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HOTEL Yearbook 2014

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The Hotel Yearbook 2014 – Annual Edition
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ISBN **978-2-9700896-1-2**

COVER PHOTO:
citizenM hotel London Bankside

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ORDERS
Copies of this publication may be ordered online at www.hotel-yearbook.com
€ 19.50

Hotel Yearbook 2014 – Special Edition: Digital Marketing
A special edition of The Hotel Yearbook on Digital Marketing will be published in February 2014. For information about advertising or sponsorship opportunities, please contact: Henri Roelings at henri@hsyndicate.org

WELCOME

Dear readers,

Welcome to **The Hotel Yearbook 2014** – the 8th edition of this annual, forward-looking publication, focused on bringing you expert opinion and privileged insights on **foresight and innovation in the global hotel industry.**

Our editorial brief is always the same: we ask our contributors "What lies ahead for our industry?"

This year, we're happy to assemble for you another star-studded cast of editorial contributors, consisting of some 60 senior executives, seasoned observers and experts, and knowledgeable industry insiders. Together, they paint a fascinating picture of where the hotel industry is going, and particularly what new trends and practices will likely have an impact on it – and you – in the near future.

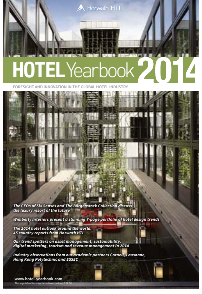
I'd like to thank all these authors for their time and for sharing their insightful observations and ideas. In particular, I'd like to thank the ever-responsive team of hospitality experts and consultants at **Horwath HTL** for providing almost four dozen mini-country reports for 2014 – more than we have ever had before, by a wide margin. These reports are produced exclusively for the Hotel Yearbook, and I believe anyone wanting a quick snapshot and reliable outlook for the state of the hotel industry in these 45 geographic markets will be well-served by starting with the Horwath take on things.

Thanks also go the fantastic team at **Hsyndicate** for providing not only an effective platform for reaching the industry's decision makers with The Hotel Yearbook, but also for enthusiastically supporting the publication's ramp-up to a new level: of design, of distribution, and of readership. Their partnership is the needed ingredient in getting all this great content into your hands.

Wishing you a thought-provoking read, I'm always happy to receive your feedback on the current edition – and ideas for future themes, too!

All the best,

Woody Wade | Publisher HOTEL Yearbook



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Hotel trends 2014: The industry moves forward

by ***Rohit Verma*** & ***Glenn Withiam***

Each year Rohit Verma and Glenn Withiam of the Cornell Center for Hospitality Research take the pulse of the hotel industry, identifying newly emerging trends and assessing their potential impact on the business. In this article, they summarize for us the findings of their most current research, which validates some earlier observations while positing thought-provoking questions about new developments. One of which may be the most provocative of all: "Could it be that the best service is no personal service at all?"

In two past essays in this space, we have examined a broad set of trends affecting the hotel industry. Some of these trends are driven by the industry's own internal efforts and others are the result of external forces. In our most recent article we highlighted the role of OTAs and other travel intermediaries, the growth of mobile apps, the increasing power of brand management, customers' search for value (for example, through social couponing), sustainability in all its forms, the blending of hospitality and health care, next generation globalization (or reverse globalization), and economic uncertainty. Some of these trends are here to stay, others have taken a new direction, and we frankly got ahead of some of them.

In this article we update those earlier trends while offering eight current trends. Some of the eight trends featured here are new, but others continue to evolve. Our analysis is based on studies and industry roundtables produced by the Cornell Center for Hospitality Research and the Cornell Center for Real Estate and Finance, as well as research published in the Cornell Hospitality Quarterly.

1. Sustainability. Sustainability is now part of the formula for hotels and many other hospitality businesses. Just two years ago, we were talking about sustainability in terms of a new aspect of hotel operation. Now, it is clear that not only is sustainability here to stay, but it is part of the mainstream expectations of customers, particularly meeting planners. In a recent study, conducted by co-author Rohit Verma and Cornell professor Howard Chong, we found that adding sustainable features does not give a hotel a competitive advantage on average. Fortunately, sustainable programs also do not damage the average hotel's rate and occupancy. Instead, we found that on balance hotels are essentially expected to offer green programs, and on average those programs neither help nor harm the bottom line.

2. Social media. Social media are more powerful than ever. They influence revenues, and they have changed the relationship between hotels and OTAs. This became evident in a study by Cornell Professor Chris Anderson, who found that guests typically visit TripAdvisor's review pages just before they make their purchase decisions—but many then book at the hotel's own website. We have long known that hotels have a better chance of getting bookings when they are listed at the top of search engine results. Professor Anderson was able to quantify this phenomenon, and he calculated an 11.5% decrease in chances for booking for every notch that a hotel drops on the results page. He also found that increased scores on Travelocity meant improved revenue per available room, and he also determined that a top score on ReviewPro's Global Review Index increases a hotel's pricing power.

3. Monetizing distribution channels. Distribution channels continue to evolve. This is another outcome of the power of social media. We now see more advertising on distribution channels. Two years ago we noted the interest in search engine optimization (which has become a standard practice), but now we have gone beyond SEO. Purchasing keywords has become more important, and you may not appear in search results if you have not purchased an appropriate keyword.

4. Sentiment mining. Web analytics has extended beyond numbers to sentiment mining. Customer feedback now takes multiple forms, and next generation analytics follows this trend. By noting words that people use in the course of writing their reviews, it's possible to gain a detailed picture of people's attitudes toward a hotel or other hospitality firm. In particular, we can analyze changes in the words being used, to see how this drives business. As sentiment mining becomes more sophisticated, the results will move beyond the current, relatively simplistic analysis.

5. Asia rising. Asian travelers are on the move. This is an extension of the reverse globalization trend that we mentioned last time, as Asia-based chains expanded into


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***Glenn Withiam (R)** is executive editor of the Cornell Hospitality Quarterly and director of publications for the Center for Hospitality Research and the Center for Real Estate and Finance at the Cornell School of Hotel Administration. He is a regular contributor to industry publications and has edited several books, on such topics as hotel management contracts, internal control, and service quality.*

the Americas and Europe. Chinese travelers particularly, as well as those from other Asian nations, are now stretching their travel horizons. One implication of this development is that hotels have to be aware of the cultural needs of Asian travelers. Cornell Professor Peng Liu conducted a survey of Chinese outbound travelers, who now number over 70 million, and found that they are looking for packages that will take them to Europe and the Americas. This is a focused group of travelers who want to make the most of the time available. They are most interested in staying in hotels that are close to shopping, attractions, and activities. While they appreciate touches that remind them of home, they seek to fully experience their destination.

6. Proximity apps. Mobile proximity and GPS-based services continue to expand. Two years ago, we wrote about mobile apps, a trend that has exploded. We also discussed RFID as a means of proximity payment, but we were ahead of the curve on that one. Instead, what we're seeing is the rapid adoption of proximity applications driven by smart phones, although concerns about privacy and security are a drag on this trend. In the not-too-distant future, some hotels could offer total proximity service, in which the guest books the room, opens the room, and settles for the room, all with a smart phone account. Apps already exist for bars and restaurants that allow guests to settle the check without the intervention of a server, and restaurants are investigating other uses of technology in the service process. These developments mean that hospitality firms need to consider the implications for service touchpoints throughout their service process. Could it be that the best service is no personal service at all?

7. HR issues. The hospitality industry sees the rise of the new worker. Contemporary workers have a different view of the workplace than previous generations. People issues will increasingly come to the fore as a result of this change and several other forces, including the changes in technology that we just mentioned. Workers will experience slow upward mobility due to the trimming of jobs due to technology and the simple fact that many other people are holding on to their jobs. Ironically, hospitality firms will also experience a simultaneous shortage of trained workers (or a greater shortage, in some cases). One reason for this is that talented workers will go elsewhere for opportunity if they cannot move up in an organization. Government regulations can also interfere with staff mobility, particularly as the cost of maintaining a staff increases due to government policy.

8. Innovative concepts. Innovation becomes a key strategic focus. Innovative services offer opportunities for growth in terms of both occupancy and revenue. Interestingly, studies have found no direct connection between innovation and revenue. However, innovation is essential for greater profitability, because innovation drives market advantage, sales growth, and facility use—and those three factors are essential for profitable operation. One innovation that is already occurring is that hotels are on board with a healthy lifestyle approach for guests. Other innovations will focus on human resources (in part due to the rise of the new worker). This may include new pay structures, more "fun" in the workplace, and a greater rapport between supervisors and staffers.

To conclude, we see social couponing (and the search for value) as a continuing trend, and brand management remains an essential element in hotel chains' efforts to attract and retain customers and employees. We were too optimistic about the blending of health care and hospitality, although that is slowly occurring in some places. Finally, we're sorry to report that the economic uncertainty that we cited last time seems not to have substantially abated despite five years of nominal economic recovery. We concluded our discussion two years ago with the reluctant prediction that the hotel and travel industry would continue to face a "new normal" in the midst of economic and political turmoil. Unfortunately, that prediction is a contemporary reality.

The next 10 years: Trends and scenarios

by ***Jeroen Oskam***

The role of the European Tourism Futures Institute, located at Stenden University in the Netherlands, is to "paint pictures about the future of tourism". These pictures may be pretty or they may be shocking, but either way, they should stimulate us to think about scenarios that could realistically emerge – and how we might prepare for them. The ETFI's program manager is Prof. Jeroen Oskam. We asked him for some thought-provoking examples of how things could change for us in the hospitality business over the next decade.

Watching trends

How will the hospitality business evolve in the next 10 years? Businesses are hungry for information that helps them identify business opportunities and risks in advance. Trendwatchers address this need by watching their crystal balls for the latest updates on consumer likes and behavior. However, these trends are hardly reliable for long-term strategic planning. They are too volatile and often caused by "self-inflicted" innovation.

Somehow, predicting a trend is like deciding what to have for dinner. When such a "trend" is detected, we decide to influence the near future. If a fashion designer states that "next year, red shoes will be hot", this is not an analysis but a directive statement. In other words, "trends" are commercial propositions rather than insight into the future.

This makes trends capricious and unpredictable by nature in the long run. Besides, were trends a trend themselves? In years without growth, more prudent consumers may slow down their trendiness. Yet our businesses still face drastic changes we have to analyze and anticipate.

How do we understand the future

Our understanding of the future has evolved through history. Our idea of the future being totally different than the present —rather than a cyclical reappearance of the four seasons— is something of the last few centuries. More recently, we have become more skeptical about our control over the future. Whereas formerly we used to believe that changes occurred because we wanted them to, we now see them as something we have to prepare for.

If we are not in control

This paradigm shift requires new analytical models. Forecasting meant drawing the lines in our graphs forward into the future, but we are no longer sure that things will happen as they used to happen. We see ourselves as chess players: we control the white pieces, but not the black ones. We know a move will be made, but not which one. We try to anticipate all the options. This is what we do in scenario planning.

Dilemma 1: Running out of water

Now let us look, from this perspective, to some of the dilemmas and challenges in hospitality and tourism. We do this by scanning the business environment for uncertainties and so-called "early warning signals". One good example: recently several Dutch swimming pools announced bankruptcy because of water tax hikes. Increased costs for natural resources will unavoidably also affect our industry in the future. We may one day laugh about those strange times when you would pay for one hour of Wi-Fi connection, but you could take as many showers and as long as you wanted.

__Jeroen Oskam__ (PhD., Universiteit van Amsterdam, 1992) is Program Manager at the European Tourism Futures Institute in the Netherlands. Previously he worked for Maastricht Hotel Management School and was the director of Zaragoza Hotel Management School. He is a visiting professor of Hospitality Management at EADA Business School in Barcelona.

Dilemma 2: The Russians are coming

To what extent will we benefit from market growth in emerging countries? The hopes for a Russian-Chinese invasion may be as deceptive as our panic was thirty years ago. According to the UNWTO, a stable 80% of travellers will stay in their own region. The remaining 20% still represent impressive absolute numbers. It may require a solid brand name and concentrated marketing efforts. Though, to attract these to your destination.

Dilemma 3: Ageing tourists

If not the BRICs, then the elderly may be the future of our business. We may benefit from this development if only we adapt our facilities to senior mobility problems and other health issues. Will we? In fact, the average age of hotel guests is dropping. Besides, we may confuse the elderly of today with those of the future. We should understand that we are talking about ourselves. Our generation will suffer less arthritis and more obesity, diabetes and alcoholism.

Dilemma 4: Where to find us

I just received an e-mail from Air France-KLM warning me that my Gmail inbox has changed. That is relevant to them. On a totally different note, Google recently announced its laudable initiative to make child abuse sites unfindable by diverting searches to more appropriate content. Both these issues show us what Google can do. Could it buy a hotel chain and make competitors unfindable? That would be an extreme scenario in the power shift from hotel companies to online distributors.

Dilemma 5: Big data

Many of us are not concerned about our privacy; decent people have nothing to hide. This is good for hotels. Big data may help to get a higher yield per customer. Just as Apple users can already be directed to more expensive hotels, our clients' browsing behavior may accurately predict the price they are willing to pay.

Conclusion

It is not hard to foresee that certain things will change, although it is impossible to predict how they will change. Therefore it is wise not to rely on trendwatching, but to anticipate multiple scenarios. How fast will our world change? The exponential pace of change gives us one certainty: faster than we think.

IH&RA in 2014: Protecting the interests of the industry

Interview with ***Casimir Platzer***

In mid-2013 Casimir Platzer took over the reins of the International Hotel & Restaurant Association (IH&RA) as its new President. The Hotel Yearbook caught up with Casimir to find out about the organization's goals for 2014 and how he sizes up the key issues the industry is facing.

The Hotel Yearbook: Casimir, you've been president of the IH&RA only since April of 2013 – not a long enough time to have made huge changes yet, but long enough to sense the lay of the land. What have been your priorities during this first phase of your leadership of the organization?

Casimir Platzer: During these first seven months in office, I've placed a lot of emphasis on visiting association members – primarily national hospitality associations - to get feedback from them about what IH&RA should focus on in the next few years and how we can best work together. It's been a very productive few months.

HYB: Can you already tell us what your strategic focus will be in 2014?

CP: It seems clear that one thing we absolutely need to do is grow our membership base. So activities to market the IH&RA to new beneficiaries, and also win back some who have left us, will definitely be a high priority next year. An important part of this effort will be to redefine the benefits of membership, to make sure that participation is attractive and valuable. In addition, we have in mind modifying the membership structure and fees, which we hope will make it a clear "must" to be part of the IH&RA – for both new and long-standing members. HYB: What about sources of revenue for the association? Are you looking at new ways of making money to support your activities?

CP: Absolutely. We are exploring several ideas, and there will be more to say on this shortly.

HYB: Let's talk about the industry itself. One of the key missions of the IH&RA is to lobby on behalf of the hospitality industry concerning regulatory issues and other environmental factors that affect the hotel and restaurant business globally. In the conversations you've had with your counterparts in the various national hospitality organizations over these last few months, what are you most frequently hearing as the tough challenges facing the industry ahead?

CP: We certainly do face some interesting challenges! One of the biggest that we want to contribute to solving is the issue of sustainability. I think the industry has been making great progress toward becoming greener and more sustainable over the last few years, but there is more work to do. One thing that will help is to clean up the confusing proliferation of sustainability labels and tools in use around the world. All of these are well-intentioned, but as they are not coordinated or particularly transparent from one market to the next, the situation has become messy and in need of some harmonization.

HYB: The growth of OTAs must also be an issue on people's minds…

CP: You're absolutely right. The hospitality industry is one of the largest sectors in the global economy, if not the largest. International travel alone accounts for about $800 billion every year, and if you add in the purely domestic expenditures that aren't counted in that amount, the figure would probably triple. However, a larger and larger part of that money is being siphoned out of the industry every by OTAs. Of course they are bringing a lot of business to member

__Casimir Platzer__ graduated from the Ecole hotelière de Lausanne in 1987, working as manager of the Blue Lake resort in Kandersteg from 1987 to 1989, then of the Belle Epoque Hotel Victoria in Kandersteg, which he has owned since 1992. Casimir has been the President of the Hotel Association Bernese Oberland 2000 - 2008, President of GastroBern 2003 - 2012, on the Board of Directors of Switzerland Tourism since 2004, the Board of Directors of GastroSuisse since 2012, and since April 2013 is the President of the IH&RA.

hotels, but they are taking a lot of money in commissions. We need to find ways to stop this bleeding and retain more of "our" money in the industry. It is billions we are talking about here. This is capital that is needed for investment in new infrastructure, renovations and refurbishing, expanding employment – all for the good of local economies as well as the hospitality industry and its guests. We must find ways to retain this money within the industry rather than watch it being channeled into the hands of the OTAs.

HYB: What other issues are concerning your members?

CP: I'll mention two briefly. First, it's difficult – in any business – to find skilled, talented staff. Possibly this is going to get even more difficult as time goes on because of the long-term demographic trends playing out. But what we are seeing which is a critical issue for many hotel companies is that they hire people and train them, but when a new hotel company moves into the same market and cannot find sufficient staff on their own, they simply hijack employees from the hotels that were there before them, paying a little more to entice them to jump ship. We ought to be able to prevent this practice, as it does real damage to the existing businesses.

Second, the hotel industry is seeing increased competition from well-coordinated packagers and distributors of private accommodation. This is an issue of unfair competition, because the playing field is not level at all. Hotels have to meet very strict regulatory standards in many areas of our business – for example pass health inspections, just to name one of the more obvious requirements we face. All these regulatory hurdles increase the security of the guests, but they add to our costs. Private accommodation can be offered on the market without meeting any of these regulatory requirements, and we don't think this is fair – nor is it in the best interest of the consumer.

HYB: It sounds like you are going to have your hands full in 2014!

CP: Yes, there will certainly be busy – but interesting – times ahead!

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Business travel trends: Four things to expect in 2014

by *Michael W. McCormick*

The Global Business Travel Association (GBTA) is bullish on the future of business travel. Global business travel spending is on the rise, and they expect that trend to continue through next year and beyond. In fact, their most recent GBTA BTI™ Outlook – Annual Global Report & Forecast , a comprehensive study of business travel spending and growth covering 75 countries across 48 industries, shows steady business travel spending in the second half of 2013 that is expected to lay the foundation for 8.2% growth in 2014. We asked Michael McCormick, the GBTA's Executive Director, for his take on the near term.

For most businesses, face-to-face interaction and relationships formed through business travel are key drivers of success. Simply said, business travel drives business growth.

TOTAL BUSINESS TRAVEL SPENDING TOP 15 MARKET 2012

		2012 TOTAL BTS (Billions USD)	2012 ANNUAL GROWTH IN BTS
1	United States	$262	4.4%
2	China	$196	13.2%
3	Japan	$65.2	-1.2%
4	Germany	$50.5	1.1%
5	United Kingdom	$40.2	0.1%
6	France	$35.7	-2.1%
7	Italy	$32.7	-7.5%
8	South Korea	$30.5	2.8%
9	Brazil	$30.1	9.3%
10	India	$22.1	5.8%
11	Canada	$22.0	1.4%
12	Aust ralia	$21.1	2.8%
13	Russia	$20.4	2.6%
14	Spain	$17.9	-8.0%
15	Netherlands	$17.8	-4.5%
	World	**$1,061.2**	**3.4%**

Here are four business travel trends to expect in 2014:

1. Economic shifts are fundamentally reshaping the business travel landscape

With economic expansion approaching or exceeding double digits in many emerging economies, the business travel landscape is set to change significantly in the coming years. Markets like China, India and Brazil are experiencing rapid growth, giving them the opportunity to become major global players in business travel. This could permanently reshape the business travel landscape.

2. Asia-Pacific region to dominate global business travel

China is growing its business travel market faster than any other nation, and continues to close the gap on the USA as the largest business travel economy in the world. The surge in Chinese business travel spend has been driven by domestic and international outbound business travel, with expansion noted for both transient and group meetings and events travel. In 2014, total business travel spend should grow 17.2% – a phenomenal increase.

3. Emerging markets worldwide will play an increasingly pivotal role in the business travel industry

India is quickly becoming a major player in global business travel as well. In 2012, India surpassed Canada to become the 10th largest business travel market in the world, spending a total of $22.1 billion on business travel. Over the next five years, GBTA expects India's business travel spend will grow

Michael W. McCormick accepted the position of Executive Director and Chief Operating Officer (COO) for the Global Business Travel Association (GBTA) in August of 2009. Over the past four years, with the support of a progressive Board of Directors and highly dedicated staff, he has led the organization through a period of transformation resulting in member growth of 106% over that same period. GBTA is the world's premier business travel and meetings organization. Collectively, GBTA's 6,000-plus members manage over US $340 billion of global business travel and meetings expenditures annually. McCormick comes to GBTA with more than 20 years of travel industry experience, having most recently served as Managing Partner of Hudson Crossing, LLC, a successful travel industry advisory business.

at a compound rate of 13.5%, making it one of the fastest growing markets in the world.

Latin American business travel totaled $49 billion in 2012. Brazil is by far the largest business travel market in Latin America, with total business travel spending of $30 billion in 2012. Brazil has the potential to become a major business travel market over the next decade, but will need to re-establish more robust economic growth to do so. Total spending on Brazilian business travel is expected to grow 7.3%, on average, over the next five years, becoming the 6th largest business travel market in 2014, advancing past Italy and France.

The chart below puts the worldwide business travel landscape in perspective.

BRIC COUNTRY GROWTH					
Country	2013	2014	2015	2016	2017
China	15.0%	16.8%	13.6%	12.3%	11.5%
Brazil	14.2%	15.9%	3.4%	4.2%	6.0%
India	10.4%	13.0%	13.8%	14.0%	13.2%
Russia	8.5%	8.2%	7.2%	7.9%	7.2%
DEVELOP MARKET GROWTH					
U.S.	4.5%	5.9%	4.2%	3.2%	3.3%
Canada	22%	2.6%	3.3%	2.5%	2.4%
UK	1.9%	3.7%	8.1%	7.5%	7.9%
Germany	5.1%	5.0%	6.6%	5.6%	5.6%

4. Technology will continue to influence business travel

In our fast-paced world, often the only constant is change itself. Innovative technology is a major driver of change today, and that is most certainly true in the world of business travel – an ever-evolving profession at the forefront of our global economy. New technology and change is not something to fear, however, but rather something to embrace.

The influx of smartphones and tablets means travelers are always connected and have travel purchasing information at their fingertips. They can find travel suppliers, read reviews, and book on the go. Travel professionals can present their travelers with tailored options that optimize their travel experience. Multiple tools exist in the corporate travel market to find the best rates. Adoption to mobile booking tools will only continue to grow.

The use of technology in business travel management is here to stay and will always be evolving. American novelist Normal Mailer once said, "Growth, in some curious way, I suspect, depends on being always in motion just a little bit, one way or another."

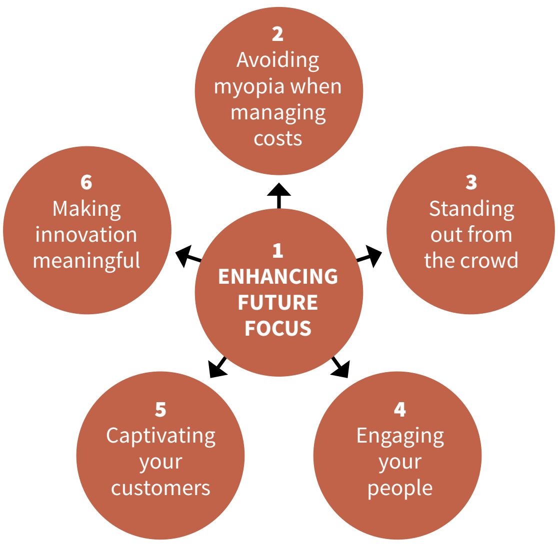
The business travel industry is one that is always in motion.

The shape of things to come

by ***Enda Larkin***

Competitiveness implies (at the very least) focusing on being better than your competitors. Sounds simple, but as Enda Larkin, principal at HTC Consulting in Geneva, reminds us, it entails setting sensible priorities and skillfully managing the interplay of several strategically important elements. In this article, Enda shares with Hotel Yearbook readers his uncomplicated formula for improving a hotel's chance of future success.

When Charles Darwin wrote "It is not the strongest of the species that survive, nor the most intelligent, but the one most responsive to change", he wasn't of course talking about hotels. Yet his words should resonate with all of us, because the competitive landscape has radically changed, and although there are signs of modest recovery, major challenges remain. In this article, based on my extensive experience working with hoteliers, I would like to highlight what I believe are six priority and interlinked challenges, especially for small and medium-sized operations.



The topics ahead will not be entirely new to you, but they are proven drivers of business success.

Challenge 1: Enhancing future focus

In one of the great paradoxes of business life, now more than ever, when times are so volatile, defining and pursuing a clear strategy for your business is vital. The reasons why many hoteliers fail to think as strategically as they might are multifaceted, and include the mistaken belief that strategic management in a highly unstable environment is pointless. Of concern here too is the short-termism that hit our industry, like many others, in the past decade or so; when a manager is judged (and rewarded) largely on current year results, it is no great surprise that this is what they primarily focus on. Don't get me wrong, profitability can't be aspirational, but the real issue is sustainability, and future focus is concerned with creating lasting value.

In working with hoteliers, I use a streamlined planning process, "**SOAR**", which bridges short and medium-term concerns. Briefly, the SOAR Planning Model has a three-year horizon and involves four steps:

Step 1 - Understand the **S**trategic Context

- Research business trends and challenges over the medium term.
- Understand your current position; prepare a fact-based SWOT for your hotel.
- Consider broadly where you want/need to be in three years with regard to five interlinked dimensions: finance, marketing, customers, employees and operations.

Step 2 - Agree **O**utcomes

- Focus first not on what needs to be "done" but specifically on what must be "achieved". Set specific and measurable

three-year goals across the five dimensions; these can include profitability, revenue, cost, customer satisfaction, employee engagement, quality, operational efficiency etc.

- Define who owns each goal.
- Decide on the measures you will use to track progress towards these goals.

Step 3 - Define Key **A**ctivities

- Identify the priority activities associated with achieving each goal.
- Think of the relationship between those activities. Must certain tasks be completed before others? Are some activities more challenging than others? What resources are required for these key tasks? Who is responsible for each?
- Finally, schedule when these tasks are to be completed. Initially, think Year 1, 2, 3, then develop more specific plans as you go.

Step 4 - Track Progress and **R**esults

- Use the identified measures to continuously track progress towards the goals.
- Undertake detailed goal-focused reviews on a quarterly/ annual basis.

This is undoubtedly a simple framework, but it's not simplistic, and when used correctly is as valuable as any more complex approach. Naturally, any strategic plan developed can and must evolve, but it's always much harder to claw your way back from the damage caused by lack of future focus.

Challenge 2: Avoiding myopia when managing costs

Most hoteliers excel at financial management; our systems are generally quite effective. That isn't to say there aren't problems, and particularly when it comes to yield management, there is always room for improvement. However, on the cost side, a major concern is how short-sighted some operators are when managing costs, particularly labor. This is best explained through a specific example. In one client hotel, as in many others, they had recently reduced the number of receptionists by one per shift, especially in the evenings. On face value, this represented a saving. But we conducted 30 mystery calls over a short period, and the findings, unsurprisingly, showed that the stressed out receptionists frequently mishandled the calls and the potential loss of revenue was significant. Furthermore, closer scrutiny of customer feedback showed a decline in satisfaction levels with the service experience at reception. This is but one basic example to highlight the importance of not being penny-wise and pound-foolish in cost management.

Challenge 3: Standing out from the crowd

There are too many marketing challenges to list, ranging from the need to broaden your market base to maximizing the brand building potential of social media. Apart from focusing on such important micro concerns, most hoteliers could also benefit from taking time to revisit the overall positioning of their hotel. Too many operators still try to be all things to all comers, offer a one-size-fits-all experience, or fail to keep pace with evolving consumer demands. Think positioning doesn't matter? Few could have predicted that Ryanair, the fanatical proponent of "nothing matters but price", would suddenly be scrambling to reinvent itself as a caring, sharing airline because the market turned on them. It has never been more important to define, communicate and deliver a segmented offering that sets you apart in the marketplace.

Challenge 4: Engaging your people

Loyal employees in a company create loyal customers, who in turn create happy shareholders. The process sounds easy but it is not, and it has defeated some of the bigger organizations of the twentieth century." These words, attributed to Richard Branson, succinctly describe the people challenge facing every hotelier today. Employee engagement may well be the current "in" term, but unfortunately there isn't always a lot of substance behind the jargon. I have a simple philosophy about employees: you want to find the most talented people, and retain them for as long as possible, so that they maximize the value they add to your business. Clearly, there is no magic pill here, but consider the following questions:

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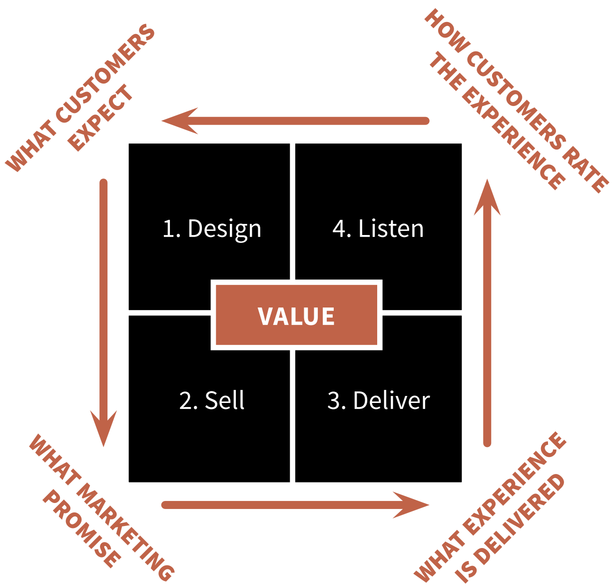
THE FOUNDATION	THE WORK	THE REWARDS	THE RESULTS
Does the culture in your business bring out the best in people?	*How clearly are roles and responsibilities defined?*	*What do you offer your employees beyond basic pay and benefits?*	*How is individual employee performance monitored on an on-going basis?*
Do your employees understand and "buy into" your vision?	*How challenging is the work?*	*How structured and tailored is your approach to training, coaching and mentoring?*	*What happens when an employee consistently underperforms?*
Do you really see your employees as partners?	*How collaborative are your people?*	*How is "above the line" performance acknowledged and rewarded?*	*Does each employee receive an effective annual appraisal?*
Does your recruitment process attract those with the highest potential for engagement?	*How effective is internal communication?*	*How well is a fair work/life balance catered for?*	*How do you measure employee engagement levels in the business at present?*
How effective is leadership at all levels?	*How effectively is change managed in your business?*	*Are there clear opportunities for career progression?*	
	How empowered are your employees?		

These questions directly relate to known employee engagement factors, and your answers should give some indication as to where you might improve in this area.

Challenge 5: Captivating your customers

Dan: What are you doing?
Jerry: I'm taking off my shoes.
Dan: Why?
Jerry: Because I run faster with no shoes.
Dan: You can't outrun that bear!
Jerry: I don't have to outrun the bear. I just have to outrun you.

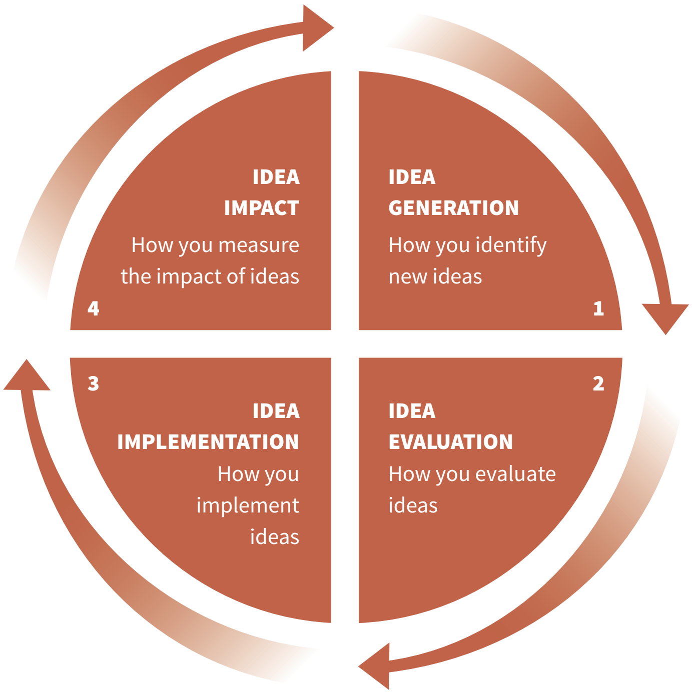
That funny movie scene has relevance here. Some in our industry spout platitudes about offering the "best" quality – and achieving industry leader status is undoubtedly a worthy aim – but such claims are often just hyperbole. When it comes to your products and services, your first priority must be to consistently outpace your competitors in terms of quality. In seeking to achieve that goal, my advice is to simplify quality management; in other words, reduce the overdependence on manuals, standards and paperwork found in some businesses. If you have talented, engaged employees, then you shouldn't need to be overly prescriptive. In working with hoteliers I use a tool called the "Quality Window":



This model facilitates practical discussion of all aspects of quality management with your employees – both those who sell and those who deliver. You should set general quality goals, but empower your people to define how best to reach them; too much quality "control" stifles creativity, I find.

Challenge 6: Making innovation meaningful

Innovation is perhaps another of those overused words, but if you want to beat your competitors, and do more with less, then you must innovate. In smaller scale operations, where resources are limited and ambitions less grand, innovation is about implementing new ideas; and often the best source of those ideas is your employees. However, an effective approach to innovation requires more than sticking a suggestions box in the canteen. Consider the following process:



One client, with about 80 employees, applied this framework some years ago and is now generating almost a thousand employee ideas annually – and implementing about two-thirds of them. Too often, innovation is portrayed as a quest for the next big thing, but most of the time it's about finding those hundreds of little ideas that collectively make a real impact.

I'll end with another quote, this time from Abraham Lincoln, who said, "The dogmas of the quiet past are inadequate to the stormy present. The occasion is piled high with difficulty, and we must rise – with the occasion. As our case is new, so we must think anew, and act anew." Lincoln was dealing with very different circumstances, but his words hold a timely message for all hoteliers.

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Is innovation here to stay?

by ***Jeffrey Catrett***

The hotel industry is steeped in traditions that go back centuries, yet it finds itself as well at the forefront of fashion and trendy new ideas. In this tug-of-war between old values and new, which will win the day? Jeffrey Catrett, Academic Director at Institut Paul Bocuse in Lyon, believes innovation will win out, and to explain why, he looks at four engines that will continue to drive change in the years ahead.

Anyone who has compared recent lists of Condé Nast Top 100 Hotels to lists from twenty years ago, or who has followed the San Pellegrino Top 50 Restaurants in the past few years, knows that innovative hotels and restaurants have eclipsed the famed palaces and starry food citadels of yesteryear and placed once hallowed and dominant brands in a defensive position. But is the age of ideation and Imagineering representative of a sea change in how our industry operates, or is trendiness itself just a flash-in-the-pan fad? Is our industry, famous for clinging to tradition and heritage, really ready to embrace constant change and break-neck innovation?

A few years back, I wrote an article suggesting that lifestyle hotels did not simply constitute one hotel type destined for a limited run and designed for specific generations. I pointed to developments in retail to support a claim that boutiques represent the fragmentation of customer tastes and a move away from one-size-fits-all boxes towards differentiated offerings and brands for a variety of tastes and psychographic needs. Some people criticized this idea, pointing – not without reason – to the quantity of existing hotel inventory and the costs inherent in abandoning or converting existing properties. Today, just a few years later, I am talking to design teams working for the very companies that used to thrive on the idea that "no bad surprises" equaled "good surprises" but who are now completely rethinking their standards to include ground-breaking new looks and greater freedom for individual properties. I am now hearing about "brand design" where teams of designers, marketers, engineers, suppliers, and financiers put together holistic brand concepts that encompass every aspect of look and feel. I am also being told of the need to build in elements that can be changed every two years, as today's customers refuse to wait a full renovation cycle for fresh new eye-candy.

So how deep are the roots of this innovation revolution? Does the need for things new and shiny represent a model that will last, or is this fascination with the new likely to blow away after a few more years? Let's look at just four sources of the change.

1. Strategic management

By the mid-1990s, innovation had come to dominate strategic management literature as essential to competitive advantage. Arguably, however, it is strategic management itself which, evolving in the 1970s and '80s as a management discipline based on the importance of differentiation, gave impetus to a culture of innovation. By pushing companies to differentiate, strategy pushed companies to innovate, especially as innovative advantage itself dissipated quickly through legal "reverse engineering" or copying.

2. Technology

The increasing pace of technology has its roots in the end of the 19th century but received tremendous impetus with

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the end of WWII, the Cold War, and especially the Space Race. As technology has made great strides, the technology to copy technology has kept pace, shortening the life cycle of most products. While technology itself has not vastly revolutionized hospitality, its effect on the consumer, who has grown accustomed to new toys every six months, has. This taste for newness, combined with the vast inflow of information needed to fill hundreds of channels, thousands of sites, and millions of social network pages, has led to a rapid increase in the sophistication of the knowledge – locations, designs, ingredients – of the average customer. With advances in transportation technology, more customers have literally “been there and done that”.

3. Design

The entire 20th century art experience was one of revolution and tradition shattering. This wave in fine art is finding its expression in popular art and culture in the 21st century, fueled by the vast palette offered by modern telecommunications. Aesthetics are being used to relieve the sanitized boredom of modern industrialized life. Today, designers and chefs join rock stars and star athletes in helping to relieve the collective malaise. Customization and having things “my way” to offset industrial gray has become critical.

4. Generations

Modern medicine, combined with cyclical wars in the 20th century, combined to create distinct patterns of generational ebb and flow with the resultant splits in taste and belief. Members of Generation Y mistrust the brands and industrial symbols of the Baby Boom generation. When generational replenishment has not occurred, the door has been opened to global power shifts as new workforces and markets have been sought. Consumer taste has become fragmented like never before which, combined with social networking, has led to polarized opinions and a need to serve many tastes and beliefs.

When considering these deeply rooted elements, it is easy to see that the innovation revolution is unlikely to go away or diminish at any time in the near future. Even catastrophic economic conditions only briefly dented the evolution of ideas and offers. Innovation is very much here to stay.

What lies ahead for Sales & Marketing in 2014

by ***Robert Gilbert***

The year ahead promises to be one full of change for hotel sales, marketing and revenue management professionals, says Robert Gilbert, President of HSMAI, the Hospitality Sales & Marketing Association International. 2014 will be an opportunity for continued global revenue growth and moderate supply growth, he argues, which will require additional focus on integrating these three disciplines.

Despite the revenue growth we may expect in 2014, customer acquisition costs continue to grow as well, eroding hotel profit margins – so the science of understanding and optimizing the business derived by channel and managing these and other intermediation costs will be paramount to success in 2014. Hotels and resorts, as well as hotel brands and management companies, must be focused on these fundamental shifts in how business is sourced and transacted.

Insights into sales

The fundamental skills in sales have been consistent for a long time. HSMAI has identified four emerging skill sets that we believe are vital for the modern sales professional. We believe that in 2014 sales professionals will need:

1. To be a strategic collaborator. This requires superior listening skills and the ability to negotiate and think differently than in the past. Internally, the modern sales professional will need to support an integrated team, and externally they need to realize that the current client may not be the future decision maker.
2. To be a source of reliable analysis. This requires critical, conceptual and creative thinking skills that are leveraged on a timely basis to provide information, ideas, trends, and facts to prospective and current clients.
3. To effectively manage demand to create reliable value. This requires financial management knowledge for the benefit of the client and the hotel or hotel company.
4. To utilize a progressive development process. This requires the ability to plan and build strategy that defines value – both added value and expected value – that shifts strategic thinking. It also requires additional personal development that may require new technical and behavioral skills.

The sales professional of yesterday is not the modern sales professional of 2014.

Insights into marketing

The tactics required to be successful in the discipline of marketing have evolved significantly in the last few years and we can expect more change in 2014. We can no longer talk about "off line" and "online marketing." It's all marketing. Advertising, public relations, web sites, search engine optimization, search engine marketing, digital, social and reviews – these are all things required to make sure that customers can find you when they want and where they want. Your brand presence must be device-agnostic and integrated with the brand promise that is integrated from a search experience through a booking experience and the guest experience pre, during, and post stay. Content is king for customers from around the world to identify you and your unique value proposition.

Budget and resource allocations must be made in the emerging areas that are vital to achieve success. The new marketing budget of 2014 includes digital marketing functions that include:

1. Digital assets, consulting, and operations. This includes keeping your digital marketing assets up to date (website, customer relationship management, technology, consulting, analytics, and hosting).
2. Core digital marketing campaigns. This includes budget line items that are proven to work. Don't skimp on SEO, SEM, meta search and email marketing.
3. Business-need driven multichannel campaigns. What are those key times of the year when you need business? Slow summers? Long winters? Do you need weeknights when you are getting in weekend demand? Plan ahead for those times with business need-driven campaigns.

Insights into Revenue Management

The revenue management discipline has evolved quickly into a critical function for the hotel industry. There are four areas that will require specific attention in 2014 to be successful.

1. Hotels will need to focus on finding, building, and retaining revenue management talent. This is an evolving discipline, and the skill sets required are very different than either traditional hotel operations or sales and marketing. Training and certification programs like HSMAI's Certified Revenue Management Executive can assist in defining these core competencies and characteristics.
2. Revenue managers as a whole will need additional communication skills in the future as the analytics and insights they uncover need to be communicated to various stakeholders so their analysis can be translated into action and strategy.
3. Pricing optimization is a fundamental component of success, as well as the ability to do this across a wide variety of distribution channels.
4. Total revenue management is simply the expansion of analytics beyond rooms revenue for hotels. Many hotels and hotel companies are already reaping the benefits to their top and bottom lines by leveraging the same principles to function space, food and beverage, and other ancillary revenue sources of a hotel.

Integration is key

The hotel industry is a fragmented one, with various brands, ownership and management groups. The rapid change in consumer behavior globally for all traditional group and transient market segments has created multiple opportunities for distribution channels and intermediaries to assist with customer acquisition. While many industry partners exist and do provide value, hoteliers must acknowledge that there is a cost to acquiring customers this way. The direct and indirect costs of distribution expenses, commissions, and topline opportunities from wholesale channels are growing at a rate faster than industry RevPAR growth. Thus there is a critical need for sales, marketing, and revenue management functions in hotels and hotel companies to intentionally integrate all of their customer acquisition strategies and tactics. The industry's inability to do that will only result in excessive customer acquisition costs, marketing inefficiencies, and eroding profit margins.

2014 will be the year of integration of these functions for successful – and profitable – hotels and hotel companies.

__Robert A. Gilbert__, CHME, CHBA, is President and CEO of the Hospitality Sales & Marketing Association International (HSMAI). HSMAI is committed to growing business for hotels and their partners, and is the industry's leading advocate for intelligent, sustainable hotel revenue growth. The association provides hotel professionals & their partners with tools, insights, and expertise to fuel sales, inspire marketing, and optimize revenue through programs.

Smart Hotelier's 2014 "top10" digital marketing resolutions

by ***Max Starkov*** *&* ***Mariana Mechoso Safer***

Whether you've experienced digital marketing success this year, or have continued to struggle with your direct online channel strategy, now is the perfect time for reflection and planning ahead. We asked Max Starkov and Mariana Mechoso Safer of HeBS Digital to share their thoughts – new year's resolutions, actually – on improving the chances for success in the year to come.

2013, a year of growth in our industry, has also been a year chock full of major industry developments. A few examples include the explosion in meta search travel websites, the continued growth of the mobile and tablet channels, the fall of keyword-centric SEO due to the rise of Penguin 2.0 and Hummingbird, and new technology advancements that have allowed us to achieve unparalleled heights in hotel distribution.

Music to any hotelier's ears is that 2014 is expected to be another great year in hospitality. All three key performance indicators are expected to experience growth over the already robust growth of 2013.

To help you reap the benefits of this continued growth and understand where to focus your strategy next year, here are the 2014 Top Ten New Year's Digital Marketing Strategy Resolutions presented by HeBS Digital for the 14th consecutive year.

1 *I believe that 2014 will be the* ***Year of Dynamic Price Marketing*** *and will work towards the* ***full integration of customer purchasing preferences and behavior with content management and online distribution and marketing.***

Situation

In this fast, interconnected and multi-device world we live in, hotel digital marketing can no longer exist in isolation of the hotel's business needs, real-time availability and pricing. Travel consumers no longer buy into promotions featuring a lead-in rate ("Our weekend rate starts from $199") or less than credible rate range ("Our Holiday Rates are $199-$399"). Today's always connected traveler demands real-time pricing and resents any type of price promotions that smell of bait and switch. By not integrating marketing campaigns with real-time availability and pricing, hoteliers are losing potential guests to the OTAs as well as their more savvy competitors.

By combining marketing campaigns with real-time hotel inventory and pricing, hoteliers can satisfy travelers' demand for instant, precise and concise information, as well as respond instantaneously to changing market conditions and comp set behavior. At HeBS Digital, this combination already generates substantial returns for our hotel clients, and opens a new tremendous revenue source coming into 2014, which is why we are calling 2014 the "Year of Dynamic Price Marketing."

Dynamic Price Marketing opens up two strategic and powerful marketing possibilities:

a) Online advertising utilizing dynamic price marketing technology such as HeBS Digital's MetaSearch Gateway, enabling real-time availability and pricing across various advertising formats: banners, CPC, email, etc.

The main benefit here is that advertised rates in ad campaigns (banners, meta search, email, etc.) change the second the hotel changes their rates in the PMS or CRS. Some examples of these types of campaigns include:

- Meta search marketing, including TripAdvisor Meta, Google Hotel Finder, Trivago, Kayak.com, etc.
- Dynamic price banner advertising, including several travel ad networks, already utilized across our clients, many major hotel brands and OTAs.
- Dynamic price email marketing
- "Game-changing" initiatives that are already in Beta, including Google Dynamic Text Retargeting Ads, Dynamic Price Google AdWords, etc.

b) Personalized pricing based on known guest booking history, preferences, user and pathing behavior, demographics and affiliation to customer segments or a loyalty program. In other words, this is one-on-one marketing that takes full advantage of "big data."

- This one-on-one marketing is the industry's smart response to the restrictions of rate parity provisions.
- By combining guest past booking history and website browsing behavior with real-time, rules-based pricing tied to the property's concrete business needs, hoteliers can dramatically increase conversion rates, customer retention and maximize direct online channel contribution.

Action Plan

Begin by participating in meta search marketing that utilizes real-time hotel inventory availability and pricing, starting with TripAdvisor Meta Search, Google Hotel Finder, Trivago (if targeting European feeder markets), Kayak.com, etc.

Consider launching business-need campaigns utilizing dynamic price banner advertising, such as on travel ad networks like Adara Media, Sojourn and Criteo.

A natural next step would be to consider dynamic price email marketing to improve email conversions and improve the credibility of your campaigns.

When considering a website redesign, demand that your website design vendor equip the new website with CMS technology that integrates with the property PMS or CRS, and can handle dynamic content personalization and dynamic pricing capabilities for one-on-one marketing.

2 *The **Direct Online Channel** will remain the cornerstone of my digital marketing strategy. My independent hotel will continue to lessen its reliance on OTAs; my branded hotel will not fully depend on the major hotel brand for online bookings.*

Situation

As online travel demand grows and the industry sees growth overall, hoteliers should have more control over where their bookings originate. Why aren't we seeing more bookings coming from the most cost-efficient means possible?

Independent hotels: More than 76% of online bookings for independent hotels come from the OTAs and just 24% from the hotels' own websites (STR, HSMAI Foundation). We should be seeing the opposite! Independent hotels still struggle with not knowing how to allocate their digital marketing dollars wisely, and rely too strongly on the OTAs to generate bookings.

Branded hotels: Major hotel brands cover brand-building and online marketing at global and national levels. They do not cover regional, state and local markets sufficiently, nor can they launch marketing initiatives for every property that addresses important customer segments and feeder markets. We believe this is one of the reasons why almost 36% of online bookings for branded hotels come from the OTAs who have mastered regional, same-state and local travel marketing (Q3 2013, NADR Report).

Action Plan

Both independent and branded hotels need to focus their digital marketing budgets on initiatives that will drive bookings directly on their property websites. This means OTAs should be part of a balanced strategy and nothing more. Read the Smart Hotelier's Guide to 2014 Digital Marketing Budget Planning to learn how to structure your budget to drive direct online bookings.

3 *I know that website conversion rates are as low as 2%, and only 5% of initiated bookings are completed; therefore, **I will implement technology to recover reservations and convert people that abandon their booking** on my property website.*

Situation

Conversion rates on hotel websites are usually between 2-3%, and 95% of visitors that initiate a booking will abandon. Many times they abandon because they are not ready to book or want to continue their research process, quite often on OTA websites. There are now tools available for hoteliers to recover a good portion of these abandoned reservations.

Action Plan

Set aside about 5-7% of your total digital marketing budget for technology that will steer people back to your website to book. Here are some ways to recover a percentage of these abandoned reservations and boost conversions in 2014:

- Reservation Email Retargeting: When a website visitor abandons the reservation process, Email Retargeting invites and incentivizes the potential guest to come back and complete the reservation. The prospective guest receives a well-designed branded email, which includes a customized marketing message, a one-on-one promotion or booking incentive, and deep link back to the abandoned reservation page.

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- Reservation Abandonment Programs: This message is served only when someone initiates a booking and clicks on the "Search Availability/Rates" button. Upon exiting the reservation page, prospective bookers are served a well-designed branded marketing promotional banner, which includes a customized marketing message with a booking incentive or a one-on-one promotion.

- Smart Rate Promos: This dynamic rate program accesses rates and availability with booking engine connectivity, and then projects that valuable information across your desktop, tablet and mobile websites. With 75% of online travel website consumers indicating price as a primary purchase reason, Smart Rate Promos create a "shortcut" to the booking process by displaying real-time rates as a prominent promo tile on the hotel website.

- Reservation Reminder: Visitors in the dream stage of travel planning set a date for a reminder email to be delivered to them. The potential booker is sent a branded reminder email, featuring a booking link back to the hotel website, and can feature a special rate or incentive to encourage them to book via the hotel website.

4 *I know that the search engines contribute at least 50% of bookings on my hotel website, and that organic search and SEO best practices are constantly evolving.* ***I will keep my website SEO up to par by creating high-quality, helpful, engaging and relevant website content,*** *because I understand that this type of editorial-level content is rewarded with high search engine rankings. This includes continuously creating new content around the unique, local experience that represents my property.*

Situation

SEO is not a static science – search engine results are constantly in flux because of Google's ongoing adjustments to the layout and algorithm. As a matter of fact, Google performs over 500 updates to its search algorithm every year.

Just a few ways Google has shaken up the world of SEO this year include the new Hummingbird algorithm, Penguin 2.0 and the move to secure search. It has always been important to determine which keyword terms bring the most relevant website visitors and generate bookings, and that has not changed. What has changed is that we now need to focus on what's actually behind the content – is the content on your site unique, engaging and valuable?

In September of 2013, Google introduced a new, dramatically different search algorithm dubbed "Hummingbird," intended to gather better, more intuitive results for users via conversational search. In Google's own statement, the Hummingbird is the company's largest search algorithm change since 2001 – a staggering period of time in the ever-evolving world of SEO.

Hummingbird's main intent is to deliver more accurate answers to conversational search queries. In short, the search engine's results will better answer questions like the following: "What is the best hotel rooftop bar nearby?" These geo-targeted, conversational, query-specific results are meant to help users find the results most relevant to them.

In a more general sense, this algorithm change reinforces Google's continuing shift toward rewarding quality content instead of keyword-centric content. As noted in a recent HeBS Digital blog post, "The End of an Era: Google Says Goodbye to Keyword-Centric SEO," the content-focused age is upon us. Low-quality, keyword-stuffed content is prone to punishment at the hands of Google, while high-quality, helpful, engaging and relevant content is rewarded with high search engine results page placement.

Action Plan

On the hotel website, hoteliers should focus on producing high-quality content that engages users. With each update to its algorithm, Google further emphasizes the importance of deep, relevant, unique and engaging content, so creating a content-centric SEO strategy is a top priority for any hotelier in 2014.

We've heard the complaint before that creating quality content is hard for a hotel, that hotels have nothing new to consistently write about – this is not true! Travel is a subject that is fun to write and read about. It's worth the effort here. Not only does Google value consistent, new and quality content, so do potential customers. New content gives them a reason to keep coming back to your website. There are so many things you can write about, including what's going on near or at your hotel, such as an upcoming sports game, a restaurant event, a spa promotion or onsite activities. You can even give suggested itineraries for the day. People love this type of content. A blog is one of the easiest ways to keep your site updated.

HeBS Digital recommends starting with a minimum of 35-50 pages of content for a full-service property website. A big full-service hotel or resort's website should start with 100 pages of content. Utilizing your website's CMS platform, create landing pages for each hotel special offer, package or promotion, as well as for events and happenings at your property or in your destination. You should also consider using a professional copywriting & SEO team that will know what type of content to write about while also targeting long-tail keywords (e.g. "Chicago hotel with free WiFi").

The latest Google Hummingbird algorithm update simply underscores the copywriting strategy we have utilized for many years here at HeBS Digital – generating high-quality content that engages and informs users. Make it a priority to overhaul your current website by adopting the latest CMS technology and by creating quality content that accurately represents your property and its destination, and Google will reward you.

5 ***I know that search engine marketing has become increasingly complex and demanding, and that I need to increase SEM campaign management, budget and campaign monitoring efforts.***

Situation

Here are just a few of the complexities we are currently dealing with as an industry regarding search engine marketing, which will continue into 2014:

- **Increased Competition by the OTAs**: Since many major brands have disallowed the OTAs from bidding on brand-related keyword terms (e.g. Marriott Atlanta, etc.), OTAs have refocused their paid search campaigns almost exclusively on independent hotels, resorts, casinos, etc. Priceline reported that they had spent over $537 million on paid search in Q3 2013 alone!
- **Explosion of the Three Screens**: Hoteliers now have to manage campaigns for desktop, mobile and tablet devices, each device requiring a different approach, strategy and tactics.
- **SEM as part of the Property's Multi-Channel Marketing**: In this multi-device consumer world we live in, paid search is now part of the overall multi-channel marketing effort. This requires additional coordination of SEM campaigns with every other digital marketing effort (online media, retargeting, meta search, email, social media, etc.)
- **Improved AdWords Extensions**: Google has recently introduced improvements that allow marketers to consistently show more relevant ad extensions and formats. These extensions, while valuable, double the campaign management time needed to manage SEM campaigns. For example, sitelinks now require extra description lines and can be scheduled around events and promotions, and call extensions now have enhanced tracking, which means more time spent analyzing campaigns. As these extensions often improve campaign performance and Google may lower CPCs if they find extensions and formats to be highly relevant, it pays to spend this extra time needed.
- **Seasonality**: Budgets should be calculated by seasonality and seasonal business needs, which requires extra campaign management and attention to bids and budgets to achieve optimal ROI.
- **Feeder Market Targeting**: Based on your property's feeder markets, which could vary according to seasonality, SEM campaigns target specific geo-locations. This involves complex targeting for the SEM campaigns to pinpoint the best target feeder markets based on seasonality by adjusting bids based on geographic location.
- **Google Algorithm Changes**: Google performs over 500 updates to its search algorithm every year. Most notable recent updates were the Google Panda and Hummingbird updates, which directly affected how Google indexes and values the underlying website landing pages and SEO. All of this necessitates constant tweaking of campaigns to adhere to Google's new rules and SEM best practices, and to align SEM with website SEO in order to maintain a high Quality Index of the SEM campaigns. The higher the Quality Index, the lower the cost and the more effective SEM campaigns are.
- **The Introduction of New Search-Related Advertising Opportunities** such as Search Companion, Affinity Categories, etc. require additional campaign management attention and efforts. For example, the expansion of Google Display Network's targeting methods with affinity categories allow hoteliers to target more qualified travel markets based on their property's offerings and location.

Action Plan

Understanding these complexities allows hoteliers to justify increased time and resources needed to manage SEM campaigns.

Make sure to dedicate a significant portion of your budget in 2014 to SEM. HeBS Digital recommends 24-30%. If you work with a partner, make sure they are a Google Adwords Qualified Company and that everyone who manages and/or reports on your campaigns is a Google Qualified Professional (has studied for and passed the Google Advertising Fundamentals Exam). Otherwise, there is a good chance that they are not keeping up with the complexities of SEM campaign management and won't reach the ROIs your campaigns are capable of achieving.

6 ***I understand that meta search marketing is an advertising format and not a distribution channel and I will not be duped into thinking this is a "set and forget" initiative.***

Situation

Meta search marketing generates high revenues and is a great way to shift share from the OTAs. Yet we are seeing that some major hotel brands and third-party booking engine vendors operate meta search as a distribution channel, utilizing a commission model (cost-per-acquisition). The problem with the commission model is that it deprives member hotels or hotel clients from serious direct online revenues.

We also see that it is a popular misconception that once a property is enabled on a meta search platform like Google or TripAdvisor, the job is done, and bookings will generate on their own. This particular method of meta search campaign management—"set and forget"—can be compared to setting up SEM campaigns and never touching them again.

Action Plan

Meta search marketing requires real-time bid and budget management, campaign monitoring, conversion tracking, and ongoing optimization on the property level.

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The economics of the commission model does not work in favor of hoteliers. With current commission models, both hotel chains and booking engine vendors will lose money with every booking for most of the properties they are promoting with meta search campaigns. This means that, even though the hotelier may be enjoying ROIs of 500%, 600%, 700% for instance, their campaigns may be shut down because the profit margin does not work for the hotel chain/ booking engine vendor.

Work with a company that will run meta search campaigns on a CPC model, and has the ability to manage the complexity involved in managing these campaigns on a daily basis.

7 *I know we are living in a multi-device world, and **I will provide my website visitors with the best user experience by utilizing Responsive Design on the Server Side (RESS)** no matter what device they use to reach the hotel website.*

Situation

In last year's Top 10 Digital Marketing Resolutions, HeBS Digital proclaimed 2013 to be the "Year of the Three Screens" and recommended that you provide a customized, user-friendly experience on the desktop, mobile and tablet.

This recommendation holds true for 2014, with a twist. Hoteliers also need to also understand cross-device user behavior, meaning that in the span of one day or less, people are using multiple devices to accomplish the same task. In fact, a recent study by Google showed that smartphones are the most common starting place for online activities, with 47% of users starting their trip planning process via the smartphone, 45% continuing on a PC and 3% continuing on a tablet. Tablets are most often a starting point for shopping and trip planning.

Action Plan

This multi-device user behavior we are seeing means a few things for hoteliers:

- Hoteliers must boost their presence in all three screens to provide the best user experience on each device (desktop, mobile, tablet).
- Year-over-year web analytics are meaningless.
- Call analytics or "offline reservation tracking" is now more important than ever: the majority of mobile bookings come via the voice channel.
- Special attention must be paid to mobile paid search strategies, as consumers are relying on search to help them move between devices.
- Multi-channel campaigns must be launched to reach consumers at every touch point. These campaigns utilize the right combination of online channels effectively (paid search, email marketing, SEO, online media, social media, etc.) to promote one campaign theme. This strategy is the most effective way to increase reach and boost revenues for a need period.

Technology available today allows for a hotel to manage all content in one place, yet still provide a customized user experience for each device. This technology, Responsive Design on Server Side (RESS), does the work for the hotelier, meaning they don't have to manage three different websites.

You must also have access to a CMS that functions as the nucleus of your digital marketing, where every website update, social media post and image can be published with the click of a button. The CMS should not only allow you to create and manage content through the three distribution channels, it should also offer the features specified in the next resolution.

8 *Speaking of providing the best user experience on the three screens, I will utilize a **next generation Content Management System (CMS) that allows me to achieve this**, as well as easily make updates to my site without having to pay any extra fees.*

Situation

In this multi-device world we live in, hoteliers must meet the needs of their guests on each device. This means investing in technology that allows for the best user experience on the three screens: desktop, mobile and tablet, which many hoteliers find hard to do, due to their website's antiquated Content Management System (CMS) technology.

In addition, many hoteliers also find themselves in a situation where their CMS does not let them add new content (extra pages) at no extra cost, or they cannot create landing pages and promotional tiles specifically for special offers, packages and events. Having the power to make these updates on their own is crucial for hotels to have in their arsenal, not only to satisfy the requirements of Google's new Hummingbird algorithm, but to generate incremental revenues.

The difference between an ordinary hotel website and a great website could be measured in hundreds of thousands of dollars of missed revenue a year. Going cheap when redesigning the property website will severely damage the hotel's bottom line. If your website is over 18 months old, there is a good chance it's not utilizing the latest trends in artistry, functionality or technology. Your website needs to find the right balance of excellent design, state-of-the-art digital technology, and engaging textual and visual content (rich media and video), improving the user experience from top to bottom.

Action Plan

Invest in technology built specifically for hoteliers, that allows you to manage all content in one place yet still provide a customized user experience for each device. This Responsive Design on Server Side (RESS) technology means you don't have to manage three different websites. HeBS Digital's CMS Premium is an RESS-enabled content management system.

Start by treating the three device categories: desktop, mobile and tablet as separate avenues to reach the travel consumer. Desktop users require as much information as possible and place high value on visual galleries. Mobile users need slimmed-down content with an emphasis on maps and directions, easy to use mobile booking engine and click to call property reservation number. Tablet users require a visually enhanced experience as well as a website that is built to accommodate the touch screen and swiping capabilities the tablet offers. Read more about how to accommodate behavior on the three screens here.

You must also have access to a CMS that functions as the nucleus of your digital marketing, where every website update, social media post and image can be published with the click of a button. The CMS should not only allow you to create and manage content through the three distribution channels, it should also offer:

- Innovative architecture facilitating fast download speeds
- Functionality to push promotions to the hotel's social media profiles
- Full compliance with the Google Panda and Freshness SEO updates
- Ability to change the look-and-feel design of the hotel website with a click of a button
- Dynamic content personalization
- A suite of reservation conversion features

A cloud-based (for lightning speed responsiveness) CMS, developed exclusively for the hospitality space will allow you to manage all content seamlessly across the three screens, saving you thousands of dollars every year. This includes the creation and content management of all pages as well as easy management of photography and videos. The CMS should also allow you to update elements that help generate bookings and position the hotel as the hero of the destination – from the calendar of events, to a map of activities that are nearby, to promotional tiles and landing pages for specials and promotions.

9 *I will take advantage of **smarter online media advertising initiatives** which are now more affordable and easier than ever for my property to participate in. This will allow me to also increase my reach to target audiences and communicate the unique experience my hotel has to offer.*

Situation

There was a time when online media initiatives were considered out of reach for individual hotels, resorts, casinos, small and mid-size hotel chains and that they could only be afforded by major hotel brands and OTAs. Today, there are a number of online media initiatives that any hotelier, big and small, can now afford, and these options must become part of your 2014 marketing budget. These options are clearly paying off for our clients as we are seeing between 15:1 to 25:1 ROI.

Online media targeting and retargeting options are smarter and more affordable than ever before. These smarter targeting options, coupled with advertising options that reach a relevant hotel audience, help move users through the conversion funnel. For instance, did you know that you can retarget group planners that visit your website with customized group and meeting related banners after they leave your website? Or that you can serve a banner with your hotel offer to someone who has just booked a flight to the city your hotel is located in? Or, how about that you can reach people that have visited your website in their Facebook Newsfeed? These highly- focused targeting and retargeting opportunities available mean that you can drive a significant amount of bookings through smart online media planning and campaign management, and finally at affordable prices.

Action Plan

Construct an online media plan that reaches your key customer segments and utilizes today's technology to reach the right consumer at the right time. Start by determining relevant media channels for your property, create banner ads to promote a concrete promotion, launch campaigns and then optimize, optimize, optimize.

Utilize retargeting campaigns on Google Display Network (GDN) to reiterate your marketing message and value proposition to users who have already visited your website. Another example of an online media opportunity you can afford is to launch an interest category targeting campaign on the GDN. Click here to read about a South Beach hotel that increased bookings during the low season through an interest category campaign on the Google Display Network. With a nominal budget the property achieved 106 conversions in a very short period of time and an ROI of 840%.

If you are a new property or newly rebranded property or simply want bigger piece of the pie, having a "Similar Audiences" display advertising via the GDN will allow you to target users who share similar qualities of those that have visited your property website (but have not actually been to your website).

The online media targeting and retargeting revenue-generating opportunities are endless. This strategy should require approximately 6-8% of your digital marketing budget – a number any hotelier should be able to reach considering the revenues that are at stake.

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10 *I know that self-proclaimed digital marketing vendors are a dime a dozen and* ***will choose my digital marketing partner wisely****.*

Situation

It seems that every few months a new company crops up that claims to be an expert in hotel website design and digital marketing. Often the founders and employees at these companies have no hospitality experience nor are they evolving their products and services ahead of the marketplace.

Action Plan

Educating and empowering hotel owners and managers to look at the web as the most critical and fastest growing revenue stream for the property requires hospitality experience, the ability to utilize the full digital marketing "toolkit" available (SEM, SEO, Online Media, Email Marketing, Meta Search, Reservation Recovery Applications, Multi-Channel Marketing, Social Media, etc.), and knowledge of how to grow the direct online channel.

Choose a partner that can lead your property in achieving maximum revenue from the property website/direct online channel by:

- Providing solutions to address business needs at the property such as occupancy, seasonality and ad-hoc needs
- Increasing online sales and leads from targeted customer segments (meeting planners, group planners, family, leisure, business travelers, etc.)
- Making proactive recommendations on your competitive set, rate parity and shifting share from the OTAs
- Providing ongoing monitoring and recommendations for improving the property's digital marketing presence including new revenue generating opportunities and technology applications
- Sharing best practices, the latest research in the digital space and technology trends
- Creating a digital marketing proposal
- Including analysis and recommendations in reporting by using state-of-the-art analytical tools

We hope that you have enjoyed this year's Top Ten Digital Marketing Resolutions. With 2014 expected to be another great year in our industry, we encourage you to adopt these resolutions and to start the year in good digital health!

HeBS digital

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A 2020 vision for revenue management, or "Meet John, the CVO"

by ***Trevor Stuart-Hill***

Trevor Stuart-Hill is a revenue management strategist who has been recognized by HSMAI as one of the hospitality industry's top 25 minds in sales and marketing. We asked him how he saw this domain changing in the future, and he responded with the following day-in-the-life mini-saga about John, a hotel's "Chief Value Officer" in the year 2020.

Hospitality is timeless - from ancient times to modern day, the fundamentals of providing food and shelter to travelers has been an integral part of civilized culture. Of all hospitality-related developments that have emerged over time, the revenue management discipline is among the newest to shape the hospitality industry. What started out as a basic idea of using price and inventory controls to help properties better capitalize on their high demand dates has evolved. And, boy has it! Today revenue management is a multifaceted practice designed to proactively optimize revenues through all demand conditions, but it will quickly move beyond that. Here we explore a scenario that will serve to illustrate one potential future of this discipline and what it may mean for hoteliers of tomorrow.

The year is 2020. John, who works for a large property, settles in to his home-based office. He is reviewing key statistics from the night before using his glass device and is approving the recommended updates to rates and inventory controls for select future dates. Beyond allowing John to play with "what-if" scenarios, he appreciates that his revenue management system factors in remaining room availability at competitor properties, remaining airline lift capacity into the market and projected results from promotional activity. In addition, it has learned to anticipate typical responses by competitors and integrates weather forecasts to estimate fluctuations in demand from certain customer segments. It does all this regularly throughout the day. It also interacts in real-time with the customer relationship data warehouse and property reservation systems to enable stay restriction over-rides for select guests based on their spend propensity.

At 8:00 a.m., he has a meeting with his revenue team, which consists of a revenue analyst, distribution specialist, reservation sales manager, e-commerce manager, social media manager, director of sales and a marketing manager. He is heavily reliant on these specialists to keep abreast of key trends within their areas of expertise and to relay that knowledge to him.

This meeting focuses on four main topics:

(1) Reviewing last month's market share from select online travel agencies (OTAs) since, instead of flat margins, over-rides are paid to OTAs based on volume and market share thresholds;

(2) Quantifying the ROI of advertising spend across a multitude of meta-search entities that now dominate the distribution landscape since wrestling control away from the OTAs of yesterday;

(3) Working with the outlets on ways to better leverage the near-field technology advertising capabilities offered through the recently announced Google/Apple Travel affiliation in order to capture additional in-house guest spend; and

(4) Putting the finishing touches on a spa campaign that consists of a dynamically generated printed piece for select past guests and other households with similar psychographic profiles.

Of course, the reservation sales team will be notified automatically when one of these guests calls to inquire about the offer and will custom tailor their conversation accordingly. The same goes for the dynamically populated content on the property website, which is strategically focused on improving relevancy for spa goers and a multitude of other target customer segments. After all, relevancy is the most effective way to combat the power that meta-search entities now hold over the industry. Suppliers killed the concept of rate parity a couple years ago and that had helped shift more bookings directly to supplier channels, but since then, a new threat has emerged.

John previously had the title Chief Revenue Officer, but it didn't quite fit the scope of his responsibilities, so it was changed last year to Chief Value Officer (CVO). In this capacity, he is clearly responsible for total property top-line revenues, but he is equally responsible for helping to ensure that property asset value continues to grow. Net operating income (NOI) is a metric that is closely tied to asset value, so he is keenly focused on ensuring that revenues are flowing efficiently to the bottom line. Part of his incentive was originally measured on forecast accuracy, but this year it is tied to forecast performance. Forecast performance reflects an organization's ability to respond to changing demand conditions. Department heads now have far greater visibility into their budgets and resource allocations. The General Manager helps to keep them accountable, but John also keeps a keen eye on departmental P&Ls and offers his guidance and support.

John demonstrates strong leadership attributes, is a critical thinker and has an insatiable curiosity – attributes that his current employer specifically sought two years ago when they hired him. For John, making the switch from a real estate investment-banking firm to work in the hotel industry was a natural career progression that allowed him to put his knowledge and skills to good use. He is excited about the dynamic nature of the hospitality business and can't wait to see what the future holds.

Trevor Stuart-Hill *is the founder and president of Colorado-based Revenue Matters. He co-authored the first college-level textbook on the subject of revenue management and was a founding member of the Hospitality Sales & Marketing Association International's (HSMAI) Revenue Management Advisory Board. In previous corporate level roles, Trevor defined revenue management strategies including developing pricing and distribution approaches for both Sage Hospitality Resources and Destination Hotels & Resorts. Prior to forming Revenue Matters in 2009, he was primarily responsible for the account management function for the Americas region at Sabre Hospitality Solutions.*

The changing face of the luxury resort

Interview with ***Bernhard Bohnenberger***

Only a handful of the world's hospitality groups are truly synonymous with luxury in the most exclusive and stunning settings imaginable. One of them is undoubtedly Six Senses Hotels Resorts Spas. Crafting guest experiences that aim to "stimulate, energize and revitalize the human spirit", the Bangkok-based company is headed by Bernhard Bohnenberger, affectionately known as "BB". The Hotel Yearbook asked BB for his thoughts on how the resort of the future might differ from the ones Six Senses operates so successfully today.

Bernhard Bohnenberger is President of Six Senses Hotels Resorts Spas. He joined the company in 1991 as Development Director, was appointed Managing Director in 1996 and President in July 2011. Prior to joining Six Senses, BB's hotel operations experience includes Hilton Geneva and Hong Kong, Marco Polo Group in Hong Kong, Hotel Vier Jahreszeiten in Munich, Hotel Baur au Lac in Zurich and The Peninsula Hong Kong.
From July 2009 until April 2011, he was Honorary Advisor to the President of the Senate of Thailand. He is an alumnus of the Ecole hôtelière de Lausanne and is a Member of the school's International Advisory Board.

The Hotel Yearbook: BB, before we look at how things might change in the future, let's start with a quick look backward. What are the biggest changes you've seen in the last 10 years in the resort business?

BB: I think there have been quite a few changes. Perhaps the most important is that guests expect more of an experiential holiday today, rather than one that is merely about relaxing in the sun. People are looking for ways to enrich their lives, and experience things that they can't in their day-to-day lives back home. For a resort, this gives us an opportunity to provide a whole range of wonderful hands-on encounters: with nature, with food (for example through cooking courses), with the local culture… Another aspect of this experiential desire is that resorts are being developed in ever-more unique locations around the world.

A second big change has been the focus on sustainability. In the last decade, the hotel industry, for the most part, has moved far beyond the "Yes, I'll use the same towel again today" approach to sustainability. We actually have become quite sophisticated at measuring and mitigating our resources footprint. It used to be that at a five-star resort, guests remained cordoned off from the local environment, and everything was flown in … the very best products and the very best things to eat and drink from around the world, all enjoyed behind a wall separating the resort from the rest of the world. Now, we look first and foremost to the community where we're located as a source for produce and locally made products. This ties in as well with the experiential aspect I mentioned before; a stay in such a resort is a more authentic experience as it is more closely integrated with the life going on around it.

The third change I would mention is one affecting everyone in the hotel business: the rise of social media, which didn't exist at all ten years ago. We must all come to grips with social media and their growing power; for a resort, a special challenge is how to successfully convey its intangible, emotional benefits through social media.

HYB: In what ways could the spa resort of the year 2025 be different from today's resort?

BB: I can think of a couple of trends that will probably shape the spa of the future. One has to do with the pace of life today, particularly with people's 24/7 connectivity. I believe that more and more, a spa resort will become a place where people come specifically to disconnect.

Second, in the not too distant future, resorts like ours will not only be places where guests come to pamper themselves and recharge their batteries. Of course, that will still be a primary focus of resorts, but they will also move into a somewhat different area, addressing the actual health needs of guests. For example, no matter where you live, technology would make it possible for a spa to conduct a pre-visit assessment prior to arrival, where specialists can evaluate a guest's needs and tailor-make individual programs for the guest, ranging from specific treatments to dietary plans so as to ensure measurable results.

HYB: Do you see spas crossing over into medical tourism then?

BB: No, for a number of reasons we wouldn't go that far. For example, we would never conduct any invasive procedures, but I do see spa resorts offering an array of consultative services.

HYB: How will Generation Y change the look and feel of a resort in the future? They will be a big part of your target market in the next few years, won't they?

BB: Certainly. One word you could use to describe the way resorts have traditionally been is "tranquil". And to some extent, resorts were designed to reinforce this tranquility, allowing guests privacy and peace and even solitude. But Generation Y doesn't seem to value peace, quiet and solitude in the same way as their parents. For one thing, they are much more communal. So I could see the resort of the future finding fun ways that cater to their desire to spend more time with the other guests, sharing experiences, sharing meals, undertaking activities and adventures together.

I think that we will also see a shift toward more visits, but shorter ones. That also seems to fit better with the rhythm of Generation Y's lifestyle.

HYB: Some observers have noted a growing trend toward multi-generational vacations, i.e. kids, parents and grandparents all on a luxury holiday together. Are you seeing this, too?

BB: Yes, that is happening. When we started out Six Senses was very much couples-oriented. Our guests were often honeymooners. We now see more children and teenagers joining their parents and as you mentioned, three-generation holidays are also becoming more popular, especially for guests from China and the Middle East.

HYB: How do you accommodate their different needs?

BB: The whole family doesn't need to be together all the time, of course. For the adults, we are already well positioned. For younger guests, the experiential aspect of the holiday is important. Learning new things turns them on. So we can introduce them to the local culture, for example. For quite young kids, even small things like learning how to write your name in Thai or Arabic helps make a vacation memorable – something personal they can also show their friends back home. Also Gen Y is very knowledgeable and respectful of the environment. We go to great lengths to share community projects and our local efforts with kids – be it through kayaking through protected mangroves, snorkeling with a marine biologist at a coral reef, exploring an organic garden, or undertaking an art project like making batik fabric.

HYB: Resorts must be staffed by people with a special feel for pampering guests and making them feel great. Do you expect any difficulties finding (or retaining) the people you need in the future? Do you expect any impact of the demographic changes, for example low birthrates, on your longer-term ability to get the talent you need?

BB: This is a big problem the industry is facing. How do we attract good people into hospitality, and keep them once they've become part of the family? One thing we have done to address the issue of retaining talent at Six Senses is to think about our hosts (employees) in experiential terms as well – they too want a positive experience in their work. So for example, we take great care to make the back of house lively and attractive and a nice place to be and work. You have to recognize opportunities to give employees a chance to feel more involved in the life of the hotel. We know our focus on sustainability is of great importance to the younger population and we will continue to elevate and enhance our efforts so our hosts are proud of where they work and instrumental in building and strengthening the communities in which we live and work for the future.

HYB: What else, if anything, would you consider a big challenge to the future of this part of the hospitality business?

BB: For sure, the environment. We have to address the problem of pollution. It's scary because of how advanced the damage is. I hope the whole industry will take this more seriously in the future. Sustainability is considered in all aspects of what we do at Six Senses, and we have a Vice President of Sustainability who sits on our Executive Committee and spearheads these efforts.

Spa and wellness: A decade of opportunity ahead

by ***Susan Harmsworth***

How could the global hotel spa industry evolve over the next decade? Susan Harmsworth MBE, Founder & CEO of ESPA International, believes that the emerging "self help" approach to health, combined with an ageing population, will bring about big changes in the spa and wellness industry as people assume more ownership for their on-going health.

As traditional medical and healthcare systems across the world continue to fail, combined with the ageing population, health needs of the consumer are rapidly changing. Health systems can vary substantially from country to country, and in the next few years as health systems break down, this will result in individuals wishing to take more ownership for their on-going health, prevention and recovery. Consumers are beginning to look at health, complementary medicine, beauty, spa, wellness and lifestyle in a totally different way, and hotels will need to consider their service offering to adapt to this new thinking.

The major change for the hotel industry will relate to health, lifestyle and more specifically prevention. Not to be confused with medical tourism, which may have an impact on the global spa and wellness industry as we know it today, with patients moving from highly developed nations to other areas of the world for medical care, usually to find specific medical procedures at lower cost. This will only affect hotels as guests seek rest and recuperation following medical treatment, particularly cosmetic and orthopedic surgery, to speed up and assist their recovery.

More importantly for hotels, the spa and wellness industry will segregate, and hotels will have to make choices if they want to deliver the evolving luxury spa and wellness experience that guests will increasingly demand. The first route will be based on complementary medicine, nutrition and exercise combined with natural, organic products. Our research shows this natural route is the way forward, as consumer demand swings back to natural, efficacious, results-driven products and treatments with consumers wanting to look the best they can for the age they are naturally, without resorting to fillers, botox and surgery. As consumers continue to turn to naturally active products, ESPA is leading the industry with its belief that, when it comes to skincare, natural ingredients are far superior to chemical compounds artificially synthesized in a laboratory, as they provide not only visible results but long term care for the skin, too.

The second route, which is rarely relevant to hotels, is the clinical route, usually under a doctor's supervision, utilizing invasive, scientific procedures, lasers, cosmetic surgery, etc. The trend shows that clinical and medical facilities are proving popular for clients looking for non-surgical and cosmetic surgeries; however, the sophisticated traveller will not wish to do such procedures in a hotel/resort environment, but more under the auspices of renowned medical doctors.

Our research, and the latest spa trends, show that results-driven treatments, grooming, optimizing long-term well-being, as well as reducing stress are the primary areas of interest for spa guests. Prevention and complementary medicine are of particular relevance to hotels, but must be done properly and have integrity and highly skilled staff. Resort spas will be used increasingly for wellness programs and long-term lifestyle altering solutions. This will be the most challenging option for hotel spas, as it requires heavy

*Universally recognized as one of the world's leading spa experts, **Susan Harmsworth**'s innovative, inspirational and forward thinking approach has shaped the luxury spa industry into what it is today. Since the age of 21, Susan has devoted her professional life to spa and wellness. The culmination of this knowledge, and a clear vision for what the spa industry should be offering, led Susan to create ESPA in 1993. In 2010, Susan was honored with an MBE from the Queen in recognition of her services to the spa and beauty industry.*

long-term investment in facilities, licensing and specialized staff – with qualifications that differ in each country. Also wellness programs, although able to generate high revenues and increase room occupancies for longer stays, can take years to establish.

Longer term, standardizing the wellness offering in different global regions will prove to be challenging, but will become increasingly important in order to establish wellness programs and their "prevention rather than cure" approach to health. In particular, resorts will need to offer luxury, longer spa treatments alongside complementary and alternative medicine, including naturopathy, osteopathy, physiotherapy, acupuncture as well as personal training expertise and nutritional advice, helping guests to achieve their desired health and lifestyle goals. This is the concept behind the ESPA Life approach that is now available in the UK at ESPA Life at Corinthia, London and ESPA Life at Gleneagles, Scotland – where the spa and medical worlds have grown together by using the most innovative diagnostic functional medicine testing and in-depth therapist assessments to provide tailored and individually mapped spa experiences, alongside luxurious and indulgent treatment journeys. In brief, the ESPA Life approach revolutionizes the way we address the most common, chronic and extreme lifestyle stresses and the impact these have on general health and well-being.

Grooming and results-driven treatments will continue to be popular, and there will be growth in city center Hotel Amenity Spas, which offer predominantly massage and gym facilities, fast turnaround, results-orientated treatments, which work immediately for time-poor internal hotel guests and local clients.

Another element that resort hotels considering wellness programs must consider when looking at their existing and future spa services is the effects of the sun. Sun exposure isn't recommended after many treatments and procedures, particularly the more aggressive ones. If the hotel is located in an area where sun exposure is a draw, they must be extremely careful that hotel guests are aware of this before they book a spa break, in order to manage guest expectations.

In summary, the emerging "self help" approach to health and the ageing population will affect the global spa and wellness industry hugely within the next decade, with consumers living longer and demanding continued good health as they age – a luxury that wasn't available or expected by previous generations. The hotel spa industry will need to adapt if they are to survive and thrive in the new world.

The DNA of luxury

Bruno H. Schöpfer *interviewed by* *Denis Morisset*

Will luxury change in the years ahead? When does the pairing of a world renowned luxury brand and a famous international hotel brand make sense? Who better to explore this theme than Denis Morisset, former Managing Director of Giorgio Armani France, and Bruno Schöpfer, Managing Director of Katara Hospitality Switzerland AG, the company developing the complex of iconic luxury hotels atop the gorgeous Bürgenstock overlooking the Lake of Lucerne.

The concept of luxury has evolved a lot in the last 30 years, with the democratization of luxury. Today it is consumers who more and more define luxury, posing a challenge to luxury brands: how can they innovate based on tradition? Or in other words, how can they assure relevance by adapting to evolving consumer cultures and expectations while simultaneously remaining loyal to their DNA?

We can also observe a growing shift of luxury consumers' interest from pure ownership of luxury goods to experiential luxury. This seems to legitimize the development of new types of collaboration between luxury hoteliers and luxury brands or fashion designers.

These two initial questions prompted me, a former CEO in the luxury goods industry and currently a luxury marketing professor in both luxury goods and hospitality sectors, to seek out the opinion of a highly experienced hotelier, Bruno Schöpfer, CEO of Switzerland's Bürgenstock Selection.

Mr. Schöpfer acknowledged that the term "luxury" had become stretched and even abused, encompassing anything from a so-called upper-upscale to an ultra-luxury hotel, thanks to the lack of a clear definition of luxury hotel and absence of a consistent international classification system. Various luxury hotel "brands" had set their own standards, he says, while on the other hand there exists a myriad of independently owned and managed (non-chain-branded) luxury hotels, which are members of affiliations such as Leading Hotels of the World, Swiss Deluxe Hotels or Preferred Hotel Group. For them, the affiliations generally define their own minimum standards of luxury service, which members must adhere to.

Both the luxury hotel chain brands and the affiliations will allow more or less leeway in the implementation of these standards. As a result, the guest may well encounter different qualities of service within the same brand or affiliation, which for Mr. Schöpfer is a big challenge for both business models.

When it came to my second question, I was curious to know how a luxury hotelier valued the current boutique and design hotel trend, and more generally the various co-branding initiatives with luxury brands or designers.

For instance, the designer brands may be involved in the decoration of the entire hotel (Armani, Bulgari, Missoni, Versace to name a few) or only a suite (St. Regis designer suites in New York), or in the decoration of bars and restaurants, management of the spa, the hotel's transportation fleet, etc.

Mr. Schöpfer's view is that it depends on what the consumer is looking for in a luxury hotel. For some, perhaps infrequent users, a co-branded luxury hotel may be an opportunity to earn bragging rights, while for (ultra-)HNWI or famous, publicly exposed personalities, a luxury hotel may be more an opportunity for privacy, discretion, peace-and-quiet and recognition with a very high level of personal and highly discreet service, at which point the importance of the co-brand may become secondary. A young, "new-money" millionaire from an emerging market may have very different aspirations and expectations than, say, a public personality, an established wealthy entrepreneur or "old money" family member.

Does he believe in the sustainability of these collaborations? If the hotel experience is linked too closely to a specific design element or aesthetic, or to the name of a designer or luxury brand, isn't there a risk that after having enjoyed the

experience the first time, they may be less likely to return? I also asked him about the risks of brand dilution for both parties.

According to Mr Schöpfer, it can be a sustainable business model as long as both sides of the equation are able to maintain and continuously deliver their brand promise at all times – i.e. both the hotel and the co-brand. If one or the other falters for any reason, you may well risk brand dilution and loss of brand value with the other partner, both intrinsic and in share value.

"In fashion," he says, "the brand lifecycle is very short and often not in line with the hotel industry's cycle of FF+E replacement. Time will tell if the hotelier and the fashion brand will be able to agree on when it's time to change the curtains."

In this context, I was curious to know Mr. Schöpfer's view on the recent initiative by LVMH (Louis Vuitton Moet Hennessy) with Cheval Blanc, a famous St-Emilion wine from the Bordeaux region. After several years spent learning the art of personalized service at the first Cheval Blanc hotel in Courchevel, the group recently announced the creation of Cheval Blanc Hotel Management, a new entity within the LVMH Group. With support from investors, the brand plans to open luxury resorts in different dream destinations, starting with the second Cheval Blanc resort that just opened in the Maldives.

Mr Schöpfer's view is that highly personalized service per se is nothing new – palace hotels have been offering that in Europe for the last 200 years or more. But coupling the highest levels of personalized hotel service with some of the world's most famous, aspirational and sought-after luxury product brands from the house of LVMH is creative indeed and fits very well with their aspiration to "…represent the most refined qualities of Western 'Art de Vivre'…"

But he insisted that while LVMH seeks to deliver "utter perfection in their products", the "closest attention to detail" and "nobility and perfection of traditional craftsmanship" (which are also attributes of the world's best luxury hotels), there is still a big difference between ensuring the perfect quality of a manufactured product, where you control exactly what ends up on the shelf, and ensuring perfect quality in personal service. The latter will always be subject to the imperfections of the service provider – the human being.

What about the balance between service (soft components) and comfort or design (hard components)? Has this changed significantly since he joined the hotel industry?

"The balance has remained fairly unchanged," was his response. "Both are important, although today, just like 30 years ago, the software component (i.e. the human service delivery), if done superbly well, can still compensate for drawbacks in the hardware – up to a point. For example, to some degree, luxury guests will tend to accept a slightly out-dated interior design as long as the service delivery is really perfect and truly personal, and by far that is the more challenging thing to get right. Aside from design, the major changes in the hardware component which have an effect on the service delivery are the increasingly complex and rapidly changing technologies (i.e. IT) which employees need to master without having an impact on the guest service delivery."

Asked whether he felt the shift towards personalized service was a challenge for traditional 5-star hotels, he acknowledged that it is indeed a challenge as "personalized" service means very individual service, to each and every one of the hotel's guests. "Given the comparatively short length of stay in city hotels, for example, there is no doubt that employees will struggle to remember names and faces of frequently changing guests in a hotel with over 200 rooms. In a resort, on the other hand, where guest rotation tends to be less frequent because guests generally stay for longer periods, it can be a little easier for the staff to recognize each individual."

To conclude, I asked Mr. Schöpfer what were the elements a luxury hotelier should never compromise with?

His answer was straightforward: "People, people, people; training and uncompromising quality of product and service. This is a people's business. A hotel stands and falls with the quality of the General Manager – all over the world. A top hotel General Manager (if different from the hotel owner) makes all the difference; immediately followed by the quality of the department heads and entire staff, which starts with their selection and hiring. Finding the people with the talents, desire and most of all passion for service is a major challenge.

"And then they all require continuous, never-ending training, leadership and development," he continued. "Mind you, you still need to provide them with the best possible design, equipment and efficient infrastructure, so they can spend their time focusing on the guest and not on how to operate the equipment. You can put all the marble, silk and gold-plated taps you want in a hotel – but without the right, passionate people able and willing to deliver uncompromising service, it's all just bricks and mortar."

On a more personal note, what are Mr. Schöpfer's priorities when he himself is looking for a luxury hotel for a vacation? "Spare time is rare," he replies, "so for me, the sense of place is key. An alpine holiday, for example, should be driven by a charismatic location, unique hardware and interior, and unobtrusive service. And this should be accompanied by a food and beverage and spa experience that is above the usual." Big brands or independent hotels? I asked. "I tend to go less to the large, international companies, since the Internet gives me the opportunity to find these hideaways..."

__Denis Morisset__ worked 25 years in the luxury Industry, occupying CEO/COO positions for Ralph Lauren, Pierre Balmain and Giorgio Armani. In 2004, he became Executive Director of the luxury brand MBA and member of the marketing faculty at ESSEC Business School in France, teaching marketing for the luxury goods industry and the luxury hotel industry. Since 2011, Denis has ben partially based in China, delivering luxury marketing executive courses on ESSEC's Singapore campus.

__Bruno H. Schöpfer__ is the Managing Director of Katara Hospitality Switzerland AG, which is responsible for the Bürgenstock Resort Lake Lucerne, the Hotel Schweizerhof in Bern and the Hotel Royal Savoy in Lausanne. Having spent the last 35 years developing his career in the luxury hospitality sector, his positions included Group Operations Director for Mandarin Oriental and later CEO Mövenpick Holding and chairman of Mövenpick Hotels and Resorts Limited.

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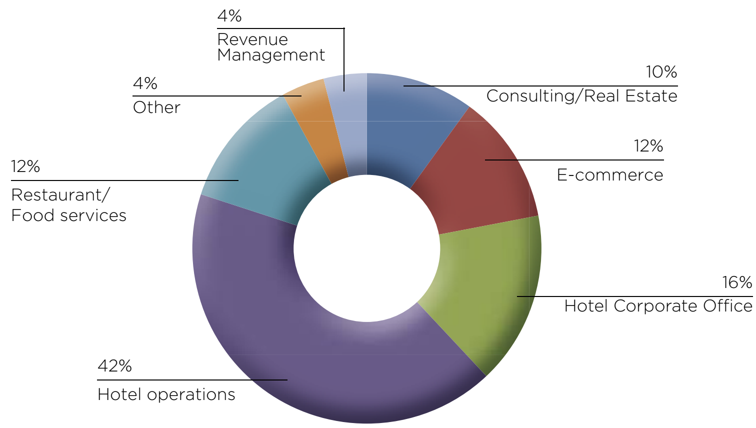

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Hostel 2.0: The “S” is no longer silent

by *Demian Hodari* & *Rachel Crawford*

In a world where affordable technology, airlines and fashion are firmly geared towards engaging the youth generation isn’t it about time the hospitality industry caught up? Hotels, for example, could learn a thing or two from their often forgotten sibling, the hostel. Prof. Demian Hodari of the Ecole hôtelière de Lausanne, and Rachel Crawford of London-based Generator, discuss the segment’s potential.

Once considered a solution for only backpackers and bums, contemporary hostel models are winning the loyalty of young people (18-30) and peaking the interest of investors worldwide. The innovative concept combines lifestyle, design, affordability and a strong financial model. Together these have created a product which could leave even the most established hotelier shaking in his boots. Welcome to Hostels 2.0.

The market

The youth market is no longer just a tourism niche but has instead become a market of vast current and future potential that has gone relatively ignored by existing operators and investors. The UNWTO estimated over 20% of global tourists are young people, with the expectation that the number of youth trips will jump to 300 million a year by 2020.

The European market has the largest supply of hostels relative to the world, leading to it being the most competitive market but also home to the most innovative hostel concepts. Within the competitive set there are chain operators, primarily national but also consisting of limited number of continental brands, as well as independent hostels. Historically, most hostels were independent family businesses and state funded youth accommodations. This pattern has, however, been completely turned on its head with over 80% of hostels now being for-profit businesses. And rather than made up of only single-unit businesses, the industry is now experiencing an important growth in multi-property lifestyle brands such as Generator, Wombats and Plus Hostels.

The product

Emerging and established designers are being brought on board to revolutionize pre-conceived notions of hostel rooms and social spaces, pioneering the “design hostel” concept. Gone are the days of creaky metal beds, sunken mattresses and school-like lockers. Instead, these are the days of custom built beds with special features (USB ports, personal lights and privacy screens), high quality mattresses, linen and sleek finishings. As a true testament to this, 50% of this hostel stock is now ensuite with a rapidly increasing number of twin and double rooms, catering to a higher price point and more discerning guest who shares the hostel lifestyle but prefers private accommodation.

Hostel public areas are what really separate modern hostels from hotels. In contrast to hotel spaces, hostels are designed to facilitate social interactions between guests. This phenomenon of relaxed social exchange was born of the original backpacker days when advice and shared meals were a necessity when travelling the unknown. Design hostels have updated this original essence into developing spaces which are stylish and buzzing, targeting both locals and guests who share a similar mind set toward urban exploration and the love of discovery. Online guides generally don’t live up to the task of ensuring individual and authentic experiences. Instead, recommendations from local staff and guests of a similar mind set are the new guides, and hostel spaces facilitate this better than ever.

Anwar Mekhayech, a partner at The Design Agency, says of Generator: “Our intention has always been to reengineer the whole customer journey and ensure people feel special when they stay with us. For us, the ‘s’ in hostel stands as much for ‘social’ as ‘stylish’ and ‘secure’. The emphasis has always been on creating exciting common areas that are enticing and fresh.”

The guest

Within the hostel segment there are a variety of smaller segments: under-18 school groups, large leisure groups and individual travellers. The design hostels tend to favor independent travellers and smaller groups to keep things targeted, and the spaces not over-congested with stag parties or under-18 groups. Independent travellers range in age from 18-30 and usually share a love of exploration, strive to be original, and are open to new experiences.

Young people are not simply to be viewed as a tourism niche or another market segment but a crucial market for the future and a vital resource for innovation and global change in travelling behavior. The United Nations World Tourism Organization’s report on young people highlights young people’s role in revamping the tourism value chain from traditional vertical distributions chains to a more complex value network which implicates a wide range of suppliers outside of the travel sector. They are more able to cross boundaries with their trips, oftentimes creating and exploring different opportunities, such as social media, mobile media, consciousness travelling and connecting with local businesses.

The future

Hostels focused on the youth segment will inevitably need to evolve as its target customers are known for quickly and frequently latching onto new technologies, fashions and media choices. Unlike most hotels, however, which are known for adapting to these changes, hostels are helping to create the next wave of behavioral trends as they become more widely known as places one wants to be. Case in point: note the frequent situations of standing room only events and entry waiting lists at a hostel near you.

Demian Hodari *is an Assistant Professor of Strategic Management at the Ecole hôtelière de Lausanne. His research focuses on the evolving roles of hotel owners, asset managers and general managers. He regularly presents his research at academic conferences, provides executive education and is a frequent moderator and/or chairperson for industry events.*

Rachel Crawford *is currently the Head of Events and Special Initiatives for Generator. An alumna of the Ecole Hôtelière de Lausanne, Rachel was most recently a hospitality leisure analyst at Patron Capital where she focused on strategic planning and development. She is also a co-founder of the Young Hoteliers Summit (YHS) which brings together the industry’s future leaders to contemplate current challenges and devise innovative solutions*

A clear strategy, lots of charisma and empathy

by ***Hans Koch***

What are the key challenges the General Manager of a hotel will face over the next five years? We asked Hans Koch, President of the European Hotel Managers Association (EHMA), to look into the future and share his views.

The biggest challenges today are to manage and sustain infrastructure, profit margins and human resources, in order to meet customer needs and stakeholder expectations. In a broader perspective, we simultaneously face economic and political challenges that, depending on the country, are more difficult to influence or manage.
On the level of a hotel operation, I see the following five challenges a General Manager will face over the next five years:

Investments

In today's very competitive business environment, there will be more pressure on room rates and profit margins. Three and four-star hotels will be more and more in demand – a challenge for many five-star properties. Fast changing customer needs and expectations will put more pressure on hoteliers' efforts to keep up with hardware maintenance and facility improvements. Service requirements and fast developing communication and digital technologies will add to the challenges and sustainability of future success. Substantial investments will be required to meet the expectations of comfort, service and of modern communication solutions.

Guest interaction

Although electronic communication is increasingly becoming the norm in today's world, personal contact with guests remains of paramount importance. A good balance of cross-cultural competence, personal attention to details and the ability to interact with guests will be the key attributes of a successful hotelier. Unfortunately, many General Managers often become too absorbed with corporate, financial and strategy issues. We must remember that, at the end of the day, happy guests are the best advertisement for a hotel and crucial for future growth and success.

Exceptional employees

Today, it is more and more difficult to find well-qualified employees with the right attitude for the hotel industry. Graduates of reputable hotel schools like Lausanne (EHL) and Cornell who have become successful hoteliers become target candidates for other service industries, for example luxury brands, banks, or insurance companies, which offer them more attractive remuneration. Therefore, to motivate young people to join the industry and keep employee turnover low, hotels should offer their employees a competitive compensation package, continuing professional development and further career opportunities. Motivated, trained and loyal employees are the backbone of any operation and key to any venture's future success. We need employees who pay attention to details, provide exceptional service and unexpected "wow!" effects that deliver that competitive edge that guests are willing to pay for.

Happy stakeholders

Multifaceted expectations of the various stakeholders – guests, employees, owners, shareholders, suppliers and government bodies – significantly influence and impact a

General Manager's planning and operating approach. Apart from a clear business strategy and a smart business plan, efficient time management as well as well-structured and professional networking across all levels are essential to identify the factors that are most beneficial for the hotel.

"Less is more"

Today's travellers know exactly what they are looking for when choosing a hotel. They can access online review portals for first-hand information and feedback on hotel services and facilities worldwide. General Managers are increasingly challenged to keep their properties up-to-date with trends and developments in the industry and in adapting facilities and services to different expectations and needs of a multicultural clientele. It is crucial to provide guests what they really require at expected quality levels. Guests are not willing to pay for services they do not need. Hence, we have to understand and meet the real needs and expectations of our clientele.

Summing up…

To succeed in the next five years, a General Manager should have a clear strategy, lots of charisma and empathy. He or she should have the vision to make smart investments, have excellent guest contact and the passion to lead and inspire his or her team to achieve the best product and maximum profits and thus keep all stakeholders happy.

__Hans E. Koch__ is Swiss, hailing from Lucerne. He is currently the President of the European Hotel Managers Association (EHMA) and the official delegate for EHMA's Swiss Chapter. Throughout his 35-year career as a hotelier, he covered Switzerland, South America, Asia and Africa, managing prestigious properties of various kinds and sizes before returning to Switzerland becoming the CEO of Lucerne's "KKL" – the city's high-profile Culture and Congress Centre.

EHMA
EUROPEAN HOTEL MANAGERS ASSOCIATION

The ever-evolving hotel business landscape

by ***Giovanni Angelini***

Searching for a manual on "How to Be a Forward-Looking GM" that will take you just ten minutes to read but the rest of your career to implement? Look no further. Giovanni Angelini, retired CEO of Shangri-La, founder of Hong Kong-based Angelini Hospitality and Vice Chairman-advisor to Dusit Overseas Company, brings his seasoned perspective to the task.

The hotel/hospitality industry is constantly faced with an evolving landscape when it comes to responding to business needs: new trends, new customer likes and dislikes, new demands, advanced technology and connectivity, new tools and equipment, etc. Also coming into play are the constant increase in operating fixed costs, a less committed yet more demanding labor force, complicated ownership/investor structures, and a fast-growing middle class traveling from new geographical sources.

All these factors, among others, are putting pressure on hotels to respond to the demands of business, remain competitive, and generate the ever-increasing owners' expectations for ROI. In addition, the prolonged financial and economic downturn, and the very slow recovery in the US and Europe, are adding additional pressure to the industry.

Age of connectivity and the velocity of information

Perhaps the biggest operational evolution is centered on the booking process and communication with the customer, dealing with third party websites, new channels and sources of business, social media strategies, and the efficiency of the brand's website. Unfortunately, most of these changes have come about at the hotel's direct cost, or by diluting the hotel's rate/RevPAR. Thus they have become a challenge for the industry to handle.

For leaders in the hotel industry, there is no alternative to assessing how their organizations and hotels are handling all those changes, getting prepared for more changes to come, and trying to be as "future-proof" as possible, with the hope of a better economic environment in the future, with a more favorably balanced supply/demand situation.

The following are simply some basic guidelines and reminders for hotel executives.

Planning and responding to the continuous changes we face

Some of the factors needing to be understood and addressed are:

- New sources of business/revenue streams and its potentials (i.e. BRICS countries and others)
- Consumer-buying behavior and dealing with third party websites
- Emerging categories of travelers, their expectations and creating value for them
- Emerging markets over the next few years, new changes, demands and needs
- Complexity of effective revenue management and booking process
- Decreasing customer loyalty to hotel brands
- Social media strategies
- New products/facilities/designs to respond to the new generations which represent the future business of the hotel industry
- Innovations and technology: constant advancement and effective usage
- Availability, attitude and commitment of the labor force; managing talent
- Expectations of the different generations of customers (baby boomers, generation "X", and generation "Y")
- Constant increase of operating costs and fixed costs
- More branded hotels and less individual products; changing competition
- Investors' ROI expectations and short-term views

And the list can go on and on…. There will always be changes within this industry, but how do you future-proof your business? Who will emerge? Who will lead? Who will follow? Who will merge? And who will disappear?

On the positive side, with the constant growth of the middle class, people from all over the world "need and want" to travel, and they need hotels to stay in. The challenges this brings about have to do with who will do a better and more effective job attracting and retaining customers, make a profit doing so, and advance their business. It is also worth reminding ourselves that the fundamentals haven't changed. Hotels and the products and services that they offer have to be consumed in much the same way that they always have been, sleep and food being the main products that customers purchase. Hotelkeeping lies at the heart of the hotel business, and exceeding guest expectations remains the objective.

Basic priorities

In this evolving business landscape, it is important for hotels to set priorities and strategies and address the four key elements:

1. Quality of the physical product/competitive facilities
2. The people culture and the employees' experience
3. Effective revenue management and market position
4. Customer experience/value and repeat business

Physical product

This of course comes first. The physical product has to be competitive. The property must offer all key facilities in line with the market position of the hotel and management should not allow the product to deteriorate in any way whatsoever. New facilities-concepts-services are to be added at all times, and proper renovation-upgrades to be done regularly. The 3-4% of GOR (reserves) that hotels traditionally put aside is not sufficient to maintain the property as a competitive enterprise. Major renovations/upgrades are necessary every 7-8 years, and for this, there is a need for additional capital, and the long-term financial projections of the hotel should reflect this. In principle, existing hotel products/facilities cannot be "left behind" to become inferior compared to new hotels/product entering the markets – customers will not accept it.

People culture

The hotel/Group has to distinguish itself in the market by providing exceptional and caring services. To do this, it is imperative that a strong people culture is put in place that addresses all the basics: recruitment, training, retention, career advancement, benefits, incentives, quality measurements, motivation, etc. It is a labor intensive industry; therefore, employees/colleagues come first. You cannot compromise here.

Focus on engaging and developing employee skills. Emphasize, reward and maintain open two-way communication. Become a learning organization with a strong coaching culture and employee experiences. Labor force demands are evolving very rapidly, and you must respond.

Effective revenue management

Are we a direct sale-oriented organization, or do we put costs/expenses first? Easy answer: in order to compete, we need to have a very strong revenue culture. The hotel industry in general has not done a good job maximizing its revenue potentials, and there is a shortage of qualified people and talent in this area (a reason to train, motivate and compensate well with the objective to retain). We must accept that in most cases, a good Reservation Manager does not make an effective Revenue Manager. The same applies to Directors of Sales vs. Directors of Marketing, as they need different skills and disciplines. There are times when promoting a good Reservation Manager and/or Director of Sales produces negative results for the hotel.

We must also accept the fact that the online travel agents (OTAs) have done a much better job attracting aggressive talents and booking hotel rooms, with exceptional results, earning very high commissions at the expense of hotels.

The Revenue Managers of the present, and of the future, need to have strong discipline, leadership skills, motivation to produce, understanding of digital marketing trends, consumer buying behavior, and be able to maximize potentials from all channels, open/close room categories-inventories, establish rate parity, give clear directives to sales people, keep the GM fully informed on the overall situation, be smart forecasters, etc. Revenue management is not a mid-management position; it is an executive position, and has to report directly to the hotel's GM. It must have authority – and most importantly, accountability.

Note for Asian hotels: In some cases, the volume of F&B revenue is comparable to the rooms revenue. Here, it is advisable for those hotels to have F&B dedicated sales people with the objective of maximizing revenue potentials and creating followers within the local market (who in most cases are the best customers).

Customer experience/value

Be clear about what you stand for and about the ultimate value you create. What is your competitive edge? Do your homework and find out what your customers expectations are, what they truly value – and deliver the promise at every touch point with all your customers. Note that customers' expectations are evolving fast, so you must respond accordingly.

Is quality assurance in place? How efficient are you in guiding the employees to provide that memorable and efficient service?
Implement, manage and analyze in detail the available measurements: satisfaction surveys, employee research, brand studies, quality assurance audits, mystery shopping, social media monitoring, market shares, repeat business, etc.
Make it easy for customers to do business with your hotel, from reservation to check-out, and remember that value is what the customers expect and want.
Pride, self-importance and in some cases arrogance are some of the "sins" of hoteliers/GM's. They claim that they are the best at something, are never wrong and have a tendency to create a distorted and unrealistic image of themselves and of the hotel. But at the end of the day, it is that monthly report from STR that counts. Those reports tell us where the hotel stands in the market. Numbers don't lie... Accept this, and respond accordingly. If the hotel's market share is below the average within its competitive set, there is no way the GM can claim to be the best at what he does.

Driving business really comes down to value generation. Is the hotel providing true value to customers? Or only claiming that it does?

Hotel leaders/executives have to be creative in responding to customer needs; however, they must maintain a balance when it comes to innovations, ensuring practicality and acceptance by the customer. (There is a saying in the industry that illustrates the risk of innovation: "A pioneer is a person with his face in the mud and an arrow in his back.")

If you have not launched a new product or service yourself, but it is working well for your competitors, then copy it and try to make it better. There is no shame in it. Everyone copies. in one way or in another.

Accept and welcome comments, criticisms and complaints, because you need to know how your customers judge you and where you stand: "Remember that complaint is a gift".

You *must* respond to online customers' comments. This should be a daily/weekly task of every hotel GM. With the explosion of social media, potential customers will look at comments made about the hotel, and of course they want to know the hotel's attitude toward responding to them. Comments on TripAdvisor and other social media have to be answered under the GM's name. This is simply a question of discipline, and a responsibility of the GM.

People will travel, they will make demands on hotels and hotels will have to rise to the challenge, embrace changes and focus on the customers. There is no other way! If some hotel executives have problems responding to changes positively, they don't belong in this industry.

__Giovanni Angelini__ has over 50 years' experience acquired in 3 continents, Asia in particular. Former CEO of the Shangri-La Hotels and Resorts Group for over 19 years, he was also Senior Vice President Asia-Pacific of Westin Hotels and Resorts, in addition to executive posts with several prestigious hotels in North & Central America, Europe, and his home country, Italy. In 2010 he founded Angelini Hospitality, a travel & tourism consultancy based in Hong Kong.

inside *luxury*

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Hotel design trends – a *tour d'horizon*

by ***Raj Chandnani*** & ***Krystal Solarzano***

How will the hotel of the next decade change physically? What underlying trends are influencing top designers to adapt the way hotels look and feel – inside and out? We asked Raj Chandnani, Vice President of Strategy for WATG and its sister company Wimberly Interiors, to lead us on a highly visual walk through the key developments they are integrating into the hotels they are designing now. The following portfolio, put together exclusively for The Hotel Yearbook, highlights some of the exciting changes we'll all be seeing, end experiencing, soon.

Krystal Solarzano *is an Associate in WATG's Singapore studio. She is a talented designer with a passion for innovation and design technology. She was integral in the firm's award-winning submissions for the US Green Building Council's Sustainable Suite Competition and Hospitality Design's Radical Innovation Competition. Krystal recently implemented a firmwide initiative of think tanks among the next generation of designers to continue the dialogue regarding design innovation; articulating a compelling guest journey; sustainability and social responsibility; and, the opportunities and impact of technologies on design and consumer experience.*

Raj Chandnani *is Vice President, Strategy for WATG and Wimberly Interiors. He is responsible for guiding the company's global outreach activities, implementing strategic initiatives, and positioning the firm as a leader in innovation. He has a wide range of industry expertise focusing on consumer trends, travel and tourism, branding strategies and hospitality real estate. Raj is vice chair of the Urban Land Institute's Hotel Development Council and president of the Cornell Hotel Society. He is a graduate of Cornell University's School of Hotel Administration.*

1 Boutique Urban Escapes

Not all travelers want to stay in a 400-room hotel in the urban environment. Intimate, boutique experiences are making their way into designs that are reaching the clouds.

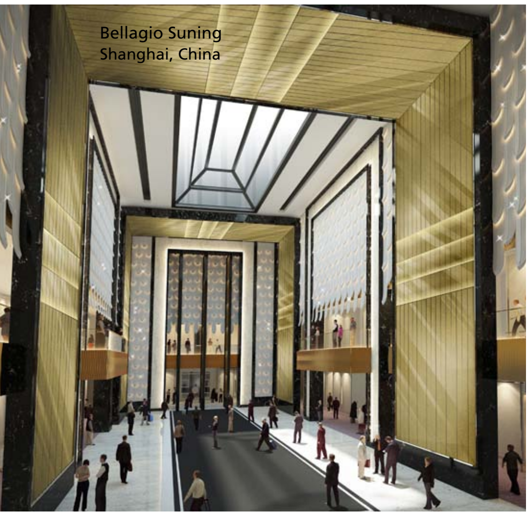
2 *Experiential Arrivals*

Arrival spaces have the opportunity to instantly transport guests into the history, culture and identity of the destination. Hand carved panels, breathtaking structures, interactive screens—regardless of the media—provide immersive experiences that set the stage for a unique guest journey.

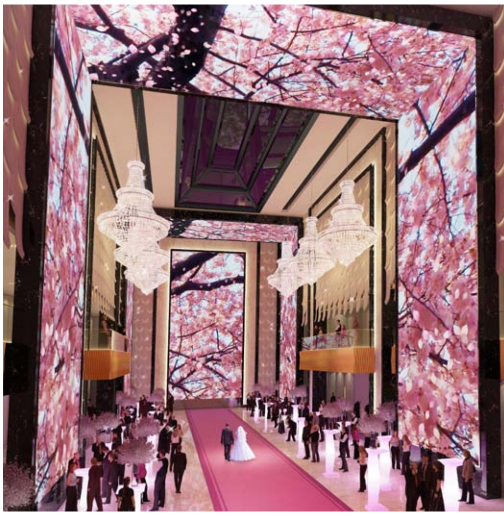
Multi-Faceted Lobbies

3

W Retreat at Sentosa Cove
Singapore



Bellagio Suning
Shanghai, China



Distinct areas with differentiated experiences, digital media that animates the space with evolving aesthetics, intimate seating groupings, interactive technology and even DJ booths - lobbies aren't just a place to check in anymore.

Sofitel Nusa Dua Beach Resort
Bali, Indonesia

4

Meetings with a View

In October of 2013 Heads of State from around the global gathered for the APEC meeting at the newly-opening Sofitel Nusa Dua Beach Resort. The conference and meeting space was positioned as an executive retreat, and was intentionally situated in the most desirable location on the property—beach front with stunning views of the Bali coastline. Meeting and conference spaces are being staged as dynamic studios with residential furniture, communal tables, abundant natural light, and open kitchen break-out areas.

Viceroy Istanbul
Istanbul, Turkey

5 Communal + Exposition Dining

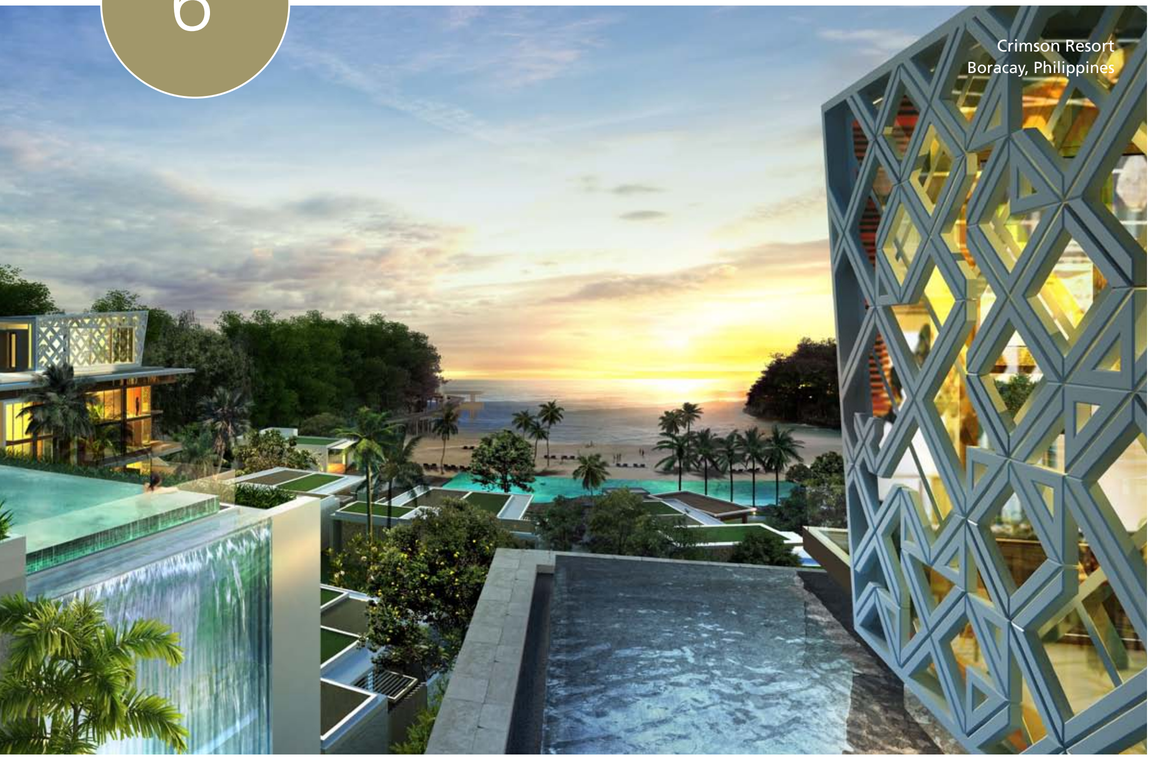
Dining experiences are becoming entertainment experiences bringing the kitchen center stage and creating a space where communal dining is the new informal fine dining experience.

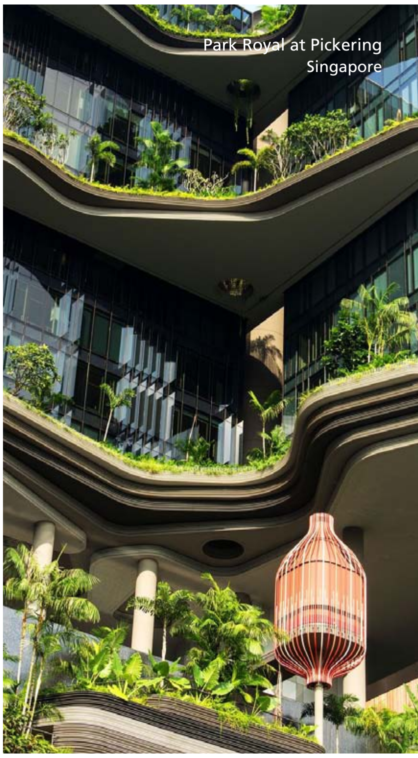
Crowne Plaza
Muscat, Oman

W Retreat at Sentosa Cove
Singapore

Architecture, Landscape and Interiors - the three design disciplines are weaving themselves together to create environments that blur the lines between the interior and exterior, built and natural environment and bringing landscapes above buildings and interior spaces outdoors

6 *Blurring the Lines*


Crimson Resort
Boracay, Philippines


Park Royal at Pickering
Singapore

Guest bathrooms are gradually taking over and becoming the larger of the guestroom components, incorporating one-of-a-kind experiences.

7 *60/40 bathroom/bedroom*


Rainforest Villas
Malaysia

The Bentley Suite at the St. Regis
New York, NY, USA

Vogue Style

8

We've seen an entry of Fashion Brands to the hospitality experience over the past few years and now other brands are making their mark - from automobile designers to specialty art focused hotels - a new way of "lifestyle" hotels is in the making.

Missoni Hotel
Kuwait

Fashion will also introduce new fresh color palettes into the hotel experience

From personal astronomer for your star gazing needs to an art concierge, every new hotel is looking for the next big thing in hotel amenities to differentiate themselves in the market.

9

Unique Amenities


Six Senses Con Dao
Vietnam


W Retreat at Sentosa Cove
Singapore

Gen Y is looking for more interactive spaces that flow into one another and drive social interaction and embrace technology.

10

Gen Y Influences

Aloft Hotel
Cleavland, OH, USA

Chinese hotels: strategic planning needed

by ***Kam Hung***

Working with more than 40 Chinese hoteliers, Prof. Kam Hung from Hong Kong Polytechnic University developed a SWOT analysis of the Chinese hotel industry, as seen by its insiders. The results were fascinating – and, she says, they point to a need for more planning.

Hoteliers in China are optimistic about the future of the Chinese hotel industry, but there is still much to be done before China can become the world's top tourist destination. In a recently published research article, I identified the strengths, weaknesses, opportunities and threats associated with the hotel industry from the perspective of Chinese hoteliers. My findings may provide the government with a better understanding of the issues that need to be tackled so that a strategic plan can be developed to direct future activities and improve performance.

Rapid growth of the industry

China is an increasingly popular tourist destination. It is currently the third most visited country in the world, and the United Nations World Tourism Organization predicts it will become the most visited by 2020. Unparalleled demand has led to rapid growth in the number of hotels. In 1981, during the early years of economic reform, the country had only 296 hotels. Following the emphasis placed on hotel development in the Fifth Five Year Plan (1981-1985), that number increased dramatically to 300,000 by 2009. While these achievements are worthy of celebration, the industry still has a number of shortcomings to overcome.

To develop effectively in China, I believe that the hotel industry needs proper planning to utilize its strengths and opportunities and alleviate weaknesses and threats. With that purpose in mind, I conducted this research to help policy makers better understand the hotel industry in China and strategically plan hotel development accordingly.

The hotelier's perspective

The first step in strategic planning is to understand the business environment. SWOT analysis is widely used to assess hotels in other parts of the world, but infrequently in China. I formed focus groups with 47 hoteliers from 37 hotels in mainland China, asking them to brainstorm the strengths, weaknesses, opportunities and threats they had encountered or were aware of in the Chinese hotel industry.

Six groups were formed, with seven or eight participants in each. The average length of time the participants had worked in the hotel industry was over 11 years, in positions ranging from hotel trainee to president of a hotel corporation.

Strengths and opportunities

The hoteliers indicated to me that the industry's main strength is the establishment and gradual sophistication of the Chinese hotel-rating scheme, which provides clear guidance on what hotels should provide for their customers. The increasing profit made by the industry, which is growing faster than the country's gross domestic product, is a strong indication of a promising future. Other encouraging signs are the increasing recognition and effort put into improving service quality in China's hotels, and the increasing professionalism of hotel employees.

There are also a number of opportunities for the industry, for example, the demand from the domestic market is increasing, and improved consumption power, living standards, and longer holidays mean that Chinese people are travelling more, both at home and abroad. The growing tourism industry has attracted many international brands to China. Although this has increased the competition for local hotels, some of the hoteliers viewed it as a positive development that would benefit the overall Chinese hotel industry in the long term.

Weaknesses and threats

Although service quality has improved, many of the hoteliers expressed to me concern over the threat from international hotel brands, which are considered to be more professional, have better management structures, and are more willing to invest in staff training. They also mentioned that many hotels in China have magnificent architecture yet they still lack quality services and commitment from hotel investors.

A key element in improving service quality is the recruitment and training of staff. The industry has a high staff turnover, mainly due to low salaries, lack of support for the hotel profession, and lack of hotel loyalty. The participants also noted that many hotel employees are from Generation Y who, though highly educated and goal-oriented, expect freedom, understanding and respect, and work to live instead of live to work, which can make managing them a difficult task.

Several universities have introduced tourism and hospitality programs, but to the hoteliers these often do not seem to correspond to the needs of hotels. More work needs to be done to facilitate closer collaboration, first to identify the hoteliers' needs and then to tailor the curriculum to meet those needs.

Government role

The government has contributed much to the development of hotels in China through the implementation of regulations, investing in hotels, attractions and infrastructure, and hosting tourism events. The success of the Beijing Olympics in 2008 and the World Expo in Shanghai in 2010 both highlighted the government's inevitable role in boosting tourism and leveraged the confidence of international travellers regarding hotel services in China.

Nevertheless, the participants noted some shortcomings, such as poor planning, lack of management skills, heavy taxes and the lack of a clear vision for development. It is my belief that once policy makers understand the strengths, weaknesses opportunities and threats associated with the hotel industry, they should develop a strategic plan to formulate development strategies, direct its future activities, and improve its performance.

A vital opportunity

Although tourism in China is expected to continue its rapid growth, I believe that hoteliers should not take this opportunity for granted because there is already fierce competition and increasingly more hotels are entering the market. I suggest that to compete with international brands, local hotels will need to define their target market, develop clear branding strategies and create a unique place in the market.

The Chinese government also needs to consider the shortcomings identified by the hoteliers. I noted that practitioners could join the planning committee to jointly plan and manage hotel development in China. In the meantime, there is much to be optimistic about. I truly believe that with proper planning and management, China can be a shining star in the tourism and hospitality industry.

__Kam Hung__ is an Assistant Professor in the School of Hotel and Tourism Management at the Hong Kong Polytechnic University. Her research interests include tourism marketing, tourist behavior and psychology, and cruise tourism.

2014 COUNTRY REPORTS

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GHANA

by *Michelè de Witt*

2013 SNAPSHOT

- The effects of the 1% tourism levy implemented in October 2012 are realized.
- President John Mahama is successfully inaugurated in January 2013, further consolidating Ghana's democracy.
- The Ghanaian government prepares a new 15-year National Tourism Development Plan (2013 – 2027) which is expected to enhance the contribution of the tourism sector to both national and local economic development.
- According to STR Global, year-to-date room night demand in Accra has registered marginal growth when compared to the same period last year, while average room rate has registered positive growth estimated to exceed 10% compared to the same period last year.
- According to the International Congress and Convention Association, Ghana ranked 80th in the ICCA's World Country rankings, with Accra tied for 5th place in the ICCA's Africa City rankings.
- The Ghanaian government announced in late May 2013 it has acquired a parcel of land at Ningo in the Greater Accra Region for the purposes of constructing a new airport in order to ease pressure on Kotoka International Airport.

BUSINESS SCENARIOS FOR 2014 AND BEYOND

Ghana is forecast to register the strongest economic growth in Sub-Saharan Africa, largely driven by the country's oil and gas industry. However, Ghana does boast a diversified economy with agriculture, manufacturing, mining and tourism all featuring.

Continued strong economic performance is anticipated to transform the country from being an emerging economy into a middle-income developing nation. As a consequence, domestic tourism has gained attention and is steadily emerging as an important trend in Ghana's travel and tourism industry.

Inbound foreign tourists are lured by the country's unique historical, cultural and natural attractions. In addition, Ghana's expanding economy has also been drawing many business travelers.

On the domestic front, tourism promotion aims to foster cultural cohesion and national integration as well as help to redistribute income attributable to the expected increase in local tourism business.

In the recent past, the strongest performance among the services sector came from hotels and restaurants, transport and storage, financial intermediation, information and communications, and business services, with growth rates exceeding 10%. We would expect this growth to continue into 2014.

[Michelè de Witt](#) has more than 20 years experience in the tourism and hospitality industry. Her experience covers a wide range of activities enabling her to provide a spectrum of services from market analyses, concept development, financial feasibility studies and operator selection to trouble-shooting for existing operations, and developing standard operating policies and procedures to support organisational objectives.
Michelè has served on various tourism and hospitality committees in South Africa and in 2012 was elected Chairperson of FEDHASA Cape. Michelè is also a member of the South African Property Owners Association and the Institute of Directors of Southern Africa.

KENYA

by ***Michelè de Witt***

2013 SNAPSHOT

- Peaceful presidential elections were held in March 2013, with Uhuru Kenyatta elected President.
- In accordance with the Constitution, the devolution of Kenya brought about the establishment of 47 counties, each with an elected Governor.
- In May, Mrs. Phyllis Kandie was sworn in as Kenya's new Minister for East African Affairs, Commerce and Tourism.
- According to STR Global, room night demand registered by the Kenyan hotel market has declined by approximately 3.4%; average room rate in respect of the same period has registered marginal growth of approximately 0.1%.
- According to the International Congress and Convention Association (ICCA), Kenya ranks 58th in the ICCA's World Country rankings and Nairobi 2nd in the ICCA's Africa City rankings.
- The "wait and see" attitude adopted by the international community in the run up to the presidential elections, the fire that destroyed the arrivals hall and immigration unit at Jomo Kenyatta International Airport in August, and the terror attack that unfolded at the Westgate Mall in September are cited among the key events that discouraged tourism to Kenya in 2013.
- Kenya is a signatory to the establishment of an East African single tourist visa.

BUSINESS SCENARIOS FOR 2014 AND BEYOND

The challenges experienced by the Kenyan travel and tourism sector in 2013 are likely to continue to influence the sector's performance in 2014. However, the considerable investment in MICE tourism, which is seen as one of the main pillars of the country's travel and tourism industry, as well as in domestic tourism, will hopefully contribute to the continued resilience of the sector.

In spite of a difficult recent history, international hotel investors are optimistic about the growth of tourism in the country. We are aware of at least eleven hotel development projects comprising an estimated 1,500 guest rooms. Certainly the recent discovery of oil and gas will contribute to a more positive outlook.

Kenya Airways has confirmed its intent to increase its fleet of aircraft as well as routes significantly. Project Greenfield, which is envisaged to be completed by 2017, has as a key element the development of a new mega terminal which, when complete, will become the home of the national airline and its SkyTeam partner airlines. The new terminal is envisaged to add a further 20 million passenger capacity to Nairobi; this in addition to the anticipated completion of the new Terminal 4 which will adjoin the present concourse with international departure units 1 and 2.

The presidents of Burundi, Kenya, Rwanda, Tanzania and Uganda have signed a protocol for the creation of a monetary union within 10 years. This initiative is anticipated to be a major breakthrough

SOUTH AFRICA

by ***Michelè de Witt***

2013 SNAPSHOT

- South Africa marks its 20th year of democracy.
- Former President Nelson Mandela's failing health made international news headlines and yet South Africa remains a story of hope, of inspiration, and the future contributing to the country's desirability as a tourism destination.
- South African Tourism report foreign tourist arrivals increased by approximately 5.1% in respect of the first six months of 2013.
- Year-to-date October 2013 hotel performance registered improvements when compared to the same period last year according to STR Global: occupancy (61.5% compared to 59.3%); average room rate (ZAR935 compared to ZAR862); and revenue per available room (ZAR575 compared to ZAR511).
- The International Congress and Convention Association (ICCA) ranks South Africa 37th in its World Country rankings with Cape Town (1st), Johannesburg (3rd), Durban (4th), Stellenbosch (tie at 7th), and Pretoria (tie at 9th) sited on the ICCA Africa City rankings.
- Marriott International Inc. signs Letter of Intent with South Africa's Protea Hospitality Holdings to acquire Protea Hotels' brands and its management business.

BUSINESS SCENARIOS FOR 2014 AND BEYOND

South Africans will go to the polls in 2014; consequently the first half of 2014 is likely to be dominated by election-related activities. While the 2014 elections are anticipated to proceed without incident, we anxiously await the outcome of what is undoubtedly going to be a highly contested election in order to fully appreciate the potential impact on tourism policy.

Cape Town has launched a new year-long calendar of events in celebration of its designation as World Design Capital 2014. In addition to an increase in visitor numbers to the city, the World Design Capital 2014 program aims to showcase not only the city but the city's creative community, while providing all citizens and visitors a myriad of inspiring events.

We are of the opinion that South Africa's tourism sector will continue to perform better than the national economy. We forecast foreign tourist arrivals in South Africa in 2014 will register continued growth of between 5.0% and 7.5% largely due to the expected increase in tourism from Asia and South America, growth in business tourism led by the MICE industry, continued improvements in tourism infrastructure, and the intensive marketing of South Africa as a tourist destination.

With reference to the hotel market, in addition to a reported eight new hotels currently under construction across South Africa, Four Seasons will debut in the country in mid-2014 following its acquisition of The Westcliff Hotel in Johannesburg. With relatively limited new additional supply, we expect the South African hotel market to maintain the current status quo – a moderate increase in room night demand coupled with stronger growth in average room rate.

TANZANIA

by *Michelè de Witt*

2013 SNAPSHOT

- The tourism sector is confirmed as the top economic performer in Tanzania, outstripping all other sectors including gold mining which had claimed top spot a year ago amid record high gold prices at the time.
- Tanzania ranks 70th in the International Congress and Convention Association's (ICCA) World Country rankings, with Dar es Salaam in a tie for 9th place and Arusha tying for 13th place in the ICCA Africa City rankings.
- According to STR Global, room night demand in Tanzania has registered moderate growth when compared to the same period last year, while average room rate has registered more than 10% growth compared to the same period last year.
- The Tanzanian tourism industry is subject to tax hikes on alcohol, soft drinks, fuel and other tourism related products.
- 1 September 2013 marked the implementation of a Tourism Development Levy of 2% on hotels and lodges.
- The government of Tanzania has indicated that it will not join the fast tracked East African single tourist visa until the relevant fee collection infrastructure that links member states is in place.
- The country's image was tarnished by two incidences in 2013 that could negatively affect tourism, namely a bomb blast in Arusha (June 2013) and an acid attack on two British teenage volunteers in Zanzibar (August 2013).

BUSINESS SCENARIOS FOR 2014 AND BEYOND

Tanzania's travel and tourism sector has grown substantially in economic importance. In light of the continued effects of the economic recession in Tanzania's traditional source markets such as the United Kingdom and the USA, the Tanzanian government, through the Tanzania Tourist Board, has made a concerted effort to diversify its tourism source markets and product offerings.

The tourism campaign "Think Asia" was developed with a view to tapping into the growing Asian outbound travel market. Emerging markets China, India, and Russia are also being targeted, with the government promoting Tanzania's tourism through its foreign missions and embassies in these countries. Both these initiatives should provide a further boost to the number of overseas arrivals.

Currently, we are of the understanding that a limited number of new hotel projects are planned and/or under construction in Tanzania. However, business tourism is likely to register an increase following the newly found natural gas resources which could provide the impetus for future development which may extend to the hospitality sector.

With growth in the Tanzanian middle-class, domestic tourism in Tanzania is growing rapidly. Since the launch of Fly540 in Tanzania, air transportation has become even more competitive, which in turn has put downward pressure on the price of domestic and regional air tickets.

We are of the opinion that the current status quo will be maintained in the short term.

ZAMBIA

by *Michelè de Witt*

2013 SNAPSHOT

- Tourism in Zambia showed signs of a slow recovery from the dramatic slump in arrivals recorded in 2012.
- With effect 1 January 2013, the Zambian government rebased its currency, the Kwacha. By September 2013 approximately 97% of the old currency had been withdrawn from the economy.
- Zambia co-hosted the UNWTO General Assembly in August 2013.
- According to STR Global, room night demand in Zambia has declined compared to the same period last year, while average room rate has registered positive growth thus far.
- The National Airports Corporation in mid-2013 introduced an Infrastructure and Development charge. The tax is applicable for all passengers departing from Livingstone, Mfuwe, Lusaka, or Ndola Airports on domestic flights (where the tax is ZMW 27 or approximately US$5) or international flights (ZMW 54 or approximately US$10).
- Transport, Communications, Works and Supply Minister Yamfwa Mukanga announced that the Zambian government will re-establish the national carrier in 2014.
- Kenneth Kaunda International Airport in Lusaka will be upgraded by China Jiangxi International at a cost of US$ 360 million. The new airport is envisaged to include, inter alia, a new two-story terminal building and an 80-key airport hotel.

BUSINESS SCENARIOS FOR 2014 AND BEYOND

Zambia's tourism sector is recognized as a priority sector and as such, the Zambian government has developed and implemented national tourism policies to promote private sector-driven tourism which has seen an increase in tourist arrivals into the country. Furthermore, the Zambian government has developed infrastructure in tourist areas in support of growth in the travel and tourism sector.

The country's successful hosting of the UNWTO General Assembly is likely to contribute favorably to Zambia's continued preference as a (foreign) tourist destination. However, with a rapidly growing middle-class emerging, we are of the opinion that tourism stakeholders should be focusing their attention on domestic tourists.

However, we note that private investors building hotels and other forms of accommodation are subject to a high license fee. This measure acts as a deterrent to private sector money being invested in the sector while simultaneously placing upward pressure on room rates. The Zambian government's proposed taxation of the travel and tourism sector as set forth in its 2014 budget is likely to make vacationing in the country for both foreign and domestic visitors more expensive come January 2014, as the budget provides for a change in the VAT status of certain tourism activities and prepaid packages, which will move from 0% to the standard rate of 16% with effect 1 January 2014.

Zambia will celebrate 50 years of independence in 2014.

Looking further ahead, the expansion of Kenneth Kaunda International Airport, which will increase passenger movement capacity to 4 million by 2017, is anticipated to contribute to Zambia's ability to increase the number of visitors to the country.

__Sergio Giorgetti__ is currently a Fieldwork Director at the Argentina's office of Horwath HTL. He has led the fieldwork done in several projects in Argentina, Brazil, Chile, Ecuador, Mexico and Colombia, and has also participated in the development of strategies to define competitive mixed-use projects attractive to the market in terms of product, finance and economic performance.

ARGENTINA

by ***Sergio Giorgetti***

2013 SNAPSHOT

- The country presented some specific issues regarding macroeconomic indicators. The lack of confidence in the official statistics and some specific government policies have led to foreign and domestic investments being withdrawn, including in the real estate and hotel sector.
- Though Argentina presents sustained growth in the amount of foreign tourists and in the average spending from visitors in the past 10 years (except for 2009 and 2012), in 2013 there was a significant drop-off in inbound tourism indicators (international tourists and revenue). The coexistence of two exchange rates and consumer price indices in the country, among other macroeconomic distortions, directly affected the hotel industry, both in market and operational terms, mainly the luxury and upper upscale segment, which depends more on foreign tourism (including the business and leisure segments).
- YTD AOR (year to date - average occupancy rate) continued to drop off (about 58%) in 2013 (STR Americas Hotel Review). This limited performance is directly linked to the performance of upscale and luxury hotels, more sensitive to the decrease in demand from international tourists. In an unstable macroeconomic environment, the impact was also significant on the corporate segment of hotel demand.
- ADR in US$ also shows a significant decrease, not only due to the demand drop-off but also because of the strong depreciation of the local currency (over 30% during the last year), taking 2013 YTD ADR to US$ 128 (STR Americas Hotel Review).
- Despite the negative impact on inbound tourism generated by the above mentioned macroeconomic distortions, demand for hotel and tourism services within the most important destinations in the country was actually boosted, also promoting investment (mostly local) in hotel infrastructure, mainly midscale and economy hotels.

BUSINESS SCENARIOS FOR 2014 AND BEYOND

By the end of 2013, the National Government seems to be applying some changes in the macroeconomic orientation of its policies, seeking more fluid economic and financial relationships with the rest of the world.

In the short term, this change might impact positively on the business environment within the country, diminishing uncertainty and promoting economic activity.

It is expected in 2014 that hotel demand will increase, mostly due to the expansion of domestic tourism: national holidays established by the government are a significant influence, and promote the development of activity in this sphere. This new level of domestic tourism, which no longer depends on the traditional summer holidays period, will have a positive impact, since it boosts destination diversity.

International tourism should still have to wait for a more significant recovery depending on the success and solidity of the economic measures adopted by the government.

Hotel development and investments will be led by local and regional investors seeking to develop opportunities in consolidated destinations (Buenos Aires, Bariloche, Iguazú, Mendoza), while secondary and tertiary cities (with population ranging between 100,000 – 500,000 inhabitants) will be chosen for the development of economic and midscale products to be financed, partially, through condo-hotel structures.

__Mariano Carrizo__ is head of Horwath HTL's Brazil office. He has led market research studies in Brazil, Argentina, Uruguay, Chile, Peru and Colombia, focusing on the development of strategies to define competitive mixed-use projects that could be interesting for the market in terms of product, finance attractiveness and economic performance.

BRAZIL

*by **Mariano Carrizo***

2013 SNAPSHOT

- The country presented modest performance in its macroeconomic indicators during 2013. The forecasted growth of the national GDP is around 2.5%, while the inflation rate remained steady (around 6.3% annually).
- The limited economic growth, along with a significant volume of new supply entering the market (over 40 new hotels representing more than 7,200 rooms) had an impact on the AOR (average occupancy rate) presenting almost the same YTD (year to date – October) performance as in 2013: over 66% (STR Americas Hotel Review).
- ADR in US$ presented a slight drop-off (from US$ 133 YTD October in 2012 to US$ 129 in 2013). Nonetheless, this does not reflect the actual ADR increase in local currency, which rose by 7%. This situation is explained, mostly, by the local currency depreciation in Brazil, over 17% throughout 2013.
- Despite the slowdown in economic activity, the hotel market seems to have successfully absorbed the new supply, with no significant impact on ADR and RevPAR.
- Hotel investment opportunities kept on been capitalized, mostly, by the real estate sector (developers, construction companies) through the development of hotel products (midscale, budget and super economic, mainly) financed through condo hotel structures.

BUSINESS SCENARIOS FOR 2014 AND BEYOND

2014 will finally arrive and we will see the real impact, in performance terms, of the FIFA World Cup to be held next year in Brazil. Apart from the specific impact that this event will have in the host cities and in other secondary cities, the overall macroeconomic scenario for Brazil remains modest for next year, with growth forecasted of 2.5% for the national GDP and a similar inflation rate (5.8%).

Due to the significant economic growth that Brazil showed over the last years, hotel development and investment presented significant growth. Apart from the recently opened new supply (2012-2013), over US$ 13 billion should be invested in the hotel sector during the 2013-2016 period. This investment would represent more than 400 new hotels and more than 70,500 new rooms in the Brazilian market.

Apart from the development of new supply in key gateway cities with an outdated hotel supply, such as Belo Horizonte (40 new hotels) or Rio de Janeiro (more than 20 new hotels), secondary and tertiary cities are playing a significant role, being targeted for the development of new hotel supply, mostly aiming at capturing the economy segment of the market.

As well as over the last years, most of the new hotel supply will be developed and financed through condo hotel property structures and will be managed by international or national hotel chains. Also, most of these new properties will be franchised and will result in the (delayed) arrival of key new players: multi-chain operators managing different franchises for different owners.

The upcoming new supply will represent a challenge for the current players in each market, and that is why we expect to keep seeing retrofit and updates regarding infrastructure and services. Hotels will have to keep up with the new competitive scenarios: more rooms, more branded, and more professionally managed.

__Ignacio Etchebarne__ is a consultant in the hotel, tourism and leisure advisory area of Horwath HTL Argentina. Since the beginning of his career at Horwath HTL, he has gained experience in the strategic analysis and development planning of mixed-use projects, including diverse business units such as resorts, hotels, offices, residences and other tourism facilities; considering the complexity and uniqueness of each scenario and evaluating the available funding options for the project.

CHILE

by ***Ignacio Etchebarne***

2013 SNAPSHOT

- Chile continued to be regarded as one of the most solid and predictable countries in macroeconomic terms, presenting the highest GDP per capita in Latin America, a forecasted growth of national GDP of 4.4%, and a low inflation rate (about 2% - consumer prices).
- Other economic indicators relevant for the tourism and hotel industry: the Chilean currency presented a +10% annual depreciation against the US$, and the country remains in the 11th place in the world ranking of host countries for FDI (Foreign Direct Investments), with over US$ 30 billion received during 2012.
- In 2012, revenues from inbound tourism were US$ 2,559.5 million, and Chile received more than 3.5 million international tourists, 13.3% more than in the previous year.
- Occupancy rates in the most relevant markets (Santiago, Concepción, Valparaíso, Antofagasta, Iquique, etc.) presented a slight drop-off compared to 2012. This decrease is directly linked to a higher level of competition following new supply entering the markets.
- YTD AOR (year to date - average occupancy rate) is above 67% in October while, for the same period last year, AOR was about 71% (STR Americas Hotel Review).
- ADR in US$ remains steady for the same YTD period in Chile (US$ 158) due to the almost inexistent inflation and depreciation of the local currency.
- Currently, there are projects under implementation and consideration for an individual value of US$3 million or higher. Global investment reached an amount of US$ 2,943 million and there was growth of 8.9% compared to the figure registered in December 2012, and 10.2% compared to the same period of the previous year.
- Tourism-related real estate investment is concentrated in the Valparaíso and Metropolitan regions, which as of June 2013 accounted for 34.4% and 28.8% respectively.

BUSINESS SCENARIOS FOR 2014 AND BEYOND

Chile is expected to keep on being regarded as a favorable destination both for tourism development and hotel investments, due to its political and economic stability and to the fact that the arrival of foreign tourists has increased steadily in recent years. National GDP is expected to grow 4.5% and the increase of consumer prices will remain low (forecasted 3%).

The hotel transaction and investment market is one of the most transparent and consolidated ones in South America. This is sustained in solid macroeconomic and financial indicators and local availability of debt financing for hotels.

There are currently five ongoing international projects that will add 1,051 rooms to the 4,900 existent ones in the luxury and upper upscale hotel segment, mainly in the capital city, Santiago.

The most relevant projects to be inaugurated in 2014 include the opening of the 4-star Costanera Center Hotel in Santiago, the 180-room Renaissance (also in Santiago), and the inauguration of the first Hyatt Place in South America, which will add 180 rooms to the Chilean capital.

Other relevant projects, such as the 5-star hotel Costanera Center and the Four Seasons Santiago Los Leones Golf Club, with 250 and 200 rooms respectively, are expected to be inaugurated in 2015.

COLOMBIA

by *Maria José Guttierez*

2013 SNAPSHOT

- International tourist arrivals have increased constantly since 2000, registering an increase of 7.1% from January to September 2013. The majority of tourists come from the USA, Venezuela, Ecuador and Argentina.
- The revenues of the travel account have maintained a positive trend since 2007, increasing by 7.3% in the first half of 2013 compared to 2012.
- The hotel offer continues to grow. More than 17,000 hotel rooms were added between 2005 and 2012. According to the National Tourism Register, there are 137,027 hotel rooms in the country, mainly concentrated in Bogotá, Cartagena de Indias, Santa Marta and Medellín.
- Hotel occupancy has been in constant growth since 2009; however, it decreased by 1.2% from January to August 2013 compared to last year.
- Foreign Direct Investment (FDI) in the commerce, restaurant and hotel sector decreased by 13.4% in the second quarter of 2013. In order to generate investment, Colombia has launched various incentives, such as exemption from income tax, or duty suspensions for hotel operations and tourism services.
- The Gross Domestic Product of hotel and restaurant services increased 4.6% in the first half of 2013.

BUSINESS SCENARIOS FOR 2014 AND BEYOND

Wellness tourism is among the sectors with the greatest potential for development. International trends show a significant level of growth in the number of travelers looking for hotels and rest areas that offer natural therapies, spas and thalassotherapy. Another area with potential is nautical tourism. The country will host the most important nautical exhibition in Latin America.

Forecasts for business tourism are also promising, as the country managed to attract seven international events between 2014 and 2015, the result of ongoing tourism promotion campaigns. Colombia forecasts to open 6,964 new rooms by 2014, exceed the amount of 2 million international tourist arrivals, generate US$ 4 billion in foreign exchange earnings and reach 54.5% in hotel occupancy.

__Maria José Gutiérrez__ is the International Director in Horwath HTL LatAm and Managing Director in Horwath HTL from Mexico and Colombia. She specializes in ski resorts, residential tourism, thermal tourism, hotels and resorts conceptualization, golf courses, marinas and tourism standards and quality. Recently, she created the Colombian Tourism Thermal Project for the country's government; in addition, she conducted a research study of the potential hotel development in the eight most important cities in the country.

MEXICO

by ***Maria José Guttierez***

2013 SNAPSHOT

- The foreign exchange earnings from international visitors continue growing constantly each year: from January to September 2013, they registered an increase of 8.1% and, towards the end of the year, they are projected to increase by 8.9% compared to 2012.

- By the end of 2013, the international tourist arrivals in the country are expected to grow by 2%, which shows an improvement compared to 2012's drop of -1.2%. The largest percentage of tourists come from the USA and Canada.

- Domestic tourism maintains its upward trend which began 5 years ago. It increased by 2.6% in the first half of 2013 and is projected to close the year at 3.8% above the 2012 level.

- The offer of available rooms has been in constant growth since 2009. The average of available rooms increased by 2.7% from January to October 2013, where 5 and 4 stars hotels predominate. The destinations with the largest hotel offer are Mexico City, Riviera Maya, Cancun, Acapulco and Guadalajara.

- Hotel occupancy continues to record a positive trend since 2010. It increased by 5.1% from January to October 2013 and is expected to maintain this trend through the end of the year.

- The growth in tourism Gross Domestic Product maintains its positive trend since 2011, and has even exceeded the national growth rates of 4.6% and 4%. It grew by 2.1% in the first quarter of 2013 compared to 2012.

- A significant increase in domestic and foreign private investment in the tourism sector is estimated after the sharp drop of 42% in 2012. The National Tourist Business Council announced investments in progress for more than 4,600 million pesos in the first quarter of 2013.

BUSINESS SCENARIOS FOR 2014 AND BEYOND

In 2014 the economies of the source markets for visitors to Mexico will enjoy better performance than in 2013, so optimistic projections are expected for international tourist arrivals and the revenues they generate.

In addition to this, in order to improve tourist arrivals and the economic impact of tourism at both domestic and international levels, a range of initiatives to promote tourism is being carried out. One is the Framework Cooperation Agreement between the Ministry of Tourism, the Government of the Republic and the National Foreign Trade Bank in order to strengthen and expand tourism in Mexico, as well as organizing and participating in national and international events that promote tourism in the country.

Another factor that will help is to participate in the World Travel Market at the International Tourism Bourse (ITB) as a guest, and to host international events in 2014 such as the World Tourism Day. The US publisher Lonely Planet ranks Mexico the sixth most attractive destination for visitors in the world in 2014.

Consequently, positive projections for hotel occupancy are also expected. As long as the tourist demand increases, the current offer will be used, which influences the investment, and Mexico will be an attractive country for investment in the hotel sector due to its stable economic situation and its multi-destination offering. The private sector will invest US$ 8,631 million in 176 tourism projects in 27 different cities around the country over the next two years.

Lastly, regarding the meetings market, Mexico is ranked as one of the major countries and is expected to exceed the amount of US$ 18 billion by 2014.

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PERU

by ***Ignacio Etchebarne***

2013 SNAPSHOT

- Peru kept on reinforcing key macroeconomic indicators that positioned the country as one of the most reliable and appealing destination for foreign investments. National GDP growth presented one of the highest ratios in the region, with a forecast 5.4% growth for 2013 and a low inflation rate (2.8%).

- In the past 10 years, the amount of accommodation establishments increased by 14.4% a year, highlighting the improvement in quality and number of top level establishments (4 and 5-star establishments), which are oriented to the corporate segment of the market, and the expansion of lodges, in view of the growth of leisure travel destinations in Peru.

- The hotel supply is concentrated in Lima, the main business center and capital city of the country, and Cusco (home of Machu Picchu), due to its appeal as an archeological and ecological center. The strongest competition in Cusco is represented by middle category establishments (3-star), which accommodate both local and foreign travelers; also emphasizing a wider expansion of establishments aimed at niche segments such as the eco-lodges.

- The current number of lodging establishments across the country is over 7,300, of which only about 26% are classified (between 1 and 5 stars). There is a significant number of non-classified lodging facilities.

- According to the Ministry of Tourism, by the end of 2013, 2.8 million international tourists arrived in Peru and the YTD AOR remains steady, above 66%, in October (STR Americas Hotel Review).

- Despite local currency depreciation against the US dollar (over 10% annually), ADR in US$ in Peru grew almost 4% (to US$ 136) for the midscale and upscale hotel supply in gateway cities (Lima and Cusco).

BUSINESS SCENARIOS FOR 2014 AND BEYOND

Currently, the conditions for the development of business activity are optimal, due mainly to an atmosphere of security and political stability that was not present in the preceding years.

A report recently published by the National Statistics Institute forecasts that, until the end of 2015, Peru will post a sustainable increase of US$ 1.76 billion in the hotel and tourism sector. This figure is more optimistic than the outlook of the National Chamber of Tourism (CANATUR), which foresees that investments in the 2014-2016 period will reach up to US$ 1.5 billion.

According to official figures, the Central region of the country – Lima and Huaraz mainly – will show the highest concentration, with 40% of the total (US$ 698 million); secondly, the North of the country – Loreto, Piura, Chiclayo and Tumbes – with 32% (US$ 566 million); and finally, the South – Cusco, Arequipa, Puno, Puerto Maldonado, Paracas, Moquegua and Tacna – which represents 28% (US$498 million) of the future investments.

On the basis of the consolidation of the Pacific Alliance and the country's favorable economic development in recent years, there will be an increase in business travel, which currently accounts for 40% of hotel occupancy in 4 and 5-star hotels, of which 89% are international branded hotels and 11% are national (both branded and independent) hotels.

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John Montgomery prepared this article in conjunction with Mark Beadle (Horwath HTL-Atlanta), Richard Mandigo (Horwath HTL-Chicago) and Joel Hiser (Horwath HTL-San Francisco).

UNITED STATES

by ***John Montgomery***

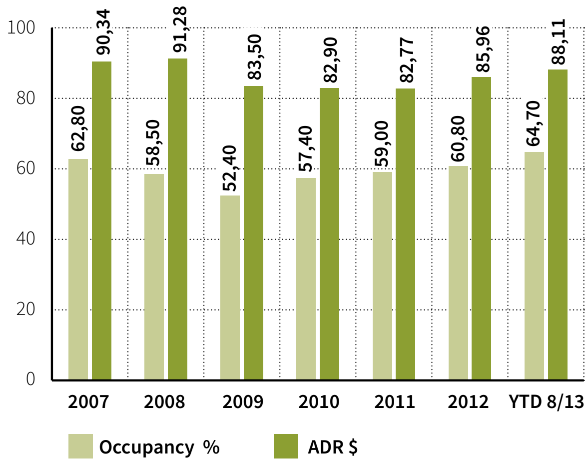
2013 SNAPSHOT

- There is significant interest in lodging development in all parts of the United States. Reportedly, there are approximately 327,300 guest rooms in approximately 2,725 lodging projects in the development pipeline.
- The number of hotel rooms in the 2013 pipeline is up 10.5% over 2012 levels.
- The most active markets in actual hotel construction are New York, Orlando, Washington, DC, Los Angeles/Long Beach, Nashville, Houston, Chicago, and Denver.
- The larger hotel brands are active in the major US cities. Development in the smaller cities is mainly comprised of the mid-tier select-service and limited-service brands.
- Upper-end branded hotels are once again being considered for major resort areas.
- Receivership activity is down considerably due to re-financing activities.
- Brokerage activity has increased significantly; however, most activity is in the limited-service/select-service lodging products.

The following paragraphs present a brief discussion of four major cities in different geographic regions in the United States: Atlanta, Chicago, Denver and San Francisco.

ATLANTA

The Atlanta hotel industry, like the city itself, which is referred to as The Phoenix for rising from the ashes of the Civil War after being burned to the ground during Sherman's "March to the Sea", has risen after the destruction wreaked on it during the recent "Great Recession". Since the low point in 2009, when metro area occupancies averaged 52.4% as reported by STR Global, metro area lodging has seen a resurgence the likes of which can only be described as amazing, with year-to-date occupancy through August 2013 being recorded at 64.7%. The chart below reflects the occupancy and average room rate for the period from 2007 through August 2013.



Source: STR Global

Growth has been on the upswing in all corners of the Atlanta metropolitan area. Both transient travelers and what is the "bread and butter" of Atlanta's hotel industry, convention and trade show business, has seen substantial increases in the recent past. This trend is expected to continue into 2014 and beyond, with ADRs projected to increase by over 3.5% in the coming year alone.

The increases in occupancy and ADR throughout the market have obviously generated improved bottom line profits, which in turn has contributed to the recent surge in supply additions occurring across the market. With sources of financing once again becoming available, both new construction and renovation projects have started to arise in all areas and in all segments of the market. There are at least 10 new developments (including new construction and renovations) either recently completed, underway or in the pipeline for Atlanta. These lodging projects stretch from the airport area on the south side through downtown and up to the northern perimeter of the city. One development company has recently announced plans to invest in 10 extended-stay lodging properties in and around Atlanta over the next two years.

UNITED STATES

CHICAGO

The Chicago lodging market has fully recovered from the recession, rising from its lows in 2009 to over 75% in 2012. While room rates have not yet recovered to 2009 levels, they increased by 3.8% over the 2011 levels. 2013 should end at around 74.8% occupancy, at $189.16 per night.

This represents a slight drop in occupancy, owing to an increase of around 1,700 rooms in the downtown market. The next several years are expected to continue this trend, with nearly 7,000 new hotel rooms set to open by year-end 2016. While we have begun to see hotels opening up in neighborhoods outside of the immediate downtown area, including a renewed focus on the convention center complex south of the Loop, the majority of these lodging projects continue to be in the Chicago CBD. This may result in declining occupancy levels, as the area struggles somewhat to absorb the additional rooms, though occupancies are expected to remain above 70%.

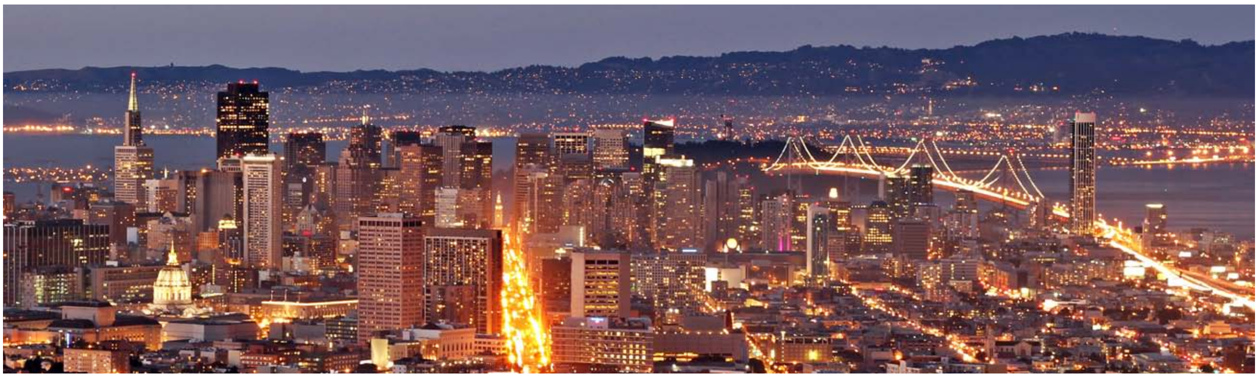
Outside of the city, the greater Chicago Metropolitan Statistical Area was particularly hard hit by the recession, but has finally begun to see turnaround, although it should remain well below downtown in terms of price. Highlights include the O'Hare airport market, which recovered very quickly, and the northern suburbs, which saw much faster room rate recovery than other suburban areas.

DENVER

The hospitality industry in Metro Denver is continuing to experience a significant market turnaround from what was experienced in 2009 – 2011. The 2012 Metro Denver lodging occupancy level was approximately 69.3%. YTD September 2013 occupancy was approximately 73% compared to approximately 72% for the same period in 2012.

The brightest spot in the overall Denver lodging market continues to be the downtown market area. Downtown Denver achieved one of the highest annual occupancy levels and the highest average room rates of any of the market sectors in Metro Denver. Downtown Denver achieved an approximate 71.7% occupancy level in 2012 and 74.2% in 2013 (through September 2013). Significant reasons for downtown Denver's continued positive performance are the following: an overall positive image of downtown Denver; Metro Denver based events and attractions; the major convention/group activity at the Colorado Convention Center; new hotels in the downtown area; the continued impact of "Lo-Do" and the "Lower Platte Valley" (sports, restaurants, lodging and nightlife); the revitalization taking place on 14th and 15th Street (restaurants, lodging and residential); and continued new retail and residential projects in other parts of the "larger" downtown and mid-town areas.

As an indication of the strength of this market, there continues to be some 5 to 10 lodging projects in various stages of planning in the downtown market. In addition to the anticipated growth in lodging supply in downtown Denver, there are another 10 to 15 hotels being discussed in various parts of Metro Denver. When (and if) these proposed hotels will come to fruition will depend on the continued improvement in the overall economic environment, as well as the availability of capital funding for these lodging projects.



by *John Montgomery*

SAN FRANCISCO

The San Francisco Bay Area is experiencing another excellent year in terms of occupancy, average room rate and overall RevPAR. The city of San Francisco is leading the Bay Area with a compiled nine-month occupancy level of 85% and average room rate approaching $225. This impressive operating performance has resulted in a 10% RevPAR improvement over the same period in 2012. In general, year-to-date occupancy levels in most communities throughout much of the Bay Area exceeded 70%, putting upward pressure on room rates. Much of this resurgence in the market from the lows of the period from 2009 to 2010 can be attributed to the following: business travel into the area remains strong, led by declining unemployment rates fueled by the highly invigorated high-tech industry situated primarily between the cities of San Francisco and San Jose; robust tour and travel demand driven by continued increases in international visitor arrivals; hosting of the America's Cup final, the international sailboat match race challenge, that attracted sailing enthusiasts from around the world; a robust convention calendar, with the Moscone Center booking nearly 5% more room nights than in 2012; and limited hotel development activity over the past few years.

Improved operating performance has fueled hotel sales transaction activity in the market as well. Property values have experienced an excellent recovery, reflecting capitalization rates for better quality assets less than 6% in many cases, with a few property sales even occurring in the 4%-5% range. We expect solid investment demand for quality assets into 2014 as hotel revenues and profitability continue to improve. While much of the transaction activity occurred between the city of San Francisco and the Silicon Valley during 2013, we anticipate more sales activity in other surrounding suburban areas in the coming year. Finally, new development should continue to be limited in 2014 from a historical perspective with the bulk of proposed new lodging construction occurring in the upper mid-market segment.

BUSINESS SCENARIOS FOR 2014 AND BEYOND

- Hospitality industry sources expect lodging occupancy levels to increase over the upcoming years. Numerous professionals expect 2014 occupancy levels to increase by 1% to 3%. This increase is a result of the small amount of new lodging supply and relatively small increases in captured demand.

- The hospitality industry in recent years has only seen marginal increases in Average Room Rate. Industry professionals anticipate the increases in Average Room Rate to be 4% to 6% per year in the next several years.

- The combination of increased occupancy levels and Average Room Rate provides the opportunity for the hospitality industry to enjoy significant increases in RevPAR –which would be well-received by the industry, after over five years of "challenging times".

- The availability of capital continues to hinder the lodging industry's ability to develop new product. While there are significant opportunities to develop new lodging supply in almost every region of the country, the lack of "reasonably priced" capital has significantly limited the potential for that growth.

- Owners are continuing to look for methods to increase the bottom-line profitability for their hospitality product. Capital expenditures are anticipated to continue due to the overall improvement in operating revenue.

- Lodging receivership activity is anticipated to decline significantly in 2014 and beyond, as lodging properties continue to be re-financed.

- Brokerage activity in the lodging industry is expected to continue to increase as owners hope to lock-in price appreciation driven by increasing occupancies and average room rates.

John Montgomery, Managing Director of the Horwath HTL office in the Rocky Mountain Region (based in Denver) prepared this article in conjunction with Mark Beadle (Horwath HTL-Atlanta), Richard Mandigo (Horwath HTL-Chicago) and Joel Hiser (Horwath HTL-San Francisco).

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CHINA

by ***Linda Li***

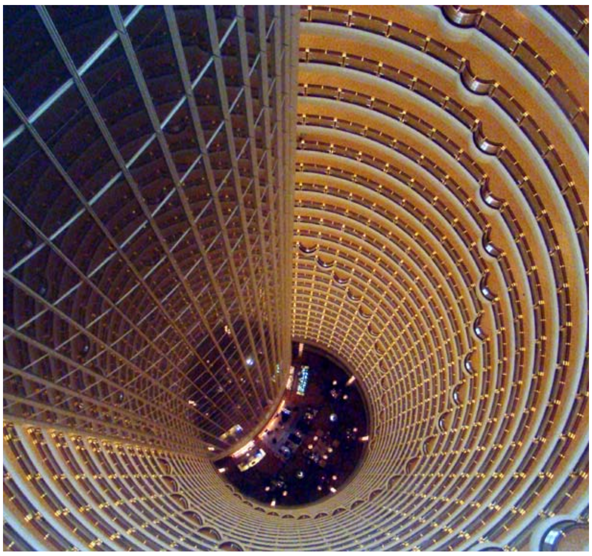
2013 SNAPSHOT

- Restrained MICE and dining markets. "Eight Disciplines" proposed by the CPC at the end of 2012 aiming at curtailing unnecessary government meetings and lavish banquets have significantly diminished the hotel MICE and dining business, particularly in the markets relying heavily on government related demand.

- Reduced international demand. Due mainly to the economic downturn in western countries and RMB appreciation, international arrivals in China suffered a moderate decline in 2013, resulting in the shrinking of international demand, especially in the leisure sector.

- Occupancy downturn. Many markets in China continued to experience distress with the large amount of new supply. This, together with the slowdown of China's economy in 2013, caused the downturn in hotel occupancy.

- Sluggish ADR. The occupancy deterioration restrained the growth potential of average rates. Many hotel markets recorded ADR dropping by 3 to 5% in 2013. Worth noting is that the low ADR relative to the quality of the hotel product being sold has been a historical challenge for China's lodging industry.



BUSINESS SCENARIOS FOR 2014 AND BEYOND

New policy to boost tourism. "The Outline for National Tourism and Leisure (2013-2020)" issued by the State Council of China aims to encourage people taking paid annual leave days and thus promote the healthy development of tourism services. Currently, Chinese people rely heavily on the two "Golden Weeks" for vacation, which causes much chaos and puts strain on hotels and tourism infrastructure. The successful implementation of the Outline is ultimately expected to bring about changes in the existing vacation system and significantly boost demand for resort hotels.

Promising resort destination developments. A vast amount of funds have been invested in integrated resort developments, covering the traditional tourist sites, emerging nature reserve destinations and city theme park products. Big domestic conglomerates are active in this field such as Luneng Group and Wanda Group. It is anticipated that a new wave of distinctive resort hotels would come to the market and bring about changes in the broader tourism dynamics of the market.

Large supply in tertiary cities. China's accelerating urbanization is creating many new city centers, presenting opportunities for hotel development. Since primary cities and many secondary markets are becoming saturated with hotels, hotel operators have begun to seek brand presence in the vast number of tertiary cities. However, the small scale of the local economy and weak demand base in most tertiary cities imply large challenges ahead with the surge of new hotel additions, particularly for the upscale hotel sector.

Growing domestic brands. The China market has seen a proliferation of domestic hotel brands in recent years, not to mention significant acceleration of some longer-standing budget brands. The growth of these domestic brands with strong local market experience and improving management skills will most likely alter the market landscape, which has historically been dominated by international brands.

Going abroad. China's outward investment in the hotel sector is expanding, and the upward trend is clearly underway. entum behind overseas investment is spurred by pursuing a global footprint and improving brand awareness.

***Vijay Thacker** is a leading hospitality consultant in India with 28 years experience. He advises owners, developers, leading international and domestic hotel companies, lenders etc. He specializes in development and strategy advice, valuations, contract negotiations and litigation support.*

INDIA

*by **Vijay Thacker***

2013 SNAPSHOT

- It's been a tough year, with occupancies and ADR for some cities / months being the lowest since 2007.
- 56.9% occupancy YTD September 2013 is 0.4 pts higher than YTD September 12; however ADR at Rs. 5,761 is down 3.8% and RevPAR at Rs. 3,276 is down 3.1% (source STR Global).
- Delhi NCR and Chennai suffered double-digit RevPAR decline as supply grew substantially while demand slowed. Ahmedabad suffered an occupancy decline due to new supply, though rates have improved as hotel standards have risen.
- Goa performed strongly, backed by good inbound and domestic leisure demand, MICE promotions in the monsoons and weekend demand for the casinos.
- Tough general business conditions, a declining Rupee and cost inflation have impacted demand and profitability; in turn, cash flow and debt pressures have impacted owner-operator relations, project viability, development initiatives, owner and operator revenues and cash flows – of course, debt becomes scarce and expensive when times are tough.
- Several assets are for sale, though valuations are unrealistic; projects are being abandoned, deferred or financially and physically recast. We expect at least 50% of the 90,000+ branded inventory pipeline to either not materialize or be substantially delayed.
- Meetings and wedding functions are an increasingly important revenue source – these also help create rooms demand. Resorts and hotels that have targeted this sector are distinctly busier; e.g. Rajasthan had a good summer because Rupee depreciation caused weddings and conferences to move from overseas destinations to resorts in Rajasthan.

BUSINESS SCENARIOS FOR 2014 AND BEYOND

General elections in or before April will impact policy initiatives and growth in the early part of 2014; greater political stability and sagacity will help the nation – distinct lack of bipartisan spirit has damaged the economy, its growth rate, investment attractiveness and mood. Under the right policy framework, India has much to offer for investment, growth and profit.

Some recent policy initiatives are starting to bear fruit, leading to a more positive stock market and some light (even if yet dim) at the end of the road. The Indian hospitality industry so heavily depends upon business travelers; better business sentiments will materially benefit the hotels.

Leisure and MICE travel will continue to grow. More inbound visitation will help; greater affordability due to the Rupee decline and increasing scope for Visa on Arrival should encourage travel.

Debt cost and land costs are expected to remain high; combined with cash flow stress from recently completed hotels, development efforts will recover only gradually – this will unfortunately impact new hotel openings post-2017 which could lead to another cycle of high occupancy and ADR followed by aggressive and expensive new projects.

My hunch is that 2014 will be a better year, with improved occupancies, flat rates in the first half and some rate improvement in the second half and gradual easing of profit and cash flow pressures – the fittest and the fitness conscious will survive; over-leveraged and badly planned / mis-intended projects will struggle or fall.

[Matt Gebbie](#) is Director, Pacific Asia (Indonesia), transferring to Horwath HTL's Jakarta office in October 2013 from the Singapore office where he began work in September 2004. While at Horwath HTL, Matt has been involved in many projects including market and financial feasibility studies for hotels, resorts, serviced apartments and golf courses across Asia; including Indonesia, China, Thailand, Vietnam, Malaysia, Philippines, Maldives, South Korea and Singapore. Matt has also represented hotel owners in the management company selection process; carried out hotel valuations; and undertaken hotel operations' reviews.

INDONESIA

by ***Matt Gebbie***

2013 SNAPSHOT

- It has been a bit doom and gloom economically in 2013 with a combination of elevated inflation, slowing GDP growth, diminished foreign capital inflows, depreciation of the rupiah and a bigger than ever deficit in the current account balance.
- On the bright side, this has had little effect on tourism with foreign arrivals up over 8% YOY to August 2013. Figures for the domestic market indicate a 3.6% climb in total trips made (2012).
- Hoteliers have been hit with 2 cost hikes in 2013: minimum wages up by an average of 18% (Jakarta up 44% & Bali up22%); and utilities, electricity up 15% and fuel up a whopping 44%, due to a partial government reduction in fuel subsidies.
- STR Global data YTD October 2013 shows: Indonesia hotel performance is relatively stable with 67% occupancy, down 1.5% YOY and USD 104 ADR, up USD 1 YOY. Due to the large devaluation in the rupiah, IDR ADR is up a strong 11%. Bali hotel performance is less stable, with hotels being challenged by supply increases. Occupancy is down over 4% YOY to 66% and ADR is down slightly in USD but up nearly 9% in IDR. YOY RevPAR is down 6.6% in USD but up 3% in IDR. Jakarta market occupancy is also down 3% YOY to 69% with ADR up nearly 15% YOY in IDR, 5% in USD.
- On the WEF 2013 global competitiveness index, Indonesia is now ranked 38 up 12 places over 2012 ahead of fellow ASEAN member states: Philippines, Vietnam, Laos PDR, Cambodia and Myanmar.

BUSINESS SCENARIOS FOR 2014 AND BEYOND

There are many reasons to be optimistic about the future of Indonesia and indeed tourism in and around Indonesia, with numerous incredible destinations that have barely been discovered by adventure tourists let alone the mass market. Of these, attention is being given to the "16 priority destinations" as earmarked by the government in 2012 and real inroads are being made to improve infrastructure including airports, highways, railways and seaports.

2014, however, may not be the year for major tourism investment, foreign or domestic, as: (1) the possible reduction or cessation of US quantitative easing, the mere threat of which really spooked Indonesian investment in the summer of 2013 causing large cash outflows and the Rupiah to plummet; and (2) it's an election year, legislature and presidential, with major investment decisions being deferred until the new President is sworn in which may not happen until October. The upside of a federal election is the generation of domestic room night demand as the parties' entourages politic across Indonesia. GDP growth is forecast to continue in 2014 between 5 and 6% and the Rupiah will continue to fluctuate but hopefully with less drama.

The proliferation of low cost hotels across Indonesia is set to continue in 2014 as corporate demand spreads, driven by: minimum wage increments in Jakarta squeezing factories out of greater Jakarta; and general economic growth in secondary cities. This segment is increasingly competitive amongst mostly domestic brands, more than 65 budget to midscale brands and counting.

In the traditional markets of Bali and Jakarta, another large influx of hotel rooms is forecast for 2014 with Bali expected to feel the most severe growing pains and Jakarta hoping to retain performance status quo.

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JAPAN

by **Koji Takabayashi**

2013 SNAPSHOT

- Along with the yen depreciation and high stock value driven by new economic policies implemented by Prime Minister Abe at the end of 2012, the current economic situation is favorable.
- The hotel investment market has been active since 2012, and the trend continues till now. What makes this year's market environment bullish is that we have seen some large-scale transactions, which had been rare in Japan for the past few years – among them, Sheraton Tokyo Bay (802 rooms) was bought by a US-based investment fund at JPY 42 billion (approximately USD 420 million).
- Mainly driven by the weaker yen trend, the number of international visitors is growing, with a double-digit year-on-year increase since February 2013. In addition, the government has eased visa requirements for visitors from Thailand and Malaysia, resulting in year-on-year growth at 59.2% and 20.5% respectively.
- Performance figures in the Japanese hotel market were boosted, especially in Tokyo. According to data from STR Global, YTD RevPAR in the Tokyo hotel market in 2013 has increased by 12.3% to JPY 12,849 from the same period in the previous year.

BUSINESS SCENARIOS FOR 2014 AND BEYOND

Looking ahead, we believe that Japan will capture more global attention. Tokyo has been selected as the host city for the 2020 Summer Olympic Games, which will lead the government to speed up its plans for improving the infrastructure and transportation system in order to welcome more foreign visitors.

Tokyo has been the prime tourism destination in the past; however, travelers' interests in other cities will grow. In 2014, favorable economic conditions are expected to continue, and interest in domestic leisure activities will increase. One of the major cities to be highlighted as a destination will be Osaka, where Universal Studios Japan plans to add a new attraction "The Wizarding World of Harry Potter" during 2014. With those positive moves, we believe that the RevPAR growth which has currently been centered in Tokyo will spread out to other cities or resort destinations in 2014.

Along with optimistic economic and hotel market conditions, investors and hotel operators are looking for new opportunities. There will be substantial new supply in 2014 and beyond; however, we believe that demand both from domestic and international tourists should be able to absorb new supplies. Some exciting new openings expected in Japan in 2014 are Andaz Tokyo (164 rooms), Aman Tokyo (86 rooms), Courtyard by Marriott Tokyo Station (150 rooms), and Osaka Marriott Miyako Hotel (360 rooms). New resorts to look out for in 2014 are the Ritz-Carlton Kyoto (136 rooms) and Hilton Okinawa Chatan (346 rooms). Several other international hotels are expected to open in the coming years in major cities, as well as resorts. Not only hotel brands which are entering the Japanese market for the first time, however, but existing international hotel brands are seeking to open their second or third (or more) properties in different locations. International hotel chains are looking into opportunities to accommodate tourists who attend a circular tour, which is a popular itinerary among international visitors combining a trip to Tokyo and historical city of Kyoto or other major cities or resorts in Japan.

KAZAKHSTAN

2013 SNAPSHOT

- After a slight annual slowdown of GDP growth in 2012 (5% compared to 7.5% in 2011), Kazakhstan continues its annual growth of GDP in 2013 at around 5.8% p.a., while in the next few years, annual GDP growth is expected to be around 7% p.a.

- Due to the country's economic development and low unemployment rate (around 5%), over 40% of households are considered as "middle class", suggesting further growth of consumption, including tourism sector services.

- Around 400,000 outbound trips are made yearly by Kazakhs for tourism-related trips (around 5% of total outbound travel), with Almaty as the key source city (almost 60%).

- In Kazakhstan there are slightly more than 1,000 hotel properties, with nearly 30,000 hotel rooms and more than 50,000 hotel beds. Of this total, almost 60% of hotel beds are non-categorized, meaning that almost two thirds of the accommodation supply is not subject to any regulations governing quality standards.

- 41% of all accommodation is situated in the cities of Astana and Almaty and their surrounding regions (Akmola and Almaty Regions). East Kazakhstan and Karaganda Region are the next two areas with a concentration of accommodation, with 19.7% and 11.7% of the total, respectively. These six regions account for more than 70% of the total accommodation capacity in Kazakhstan.

- In the last 5 years, the hotel accommodation occupancy rate was around 25% at the level of Kazakhstan as a whole – lower than international standards, but steadily recovering after the shock of 2008/09. Manginstau and Atyrau Regions performed significantly above this average, reaching 60% occupancy thanks to their importance for business travelers (oil industry) and the limited supply, while the regions of East Kazakhstan, North Kazakhstan and Almaty (region) barely reach 15%. The cities of Astana and Almaty are a bit above average, with nearly 30% bed occupancy. The higher the hotel category, the more occupancy generally rises.

- Due to the lack of hotel accommodation supply, hotels record price performances that are above the international average level – and especially above the perceived quality of the supply. Price competitiveness is a serious obstacle to more robust development of leisure tourism (as is the high price of air transport).

- Despite all these factors, Kazakhstan has seen a steady increase in the number of accommodation objects in the last 5 years, with a CAGR of 10.6%. The increase was dominantly driven by hotel accommodation, and especially the 4-star category, which has doubled in size in the last three years, and to some degree in the 5-star hotel segment. This increase in high-category hotel capacities is limited almost exclusively to the cities of Almaty and Astana. The most recent opening of a luxury hotel property was in Almaty (145-room Ritz Carlton).

- Thanks to the fact that leisure tourism offers are still undeveloped, around 85% of the total foreign arrivals to Kazakhstan (mainly to Astana, Almaty, Atyrau, Aktau) are for business reasons.

- In November 2012, Astana was chosen to be the host city for EXPO 2017, which is the first time that a major international exhibition of this kind is being held in a country from the former Soviet Union. In 2013, event planning and organization got underway, suggesting further investments in the tourism sector of Astana and Kazakhstan.

Sinisa Topalovic joined Horwath HTL Zagreb in 2010. He manages projects in he tourism sector, especially on foreign markets, predominantly Kazakhstan. Sinisa mainly deals with master planning, strategic analysis and destination planning, as well as with national, regional and destination marketing. He has a BA in analysis and business planning and MA in finance.

by ***Sinisa Topalovic***

BUSINESS SCENARIOS FOR 2014 AND BEYOND

With the upcoming EXPO 2017, the future development of Astana's tourism sector is certain, thanks to the high stakes involved in the success of this event. There are already some important investments on the way, e.g. a Marriott hotel (to be opened in H1 2014), Ritz Carlton Astana (construction started in 2013), Abu Dhabi Plaza (new landmark project on 88 floors above ground) and various other hotel projects in the pipeline, totalling more than 2,000 hotel rooms by 2017.

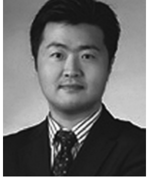
Other parts of Kazakhstan are expected to follow the trend of growing supply as well, opening space for more competitive prices and establishing a foundation for stronger leisure travel products. These are in many instances related to the historical legacy of the Silk Road, the Central Asian nomadic heritage, and the uniqueness of the steppe.

As the tourism value chain in the majority of destinations lacks even the most basic ingredients (budget and midscale hotels, attractions, etc.), it is reasonable to expect further investments within the tourism sector. With EXPO 2017-related international marketing penetration, Kazakhstan's image as an emerging tourism destination will become stronger; more powerful national branding is to be expected.

Thanks to specific natural resources such as Tien Shan and the Altai mountains, Charyn Canyon, Korgalzhyn Lakes, Tamgaly, vast virgin steppe areas and other protected sites), eco-tourism, active and adventure tourism, as well as touring, represent high potential for further development and affirmation.

A strict visa regime and non-competitive air fares are two problems that are hindering stronger tourism development potential, although there is a will to adjust and increase competitiveness in those fields.

Further tourism development scenarios depend on expediting the adoption of international tourism industry standards, both at the destination and national levels (categorization, destination management, national marketing and branding, etc.).



__Steve Baek__ joined the Horwath HTL Singapore office in 2005 as a Senior Consultant. He has worked for many hotel and resort development projects in major gate cities in China, Thailand, South Korea and other Southeast Asian countries, focusing on market and financial feasibility studies, hotel valuations and strategic planning. Prior to joining Horwath HTL, he worked at Walkerhill and Ambassador Hotel Group in Seoul Korea, focusing on asset management and development. Steve also had spent three years in advertising and PR industry in Korea working with several clients from airline and hotel industries.

SOUTH KOREA

by ***Steve Baek***

2013 SNAPSHOT

- South Korea's economy expanded at the fastest pace in nearly two years in Q3 2013, aided by strong performance in manufacturing and construction. The strong showing, however, masks concerns about exports and consumption. As economic growth in China—a key export market—slows to more sustainable levels, exports have come under pressure. The OECD raised its initial 2013 growth projection for the Korean economy from 2.6% to 2.7% on the back of "modest" global recovery.

- International visitor arrivals to Korea at year-to-date October 2013 grew by 9.3% to 10.34 million arrivals, which is around 8 percentage points lower than YTD October 2012 growth of around 17%. This decline was mainly driven by the slower Japanese inbound market, which dropped by 21% by the end of October 2013, due to some political tension between the two countries and the appreciation of the Korean Won. The sluggish Japanese market was compensated by arrivals from China (a 54.9% increase to 3.77 million arrivals)

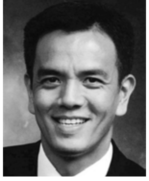
- According to STR Global, country-wide occupancy declined by 5.2%, moving from 78% in 2012 to 74% in 2013 (year-to-date October), while ADR dropped by 3.1%. As a result, YTD RevPAR declined by 8.2%. The downturn was more obvious in Seoul, where both occupancy and ADR decreased by 6.8 and 6.9%, respectively, to record a YTD RevPAR drop of 13.3%.

BUSINESS SCENARIOS FOR 2014 AND BEYOND

Soaring land prices (especially in Seoul) and low profitability in hotel operations have historically restrained developer interest in top-tier hotel development. However, the strong hotel market performance in 2011 and 2012, thanks to the huge influx of Japanese travellers, stimulated local developers to speculate on hotel development, in particular on business oriented and limited service/budget hotel products. According to statistics released by the Seoul Metro Government, a total of 112 hotels are under construction or planned, which will add approximately 22,990 rooms to the Seoul market by 2017.

However, some of the hotel projects are believed to be pending or cancelled due to the recent sluggish market. As mentioned above, the sudden decline in Japanese arrivals since the end of 2012 has thrown a wet blanket on the hotel market, especially in Seoul and Busan, where Japanese travellers used to predominate. As of November 2013, market occupancy was recovering, but at the cost of ADR, as mid-tier hotels pulled demand from the lower-tier market to fill rooms. Ongoing issues between Japan and Korea are not likely to go away easily, and the sluggish market is anticipated to continue in 2014.

Surging Chinese arrivals have yet to impact mid to top-tier market performance levels as they tend to prefer low-tier hotels and are more focused on shopping and sightseeing. While China is expected to remain one of the major feeder markets, growth is anticipated to cool due to a new mainland law that bans "forced shopping" tours for outbound Chinese tourists. The law substantially raises tourist agency costs, especially the salaries for tour guides, who formerly received commissions for herding tour groups into designated shops. However, the impact will largely be limited to the low-tier hotel market.



__Sen Soon-Mun__ is Director of Horwath HTL in Kuala Lumpur. Since joining the company in 2002, he has been involved in many hotel market and financial feasibility studies across Asia, including China, Thailand, Sri Lanka and Malaysia. Malaysia has been his main focus since 2004. Prior to joining Horwath HTL, Sen worked for Mandarin Oriental Hotel Group in Business Development, and for PKF Consulting Ltd / PriceWaterhouseCoopers Consultants Ltd. Sen started his hospitality career in 1994 with Shangri-La International Management as an Internal Auditor.

MALAYSIA

by ***Sen Soon-Mun***

2013 SNAPSHOT

- Kuala Lumpur is still the favorite destination for hotel investment. However, other locations such as Penang, Langkawi, Kota Kinabalu and Johor Baru are attracting a lot of interest from local and international developers and investors.
- In 2013, a number of international brands have signed up properties in some of these locations: Courtyard by Marriott and OZO in Penang; Ritz Carlton and St. Regis in Langkawi« Hilton, Four Points by Sheraton, Mercure and Marriott in Kota Kinabalu; and Hilton and Amari in Johor Baru.
- The Kuala Lumpur city-wide average occupancy level (AOL) for 2012 was approximately 70%. The AOL is not expected to change significantly in 2013.
- To further enhance tourism on Langkawi, a Five-Year Tourism Development Master Plan was launched in 2013 with a budget allocation of RM 420 million.
- Tourist arrivals up to September 2013 grew by 3.3% over the same period in 2012, to 18.8 million. The official target of 26 million for the year is expected to be achieved.
- RM 1.2 billion has been allocated by the government for operating and development expenditure in 2013 and 2014 to implement Visit Malaysia Year 2014 (VMY 2014) programs.
- In an effort to target more high spending tourists, the government approved under the 2012 budget an Investment Tax Allowance and Pioneer Status for new hotels with 4- and 5-star ratings. Hotels which are 100% foreign-owned also qualify for these tax incentives.

2014 AND BEYOND

VMY 2014 is the 4th “Visit Malaysia Year”. The last VMY was 2007 and it registered arrivals over 21 million, an increase of approximately 20% over 2006. Recently, The Lonely Planet listed Malaysia as one of the top 10 countries to visit in 2014, the only country in Asia in the top 10 list. The government has set a target of 28 million foreign arrivals for 2014, representing an increase of approximately 8% over 2013’s target. With the opening of the new low-cost carrier airport, KLIA 2 in May 2014, the target could be achieved.

VMY 2014 is expected to provide additional demand to the hotel markets across the country where the mid- and low-tier hotels (mainly 4-star and below) will benefit most. The AOL for the country is expected to register within the range of 68 to 70%, an increase of 4 to 6 percentage points from 2013. The AOL for the overall hotel market in Kuala Lumpur is still expected to be the highest in the country, within the 72 to 74% range. But the projected increase in demand may not necessary entail significant average room rate (ADR) growth. The ADR is expected to grow at between 3 and 5% in the mid- and low-tier category, to RM 368 – RM 372, and RM 252 – RM 258, respectively. In the top-tier category, however, we do not expect much growth in AOL and ADR in 2014 as they are projected at 73 to 74% and RM 505 – RM 510 range, respectively. Kuala Lumpur is seeing a number of top-tier hotel developments currently: St Regis (2015), W (2016), The RuMa (2016), Banyan Tree (2016), Alila (2017) and Four Seasons (2018). The top-tier hotel market is not expected to register ADR growth rates exceeding 5% until these top-tier hotels open.

Langkawi, whose hotel market has the highest ADR in the country, will see a couple of new premium luxury brands entering the market by 2015. The Ritz Carlton and St Regis are under construction, and more premium luxury brands are scouting for hotel sites or are in the midst of management contract negotiations. The ADR of the top-tier hotels exceeded RM 900 in 2012, while those in the next lower tier were just below RM 500. Over the last 5 years, the AOL across the market has remained relatively unchanged at between 58 and 61%. The demand levels and the ADR are not expected to change much in 2013 and 2014. However, with the openings of the Ritz Carlton and St Regis in 2015, the demand and ADR of the top-tier hotels could see some significant movements as the premium luxury market enlarges after years of domination by the Four Seasons and The Datai.

__Ambika Gandhi__ has more than 7 years of hospitality experience in different roles of hotel operations and development. Through various posts in Brisbane, Phuket, Bangalore, and Singapore, she has been exposed to not only fine organizations like Six Senses and Fairmont, but also smaller firms like SilverNeedle Hospitality and Alpine Hospitality.

MYANMAR

by ***Ambika Gandhi***

2013 SNAPSHOT

- Yangon has witnessed a surge in tourist arrivals, receiving 554,531 foreign visitors in 2012, an increase of 54.3% over 2011. Approximately 42% of the total tourists are FITs, followed by packaged tourists at 22%, and business travelers at 20%.
- Thailand and China are the two largest source markets for Yangon's arrivals, contributing approximately 16% and 12%, respectively.
- Yangon saw a significant increase in air connectivity since 2011, and is now linked by 22 international airlines including Korean Air, Air India, Qatar Airways, Vietnam Airlines and Singapore Airlines.
- Yangon is home to 204 hotels, with approximately 9,000 rooms, as of 2012. It is estimated that approximately 2,000 of these rooms are of international standard. The Strand by GHM, The Governor's Residence by Orient Express, Traders, PARKROYAL, Sedona and Chatrium are the only chain/ branded hotels currently operating in Yangon.
- Ever since Myanmar embarked on its journey towards democracy in 2011, room rates have soared in Yangon. The branded hotels in Yangon experienced average room rates doubling from US$ 60 in 2011 to US$ 120 in 2012, and achieving approximately US$ 180 as of YTD September 2013.
- Occupancy also increased, from 60% in 2011 to 65% in 2012, and increased further to 71% as at YTD September 2013.

BUSINESS SCENARIOS FOR 2014 AND BEYOND

Yangon's tourist arrivals are likely to increase dramatically over the next five years, given the redevelopment plans for the Yangon and the Hanthawaddy International airports. When completed in 2016, these airports collectively will have an annual passenger handling capacity of 10 million passengers. Passenger arrivals from the ASEAN countries are also likely to increase after 2015, once the ASEAN open sky policies are initiated in Myanmar.

Given the increasing occupancy rates and severe shortage of rooms in Yangon, many international hotel companies, including Peninsula, Hilton, Pan Pacific and Accor, have announced upcoming hotels in the city. Historic state-owned buildings in Yangon have been tendered to be converted into hotels, to assist with increasing room inventory in Yangon.

As Foreign Direct Investment into Myanmar is allowed at 100% ownership, many international companies are looking into developing hotels. Top investment in the hospitality sector is seen from Singaporean, Thai, and Japanese companies.

Yangon will also see alternative tourism concepts in the future which include a floating hotel with approximately 300 keys to be developed by a Singapore-based fund, a 414 room mixed-use development of hotels and commercial space by a Vietnamese company, and an additional luxury cruise liner to be operated along the Irrawaddy river by Orient Express. Shangri-La has also announced its 240-room luxury residences to be open by the end of 2013.

However, as Myanmar is an emerging market, significant issues like severe shortage of hotel rooms, accessibility to skilled labor and lack of domestic infrastructure are a concern for most operators. Foreign investors are also cautious to invest in Yangon given the ambiguity of the country's financial and legal systems.

Despite all these challenges, it is believed that Myanmar is likely to grow faster than other emerging market within Asia, and the hospitality sector is likely to be one of the most profitable sectors.

*<u>**Terry Ngan**</u> has 20 years' experience in the hotel and tourism industries having undertaken 500+ assignments and has firsthand experience within hotel chains based in New Zealand (financial controller) and Asia (business development).*
Terry's primary service lines for private and public sector clients include market demand analysis, financial and feasibility studies, operator selection, sourcing investors, management contract negotiation, performance improvement and owner representation.

NEW ZEALAND

*by **Terry Ngan***

2013 SNAPSHOT

- New Zealand is situated south east of Australia (3.5 hours by air) with a population of 4.4 million.
- 2.7 million international visitors arrived in the 12 months ending October 2013, 45% from Australia, 9% from China, 7% from USA, 7% from UK and 3% from Japan.
- International visitors are forecast to rise to 3.1 million over the next 5 years to 2016 ie: an average annual growth of 3%. China is projected to achieve the strongest growth, following a 22% rise in visitors from 2012 to 2013.
- Overseas and domestic visitor nights spent in New Zealand are approximately 100 million with the split approximately 45:55.
- New Zealand's main visitor attractions are its spectacular and varied natural scenic beauty (made famous by the "Lord of the Rings" and "The Hobbit" movies by Peter Jackson), its friendly people, the indigenous Maori people, home of adventure tourism and the "clean green" environment.
- "100% Pure New Zealand" and "Middle Earth" have been key international destination marketing campaigns in recent years by Tourism New Zealand.
- New Zealand is the home of the All Blacks, the current World Cup champions of Rugby, bungy jumping, Milford Track (the "finest walk in the world").
- New Zealand was ranked third in the world for ease of doing business by the World Bank in December 2013.

BUSINESS SCENARIOS

The IMF forecast in October 2013 that the New Zealand economy would grow by 2.9% in 2014, the 5th strongest in the Advanced Economies, up on 2.5% growth forecast for 2013.

Inflation (Consumer Price Index) is forecast to average 2.6% pa in the next 3 years, within the central bank's target of 1% to 3% pa.

New Zealand has seen strong increases in international flights and seat capacity in 2013 especially from Australia (particularly to Queenstown), China (to Auckland) and Hawaii (to Auckland).

New Zealand's main visitor destinations include Auckland (the largest city and business hub surrounded by several harbours), Rotorua (home of Maori, geysers, boiling mud pools and spas), Wellington (the capital city and home of the internationally renowned Te Papa national museum), Christchurch (rebuilding from the 2011 earthquake) and Queenstown (the international "jewel in the crown" winter and summer resort, home of adventure tourism, skiing, mountains and lakes).

Major tourism infrastructure plans announced for New Zealand include an international 3,500 seat convention centre in Auckland and other convention centres in Wellington, Christchurch and Queenstown. A new cruise terminal on the Auckland waterfront opened in 2013 and will host 120 ships in 2013-2014.

The major hotels (members of Tourism Industry Association – Hotels Division) achieved average annual room occupancy of 79% in Auckland, 74% in Wellington and 66% in Queenstown (for the year ending October 2013).

Limited new hotel supply is under construction in Auckland (5 star Sofitel So and 4 star serviced apartments), Wellington (Sofitel), Christchurch (4.5 star Rydges Latimer) and Dunedin (4.5 star Distinction Hotel).

__Clare Fu__ is a consultant in Horwath HTL Asia Pacific with 3 years of experience in the company. Her areas of specialty in HHTL include market and financial feasibility consultancy for the planning and development of hotels and tourism, along with undertakings for benchmarking financial and productivity performances of hotels in Asia Pacific.

SINGAPORE

by ***Clare Fu***

2013 SNAPSHOT

- International visitor arrivals to Singapore year-to-date September 2013 increased year-on-year by 8.7% to 11.7 million, a growth largely boosted by meeting, sports and medical tourism.
- Available room nights for the first 3 quarters grew 5.1% over the same period in 2012, but was well absorbed by the increase in arrivals to continue 2012's occupancy of 87%.
- Mid-tier hotels contributed most of 2013's hotel additions, with openings including Holiday Inn Express Orchard, Ramada Balestier and Days Inn. The only hotel of luxury positioning is Westin at Marina Bay, which opened in November 2013.
- According to the Singapore Tourism Board (STB), January to September recorded a year-on-year drop of 1.4% in the market ADR. The luxury hotel segment was the only segment to record growth, however modest at 0.8%, while the upscale segment suffered the largest year-on-year decrease of 10%.
- Key additions to Singapore's tourism landscape include the completion of the Marine Life Park in Sentosa and the River Safari comprising a giant panda enclosure (Asia's only river-themed zoo).
- The 2013 Singapore Grand Prix (F1) bookings spiked 12.6% over 2012, according to Amadeus. This is an encouraging note following the extension of F1 by another 5 years and after a 1.9% shrink in the 2012 F1 bookings from 2011.

Business scenarios for 2014 and beyond

2014 will continue to welcome complementary openings and events that will facilitate tourism growth in Singapore.

Singapore's continuous launching of attractions designed to induce tourism will see 2014 welcome The National Art Gallery to house the world's largest public collection of modern SEA art and a Sports Hub to feature key sporting events, including the Women's Tennis Association championships from 2014 to 2018.

Standing in the forefront of tourism growth is the MICE industry with its 11th consecutive year as "Asia's Top Convention City" in 2012 expected to continue. Enhancing Singapore's MICE destination appeal is the rising number of non-traditional venues that have integrated MICE facilities with unique leisure offerings. Such venues include Gardens by the Bay and the upcoming National Art Gallery.

2014's hotel pipeline includes several highly anticipated openings such as Sofitel So and Singapore's second Holiday Inn Express and Traders Hotel. The rise in supply will be well met by the growth in demand spurred by the overall expansions across most trades and industries in Singapore.

Moving on, looking beyond the comforts of years of unprecedented growth is key to a sustainable prosperous tourism landscape. Many constraints pose genuine threats to the future of Singapore's tourism industry, including infrastructure constraints, limited manpower resources and keen regional competition for the same tourism pie. What Singapore currently holds unique as its own will be challenged, with competition including South Korea's proposed integrated resorts, Bangkok's F1 night street race in 2015 and Penang's MICE facilities development of similar proportions and management.

Noting this, STB's response with initiatives gearing towards a more visitor-centric and local-involvement focus will transform Singapore's tourism scene in an ethereal fashion as an addition to the superior hardware, an evolution that should help sustain the industry through the years ahead.

__Damien Little__ is a Director of Horwath HTL in Asia Now based in Singapore, he has previously been based in the company's Beijing and Hong Kong offices. Damien has 12 years of consulting experience and has been involved in more than 400 projects in 12 countries across the Asia-Pacific region, including 5 star city hotels, golf resort properties, mid-scale regional hotels, budget hotels, backpacker accommodation, restaurants and clubs. He has significant experience in the China market, having traveled to more than 70 cities across the country. Prior to joining Horwath HTL in 2001, Damien worked for both Arthur Andersen and PricewaterhouseCoopers in Sydney.

THAILAND

by ***Damien Little***

2013 SNAPSHOT

- A sluggish domestic economy saw growth fall below expectation, with consumption and fixed investment down on 2012 levels (which were driven by post-flooding reconstruction). The Asian Development Bank estimates GDP growth for 2013 at 3.8% and inflation at 2.6%.
- At year-to-date August 2013, international visitor arrivals to Thailand grew by 21% to record a total of 17.4 million arrivals. Much of that growth was fuelled by arrivals from China (88% increase to 3.2 million arrivals) and Russia (37% increase to 1.1 million arrivals).
- Based on STR Global data, year-to-date August 2013, Bangkok saw occupancy increase from 69% to 75%, while at the same time ADR grew by just under 7% to record a YTD RevPAR growth of 16%. Phuket recorded more marginal growth, with YTD occupancy also at about 75% and RevPAR up 6% over the same period in 2012. Thailand in general recorded RevPAR growth of 16% YTD August 2013, driven in almost equal measure by occupancy and room rate growth.

BUSINESS SCENARIOS FOR 2014 AND BEYOND

The hotel supply pipeline for Thailand as of September 2013 stood at 93 hotels, representing about 16,000 rooms according to STR Global. Of this, 30 hotels and about 4,700 rooms are currently under construction. As would be expected, most of the supply pipeline is concentrated in the key markets of Bangkok (30 hotels, 6,000 rooms) and Phuket (22 hotels, 3,500 rooms). Pattaya is another market that has a significant pipeline of hotel projects, with 16 hotel projects identified, representing about 3,300 rooms to be added to the market, mostly expected over the next three years. With some questions on Pattaya's ability to absorb the supply pipeline in the coming years, generally, we do not see an issue of oversupply for Thailand, as tourism growth is expected to remain strong.

As mentioned, two emerging source markets are driving much of the growth in international visitor arrivals in Thailand: China and Russia. Strong growth from these markets is expected to continue in the short to medium term, and as they account for an ever-growing share of total arrivals, they are changing the tourism dynamic of the country. In some destinations, this is shifting the balance to wholesale travelers from independent travelers, which is having, and will continue to have, an impact on all areas of the tourism industry in the coming years.

Bangkok outlook: Acting as the gateway to Thailand and surrounding countries, Bangkok should continue to experience strong growth in arrivals, allowing for continued improved performance in occupancy. However, the key word for Bangkok is "affordable", which should keep ADR levels in check and below most regional competitors, although some growth in ADR, albeit slight, is expected.

Phuket outlook: The airport expansion is finally underway and together with other key infrastructure spending, Phuket is gearing up for the next phase of its tourism development. Increasing arrivals from China and other Asian markets is orienting the destination away from a sun and sand focus and more towards shopping and attractions.

*Co-authoring this article with **Noppawan Siriphol**.*

*As CEO and founder of GOCO Hospitality and Horwath HTL Health & Wellness, **Ingo Schweder** brings more than 30 years of experience from the fields of spa and hospitality. Under his guidance, Ananda in the Himalayas, the globally recognized destination spa, was established. From the ground up, he established 15 resorts on four continents for the Mandarin Oriental Hotel Group, whose strong holistic roots are now credited to him. Previously, he served as Group Director of Hotel Operations for Oberoi Hotels & Resorts and Managing Director for Rafael Group Hoteliers, Southeast Asia.*

THAILAND'S HEALTH & WELLNESS INDUSTRY

by ***Ingo Schweder***

2013 SNAPSHOT

- Thailand's health and wellness industry is largely driven by international consumers pursuing spa and medical tourism. The industry has been growing annually, with expanding domestic and international markets as well as increasing revenues.

- Over the past decade, spa revenues have accounted for between 1.1% and 1.6% of total tourism revenues, while medical tourism revenues have accounted for between 0.5% and 1.2%. Altogether, spa and medical tourism revenues have contributed about 0.1% to 0.2% to the country's Gross Domestic Product (Euromonitor, 2012).

- To boost medical tourism, the Tourism Authority of Thailand (TAT) organized the "Thailand Medical & Wellness Tourism Trade & Media Familiarization Trip," inviting international medical tourism facilitators and tour agencies from all over the world to experience the world-class services and treatments that the country has to offer.

- According to TAT, in 2012 health and wellness tourism accounted for 858,340 trips, generating total revenues of US$ 967 million from medical, health, wellness and spa tourists.

BUSINESS SCENARIOS FOR 2014 AND BEYOND

Euromonitor (2013) forecasted that Thailand's health and wellness tourism will continue to grow, becoming a market worth ca. US$ 32 billion market by 2017, with its main contributions still coming from international consumers. This is supported by the following:

- Tourism boom: Thailand's tourism industry has long been dominated by international tourists. In 2012 there were 22.35 million international arrivals, generating receipts of over US$ 30 billion. International arrivals, tourism revenues, and spending per capita have increased significantly over the past five years and are anticipated to continue doing so (Department of Tourism Thailand, 2012), offering more opportunities for health and wellness related businesses.

- Global consumer demand for health and wellness: Recently, there has been a gradual shift away from reactive care towards a more preventive approach. This trend will lead to growth in the number of medical/wellness centers focusing on more holistic lifestyle practices as well as a boom in all types of spa facilities over the next three to five years.

- Government policy: The Thai government has established a policy to promote the country as a medical hub focusing in four main areas: medical treatment, health promotion, traditional Thai medicine & alternative medicine, and health products (particularly Thai herbs). Led by the Board of Investment (BOI) and the Ministry of Public Health, this policy is to be implemented between 2012 and 2016 with the goal of attracting US$ 25 billion in revenues into the country over the five-year period.

- Economic incentives: In order to position Thailand as a medical hub, BOI has put into place several economic measures for related players:
    - Income tax exemption for health care providers
    - Additional benefits for pharmaceutical businesses
    - Tariff reduction for importers of medicinal ingredients and medicine
    - TISO incentives granting additional benefits for qualified foreign companies operating in Thailand (including spa and wellness consultants)

As long as Thailand can maintain political stability, which has proven to be a looming threat of 2013, future growth in the country's overall health and wellness industry is expected. Apart from the well-established Chiva-som in Hua Hin and Kamalaya in Koh Samui, development of destination spas and wellness resorts is expected to remain relatively stagnant. However, we anticipate that hotel/resort spas will continue to generate the largest revenue and growth, with significant potential also coming from the development of medical spas and wellness hospitals. For example, Thailand's Minor Hotel Group has recently announced plans to expand Anantara Spas across the Asia-Pacific and Middle East, while Bumrungrad International Hospital is becoming a leader in medical wellness.

Hannes Schied holds a Master's Degree (with distinction) in International Tourism Management and Leisure Time Economics and gained comprehensive operational experience in the hospitality industry. He has a proven track record in elaborating tourism master plans based on market analyses, sample visitor and tour operator surveys, as well as in investment analysis and financial modelling to arrive at feasibility studies. Hannes spearheaded numerous assignments for governmental entities, private sector investors & owners and provided consulting services for development agencies such as the World Bank Group.

UNITED ARAB EMIRATES

by ***Hannes Schied***

2013 SNAPSHOT:

- After mixed results in 2012, the situation has improved considerably for both of the main destinations in the UAE, Dubai and Abu Dhabi.

- The capital of the UAE benefitted from strong promotional activities initiated by the Abu Dhabi Tourism & Culture Authority. The Summer Fest was planned over the mid-summer months, which included the Holy Month of Ramadan, Eid holidays and celebrations that covered 52 days, to stimulate an increase in the number of guests from the region. Guests who booked in one of the 40 participating hotels received free entry tickets for the Ferrari World theme park and the Waterpark on Yas Island. The "Thrilling Stay" campaign was extended and supported the demand for lodging facilities, overcoming the typical drop in summer seasonality.

- Hotels in Abu Dhabi recorded an increase in occupancy of 12.7% compared to the previous year, to record a healthy 65.7% as of October 2013. Although the average daily rates (ADR) slightly declined by 2.1% to US$ 107.51, the Revenue Par Available Room (RevPAR) of US$ 70.65 showed a growth of 10.4% year-on-year.

- As of October 2013 year-to-date, Dubai reached an impressive occupancy rate of 78.8%, which is an increase of 3.8% compared to the previous year. The (ADR) also improved by 4.3% to reach US$ 180.85, resulting in a RevPAR growth of 8.2%, improving this key performance indicator to US$ 142.55.

- For many years, the government has heavily promoted Dubai as a summer holiday destination and this year saw the re-launch of the "Summer Is Dubai" campaign, a 13-week promotion during the summer months, as Dubai continues to be eager to become the most sought after travel destination in the world.

BUSINESS SCENARIOS FOR 2014 AND BEYOND:

One of the greatest recent achievements of the Emirate of Dubai is its successful bid to host the Expo 2020, which was officially announced at the end of November 2013. It will be the first time that this reputable event will be hosted and organized in the Middle East and bears testament to the progress of Dubai and the world-class facilities it has developed in the last decade.

Even before the victory, Dubai had a bold vision to attract 20 million visitors annually, which will now be complemented by the Expo. During the six-month event, it is expected that approximately 25 million tourists will visit the destination and the Expo will act as a catalyst for the ongoing diversification and strengthening of Dubai's profile. Apart from the immediate impact on business confidence, several new infrastructure and project investments will materialize in the preparation phase of the event starting next year.

The hotel and tourism industry will directly benefit from the event, and it is anticipated that approximately 10,000 hotel rooms need to be constructed to accommodate the additional demand.

As the majority of Dubai's existing hotel supply is positioned in the luxury or upper-upscale market segment, we expect an increased momentum in the development of hotels in the midscale and budget segment where there is a clear requirement. This is further substantiated by the announcement that the Dubai Department for Tourism and Commerce Marketing will waive the 10% municipality fees, which are charged on top of the room rate, as a financial incentive granted to investors who develop 3 to 4-star hotels.

In addition to midscale and budget hotels, there are several promising and still untapped development options in the hotel market in Dubai:

- Extended stay hotels (hotel apartments, all-suite concepts);
- Lifestyle accommodation, such as Motel One, Moxy, Ruby Hotels or Citizen M, currently penetrating the European or US market;
- All-inclusive hotel concepts.The recent success of Dubai will again bolster the growth and re-shape the hotel industry in the Emirate.

Van Phan is a Consultant at Horwath HTL Singapore. She is responsible for conducting feasibility studies and valuation, advising clients on potential hotel and resort developments including market analyses, facilities recommendations and financial projections. Prior to joining Horwath HTL, Van was part of Starwood Asia Pacific's team, looking after Pre-Opening, New Builds & Transitions.

VIETNAM

by ***Van Phan***

2013 SNAPSHOT:

- The slow-growth economy saw stabilized inflation at 6.7% in June 2013 (compared to the peak 23% in August 2011), a steady exchange rate and increased reserves.
- According to the 2013 ASEAN Business Outlook Survey by AmCham Singapore, Vietnam is the most popular location for investment expansion in the region (57%) due to its low wages, favorable demographics, strategic location and political stability. Thailand is the next favored destination at 11%, followed by Singapore at 8%.
- At year-to-date October 2013, international arrivals to Vietnam grew by 14% to record approximately 6.1 million arrivals. China continues to be the largest feeder market (41% increase YoY to 1.5 million arrivals). Russia is the fastest growing market (66% increase YoY to 230,000 arrivals). The country is targeting 7.5 million arrivals by 2015.
- According to STR Global, year-to-date September 2013, the 3- to 5-star hotel market in Hanoi and Ho Chi Minh City (HCMC) saw occupancy increase to 66% and 67%, but ADR decrease to US$ 108 and US$ 120, resulting in YTD RevPAR increasing by a marginal 2% and 1% YoY, respectively.

BUSINESS SCENARIOS FOR 2014 AND BEYOND:

Despite government efforts to stimulate the economy through tax breaks and accommodative monetary policy, Vietnam's economy has not been able to jumpstart from the growth slowdown. Vietnam's real GDP growth is forecasted at 5.3% in 2013 and 5.4% in 2014. Without broad structural reforms, Vietnam will be facing the threat of long, slow growth, which eventually will undermine investor confidence and further worsen growth prospects.

On the positive side, Vietnam, together with Thailand, Cambodia, Laos and Myanmar, recently launched the "Five Countries–One Destination" Single Visa scheme under the Ayeyawady-Chao Phraya-Mekong Economic Cooperation Strategy, which allows non-ASEAN tourists to travel freely across their borders. By 2015, these 5 countries expect to receive 50 million international arrivals. Vietnam will certainly benefit from such synergies.

According to STR Global, the hotel supply pipeline for Vietnam year-to-date September 2013 stood at 46 hotels representing about 10,000 rooms, mostly expected over the next three years.

HCMC outlook: Due to the lack of tourism infrastructure in HCMC, repeating international tourists prefer to travel directly to other tourist places without transiting in HCMC. After a breakthrough in 2010/11 with more than a 10% increase in ADR and RevPAR, the hotel market in HCMC has not succeeded in maintaining this growth. However, acting as a gateway to Vietnam, HCMC should continue to experience growth in arrivals, allowing for sustained occupancy levels in the range of 65% to 70%.

Hanoi outlook: Upon completion of Terminal 2 in April 2015, Noi Bai International Airport will be able to handle 16 million passengers per annum and compete with Tan Son Nhat International Airport in HCMC as the preferred gateway to Vietnam. Hanoi remains an attractive destination for international tourists given its historical and cultural elements. With the entrance of international branded hotels, including the Hilton Garden Inn, JW Marriot and InterContinental Landmark 72 in 2013/14, the hotel market ADR is anticipated to increase due to high price points from this new supply, but market occupancy will be negatively affected in the short run.

AUSTRIA

2013 SNAPSHOT

- Tourism's contribution to Austria´s GDP is 7.3%. GDP grew by 0.8% in 2012, while the budget deficit rose to 3.1% of GDP. The actual unemployment rate of 4.3% remains the lowest within the EU. Current inflation rate projections are below 2%.

- Government elections took place in October 2013, and the "grand coalition" remains in effect, holding slightly more than 50% of all the seats in parliament. The biggest issue facing the new legislation period is the high budget deficit.

- The 2013 summer tourism season saw a 1% increase in overnights. The number of foreign visitors increased by 3.6%, with visitors from the UK (+9.4%), Russia (+9.5%) and USA (+6.6%) providing the biggest increases in terms of origin.

- A third of the 66 million overnights were recorded in 5 and 4 star hotels. The chance to blow the 2012 record figures (131 million overnights and 36.1 million arrivals) in 2013 again is high.

- The global 2013 Travel & Tourism competitiveness index has ranked Austria 3rd.

- The hotel investment market saw a number of individual transactions amounting to € 430 million in the first half of 2013 – a new record.

- Accor remains the top performer of the hotel management companies active in Austria and was rated AA in the latest issue of the Horwath HTL Investment Ranking 2013. Rising star is Motel One with its trendy design budget concept, whereas Falkensteiner was downgraded.

- The performance indicators for the upper quartile of family owned 5/4 star hotels in 2013 are: € 3.5 million annual revenue potential or € 141 RevPAR and 80% bed occupancy, resulting in 30% GOP or € 13,000 per room and 15% EBITD.

BUSINESS SCENARIOS FOR 2014 AND BEYOND

As for the tourism outlook for 2014, Austria will continue its positive trend. This strong performance is driven by factors like tourism infrastructure and health & hygiene standards. Austria´s rich cultural resources, the affinity of the Austrians for tourism, sustainability and environmental issues will foster its excellent international reputation. It is also likely to become the predominant destination for spa and medical tourism purposes.

Austria´s capital Vienna is Europe´s 7th largest city and also known to be one of the world's most liveable cities. ADR and RevPAR figures still do not reflect its potential; Vienna ranks no. 2 in the world for hosting international conferences, for example. In addition, the city will see an increase of 13.6% in current hotel room supply or up to 33,300 rooms until 2015, with the majority in the budget segment. The question remaining is whether demand will be in line with supply and how the segments will be influenced by each other.

Austria will further strengthen its position as a safe place to invest resulting in rising prices in all areas and segments. Especially the value of luxury hotels is already far above replacement costs (especially trophy assets in Vienna). Besides Vienna, cities like Salzburg or Innsbruck and destinations in the provinces are on the radar of investors. Especially private investors with CEE, Middle East and Chinese origin are investing in Austria these days. Hotel management companies like Accor are contributing to the positive investment outlook by their on-going portfolio adjustment strategy.

New hospitality products are entering the Viennese market. While in the past few years, developments mainly focused on luxury hotels, boutique hotels and the budget segment, the upcoming hospitality product development trend is the so-called virtual hotel, like the recently opened "The Guesthouse" in Vienna. The concept is simple: all guests enjoy the "at home" atmosphere in combination with the service quality of a hotel.

__Gerald Kroell__ is Managing Director of Horwath HTL Austria. He graduated from the University of Applied Sciences in Krems in the program "Tourism Management & Leisure Industries". He gained over 15 years of experience in the national and international hospitality industry, where he held various positions up to General Manager, and is also experienced in sustainable and strategic destination development.

by ***Gerald Kroell***

Austria´s holiday destinations will continue to focus on infrastructure projects in order to extend the summer season. While in the past, every destination aimed for its own conference center or public spa, now mountains are being "themed", e.g. especially for kids or sports & action.

One of the main challenges for 2014 and beyond is that of succession in the case of family owned businesses. Estimates project that up to 30% will fail in finding a proper successor. Also, the green-field condominium development remains strong, especially in Alpine regions. Initially discovered to increase equity capital for redevelopments (e.g. extension or renovation of existing hotels), condos are a very popular investment for individuals, mainly from Austria´s key markets. This development represents a tremendous risk for the traditional and existing hotel supply, considering constantly shrinking GOPs, price policy and the overwhelming supply of condos in some regions - not to mention the eventual end of the EU low interest rate policy.

*As senior consultant with Horwath HTL, **Marco van Bruggen** has carried out over 150 market analyses, feasibility studies and valuations for stand-alone and mixed-use projects including hotels, meeting centers, golf courses and leisure facilities in The Netherlands, Belgium and Luxembourg, in addition to coordinating the annual Hotel Statistics (HOSTA) for the Benelux.*

BELGIUM

*by **Marco van Bruggen***

2013 SNAPSHOT

- Belgium started 2013 with a new government at last, almost 18 months after the general elections. However, tensions between the Flemish and Wallonian segments of the country continue to threaten the political stability.

- The economy in Belgium declined by 0.3% in 2012, and remained flat in 2013. For 2014-2018, an average economic growth of 1.3% is projected.

- Paralleling the economic development, the occupancy levels have remained stable in 2013, despite a slight decrease in the first half of the year. In the capital city of Brussels, the average occupancies still ended up slightly lower than in 2012.

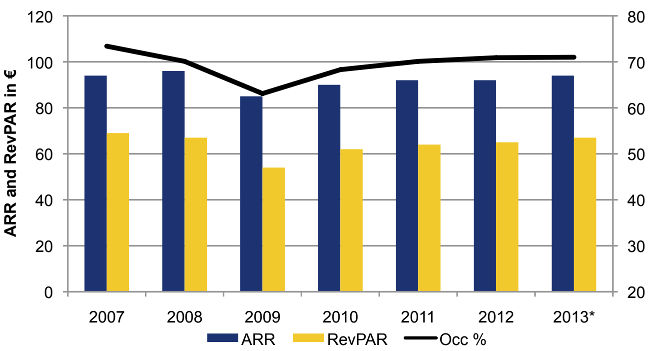
- With a stable occupancy, the Belgian hotels were able to increase the average room rate by approximately 2%, resulting in an equivalent increase in RevPAR. In Brussels, the increase in the average room rate was also approximately 2%, but due to the lower occupancies the increase in RevPAR was only 1%.

BUSINESS SCENARIOS FOR 2014 AND BEYOND

Following the flat economic growth of 2013, the economy's projected growth in 2014 is expected to be visible in the development of the demand for hotel rooms in Belgium as well. The growth rate for national room nights is expected to remain relatively low in 2014, but to increase more in the following years. As a result, both occupancies and average room rates are expected to increase, in Brussels as well as in the rest of the country.

Following the relatively stable market developments of the past years, a number of new hotel initiatives have been announced, within and outside the capital. In Brussels, the recent past has shown that new hotel additions can be absorbed by the market with relative ease. Along the Belgian coast, a number of new hotel developments have been announced, often much larger than the existing hotel market in the coastal area. While the local hotel market is certainly due for an update of the hotel supply, it remains to be seen whether the new additions can generate enough demand and be absorbed by the market without creating a permanent imbalance of supply and demand.

Occupancy, Average Room Rate and RevPAR 2007-2013



Source: Horwath HTL

[Ružica Herceg](#) joined Horwath Consulting Zagreb in 1998, after a professional career in the banking sector, as well as in the first Croatian management company, Croatian Hotels and Resorts. Her main areas of expertise include best use concepts, privatizations, market studies, strategic planning, programming and planning in hospitality, portfolio management, restructuring, organizational issues, feasibility studies.

CROATIA

by ***Ružica Herceg***

2013 SNAPSHOT

- Despite a significant slowdown in GDP and ongoing recession, 2013 has witnessed an increase in the performance of the Croatian hotel sector.
- This is due to the dominance of leisure Adriatic business, which in the last three years grew in terms of tourist arrivals by around 5% and in hotel bed-nights by around 4%.
- The cities of Dubrovnik, Split and Zagreb saw double-digit growth in overnights, which also contributed to the revival of the Croatian hotel sector.
- Hotel KPIs are predicted to show moderate growth rates in 2013 and are primarily driven by price increases achieved. As a result, RevPAR has increased by around 4%, mainly driven by ADR, with occupancy increasing only marginally.
- New hotel developments and their financing still remain subject to strict risk requirements from banks. However, in order to boost new developments, the Croatian government has introduced a set of incentives in the form of favorable loan terms and tax breaks.
- Compared to last year, in 2013 we are experiencing increased investment and transaction activity in the market, mainly driven by banks' disposing of non-performing hotel assets and the Croatian government also disposing of hotel assets through a pre-bankruptcy procedure.
- In addition, there is also increased investment activity on the part of the Funds for Economic Cooperation, with significant appetite for investing in the tourism sector. There are good reasons to believe that they will continue to play an active role in 2014 as well.
- Despite the rather increased appetite for hotel investments in Croatia, transaction activity still remains at low levels, with resultant upward pressure on the purchase of brown-field investments, primarily.

BUSINESS SCENARIOS FOR 2014 AND BEYOND

Given a weak economic outlook projected for 2014, tourism receipts are expected to continue playing an important role, helping the current account balance. However, with the major European markets reviving, we expect to see continuous moderate growth of tourism overnights in Croatia.

We are anticipating that alongside the major Croatian coastal cities, which continue to record constant tourism growth, new "rising stars" will appear in the market, such as Zadar, Rovinj, Šibenik, Korčula and Hvar.

The mood of hotel developers still appears to depend on the tight global financing conditions and/or an increased country risk spread, despite the government's actions to incentivize those investments. In this sense, new announced hotel developments relate to the refurbishment of existing hotels, and a few high-end and luxury hotel openings in he most attractive Croatian destinations.

Despite this gloomy economic forecast, there appears to be interest on the part of investors wanting to secure safe investments in the hotel sector in the EU zone. In addition, international hotel companies are eager to expand their brand portfolios more assertively in the region.

Due to the government's strong dedication to attracting new investments in the key economic sectors, we are expecting an initiation of new hotel green-field investments in the most attractive Government locations. However, the success of future developments and investments in hotel and leisure-related projects will lie in the readiness and speed of the Croatian government to ease the administrative barriers and persistent land regulation issues.

Christos Michaelides holds an MBA from Nuremberg University in Germany. He has over 25 years experience in the fields of market research, strategic planning and marketing, organization and operations, specialized in Hotel Tourism and Leisure. He is President of the Cyprus Management Consultant Association, Vice President of the Industrialist and Employers Federation, Vice President of the Cyprus-Greek Business Association, Member of the Board of the Cyprus Ports Authority, Member of the board of the Limassol Chamber of Commerce and ex-President at the Cyprus Opinion Poll Enterprises Association.

CYPRUS

by ***Christos Michaelides***

2013 SNAPSHOT

- Although initial estimates had indicated that 2013 would be a good year, the Eurogroup's March decision on a Cyprus bailout made it "a hard year for the economy" and "a difficult year for tourism".
- The island attracted 1.99 million visitors between January and September 2013. Compared to 2012 figures for the corresponding period, this year recorded a decrease of 3.3%; however, tourist arrivals for September 2013 alone reached an increase of 6.7% and revenue generated from the busy holiday month of July alone reached €338.6 million.
- The British holidaymaker continues to play a vital role for the Cypriot tourism, accounting for around 1 million visits to the island. However, a slight decrease of 1.5% in tourist arrivals was recorded from the United Kingdom this year.
- The drop was counterbalanced by a newly emerging Russian market, from which arrivals rose 25% on an annual basis as tour operators put on extra flights.
- The government decided to start the procedure for granting a license for a resort casino with specifications of the same standards as those of the biggest casinos around the world.
- Russia has given the green light for additional flights to Cyprus during the winter season, following the decision to liberalize the air routes between the two countries.

BUSINESS SCENARIOS FOR 2014 AND BEYOND

Despite predictions of its demise as an international business center by its competitors and detractors, Cyprus is determined not to waste this crisis, but to turn it into an opportunity to become a more competitive jurisdiction.

Investment in multipurpose developments such as casinos, luxury marinas and golf courses are part of a wider project to upgrade the Cypriot tourism product. There is a clear scope to extend the tourist season beyond the popular summer months and add to the 2 million holidaymakers currently visiting Cyprus each year. Key investment possibilities are in special interest areas such as medical tourism, sports, nautical and agro tourism, conferences, theme parks and managed attractions.

A new potential area of investment is the development of state-of-art casinos. So far, the Finance Ministry has put together a proposal for one license for a "high quality" casino – preferably in a tourist area. The annual turnover of online gambling in Cyprus is reported at around €2.5 billion and politicians and hoteliers alike have welcomed the proposals on the operation of casinos, which could open up a new stream of investment and revenue. As part of the proposal, the Finance Ministry is calling for the establishment of an independent casino supervisory authority and a strict legislative framework.

A major luxury marina project is being developed in Cyprus' coastal city of Limassol and more marinas are planned for Paphos, Ayia Napa and Larnaca, providing residential and retail investment opportunities. Cyprus also currently has four 18-hole international standard golf courses, and the government plans to award permits to bring the total number to 11, turning the island into a golf destination choice.

With the liberalization of the air routes between Russia and Cyprus, 800,000 Russian tourists are expected to visit Cyprus through May 2014. This fact will decrease seasonality and will contribute to the decrease of unemployment during the winter period.

Philippe Doizelet is Managing Partner of Horwath HTL based in Paris. Before joining Horwath HTL, he was Corporate Head of Research at Accor. Philippe's business skills include market and feasibility studies, due diligence services, appraisals and hospitality strategy. Philippe held positions as senior consultant with KPMG Leisure and Tourism and was Strategic Project Manager with Europcar International car rental, and has over 25 years of international experience in the hospitality, tourism & leisure sector.

FRANCE

by ***Philippe Doizelet***

2013 SNAPSHOT

- At the level of the overall French economy, the hotel climate remains stable.
- As per STR Global data, French RevPAR growth as of YTD October 2013 remains moderate at €112 or +1.6% versus 2012.
- Prospects for full-year 2013 confirm RevPAR growth in the range of 1.5% to 2.0%. This performance in RevPAR is driven mainly by ADR growth, whereas occupancy remains stable.
- ADR is being pulled up by the upscale and luxury segments, which are demonstrating a capability to increase their rates above inflation.
- France remains the second largest European market for hotel transactions, including sell and management back deals from hotel groups and trophy assets.

BUSINESS SCENARIOS FOR 2014 AND BEYOND

Historically, the evolution of French RevPAR has been influenced by the growth in GDP and major events like the soccer World Cup in 1998 or the rugby World Cup in 2007. No such major event is scheduled in France before the soccer Euro in 2016 and the Ryder Cup in 2018. However, the perspective for 2014 is rather better than in 2013. Prospects for 2014 indicate a forecast of GDP growth of 1.2% comparing favorably with the 0.1% growth rate in 2013. In this context, RevPAR growth for 2014 could be in the range of 2% - 4%, depending on the price sensitivity of demand.

Another important factor will be the VAT increase on hotels taking effect on 1 January 2014. For years, the French VAT rate applicable to hotels was 5.5% on rooms and 19.6% on F&B. In 2009, the Sarkozy government aligned F&B with rooms at 7%, except for alcoholic drinks which remained at 19.6%. The new reduced VAT rate of 10% will apply to hotels and restaurants, whereas the regular VAT rate of 20% will apply to alcoholic drinks (19.6% today).

With this reform, France demonstrates its unstable environment on top of its very complex fiscal regulation. This intervention follows massive tax increases in 2012 and 2013, and will impact the profitability of the hotel sector in 2014. At the same time, labor costs remain very high, whereas recruiting qualified hotel staff is increasingly difficult despite massive unemployment.

Yet the country remains the number one tourism destination worldwide, and Paris the leading destination for international events. Although challenged in its status of global leader, France remains attractive to hotel investors, and sustained hotel values witness the resilience of the French hotel market.

From a development standpoint, French hotel supply has remained stable in volume for several years now, and a significant share of this supply is obsolete. Key opportunities are to be found, knowing France will remain characterized by a two-gear hotel market: On one hand, the Paris region, and to a lesser extent the French Riviera, driven by global business and leisure dynamics, are solid markets. On the other hand, regional markets are more volatile, but could be looked at opportunistically if well located in a city center and/or in a market renewal perspective.

__Tom Goldscheider__ has held senior management roles with international deluxe hotel corporations such as Swissôtel, Jumeirah, Hilton and Carlson Rezidor for more than 15 years. He brings a wealth of experience in the fields of marketing, brand development, sales & revenue management to the table. Tom has a strong track record in opening and re-branding of hotels and their positioning in their market place, as well as strategic business planning.

GERMANY

by ***Tom Goldscheider***

2013 SNAPSHOT

- Since 2010, Germany's tourism has been going from strength to strength, with countrywide overnights breaking the barrier of 400 million in 2012 and the year 2013 promising to outperform previous achievements.
- Berlin claims a bold 3rd position in European overnight numbers, with more than 25 million overnights, just behind Paris and London. Together with Hamburg and Munich, these three cities account for 12% of all German overnights.
- Strong increase in supply is to take place across 8 key destinations, with Berlin alone adding another 4,900 rooms by 2016, plus another 1,950 planned to be developed.
- Germany is considered a "safe haven" for foreign investors, who made up 80% of all hotel transactions totaling €1.26 billion in 2012. Transaction volume in 2013 will have increased by ca. 50% year on year. Single asset transactions form the largest part as opposed to portfolios.
- New budget "lifestyle" brands continue to emerge. Key players such as Motel One have dramatically changed the German hotel landscape and reformulated travelers' expectations in terms of value for money in city center locations.
- Double-digit growth was experienced from visitors originating from China, Russia and the Middle East. Chinese hotel brands & developers have entered the market to capture their share of the business.

BUSINESS SCENARIOS FOR 2014 AND BEYOND

Germany is a beacon for foreign investors, given its strong economy and tourism outlook. Cities on the radar are Berlin, Düsseldorf, Frankfurt, Hamburg and Munich, where 70% of the investments in Germany are made.

Since the reduction in VAT for hotels from 19% to 7% in 2011, Germany has benefited from a considerable increase in occupancy. There is however a likelihood that the reduction will be revoked with the new government coming into office in 2015.

Nevertheless, key municipalities have continued investing in major events, fairs and congresses that appeal to domestic and international travelers. Further investments in infrastructure have helped diversify the touristic offering, addressing an affluent clientele, such as Russians and Middle Eastern visitors.

The outlook for Germany looks bright! Germany has an excellent price/performance ratio in hotel accommodation and remains Europe's strongest investment market for new hotel projects. Established international brands are seeking to enter the market, especially in the budget to mid-market segment, with new national lifestyle budget brands flourishing in key cities as well as in resort regions. In the long run, this "new breed" of low-budget design hotels will displace the family-run private hotel industry.

Given the relatively low percentage of branded hotels, we do believe that now is the right time to invest and enter into Germany. There is tremendous potential for well-established brands to capture their fair share of travelers, given the current structural changes.

A decentralized market, Germany boasts 15 strongly performing destinations and a large portfolio of B and C destinations that all offer opportunities for sustainable development.

Given the size of Germany and its variety of destinations, market entry needs to be thoroughly planned and implemented.

__Marius Gomola__ is Managing Director, Horwath HTL Hungary & Horwath HTL Russia. He built his hospitality industry management and consulting experience in Canada with leading hospitality companies, and has now been involved in over 1000 projects including a wide range of feasibility assessments for hotels, resorts, serviced apartments, youth hostels, golf courses, conference centers, spas, and vacation ownership developments on four continents.

HUNGARY

by ***Marius Gomola***

2013 SNAPSHOT

- Hungary continued to attract more visitors during 2013 than in the previous year.
- The country remains a predominantly one-destination market, with Budapest attracting the largest number of visits, particularly from abroad.
- The economy has experienced slow growth, but the purchasing power of the domestic market has a long way to recovery to pre-crisis levels (2007).
- Hungary has not been the darling of the international media, which has had an impact on its ability to attract investment.
- Hotel occupancies increased, but any increase in price levels was too subdued to make a real difference.

BUSINESS SCENARIOS FOR 2014 AND BEYOND

2014 is an election year, so until after June, not much is expected in additional investment and economic activity.

Spa, particularly wellness, and to a smaller degree medical tourism remain a clear attraction, with Hungary sitting on the largest supply of thermal springs in Europe. The focus on growing the spa segment requires the removal of obstacles. Committing resources to understand the real needs of this segment to prepare a strategy on the basis of which products and services can be developed would be the first step.

Hotels in general are over-burdened by financial obligations, which have resulted in the renegotiation of loan schedules for many. The banks, due to the overwhelming number of “problem properties”, have shown flexibility to take losses, but the owners have not, and for transactions to take place, this needs to change in 2014 to bring fresh equity into the industry.

To increase real estate value, hotel prices need to grow. The dominant individual and group leisure business needs to be balanced by a greater share of corporate and MICE. The latter is on the decline also due to the bankruptcy of the national airline in early 2012.

Budapest is the best value among key competitors, such as Prague and Vienna. As they also continue their healthy growth, Budapest suffers from self-inflicted wounds as the city cannot break out of its own price trap. The government, however, with the use of significant EU funds, is spending substantial resources on making the city more attractive. Numerous sports facilities, cultural centers, and educational institutions are being rebuilt.

Although there is no evidence of a national carrier being established again, low cost airlines do make the city increasingly more accessible; however, they cannot replace the importance of a national full-service airline, which is also vital for MICE business.

The current government, if reelected, promised the investment in a convention center to be completed within the next four years.

A new government-sponsored lending program with subsidized interest rates will also seem suitable for the improvement of existing hotels and the extension of capacities or the addition of facilities and attractions.

Overall, optimism is on the horizon, so let’s see how the industry can cook with the limited ingredients in the kitchen. As creativity goes a long way, many times resulting in great surprises, we might just be in for a good ride in 2014.

__Anne Walsh__ is Director, Horwath HTL, Dublin. She specializes in the areas of business planning, strategic reviews, asset management, cash-flow management, property benchmarking and project finance.

IRELAND

by ***Anne Walsh***

2013 SNAPSHOT

- The Irish hotel industry has built on the improved performance in 2012 with a fourth consecutive year of RevPAR growth predicted for 2013.
- Profitability is expected to increase as hoteliers manage to grow business while controlling costs.
- Ireland continues to see a twin-track recovery with the Dublin market out-performing regional hotels. Dublin is ranked in the top five European cities in terms of annualized RevPAR growth.
- Overseas visitor numbers to Ireland in 2013 experienced year-on-year growth of over 5%. Visitor numbers have increased from each of the key markets – Great Britain, mainland Europe and North America.
- A number of Irish hotel properties, many located in non-traditional tourist locations, remain reliant on the price sensitive domestic tourist.
- The Gathering, the government's flagship tourism program, has attracted some 250,000 visitors and exceeded its target of a €170 million boost to the economy.
- The hotel transaction market has experienced significant recovery, with domestic and international investors taking advantage of reduced asset values and the projected improvement in performance. By the end of 2013, in excess of 25 hotels will have sold, to include Fota Island Resort, Trinity Capital Hotel, Ashford Castle, Clarion Hotel IFSC and Clarion Dublin Airport.

BUSINESS SCENARIOS FOR 2014 AND BEYOND

The projections for 2014 are positive. Hotels throughout the regions are reporting an increase in booking pace. RevPAR in the Dublin market is forecast to continue to increase, albeit at a slower pace.

Dublin, as the digital hub of Europe, is set to benefit from an increase in business activity as a number of multinational companies based in the city such as Google, Facebook, Twitter and Yahoo continue to expand.

The reduced VAT rate of 9% for goods and services related to the tourism sector has been extended for another year. An estimated 15,000 jobs were created in the restaurant and tourism industry since the VAT rate was initially reduced in 2011. It is expected that a further 5,000 jobs will be created in the coming 12 months due to the retention of the current VAT rate.

A recent Consumer Sentiment Index has shown a 6-year peak with respondents predicting improvement in the general economy for 2014. A positive business sentiment survey also shows that firms are anticipating an improvement in economic conditions in 2014.

Overseas visitor number predictions show growth with Ryanair guaranteeing an additional 1 million passengers in 2014 and 2015. Ryanair have launched new routes following the Government's decision to scrap the €3 airport travel tax in 2014. Aer Lingus have also announced additional routes with transatlantic capacity to increase by 24% in 2014.

The high level of hotel transactions is expected to continue into 2014 as the banking sector continues to deleverage – particularly international banks seeking to exit the market.

The recovery in the Dublin market is precipitating the prospect of additional development of hotel stock to match the increase in demand.

*<u>**Zoran Bacic**</u> is Senior Partner and Managing Director of Horwath HTL in Italy. He studied economics in Croatia and Italy. He has been the team leader on various development and research projects, and was Company Founder and Development Department Manager for the nautical tourism company Adriatic Club Yugoslavia. In Italy, he was the business development manager for prime construction companies in the infrastructure sector. In Austria and the UK, he served as business development and financial advisor in the investment banking sector. Since 2009 he.*

ITALY

by ***Zoran Bacic***

2013 SNAPSHOT

- In 2013, Italy suffered the fall of its domestic market, especially in the midscale and upscale segment, less evident in luxury. On the contrary, international arrivals have grown, with arrivals from outside the EU increasing by about 4% compared to 2012. Significant increase has been registered from the Middle East and Russia.

- Industry fundamentals in major cities partially recouped 2012's weak results: +0.6% in occupancy and -2% in ADR in 2013 (YTD) vs. 2012. The luxury scale outperformed the average with +0.4% in occupancy and +0.3% in ADR.

- Best performing cities in terms of fastest recovery from 2012 were Venice, Rome, Florence, Genoa, and Bologna.

- Capacity in terms of numbers of hotels has slightly declined, but the average dimension of the properties has grown, following the trend that started in 2010: budget and economy scale is reducing while the upscale capacity has significantly increased, with over 20% of overall capacity (by room) concentrated in the upper and luxury scale.

- The second half of 2013 also saw a number of relevant transactions or negotiations in Rome and Venice by Middle Eastern sovereign funds, private Arab and Russian investors, targeting trophy assets in top-notch locations, most frequently big branded properties.

BUSINESS SCENARIOS FOR 2014 AND BEYOND

Extra-European markets will stimulate demand in 2014 (+6.6%), with consolidation of the Japanese and US markets, according to a major national tourism watch. There will be a further increase of flows from Central Europe. No evidence of recovery of the domestic market is given, but Italian demand should not fall further.

2014 will see a boost in the presence of international hotel chains, totaling over 60 brands already in the country today and over 63,000 rooms. Some Asian and Middle Eastern brands have pipelines in place to enter Italy during the year ahead.

An evident trend towards restructuring and upgrading of properties, already underway, might be fostered by new "seasonally planned" loan schemes, recently approved by trade unions and a major bank, with a budgeted fund of € 300 million. The government's strategic plan for 2020 for tourism strongly focuses on improving hotels' physical standards.

Middle Eastern, Russian and Asian investors will be on the way to finalize relevant negotiations, especially in the luxury segment. Focus will be on hotels, wine and organic farming, resorts and marinas. An expected sale of a huge portfolio of real estate assets from the Italian government could be the driver of relevant opportunities for development.

Milan will continue to be the focus of developers as the 2015 Expo international exhibition gets closer, but pipelines might lead to excess capacity, which could be critical to place in the market after the exhibition, even though the city could retain a certain business vitality for the immediate future.

New hospitality formats and mixed use will spread in Tuscany and the Lakes (Como, Garda), as fractional ownership and serviced villas become more familiar to the market and legislation slowly adapts in some key regions.

Horwath HTL Italy foresees no significant change in sector fundamentals for 2014, with steady pricing and a very small or no increase in occupancy.

__Ružica Herceg__ joined Horwath Consulting Zagreb in 1998, after a professional career in the banking sector, as well as in the first Croatian management company, Croatian Hotels and Resorts. Her main areas of expertise include best use concepts, privatizations, market studies, strategic planning, programming and planning in hospitality, portfolio management, restructuring, organizational issues, feasibility studies.

MONTENEGRO

by **Ružica Herceg**

2013 SNAPSHOT

- GDP for 2013 is predicted to record moderate growth rates, with the economy heavily depended on tourism, as a major growth driver.
- Montenegro tourism has experienced significant growth rates: from 2007 to 2013, overnights have been increasing annually by 6% on average. However, high seasonality is still one of the major features of Montenegro tourism.
- Currently tourism infrastructure in Montenegro is very diverse, in terms of type and quality of supply. It consists mainly of three categories:
  - o low to mid-quality level private accommodation,
  - o mostly 3 star hotel accommodation,
  - o several high end hotels and resorts, with more in the pipeline.
- Hotels account for 25% of the total number of overnights in Montenegro, with a rather small share of branded hotels. However, the indicators show that the average hotel category in Montenegro is gradually increasing.
- Most of the hotels in Montenegro are leisure hotels. Occupancy rates are much higher in high-category hotels.
- Given the very friendly investment environment and competitive tax system, new inflows of FDIs are also expected as a result of the post-crisis recovery and a favorable investment climate created by the government.
- The profile of Montenegro as a destination has risen steadily in recent years, enhanced by its reputation as one most friendly investment destinations.
- There are a number of new projects and developments announced in Montenegro that will increase the share of branded hotels: Regent in Porto Montenegro; Hilton, Kempinski, Banyan Tree in Sveti Marko-Tivat; and One&Only have announced projects, and a number of others are in different development stages.
- One of the major investments in European tourism is earmarked for Montenegro, with an investor's commitment to invest half a billion Euros in a prestigious resort.

BUSINESS SCENARIOS FOR 2014 AND BEYOND

With new announced hotel openings, we expect a shift in the quality structure of accommodation supply: the supply concept has been changing from the mass low-yield to higher class supply. The process is connected with the upgrading of existing hotel and resort facilities, as well as new green-field tourism projects, located along the coast.

In parallel with the supply development (i.e. the development of new resorts and hotels and the privatization of state-owned tourism companies), it is expected that tourism will shift from mass, low-value sun & beach products, targeting mostly eastern European demand, towards high-quality year-round tourism, offering upper or high-end products and targeting a wider market.

A major role in the future development of Montenegro tourism will be played by international hotel brands and management companies that will put Montenegro on the global map and create the critical mass that will entice more airlines to come. This will significantly enhance the image, attractiveness and global positioning of the country.

The Montenegrin government will continue to play an important role in influencing the course of tourism and green-field investments, and in this sense has centralized the management of the coastal development.

*As senior consultant with Horwath HTL, **Marco van Bruggen** has carried out over 150 market analyses, feasibility studies and valuations for stand-alone and mixed-use projects including hotels, meeting centers, golf courses and leisure facilities in The Netherlands, Belgium and Luxembourg, in addition to coordinating the annual Hotel Statistics (HOSTA) for the Benelux.*

THE NETHERLANDS

*by **Marco van Bruggen***

2013 SNAPSHOT

- The recovery of the Dutch hotel market was held back by a new downturn in the economy in 2013. The economic growth, which had already slowed in 2012, turned into a decline in the first half of the year. Despite a minimal growth in the third quarter, the Gross Domestic Product is expected to show an overall decline of 1.25% compared to 2012.
- Despite the economic downturn, the demand for hotel rooms has continued to grow. The number of overnight stays in Dutch hotels increased by 1.5% in the first six months, and continued to grow in the second half of the year.
- At the same time, supply continues to grow at an accelerated pace. The total number of hotel rooms in the Netherlands increased by 4.3%. In Amsterdam alone, 1,700 new hotel rooms were added, an increase of 7.5%.
- As the increase in supply outpaced the increase in demand, hotel occupancies in the Netherlands decreased in the first five months of 2013. Fortunately, in the second half of the year, occupancies increased. By October, the year-to-date occupancy had increased by a full percentage point.
- Despite the increased occupancies, the average room rates decreased again in 2013. Compared to 2012, the ADR is approximately 1% lower. Combined with the increased occupancy, the RevPAR has remained more or less stable.

BUSINESS SCENARIOS FOR 2014 AND BEYOND

As a rule, the Dutch hotel market can be considered to follow the development of the economy. However, the order appears to have reversed in recent years. While the demand for hotels has increased in the last half year, the economy is still struggling. For 2014, a small increase (+0.5%) is expected for the Dutch economy, followed by a slightly higher increase of 1.5% per year in 2015-2018. Meanwhile, the economies of neighboring European countries have been doing slightly better, but are expected to show a similar growth rate in the coming years.

The demand for hotel rooms, however, has been outperforming the Dutch economy, leading instead of following on the path of recovery. For the coming years, the demand is expected to continue, building on both the global growth in tourism and the expected increase in business travel. MICE demand, on the other hand, has been slow to recover from the most recent crisis, and is expected to lag behind the recovery shown in the business and leisure segments for the coming years as well.

New hotel developments are continually announced, both in response to the observed recovery in the hotel market and as an alternative to the failing office real estate market in the Netherlands. Several municipalities, including Amsterdam, Rotterdam and Maastricht, have instituted policies that are aimed at limiting the number of new hotel rooms. For the city center of Amsterdam, an almost complete ban on new hotel developments has been announced, making locations with existing hotel permits even more sought-after commodities.

Per-Erik Winther is educated MBA at Norwegian School of Economics and Business Administration (NHH). He started (1975) and built up the hotel chain Inter Nor Hotels (Norway's largest at that time (in 1997 bought by Choice Hotels Scandinavia)). Since 1993 Per-Erik Winther has been partner in Horwath HTL - Norway.

NORWAY

by ***Per-Erik Winther***

2013 SNAPSHOT

- Total hotel guest nights 2013 are expected to reach ca 20 million, slightly above 2012 (19,8 mill.). This is a new peak number for the industry. Foreign travellers are estimated to account for ca 5 million guest nights, about the same level as the whole period since 1995, reducing the share of foreign nights to ca 25%.
- It is important to note that there have been significant changes in relation to the source markets, with the more traditional markets such as Denmark, the Netherlands, Germany and South Europe showing large declines, while the East Europe and distant markets increasing.
- Norway will have ca 1.100 hotels with ca 81.000 rooms by the year end. 2013 capacity has grown with ca 2%.
- Larger supply than demand means a slight decrease in occupancy to ca 52% average. 2013 average RevPAR is estimated to ca NOK 453 (Euro 54,50), minus 1,5%.
- Many resort hotels outside a "one hour time belt" around large cities have a difficult time. Conference organizers little travel time for effective meetings meaning a much smaller conference market for the majority of resort hotels. As many as 44% of resort hotels had negative result in 2013.

BUSINESS SCENARIOS FOR 2014 AND BEYOND

It is expected a slight slow down in the Norwegian economy for 2014. However a ca 10% weaker exchange rate (NOK/ Euro) is considered positive as to development of foreign tourism, which could reach 2013 level.

Norwegian hotel prices are continuing to remain competitive in most of the major foreign markets due to keen competition. Also improved efficiency over the years within both "software and hardware" management has resulted in a considerable increase in sold room nights per employee.

An important aspect to highlight is the continued growth of rooming capacities in the larger cities, therefore lowering room occupancy rates and raising competition between the hotels, consequently, negatively impacting overall revenues.

During 2013 the number of hotel rooms in Norway surpassed 80.000, by 2016 there is expected to be 86.000 rooms (plus 7%).

Nordic Choice operates the greatest number of hotels rooms (13.511), followed by Rica Hotels (10.149), Thon Hotels (9.769) and Rezidor Hotel Group (6.553). The 10 largest hotel chains control 70% of the guest nights in Norway, and an estimated 73% of room revenues in Norway, on par with previous years.

New low-price brands are expected to play a larger role in Norway. Smarthotel has introduced their new concept in Oslo and Tromsø and has more in the pipeline. The Norwegian controlled Moxy with financial backing from Ikea has plans for a European network. Scandic's new low price brand, HTL, have concrete plans in Sweden and Norway.

Janusz Mitulski is a partner Horwath HTL in Poland and vice president of the Chamber of Commerce of the Polish Hotel Industry. He has been active in the hotel industry for over 10 years. In addition to consulting, Janusz is the co-organizer and coach of the University of Hotelier (Akademia Hotelarza), author of "Hotel Guidebook", the only Polish guide for hotel investors, co-organizer of Hotel Trends, the largest hotel conference in Poland, and a speaker at many industry conferences.

POLAND

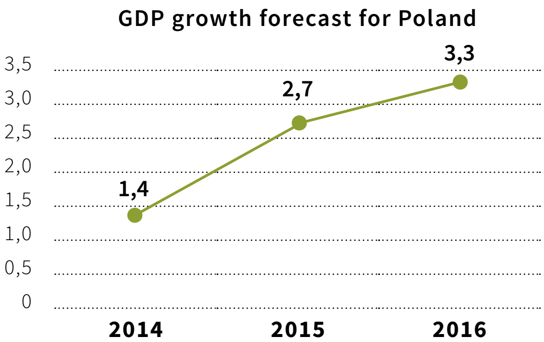
by ***Janusz Mitulski***

2013 SNAPSHOT

- Stagnation on the market in the first half of the year
- Relatively few new hotel openings
- Increasing number of reservations among foreign visitors
- Strong price pressure resulting in price stagnation
- Expansion of international hotel chains
- Numerous investments in holiday apartments

BUSINESS SCENARIOS FOR 2014 AND BEYOND

We predict that 2014 will be a period of very cautious and considered new hotel investments, and growth that began in the second half of the 2013 will continue. In 2014 it is predicted that about 60 new hotels will be opened, which compared to past years is not very impressive. However, the predicted growth of Poland's GDP and the increased number of foreign tourists allow us to anticipate a growth of hotel occupancy, ADR and RevPAR levels.



Source: OECD

We forecast that in the next few years, Best Western, Hilton Worldwide and Orbis/Accor will be the most active hotel chains in Poland. Up until 2015, four new hotels will enter both the Best Western as well as Hilton Worldwide chain. The Orbis/Accor chain, in turn, is selling its own facilities and incorporating new hotels on the basis of franchise agreements. Up until 2015, at least five facilities will be flagged as Orbis/Accor brands. International hotel chains in Poland do not show interest in lease agreements, and this will continue in the future. Besides this, we expect Choice Hotels, the InterContintental Hotels Group and Carlson Rezidor will also announce new projects in Poland.

In September 2014, Poland will host the FIVB Volleyball Men's World Championship, which may positively affect the hotel market in the host cities. No other considerable international events will take place in Poland in the following year. Polish hoteliers, however, may rely on the increased interest of foreign tourists accelerated by Euro 2012. New congress centers will be opened in Cracow and Katowice, which should create more MICE traffic to both cities.

Major cities invariably will be of interest to hotel investors. Development of hotels in the regional markets will be more restrained due to demand generated mainly by domestic visitors. As economic growth warms up, we expect the revenue in hotels should rise about 5 to 7% in 2014 compared to 2013.

__Michael O'Hare__ is Managing Director, co-founder and partner of Horwath HTL Hungary & Russia with over 25 years of UK and international hotel sector experience. Since 1989, he has specialized in CEE, Russia and CIS, and been involved in hotel projects in over 50 different cities in these markets. Michael graduated from the Shannon College of Hotel Management in Ireland in 1982.

RUSSIA

by ***Michael O'Hare***

2013 SNAPSHOT

- Despite a decline in GDP levels in 2013, Russia is still performing from a strong economic base which continues to be reflected in comparably good hotel trading performances in cities like Moscow and St Petersburg.
- In 2013, there has been a notable increase in city-wide occupancy in a number of the key regional cities as demand begins to catch up with new supply.
- With new entrants to the market from luxury to budget hotels, many more projects continue to remain in the pipeline awaiting finance. There is renewed interest in hotel real estate from domestic banks in 2013, but again with interest rates still high, short term loans and continued lack of interest in the sector from foreign banks, it results in depressing the rate of hotel development. Competitive financing is becoming all the more important as operating costs and in particular, payroll costs, continue to escalate thereby diluting return on investment.
- Competition amongst hotel groups is ever present as the market becomes increasingly competitive in terms of hotel operators offering a wider array of brand segmentation. There is now a much wider acceptance among investors for the need for brand diversification.

BUSINESS SCENARIOS FOR 2014 AND BEYOND

This is the year that Russia will be showcasing the Winter Olympics in Sochi, and despite adverse international press in recent months over a number of controversial issues, Russia knows it has to produce spectacular games and show how it has developed a world-class resort from very humble beginnings. Media exposure will be intense, and Russia will want to project itself in the right limelight, particularly in view of the fact that 11 cities will be involved in the hosting of the FIFA World Cup in 2018.

Lessons have been learned in Sochi, where development of the Olympic Village and mountain resorts has been tight and exceptionally expensive, as evidenced by the commencement of stadia and other infrastructure development already for 2018. It is no doubt a two-fold exposure through the eyes of the world media to project Russia and all its attributes as a tourism and business destination of the future, supported by the growth in low cost airlines and the anticipated relaxation of visas.

The next five years will provide increased growth of hotel supply and profile exposure of Russia through the forthcoming Sochi Winter Olympics 2014 and FIFA World Cup 2018 – significant infrastructural projects have been completed in the Sochi area, while activity in the selected 11 cities for the FIFA World Cup are underway and attracting investors already.

Will the heightened media exposure in 2014 encourage more interest in developing commercial and resort hotels and prove to be the year when major deals are signed allowing the development of several significant portfolios of hotel brands not only in Moscow but regionally? Will mid-market and budget hotel properties entering smaller cities continue to be a notable trend? Will Russian banks start to offer more realistic levels of interest on loans to expedite the number of international properties entering the supply chain? Will franchising start to become a more popular form of agreement between owners and operators? 2014 is a key year for Russia and the country will want to do everything necessary to bolster its standing in the international investment community.

__Victor Marti__ leads Horwath HTL's Spain, Andorra and Portugal offices. When he joined Horwath HTL in 2000, he brought to the company his extensive experience in the hotel industry, among others, as Development Director of a leading hotel group with 150 hotels throughout Europe. He is a graduate of IESE Business School and Cornell University.

SPAIN

by **Victor Marti**

2013 SNAPSHOT

- The Spanish tourism sector has proven to be, for one more year, the most robust and resilient sector of the Spanish economy. According to recent forecasts, 2013 will beat the record of tourists in Spain with 60 million tourists.

- Interest in well-located properties in Spain is high. 2013 has witnessed the massive presence of international investors keeping their eyes on the country's main cities and waiting for distressed opportunities that offer high-performing assets at affordable prices. Hotel investment figures in 2013 amount to 700 million Euros.

- Increased demand by the leisure market has compensated for falling MICE market demand in Spain. In spite of the decreasing market demand for MICE, Spain remains one of the top MICE tourism destinations worldwide.

- With regard to destinations, with three years of consecutive RevPAR increase, Barcelona remains at the forefront of the Spanish hotel industry, followed by Madrid. In terms of holiday destinations, the Balearic Islands' performance in 2013 has been excellent, with special mention to Ibiza-Formentera, followed by the Canary Islands, Costa del Sol and Costa Brava.

- Barcelona's growing popularity among international tourists cemented the city as a world's leading tourist destination. The city hotel supply has been growing steadily since the 1992 Olympic Games, supported by growing demand. Moreover, Barcelona has opened its market to an impressive diversity of products and concepts that range from hostels to boutique or luxury design hotels.

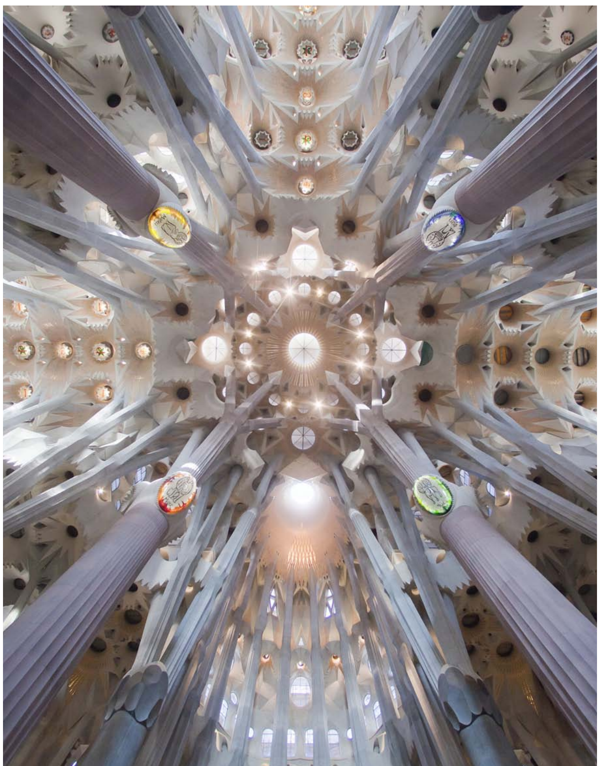
So far, Barcelona has managed to attract some of the world's leading brands such as W Barcelona, Mandarin, Hyatt, Marriott… 2014 will bring developing action, seeing Four Seasons, Morgans or Kempinski in Barcelona as well as new exclusive projects such as Ocean Drive.

BUSINESS SCENARIOS FOR 2014 AND BEYOND

Hotel transaction activity in Spain 2014 could be expected to rise, as confidence in the country's performance is stronger. Increasing interest by international investors, together with lower investment risks, might lead to higher transaction activity in 2014.

Together with increased confidence in the country's performance, in 2014 we will see much transaction activity coming from banks. The Spanish banking sector has been under EU scrutiny to start deleveraging. This process has already started in 2013 and in 2014 will lead to an acceleration of the banks' plans to sell hotel loans and assets.

Spanish hotel chains will increase their activity in Spain and in expanding markets. Debt restructuring and refinancing processes undergone by local hotel chains since 2008 have forced them to adjust their structures to the reality of the market. These restructuring processes have made Spanish local hotel chains more competitive, both in Spain as well as in international expanding markets.



Michaela Wehrle has been a Partner & Project Manager in Horwath HTL's Swiss office since 2010, where she focuses on project conceptualization and asset management in addition to being closely involved with transaction work. She has more than 15 years of international hospitality experience, having worked in various management positions in Austria, Germany, Spain, Switzerland and the USA.

SWITZERLAND

*by **Michaela Wehrle***

2013 SNAPSHOT

- Switzerland vindicates its top rank in the Travel & Tourism Competitiveness Index by the World Economic Forum
- Year-to-date September 2013: Arrivals (+3.5%) and nights (+2.5%) recorded growth with domestic and international guests for the first time in three years
- 2013: Total accommodation establishments down by -1.4% at end of September (rooms: -0.9%)
- Several large-scale projects are currently under way.

BUSINESS SCENARIOS FOR 2014 AND BEYOND

A main topic featured in almost every discussion on tourism over the last 18 months and will continue to concern the industry in 2014 is that in March of 2012, Swiss voters adopted the Second Home Initiative which was became effective immediately. The law prohibits the new construction or rededication of second homes in every Swiss municipality where the share of second homes exceeds 20% of all residential homes. This law thus applies to 481 communes, the majority of which are in structurally weak mountain areas that depend heavily on tourism for their existence.

According to the Federal Office for Spatial Development, there are approximately 513,000 second homes in Switzerland. Most second homes in tourist regions are not commercially operated and are occupied on average 30 to 40 days per year. In some hotspot communes, second homes make up 54% of all residential real estate. They resemble ghost-towns most of the year but feel overwhelming pressure on their infrastructure during peak season.

A study published by the BAKBASEL research institute on behalf of State Secretariat for Economic Affairs (SECO) showed that around 2,500 second homes were built in Switzerland per year between 2000 and 2010. In the Alpine region, second homes (investment and use) account for 6% of the regional GDP and 7.2% of all jobs.

The decision by Swiss voters to limit the construction of holiday homes could cost thousands of jobs in the Alps over the next couple of years, although the loss of jobs will especially affect foreign seasonal workers and thus mostly be exported.

Uncertainty with regard to transitional solutions, plus disagreements on the detailed definition of the relevant housing legislation, has taken a great number of pending building applications to court. Other projects have been put on hold until the relevant laws have been passed. Second homes as part of an overall development have become an important means to (re)finance a project. Serviced holiday homes and apartments are expected to be exempt from this ban if they meet strict requirements.

The approval of the second home initiative by the voters shocked the construction industry, said Silvan Müggler, Director for Economic Policy at the Swiss Master Builders Association (SBV). He explained that the damage can only be assessed once the implementation law has been finalized. Order books were well filled at the time the voting took place, thus delaying the effects. The 22 May ruling of the Federal Court stopped all second home projects that were approved after 11 March 2012 and later contested, equalling an estimated construction volume of 2.6 bn CHF.

The reason behind this initiative was an effort to contain extensive construction of second homes to satisfy a growing demand culminating in sky-rocketing real estate prices which especially the younger local population was no longer able to afford.

__Metin Erdogdu__ is the president of Horwath HTL - Turkey. He has 23 years of experience in hospitality and commercial real estate sector and involved in over than a hundred large-scale projects.

TURKEY

by ***Metin Erdogdu***

2013 SNAPSHOT

- Turkey is the 6th most popular tourist destination in the world with an ever-increasing number of visitors. From 2007 to 2013, the number of international tourist arrivals increased around 40%, reaching more than 32 million foreign visitors.
- Turkey's tourism income increased to over US$ 31 billion, which is higher than 88 countries' GDPs.
- Istanbul, one of the most famous tourism attraction centers in Turkey, duly maintains its reputation in 2013. Istanbul has welcomed over 10.4 million tourists in 2013. In the last 5 years, despite the global recession, an annual growth of 10-14% was maintained, and Istanbul became the 4th most popular city destination in Europe. Turkey has 2 cities that are always in the top ten-city destination by international arrivals in the world: Istanbul and Antalya.
- The GDP of the travel and tourism industry in Turkey is greater than many industries. It generated a total of US$ 85 billion through linkages with other sectors of the Turkish economy. It has added a total of 1.9 million jobs to the economy and become the second largest employment provider after the public sector.

BUSINESS SCENARIOS FOR 2014 AND BEYOND

İstanbul, because of its shortage in bed capacity and ever growing demand, both in leisure and business, will boom further with the start of megaprojects such as Kanal Istanbul. This undertaking will create an artificial sea-level waterway to minimize shipping traffic on the Istanbul strait. The project will build an island between Europe and Asia with an artificial canal running between them.

In an attempt to ensure this momentum, a new international airport is to be built in Istanbul, which will be one of the world's largest airports when completed, with a capacity of 150 million passengers per year.

Cost of construction differs for each type of hotel. For the economy segment, hotels cost about US$ 70,000 per room. However, the land cost keeps on increasing as a part of the overall investment, reaching 30-40% for secondary markets and 40-70% for major cities.

Turkish Airlines, the flagship carrier of Turkey's tourism industry, has grown significantly with a CAGR as high as 15%. The total number of passengers surged from 20 million to 46 million from 2007 to 2013. During the period, international passenger traffic increased 140%, while domestic passenger traffic increased 60%. By the end of 2020, Turkish Airlines expects the number to be more than 90 million passengers.

Turkey's travel and tourism industry has a qualified workforce and highly competitive labor costs. However, especially in major cities, energy and water costs are higher than the European average.

There are around 200 hotels operated by international hotel chains in Turkey. Hilton is the leading brand with 25 hotels. In terms of ownership, international investors only account for 15% of the total.

The awareness of sustainability in tourism is rising. Some local and international investment banks and development agencies have started implementing better financing models to convince investors to do green hotels.

60 million tourists with 60 billion US dollars of receipts by the year 2023 is the main target of the 100th anniversary of the Republic of Turkey.

__Alexandra van Pelt__ is an Associate Director at Horwath HTL (UK). She assists the team with development, valuations and asset management assignments. Before joining Horwath HTL, she worked in the hotel team at DTZ and at Marriott Vacation Club International in the Resort Development EMEA team. Alexandra started her career in hospitality at Orient-Express Hotel de la Cité, Carcassonne.

UNITED KINGDOM

by ***Alexandra van Pelt***

2013 SNAPSHOT

- UK GDP recorded the fastest growth for three years, with economic output rising by 0.8% between July and September and 2013 growth forecast at 2.4%.
- London performance has been volatile following the Olympic year, although demand has continued to outstrip supply with year-to-date October 2013 occupancy at 82.9%, a 2.2% increase against the same period last year; and ADR at £137.72 (a 2.8% decrease), resulting in RevPAR of £114.20 (a 0.6% decrease) according to STR Global (the source for all performance data here).
- The regional hotel market is fully recovering, with 10 months of consecutive RevPAR growth, with year-to-date October 2013 occupancy at 73.5%, a 3.9% increase; and ADR at £59.98, a 0.6% increase, resulting in RevPAR of £44.09, a 4.6% increase (versus the same period 2012). Top five performing cities were Cambridge, Oxford, Aberdeen, Bath and Edinburgh, while the bottom five were Nottingham, Southampton, Newcastle, Leeds and York.
- Transaction volume increased significantly, with £2.4 billion recorded in the first nine months of 2013, representing an almost two and a half-fold increase on 2012 and the highest level since 2007, according to Savills. Portfolio transactions returned to the market in force in 2013 as a result of bank driven sales. In addition, there has been increased transaction activity in the regions and limited drive to sell London assets, despite the vast international investment appetite.
- New supply is focused largely on the budget and 4-star markets, with the vast majority being branded. Development has been fuelled by leases, London and allowances. In the regions, Birmingham, Manchester, Glasgow and Edinburgh lead supply pipelines.

BUSINESS SCENARIOS FOR 2014 AND BEYOND

London will continue to attract tourists worldwide, and its ADR is expected to recover, resulting in a RevPAR growth of 4% while consecutive GDP and GOPPAR growth recorded in the regions in 2013 provide good foundations for a positive 2014, with 1.9% RevPAR growth forecast (forecasted by STR Global in conjunction with Tourism Economics). While it remains a challenge to convert rate growth down to the GOP level, the corner appears to have been turned and regional hoteliers should start to see this happening.

The rise of the OTAs has been a much-discussed topic which has been the cause of concern for some hoteliers due to commissions of up to 25% of the room rate. The extent of the OTAs' advertising and marketing resources suggests that they will go on dominating at the expense of owners' profit margin. As a result, the hotels' reaction should be a blend of cooperation and competition.

Investment volume is likely to be slightly below that of 2013 despite more realistic price expectations on both sides and transaction speed increasing. Further portfolio rationalization is expected, although there is concern regarding investors' exit strategies for any regionally-led portfolios that come to market. We will continue to see banks offload in the regions. Private equity funds are likely to continue their interest in UK hotel assets, particularly outside London, since the downward yield pressure in the capital makes the regional returns more attractive and IRRs are more aligned to their expectations.

Additionally, an increase in new, innovative hotel concepts such as CitizenM, ZHotels, Moxy Hotels and Premier Inn Hub is likely. These focus on high design and technology in small spaces and aim to offer clients affordable quality, ideal for city-center locations.

Mid-market hoteliers are likely to continue to find their space more congested and competitive with pressure from modern budget branded tech-friendly properties attracting customers away from the tired products pervading this segment. New branded products such as Hampton by Hilton and Aloft are trying to rebalance this.

The serviced apartment and hostel market is expected to gain further traction, with more branded product appearing and investors realizing the cost/return benefits in an under-supplied and under-branded market.

We expect a continued increase in franchisees.

Lastly, in the short- to medium-term, there is concern regarding a capex time bomb, where hoteliers have not invested what is required in their hotels after the lengthy financial crisis.

*As a Manager at Horwath HTL Health and Wellness, **Jennifer Wilson** conducts individualized market research and feasibility studies, focused industry reports, and presentations for spas, wellness centers, bathhouses, and wellness-centric hotels and resorts. Jennifer brings multidisciplinary experience as a researcher and editor to the team, previously working in North America and Asia.*
*Co-authoring this article with **Ingo Schweder.***

GLOBAL WELLNESS HOSPITALITY INDUSTRY

by ***Jennifer Wilson***
& ***Ingo Schweder***

2013 SNAPSHOT

- Awareness surrounding global health issues continues to grow, evidenced in an overall rise in global health spending as well as high profile engagement from the United Nations, the World Economic Forum, the Dalai Lama's address at the 2013 Global Spa & Wellness Summit, and countless others. According to the WHO, worldwide obesity has nearly doubled since 1980 and chronic diseases are now the leading cause (63%) of worldwide mortality. This, along with an aging and expanding global population, has promoted a shift from reactive to proactive perceptions of health and wellness, which can be seen in increasingly wellness-focused design and concepts in hotels and F&B.

- In 2013 the Global Spa & Wellness Summit (GSWS) and Stanford Research Institute (SRI) released a study valuing wellness tourism as a US$ 438.6 billion market, representing one in seven total domestic and international tourism dollars and projecting that it would grow over 9% annually over the next five years (twice the rate of global tourism) to US$ 678.5 billion by 2017.

- There have been several notable wellness trends of 2013, in addition to healthier hotel concepts and design, including a boom in medical tourism and medi-spas, increased adoption of male grooming, corporate utilization of wellness facilities to promote creativity and de-stressing, and digital detoxing while getting back to nature.

BUSINESS SCENARIOS FOR 2014 AND BEYOND

As of 2010, SRI had valued the global wellness tourism industry at US$ 106 billion, and three years later reported that its value had reached US$ 438.6 billion with a forecast to near US$ 680 billion by 2017, outpacing global tourism growth by nearly 50%. Health and wellness sales overall are predicted to hit US$ 1 trillion by 2017 as well. Thus, the foreseeable future for the global wellness industry is undoubtedly promising.

Among emerging markets, such as India and China, an expanding middle class (with increasing levels of disposable income) as well as increased international travel will transform the way wellness hotels and spas operate, similar to the manner in which emerging markets of the past historically transformed the greater tourism and hospitality industries in terms of marketing strategies, F&B offerings, and staff training. Attention to the cultural preferences and sensitive needs of the broader target market will be necessary in designing and operating optimally inclusive and profitable wellness spaces.

A revival of ancient wellness practices, such as Ayurveda, Traditional Chinese Medicine (TCM), Japanese onsen, and hammam, will continue to merge with existing, comparatively modern Western wellness traditions in order to offer a more authentic, meaningfully executed, and overall noteworthy guest experience that will not only serve the globalized demands of savvy spa goers but will be necessary in order to achieve differentiation in an increasingly ubiquitous market. Leading industry innovators, like GOCO Hospitality, are currently working on projects in landmark wellness destinations, such as Bad Kissingen, Bali, and Bhutan, which feature these timeless traditions made accessible to the modern guest. GOCO's Founder and CEO, Ingo Schweder, who co-created the world-renowned Ananda in the Himalayas, is currently in the process of developing China's first dedicated wellness destination, which seeks to strike this same balance.

Additionally, the wellness industry will continue to explore its relationship with science, as innovations like genomic testing are becoming increasingly reliable, convenient, and affordable. Advances, such as telomere testing, which can gauge a person's "true" cellular age, will expand wellness consciousness by revealing the broader influence of lifestyle and surroundings on health. The future will unveil how we as a society cope with access to all that can be determined from a simple saliva test.

The future possibilities for wellness extend far beyond the traditional hotel spas and fitness facilities of the past. Today, wellness has not only become the central inspiration for wellness-focused hotels, such as IHG's EVEN Hotels brand, but also wellness-focused homes, like the multimillion dollar units recently developed in NYC by Delos Living in a building advertising over 500 health and wellness features. Thus, we believe that the integration of holistic health and wellness solutions into hotels, homes, and even office and public spaces, complimenting growing sustainability and eco-friendly practices, is perched and ready to become an increasingly familiar facet of our everyday lives, our daily routines, and, inevitably, the expectations of the guests we serve.

Green fatigue: How the sustainability agenda needs a make-over

by ***Stephen Farrant***

It's time, says Stephen Farrant, head of the UK- based International Tourism Partnership, for the hospitality industry to re-think, reformulate and re-energize the message we send the world about our sustainability efforts. In the future, we must move away from our current "compliance mentality" and argue why more risk-taking and innovation are justified.

Call it what you like: corporate responsibility, sustainability, the green economy or responsible business; has the overall movement reached a crossroads? Have claims of "green" and corporate responsibility reports become so commonplace as to leave you, whether as an industry professional or as a consumer, feeling somewhat underwhelmed? If so, you are probably not alone, even if, like me, you sign up to its fundamental importance for our shared futures. Is the prevailing risk management culture across all sectors stifling the very creativity and innovation needed to step outside of "business as usual" (which we all know won't meet the challenges of the future) and develop new business models? Rather than every organization having a risk management policy, do we need to start developing risk-taking policies? So where next for this agenda, both within hospitality and across the business community more generally?

The CEOs have spoken

A recent report published by the UN Global Compact and Accenture, based on the views of over a thousand CEOs on sustainability, made tough reading for many. The report pointed to a growing belief that business was not currently structured in a way that was able to meet the immensity of the development challenges (from environmental sustainability to labor standards and human rights), and that greater government leadership was required. The CEOs also highlighted the need for increased collaboration and innovation in order to make faster progress on the responsible business agenda.

And yet the trend within many businesses over recent years has been to embed the sustainability and "corporate responsibility" agendas to such a degree that the focus has tended to shift from that of change agent towards internal compliance and risk management.

At its best, the green movement should be a relentless, innovative force for continual improvement. This becomes all the more important as the world struggles to reach new global agreements on climate change (to replace the Kyoto treaty) and also the so-called "post 2015" UN-led development goals.

As we look ahead to an increasingly resource-constrained world, the business case will become as much about business continuity as "license to operate" or simply the right thing to do. Critically, there is clear evidence that the market for more responsible products and services is a growing one. This is where language becomes so important; if "green," "responsible" and "sustainable" can be more clearly linked to well-established notions of quality, they would chime in with the prevailing consumer Zeitgeist and appeal more directly to the needs and aspirations of Generation Y. So the pitch needs to be made to both head and heart; no numbers without stories, and no stories without numbers, because the new generation of environmentally aware and ethically conscious consumers buy solutions to problems, not simply isolated statistics.

***Stephen Farrant** has led the International Tourism Partnership since early 2009. Stephen studied Modern Languages at Oxford University, before a career combining travel and tourism with sustainable development, including time at British Airways, VisitBritain and the RSA.*
In late 2013, Steve led the successful transfer of ITP to become part of Business in the Community (www.bitc.org.uk), which is part of the Prince of Wales' group of charities.

What does this mean for hospitality?

Hospitality certainly has a good story to tell on local economic development and job creation, crucial in a time of global youth unemployment. The sector has a great opportunity to help bridge the skills gap that is stopping more young people from entering the workforce. At a time when the global business community is struggling to find sustainable growth, job opportunities for young people and better resource utilization, it is worth noting that the travel and tourism industry is expected to grow an average of 4% annually over the next ten years, according to the World Travel and Tourism Council (WTTC), and that by 2022, the industry will account for 1 in every 10 jobs on the planet. A more responsible travel and tourism sector will mean a more sustainable world for the future.

But we can't focus exclusively on this

To some extent the hotel industry has been "under the radar" in terms of some of the big issues of the day. Airlines have been in the front line on carbon, banks have been under the spotlight for bonuses and their social purpose, household names such as Amazon and Starbucks have taken the flak on taxation. But in the year ahead, the hotel sector needs to argue its case more coherently against any suggestions that it is in any way a discretionary activity. In a heavily resource and carbon-constrained world, would governments prioritize energy and food production over hotels and tourism? It is likely that increasing extreme weather events (witness, in recent months alone, bushfires in Australia, Hurricane Sandy in North America, Typhoon Haiyan in the Philippines) will continue to influence consumer sentiment. In any case, regulation is coming. For example, from October 2013 the new UK Companies Act requires corporations to report not just on social impacts but also to outline the environmental impacts of a company's business, including disclosure on greenhouse gas emissions. Other jurisdictions are expected to follow.
So, as an industry, we need a more coherent narrative on resource utilization and energy efficiency, alongside the well-rehearsed arguments on employment.

So where will this take us next?

The opportunity to drive real competitive advantage is there for us all to seize. And yet, within that competitive space, the whole industry has a collective interest in ensuring that "green" and "sustainable" become aspirational for customers, as well as drivers of continual improvement for business. Over time, that is likely to take the leaders in the industry to shift the focus from incremental reduction targets to describing "net positive impact," from low-carbon to carbon-positive hotels, from water efficiency to water stewardship, from entry level jobs to career paths of choice, from community engagement to measurable social value.

Embedding the movement within "business as usual" compliance or risk management functions won't get us there; creativity, innovation, risk-taking – and anticipating the needs of tomorrow's marketplace – most certainly will.

Grow the network but don't dilute the value

Philippe Baretaud *interviewed by* ***Nicolas Graf***

Philippe Baretaud is Accor's head of development in the EMEA region. On behalf of the Hotel Yearbook, Nicolas Graf, Academic Director of the MBA in hospitality at France's ESSEC Business School, met with Philippe recently to talk about the outlook for growth, development and investment in the years ahead. Here is his report.

Nicolas Graf: Philippe, during your extensive career in hotel development, you have witnessed many changes in the industry. What has struck you the most?

Philippe Baretaud: From a developer's standpoint, I would say that the shift from being an owner-operator to becoming an operator-franchisor has been one of the most significant changes. It has brought about the need for more speed in development, and a significant increase in competition. While the fundamentals have remained the same when developing a business plan, the need to sell a brand and an entire system, rather than a project, has created more complexity. It has also created a new set of relationships with owners, which need to be nurtured and managed.

Another key development has been the appreciation of hotel properties, which have become better perceived by investors and considered as a true real estate asset class, much like offices or retails. There has been an increase of equity money chasing hotel assets or development opportunities, at least in Europe, which has pushed prices up and yields down. This has been a very interesting trend for the development community. More surprisingly, since 2009, we have not seen many transactions for distressed assets in Europe, unlike in the US or in the UK to some extent. Banks have not let many hotels go into technical default, and asset values have remained high, often over-priced, for example in southern Europe. This is also a sign that there is still a lot of money chasing assets.

Obviously, the rise of the OTAs has been another major development – maybe a brutal one, but positive for the industry as a whole, as it has created a lot more transparency. OTAs are good partners for those who know how to use them. Major hotel groups can negotiate competitive fees for the right products and for the right periods. It has also pushed hotel companies to massively invest in technology and develop their own capabilities, to diversify their distribution channels and use their CRM effectively. At Accor, the goal is to maximize bookings through our direct channels, but also to implement a real strategy of partnering with OTAs to get the best of the indirect distribution channels. What matters ultimately is to have hotels full at the right ADR, and you need a balanced complementarity between direct and indirect channels. The competition between OTAs has increased globally, but also regionally with the emergence of local OTAs, such as in Russia or India, resulting in possible choices in the selection of the most efficient partner. It can be a win-win relationship. Probably competition in the distribution space will further accelerate consolidation in the industry, pushing independents to join branded chains.

Graf: In your career you've certainly worked on many different projects. What are the two or three things you have achieved that you are the most proud of?

Baretaud: My greatest personal satisfaction comes from having trained junior developers within my teams, especially in the UK and the Middle East. It's very gratifying to train young developers, provide them with the experience

Philippe Baretaud

Nicolas Graf

and competencies necessary to become experts. A great satisfaction is when you see these young developers becoming capable of being successful in various regions or in other functions, such as in asset management. Seeing that the expertise they have gained within my team helps them grow in their career and in the company is a great achievement and a real fulfillment.

As for hotel development itself, I would mention the successful conversion of a 4-star hotel in London into an Ibis. It was a great challenge, as this family-owned hotel had been losing money for years. It was a complex convention property, with over 500 rooms and many conference facilities. We were able to convince the owners and their consultants to make significant investments to reposition the property as an Ibis, which was complicated due to the high level of standardization of the brand, plus the fact of shifting from the mid-scale to the budget segment. We had to be creative and adapt some of the soft brand standards. Since the repositioning, the hotel is performing extremely well, with great operating performance and a strong yield for the owners. It was a complex project and a lot of work, but a very satisfying achievement.

I am also proud of a number of developments in the Middle East, particularly for Sofitel and Pullman. For instance, the Sofitel Abu Dhabi Corniche and the upcoming Pullman in Doha are beautiful products and a great source of satisfaction for a development team.

But you know, every successful and sustainable development story is above all a teamwork between development, design & technical, marketing and operation experts.

Graf: Can you give us your views on how you see leases evolving in the next few years? Will they disappear? Will they change?

Baretaud: Although they can sometimes be the only way of securing a strategic and contributive development in a key gateway, leases have indeed some disadvantages for the operators, and even for the owners.

For the operator, you are effectively paying for the full value of the property through the rent and taking most of the risk without owning it. There is no residual value and you cannot use any active asset management strategy such as refinancing. The operator also faces full or most Capex exposure. For a publicly traded company, leases are likely to be considered as debt by the analysts, and yet you have none of the benefits of ownership. By owning, you maintain control over your asset management strategy, including the exit decision. You can use the asset strategically to find the right partner, and offer them an existing hotel to develop additional ones. To me, investing has always been the best way of making money, but you need discipline and a sound investment strategy.

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Leases may still be a default choice for companies who want to grow but are not able to secure the necessary capital. It may also be the only solution for companies lacking the internal technical resources necessary to develop, build and manage properties at the right cost. In a way, with leases, you are externalizing these capabilities, so it is easier, but clearly not better. However it can reveal a very expensive model as we have seen a number of examples lately where operators paid a great deal of money to exit loss-making leases.

Owning is also better in the sense that it enables you to maintain these technical capabilities internally, which are then very valuable when selling management contracts or franchises; it is a virtuous circle.

For owners, leases are not always as safe as they seem, as we have seen in many cases in Spain and other Mediterranean countries or in the UK. Default risk exists, and during downturns, the renegotiation of rents may cause a lot of problems, especially when financing terms are linked to expected rents.

Graf: Recently, we have seen several hotel groups involved in M&A, for example Marriott with Protea Hotel group. Is this a trend we can expect to continue in 2014?

Baretaud: M&A such as Protea for Marriott, or Mirvac and Possadas for us at Accor, are relatively moderately sized transactions. They are less strategies of real consolidation than strategies for entering a market, or securing or strengthening market share in certain regions. But we haven't seen too many large acquisitions. I believe many assets are currently overvalued, and unless we see some of them lose value or some major funds being developed, we may continue to see only limited M&A. It is too expensive today, and thus hard to get a decent return.

Graf: Are these mergers and acquisitions simple growth vehicles, or are we seeing the beginning of a true consolidation of the industry? Do you think consolidation is needed in the industry?

Baretaud: Relative to many industries, our industry is highly fragmented, especially outside of North America. This is a weakness. Markets with high brand penetration and level of consolidation are generally performing better than others, they also attract more capital. So yes, there is a need for more consolidation. For the Accor Group, already the number 1 hotel group in EMEA and in APAC, consolidation would surely mean a strong penetration in the US market's upscale segment which would the company to reach decisive global leadership. Speaking of consolidation, I believe OTAs are now also pushing for more consolidation, not only for growth.

Graf: Over the past few years, there has been increased interest in Africa. What is Accor's strategy for Africa? What are the risks and opportunities there?

Philippe: We should bear in mind that emerging countries as a whole represent nearly 70% of Accor development's plan. In 2017, 50% of the network will be in the emerging countries. In that respect, Africa, the fastest growing region worldwide, is high in Accor's agenda. But there are surely some challenges. Demand is generally growing, but it sometimes remains low in absolute terms. Construction costs and lending remain very expensive, and there is a shortage of equity money, which often only consists of land value. Rates of returns are often still low in comparison and not very attractive for foreign investment. There is a risk of imbalance between supply and demand in some locations, where supply is growing while markets are not deep enough to absorb it, so there are some profitability concerns. But we are definitely bullish about our growth objectives in Africa. We aim to have density in the budget and mid-scale segments with Novotel, Mercure and Ibis to address the growing domestic needs, and a network of high scale Sofitel and Pullman hotels in the African international hubs. We foresee 5,000 new rooms opened in Africa by 2016.

In the Middle East and Africa region, the largest pipeline remains in the Middle East, yet it is reaching saturation in some markets. Other than in Saudi Arabia, it is also difficult in these countries to develop a dense network due to the relatively small size of the local population. But of course the Middle East has definitely become a strategic market – as its pipeline demonstrates.

So yes, the trend is there, but there are many constraints. It needs a tempered approach with the fundamentals well in place.

As for Accor's strategy, we have also developed a leadership position in North Africa, especially in Morocco and Algeria, thanks to local joint ventures which enabled us to develop the network rapidly. In these locations, finding the right local partner is important if you want to develop the size of the network quickly.

Graf: Other than more M&A and growth in Africa, what other major developments do you expect for 2014 and beyond? What are the key challenges the industry will have to deal with?

Baretaud: One of the growing trends is the increasing financial exposure some operators are willing to take to secure deals. While it has always been part of the negotiation, key money and minimum guaranteed, coupled with subordination or termination clauses, are increasingly being used, and sometimes to a point where it no longer makes business sense. When considering fees and margins, some of these incentives are simply becoming too expensive. When we see these reaching 10% or more of the total investment, or representing 5 or 6 years of fees, you can no longer consider it as a management contract, but rather as an ownership interest – but without its benefits.

So there is a risk of commoditizing brands and management services and not recognizing their intrinsic value, leading to a situation where key money is the only differentiating factor. This is a significant risk, and operators and franchisors need to be careful. I hear some people arguing that it is normal that operators and franchisors need to take some financial exposure. I agree, but it is going too far today. These arguments are also ignoring the fact that brands have a financial exposure and still make investments, but the investments are now made upstream, in distribution, CRM and other parts of the system. That should be seen as the real added value of an international hotel chain.

To me, this is a significant challenge the industry will have to deal with. Grow the network without diluting the value of the management and of the brand through too many off balance sheet commitments.

Philippe Baretaud *is Senior Vice President and Head of Development EMEA for Accor, in charge of supervising the development of Accor brands from luxury to economy segments in the EMEA Region.*
Before taking over this position, he was Head of Development in the UK for 6 years and in the Middle East for 5 years. Previously, he worked for Accor Hotels in France and Europe.
Philippe started his career in 1986 in the French public sector where he was in charge of economic and social development for a region. He has a degree in law and an MBA.

Nicolas Graf *is Professor and Academic Director of the MBA in Hospitality Management (IMHI) at ESSEC Business School in Paris. He has over 10 years of teaching, research and consulting experience in hotel strategy and finance. Nicolas has a Ph.D. from Virginia Tech and is a graduate of the Ecole hôtelière de Lausanne.*

Whither hotel asset management?

*by **Anne-Marie Auriault***

Initially unorganized and rudimentary, it was not until the 1960s and 70s that the hospitality industry experienced significant change and growth. The spread of franchising, third-party management contracts, and legislation resulting in the birth of REITs presented a first milestone for asset management and triggered some of the players to redefine their strategies, business models and ownership structures, specializing in core competencies. As a result, the need for hospitality asset managers continues to grow as capital owners try to maximize their ROI and ROA and reduce the industry-specific knowledge gap with operators. Anne-Marie Auriault, head of asset management for Swiss-based Eurofin, shares her perspective on where the discipline is headed.

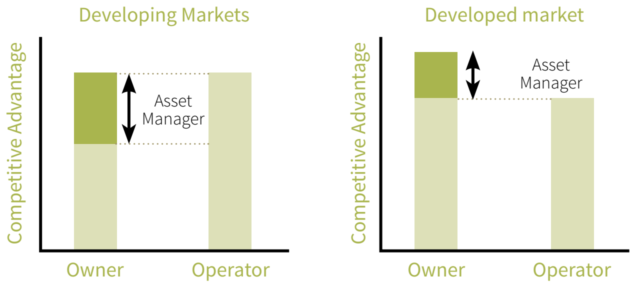
Recently, the nature and scope of owner expectations have changed rapidly. Traditionally, asset managers assisted with the flow of cash. Prior to 2008, hotels experienced increasing international demand and continuously growing pipelines. Context during which owners insisted on focusing heavily on cost control management. Since then, the conjunction of the financial crisis and the increasing development of hotel brands and products has accrued competition in capturing revenues. Consequently, in addition to maintaining operational margins, asset managers need to work more closely with operators to improve market share while optimizing, among others, return on marketing investment, improving RevPAR and providing greater value to customers. The recession has shaped the industry, and in their role, key players and capital owners will continue to put pressure on operators for strict cost control, personal service delivery and experience. As such, the role of the asset manager will gain importance but become more challenging.

Secondly, the development stage of a market also influences the role of the asset manager. Whereas mature markets are characterized by having experienced owners, a competitive hotel and asset management arena with limited opportunities for new hotel projects, developing markets benefit from increasing overall interest. In developing markets, owners do not necessarily possess industry-specific skills and know-how. Aware that this asymmetry weakens their negotiating power and positioning vis-à-vis operators, they seek asset managers who can counterbalance the knowledge gap with their expertise, and provide a veil for their interests – a difficult task when there are few convincing options. But the availability of different operator/asset manager alternatives, coupled with few market opportunities, strengthens capital owners' negotiating position. Here, owners have a wider choice and look for asset managers who are able to act as catalysts to maximize the capture of value from the operator. The market characteristics and owner's experience determines the role and profile of the asset manager. In developing markets, this role will undoubtedly continue to spread, bringing confidence to the investment world, whereas in mature markets, capital owners will pressure asset managers to differentiate themselves by adding value.

Lastly, the alignment between owner and operator objectives frameworks the different stakeholders' relationships. On the one hand, asset managers are increasingly involved in daily operations – such as marketing and revenue management – as supervising the operational, financial and strategic aspects are equally important. Similarly, operators are more involved in long-term operational strategy, also influencing the real estate value of the property. On the other hand, whereas operators focus on their brand portfolio and pipeline, capital owners stress the importance of generating cash flows.

During the financial crisis, operators turned to the public marketplace (mainly REITs) to raise capital. Unlike private ownership, the asset collateral of these securities are monitored on a daily to quarterly basis to create value and generate cash return. Thus, operators must provide tangible financial results regularly. Altogether, both asset managers and operators – although they still need to be more cooperative for a more equitable win-win relationship – are becoming increasingly important for capital owners. Due to

their lack of operational expertise, the use of third-party asset management is likely to increase. But consequently, owners will require higher returns and efficiency from both a financial and an operational management perspective.



The outlook for hotel asset management

Having discussed the recent changes within the hospitality industry and their implications in asset management from an investment perspective, can we make any inferences about what is yet to come?

It is likely that the market will experience a greater fragmentation among actors of the value chain, thereby transferring the risks and responsibilities and enabling better, and stricter, control. Accor's – a publicly listed company – recent strategic split demonstrates how a major hotel group separates its activities into two business units to better allocate resources. As companies in the hotel sector continue to grow, they will further differentiate their investment and operational activities. While – for now – asset management is inherent for hotel companies, investment firms tend to outsource it to improve liquidity in their assets, and this trend will probably gain momentum.

Finally, the asset management competitive environment will continue to intensify, and this will require firms to differentiate themselves from one another. Already focused in real estate investments and hotel operations, will hospitality companies transform their in-house asset management workforce into a stand-alone business unit, creating a new income source and competing with external firms?

__Anne-Marie Auriault__ is Senior Adviser – Head of Asset Management for Eurofin, a seasoned professional with working experience in the hospitality industry, both in strategic advisory services and operational management across Western, Central and Eastern Europe, Russia, Africa and USA. During her career, Anne-Marie acquired in-depth expertise in business development, project management and asset management, building on her already strong skills in financial and performance optimization, operational auditing, due diligence and turnaround solutions.

Co-authoring this article with Anne.Marie were Emile Crettex, Adviser - Asset Management, and Martin Chanel, Analyst - Asset Management

Anticipating a social media rebirth

by **Keith Kefgen** and **Dr. James Houran**

Is the social media phenomenon really a paradigm shift, or are these technologies merely new tools for doing things people have been doing for thousands of years? Keith Kefgen and Jim Houran of AETHOS Consulting Group look at the likely evolution of social media, and remind us that – especially in the world of hospitality – human interaction will still trump contact through technology.

Like most others, hospitality people increasingly live in a "social media society." According to Internet World Stats, currently there are an estimated 2.4 billion Internet users worldwide, more than a third of the world's population, which is an increase by a factor of 6.6 since the year 2000, i.e. the height of the dot.com boom. Forrester Research further predicts that the Internet population will grow to 3.5 billion by 2017. The prevalence of the Internet, texting, smart phones, tablets, mobile applications and a host of electronic devices that facilitate electronic communication – for work or pleasure – means that human interaction is becoming as much "online" as it is "offline."

It's tempting therefore to believe that the social media phenomenon will continue to define business strategy, but academic research combined with what we see and hear from hospitality organizations lead us to believe that a "social media rebirth" is in the works. We suggest that the biggest ROI will result less from social networking and technologies per se, and more from an information effect it will all have on workers and consumers alike. Consider three examples:

1) Diminishing generational gap

Traditionalists vs. Baby Boomers vs. Gen Xers vs. Millennials… soon categories like these will all converge into a single segment that we call "Gen E" – the electronic or information generation. Research is increasingly revealing "age" as an indirect measure of "familiarity and comfort with technology." Younger workers currently have a competitive edge, since they are likely to be more technologically savvy than other generations, but this advantage is waning. In the years to come, workers and consumers in all age brackets will leverage technology on a near par basis.

2) Communication "homeostasis"

Social media technologies allow greater opportunity to collaborate; to bring together diverse places, people, and ideas; and to create power in the collective. Of course, so did telephones, videoconferencing and personal computers. Social media technologies appear not to be that much of a paradigm shift after all. Some social scientists argue that its impact is smaller than is often assumed and that social media and similar communication approaches simply provide new ways of doing things that ultimately change little in the way we live our lives. Think about it… online dating has not replaced meeting romantic prospects in the real world, and LinkedIn has not killed recruitment firms or the interviewing process. We speculate that the enormous attention, energy and value presently ascribed to social media applications will lead to the simple realization that technology itself cannot effectively substitute, much less compete with, human interaction. This is especially germane to service industries and the hospitality sector where "people are the product." We are already seeing glimpses of this prospective "backlash" in organizations that have become too automated and process-driven. What does any consumer feel about a company when they get caught in a never-ending automated phone selection loop? Competitive advantages will come to those organizations that can properly use technologies to augment the human experience; not replace it.

3) Transforming qualitative data into quantitative insights

The strength of social media is that it permits rapid dissemination of information to the masses. Yet, its strength is also its weakness. That understanding is how hospitality organizations will use or abuse Social Media. Social media data – like any type of open-ended information – varies tremendously in quality. Plus, the vast amount of data prevents easy or efficient understanding of what it all means.

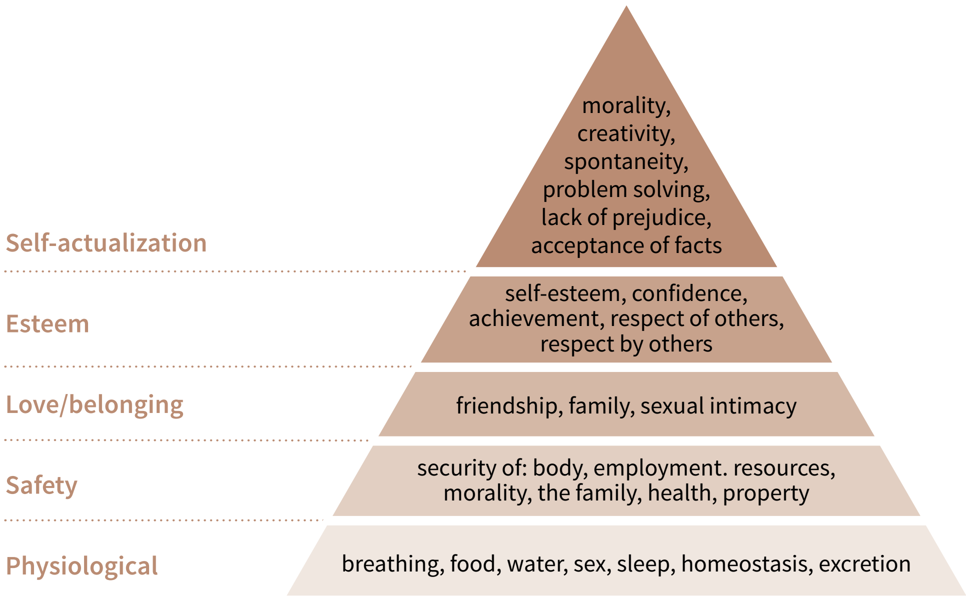
Keith Kefgen (L) *is Managing Director & CEO at AETHOS Consulting Group. With nearly 30 years of experience in the hospitality industry, Keith is a career hospitality executive. Having graduated from the Cornell University Hotel School, he went on to work at Waldorf-Astoria Hotel before embarking upon a career in hospitality executive search. He was the CEO & founder of HVS Executive Search before joining AETHOS Consulting Group. He is currently writing his first book, The Loneliness of Leadership.*

James Houran (R), *Ph. D. is the company's Managing Director. A 20-year veteran in applied psychological research and a published expert on peak performance, online testing and interpersonal and organizational compatibility, "Dr. Jim" has authored over 100 articles, and his award-winning work has been profiled by a myriad of media outlets and programs.*

New analytical techniques such as Latent Semantic Analysis (LSA) are being developed that allow organizations to make sense of written text (from market surveys, comment cards or online review sites) on a scale that would be impractical or infeasible for human interpreters. For example, imagine understanding which guest reviews to take seriously and which ones are not credible or meaningful. That understanding would allow human beings to follow up on the reviews that are meaningful and important. The more an organization can foresee coming challenges and respond to them confidently and creatively, the greater the competitive advantage will be. But technology is only a tool; the goal is for hospitality businesses not to become focused on being "technology oriented" but rather to strategically use new technologies to become more "people oriented."

Social media is here to stay. We don't foresee a massive migration back to the jungles any time soon. That said, we predict a greater emphasis on meaningful human interaction. As Maslow's hierarchy of needs demonstrates, computers cannot substitute for human morality, spontaneity or self-esteem.

Humans will always be looking for more efficient ways to communicate, dominate and prosper. The social media rebirth we anticipate is ultimately about the evolution of consumers and workers into a "knowledge society." Social media and its underlying technologies are merely the instruments of this evolution.



The old ways… still in vogue

*by **Chris Sheppardson***

As modern communications become faster and more open, there also appears to be a return to old fashioned values that lie at the heart of business – trust, personal relationships, and community. After five years of recession, says Chris Sheppardson, Managing Director of EP Business in Hospitality and Chess Partnership, what matters now and in the future is an open inclusive approach – not elitism, and closed doors.

The last five years have thrown up many contradictions, many surprises, and seen many changes. However, the fact of the matter is that things never change as much as one assumes. Yes, there have been many new developments, but the basics remain the same. The emphasis just changes with the times.

Three key themes jump out:

Old fashioned ways are back in fashion

Yes, the recession has been long, brutal and tough for every business. Many have tired of sales lines and excuses for poor delivery. Once again, people want to work with those that they trust and value. It is as though we have returned back to the ways of the late 1980s but with the addition of modern comms. The concept of community is important again, just as are gestures that go beyond the norm – the handwritten note being one. Yes, some are beginning to write personalized letters once again, because such a simple gesture which takes a few minutes of care has impact and means so much to the recipient. But the core point is that the importance of relationships has returned.

Openness and Inclusiveness

People want an open, inclusive approach where people talk as colleagues. There is a weariness of awards and "elite" clubs. Awards have their place, but there are so many today that they begin to lose their value and become seen as "rewards" for the those in the "club". In a tough time, people would rather value informal accessible networks where they can meet people and build new friendships.

Chris Sheppardson *founded the Chess Group of Companies in 1998 with a belief in the importance of individuals and in the principle of cultural fit within organizations. He is presently Managing Director of EP Business in Hospitality and Chess Partnership, providing a business which works closely with the hospitality industry, to support the growth and development of both people and organization.*

Time is a scarce resource – and will only get scarcer
The average executive today reads six times more than their counterpart would have done ten years ago. E-mails will be read from 6 or 7 a.m. till 10 p.m. The result is that the mind tires and becomes saturated. This has three effects:

- The obvious one is that people do not hear all the messages. It used to be said that you had to tell a person something three times for them to hear it once. Today it is seven times. It is hard to reach one target audience. More importantly, people tire of the written word. They do not want to read another e-mail or see another form.

- Emerging generations do not value the old networks in the same way as previous generations. For them, relaxation time is precious – so why network just for the sake of it? However, a supportive community is important.

- Since many of the e-mails received are internal, it is natural that people become more focused on internal issues rather turning attention to external or market issues.

All this leads us to an environment where it is hard for businesses to reach their audience and where there is reluctance to network – an environment that is set to become standard in the future, making relationships more and more valuable. Many people do not know how to network and shy away from it. One can easily see the paradox ahead: the business world is increasingly valuing old style practices, yet many people don't possess the old skills.

Times may change but much also remains constant. It is reassuring that life never changes that much. Building effective professional relationships is a skill in itself. It takes a lot of time, effort and input – but if done well, it will stand the test of time… and generate results.