Effectively Weathering the Economic Cycle’s Ups and Downs

Traveler acceptance lessons learned for the hotel, airline, rental car sectors

[LISA M. ALLEN]

The current economic crisis has many in the hospitality business—along with most American industries—on edge about the future. Will consumers continue to cut back on travel and how can the hospitality industry best prepare for volatile economic times?

New research from the HSMAI/DKSA “Traveler Acceptance Index” (TAI) reveals a cyclical pattern over the last eight years in consumer attitudes about their travel experiences. This latest research offering looks at the TAI, which integrates the perceived value and satisfaction in three interdependent sectors—hotel, airlines and rental cars—over the current business cycle from 2000 through 2008.

“We wanted to look at the broader components of the travel experience this time around,” says DKSA President Doug Shifflet. “If you just look at hotels without understanding the impact of transportation, the picture is less complete and therefore less actionable. We’re now seeing the TAI as an indicator of how the market is going and how people are reacting to marketplace issues.”

As part of the TAI, DKSA asks over 50,000 U.S. households each month to rate their most recent travel experiences including their transportation and hotel stays on satisfaction and value using 10-point scales. The data presented here looks at changes in their rating combinations from 2000-2008 in hotel stays, car rentals and airline travel in both the leisure and business travel segments.

“We've noted significant trends in the relationship between economic highs and lows and consumer attitudes toward their travel experiences,” says Shifflet. “When coming out of a poor economy and prices for travel are being held down, value is particularly positive, based largely on the low prices. During the more stable middle period of the business cycle, travel prices begin to quickly escalate and peak as you approach the end of the cycle. If the product hasn’t improved commensurately, then you find perceived value begins to drop and the TAI turns down—this is a critical turning point for the cycle.”

Shifflet says airlines generally experience the lowest levels of acceptance in the three travel sectors with rental cars and hotels tending to run in close parallel. The rental car industry is considerably more volatile, Shifflet says, largely because rental car companies can make improvements to their fleets and services relatively quickly or reduce product levels more rapidly than hotels do. Hotels are also less susceptible to fast changing external factors such as rising fuel costs than the other sectors and thus see more consistent levels of satisfaction provided they continue to deliver solid product quality and value.

2000-2004: Travel Sectors Weather Tough Times

AIRLINES—Airlines started the new century at a very low overall passenger acceptance rating (TAI score), based on poor satisfaction and negative value ratings. While the airlines start out well below the hotel and rental car sectors in acceptance, compared with the other sectors, the airlines reap the greatest early TAI score gains. The TAI rises dramatically during this period which includes the aftermath of 9/11. For total airline travelers the greatest increases are seen in early satisfaction gains followed by strong value ratings which then level off in 2003 to 2004, but satisfaction continued to grow, bringing up the overall TAI. The airlines gain their greatest traveler acceptance level through pleasing their business flyers 2000-04, who more than double their satisfaction and reported value ratings during this period. Leisure travelers show marked gain in satisfaction and even more in value ratings throughout the 2000 to 2004 time frame. When they peak in 2004, the airlines lost their TAI to their sector’s closest alignment with hotel and rental car TAI.

RENTAL CARS—Beginning in 2000, the rental car TAI starts higher than the other sectors and shows increasingly happy customers particularly following 9/11 through the end of the 2000-2004 time frame. Leisure customers are particularly delighted, reporting high satisfaction nets along with strong sector increases in value ratings. Robust gains in satisfaction ratings from business customers brings a 2002 gain for rental cars which then moderates into 2004 while leisure ratings carry the sector upward. In this initial rising period from 2000 to 2004, rental cars post a solid
TAI, running in tandem with hotel TAI scores in this same time period.

HOTELS—Hotels closely mirror TAI levels with rental cars during this period. Interestingly, the hotel sector, with significant product improvements and removal of poor product, rapidly increased its TAI from 2000 to 2004, plateauing in 2004 and, compared to the other sectors, never losing significant TAI score again during this business cycle.

“As the market improved from 2000 to 2004, consumer acceptance levels were generally value driven as opposed to satisfaction driven,” says Shifflet. “For air, auto, and hotels during this time frame, prices were held low, salaries started going up, travel products were improving and people therefore started to feel better about their overall travel experiences. This is reflected in an upswing in the TAI for all three segments during this time.”

2005-2006: Economy on the Upswing, Travel Satisfation High

AIRCRAFT—Airlines moderate their TAI scores in both business and leisure segments in 2005-2006. They do this by holding reasonable satisfaction ratings, but generating declining value ratings particularly among leisure passengers.

RENTAL CARS—Rental car TAI scores bloom in 2005 and 2006, rocketing rental cars to the highest levels earned by any of these travel sectors. Drivers of rental cars continue to be thoroughly pleased, showing the highest satisfaction ratings of any sector. DKSA theorizes that rental car companies don’t have to bring as many new cars into their fleet when economic times are tough—prices can be kept lower through the use of older cars. Demand then begins to increase and new cars are brought in, which results in improved satisfaction levels among both business and leisure travelers.

HOTELS—Hotels are in their “balanced” phase and plateau here, delivering TAI scores well above airlines, but lower than the temporary TAI bubble in rental cars. Hotels are “balanced” as their products continue to improve commensurate with their rate increases so that they hold their value ratings even as they raise rates.

“During this mid-cycle period as business booms, the TAI becomes primarily satisfaction driven among business travelers,” Shifflet notes, “while leisure travelers continue their price sensitivity with the more commoditized experiences such as air travel.”

2007-2008: Renewed Economic Concerns Drive TAI Levels Down

AIRCRAFT—Airlines show a sharp fall off in 2007, with a predicted, though somewhat less severe drop in 2008 as those who continue to fly absorb carriers’ shifting fee structures and pricing add-ons. The drop in 2007 puts business travelers’ TAI back to the low levels posted in 2001, with business flyers giving airline TAI extremely low value ratings in 2007. TAI levels are expected to continue decreasing through 2008, with a dramatic drop from the 2006 level. For perspective, by the end of 2008 the airlines will have lost half of their sector’s total TAI gain to 2004—but they are still well ahead of the year 2000 (base year) levels.

RENTAL CARS—Rental cars experienced a steep decline in traveler acceptance in 2007, losing 26 percent of this sector’s TAI score. The sector showed some decline in the value dimension from business and leisure, but shows a much more substantial loss in satisfaction levels. Leisure rental customers give their lowest satisfaction ratings for the car rental sector during this time frame, indicating a perceived decline in product offering, possi-
bly related to rental car fleets loaded with vans and SUVs when smaller, fuel efficient autos are desired. Projected challenges with fuel costs, compounded by increased expenses from taxes and fees, will continue to challenge the rental car sector through 2008, but with a projected leveling in overall acceptance scores as those who continue to rent will accept the situation even as newer and more efficient cars ramp up in the car fleets.

HOTELS—Hotels continue to hold steady TAI levels during this time period, with no appreciable “drain” as compared to other sectors. In fact, hotels are positioned with the highest overall sector TAI score in 2007 and into 2008. Shifflet states that “The improving hotel products appear to continue to balance the rate increases more effectively than the other sectors with the particularly interesting result that they are annoying relatively few guests in these difficult times. This is more important to loyalty development than some hoteliers realize.”

Using historical TAI data, the outlook for travel acceptability among consumers is more predictable. Note the clear declines in the TAI from mid 2007 as a leading indicator for the year ahead. “If the economy weakens further, we can certainly expect this key integrated measure of satisfaction and value to decline a little more, but not tremendously because those who are unhappy will just stop traveling, while those continuing to travel will have the income to sustain travel and have adapted to dealing with the remaining hassles” says Shifflet. “The TAI Index is truly an indicator of things to come with practical implications for product development and price optimization. Travel sectors, segments and brands need to maintain a careful satisfaction and value balance in order to maximize the Traveler Acceptance Index as a key indicator of their competitive brand strength, especially through difficult times and in
preparation for the turnaround into the next up-cycle.

Lisa Allen specializes in business writing and marketing communications for corporate and association clients and currently leads Vantage Strategy Consulting’s communications initiatives. Allen launched her business, ALLEN Communications, Inc., in 2002 and has more than 15 years experience in communications, media relations and business marketing. Before founding her company, Allen served as director of communications for the Grocery Manufacturers Association, where she led the daily operations of GMA’s communications group, implemented marketing campaigns, handled media relations on key business issues and oversaw all communications deliverables. Prior to joining GMA, Allen served as the director of communications for the International Fresh-cut Produce Association, where she created and oversaw production of all marketing materials and handled the organization’s media relations. She also worked as an account executive for BC Communications, Inc., and as a public affairs coordinator for the United Fresh Fruit & Vegetable Association. Allen graduated from the University of Delaware with a B.A. in Mass Communications with a concentration in Journalism and in 1993 earned the university’s E.A. Nickerson Award for Outstanding Achievement in Journalism.

Established in 1983 to serve as the research and educational arm of HSMAl, the HSMAl Foundation’s mission is to expand and enhance the educational opportunities available to hospitality sales and marketing executives and to increase the amount of in-depth research conducted on behalf of the profession. In future articles, a panel of industry professionals will offer advice on how to work with the TAI to improve your bottom line.

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