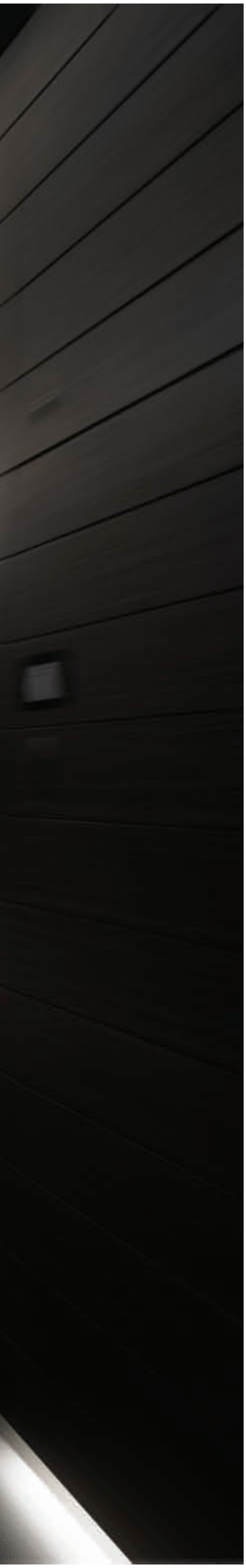

2015



Hospitality 2015: game changers or spectators?

The next five years will herald the era of a consumer-led brand focus for the hospitality industry. Consumers are changing faster than ever in both attitude and behaviour. Adoption of the right strategy presents the Middle East region with an opportunity to be a game changer in the global tourism industry.

Engaging the new consumer

The hospitality industry, traditionally more focused on the physical product, is waking up to a consumer who is demanding consistent delivery of the brand promise and, in the upscale to luxury segments, the experiential dimension will define a successful brand as much as the finer points of product design. By the end of 2009, consumer demand had largely stabilised and occupancy rates were starting to recover in 2010. We expect that 2011 will show a stronger, sustained recovery. Despite this optimistic outlook, as economic conditions continue to remain uncertain and governments face an uphill battle to pay off their huge deficits, value-conscious consumers will remain a key feature in the post-recessionary landscape across all segments of the market.

Which way now?

As consumer demand recovers it will be reshaped by two key demographic trends. In established markets such as the United Kingdom and the United States, the rise of the affluent, time-rich and travel-hungry Baby Boomer generation – aged 45 to 64 – will evolve and grow. By 2015, boomers in the U.S. alone are expected to control 60 percent of the nation's wealth, accounting for 40 percent of spending. With more time for leisure as they approach retirement, spending can be expected to be more focused around travel.

In emerging markets such as India and China, there will be a significant rise of the middle classes, generating an increase in demand for both business and leisure travel. Gross Domestic Product (GDP) per capita in China is forecast to more than double between 2010 and 2015, providing the population with greater disposable income to spend on hospitality, whilst India is forecast to have 50 million outbound tourists by the end of the decade. Each is a potentially huge feeder market. Whilst much of the development until recently has focused on the upscale and luxury market, the greatest potential in these markets lies in the growth of branded mid-market and budget product aimed primarily at the domestic traveller.

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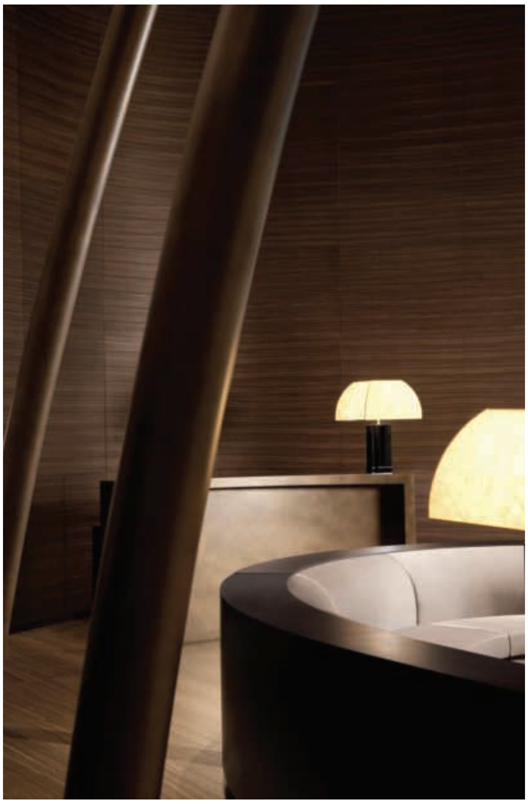


Indeed the Indian government has identified a shortage of 150,000 hotel rooms, with most of the under-supply occurring in the 'budget' sector. Understanding the desires and motivations of the Chinese and Indian traveller will be fundamental to success in these markets. Whilst growth in these emerging markets is significant, this should not distract from the absolute size of the mature markets. It is forecast that the share of global tourism to GDP will shift by less than five percent from mature hospitality markets to emerging markets by 2015.

The Gulf Cooperation Council (GCC) region appears well placed to benefit from the China/India opportunity. The proximity of the GCC to India, the presence of a large Indian expatriate population within the GCC means that hospitality brands will enjoy "two-way visibility" in both the Indian and the GCC markets. Within the GCC, the United Arab Emirates, Qatar and Oman now enjoy approved visitor status with China. This, coupled with the rapid expansion of Emirates, Etihad and Qatar Airways into China should provide excellent opportunities for outbound and inbound tourism. A key challenge is whether the regional industry itself is ready to receive large-scale tourism from China. Specifically, Mandarin language skills and menu customisation will be a key requirement to serve this market.

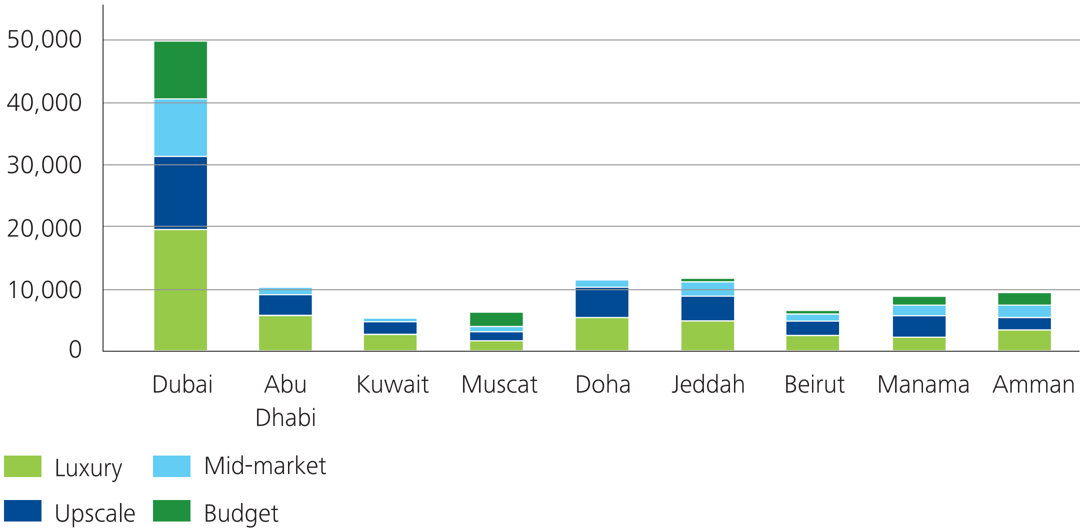
The name of the game

Faced with these new patterns of consumer behaviour, the most successful brands in 2015 will be those that are able to most efficiently engage with consumers and clearly differentiate their offering from their competitors. Delivering their brand experience consistently and at a transparent price point will be vital to success. At the upper-end of the market, brand will be the core driver of growth as markets become saturated. In the mid-market and budget-end of the market where differentiation is harder to achieve however, brands must focus on implementing consistently simpler but more compelling brand promises and combine value with experience to entice consumers. Here, the benefit of a loyalty program will continue to be a key differentiator for the consumer.

The new 'Lifestyle' brands will be an increasing force in the market, continuing their growth in both number and scale to 2015. Their ability to achieve strong revenue per available room (revPAR) often with relatively low conversion costs, will appeal to operators and owners alike.

Key to the brand promise is the talent delivering it. However, average staff turnover in the industry is still at 31 percent. With staff costs accounting for 45 percent of operating expenses and the strong correlation between

Hotel room inventory by grade in key Middle East cities (2010)



Source: Various country tourism authorities/ministries; Deloitte Research

staff retention and guest satisfaction, operators need to consider how best to recruit, reward and retain talent to ensure consistent guest satisfaction.

Within the GCC, 41 percent of the total number of hotel rooms are in the luxury segment. Lifestyle brands are beginning to emerge with hotels such as the W recently opening in Doha, Armani in Dubai and Missoni opening in Kuwait in 2011.

The world online

There are currently more than 1.5 billion people around the globe with access to the Internet. With this number forecast to increase by around 50 percent by 2015, operators need to embrace the world online and ensure they deliver their brand through multiple (and ever-changing) channels.

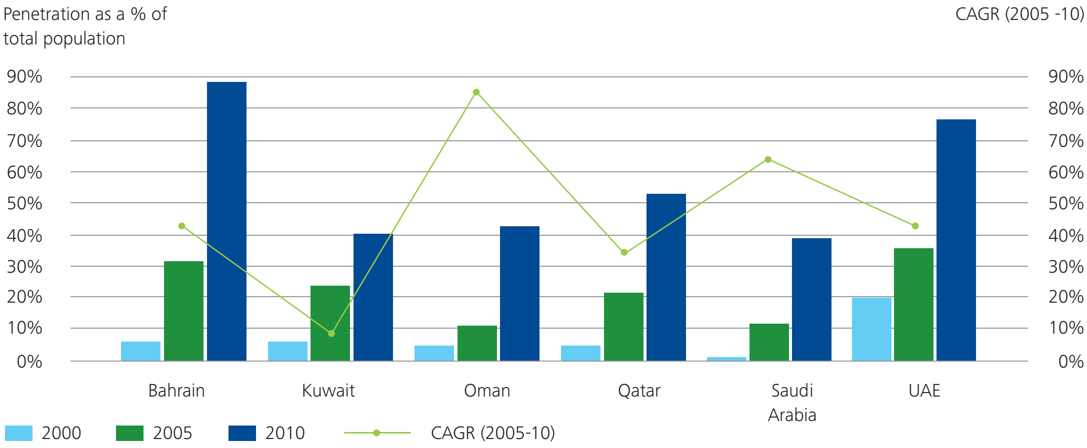
The social media frenzy has taken the world by storm the last few years. By 2015 this will become truly integrated within the travel and hospitality decision-making process, representing both threats and opportunities for the industry. The transparency of social media can highlight any inconsistencies between the brand pledge and its execution across geographic boundaries. Websites such as TripAdvisor are often the new customer's first point of call. While this represents a real challenge for brand owners, it also offers unparalleled opportunities for consumer feedback and opens new channels of communication between the brand and its customers.

As social media websites expand and access to the Internet and online distribution channels becomes more accessible, a new breed of confident, empowered and savvy traveller is emerging. Gone are the days when everyone walks into a high-street travel agency and flicks through brochures to book their flights and hotel as a package in one transaction. Savvy consumers are now 'unbundling' the whole booking experience, self-booking directly with suppliers or through new channels such as network carrier websites. In recent years, online consumers have also become increasingly value-conscious, with the Internet providing unlimited scope for price comparison and greater transparency of the guest experience on a global scale.

The use of technology is also changing and this needs to be addressed throughout the consumer's journey. Mobile technology will increasingly be at the heart of the consumer-brand interaction and offers a plethora of opportunities for customisation, communication, promotion and loyalty. However, the overall spend on technology in the sector still lags behind other sectors.

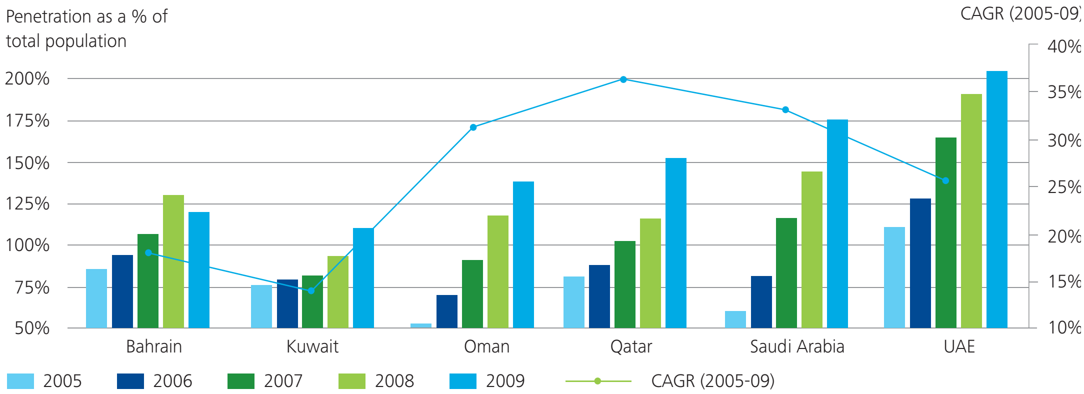
The GCC is rapidly converging to upper quartile penetration rates of both Internet and mobile phone usage thus presenting the hospitality market with an excellent opportunity to market and deliver services directly to the local consumers and minimise the high level of commissions paid to intermediaries.

Internet penetration in the GCC



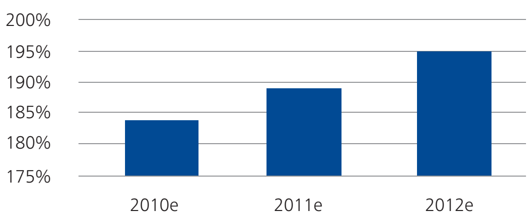
Source: International Telecommunication Union

Mobile phone penetration in the GCC



Source: International Telecommunication Union

Projected mobile penetration rates in the GCC



Source: International Telecommunication Union

A numbers game

It is no surprise that the trend towards choosing value-for-money products has accelerated during the recession as discretionary leisure and business travel budgets have been cut. The luxury hotel market and associated industries such as gaming and premium air travel have been hit particularly hard. On the flip side, low-cost air travel and products with clear value-for-money appeal such as all-inclusive cruises or resort-based holidays have remained relatively resilient.

Whilst growth in the luxury market is expected to recover, the drivers and shape of this market will inevitably have been changed by the extended recession. Luxury hotel brands may become more dependent on a core wealthy clientele that is relatively immune to economic volatility and we are likely to see a shift away from the conspicuous consumption of the late-1990s. Continued scrutiny of corporate travel budgets and the need for large off-site meetings also seems likely to be here for some time.

Consumers are increasingly environmentally aware, which will present further challenges for the industry. By 2015, regulatory, economic and stakeholder pressures are likely to create a virtuous circle that will begin to shape new expectations amongst both leisure and business consumers. Few will be prepared to pay a premium for green hotels but values-plus-value is likely to become a growing consumer mantra.

Alongside these known challenges and risks, the industry also has to manage the impact of the unknown. Economic uncertainty, volatile oil prices, fluctuating exchange rates and variable demand present ongoing challenges to owners, operators and investors alike. Events such as terrorism, pandemics and natural disasters result in sudden shifts in demand. While these are impossible to predict, they need to be expected and planned for.

All of the above means that we are at the dawn of a new world order for the tourism and hospitality industry. The choice is to be a game changer or spectator. Which will you be?

by **Alex Kyriakidis**, Deloitte global Tourism, Hospitality and Leisure leader and **Robert O'Hanlon**, partner in charge for the Tourism, Hospitality and Leisure industry, Deloitte in the Middle East

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