mandarin Oriental in Miami, hotels are doing everything from replacing feather duvets to installing air purifiers in guest rooms. Some are ripping out carpets and drapes, which tend to harbour dust and trap odours, and replacing them with smooth surfaces. Others are making less visible changes, outfitting pillows and mattresses with liners that help contain dust mites and swabbing phones, doorknobs and other surfaces with antimicrobial agents.

Hilton and Millennium Hotels, each of which is testing the concept in a few hotels are expected to expand it to more properties depending on demand. NYLO Hotels, a new brand that opened its first hotel in Plano, Tex., last year, plans to offer at least one floor of allergy-friendly rooms at each of its locations. The room at the Premier Hotel in Times Square, NY may look like any other. But the hotel had gone to extraordinary lengths to purify it. In a seven-step process to cut down on bacteria, pollen, dust, dust mites and other possible irritants, everything in the room, from the curtains to the carpeting to the air-conditioning units, was cleaned and treated with an antimicrobial agent.

A cartridge containing tea tree oil, a natural antiseptic and disinfectant, is installed in the heating and cooling unit. The room undergoes a four-hour ozone shock treatment to kill any remaining living organisms and eliminate associated odours. A mist is applied to surfaces to make it difficult for bacteria to grow. Mattresses and pillowcases were covered with dust-mite protectors. The Premier Hotel calls it the Pure Room. This much cleanliness might seem a bit neurotic. But it’s not enough anymore for hotels seeking health-conscious patrons to serve organic cuisine and offer all-natural bath products. As more hotels try to set themselves apart, a new amenity is emerging: the hypoallergenic hotel room.

A “Pure Room” may be hard to distinguish from a regular room until, for example, a guest picks up a couch to reveal a large metal air filtration unit underneath. The room is likely to have a distinctly fresh feeling, but it is difficult to tell whether it’s from the air quality or just the result of a room temperature that may be cooler than that of the hallway. Some guests who battle allergies say there is a distinct difference. Frequent travellers may be concerned about allergic reactions to everything in the room- such as excess dust in the air.

The premium for a “Pure Room” is usually about \$20 extra but guests with allergies are likely to pay a higher premium for the service. Market studies indicate that demand is certainly there. For example, in the first two months after the Fairmont Waterfront in Vancouver introduced a “featherless floor” in 2005, it was 87 percent full, compared with 70 percent occupancy in the hotel overall. The Hilton Chicago O’Hare Airport hotel was so pleased with the demand for two Enviro-Rooms created by Environmental Technology Solutions in Glen Ellyn, Ill., that it opened 11 more in December, 2008.

The trend is to replace rugs with hardwood floors, and curtains with wooden blinds, and the entire room, from the all-cotton linens on the bed to the special porous wallpaper, is designed with allergen-sensitive guests in mind. There is no standard for what qualifies a room as hypoallergenic. Hotels

don't claim their rooms are allergen-free. They may say the rooms are "allergy-friendly" or with "lower airborne and surface particulates."

Allergy experts say most of the methods the hotel rooms are using, like the special pillow covers and rug removal, are in line with what might be recommended to parents of an asthmatic child. But some, like removing feather pillows or using tea tree oil, have "little impact in addressing the allergen issue." More hotels may be creating hypoallergenic hotel rooms in the future. Regulation in some provinces in the future may require hotels to offer allergy-friendly rooms.

Trend 3. Yield Management – a Lesson from Airline Pricing

A defining feature of the modern air-travel experience has begun spreading steadily to hotels, restaurants and other leisure industries. It's a technology tool called yield management. Yield management tracks availability against current demand, allowing businesses to assign different prices to a commodity -- an airline seat, a hotel room or the creme brulee at a restaurant table -- that used to be sold at a fixed price. Rudimentary forms of yield management have been in existence for several years. But the airline industry, with early access to networks of complex computers for scheduling and fares, perfected modern yield strategies during the pricing free-for-all that followed deregulation in 1978. One result is that today, for example, a business traveler who pays \$1,700 for a coach seat bought at the last minute is well aware that the passenger in the next seat might have paid \$300 for a ticket booked weeks in advance, while another passenger across the aisle may have scored a seat through a discount broker for, perhaps, \$129. Cruise services have also implemented yield management strategies effectively.

Seeing the airlines succeed in maintaining full houses, hotels have adopted yield management strategies. Their initial efforts (standard promotional discounts, lower weekend rates and even giving desk clerks on-the-spot authority to cut room prices) have met with limited success. But as hotels have merged into huge chains with central computer systems to manage reservations, predict demand and maintain preferred-customer data, yield management has arrived at the front desk like a busload of noisy conventioners.

Today, a hotel's "rack rate," the retail price listed for a given room, is just a "reference point". For example, a phone call to a top hotel might elicit a \$400 rack rate for a certain type of room. Even for the same date, an identical room might be available at \$250 through an online reservations service that stockpiled a block of such rooms at a discount from the hotel. And between those extremes can be a host of other rates that depend on club and preferred-customer discounts and other incentives that the hotel's computer assigns to a given room as it constantly recalculates how to sell it at the best price the market will bear.

It is only a matter of time before restaurants introduce yield management. Restaurants have different menu prices at different demand levels and even speed up meal service for low-rent customers once the higher-paying prime-time customers arrive. Like airlines, restaurants are in "a very cyclical business," with mostly fixed costs measured against revenue that fluctuates by hour, day and season. New services are emerging too. OpenTable has signed up 1,100 restaurants that install the company's computers to apply yield management techniques and customer data-base building to a delicate cultural process that at many top restaurants is still supervised by maitres d'hotel.

Many restaurants have long practiced an elementary kind of yield management -- early-bird specials and promotional coupons. But with a computerized data base of customer information and a presence on the Internet for browsers, a restaurant can now constantly massage demand to squeeze the most revenue out of every seat. Some restaurants offer lower menu prices for booking at an off-peak time; others promote dinners with bonus points that can be used on subsequent visits as cash.

While some restaurants are rapidly embracing yield management, there is resistance at some restaurants where they like to have a traditional, almost orchestrated feel when guests walk in. But the challenge comes when a maitre d'hotel leaves a particular restaurant with the client database.

Trend 4. No frills offering - Holiday Inn Express Strategy

A Holiday Inn Express, part of the Intercontinental Hotels Group, has no restaurant or meeting rooms, although breakfast is available in the lobby. A concentration on guest rooms is a necessity, given the likelihood of small sites, which measures a little over 33 feet wide and 100 feet deep. The result may be a 22-story hotel with generally six rooms to a floor. For example, the first Holiday Inn Express in NY has 125 guest rooms, including three two-room suites. Building a hotel with limited services has made construction more reasonable for Holiday Inn in cities with high real estate costs. The company has 1,407 Express hotels in the United States and Canada; all but one are owned by franchisees.

Most Holiday Inn Express hotels are in smaller cities or near highway intersections, but now the company is exploring urban markets because of the demand for hotels in those markets' midprice range. Although the official rate may be about \$250 a night, by the time discounts and negotiated corporate rates are applied, the effective rate can be as low as \$180 a night. These chains are not the first to capitalize on relatively small sites. Smaller hotels in in-fill locations are a major trend in some larger cities. Often, the sites are not big enough to have meeting space and a restaurant, but these companies can still create an effective hotel product.

For example, the Holiday Inn on Gold Street in downtown Manhattan was built on a small, irregular plot of land. The posted room rate there is about the same as at the Holiday Inn Express. But there is a delicate balance when it comes to a hotel's size. A smaller property may be less costly to build, but it may be difficult to operate profitably because fixed operating costs have to be absorbed by fewer rooms. In number of rooms, the new Holiday Inn Express appears to be in the lower range of what is economical to operate. The chain competes with Courtyard by Marriott and Wyndham.

Unlike suburban hotels, which primarily attract travelers pulling off a highway, a city hotel like the new Express is marketed to a wider range of travelers. They market to businessmen, government officials, and people coming here for the theatre, for example. Government employees with business in cities often have difficulty finding hotels within their official reimbursement levels. The Express offers discounts to help accommodate these travelers. They also reach out to foreign tour groups as well. The chain has a strategy of consciously marketing to a mix of market segments.

The guest rooms, some with views of a masonry wall a foot or so away, are intended for people who do not expect to spend much time in their rooms. They are big enough to hold two double beds or one king-size bed and not much more. Each room has a flat-screen television. Because the building is new, the bathrooms are all modern. Continental breakfast is available in the lobby, which is furnished with tables and chairs. Other amenities include a 24-hour front desk, in-room video checkout and currency exchange.

Trend 5. The mid-price chain has benefited from travelers who are trading down.

The hotel business has collided head-on with the bad economy and the tight credit market. Hotel revenue is down sharply. Big new projects, planned in the boom days, are either sitting unfinished or left on the drawing boards. And some high-end hotel owners now face an unhappy situation -- how much can they cut prices to fill their rooms before they damage their hotels' luxury cachet? Most CEOs of hotel chains did not expect a dramatic change in the economy last year. They saw people being more rate-conscious with more renegotiations of corporate contracts as companies tightened their belts in the fall. But then in the middle of December, there was a dramatic drop in business.

According to some research data, the average revenue per available room -- the standard measure of hotel performance has fallen over the comparable periods last year in the US. Occupancy rates and average daily room rates have declined too. The figures for luxury hotels were even bleaker. Occupancy and average daily rates fell at a faster pace since corresponding periods in 2008.

Many of the same forces now hitting the bottom lines of luxury hotels have affected other segments of the luxury market - from top-end department stores to private jets. Luxury hotels are heavily dependent on high-end business travel, corporate meetings and international visitors -- all of which have fallen. Most chains in the luxury segment confirm lower occupancy rates. But managers of

hotels in all price categories except the lowest generally dislike overt discounts, fearing that customers will insist on bargains in good times. But now there is some very competitive pricing action taking place. The luxury hotels are particularly worried about losing business travelers, as many companies tighten travel spending policies. Some business travelers who were formerly authorized to stay at five-star hotels are now restricted to four-stars (which include so-called big-box urban hotels like Sheraton or Hilton). And big-box hotels are also dropping prices, adding to their lure.

Some managers are concerned that the big-box hotels that were charging \$270 are now charging \$140. They would not like to discount to the extent that they reposition themselves into a different segment, and find a year that they are no longer a luxury hotel. Still, luxury hotels in Canada are almost all offering bargain prices packaged to mask the fact that they have dropped rates. Examples include options like 'Book us for two nights and get the third night free'. Effectively, that's arithmetic that adds up to discounting, though it's meant to look like they are just getting rewarded for a longer stay. Higher-end hotels are also now including in the room price services they used to charge extra for, like valet parking, Internet service and spa use. Some are even throwing in a free lunch or dinner in the hotel restaurant.

In every price range, hotels are struggling to cut costs without damaging the reputation of their brand. Midlevel hotels are reducing the fresh fruit available in free breakfast buffets. Luxury hotels are looking at bathroom amenities. They are doing more that really don't impact the guests, but take out costs. For example, a lot of hotels are taking fresh flowers out of the lobby and substituting plants and things that they don't have to replace every day.

Even as existing hotels struggle, many hotel projects that were financed and put into development years ago are languishing. The number of hotel rooms under construction in the top North American markets was down at the end of 2008 compared with the end of 2007.

One ambitious new hotel chain, Aloft, from Starwood Hotels started opening properties last summer. Aloft hotels were aimed partly at young professionals in the three-star mid price niche occupied by hotels like Marriott Courtyard and Hilton Garden Inn. Though some of the 20 or so Aloft hotels due to open this year are behind schedule, the chain's existing 17 hotels are performing well according to the company. The company said in a recent interview, that's partly because they have received unanticipated business from travelers who have traded down from four-star hotels.

It is clear that the downturn isn't confined to one niche or one segment. Most company travel departments have locked in corporate hotel rates for 2009, often after demanding renegotiations when it became clear that hotels' pricing power had weakened. From the midlevel to the budget level, hotels are much more amenable to giving travel companies better rates.

Trend 6. Green Hotels: How hotels are going green for guests

More and more hotels are going to great lengths to green up their acts. Features of a concept hotel may include a miniature Whole Foods like store in the lobby with bulk nuts, dried fruit, even local chocolate and salsa from the local farmers' market. The suite has Energy Star appliances. Filtered water pours into the sink, under which you could find two bins for recyclables. The toilets are dual-flush, the showers are low-flow, the shampoo and conditioner are in bulk dispensers, and the art on the walls, depicting a leaf motif, could have been crafted from recycled aluminum and car tires. If you feel like being active, you can grab one of the gratis bikes downstairs and go for a spin on the nearby bike trail into town, or take a dip in the pool that's cleaned with saline salt solution instead of chlorine. These are actually features at the Element, owned by Starwood Hotels & Resorts, the first chain to receive an LEED-certified gold rating, the second-highest standard bestowed on a building by the United States Green Building Council (USGBC).

The cost for green hotels is estimated to be 2 to 3 percent premium above the total cost of the building to go the LEED-certified route. These hotels hope to offset that cost from the operational side over a three to four year period.

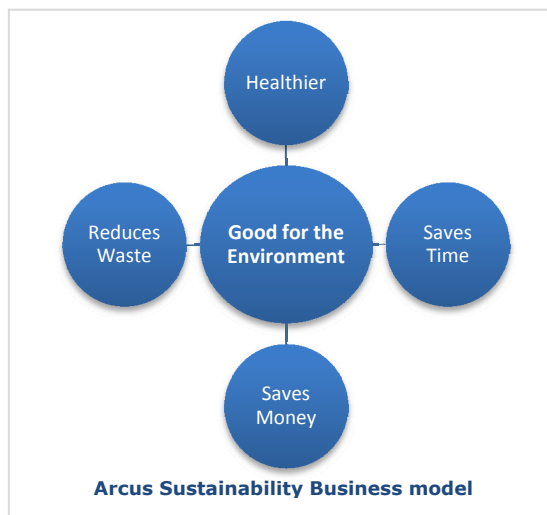
Other options include Energy savings by keeping electricity down to a minimum through natural lights and the use of CFL bulbs, low-flow showers and dual-flush toilets. The approach saves approximately 942,000 gallons of water annually at Element Lexington. The roofing material that reflects heat from the sun, so the hotel won't tax its air-conditioning system in the summer. Keeping with LEED standards, Element also purchases energy that comes from a green source: the wind.

While they're not a major polluter, hotels do consume a significant amount of resources. Some jurisdictions in North America have also started Green Lodging Programs, which require government employees to stay at green hotels during business trips. Government incentives and big business could very well be behind this latest surge in new hotel design.

The Arcus sustainability business model, based on interviews with over 2000 consumers and 1500 senior executives, indicates there are four drivers of "Good for the Environment"- "Healthier", "Saves Money", "Save time" and "Reduces Waste". The emphasis on "Saves Money" has increased dramatically this year at the expense of "Reduces Waste" and "Healthier".

The Green hotel business model has its challenges

For business travelers, the value proposition is distinctive and attractive. But Arcus research indicates there is scepticism around any hotel's environmental practices in an industry where green washing runs rampant. Hotels take small steps around eco-friendly design and make aggressive claims about eco-credentials.

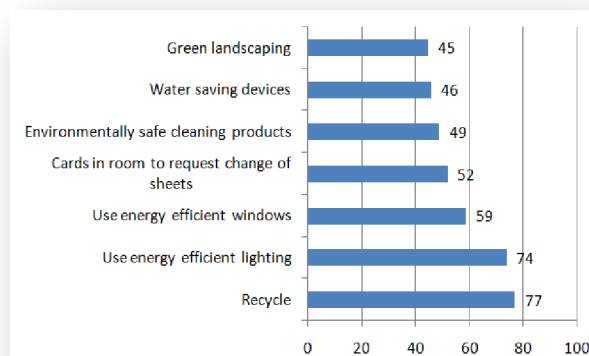


Even leading architects in the green building movement say it's hard to find a resort that actually practices what it preaches. Adding to the confusion is the fact that the LEED platform was specifically designed for commercial and institutional projects, such as office buildings, residential high-rises and government facilities—not hotels. However, Green Seal, a non-profit based in Washington, D.C., created an in-depth program for hotels in 1999 and wrote a manual, Greening Your Property, that's still published by the American Hotel and Lodging Association. The organization tries to promote a healthier environment and has also been vocal in its assessment that typical average-size lodging uses more resources in a week than 100 families use in a year.

Global accounts like Microsoft, AT&T and Hewlett-Packard state that their goal is to find a hotel company that had some sort of green program in place. This new initiative has led to an increase in revenue for hotels that join the movement. For example, according to one report, a Doubletree hotel received more than \$3 million in business due to their green certification.

Trend 7. LEED-certified hotel- consumer awareness and understanding

Guests care—to a point. The mind-set of some travelers is different. Part of being on the road means the ability to live a little more luxuriously than at home, and that means not having to turn off the lights and the TV. People say they want to be green, but they don't want to compromise. Green with style may have potential. But hotels don't really know yet what it means to be green in the hospitality field. They do acknowledge that North America just doesn't have the culture of saving resources. But the mood in Canada is shifting.



Top environmental actions business travelers expect from lodging facilities

But guests will resist change. For example, usually, a guest inserts a card into a slot when entering the room to turn on the electricity. Removing the card (which doubles as the room key) on the way out the door shuts off the power. It is an easy way to conserve energy. Yet it is almost never seen in North America. Guests who are in a hurry — or simply don't care about saving electricity — leave TVs, air-conditioners and lights on when there is no one in the room.

In a recent survey of potential customers about energy-saving features, including master switches, some said they would suffer discomfort because they would get back to their room and it would be extremely hot. Others indicated that entering a dark room could be a safety issue. The future Element hotels might have a compromise master switch — one that controls the lights and the TV, while leaving the air-conditioning on. Hotels say they would rather not run the risk of losing a customer because a room needs a few minutes to cool while the air-conditioning kicks in. It is better business just to run the A.C. and make sure the client comes back.

But what about the typical traveler who simply wants a decent shower, a comfortable bed and perhaps a workout before turning in for the night? Workers who have no corporate mandate to go green are known to be extravagant when away from home, indulging in energy-chugging hot tubs and (dare we say it?) forgetting to turn off the lights and the A/C when they leave their rooms. Arcus research indicates that guests do care, but you can't compromise on their experience. Hotels recycle, but they don't expect guests to take their green bin downstairs. They want to save water, but they don't want that showerhead from high-school gym with a weak spray. Hotels say they need to find a balance. Another example is dual flushes. Few hotels aside from Element chain have installed them. Consumers express concern that the dual-flush toilets will not work. Starwood's green brand, called Element, which it bills as being eco-conscious and "kind to the environment," with ample natural light, in-room recycling bins and faucet filters meant to reduce reliance on bottled water. But so far, Element hotels do not have master switches in their guest rooms.

Arcus research indicates seven in ten business travellers say they believe the lodging industry is only "somewhat" green. But Generation Y business travelers are the least likely to be taking a range of green actions. Ironically, this same group is the most likely to consider themselves green while on business. Boomers are the most likely to act green while traveling. Females are also more likely to turn off the lights and adjust the heat or air conditioner when leaving a room. More than half of female business travelers say they frequently or always use public transportation or hotel buses. Element plans to open 30 more properties by the end of 2009. Other big hotel chains will surely follow suit. There's certainly room for more growth in Element's green design, such as the use of solar panels to heat the pool and the incorporation of a master switch, which many hotels in Europe already have. The latter works by simply inserting a room key into a switch inside the room that turns on the electricity, heat and water. When you leave the room, you have to take that room key with you, thus turning off all the appliances.

Former head of Starwood (and now the chain's competitor) Barry Sternlich plans to open an upscale property in Seattle and New York in the coming year. The Sternlich Seattle hotel will have 1 percent of the profit reportedly going to environmental groups. Features include energy-saving bulbs, dual-flush toilets to minimize water usage and in-room key slots to activate power, ivy on front of the building enabling use of inexpensive materials, like stucco, underneath, a parking charge for electric cars and lobby seating with stumps from logged forests.

Trend 8. Lack of consistency in guest experience and emergence of the independent brand

Since 2001, the brand names of 7,600 U.S. hotel properties have changed in North America - that's about one in every six hotels, compared with one in every seven during the previous five years. Today, the top five hotel companies represent about 50 individually branded hotels. Eg. Extended-stay segment has over 30 different brands. Hoteliers tend to segment their market by hotel type; one generally accepted segmentation is economy, midscale, extended stay, upscale, and luxury hotels. In recent years, the number of brands in each category has skyrocketed adding complexity around value creation. Properties are struggling to make sure travelers get the same kind of experience at all of a chain's locations- a growing challenge for the hotel industry.

Consistent quality may be one of the biggest challenges facing hotel brands. Consistency is also, by far, seen as the most important aspect of successful branding. Yet consistency in hotels is a vulnerable area, especially for brand extensions. In many cases, hotels are franchised or managed by companies independent of the hotel chain's parent company. This means the quality from one hotel to another, even within the same brand name, can be inconsistent. For example, the *Wall Street Journal* tested nine leading hotel chains for consistency. Three hotels in each chain—one in a major city, one in a resort location, and one near an airport—were tested. Only one chain, the Four Seasons Hotel and Resorts, was considered "outstanding."

Four of the chains were rated "fair" because of significantly varying quality across the properties tested. The problems of the big brands haven't escaped the attention of a newer breed of hotel: the independent brand. Individual hotels are capitalizing on the lack of brand differentiation by creating unique personalities and targeting niche segments that larger chains may be unable to efficiently service. Yet these "boutique" hotels tend to serve targeted markets and be very trendy—resulting in a hotel room with an exorbitant price tag.

For example, The Ritz-Carlton Hotel Company's President and Chief Operating Officer Simon Cooper said recently that the company's latest challenge is staying consistent while it changes the look of its hotels to better reflect the locale. He says there's a fine balance in executing function in a relatively consistent manner while trying to create individual experiences hotel-by-hotel. Consistency may be the most important thing to these hotels. Without consistency, by definition, the hotel is not really a brand.

Trend 9. "Do more with less"

Companies are refocusing operations, fortifying cash positions to navigate the downturn and position themselves for future growth. Hotel owners and management companies are accelerating efforts to fortify cash positions in a bid to survive the current downturn and to strategically position their businesses for mid-term and long-term growth. Many hotel enterprises have identified and continue to identify ways to more closely manage costs. They are intensifying their focus and practices around risks and controls, with an objective of emerging from the current downturn stronger. Those that are effective will remain competitive in the short-term, and will attract more capital and accelerate their growth in the next up-cycle.

Decreasing guest demand and increasing attrition of booked business is the greatest anticipated business challenge cited by hotel executives during the next 12 months of operations. In response, companies are refocusing their attention on the guest experience, such as heightening attention to attract and serve priority customers and accounts. Exceptional companies in the hotel sector also recognize the importance of cost effective marketing tools to influence travel decisions, especially among younger generations, and they continue to look into creative ways to brand the guest experience to generate demand, such as by implementing green initiatives and social responsibility programs.

Given the depth of the downturn and the need to provide investors with a sense of comfort, it is critical that companies that own and operate hotels regularly stress-test their hotel property portfolios to ensure they can proactively consider the impact of varying economic scenarios and assess strategic alternatives. This is particularly important in light of the fact that respondents are cautious about the outlook for revenue per available room (RevPAR) growth in 2009. Most expect negative RevPAR growth for the year. Key concerns are decreasing demand, decreasing average daily room rate (ADR) and increasing transportation costs/declining airline capacity. Other challenges include climbing labour costs, lack of financing and increasing competition.