Grant Thornton

Focus on: Hospitality

International Business Report 2010 – Sector focus series

The Grant Thornton International Business Report (IBR) 2010 reveals that privately held businesses (PHBs) in the hospitality sector are markedly more confident about their economic prospects for the year; a balance[1] of +32 per cent are optimistic this year compared to +2 per cent last year. Businesses, on average across all sectors, are more optimistic this year (+24 per cent) than they were in 2009 (-16 per cent).

Of the ten sectors considered in the 2010 sector focus series, financial services is the most buoyant at +42 per cent; ahead of technology (+40 per cent), cleantech (+34 per cent), hospitality (+32 per cent), retail (+31 per cent), manufacturing (+25 per cent), construction & real estate (+13 per cent), food & beverage (+7 per cent), transport (+5 per cent) and healthcare (-18 per cent).

The hospitality sector

2009 was a year of almost unparalleled turmoil in the hospitality sector with global international travel declining by an estimated 4.7 per cent across the year.[2] Commercial demand for hotel rooms collapsed as businesses slashed costs, reigning in employee expenses in favour of more cost-efficient meeting techniques – such as video conferencing – whilst the leisure tourism sector retreated rapidly as consumers cut back on holidays and shunned foreign travel.

The hospitality sectors of many of the emerging economies, notably Russia and India, were hit hard by the global slowdown but these markets, and their respective sectors, have shown a much more robust recovery in comparison with the more mature economies. Meanwhile, Europe lost around six per cent of its visitor volumes across 2009, wiping out many of the gains it had made in 2007-2008, and any recovery in 2010 has been hampered by the cloud of volcanic ash and the exceptionally cold winter weather.

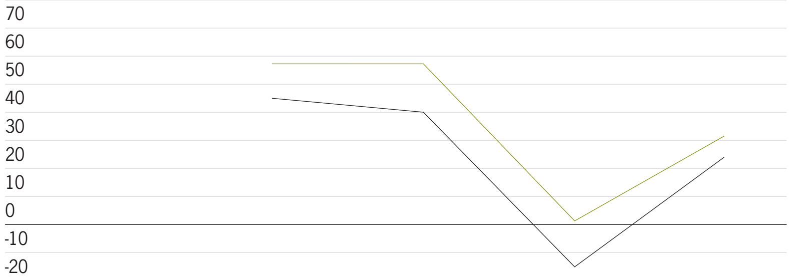
[1] the balance is the proportion of companies reporting they are optimistic less those reporting they are pessimistic
[2] source: European Travel Commission 2010

The state of the sector

Optimism/pessimism

- a balance of +32 per cent of businesses in the hospitality sector are optimistic about their respective countries' economic outlook this year, an increase of 30 percentage points from +2 per cent last year
- the balance across all sectors indicating optimism for the year ahead has risen by 40 percentage points this year, from -16 per cent in 2009 to +24 per cent.

Figure 1: Outlook for the economy: 2007-2010
Percentage balance of businesses indicating optimism against those indicating pessimism



	2007	2008	2009	2010
Hospitality	57	57	2	32
All sector average	45	40	-16	24

Source: Grant Thornton IBR 2010

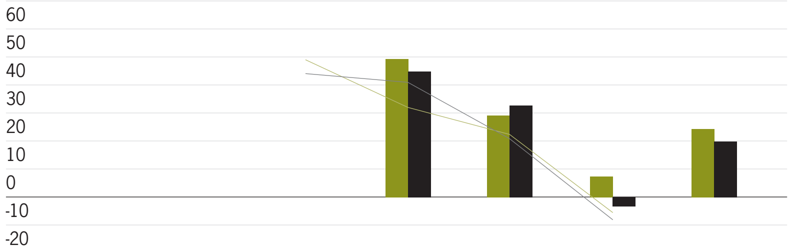
"Occupancy rates have been pretty low over the last 12 months so businesses are looking at geographic diversification in order to get a better mix and access new market opportunities to drive demand."

Doug Bastin
Grant Thornton, Canada

Employment

- a balance of +24 per cent of businesses in the hospitality sector expect to expand the size of their workforce in 2010, slightly higher than the all sectors average of +20 per cent
- actual employment growth reported by businesses in the sector in 2009 (-6 per cent) was even worse than expected 12 months previously (+7 per cent)
- as was the actual employment growth reported on average across all sectors, -8 per cent compared to the expected -4 per cent.

Figure 2: Employment history: 2006-2010
Percentage balance of businesses indicating an increase against those indicating a decrease



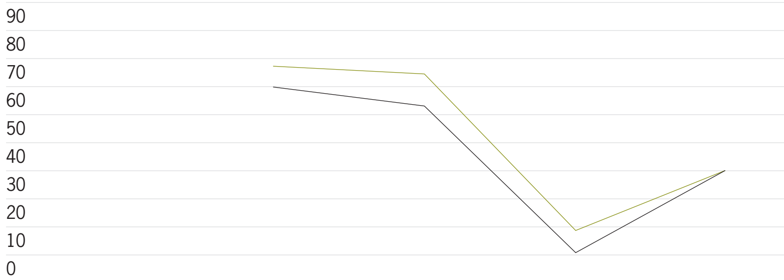
	2006	2007	2008	2009	2010*
Expected hospitality	–	49	29	7	24
Expected all sectors	–	45	33	-4	20
Actual hospitality	49	32	23	-6	–
Actual all sectors	44	41	21	-8	–

*actual 2010 data will be documented in IBR 2011
Source: Grant Thornton IBR 2010

Revenue expectations

- a balance of +40 per cent of businesses in the hospitality sector expect their revenue to increase across 2010, compared to +19 per cent last year
- this is still considerably lower than expectations in 2007 (+78 per cent) and 2008 (+75 per cent)
- across all sectors, revenue expectations have rebounded to +40 per cent this year, up from just +11 per cent in 2009.

Figure 3: Revenue expectations: 2007-2010
Percentage balance of businesses indicating an increase against those indicating a decrease



	2007	2008	2009	2010
Hospitality	78	75	19	40
All sector average	70	63	11	40

Source: Grant Thornton IBR 2010

Joshua Bushard
Grant Thornton, United States

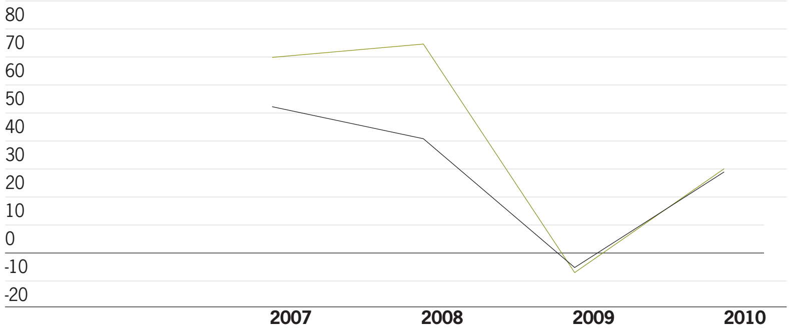
"Hotels and restaurants are keen to rebuild customer loyalty and create new connections with their customers. The 'low cost, high touch' digital media space provides the avenue but focusing efforts on customer loyalty over discounting promotions is essential."

Profitability expectations

- the balance of businesses in the hospitality sector expecting to increase profits in 2010 is +30 per cent, an increase of 37 percentage points from last year (-7 per cent)
- this increase is still considerably lower than expectations in 2007 (+70 per cent) and 2008 (+74 per cent)
- the all sector average has increased by 34 percentage points, from -5 per cent in 2009 to +29 per cent this year.

Figure 4: Profitability expectation: 2007-2010

Percentage balance of businesses indicating an increase against those indicating a decrease



	2007	2008	2009	2010
Hospitality	70	74	-7	30
All sector average	52	41	-5	29

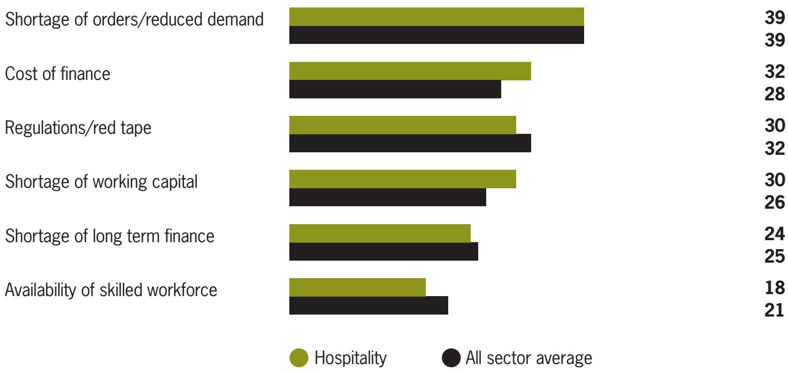
Source: Grant Thornton IBR 2010

Constraints

- in line with the all sector average, a shortage of orders/reduced demand is the most pressing concern for businesses in the hospitality sector (39 per cent)
- the cost of finance is cited as the second biggest constraint (32 per cent), considerably higher than the all sector average of 28 per cent
- the availability of a skilled workforce is of lesser concern within the hospitality sector (18 per cent), than it is for all sectors (21 per cent).

Figure 5: Constraints on expansion

Percentage of businesses rating constraint 4 or 5 on a scale of 1 to 5 where 1 is not a constraint and 5 is a major constraint



Source: Grant Thornton IBR 2010

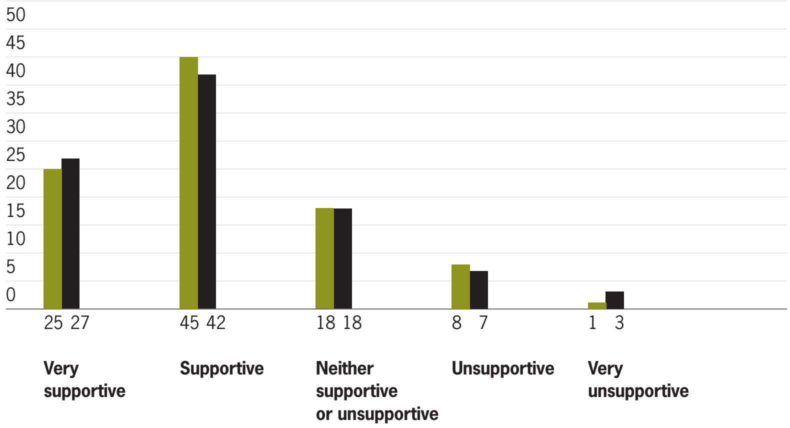
Bill Hutchison
Grant Thornton, Thailand

"The ongoing political unrest in the country continues to have a significant adverse impact on the industry with some hotels in the capital, Bangkok, suffering single digit occupancy after the recent crack-down on the demonstrations. Many of the political issues remain unresolved and so the recovery may be slow and patchy. As a mid-to-longer-term strategy, hotels in Thailand are focusing more promotional efforts on the rapidly growing Asian markets."

Support of lender

- 70 per cent of businesses in the hospitality sector are happy with the level of support provided by lenders, compared with 69 per cent on average across all sectors
- nine per cent of businesses in the sector believe that lenders are unsupportive or very unsupportive of their business, compared to ten per cent on average across all sectors.

Figure 6: Level of support provided by lenders
Percentage of businesses



Source: Grant Thornton IBR 2010

Mergers & acquisitions

- the proportion of businesses in the hospitality sector planning to grow through acquisition fell by 16 percentage points this year, to 24 per cent
- this followed a ten per cent drop the previous year, from 50 per cent in 2008 to 40 per cent in 2009
- the all sector average has also fallen steadily over the past three years from 44 per cent in 2007 to 26 per cent this year.

Figure 7: Plans to grow through acquisition in the next three years
Percentage of businesses planning to grow through acquisition

	2008	2009	2010
Hospitality	50	40	24
All sector average	44	37	26

Source: Grant Thornton IBR 2010

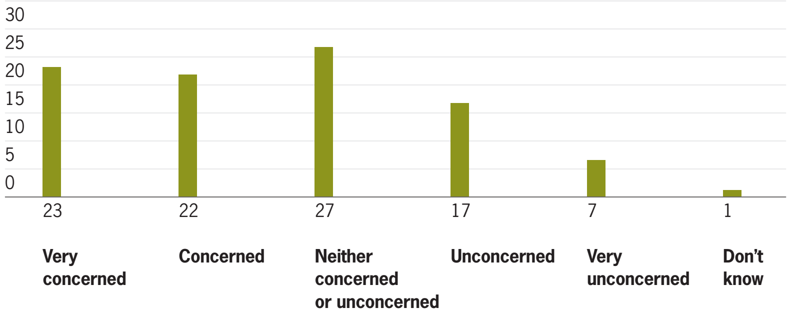
Gillian Saunders
Grant Thornton, South Africa

"Businesses are trying to combat the lack of loyalty by really working their existing customer base, looking after them well and offering them discounts and promotions to keep them coming."

Major chains

- just over one-quarter of businesses in the hospitality sector are neither concerned nor unconcerned over the dominance of major chains on their business (27 per cent)
- similar proportions are concerned (22 per cent) or very concerned (23 per cent)
- whilst 17 per cent are unconcerned and even less very unconcerned (seven per cent).

Figure 8: Concern over the dominance of major chains
Percentage of businesses

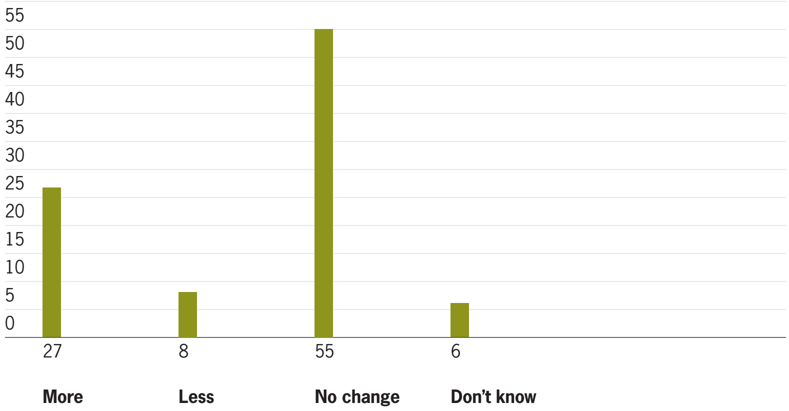


Source: Grant Thornton IBR 2010

Marketing focus on international tourists

- the majority of businesses in the hospitality sector (55 per cent) have made no change to their marketing efforts regarding international tourism
- one-quarter have increased their focus (27 per cent)
- and eight per cent have reduced their international tourism marketing efforts.

Figure 9: Are your marketing efforts more or less focused on international tourists than they were 12 months ago?
Percentage of businesses



Source: Grant Thornton IBR 2010

Attracting customers

- most businesses within the hospitality sector are planning on introducing creative promotional packages over the next 12 months as an alternative method of attracting customers (57 per cent)
- two-fifths are planning to introduce e-marketing (46 per cent) and menu innovation (40 per cent)
- one-third cited loyalty schemes and value add conference packages
- whilst acquiring competitors is the least popular method (11 per cent).

Figure 10: What alternative methods of attracting customers are you planning on introducing over the next 12 months?
Percentage of businesses

Source: Grant Thornton IBR 2010

Outlook for the sector

The hospitality sector is forecast to remain fairly flat across 2010, particularly in more mature markets, as companies continue to hold back on corporate hospitality expenditure by cutting down face-to-face meetings and length of stay, and consumers look for cheaper, low-cost holiday options closer to home.

In Europe, numbers of visitors are set to increase only modestly in the short-term, as unemployment and fiscal retrenchment squeeze consumer spending, with 2008 visitor levels unlikely to be reached until the end of next year. Persistent weakness in sterling and the euro would make the region attractive to foreign visitors.

The strength of the recovery in emerging markets, coupled with burgeoning and increasing wealthy middle classes increasing propensities for foreign travel, is helping the sector. In South Africa, the FIFA World Cup is expected to benefit the country's economy – and the hospitality sector in particular – hugely with around 400,000 foreign fans expected to descend on the African continent.

Helen Riley
Grant Thornton, United Kingdom

"We are seeing a lot of discounting with consumers getting more clued up about using promotional tools and web search facilities for a better deal. This is becoming established practice in the minds of consumers and is set to continue to grow."

Sector's perspective

A luxury hotel and resort chain in South Africa, employing around 350 staff

Lessons learned from the downturn
"In South Africa we are used to lots of volatility so we have been less impacted than the rest of the world and business has dropped but not as dramatically as others. The drop in international tourism, mainly from the US, has been our biggest setback, although the local market remained buoyant."

Major risks for the year ahead
"Forecasts for the number of fans for this year's World Cup are constantly being revised down. Our contracted properties are sponsored by FIFA, specific sponsors or specific teams, so we're not reliant on the tourist trade brought by the tournament. Business travel will stop around early May because of the football and is expected to pick up end of July, but we don't know what will happen after that."

Planning for the future
"We need to have contingency plans in place if the market does not pick up after the World Cup, even cutting back on the staff that we have in place for the extra business from the tournament. As a group, we are looking at new non-traditional geographic markets across Africa, such as Nigeria, China and India to cater for an increase in higher end business travel."

Positive changes in the sector
"Exchange rate conditions could help but predicting the exchange rate is our biggest challenge as tour operators require it 12 to 18 months in advance so that they can start preparing their brochures. South Africa is an expensive destination, because of our location and the high cost, long haul airfares, and we need our predictions to be as accurate as possible."

"The drop in international tourism, mainly from the US, has been our biggest setback, although the local market remained buoyant."

“The major risk for the year ahead is clearly the volatile political situation.”

A 79-room hotel in Thailand employing around 70 staff

Lessons learned from the downturn

“As a small hotel with a relatively weak voice in the marketplace, we generally rely heavily on bookings from agents and also from walk-ins, but the decrease in travellers from overseas has been notable over the past 12-18 months and this has severely impacted on our revenues. We have therefore had to be a lot more proactive in going out and finding customers.”

Major risks for the year ahead

“The major risk for the year ahead is clearly the volatile political situation. Whilst we are not based near Bangkok, the troubles there with the protestors are putting tourists off coming to Thailand. Indeed, we hear that foreign governments are advising their citizens not to come to Thailand so a resolution to these problems is a major concern for us.”

Planning for the future

“At the moment we are not looking to expand as our profit margins have been squeezed significantly in recent times. Instead we are seeking to develop our marketing of both the area as a place for tourists to visit as well as the high quality of our rooms and services.”

Positive changes in the sector

“As many foreign tourists fly to Bangkok the most positive change in the sector would be for the political protests there to be resolved. If this can happen soon then we should see occupancy rates increase.”

View from Grant Thornton

Lessons learned from the downturn

- **end to brand loyalty:** the downturn has left many customers reviewing their costs and searching for price opportunities in the market; businesses are therefore having to work even harder to retain their customer base
- **importance of web discounting:** consumers have become much more price conscious, aided by using websites which offer discount hotel rooms and two-for-one deals
- **careful expansion planning:** some businesses, especially chains, were caught by the recession with more unit developments in the pipeline than they could deal with; the need to conduct careful investment analyses is therefore very important
- **need to downgrade services:** some of the larger hotels have been forced to downgrade themselves by reducing services in a bid to save costs and compete with others on price.

Major risks for the year ahead

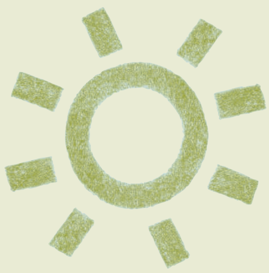
- **translating recovery into occupancy rates:** increased occupancy rates have not materialised from economic recovery across the board and there is a risk that long-term consumer taste may have been changed, with a preference for better value hospitality
- **fiscal retrenchment:** higher taxes to combat the large fiscal deficits many governments around the world are running may squeeze consumer spending
- **inability to upgrade properties:** increasingly fierce competition on pricing will further constrain businesses from making the necessary upgrades to their properties.

Planning for the future

- **survival:** the majority of businesses are sitting tight and hoping that access to finance and customer numbers improve
- **geographic diversification:** some businesses are looking to diversify into the emerging markets to benefit from opportunities and drive occupancy rates up
- **increasing web presence:** businesses in the sector need to make sure they have a presence within the discounting websites to maintain and boost reservation rates
- **focus on mid-range traveller:** lots of hotels are focusing their attention on the mid-range business market, producing a package for the budget of business travellers.

Importance of promotional packages in attracting customers

- **attract customers whilst increasing prices:** the sector is in the difficult position of needing to hold on to customers whilst also increasing prices which have had to be lowered in the face of fierce competition; the creation of brand loyalty through ‘low cost, high touch media’ is central to this
- **development of customer behaviour:** the use of promotional tools and web discounting has become standard practice in the industry as customer behaviour has developed in terms of searching for value
- **package deals on the rise:** an increase in provision and promotions of fully packaged holidays – transport, accommodation and recreation – is one strategy businesses are using to gain market share.



The Grant Thornton International Business Report (IBR) is an annual survey of the views of senior executives in privately held businesses (PHBs) all over the world. Launched in 1992 in nine European countries the report now surveys over 7,400 PHBs in 36 economies providing insights on the economic and commercial issues affecting a segment often described as the 'engine' of the world's economy. In the hospitality sector, 344 businesses were interviewed, 61 per cent from accommodation, nine per cent from creative, arts and entertainment activities, two per cent from gambling and betting activities and 28 per cent from other hospitality-related activities.

To find out more about IBR and to obtain copies of reports and summaries visit: **www.internationalbusinessreport.com**. The site also allows users to complete the survey and benchmark their results against all other respondents by territory, industry type and size of business.

Participating economies

Argentina
Armenia
Australia
Belgium
Botswana
Brazil
Canada
Chile
Mainland China
Denmark
Finland
France
Germany
Greece
Hong Kong
India
Ireland
Italy
Japan
Malaysia
Mexico
Netherlands
New Zealand
Philippines
Poland
Russia
Singapore
South Africa
Spain
Sweden
Taiwan
Thailand
Turkey
United Kingdom
United States
Vietnam

Grant Thornton

www.gti.org
www.internationalbusinessreport.com