

# BACKGROUND ON TODAY'S ADR REALITY

## Today's Realities for the Global Hotel Industry



By Sara Duggan | Director, Marketing | TravelCLICK Inc.

WHITE PAPER

Keeping perspective on the multitude of macroeconomic factors impacting consumers and the industry is more important than ever. The current business environment is one of the most competitive and complex in recent times — the more you know, the better prepared you will be to manage your ADR and to be smart about the best ways to maintain the long range view. By understanding supply, currency fluctuations, group and corporate travel and the airline industry we will all gain a more holistic understanding of market dynamics.

### A SURPLUS OF SUPPLY

New hotel construction typically has a long lead time. Despite the likelihood that some projects will be delayed or even cancelled, a significant number of hotel properties will open in the next two to three years. This additional supply, combined with declining demand, will bring challenging times for hotels in the short to medium term.

The surplus of supply is affecting hotels worldwide, from Steve Wynn's launch of his newest Las Vegas properties, Encore, to properties in cities across South East Asia. A CB Richard Ellis (CBRE) survey of five cities — Singapore, Bangkok, Hanoi, Ho Chi Minh City, and Kuala Lumpur — showed 23,000 four- and five-star hotel rooms will be potentially available from 2009 until the end of 2012. Particularly hard hit are luxury resorts. With the current economic downturn, demand has decreased significantly. Luxury travel volumes have fallen sharply, as business and leisure travelers are much less likely to stay at luxury resort properties. Where the concept of luxury was once an advantage, with today's realities, it's more of a negative — perceived not as a reward but more as an indulgence.

### CURRENCY FLUCTUATIONS

Exchange rate fluctuations compounded the increase in hotel costs in the first quarter of 2009. The strong US dollar is negatively impacting international travel, which throughout 2008 helped offset falling domestic demand. Similarly, the falling value of the UK pound and strength of the Euro has negatively impacted UK travelers' volume to Europe, particularly the traditional holiday destinations in southern Europe.

The primary impact of the dramatic swing in currency is that properties with no year-over-year price change can now appear 20% or more expensive, solely as a function of exchange rate fluctuations. The secondary impact of the shift in foreign exchange has been the impact on the currency used for hotel pricing. Traditionally, properties in key international destinations (e.g., Mexico, Thailand, and Brazil) have priced their properties in US dollars. The shifting currency exchange markets in 2008 brought about a change in this trend, with increasing numbers of properties moving to local currency pricing.

### THE AIG EFFECT AND CORPORATE TRAVEL

The 'AIG effect' — so named when insurance giant AIG spent \$440,000 of its government bailout money on a lush resort weekend for employees — has had a significant impact on hotel corporate business, primarily in North America. US companies canceled an estimated \$1 billion worth of conferences in the first two months of this year and trimmed back on others. This has translated into lower group levels across the board, but hardest hit have been the traditional conference markets. The decline in group levels has resulted in the following:

1. Exiting group business, on the books, have been aggressively renegotiating price.
2. Hotels now have more inventory to sell in a market without compression and falling demand.
3. Lower group rates are needed to secure business and lower transient rates to fill greater percentages of the property.

Corporate travel has also been impacted. A survey of 354 business executives by The Economist Intelligence Unit notes, "The downturn will lead to fewer, shorter business trips and executives expect to downgrade hotels. Travel buyers will take advantage of this fall in demand to extract the best possible room rates." These combined factors have resulted in the budget sector faring better than mid-range and high-end hotels.



Knowledge is Power Series  
*Rate Management Strategies for Tough Economic Times*

Corporate Headquarters  
Chicago +1 847 969 0820

Europe Office - Barcelona  
+34 93 520 80 08

Asia Pacific Office - Melbourne  
+61 3 9699 9969

[www.travelclick.net](http://www.travelclick.net)

01

# BACKGROUND ON TODAY'S ADR REALITY

## Today's Realities for the Global Hotel Industry



By Sara Duggan | Director, Marketing | TravelCLICK Inc.

WHITE PAPER

### AIRLINE CAPACITY

Using historical data from Smith Travel Research, Moody's Economy.com, and the Department of Transportation, and controlling for the effects of changes in income and employment, PKF Hospitality Research (PKF-HR) confirmed what many intuitively believe: a highly significant relationship exists between available seats and hotel room night demand.

The world's airlines have scheduled 4.9 percent fewer flights for March 2009 compared with the same month last year, with a 3.3 percent drop in seat capacity, according to the latest statistics from Official Airline Guide (OAG), the world's leading aviation data business. This is the eighth successive month of declines, and represents a reduction of more than 122,000 flights and 9.8 million seats year on year. With high fuel prices and steep competition, more airlines are folding. The impact on hotels is readily apparent. With the 2008 bankruptcy of Aloha Airlines, for example, Hawaiian hotels — totally dependent on flights for out-of-state guests — are facing fewer visitors and less occupancy.

The OAG figures for March reveal a continuing slowdown in the global figures and on the key long-haul routes between North America and hubs in Europe, Asia Pacific, and Latin America. Asia is holding up much better with a marginal decline in frequencies and slight growth in intra-regional capacity, while the Middle East is bucking the global trend with comparatively healthy growth, especially for international operations. Europe continues to see sharp cutbacks on routes to, from, and within the region, while Africa remains fairly stable compared with this time last year.

### A STRONG STARTING POINT

One positive in this sea of gloom is that many properties are approaching the current downturn in far better health than they did in 2001. Exceptional growth in the market over the last five years gives hoteliers a strong starting point. Key cities such as New York and London are among the first to feel this market correction after years of exceptional average daily rate (ADR) growth. ■



*Drawing on global experience in Operations, Distribution, Revenue Management & Marketing, Sara Duggan is currently Director of Marketing for TravelCLICK. Born and raised in Southern Africa, she received her Post Graduate degree in Business Hospitality at IHTTI Hotel School in Switzerland. Prior to joining TravelCLICK and moving to Canada, she worked extensively as a consultant in both Revenue Management and Marketing. She has created and led the Revenue Management and Distribution Departments for Blackstone's European properties. Sara also holds the designation of Certified Revenue Management Executive from the Hospitality Sales and Marketing Association. A recognized expert in her field, she is a frequent speaker and writer on revenue management and distribution at industry conferences and hospitality schools.*



#### Knowledge is Power Series

*Rate Management Strategies for Tough Economic Times*

Corporate Headquarters  
Chicago +1 847 969 0820

Europe Office - Barcelona  
+34 93 520 80 08

Asia Pacific Office - Melbourne  
+61 3 9699 9969

[www.travelclick.net](http://www.travelclick.net)

02