

A Market Metrix White Paper



*The
Leading Hotels
of the World, Ltd.*

**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

Market Metrix and The Leading Hotels of the World recently completed a study of the luxury hotel market, including guests and hotel managers from around the world.

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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.

Market Metrix and The Leading Hotels of the World recently completed a study of the luxury hotel market, including guests and hotel managers from around the world. This article provides highlights from this study and other recent research.

Many luxury travelers intend to travel through the recession | **Conclusion 1**

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

Where the data came from:

The Leading Hotels of the World Guest Survey, April 2009

- 2031 completed surveys
- Members of Leaders Club (loyalty program) and Non-members
- Guests from 95 countries

The Leading Hotels of the World Manager Survey, April 2009

- 211 completed surveys

Market Metrix Hospitality Index (MMHI)

- #1 hospitality benchmark database in the world

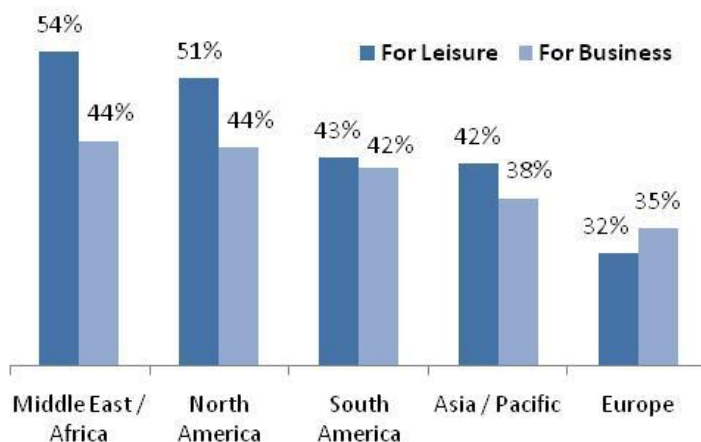
travelers who say they will reduce their travel in the coming year. Companies are canceling meetings and conferences to avoid any whiff of extravagance that may trigger the government's ire. Also called "the AIG Effect" (named for the insurance company that made headlines last fall for spending on a lavish spa retreat after receiving federal bailout funds), companies are shifting travel down-market or eliminating it altogether. Independent hotels are suffering less from "the AIG Effect" because they are not associated with the big name, big chain brands.

"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."

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

All geographies are not created equal | Conclusion 2

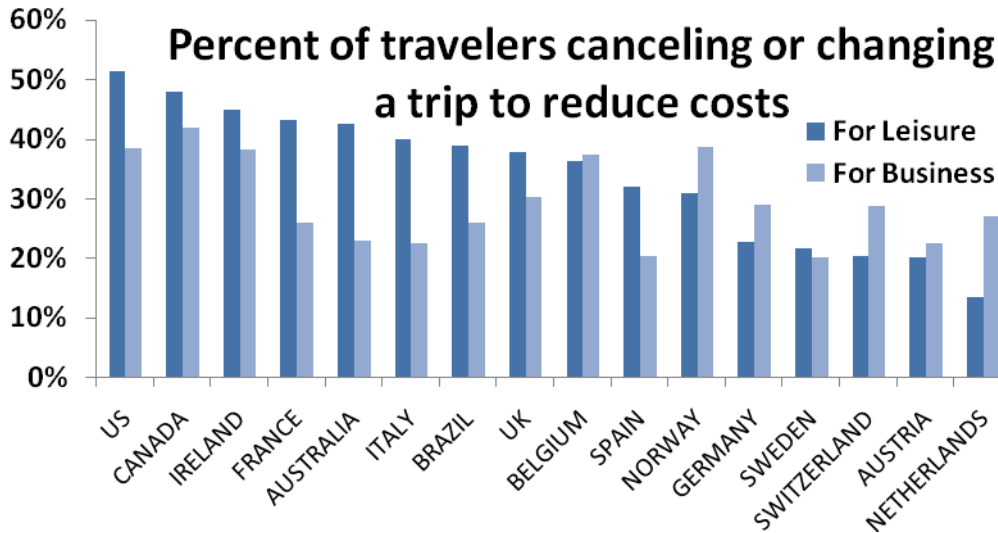
Percent of travelers cancelling or changing a trip to reduce costs



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

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.

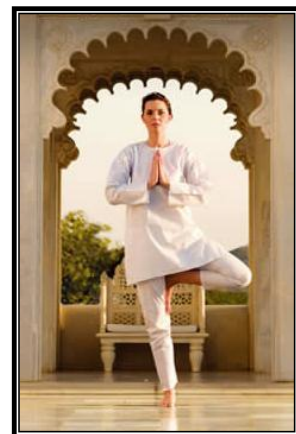
By country, about half of all American and Canadian travelers report altering their travel plans. But in Europe, travelers from many countries (e.g., Spain, Germany, Sweden, Switzerland, Austria, Netherlands) seem to be less affected and report fewer modifications to their travel patterns. One likely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

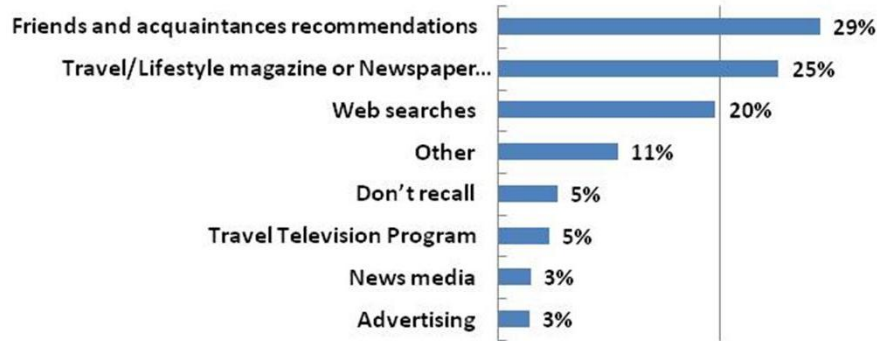
Use of the internet is growing fastest among luxury hotel guests | Conclusion 3

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.



Guests from 95 countries completed surveys for this study.

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



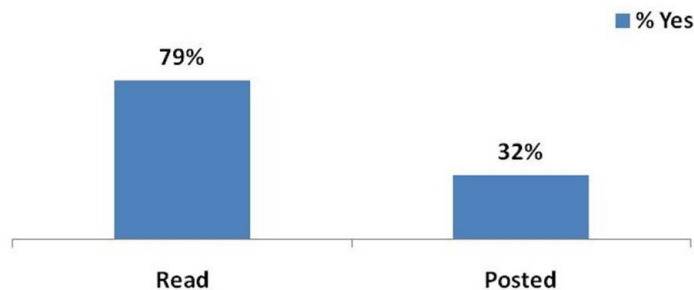
Nearly one-third of all travelers say they turn to a travel/lifestyle magazine, newspaper or travel TV show to find a new leisure travel destination.

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.

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 customers on that 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.

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.

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 two 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 secure 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-

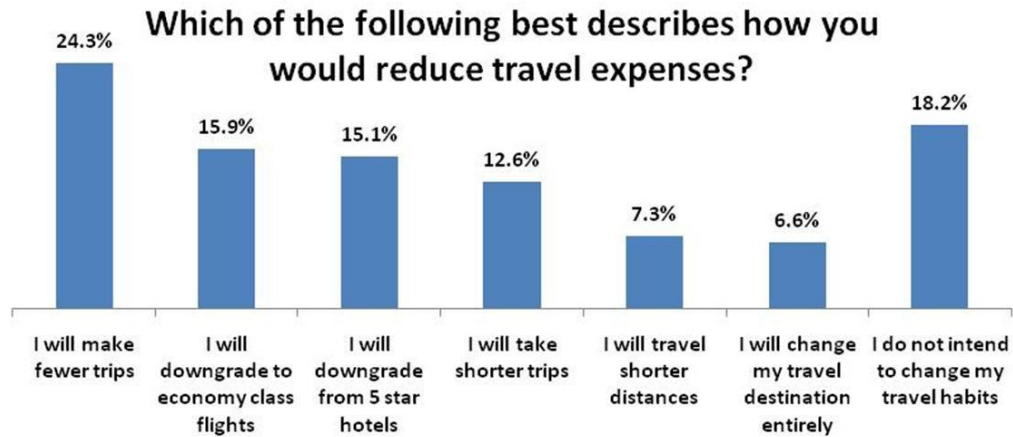
and-coming markets for educational tourism and adventure travel focus on our desire for “personal growth”. These trends have intensified as hoteliers recognize their marketing value.

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

What is your preferred turn-down gift or service?		Which complimentary amenity would you choose?	
Local gift	28%	Room upgrade	37%
Chocolate	24%	Extra night free	29%
An aperitif	24%	Airport Transfers	10%
A Small Dessert	11%	Dinner	9%
Other	5%	Spa Treatment	7%
Soft music on the radio	4%	Complimentary Wi-Fi	4%
Eye mask	3%	Unlimited minibar	2%
White noise machine	1%	Daily Champagne	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 five-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.

**The Leading Hotels of the World Guest Survey,
April 2009**

Respondent Profile
Leaders Club Members

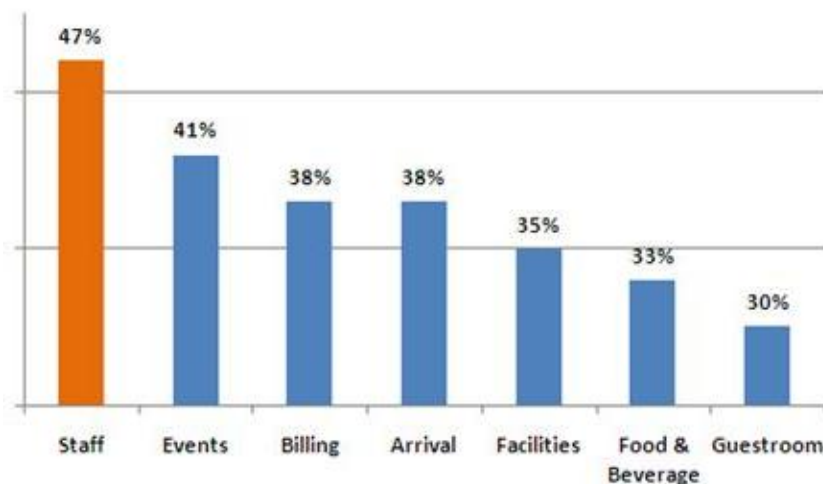
Average Age: 49

Average Annual Household Income: \$513,679

Gender: 64% male, 34% female

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.

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-of house staff, only back office.

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

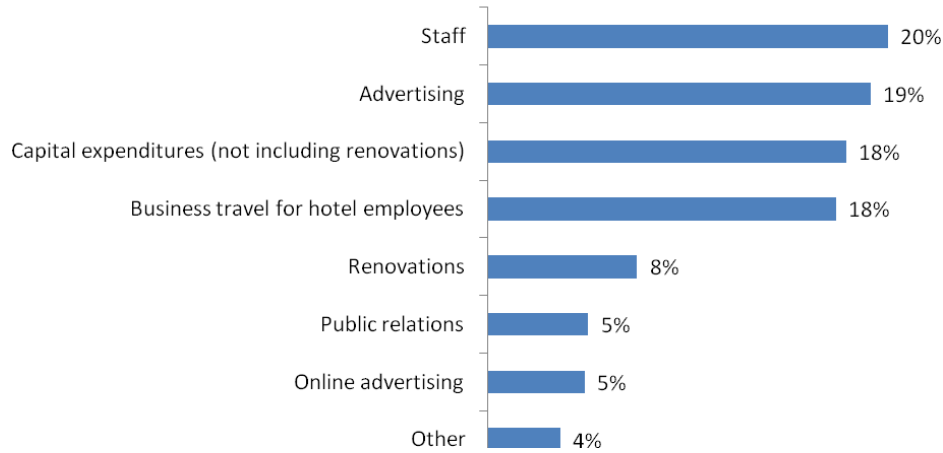
Reducing costs that do not affect the quality of our service.

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.

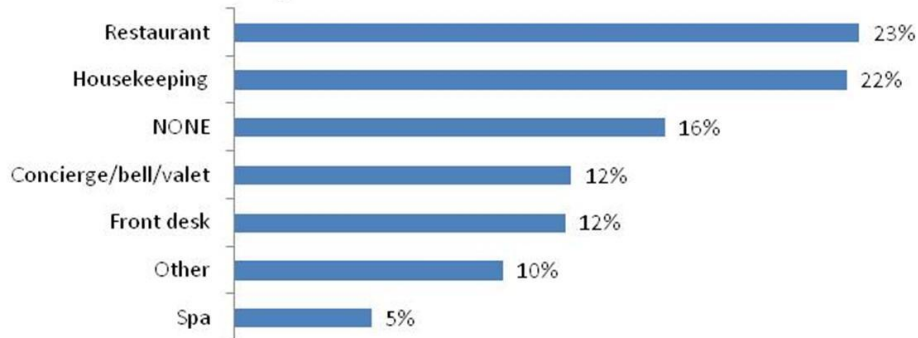
What, if any, areas of your budget are you most likely to cut?



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

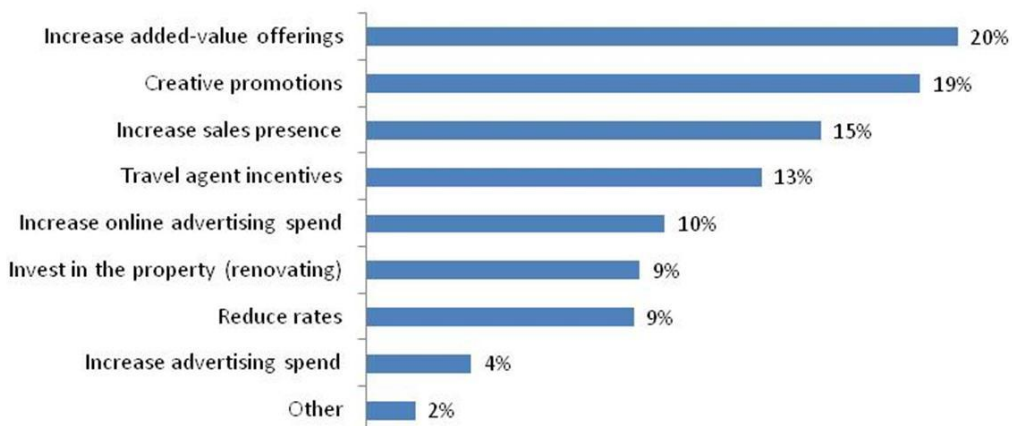
When hotels are forced to reduce staffing, restaurants and housekeeping are the most likely targets. With lower occupancies, employees can be proportionately reduced without affecting the overall level of service delivery.

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. Traditionally, businesses cut back on luxury travel spending in tough times. Now there are image concerns as well. That said, instead of canceling events and business dinners, some companies 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. A wave of new "personal growth" trends demonstrates the rapidly changing face of the luxury traveler.

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 complimentary services and amenities. But maintaining investments in service recovery and loyalty programs can go a long way to mitigating negative effects of reduced amenities. Improved service levels can also produce cost effective results. This means providing incentives and strong staff leadership for consistently delivering exceptional service.

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. Through outreach to a 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 downturn. 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 wish to regain corporate business travel may have to be creative in bundling and pricing to recapture this business.

Luxury travelers of all types value the uniqueness of their travel experience. Finding authentic experiences only becomes more difficult in the future. Returning to the basics of great service

and personalized experiences will in the end put the luxury hotelier with the right product back on track.



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