

# Executive Report

The magazine for the Tourism, Hospitality and Leisure industry

## Hotel Fashionista

Looking at the vogue in catwalk hotels

## New Zealand –

100% pure opportunity

Boosting visitor arrivals the natural way



# Issue 10

Winter/Spring 2008

**Managing editor:**

Alex Kyriakidis

**Editorial board:**

Ali Agmen-Smith

Nicole Bell

Philippa Graves

Helen Stevenson

**Contributing authors:**

Andrew Dick

Deborah Griffin

Edward Jenkins

Alex Kyriakidis

Neil Morris

Graham Pickett

**For further information about this report, please contact:**

Philippa Graves

Tel: +44 20 7007 2273

Email: [pgraves@deloitte.co.uk](mailto:pgraves@deloitte.co.uk)

Helen Stevenson

Tel: +44 20 7303 5018

Email: [hstevenson@deloitte.co.uk](mailto:hstevenson@deloitte.co.uk)

To find out more about our services, visit our websites at:

[www.deloitte.co.uk/tourismhospitalityleisure](http://www.deloitte.co.uk/tourismhospitalityleisure)

[www.sportsconsulting.co.uk](http://www.sportsconsulting.co.uk)



## Contents

- 1 Welcome
- 3 Country snapshot: New Zealand – 100% pure opportunity
- 5 Skies are open for business
- 9 Hotel fashionista
- 13 Let it snow, let it snow!



# Welcome

## Record growth in 2007, what will this year hold?

As we start 2008, it's worth pausing briefly to reflect that last year was undoubtedly one of the best for our industry since the 9/11 attacks and their worldwide consequences. We have seen record growth across all tourism sectors, with the emerging markets of China, India and the Gulf generating substantial opportunities. We have also witnessed Blackstone Group single-handedly pulling off the largest public to private transaction in the hotel industry's history, with the acquisition of Hilton Hotels Corporation.

Last year, more people than ever boarded planes for business or pleasure, and global air travel is flourishing. So – on the face of it – the outlook seems extremely positive. But if you look a little deeper, you'll see that in the USA – the world's largest tourism market – and in many Western European countries, there are signs that consumer confidence has started to be affected by the credit squeeze, largely off the back of the sub-prime mortgage crisis. Historically, when consumer confidence falters, so does spending on leisure and travel. With this in mind, we need to make sure that no opportunity to keep costs down – or push revenues up – is ignored, so that whatever happens in the months ahead, the industry is in the best possible shape to respond.

As always, we value your feedback.

Best wishes for a good year.



Alex Kyriakidis  
Global Managing Partner  
Tourism, Hospitality and Leisure





## Country snapshot

# New Zealand – 100% pure opportunity

New Zealand is one of the least inhabited places on earth, one of the most stunning in terms of its natural beauty and, as the home of the first commercial bungee jump, the adrenalin capital of the world.

Its popularity with international tourists is steadily increasing, with 4% annual growth expected over the next five years, according to the New Zealand Ministry of Tourism. Jobs in tourism already account for around 10% of the country's total employment<sup>1</sup> and the government has recently launched a strategic plan to ensure New Zealand delivers a world-class experience to visitors.

In 2011, the nation will host the Rugby World Cup, giving it an opportunity to showcase its diverse attractions to thousands of spectators, plus the millions more who will be watching via TV screens and the internet.

As work begins on improving the country's sports stadiums, transport infrastructure and hotels ahead of this high profile event, the signs are that there has never been a better time to invest in New Zealand.

### Room to breathe

Legend has it that New Zealand, or Aotearoa, the land of the long white cloud, was fished from the sea by Maui. The Maori migrated there around 1,000 years ago and were joined by European migrants about 800 years later, when New Zealand became a British colony. This intriguing mix of Maori and European cultural heritage makes it one of the world's premier tourism destinations.

As a relatively young nation, it has retained the pioneering spirit of the early explorers, and one of its most appealing attributes remains its lack of crowds. Even though New Zealand is about the same size as Britain or Japan, it has a population of just 4.2 million, compared to the UK's

60.7 million or Japan's 127.5 million, giving tourists plenty of room to breathe<sup>2</sup>.

Today, it enjoys a stable economy with excellent prospects for long-term competitiveness. The annual growth in GDP, according to the Economist Intelligence Unit, is expected to hover around the 3% mark during 2008 – 2009.

Its current unemployment rate is around 3.5% – the lowest in 21 years – which effectively means full employment, and New Zealand's government has created some compelling business advantages that are attracting continued investment.

### Environmental champion

For a country considered by some to be 'at the end of the earth', New Zealand has been remarkably successful at attracting international tourists. Its scenic beauty has been a magnet for visitors since the early European migrants, with tourism playing an increasingly important role in the country's economic growth.

In 2006, for instance, tourism contributed NZ\$18.6 billion (US\$14.6 billion) to the economy, representing 9% of the country's GDP, according to the New Zealand Tourism Strategy 2015 report. It was also New Zealand's biggest single export earner (NZ\$8.3 billion/US\$6.5 billion) and employed 10% of the workforce.

New Zealand has much to offer, particularly to those seeking an adrenalin rush. As mentioned in the introduction to this piece, it is the home of the first commercial bungee jump – off Kawarau Bridge in Queenstown – and the country now has

more jump sites than any other. It also has plenty of white and black water rafting, cannon swings, mountains to climb and numerous other licences to thrill. Overlaying this is the Maori cultural experience backed by a general perception that New Zealand is a green, unspoilt and safe haven offering respite from a busy and troubled world.

One of the most successful tourism advertising campaigns in recent years – 100% pure New Zealand – sums up what makes New Zealand special. The tag line was an inspired choice, enabling designers to focus on the natural beauty of the country, and to rival Australia's more down to earth approach "So where the bloody hell are you?".

As an environmental champion – one of New Zealand's unique selling points – the preservation of nature is paramount, and the photographs used in the campaign extend this message to a global audience. They feature stunning natural landscapes, ranging from the Milford Sound to Lord of the Rings country around Otago, the volcanic attractions of Rotorua and the beach beauty of the Bay of Islands.

The campaign has defined the brand 'New Zealand' in a positive way throughout the world and helped to boost visitor arrivals last year by around 1.6%. Visitor numbers have been growing steadily during the past few years, reaching around 2.5 million for the year ended November 2007, with most travellers spending much longer here than in many other countries.

However, when looked at from a global perspective, New Zealand clearly remains a niche destination, attracting just over 0.3%

of international arrivals and 0.6% of international tourism expenditure.

To understand the market dynamics better, it's worth taking a look at visitor numbers for 2007, as shown below.

Country of origin for visitor arrivals in New Zealand – year ended Nov 2007	
Market/Region	2007 (000)
Australia	946
United Kingdom	297
United States	217
Japan	123
China	120
South Korea	103
Germany	59
Rest of the World	602
<b>Total World</b>	<b>2,467</b>

Source: New Zealand Ministry of Tourism

Australia remains New Zealand's largest source market – and vice versa – with Australia and the UK making up around 50% of inbound tourism. The growth in low cost flights in Australasia will encourage more regional travel, and a surge in American visitors is expected after 2010, when Air New Zealand introduces the long range 787 Dreamliners to its US routes.

Emerging source markets such as India and China, with new middle classes keen to travel, also represent massive opportunities for growth, and even capturing a fraction of these markets would make a significant difference to tourism revenues in New Zealand.

So far though, visitors from China tend to arrive in tour groups, which usually have a lower dollar per day spend than solo travellers, so the challenge is to encourage more independent visitors from these countries.

New Zealanders travel a great deal around their own country and in the year to June 2007, spent around NZ\$7.9 billion (US\$6.2 billion) in the process, quite a bit more than the NZ\$6.3 billion (US\$4.9 billion) spent by international visitors. Domestic travel increased around 4.5% in 2006 and is expected to continue to grow; however, the amount spent by international visitors is set to overtake domestic revenues by 2011<sup>1</sup>.

**Hotel business**

According to the HotelBenchmark™ Survey by Deloitte, which monitors hotel performance around the world, hotels in

New Zealand are currently performing well. In Auckland, for example, revenue per available room grew by just over 19% in the first six months of 2007.

While the strong New Zealand dollar is not particularly helpful to visitors, hoteliers believe the business outlook remains positive.

This view is supported by tourism officials, who point out that people are spending more when they are in the country, with expenditure up an estimated 7.4% in 2007, compared to 6.5% growth in 2006. This suggests that the industry can grow its value faster than its volume.

**World-class sport**

New Zealand's Ministry of Tourism had already predicted 4% annual growth in international visitors, even before it was announced that the country had been chosen to host the Rugby World Cup in 2011.

A world-class sporting event such as this usually brings a leap in visitor numbers, leading to full hotels and busy restaurants, as French hoteliers can confirm from this year's highly-successful World Cup. Interest tends to peak during the event with a legacy impact that can last for some time, as visitors generally return home as advocates for the host nation.

There are, however, a few clouds on the horizon. First – the 'inconvenient truth' of global warming, which is becoming a big deal in some of New Zealand's target markets.

Ironically, this may mean that one of New Zealand's best selling points – its natural beauty – could become a focus issue, as visitors become more concerned about the environmental impact of flying long distance for a vacation. There is clearly a dilemma facing a country at the forefront of sustainability in encouraging international visitors, given that air travel is considered by many to be a growing source of greenhouse gas emissions.

This conflict between welcoming tourists but not their carbon footprint, is more pressing for New Zealand and Australia, who are much more dependent on air travel than other regions, such as Europe. Like other airlines, Air New Zealand is working on its green credentials and plans to trial bio-fuel on a test flight of a Boeing 747. There are other initiatives by business leaders to become more involved in the sustainability

debate, and to challenge assumptions about global warming, rather than just accepting current wisdom. There is a delicate balance to be found here, as the green lobby has considerable backing in many source countries, particularly the US and the UK.

Given New Zealand's backdrop of full employment, there is also the challenge of attracting and retaining the right people to work in tourism. Long-term success will depend on visitors enjoying a high quality of service, and this puts pressure on hotels, restaurants, bars and resorts to attract people into jobs that are not often regarded as well paid. As most of New Zealand's tourism businesses are small enterprises, the ability to offer other compensation benefits is limited.

Tourism authorities recognise this and are working with businesses and other stakeholders on ways to increase the pool of suitably trained people. While more needs to be done, at least the issue has been raised and is being debated.

As Tourism Minister Damien O'Connor says in the latest forecast report, tourism in New Zealand is no longer in a cycle of boom and bust, and is experiencing steady growth. Value is growing at a faster rate than volume, and will continue to do so.

With more people travelling than ever before, the land 'at the end of the world' is likely to attract those looking for a destination where the '100% pure' label fits better than anywhere else on earth. ●

**Andrew Dick**  
 Partner, Deloitte New Zealand  
 Tel: +64 9 306 4358  
 Email: andick@deloitte.co.nz

1. New Zealand Ministry of Tourism  
 2. Economist Intelligence Unit  
 3. New Zealand Ministry of Tourism  
 4. New Zealand Tourism Forecast 2007-2013, New Zealand Ministry of Tourism

# Skies are open for business

The skies over the Atlantic are now officially open. After years of wrangling, months of negotiations, and intense lobbying on both sides, the US and the European Union have agreed to liberalise the transatlantic air travel market.

From March 2008, European and American airlines will be able to fly to any destination in Europe and the US – ending years of restrictions that have been described by many industry analysts as ‘arcane.’

Importantly, European airlines will be able to fly to the US from any EU airport, not just their home country.

The scramble for flights to and from the major European hubs began before the ink was dry on the paperwork, with airline chiefs busily trading slots with their peers to put together the most competitive schedules.

In this article, we look at the background to the Open Skies treaty and consider what the changes will mean for airlines and their

passengers, especially in the UK, from where 40% of Europe’s US-bound flights take off.<sup>1</sup>

## **The original blueprint**

To understand why it has taken so many years for European and US Governments to reach an agreement, it’s worth looking back to the protective stance taken by the British Government when the aviation industry began to expand after the Second World War.

In 1946, the UK and the US signed the Bermuda Agreement at the insistence of the UK Government, which sought to protect both its airspace and its fledgling airline industry from what it perceived to be a large predator with plenty of cash to invest. This deal became the blueprint for all

subsequent air service agreements and led to the emergence of ‘flag carrier’ airlines – usually state-owned – and has prevented US operators dominating global air travel.

In 1977, the Bermuda II Agreement was signed, allowing only a handful of airlines – British Airways Plc (BA), American Airlines Inc, United Airlines Inc and later Virgin Atlantic Airways Ltd – to operate between London Heathrow and the US. Widely regarded as one of the most restrictive bilateral aviation agreements ever, this will be swept away by the Open Skies treaty in March.

During this 30 year-old closed shop, BA and, latterly, Virgin Atlantic were able to build large profit margins into their key London-US routes and, quite naturally, they lobbied

the British Government to oppose the new deal. Although they did not succeed in that endeavour, the British team did manage to delay the changes until March, when Heathrow's new Terminal 5 should be open.

BA and Virgin Atlantic's rivals are now itching to get their aircraft onto the tarmac at Heathrow, which is no easy task, given that the airport is currently at bursting point. More than 98% of its landing and take off slots are taken, and the ones left over are not suitable for transatlantic traffic, according to Peter Morrisroe, Managing Director of ACL.

#### More alliances likely

Clearly, many airlines are eager to take their share of Heathrow's high-capacity, high-margin future, especially with the extra terminal opening and a new runway on the cards – but muscling in on an already jam-packed flight schedule is not that easy.

Despite frequent requests for slots, airlines keen to rival the incumbent players are usually frustrated. Trading in slots, a bit of a grey area in terms of regulation, and the legalities of ownership, can be an extremely expensive business, with prime slots potentially changing hands for up to £30 million (US\$60 million) a pair.

Alliances between carriers are seen as the best way to open up routes from Heathrow to the US, with members of the Star alliance looking to British airline BMI – which has the second highest number of slots at Heathrow after BA – to help them.

Meanwhile, Delta, Continental Airlines Inc, and Northwest Airlines are all said to be in negotiations to acquire slots that will let them launch low frequency flights, and although this will give them a foothold at Heathrow, it will be a slender one. We are therefore likely to see the focus switch to other major European hubs and to see more ventures – such as the one recently announced between Air France and Delta – as carriers try to take a larger slice of the transatlantic market.

The Air France/Delta deal kicks off in April 2008 with the two companies sharing revenue and costs on several routes, including flights from Paris and Lyon, and Delta's bases in Atlanta and Cincinnati. There is also speculation that fellow Skyteam alliance members, KLM – which is owned by Air France – and Northwest Airlines, will negotiate an agreement.

Of course, Heathrow isn't the only gate number to the US, and airlines with strong brands and high quality products are likely to launch new flights from other European airports in a bid to entice passengers away from their rivals. Both BA and Virgin Atlantic are said to be planning flights from several major European airports, paying particular attention to the more lucrative business market.

We are also likely to see plenty of M&A activity as airlines shape up to this new world, especially in the second stage of the open skies agreement, when current regulations on European investment in American airlines could soften.

#### Domestic US routes

One of the major sticking points to signing the agreement, in April 2007, was the protectionist attitude of the US negotiators. While US operators have the right to fly between EU member states, the American domestic market remains a no-go area for European airlines. Sir Richard Branson's early attempts to establish a Virgin Atlantic service in the US fell foul of these regulations, but a second attempt enabled him to set up Virgin America, which is already building a loyal customer base. However, despite using the Virgin name, the airline is not an extension of Virgin Airlines nor is it even controlled by Virgin Group. In fact, Virgin America is 75% owned by the private equity group VAI Partners LLC and highlights the fact that any US airline has to be owned and controlled by US citizens.

However, talks to extend the open skies agreement are due to begin soon and there are hopes that the US will allow foreign companies to operate domestic routes and buy into US airlines within two years.

Under the terms of the March 2008 treaty, if the US does not agree to wider foreign ownership, the EU is entitled to withdraw traffic rights to the US.

Some analysts see the disputes over the liberalisation of domestic US routes as somewhat irrelevant. For example, since the deregulation of intra-European air travel – which precipitated the rise of the low cost carrier – US operators have been able to fly within the EU, and yet have chosen not to. Given that there is a national network of both low cost and 'flag carrier' operators covering the US, it is similarly unlikely that internal US routes would be commercially attractive to the European players.

#### Business class benefits

All this movement and competition among airlines as they maximise their new freedom is generally thought to be good for the consumer. Logically, if more airlines are competing for passengers on the same route, prices should fall. However, the real beneficiaries of all this change are expected to be the business travellers, particularly those keen on business-only services. This is because most industry experts believe the average consumer, who makes up the bulk of passenger numbers flying across the Atlantic, already enjoys extremely competitive fares. Canadian airline Zoom Airlines, for instance, has return fares to New York for around £250 (US\$500) and there are plenty more bargains to be had.

There is also the likely scenario of some European carriers deserting their short haul business to concentrate on transatlantic routes, leaving the budget airlines to rule the shorter route networks. While there is a chance that the budget airlines will compete with each other, the fact that the European flag carriers – who have dropped their prices to compete with the low cost airlines – will be out of the picture could mean less competition.

Consumers could therefore be slightly worse off, or at least no better off, under these new arrangements; while business travellers could be spoilt for choice by airlines offering transatlantic services, linking the major European business centres to the US.

BA and Virgin Atlantic, for example, are said to be considering routes from Milan, Madrid, Frankfurt, Brussels and Zurich, while the business only players such as Eos Airlines and Silverjet Aviation Ltd will be expanding their services.

#### Long v short

The assumption has been made by the European commission, and across the aviation industry generally, that the open skies treaty will increase business. However, there is a concern that the need for more environmentally-aware behaviour among consumers and business travellers could hold back demand.

When long haul flights are compared with short, regional hops, the long distance journey is usually regarded as the one with the larger carbon footprint, but this is not necessarily the case. Admittedly, long haul flights consume a lot of fuel, but they generally carry many more passengers per

flight. They also only have one or two take offs per day, when much more energy is used, than the short haul flights – which notch up many more cycles every day.

In addition, the new generation of long haul aircraft, specifically the Boeing 787 Dreamliner and the Airbus A350 are much more energy efficient than current aircraft and will have less of an impact on the environment, thereby making the green issue less relevant.

### Commercial freedom

While predicting what is going to happen in the aviation industry is never easy, most people agree that in the longer term open skies will lead to more flights and lower fares.

In the UK the optimistic Civil Aviation Authority estimates that open skies will save the British consumer an estimated £250 million (US\$500 million) a year in cheaper fares, but these reductions are most likely to favour business class tickets. The International Air Transport Association (IATA) believes airlines now have the commercial freedom to run their businesses as 'real businesses' as well as an opportunity to harmonise their security measures.

Clearly, there will be plenty of changes over the next three to five years, and consolidation across the European skyline will bring former rivals together to become more competitive in the liberalised market.

The Bermuda blueprint will at last be consigned to aviation history. ●

### Graham Pickett

Partner, Deloitte UK  
Tel: +44 1293 761232  
Email: gcpickett@deloitte.co.uk

### Neil Morris

Senior Manager, Deloitte UK  
Tel: +44 1293 761254  
Email: nmorris@deloitte.co.uk

1. Based on USA Today analysis of OAG schedule data, 2006





# Hotel Fashionista

With high profile openings from Versace, Armani, Missoni and Moschino expected in 2008, fashion hotels are suddenly very much in vogue. We examine the reasons for this trend and consider the opportunities and risks for hotel operators and luxury retailers as they venture out onto the catwalk together.

Fashion hotels are part of a rapid expansion in the market for luxury branded consumer products. According to Verdict Research, global expenditure on these goods has grown by 31% over the past five years to reach \$263 billion in 2007. Verdict expects the growth rate to accelerate over the next few years to reach \$450 billion by 2012, boosted by high demand from the emerging economies.

Since the pioneering Palazzo Versace opened its doors on Australia's Gold Coast at the beginning of the current decade, the impetus for fashion hotels has come from the retailers themselves.

## Way of life

As the luxury goods market grows increasingly competitive, the major fashion labels seek new ways to innovate and reinforce their brand strength. In today's 'experience economy' luxury goods are promoted as part of a broader aspirational lifestyle, encompassing all aspects of work and leisure.

Luxury consumers are invited to buy not only the product, but the way of life associated with the product: they can aspire not only to wear the brand, but to eat it, drink it, walk it, talk it, feel it... and even sleep in it.

For luxury goods retailers, fashion hotels demonstrate that the luxury brand is strong enough to expand beyond its traditional space, and offer a new way of engendering loyalty to the 'mother brand'.

These hotels can open up new revenue streams, channels to market and opportunities for cross-selling. Products are available for purchase from the hotel catalogue so that

guests can take the lifestyle back home with them when they check out at the end of their stay. A luxury retailer can sell a diamond ring to a couple and send them away on honeymoon to one of its own hotels.

## Design principles

A number of major fashion houses have opted to follow in Versace's footsteps, developing high-end, luxury hotels very much in their own image. These hotels seek to replicate the successful design principles of the luxury products themselves.

For example, Bulgari Hotels & Resorts are designed around values of contemporary Italian refinement, with subtle product placement, semi-precious materials, unobtrusive technology and attentive service. Armani Hotels & Resorts will showcase the designer's trademark minimal, clean aesthetic to create a feel of casual elegance. Palazzo Versace and Philip Treacy's 'g Hotel' adopt a more appropriately flamboyant style, with opulent features, gaudy colours and a glitzy image.

## Damage limitation

However, whilst the major fashion companies are renowned for their inspirational design skills, the mechanics of building and running a hotel remain very much a foreign country for most of them.

The preferred business model emerging in this segment involves some form of collaboration between the fashion house and the hospitality or real estate industries. Versace (Sunland Group) and Armani (Emaar Properties) have both forged partnerships with regional property developers to build and operate hotels in Australia and the Persian Gulf.

As luxury retailers move into unfamiliar territory they run the risk of damaging the world-class reputation of their brands. To minimise this danger a number of fashion houses are now courting the attentions of established hotel chains with a proven track record of expertise in the luxury sector.

## Joint venture

Partnership with the hotel industry may take the form of a licensing agreement, enabling the hotel chain to operate a number of properties under the fashion label, as is the case with Rezidor Hotels and Missoni. Collaboration may also take the form of a full joint venture, such as the deal concluded between Marriott International and Bulgari.

In the latter arrangement both parties fund the venture with their own capital, and share decision making as regards site selection and product design ranging across the architecture of the buildings, the staff selection process and the services offered. Bulgari retains a heavy creative input at all stages whilst Marriott assumes responsibility for the day-to-day operations.

## Partnership value

The future evolution of the fashion hotel sector is likely to involve further such approaches to the hospitality industry. But what is the value of these partnerships for the major hotel brands themselves?

The obvious answer might be revenue, but this is not necessarily the chief selling-point for hotel groups. Although the pricing structure of fashion hotels is typically at the top end of the luxury market, the relatively niche scale of these operations limits their overall benefit to the bottom line.



For many hotel operators the real value of partnership with iconic fashion brands lies in their strategic importance far more than in their economic contribution.

#### Strategic halo

According to Marriott's head of global brand Mike Jannini, the acquisition of Ritz-Carlton in the late 1990s created a 'strategic halo' around the group, demonstrating its ability to execute brand strategy successfully across a wide spectrum.

Jannini believes that the Bulgari partnership "has enhanced this strategic halo even further, taking it to even more specialised, more refined levels of execution."

For Marriott the value of the deal also lies in its contribution to the organisational competency of the group. The experience gained from partnership with Bulgari has directly enriched the group's new relationship with boutique designer Ian Schrager, with whom Marriott plans to create a new brand of up to 100 lifestyle hotels.

#### Question marks

Nevertheless, for the lodging industry the development of fashion hotels offers risks as well as opportunities. A question mark hangs over the long-term sustainability of partnership with the fashion houses.

Is the longevity of the hotel brand assured or are the fortunes of the brand wholly dependant on the current generation of individuals who control many of these family-run businesses?

Whilst this remains a risk in some cases, a growing number of luxury fashion retailers are reportedly contemplating stock market flotation, following a path already trodden by Bulgari. This would represent a major cultural change for many family dynasties, but would give them access to funds for expansion into new markets and a more managerial business style enabling them to compete with global luxury groups.

Another key risk for the hospitality industry is the threat of 'cannibalisation': the danger that high profile fashion brands may siphon off customers from other luxury brands in the hotel group's portfolio.

#### Distinct market

The key to avoid this danger is to ensure that the fashion hotel brand appeals to a distinct and clearly identifiable market segment. Bulgari Hotels targets the core Bulgari demographic of independently wealthy travellers, as does its Marriot stable mate Ritz-Carlton.

However, whilst Ritz-Carlton guests have more of a male bias, typically from relatively

traditional financial service-type backgrounds, Bulgari Hotel customers have a stronger female bias, tend to work in the arts, entertainment and fashion industries, and often travel for personal reasons.

Fashion hotels can benefit from the growing economic power of women as owners of wealth, and as career high-fliers. For example, a recent study from the Centre for Economic and Business Research found that women currently hold 48% of the UK's personal wealth and estimated that this proportion will grow steadily to 60% by 2025.

#### Creating cachet

Fashion hotels may remain distinct from traditional upscale hotel brands by targeting the status needs of the most affluent and fashion-conscious customer segments.

Luxury goods, once the preserve of the wealthy, have become increasingly accessible to mainstream consumer markets in recent years through premiumisation and counterfeiting. By creating hotels at the very top end of the luxury sector, fashion houses are able to reassert a sense of cachet and exclusivity. For example Palazzo Versace is famously billed as 'the most expensive hotel in Australia.'

Merrill Lynch's World Wealth Report estimates that the number of High Net Worth Individuals<sup>1</sup> increased globally by 8.3% in 2006 to reach 9.5 million people. As luxury products become more mainstream, these wealthiest consumers, and those who aspire to join their ranks, increasingly seek to assert their status by collecting 'luxury experiences' such as travel rather than by traditional material acquisition.

#### Location, location, location

To summarise, the rise of fashion hotels is likely to continue due to a confluence of trends: increasing competition and the need for innovation in the luxury goods industry; global patterns of wealth and the changing nature of luxury consumption; and the hotel sector's evolution into a sophisticated brand management culture able to execute successfully across the widest possible spectrum.

So where are the fashionistas of the future likely to be checking in? Existing hotels and current pipelines focus on Italy, the heartland of the luxury goods industry,

Where are the fashionistas?		
Fashion designer	Current hotel portfolio	Future expectations
Palazzo Versace (Sunland Group)	One hotel: Gold Coast (nr. Brisbane), Australia	Dubai (2008); up to 15 planned worldwide
Armani Hotels (Emaar Properties)		Dubai (2008); at least seven hotels & three vacation resorts planned including Milan, London and New York
Bulgari Hotels (with Marriott)	Two hotels: Milan, Italy & Bali	At least 12 planned worldwide
Missoni (with Rezidor)		Kuwait & Edinburgh (2008); up to 30 hotels planned worldwide
Moschino		Milan (2008)
Philip Treacy (g Hotel)	One hotel: Galway, Ireland	London (2010)
John Rocha (Beacon Hotel)	One hotel: Dublin, Ireland	
Christian Lacroix (Hotel du Petit Moulin)	One hotel: Paris, France	Up to five hotels planned
Miss Sixty (Sixty Hotel)	One hotel: Riccione, Italy	Intentions to develop worldwide with Rome, Dubai, Barcelona, Amsterdam & Berlin suggested
Ferragamo (Lungarno Hotels)	Seven hotels: Florence, Rome, Italy	
Camper (Casa Camper Hotel)	One hotel: Barcelona, Spain	
Krizia (K Club)	One hotel: Barbuda, Caribbean	
Ron Arad (Hotel Duomo)	One hotel: Rimini, Italy	
Roger Saul at Mulberry	One hotel: Somerset, UK	
Vera Wang (Vera Wang honeymoon suite)	One hotel: Hawaii	
Byblos (Art Hotel Villa Amista)	One hotel: Verona, Italy	
Diesel (Pelican Hotel)	One hotel: Miami, US	
Karl Lagerfeld at Chanel (Schlosshotel)	One hotel: Berlin, Germany	

Source: Company websites and press Dec 2007

gateway cities such as London, Paris and New York, and one of the world's fastest growing luxury destinations, Dubai.

Future development will follow along these lines, concentrating on prestigious shopping locations where fashion houses already have successful retail outlets, offering a ready-made target audience. Europe, the US and the Persian Gulf continue to offer ripe opportunities, whilst Asia Pacific is likely to take a growing slice of this niche market.

### China goes bling

Verdict Research forecasts that the Asia Pacific region will account for 36% of global spending on luxury branded products by 2012, equalling the share of the currently dominant region Europe. China is expected to be in the vanguard of this growth. Japan's share is diminishing, however the saturated Japanese luxury goods market

also suggests potential for diversification into the hotel arena.

Well-known luxury brands have very high status value for wealthy consumers in emerging markets as they seek to differentiate themselves from less well off groups. Fashion hotels in gateway Asian cities are likely to emerge as a means of building brand loyalty amongst these newly prosperous consumers.

### Learning ground

As the hotel sector increasingly adopts a culture of brand management, many operators are looking beyond the traditional boundaries of their industry to meet the challenge of continual product innovation.

In the future, hotel groups will find themselves in collaboration with very different kinds of consumer brands and partners from very

different backgrounds, offering new challenges and requiring new skill sets. From Siena to Shanghai, the development of the fashion hotel sector offers opportunities, risks and above all an important new learning ground for the hospitality industry. ●

### Alex Kyriakidis

Global Managing Partner  
Tourism, Hospitality and Leisure  
Deloitte  
Tel: +44 20 7007 0865  
Email: akyriakidis@deloitte.co.uk

We would like to thank Mike Jannini of Marriott International for his contribution to this article.

1. Individuals with net assets of at least US\$1 million, excluding their primary residence and consumables



# Let it snow, let it snow!

Skiing used to be the preserve of the affluent but with the increase of the low cost carriers across Europe and the growing popularity of weekend ski breaks, the sport is now popular with a much wider demographic group.

Almost 1.2 million ski holidays were booked from the UK alone last year, however, the distinct lack of snow during December and January in the 2006/07 season across many European resorts made operators panic.

In November 2007, unprecedented snowfalls across Europe enabled some resorts to open early but there is still a concern that changing weather patterns will force low altitude destinations to repackage themselves to attract tourists.

Here, we look at the impact global warming could have on snow sports and how resorts are already diversifying to create year-round appeal.

## Independent travellers

Across Europe, particularly in the UK, the low cost carriers have been elbowing their way into the ski market, adding flights to the popular resorts and gateway

destinations. According to the 2007 Crystal Ski Report, UK low cost carriers increased capacity by 18% during 2006/07 and this growth has come at the expense of the chartered airlines.

Analysts expect independent travel to continue to expand, but the ski operators still have the advantage of guaranteed accommodation in many resorts, due to their long-standing contacts and the lack of new accommodation. Some people still prefer the security of booking through a tour operator, rather than making all the arrangements themselves, and packages can prove to be cheaper, especially as they include the services of a resort representative.

While increased competition is a worry, operators are more concerned about the long-term threat of global warming, and how rising temperatures could make the ski market melt away.

According to reports, a third of the snow covering the Scottish Highlands has disappeared over the past 30 years<sup>1</sup>, with some experts suggesting the rest will disappear within a generation. Scientists have predicted that many low level ski resorts across Europe will be snow-free in 15 years time and the problem is not confined to Europe, with forecasts that American resorts will follow the same pattern.

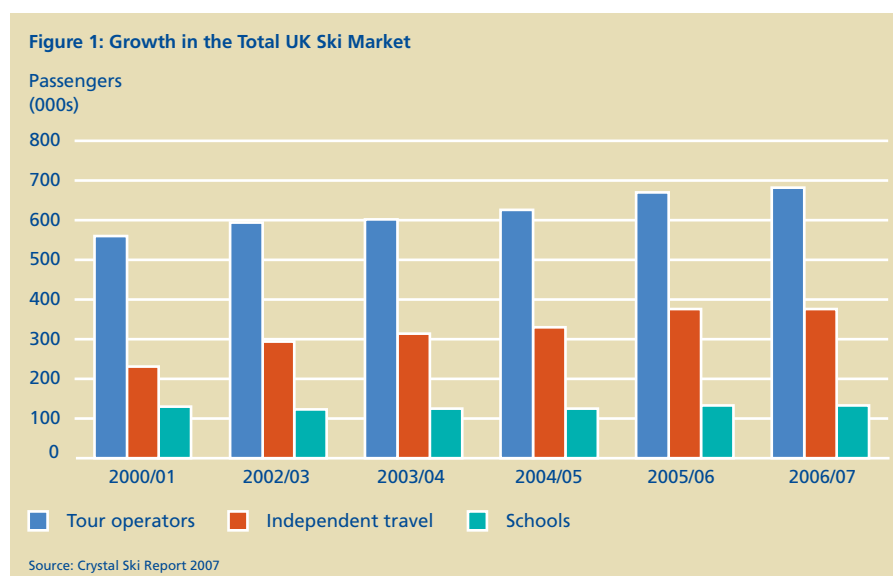
Already, some summer resorts that rely on glacier skiing, such as Engelberg in Switzerland have been forced to close, while others, like Les Diablerets, also in Switzerland, have operated with a limited number of runs. As glaciers retreat, this pattern is expected to be repeated elsewhere.

One way of protecting summer skiing is to use foil or reflective covers. In Garmisch-Partenkirchen, for instance, the resort piles snow over parts of the Zugspitze glacier and covers 9,000 square metres of it with a reflective shield. This may help in the short term but there have been reports from researchers at Zurich University that up to 70% of Swiss glaciers will disappear in the next 30 years.

## Let it snow

While snowfalls over the past decade have been lower than average, the latest reports for the 2007/08 season are excellent, with Andy Perrin, Chief Executive of Esprit Holidays, stating that it had been 'the best start to a season in 10 years'.

Early season bookings – usually a low point on the calendar – shot up, thanks mostly to technology. With web cams on slopes allowing people to check the conditions online, they can book at the last minute, when they know there is plenty of snow.



In fact, they may have grabbed a bargain, as discounted prices were offered across the board to entice the early birds. Italy was said to be 16% down, Bulgaria 13% down and Austria and France offering discounts of around 3%.<sup>2</sup>

Many within the industry heaved a sigh of relief when snow began falling in November 2007, as a repeat of the previous year could have been disastrous for the industry, particularly low altitude resorts. These destinations had seen the number of visitors fall away last year, following extensive media coverage of the lack of snow.

In fact, in many cases the media exaggerated reports of poor snow across Europe. Some low-lying destinations, like Andorra and Bulgaria, did suffer, and their pricing strategy for 2007 reflected the need to attract skiers back to their countries. However most resorts above 1,500 metres had an abundance of snow.

While the debate on rising temperatures continues, some experts suggest that resorts above 1,500 metres may not be affected. According to the Intergovernmental Panel on Climate Change (IPCC), warmer air carries more water, so areas at higher altitudes should experience higher levels of snowfall.

A consequence of this is that both Greenland and the Antarctic ice sheet are expected to gain land mass due to the increase in the amount of snow deposited.

Encouraged by this view, many operators are likely to continue to focus on the top-end resorts at higher levels, such as Zermatt, Verbier, Hintertox and the Espace Killy, which offer visitors guaranteed snow, plus glacier skiing during the summer.

**Not the real thing**

One way of filling in the gaps when the real thing doesn't appear is to create artificial snow. However, this is expensive – at an estimated cost of €200,000 (US\$295,000) per kilometre of slope, and is an energy-intensive process, as some machines use 1,300 litres of water per minute.

Some resorts are reportedly turning to a protein from the naturally occurring bacterium 'pseudomonas syringae', which, when mixed with air and water, can cause water to freeze into snow at temperatures as high as 5°C. Some Swiss villages have found that using this bacterium to make

snow gives them the edge over rival resorts, but some believe the process could be exacerbating environmental damage.

Alternative ideas have been to improve ski slope design or to develop resorts at higher altitudes, usually above 3,000 metres.

With all these solutions, however, considerable investment is required. This may lead to increased prices – thereby restricting the market to those with more disposable income.

**Travel by train**

There is no doubt that the travelling public is now more aware of the contribution air travel is making to global warming, and is looking for alternatives.

An airline's loss is, of course, a train operator's gain when it comes to European ski vacations. During 2006/07, the number of people using the Eurostar ski services rose by 43%.<sup>3</sup> The Eurostar is expected to become even more popular with the faster journey times from London and the refurbished terminal at London St Pancras. Eurostar's announcement that it would become the first train operator to make all of its journeys 'carbon neutral' will only add to its appeal.

Some airlines are fighting back and seeking to attract environmentally-aware customers with carbon offsetting schemes. Virgin Atlantic Airlines Ltd is among the airlines that have adopted this strategy, which is also being taken up by travel companies

passing on customers' donations to re-forestation projects and renewable energy sources. Popularity of schemes such as these is increasing, for example 17% of people who booked with Crystal Ski since August 2007 have chosen to offset their carbon emissions, up from 7% during the 2006/07 season.<sup>4</sup>

**Sustainable slopes**

The ski industry took a proactive approach to the carbon question more than seven years ago, when the National Ski Areas Association published its Environmental Charter for sustainable slopes. This called for pedestrian-friendly developments, the planning and design of 'green' buildings and energy conservation in all operations – for example ski lifts and snow-making facilities.<sup>5</sup>

The charter concluded that a ski resort was the perfect arena in which to focus on climate change and consider ways to prepare for it.

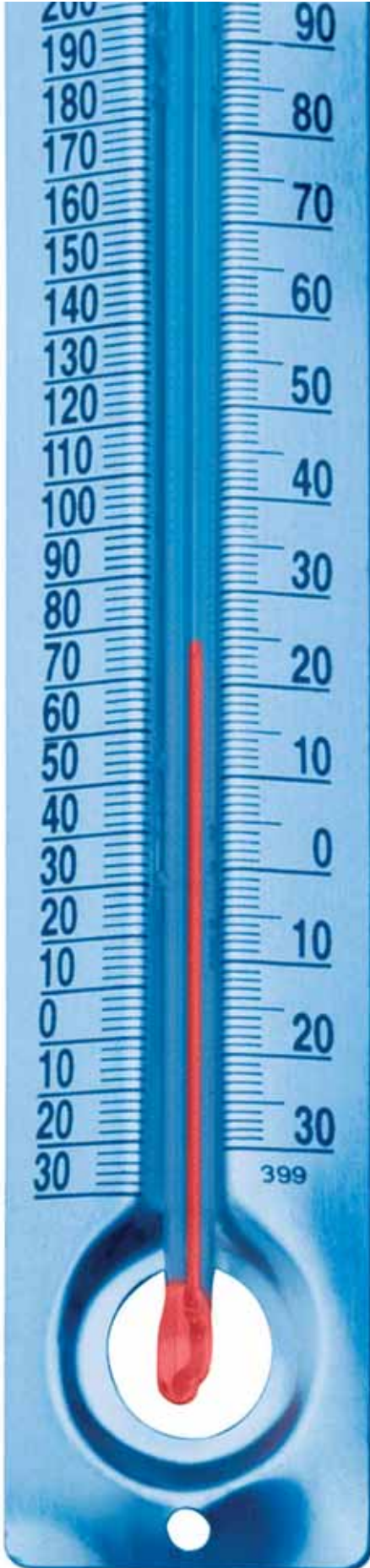
More recently, the Organisation for Economic Co-operation and Development (OECD) warned resorts below 1,500 metres to start looking at alternatives to the winter ski season if they wanted to remain financially viable. They need to consider activities that don't need snow, and to develop their offerings for year-round tourism.

These changes would not only meet the environmental challenge, but will also help

Figure 2: Adaptation strategies available to ski resorts



Source: Climate Change and Winter Sports: Environmental and economic threats article, 5th World Conference on Sport and the Environment, Turin, December 2003



resorts to remain profitable. We are already seeing many resorts invest in year-round tourism, helping them build up alternative sources of revenue in the summer months. Over the past decade, many resorts have been revamped, adding luxury hotels and 5 star chalets, with hot tubs and saunas, to their accommodation portfolio. This not only attracts discerning travellers during the summer, it makes resorts more appealing to skiers during the traditional season.

Many well-established resorts are trying to differentiate themselves by offering increasing levels of luxury, and even the more basic hotels are introducing spas and 'wellness' centres. Four Seasons Hotels & Resorts, Ritz-Carlton Company LLC and Aman Resorts have led the way so far, with deluxe resorts in Jackson Hole, Bachelor Gulch and Courchevel. Now, it is Richard Branson's turn to redefine luxury with 'The Lodge' in Verbier, with weekly rentals of up to £59,000 (US\$118,000). This property is due to open its doors at the start of 2008.

In British Columbia, The Rise development in Vernon is set to become the first \$1 billion resort, confirming the demand for mountain-top luxury, while offering visitors a year-round experience of world-class living.

Meanwhile in Switzerland, Innsbruck has opened the Nordpark Railway, a traditional, Alpine railway which passes through stunning scenery, and is designed to provide access to the mountains for skiing in the winter and hiking and biking in the summer.

#### Global options

The popular Canadian resorts and North American ski destinations, where artificial snow is widely used when needed, are less anxious about rising temperatures.

They are probably more worried by the number of Europeans who are no longer keen on the long-haul journey and the accompanying jet lag that eats into the first day of skiing on a seven-day vacation.

Enterprising tour operators are now offering alternative choices, for example, to Morocco and to Turkey, which are much more accessible to Europeans, while new long-haul destinations are also emerging, such as China and Chile.

In addition, there is the growing popularity of snowdomes to contend with, such as the Chill Factor in Manchester, and three others operated by Capital & Regional in the UK. And for those who like lots of sun with their skiing, there's always the largest snowdome in the world – in Dubai. For the purists, these snowdomes will never challenge the mountains, but they are becoming a popular leisure activity with the potential to introduce more people to the sport.

#### A welcome boost

There have been good and bad years for snow, and it is impossible to predict whether a certain year will be better than any other. For instance, during one season 26 years ago all the snow had gone by January, whereas just two years ago, the Alps had the best snow in living memory.

Ultimately, the ski industry must listen to the scientists and prepare for the worst, and use the spectre of climate change as the trigger to drive diversification in its offerings. Improvements that boost year-round tourism will not only help resorts cope with a lack of snow, but will open up new and welcome streams of revenue. ●

#### Deborah Griffin

Director, Deloitte UK  
Tel: +44 20 7007 2685  
Email: [deborahgriffin@deloitte.co.uk](mailto:deborahgriffin@deloitte.co.uk)

#### Edward Jenkins

Executive, Leisure Team, Deloitte UK  
Tel: +44 20 7007 9989  
Email: [ejenkins@deloitte.co.uk](mailto:ejenkins@deloitte.co.uk)

- 1 The Observer, 10 December 2006
- 2 [www.travelmore.com](http://www.travelmore.com)
- 3 Eurostar press release, February 2007
- 4 Crystal Ski Report, 2007
- 5 [www.nsaa.org](http://www.nsaa.org)

# Contacts

For more information about the solutions offered by Deloitte, contact your nearest Tourism, Hospitality and Leisure expert.

## Global Managing Partner

**Alex Kyriakidis**  
+ 44 20 7007 0865  
akyriakidis@deloitte.co.uk

## United Kingdom

### London

**Adrian Balcombe**  
+ 44 20 7007 2944  
abalcombe@deloitte.co.uk

**Nigel Bland**  
+ 44 20 7007 2761  
nbland@deloitte.co.uk

**Robert Bryant**  
+ 44 20 7007 2981  
rmbryant@deloitte.co.uk

**Deborah Griffin**  
+ 44 20 7007 2685  
deborahgriffin@deloitte.co.uk

**Karen Potts**  
+ 44 20 7007 2980  
kpotts@deloitte.co.uk

### Marvin Rust

+ 44 20 7007 2125  
mrust@deloitte.co.uk

### Tim Steel

+ 44 20 7007 0898  
tdsteel@deloitte.co.uk

### Nick van Marken

+ 44 20 7007 3354  
nvanmarken@deloitte.co.uk

### Manchester

**Dan Jones**  
+44 161 455 6872  
danjones@deloitte.co.uk

### Gatwick

**Graham Pickett**  
+ 44 1293 761232  
gcpickett@deloitte.co.uk

## Asia/Africa/ Middle East/Pacific

### Asia Pacific Leader

**Tony Cotterell**  
tcotterell@deloitte.com.hk

### Auckland

**Andrew Dick**  
andick@deloitte.co.nz

**Nick Main**  
nmain@deloitte.co.nz

### China

**Ron Chao**  
ronchao@deloitte.com.cn

### Dubai

**Nader Srouji**  
nsrouji@deloitte.com

### Hong Kong

**Richard Ho**  
richo@deloitte.com.hk

### Martin Hills

marhills@deloitte.com.hk

### India

**Mani Bharadwaj**  
mabharadwaj@deloitte.com

### Japan

**Ryuji Sawada**  
ryuji.sawada@tohatsu.co.jp

### South Africa

**Wendy Smith**  
wesmith@deloitte.co.za

### Sydney

**Peter Forrester**  
pforrester@deloitte.com.au

**David Murray**  
djmurray@deloitte.com.au

## Canada

**Ryan Brain**  
rbrain@deloitte.ca

## Continental Europe

### Amsterdam

**Joop Kluit**  
jkluit@deloitte.nl

### Onno Oldeman

ooldeman@deloitte.nl

### Athens

**Michael Hadjipavlou**  
mhadjipavlou@deloitte.gr

### Austria

**Michael Kovesi**  
mkovesi@deloitte.at

### Denmark

**Helle Simonsen**  
hsimonsen@deloitte.dk

### Frankfurt

**Reinhard Drewes**  
redrewes@deloitte.de

### Madrid

**Javier Jimenez Garcia**  
jjjimenezgarcia@deloitte.es

### Malta

**Nick Captur**  
ncaptur@deloitte.com

### Milan

**Marco Zalamera**  
mzalamera@dt.deloitte.it

### Munich

**Michael Mueller**  
mmueller@deloitte.de

### Paris

**David Dupont-Noel**  
ddupontnoel@deloitte.fr

### Alain Pons

apons@deloitte.fr

### Rome

**Nadia Fontana**  
nfontana@deloitte.it

## South America

### Brazil

**John Auton**  
jauton@deloitte.com.br

## United States

### United States Leader

**Adam Weissenberg**  
aweissenberg@deloitte.com

### Atlanta

**David Herskovits**  
dherkovits@deloitte.com

### Scott Rosenberger

srosenberger@deloitte.com

### Chicago

**Howard Engle**  
hengle@deloitte.com

### Thomas Linden

tlinden@deloitte.com

### William Pollard

wpollard@deloitte.com

### Las Vegas

**Larry Krause**  
lakrause@deloitte.com

### Jeffrey Ortwein

jortwein@deloitte.com

### Tom Walker

towalker@deloitte.com

### Los Angeles

**Neale Redington**  
nredington@deloitte.com

### Steve Steinhauer

ssteinhauser@deloitte.com

### Miami

**John Zamora**  
johnzamora@deloitte.com

### New York

**Michael Gamache**  
mgamache@deloitte.com

### John Karen

jkaren@deloitte.com

### Guy Langford

glangford@deloitte.com

### Phoenix

**Shaya Schimel**  
sschimel@deloitte.com



In this publication, Deloitte refers to one or more of Deloitte Touche Tohmatsu ('DTT'), a Swiss Verein, its member firms, and their respective subsidiaries and affiliates. As a Swiss Verein (association), neither DTT nor any of its member firms has any liability for each other's acts or omissions. Each of the member firms is a separate and independent legal entity operating under the names "Deloitte", "Deloitte & Touche", "Deloitte Touche Tohmatsu", or other related names. Services are provided by the member firms or their subsidiaries or affiliates and not by the DTT Verein.

In the UK, Deloitte & Touche LLP is the member firm of DTT, and services are provided by Deloitte & Touche LLP and its subsidiaries. For more information, please visit the firm's website at [www.deloitte.co.uk](http://www.deloitte.co.uk)

Deloitte & Touche LLP is authorised and regulated by the Financial Services Authority.

This publication has been written in general terms and therefore cannot be relied on to cover specific situations; application of the principles set out will depend upon the particular circumstances involved and we recommend that you obtain professional advice before acting or refraining from acting on any of the contents of this publication.

Deloitte & Touche LLP would be pleased to advise readers on how to apply the principles set out in this publication to their specific circumstances. Deloitte & Touche LLP accepts no duty of care or liability for any loss occasioned to any person acting or refraining from action as a result of any material in this publication.

© Deloitte & Touche LLP 2008. All rights reserved.

Deloitte & Touche LLP is a limited liability partnership registered in England and Wales with registered number OC303675. A list of members' names is available for inspection at Stonecutter Court, 1 Stonecutter Street, London EC4A 4TR, United Kingdom, the firm's principal place of business and registered office. Tel: +44 (0) 20 7936 3000. Fax: +44 (0) 20 7583 1198.

Designed and produced by The Creative Studio at Deloitte, London.

Member of  
**Deloitte Touche Tohmatsu**