



As the final page turns on this millennium, the hospitality industry will find itself in a competitive landscape that is greatly altered by new technologies, business practices and consumer demands. Indeed, this decade stands as a bridge between the socioeconomic forces that shaped the Industrial Age and the emerging capabilities and markets of the

this period of global transition, these factors will not only define success, but will influence the very ability of hotel organizations to survive in coming years.

This article highlights preliminary findings of the study. The final report, *Hospitality 2000: A View to the Next Millennium*, includes survey statistics and findings, analysis and case studies,

Hospitality 2000: A View to the Next Millennium

BY
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Global study yields insights about the future



Information Age. There is thus a pressing need for executives leading the hospitality industry into the next century to define how their companies can marshal change in support of competitive advantage.

In response, Arthur Andersen and New York University have undertaken a global research study — *Hospitality 2000: A View to the Next Millennium* — to identify major trends and strategic issues that will shape the international hospitality industry of the future. The study is the first of this scope ever completed in the hospitality industry. The survey results span five continents, delineating key issues that will define success for companies in the hospitality industry for years to come. More than 4,000 surveys were sent to hospitality industry leaders worldwide. Some 500 responses were received from hospitality industry CEOs, corporate executives, and general managers based in three regions: the Americas; Asia/Pacific; and Europe, the Middle East, India and Africa (EMEIA). The *Hospitality 2000* study examines five key areas — the market, products, organization, capital and technology. In

which review the activities of those hotel companies that are at the forefront of new ideas and applications that will prepare this industry for the future.

The customer — the real asset in the Information Age

The *Hospitality 2000* study sends a clear signal that the industry will need to shift its primary focus in the future from the physical assets (the hotels it owns and manages) to the industry's virtual assets (its customers). And this view is by no means supported by just a slim majority — it is held by industry executives around the world by a margin of **five to one**.

If this shift in focus from assets to customers does in fact take place, it will clearly drive great change in our industry, with broad implications for every aspect of the hospitality business. The traditional "marketplace" (our destinations, neighborhoods and hotel buildings) will be greatly expanded to incorporate virtual, customer-focused activities to be known as the "marketspace" — a completely reconfigured market context and environment that will allow for the delivery of an



array of products and services, some traditional, others less so. For those responsible for marketing success in the future, this shift has two important implications.

From Revpar to Revpac

Currently, revenue per available room (known to industry insiders as REVPAR) is a widely accepted metric for hotel success, reflecting the yield from physical assets (the occupancy and pricing of the guest room). As the customer more clearly becomes the strategic focus, the industry will find that *REVPAC* (revenue per available customer) will become a key measure of performance.

From Central Reservations to Customer Information — CRS Becomes CIS

Understanding emerging customer needs will be pivotal to the success of hotel organizations. Industry executives indicate that usage and access to global distribution systems (GDS) will be an important strategy in the future. But there will also be a need to integrate data generated at the property level with reservations systems and corporate information in a total system solution that provides for data warehouses and networked communications. Technology thus supports the shift from a primary focus on reserving the physical room, to better understanding and serving a broad array of customer wants and needs.

The Market

As the hospitality industry considers its future beyond the year 2000, we can be assured of continuing change in the marketplace, although executives surveyed globally varied widely in their views. The study highlights differences among respondents based in the Americas, Asia/Pacific and EMEIA (Europe, the Middle East, India and Africa).

Demographic and Lifestyle Factors

Not surprisingly, lifestyle and demographic changes are likely to have

dramatic impact on the market trends of the future, but regional differences revealed in the *Hospitality 2000* study abound. The globalization of world business and lifestyles — and the growing number of international travelers — will be major forces in marketing hospitality products in the year 2000 and beyond. Indeed, executives surveyed in *Hospitality 2000* cite international travelers as the most important lifestyle change for the hospitality industry. But the focus on international travelers is most important in Asia/Pacific, according to respondents.

Leisure and Business Travel

Most executives surveyed, regardless of geographic location, believe leisure travel will significantly outperform the business

While leisure and business travel are expected to achieve growth, the meetings market — including associations, corporate, and social groups — is not forecast to grow and may even experience a slight decline in demand. Planners of convention centers and convention hotels, therefore, need to carefully consider the implications of these findings.

Customer Purchase Decisions

Reflecting the conventional “locational” bias in the real estate industry, virtually all respondents indicate that location will continue to be the most important influence on the customer’s purchase decision, followed by service quality.

While less than two-thirds of the respondents indicate that brand affiliation

1 Statement: The Following Lifestyle and Demographic Factors Will Have a Strong Impact on the Marketing of Hospitality Products in the Future

	(Percentage of Respondents in Agreement)		
	Americas	EMEIA	Asia/Pacific
Baby Boomers	82%	29%	40%
International Travelers	61%	87%	92%
Active Retirees	60%	64%	50%
Increased Wealth	42%	51%	81%
Increased Leisure Time	54%	61%	62%

2 Statement: Growth in the Following Demand Segments Will Greatly Increase

	(Percentage of Respondents in Agreement)		
	Americas	EMEIA	Asia/Pacific
Leisure	19%	25%	30%
Business	2%	13%	3%
Ratio Leisure vs. Business	8	2	10

travel segment in the future. However, the study reveals major global differences in perceptions of growth. Asia/Pacific respondents by a margin of *10 to one* forecast that leisure travel, rather than business travel, will show the greatest increase in the future.

is a strong influence on the purchase decision, *83 percent* acknowledge that business travelers will prefer branded products in the future and only two-thirds believe the same about leisure travelers — an ambivalence that will undoubtedly be brought into greater focus and



reconciled as globalization continues and branding becomes more prevalent in all types of business.

As to frequent traveler programs — the bane of some companies' marketing existence — only 60 percent of our respondents put much stock in such programs as significant influencers of the buying decision. This is driven quite probably by the fact that these programs are more valuable to the limited number of chains and their customers where there are extensive property networks and customer-tracking systems in place.

Future Marketing Strategies

Essential to marketing strategies is information about guest wants and needs. And yet an overwhelming number of respondents, **93 percent**, indicate that they rely on the traditional in-room guest comment card approach to tracking guest satisfaction, a system fraught with weakness principally associated with lack of control and poor response rates from those customers who actually have something important to say. It is encouraging to note that the industry's leadership expects to rely more heavily on

third-party market research and focus groups as a means of assessing guest needs and satisfaction in the future.

Executives surveyed emphasize three key marketing approaches: increased use of global distribution systems, linking hotel reservation systems to airline and travel agency networks; enhanced yield management techniques; and service improvements designed to increase guest satisfaction.

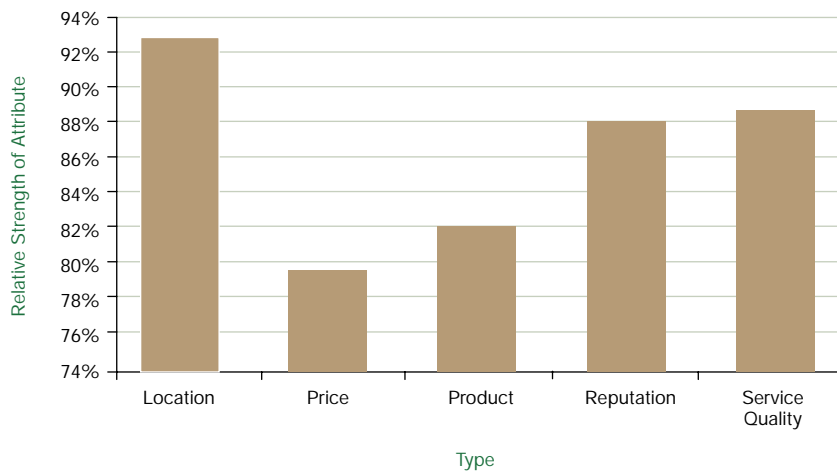
Growth Strategies

Of the growth strategies ranked by executives, strategic alliances topped the list, followed by mergers and acquisitions. Joint ventures, franchising, and management contracts followed in importance. Not surprisingly, new development — the most capital-intensive and time-consuming of the growth strategies — is at the bottom of the list in the Americas.

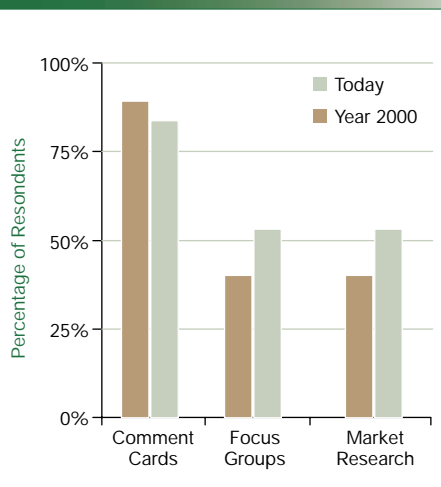
The Product

Decisions about hotel products must be seen through the lens of changing customer demands — current and future — with an understanding that they are the primary assets of a hotel organization. The adage — “build it and they will come” — no longer applies. Consistent

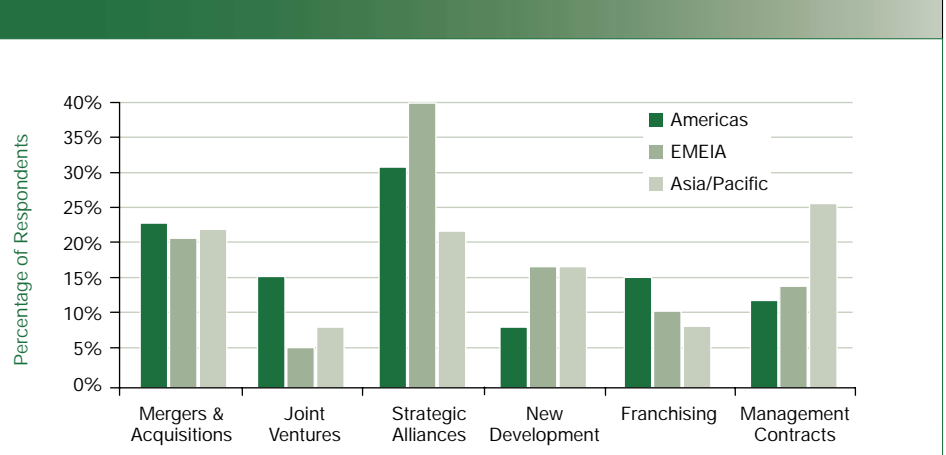
3 Statement: The Following Items Will Strongly Influence Customer's Hotel Purchase Decision in the Future



4 Measuring Guest Satisfaction Today vs. Year 2000



5 Ranking of Important Growth Strategies by Region





with this philosophy are key findings related to forces driving the building of brand equity. From a wide array of choices, our respondents are clear in their thinking.

The two major forces cited are:

- The need to increase market share by those companies seeking critical mass; and
- The importance of adapting products to meet the evolving needs of the market due to changing lifestyles and demographics.

As a result of rising customer expectations and the increasing needs of business travelers who wish to take their offices with them when they travel, we can expect new product innovations within the guest room, particularly in the area of technology. **Eighty percent** of industry executives recognize that increased capital will need to be spent on technology upgrades in the hotel room. Anecdotally, however, there seems to be some ambivalence as to whether business travelers want their office setups in the room or downstairs in the more sociable atmosphere of the business center.

Food for Thought

Historically, food and beverage operations have contributed significantly to the industry's revenues, and yet they have also been viewed with mixed feelings by the hoteliers responsible for delivering the profits. The conventional wisdom has frequently been that "the real money is in the rooms." Supporting this view is the strong preference expressed by our respondents for leasing food and beverage facilities to third-party operators in the future. Themed restaurants are also popular among respondents, reflecting the continuing convergence of the entertainment and hospitality industries. This is a trend of great significance and one that truly responds

to the customers' focus on collecting experiences as much as material goods.

Global Chains Dominate

Given the importance of branding, it is not surprising that the *Hospitality 2000* findings suggest that franchising will play a significant role in the future of this industry. **Two-thirds** of our respondents believe that both consumer and investor preference for branded hospitality companies will continue to drive the

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growth of franchising. And, **two-thirds** of those polled furthermore believe that the franchising side of our industry will become dominated by a few multi-branded conglomerates relying on international growth. But for management companies, there was tough news. **Ninety percent** of our respondents foresee management fees driven by profits as opposed to revenues, and a future in which the term of management agreements will tend to be shorter.

Organization

In the future, a customer focus (both internal and external) will imbue business decisions at all levels of the hospitality

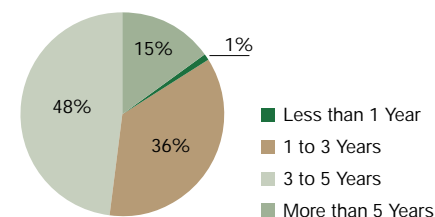
organization. But as for the type of organizations that will see the most growth, there is little disagreement among our survey respondents. **Seventy percent** see global hotel chains as growing the fastest in the future. While change is occurring at an unprecedented rate, the *Hospitality 2000* survey results indicate that visioning for the future is not always on the minds of many of the industry's executives. Close to **one in four** respondents reveal that they do not

have a long-range plan in hand. Of those that do, there is quite a wide range in how far ahead our industry's leadership is prepared to forecast and plan.

As the hospitality industry changes, recruitment of skilled management will be critical. **Eight out of ten** industry executives agree that the ability to recruit experienced management personnel will be an important human resource challenge. Industry executives are also concerned with the availability of skilled employees and the adequacy of a hospitality education.

We conclude from our research that as the hospitality industry moves into the knowledge-based era of the next

6 Long Range Strategic Planning



7 Statement: The Following Will Be of Great Significance to Human Resource Management in the Future

(Percentage of Respondents in Agreement)

Recruiting of Skilled Management	83%
Availability of Skilled Employees	75%
Labor Cost	75%



8 Statement: The Following Will Be Important Sources of Capital in the Future

(Percentage of Respondents in Agreement)

Public Markets	56%
Institutional Investors	50%
Pension Funds	50%

millennium, hierarchical and matrix-like structures will need to give way to flat, flexible learning organizations that look to the market for guidance, take risks and balance analysis with creativity. Those organizations that pursue such courses will clearly be better able to compete in a customer-focused marketplace.

Capital

If current trends are anything to go by, the competition for capital is likely to increase steadily in the future. In response, hospitality companies will need to focus on enhancing shareholder wealth and producing satisfactory returns. As hospitality companies expand into the global economy, it seems clear from this survey that they will need to seek investment capital outside of the local or traditional framework. The majority of responding executives will be looking to public markets and institutional investors to provide the capital for the industry's future growth. Other prominent sources are expected to be foreign investors (suggesting a continuing trend to globalization of capital markets) and the pension fund community — long sought after as a result of its huge capital base. Whether the pension funds can overcome their traditional ambivalence about real estate generally and their sharp views about the complexity of the hotel "business" remains to be seen. But

on the public markets front, the actual evidence is clear. Securitization of the hotel industry is well underway, at least in the United States, and is likely to continue to expand in the future.

Impact of Technology

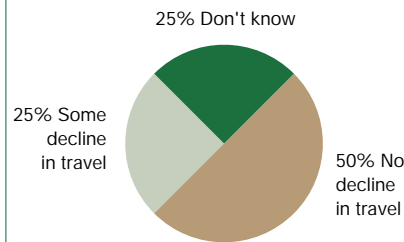
The 21st century will bring the era of the fully-automated hotel, connecting the customer to a universe of diverse products and services offered by an array of providers. Indeed, more than **80**

and the Internet will contribute to a decline in business travel. While over *one-half* explicitly disagree with such a view, close to *one-quarter* do not take a position one way or the other (suggesting substantial uncertainty in this area). The remaining respondents agree that technology will cause some decline in business-related travel.

Conclusion

The *Hospitality 2000* study confirms that the hospitality industry is in a profound state of change. The years ahead will offer unprecedented opportunities to companies as they forge a strategic path in the world economy. Insight about a wide array of forces that will shape the future of the industry in both business and leisure travel will be essential to success. As a global research initiative, *Hospitality 2000* provides a vital framework for dialogue about the issues confronting the industry as hospitality companies seek to capitalize on change, rather than be casualties of it.

9 Will Technology Contribute to a Decline in Business Travel?



percent of survey respondents in the *Hospitality 2000* study believe that technology will provide the opportunity to improve the delivery of products and services. However, an even larger number — **85 percent** — state that technology cannot replace the human element in delivering quality service. Clearly, technology is widely viewed as a means to enhance and facilitate service, but not as an alternative to providing quality service.

While there has been speculation that technological innovation may reduce business travel, there is little support for this view among executives surveyed. Our respondents are clearly split on the question of whether technological innovation such as videoconferencing



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