

# HOTEL yearbook 2009

What to expect in the year ahead

**How Barack Obama will  
affect the US hotel industry**

**Economic woes in 2009:  
Managing in a downturn**

**Four CIOs join our first  
Technology Roundtable**

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# Reduce rates in a recession ? Think again !

How will the luxury hotel segment brave the downturn in 2009 ? One thing **CHRISTOPHER NORTON**, General Manager of Paris' **FOUR SEASONS HOTEL GEORGE V**, firmly believes is that the industry as a whole will bounce back from recession, stronger and smarter. For 2009, he offers three bits of advice to operators in the luxury segment concerning the product, prices, and the people that make it all happen.

A slew of articles and papers have been published on the subject of trends. The economy has been on a radical change curve and markets are being turned upside down. It has been one of the most dramatic situations we can remember, and we are left wondering how it could have gone « so bad, so fast. »

What's affecting all of us will, to some extent, shake some foundations and challenge our skills as managers – managers of people, of numbers and of the product that we keep reinventing and allowing to evolve.

The Baby Boomers among us still remember the previous crises – the turn of the Eighties and of the Nineties, the Asian monetary meltdown in 1997. And all of us remember the enormous impact on our lives following 9/11, the bombings that first affected Asian hotels and resorts and then changed the way people travel more regionally, the violent tsunamis in Asia, hurricanes in the USA, bankruptcies of unshakable institutions like Swissair, to name but a few... and now this, the US banking crisis.

But there is a silver lining. The length of the cycles may vary, but we always seem to come out of global downturns better and stronger. We bounce back after looking for new opportunities and we adjust more willingly to the realities of our emerging situations. So here is the good news: We will bounce back again: stronger, better and – hopefully – smarter.

What will happen to the luxury hotel industry in 2009? Where will the biggest change occur? Predicting the future is not an easy task. I hope you'll indulge me the opportunity, with my gut instinct – the most precious management tool I possess, forged in my case by 34 years of lessons learned working in this niche of our business.

In 2007, luxury was a topic of heavy debate. Media coverage abounded as both the industry and the media sought to understand factors driving the rebirth and resurgence of the luxury sector. Luxury hotels offer a safe haven for guests, striving to shield the clientele from the unpleasant or eliminate unnecessary stress. In an environment that maximizes time and energy (both could be considered equivalents to money),

guests are then freed to pursue what matters most to them, and what best fits their personal definitions of success.

I am not straying from the subject. The question matters more than ever: in a down economy, will the true value of « the luxury segment » make a difference? The playing field today is different and the stakes are higher than ever. Our customers are more sophisticated consumers, more educated critics and more demanding than ever. Trendwatching.com recently covered the « Expectation Economy, » a world of ever higher-demand, « hyper-consumption, » in which word of mouth circulates in a flash.

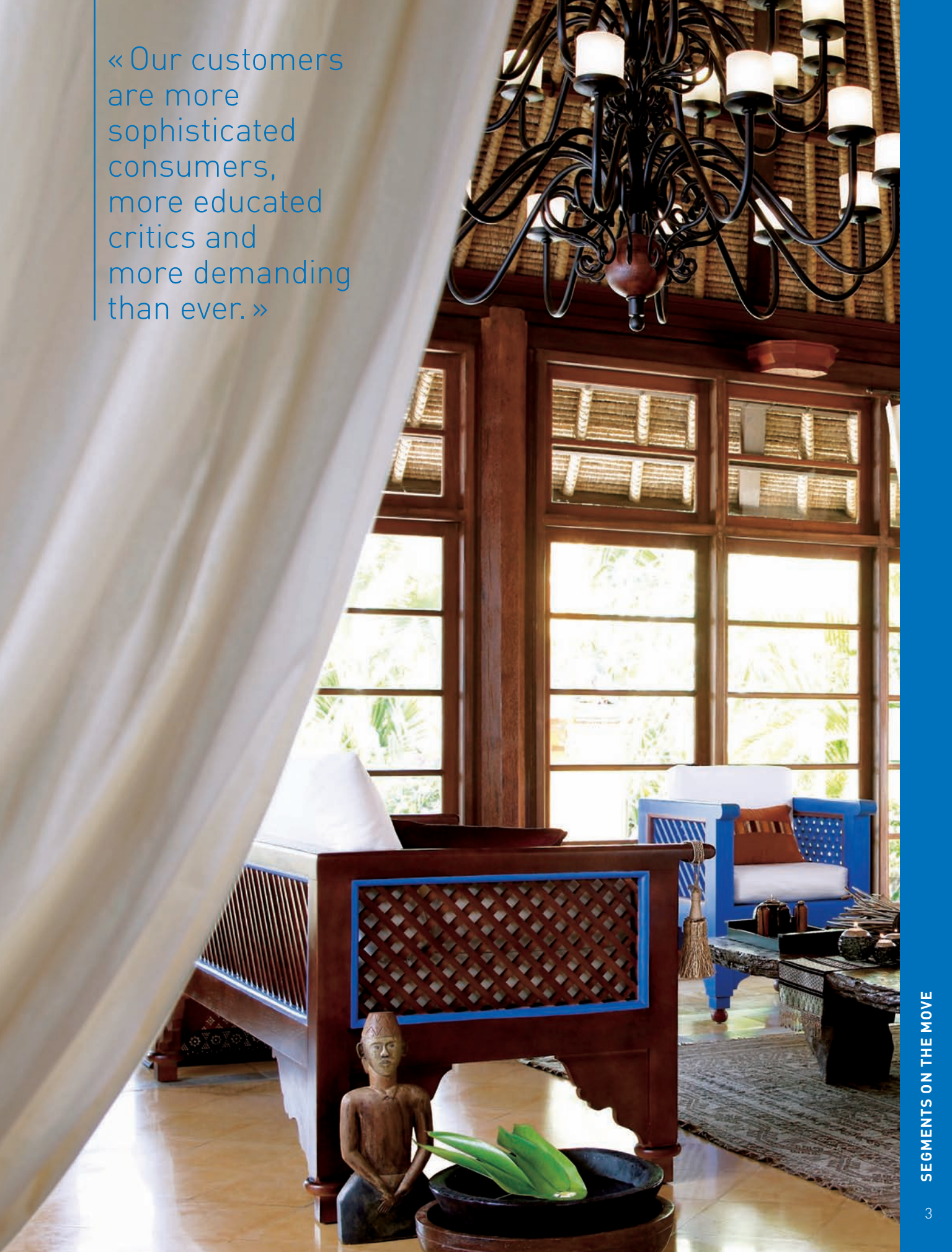
## **Provide « meaningful luxury » and you will radically outperform markets and competitors**

This is where I chose to combine the meaningful with the luxurious. Our guests are no longer impressed by pretense. Whatever amenities you may be able to offer the super-rich traveller, he or she probably already enjoys in equal (or better) measure at home. To this audience, « meaningful » means « value », and value is something you feel happy to spend your money on, because you want and need it. While the physical attributes of the experience are expected, more than ever they will take a backseat to the true providers of human, warm, friendly, sincerely humble, attractive and super-efficient service. This is the best – and often the only – way to emotionally engage your customer and to hold on to them.

Your design must please and your facility must compete. But if you cannot separate your luxury hotel product offering from the fatal irony of becoming a commodity, you will quickly vanish from this arena, and you'll open your doors to a different public.

Meaningful luxury means that you fundamentally understand your guest. You know what they expect, where and how they live and what they are willing to pay in your part of the world. If you do this well, price will not be the driving force. If you give them what they want and need, they will return again and again. And if you remain consistent, especially during these trying times, the expression of the crisis in your P&L will be a probable reduction in GOP versus a loss. ►

« Our customers are more sophisticated consumers, more educated critics and more demanding than ever. »



# Reduce rates in a recession ? Think again ! cont.

Were you greedy during « harvest » times ? Or did you keep reinvesting in your facilities, employee training and creativity ? During the difficult year ahead, will you continue to maintain and add « meaningful » luxury ? I estimate that you'll be a good 25-35 points ahead of the competition if you stay the course or, better yet, find ways to implement more improvements.

## Yield is king : true luxury operators will maintain and/or increase their rates

In early 2007 I had the opportunity to hire a new Director

of Revenue (the King of Yield !) Of course it has been a busy 18 months and so yielding is much more fun. But the careful and methodical science of yielding even more carefully has had an amazing impact on our bottom line. The revenue management team carefully dissects, slices, dices, analyzes and deeply understands the various scenarios. They ably manage inventories and can best maximize the hotel's revenue stream. That may not include the marketing of seats, airline-style, or budget-hotel strategies such as « rate of the day » that would eventually drive away the true « expectation economy » luxury ►

## Resort challenges in 2009

What will be the three biggest challenges facing summer resorts in 2009 ? We asked **JAMES MUNRO**, General Manager of the **SHERATON ALGARVE** in Portugal. He writes :

Keeping up with new trends is something all businesses aspire to. We in the hotel sector pursue this challenge of understanding new trends and reflecting them in our business today more than ever. As an example, a « spa » used to be considered as an innovative service and an added value, but nowadays the trend reflects that customers expect to find a « spa » at a resort. It is not an added-value any more, but in turn becoming a standard.

So what do I see as the biggest challenges we'll face in the coming year ?

### Making sure our market knows how we're different

One of the biggest challenges we will continue to see in 2009 is really how to differentiate our resort product and services between other resorts in Europe and throughout the world. The challenge is to understand what our customers want, and how we provide new and fresh experiences for them. In other words, what differentiates our service, our welcome amenities, our food, activities, etc. ? ►



# Reduce rates in a recession ? Think again ! cont.

consumer. (Have you ever seen Hermes offer their Kelly or Birkin bags « on sale » ?)

Examples abound during the recent crisis, augmented by studies showing the insane inefficiency of lowering rates in panic, in the hope of attracting more business. Our niche is primarily (and by definition) about quality and rate, and not about volume. In our mostly smaller- or medium-sized properties, it is almost impossible to make up for a significant rate loss by volume. It just does not work.

Hotels that lower rates to attract business (usually unsuccessfully) also emerge, post-crisis, more severely bruised with a changed perception of their brand and slightly tarnished image. The recovery of higher rates, even during renewed good times, is impossible or at best very difficult. The lost upside: profitability will be affected for years after.

I think today we find a newer, savvier group of luxury operators that will have the guts to hold their rates because they believe in their product and they understand their customer. ►



## Dealing with the operational difficulties inherent in having a peak season

On the cost side – and in view of the current economic scenario – resorts like ours face high peak seasons in the summer and low demand periods during other months. So another challenge in 2009 will continue to be how to deal with fluctuation in terms of flexibility, making it cost-effective for the resort but not decreasing the quality of service.

## Getting the staffing right – and well-trained

How do we balance the number of employees and service quality? The biggest investment, I feel, has to be in training each employee in order to meet their potential, therefore giving more flexibility to our operation.

## On a positive note...

Looking at the way that 2009 demand will probably unfold, we would expect some upside next year from the fact that the consumer may well be moving from « long-haul » travel to more « short-haul » destinations. We're likely to benefit from that. ■

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# Reduce rates in a recession ? Think again ! cont.

## **Savvier luxury hotels will recruit more of Generation Y's « best in class »**

What may be my boldest prediction might also prove to be the most significant. For years, I have been fascinated by the social differences among various generations, and what makes each tick. Numerous worthwhile books have been written on this topic, and if you do not know much about « Generation Y », run quickly to the nearest bookstore and read up on what should be a relevant success component in your HR strategy. You need to understand the young working world around you.

I believe that « Generation Y » is one of the most amazing yet. As this group will eventually inherit our industry as the new consumers, employees and managers, they will of course shape luxury's next 30-50 years. (But next year is crucial !)

I'm talking about the smart, hard-working, motivated students currently entering the workforce. The financial crisis may have lured many of these Ivy League- (or equivalent) educated minds, students specializing in hospitality management, away from the service industry and into other arenas – banking, consulting, development or finance.

We will see an entirely new appreciation of service and the incredible edge it gives to any product. In a world overwhelmed with marble lobbies, suites so enormous they become impersonal and designer « this » and designer « that », service wins. At a real estate industry conference in Munich recently, I took part in a panel discussion. One of my panel members, a promoter of luxury and design by trade,

predicted the ever-growing importance of the skill of management as the most important way to add value. No news to some of us !

The luxury niche can offer amazing potential for this new generation. They see that the value they offer as managers offers job candidates exciting and challenging career opportunities. In 2009 and the years that follow, we need to understand emerging talent as well as we can. We will attract more qualified minds than ever, and we must be prepared to manage their growth and learning with care and intelligence. They must see that they can get our support and career formulas that reward the best and the brightest so they reach their highest potential, their personal best.

We just took on a young woman after graduation from Cornell University and placed her on a specially-designed spa training program. I just met up with her in Singapore. She had just come from her first stop, a tropical island resort, to pursue her 12-month journey. A first direct hire out of school, she and others, mostly managers from within the company, are placed in key Four Seasons Hotels and Resorts in Asia and Europe, to learn the trade of the ever-evolving spa market. She was amazed by the learning curve she was about to go through during her journey through our world class spas in Bali, Koh Samui, Langkawi, the Maldives, Hong Kong, Singapore, Paris and our resort in the South of France.

These are the people who will make the difference – and 2009 will be the year to embrace them fully. ■

