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Issue 9 – July 2007

Executive Report

The magazine for the Tourism, Hospitality and Leisure industry

The winds of change

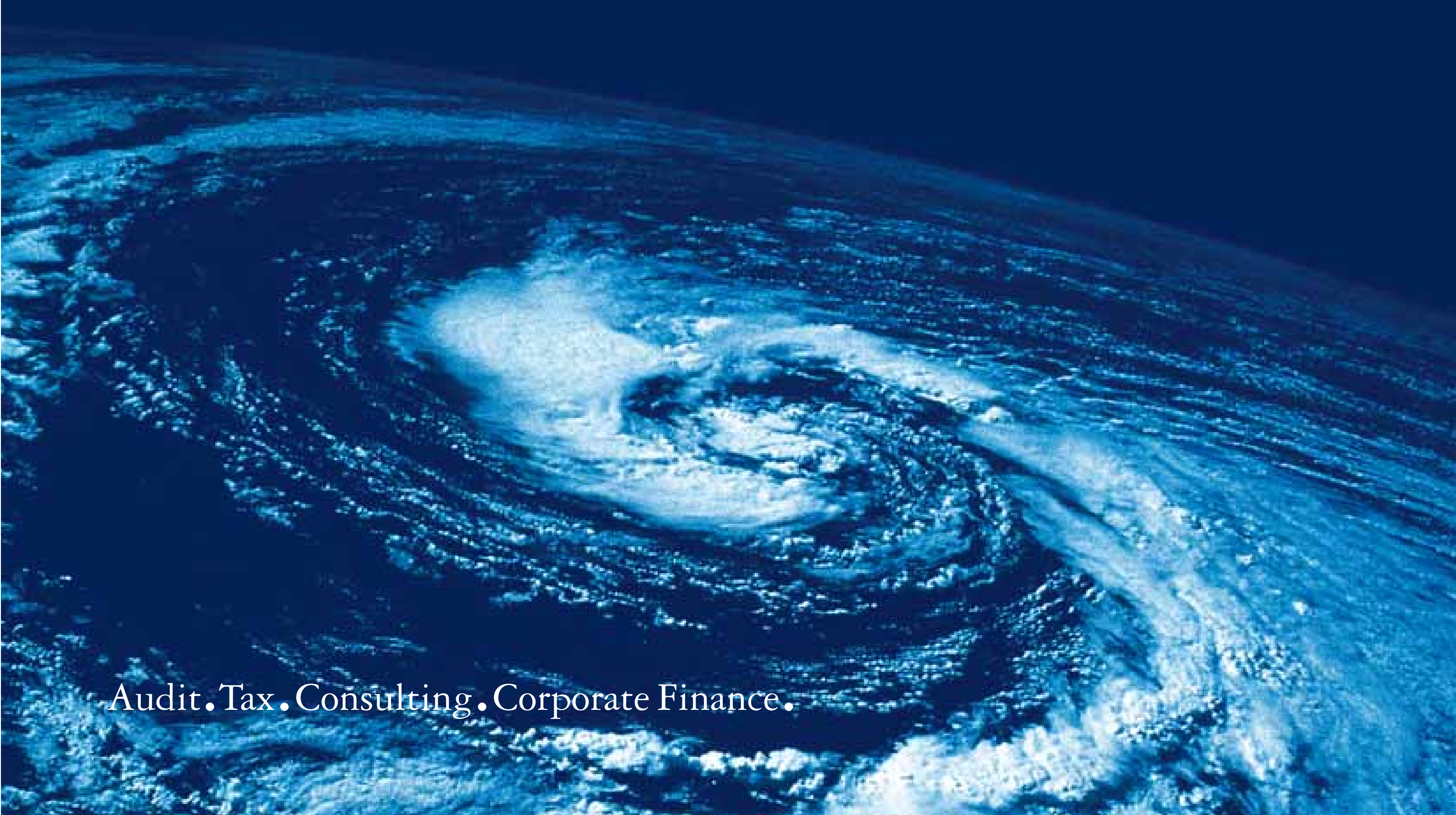
Does climate change spell crisis or opportunity?

And they're off…

Going flat out for a sustainable horseracing future

Delivering the brand promise

Why the business model is so critical



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Managing editor:
Alex Kyriakidis

Editorial board:
Ali Agmen-Smith
Philippa Graves
Helen Stevenson

Contributing authors:
Robert Bryant
Lis Gibson
Alan MacCharles
Simon Oaten
Ryuji Sawada
Alan Switzer
Mike Tansey
Adam Weissenberg

For further information about this report, please contact:
Philippa Graves
Tel: +44 20 7007 2273
Email: pgraves@deloitte.co.uk

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Welcome

Sunshine all the way?

It's getting very hot! Our industry is enjoying unprecedented levels of growth, profitability and investment from private equity, high net worth individuals and public markets. We are also seeing the start of major consolidation in the industry with MyTravel/Thomas Cook and First Choice/TUI. While the markets are heating up, so is our environment and our industry, which is inexorably linked with airline travel, is at the forefront of the climate change agenda. Much work needs to be done on sustainable development if we would like to continue to grow unhindered. No action is not an option. Entire destinations will disappear from the world tourism map while others will simply be too hot, too dry or prone to catastrophic events.

It is therefore not surprising that we feature the impact of climate change in this edition of our report, and as we work closely with the industry on the impact of climate change and implementation of sustainable development, we will share more insights with you on this important debate in future editions of this report.

Also featured in this report is the continued dominance of brand in all that our industry does, a profile of Japan and Macau, the future of the UK horseracing market and the outlook for US summer travel. All good news!

As always, we value your feedback.

Best regards

And they're off...

Going flat out for a sustainable future

Horseracing is big business. It spans three quite diverse sectors – sport, betting, and the rural economy – attracts millions of spectators, and can bring a country to a virtual standstill as the Melbourne Cup does each year.

More than US$100 billion is gambled on horseracing every year, a sizeable percentage of the global gaming industry and more than double the amount bet on all other sports put together.

Importantly, one of the sport's strengths is that it engages people from many different strands of society, from the wealthy owner of thoroughbreds to the average punter. But this diversity can also bring challenges, as the conflicting objectives of the various stakeholders must be carefully balanced and managed.

This article looks at the hurdles the sport has to overcome in order to remain successful.

A global attraction

More than 100 million racing fans attend events across the world, with the eight major racing nations providing the biggest pull. In Europe, the main magnets are Ireland, the UK and France and across the rest of the world the USA, Australia, Japan, Hong Kong and UAE are out in front.

While international horseracing may not have an extended global showcase event to equal a Grand Slam tennis tournament such as Wimbledon, or football's World Cup, there is an annual cycle of international fixtures to attract the best talent and, increasingly, horses – like world-class tennis players – travel thousands of miles to compete.

The prize money on offer can dwarf other sports. For instance, the annual Breeders Cup meeting in the US and the Dubai Duty Free Festival may only represent two day's racing, but they offered a combined treasure chest of over US$40 million last year.

In Australia, the Melbourne Cup forms part of a series of meetings known as the Carnival, which boosts the local economy by an estimated US$440 million. Across the country, most people put their lives on hold to watch the Cup, with 92% of the available television audience watching the event and betting turnover of around US$125 million, in addition to over 100,000 spectators at the racecourse itself.

While some may get rich on their winnings, it's rarely the racehorse owners. The prize money doesn't usually cover the high costs of owning a horse, so owners tend to invest in the sport for many more reasons than purely financial returns.

Place your bets

The local culture, traditions and economy all influence the style of racing. For instance Ireland and the UK are the two dominant nations for jump racing, and compete for the best horses for racing.

Until the 1990s, Ireland's comparatively weak economy meant the best horses were often sold to the UK, but this trend has been halted, and even reversed, due to Ireland's much stronger economy and an advantageous tax regime for racing.

There is also a huge variation in the business model that different countries adopt, and this is driven by their dependence – or otherwise – on revenue from betting. Where betting is legal, it can account for 90% of racing revenues, and is therefore critical to the sector's sustainability.

The US$100 billion bet on horseracing is estimated to generate US$25 billion in gross win – the money the customer leaves behind. Around 90% of bets take place within the major racing nations.

So far, so good; but while the gaming market in general is booming, betting on horseracing is slowing down. Indeed some countries have experienced a marked decline due to the increased competition from other gambling options such as betting on other sports, lotteries and casinos.

Innovative products are therefore needed to halt this decline, with one initiative, the development of new 'exotic' global racing bets, which was launched in June 2007. These are low probability, high return products, aimed at generating large winnings and are designed to attract newcomers as well as the traditional horseracing fan.

While there's no certainty that revenues from core betting activities will continue to fall, diversification is essential if industry players want to be better placed to cope with the highs and lows. In this respect the UK leads the way.

The UK – out in front

Across the major racing nations, the UK has created the most diverse business model and is second only to football in terms of sporting industry revenues and attendances. Horseracing supports over 22,000 full-time and part-time jobs and contributed US$5.8 billion to the economy in 2005.[1]

Today, around 30-40% of racecourse funding comes from betting-related revenues, while most of the remainder is generated through the six million people a year who attend fixtures at the UK's 59 racecourses and spend their money on ticket sales, food and drink and other items.

Meanwhile, more than US$650 million has been invested during the past four years on improving facilities, including flagship developments at Ascot, Aintree, and Cheltenham. Racecourse operators are increasingly mixing pure racing with other entertainments to appeal to newcomers to the races, as well as to the next generation.

During each summer, for instance, more than 250,000 people are attracted by a combined programme of racing and pop music concerts, while businesses are being encouraged to stage corporate events at racecourses – which often have picturesque settings – thereby using the facilities on non-racing days, which far outnumber race days.

There are plenty of other revenue-generating opportunities to explore, including sponsorship.

Levels remain relatively low and tend to come from companies within the racing or betting industry, suggesting that there are many business sectors that remain untapped. The volatile relationship between the betting industry and horseracing sometimes leads to spats between the two which damage the sport's reputation and marketability so both sides need to work a bit harder – and together – to avoid threatening their future mutual profitability.

Turning the corner

Unlike football or other team sports which have a massive, loyal fan base to support them, racing has to work hard to bring in every individual, corporate guest or sponsor. The sport does not generally attract the lucrative broadcasting deals that others enjoy, and although racing is beginning to capitalise on its media rights, it will never generate billions.

It therefore has to tackle a few issues head on. First, it needs to be more creative in its marketing strategies and be more targeted in its approach to different segments, tailoring products to suit differing cultures, national markets and new business areas. Racecourse attendances at some of the major racing nations including Hong Kong and Japan have fallen but others, including the UK and Ireland, have bucked this trend – a decline need not therefore be inevitable.

Second, it needs to forge strong partnerships with other leisure industry players, to offer uniquely innovative race packages and exhilarating raceday experiences that will appeal to new customers, including mixing racing and entertainment.

Third, increased professionalism across the business is essential. As many key figures in racing have extensive business interests and networks, these should be used to leverage more commercial opportunities. It would also be helpful if the sport simplified its sometimes confusing terminology, thereby widening its appeal to newcomers.

Undoubtedly, a prerequisite for success is to increase racing's appeal among the younger generation, which remains a challenge while the sport has no truly global icons. Names that are recognised the world over not only bring in new fans, they can attract commercial partners – as can be seen in golf, tennis, football and other major sports.

The value of global stars is illustrated by the impetus Valentino Rossi has given to motorcycling via his outstanding successes in MotoGP. Perhaps Frankie Dettori's recent Derby success can help, while younger, more media friendly jockeys can be groomed for stardom.

If the industry can clear some of these hurdles in the coming years, horseracing should continue to flourish but it should not underestimate the challenges ahead.

Alan Switzer
Director, Deloitte UK
Tel: +44 161 455 6866
Email: aswitzer@deloitte.co.uk

1. Economic Impact of British Racing, produced by Deloitte, 2006 – available to download from www.britishhorseracing.com

Macau's great gamble

Across the Far East casinos are coming in from the cold as gaming becomes a truly global mainstream leisure activity. Singapore has lifted its decades-old ban, South Korea's casino industry is expanding rapidly and both Taiwan and Japan are considering legalisation.

Macau is the glittering jewel in Asia's gaming crown. The Chinese owned peninsula has now overtaken the Las Vegas Strip to become the world's largest gaming market with revenues of US$7 billion, and is expected to be worth up to US$13 billion by 2010.[1]

Mass market thrust

Macau's meteoric growth has so far been driven by high-rolling VIP gamblers. However the thrust of future investment will be the construction of a 'mass market' for gaming, in which the casino experience will be a central attraction within integrated resorts at a major global tourist destination.

Operators aim to draw the majority of these new customers from the emerging middle class in Mainland China,[2] for whom Macau is the only Chinese territory where gambling is legal. An easing of travel restrictions has opened the door to Macau for millions of Mainland Chinese.

However, at the heart of this mass market strategy lies a great gamble. Operators are building the new facilities, but will the Chinese arrive in sufficient numbers and spend enough money to justify investment on such a scale?

What kind of experiences will attract mass market visitors and what will persuade them to stay longer? Will they respond in a similar way to Las Vegas customers, or are cultural differences fundamentally important?

Fresh light

When it comes to the attitudes and intentions of mass market Chinese customers, Macau's casino operators have so far remained largely in the dark.

Deloitte is now able to throw fresh light on these questions with the results of its unique survey of potential casino visitors from Mainland China – as far as we are aware the only research carried out so far into the attitudes of the Chinese mass market.[3]

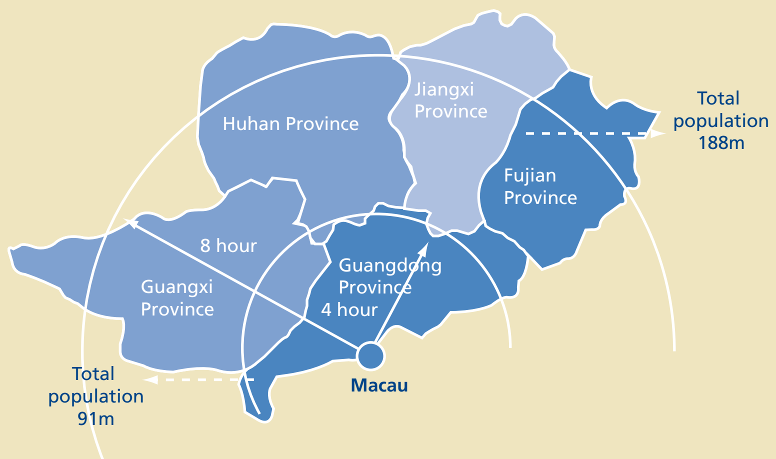
Stratospheric growth

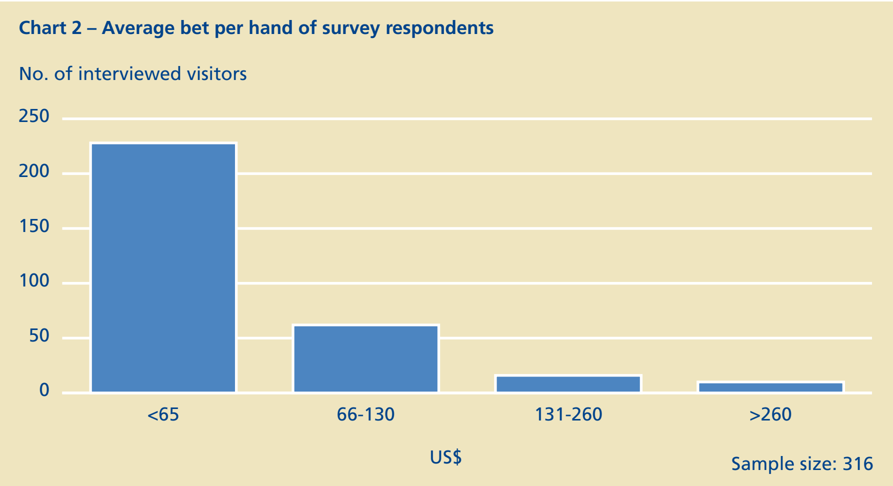
The potential growth in future demand is nothing short of stratospheric. Macau's key catchment area is southern China, incorporating some of the country's most affluent provinces, with over 90 million people living within a four hour drive of the gaming tables.

While many inhabitants of the southern mainland remain poor, the Chinese love of gambling, a rapidly growing middle class and improving road infrastructure should result in a steadily increasing target audience. (see Chart 1 below)

Deloitte's analysis indicates that the number of people who can afford a trip to Macau's casinos could grow around 55% by 2010. The Macau Government itself is forecasting 42 million visitors by the end of the decade, compared to 22 million in 2006.[4]

Chart 1 – Catchment areas within 4 to 8 hours drive





How many of these visitors will pour into the new casinos? Does the Chinese mass market show sufficient interest in gaming to justify the lofty ambitions of Macau's foreign investors?

Untapped market

Our survey reveals that two thirds of Chinese respondents have not previously gambled in a casino. However, over 40% of this huge untapped market is interested in doing so in the future.

Large-scale demand clearly exists in volume terms, but once through the casino door, how much are these mass market customers prepared to spend?

The data suggests that over three-quarters of Chinese mass market visitors are likely to spend under US$65 (RMB 500) per hand on average, with only a small proportion betting over US$260 (RMB 2,000) per hand. To put this into context many of Macau's VIP gaming tables currently impose a minimum bet of US$1,300 (RMB 10,000) per hand. (see Chart 2 above)

Our analysis of survey responses suggests a probable average casino win for mass market players of between US$90-150 per person, versus an estimated Las Vegas (Clark County) average win of US$275 across the whole market[5]. Although this seems relatively modest, the huge potential volume of players should ensure that the mass market becomes an extremely important source of revenue for Macau.

Chinese gamblers may spend less than their US counterparts, but the data suggests they are prepared to wager a higher percentage of their income and gamble more intensively.

Absolute beginners

So how can operators turn this vast pool of potential demand into a steady stream of actual visitors?

Despite the widespread enjoyment of gambling amongst the Mainland Chinese, lack of casino gaming knowledge appears to be a key impediment for many potential punters. About 40% of the respondents with previous gambling experience and about 90% without previous gambling experience, show an interest in learning how to play casino games. Interestingly, demand for Baccarat training, which is one of the easiest games, ranked first after Black-jack for both experienced and novice players.

Increasing the accessibility of games and provision of training are likely to attract novice gamblers. Operators may wish to consider the inclusion of 'beginners' zones', recently successful in attracting inexperienced customers in European markets.

Slots for success

The survey shows that inexperienced mass market customers show a particular interest in slot machines, which traditionally have had a low acceptance rate in Asian gaming markets.

The new electronic terminals used by the fast-growing Chinese lottery are increasingly widespread in Mainland China, and are likely to encourage the attraction of slot machines in casinos.

Greater provision of slots appears to be a key factor likely to win over inexperienced gamblers, particularly women. While Baccarat is currently the overwhelming favourite game in Macau, Blackjack is the clear favourite casino game amongst men in our survey. (see Chart 3 below)

The evident popularity of slots appears to justify current projections for the escalation of machines in Macau from around 5,000 in 2006 to a possible 18,000 by the end of the decade.[6]

Overall, Chinese men show more interest than women in gambling. However, Chinese men tend to be more concerned with ethical, family and legal issues associated with gambling than Chinese women, suggesting that many will need reassurance that Macau's reputation as a vice den and centre of criminal activity is a thing of the past.

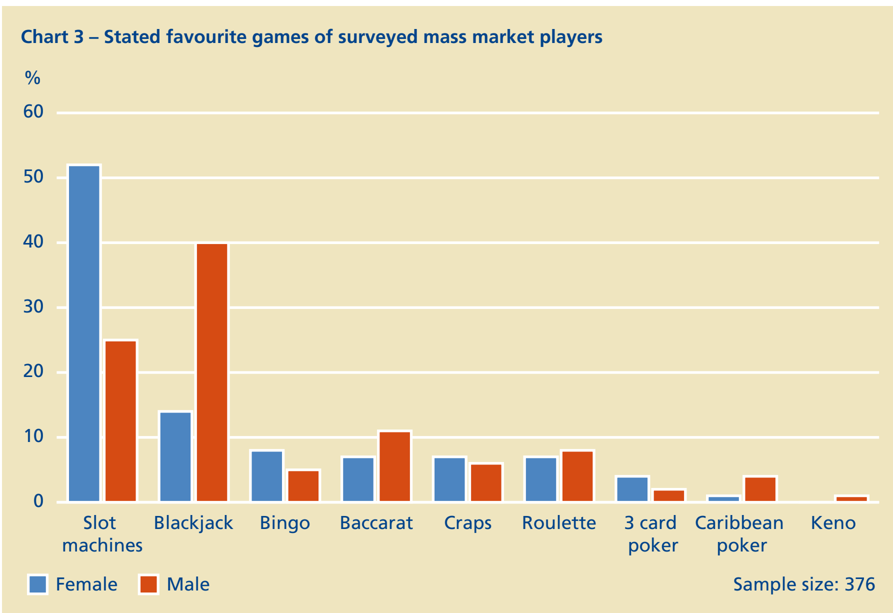


Chart 4 – What encourages survey respondents to stay longer?

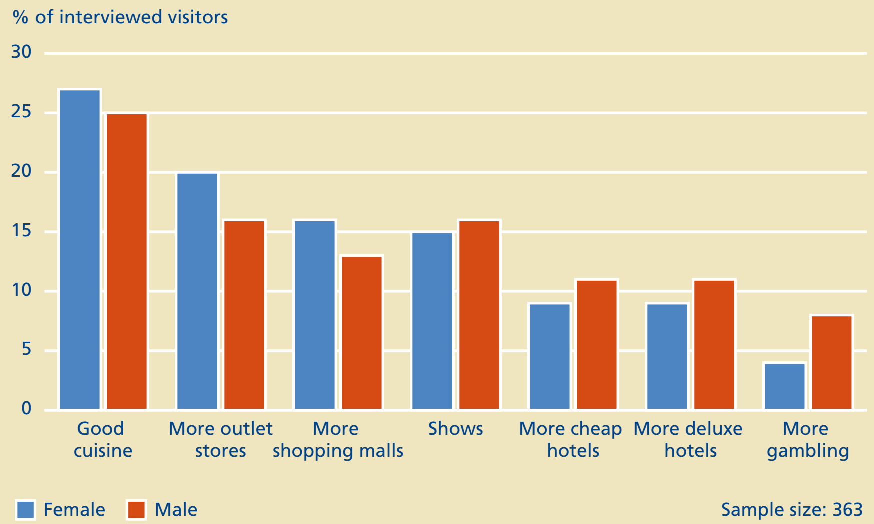
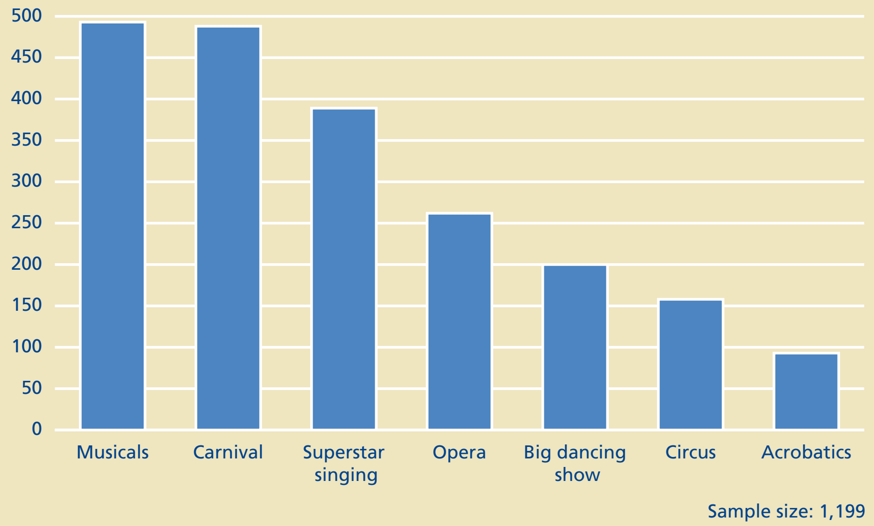


Chart 5 – Type of performance preferred



Food for thought

Of course, gaming is only part of the picture. Courting the Chinese mass market also means getting the overall product mix right to provide a genuinely holistic leisure experience.

This is the key to driving extended stays and repeat visits, and has been critical to the success of Las Vegas casino resorts where up to half of revenues can be generated by ancillary, non-gaming services.

Most of the new casinos under construction in Macau are large-scale integrated resorts. While some are focusing on the traditional Las Vegas offerings of lavish theme hotels, glitzy shows and spectacular fountains, others are yet to decide what facilities or activities to offer.

Deloitte's survey reveals that the way to the heart of the Chinese mass market is through its stomach, with the largest percentages of both men and women selecting restaurants as the most important facility influencing their decision to visit Macau. (see Chart 4 above)

Retail therapy

Shopping is rated as a major priority especially by women, many of whom seek retail outlets for both super-premium brands and the everyday items which carry import taxes in Mainland China.

Health and wellness products have a very strong appeal for both sexes with men apparently happy to skip the shopping for an invigorating sauna or relaxing massage. The survey also shows that women are just as likely to enjoy a round of arcade games as men.

Carnival atmosphere

The majority of survey respondents are willing to stay in Macau for one or two days and gamble in a casino for up to five hours. A major challenge for operators is to convert a significant proportion of these short-stay day trippers into longer stay visitors.

The anticipated growth in visitors arriving by air from other major cities in China will also swell demand for a wide range of leisure experiences.

Again our survey underlines the importance of gourmet cuisine as the overriding factor likely to encourage a longer duration visit to Macau amongst both sexes, followed by luxury and discount shopping facilities, amongst women in particular.

Entertainment will be a crucial part of the Macau mix. The survey suggests that Chinese tastes are more similar to those of the Las Vegas audience than many have previously assumed.

Importing the Las Vegas experience into Macau is likely to be a recipe for success. However, an understanding of where Chinese tastes do appear to differ could be an important extra ingredient.

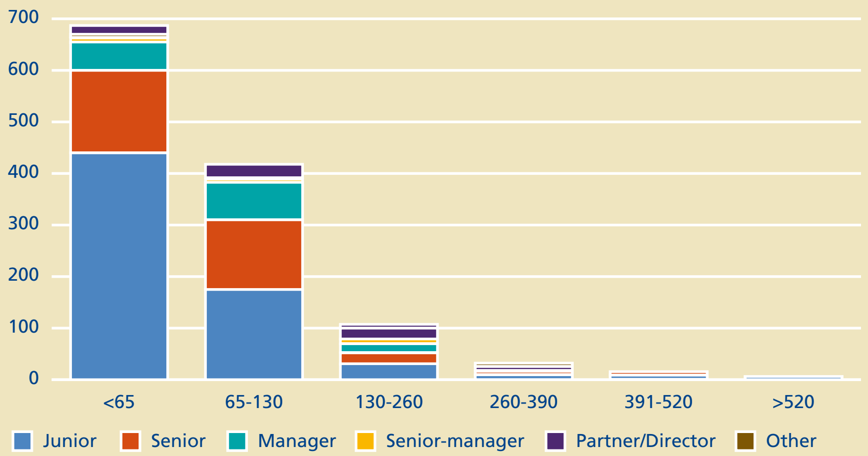
The survey suggests that musicals and superstar concerts are most likely to attract Chinese mass market visitors, known for their passionate love of singing. The survey also indicated that between US$13-65 (RMB 100-500) appears to be the accepted price range for shows. Over 85% of total respondents would pay US$65 (RMB 500) or less for a performance ticket. The vibrant, colourful and frenetic atmosphere of the carnival also has an extremely strong appeal to mainland tourists. (see Chart 5 above)

However, the large-scale dance and circus-style extravaganzas such as Cirque Du Soleil, popular in western gaming resorts, do not appear to have the same resonance with Chinese visitors.

Affordable luxury

Looking at the hotel performance figures we can see how Macau is following the trend of other Chinese cities, with average room rates rising sharply. According to the HotelBenchmark™ Survey by Deloitte, average room rates in Macau have risen 66.8% since 2002, reaching US$100 for the

Chart 6 – How much per night do survey respondents expect to pay for a hotel? (in US$)



Sample size: 1,193

> "Provided Macau's casino operators can get the product mix right, both at the gaming tables and in the wider resort, the future of mass market expansion looks promising."

first time in 2006. And in 2007 the trend looks set to continue; an average room rate of US$104 for the first quarter of the year, including a lucrative Chinese New Year period in February, has seen revenue per available room (revPAR) rise to US$78 – an incredible 74.3% increase from 2002.

Hotel supply is forecast to grow from 9,200 rooms in 2005 to around 50,000 by 2010[7], with strong investment planned in upscale accommodation. This appears to be matched by a high level of demand, with almost six out of ten of those surveyed by Deloitte expressing a preference for staying in four or five star hotels. (see Chart 6 above)

In order to build mass market penetration hoteliers may need to offer affordable luxury products, with first class services at budget prices. The potential price barrier of US$130 (RMB 1,000) may inhibit revenue growth at the top end of the hotel market for the foreseeable future.

New challenges

Provided Macau's casino operators can get the product mix right, both at the gaming tables and in the wider resort, the future of mass market expansion looks promising.

Yet if this exponential growth does materialise it may throw up a new set of logistical challenges for Macau, already the most densely populated territory in the world. How will a tiny strip of land barely 27 kilometres square cope with up to 42 million visitors from the Mainland?

Can Macau develop the infrastructure needed to ferry such volumes of people around? Will it have sufficient property to accommodate the workers needed, let alone house the facilities themselves?

These questions are likely to feature highly in the next phase of Macau's ground-breaking transformation into China's first mass market gaming resort.

Alan MacCharles
Director, Deloitte China
Tel: +86 21 6141 1658
Email: amaccharles@deloitte.com.cn

Simon Oaten
Assistant Director, Deloitte UK
Tel: +44 20 7007 7647
Email: soaten@deloitte.co.uk

1. CIMB group
2. In this article, China / Chinese refers to Mainland China and Hong Kong (trends are the same with the removal of Hong Kong respondents). Mainland China / Mainland Chinese refers to the Mainland of China excluding Hong Kong, Macau and Taiwan.
3. The survey was conducted during March 2007 through the Deloitte internal website across its offices in 10 cities in China. The survey had 1,207 responses, but was broken into logic trees resulting in lower response rates for specific questions. Deloitte is made up of professionals who typically command higher income and spending power than the Chinese average. Professional services 'personalities' are not typically associated with gambling and, hence, the sample may under-represent the propensity to gamble. However this sample is believed to be broadly representative of the target middle class, "mass market" gamer whom the Macau resorts seek to attract.
4. Direccao de Inspeccao e Coordenacao de Jogos, Macau
5. LVCVA and Nevada Gaming Board 2006
6. CIMB group
7. Macau Government

The winds of change

Does climate change spell crisis or opportunity for the tourism industry?

The 2006 Stern report concluded that, "the scientific evidence is now overwhelming: climate change presents very serious global risks, and it demands an urgent global response." The business community must also consider these risks and determine its response, and the tourism industry is likely to be impacted more than most.

Winners and losers

As the world gets hotter there will be winners as well as losers in global tourism, varying according to geographic location, service type and target consumer market. For many organisations, tomorrow's outcomes will depend on the decisions they take today.

The full extent of climate change is still uncertain and will be affected by how quickly the world acts to reduce its carbon footprint. However, whatever future action is taken to minimise emissions, many changes appear to be already 'locked in.'

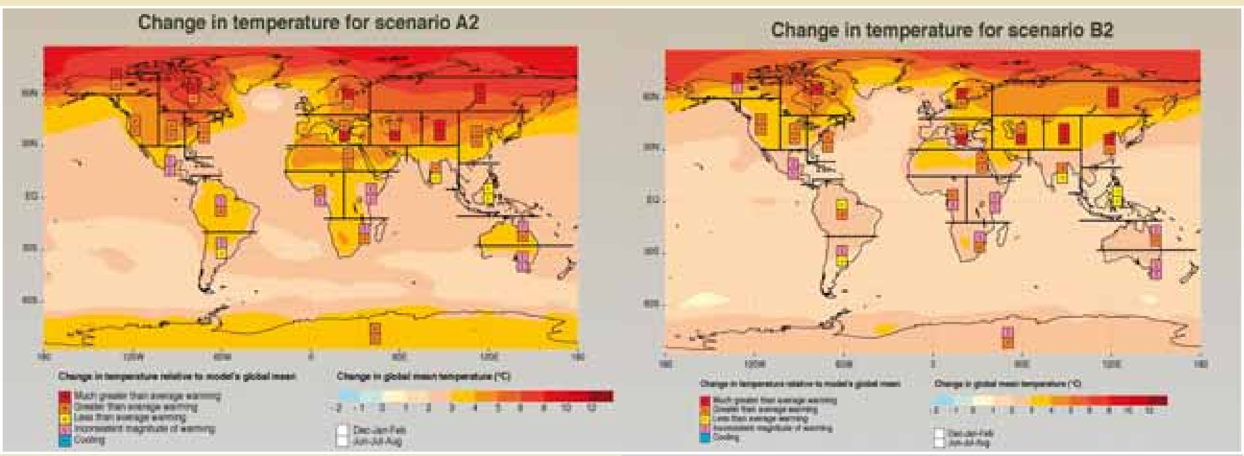
The Intergovernmental Panel on Climate Change (IPCC) has 'very high confidence that the global average net effect of human activities since 1750 has been one of warming.' However, temperature increases are not taking place evenly across the world. While many countries will get warmer, others will remain stable or even decline in some cases.

Northern impact

The IPCC has calculated two different possible outcomes, varying according to levels of future greenhouse gas emissions. (see Chart 1 below)

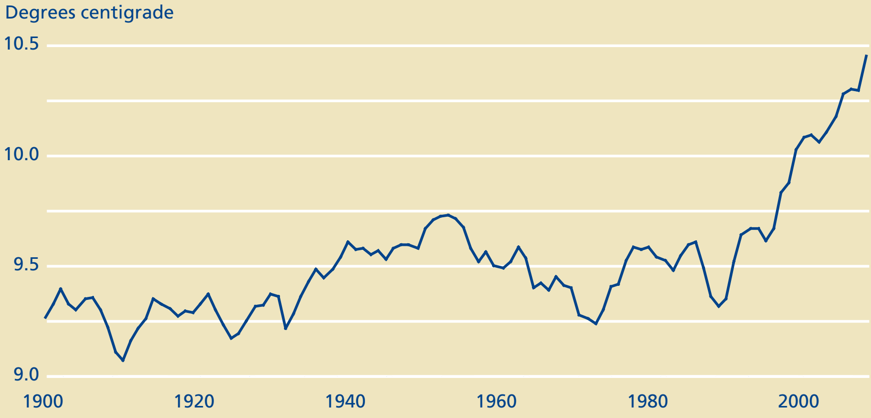
Global warming is expected to have most impact on the Northern Hemisphere, leading to more temperate climates in Canada, the UK, Scandinavia and Russia. These destinations could benefit from an increased appeal to travellers seeking to escape the sweltering temperatures forecast for parts of continental Europe and the United States.

Chart 1 – Scenario A2 has higher future greenhouse gas emissions than Scenario B2.



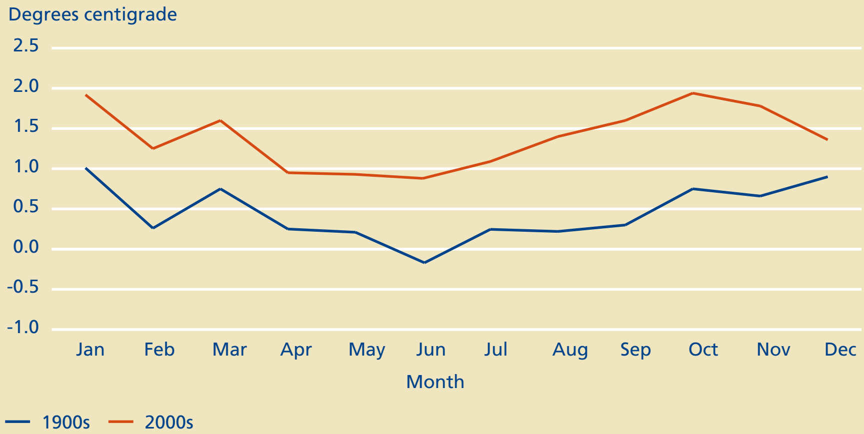
Source: IPCC, 2001.

Chart 2 – Central England rolling 10 year average temperatures, 1900 – 2006



Source: HADCET, 2006

Chart 3 – Temperature variance by month against a 1600s – 1800s base level



Source: HADCET, 2006

Scientific evidence suggests that the UK will have increasingly warmer, drier summers and milder, wetter winters with increased risk of severe flooding. Annual temperatures have been rising in central England for over a century, but the pace of change has surged dramatically over the past 20 years (see Chart 2 above). UK temperatures are rising throughout the year, with the most rapid increases recorded during the autumn and winter months. (see Chart 3 above)

Costa Del Scarborough

The magnitude of this change is considerably larger than elsewhere in the world and presents new opportunities and challenges for the UK tourism industry. British holidaymakers traditionally travel south in search of sunnier climes overseas. Better weather prospects at home may entice many Britons to opt for domestic holidays, where their numbers could be swelled by an influx of continental Europeans.

Significant investment will be required to rebrand UK holiday resorts and create holiday experiences to attract tourists if 'Costa Del Scarborough' is ever to become a reality. Rising temperatures could also lead to changes in types of holiday. For example, Scotland's skiing industry may be replaced by activities such as mountain biking and walking holidays.

Storm clouds over the Med

The UK tourism industry may benefit from climate change, but this gain is likely to come at the expense of overseas destinations traditionally popular with British travellers such as Spain, Florida and the Caribbean.

Mediterranean coastal tourism could be under serious threat. A combination of searing hot temperatures and lack of air-conditioned infrastructure may deter summer sun-worshippers. Holidaymakers may prefer to visit the Mediterranean in the pleasanter conditions of spring and autumn, with major implications for regional tourist authorities.

Warmer ocean temperatures and melting polar ice caps will cause sea-levels to rise in many parts of the world, impacting on many areas which rely economically on tourism. Florida and the Caribbean are likely to suffer more frequent and severe hurricanes like Hurricane Katrina which devastated New Orleans in 2005.

Elsewhere, retreating shorelines and coastal flooding could lead to seaside property subsidence and erosion in tourist hot spots such as Venice, which already faces uncertainty about its future.

Green holidays

Climate change threatens many destinations and types of holiday, but ecotourism may turn out to be one of the winners. A growing environmental consciousness should create demand for more green travel products which promote and safeguard the natural world.

The ecotourism industry in endangered regions such as Iceland and Greenland may grow in popularity, and more destinations are likely to develop similar low impact, awareness-raising types of holiday, such as whale watching. The fast growing gap-year market is stimulating demand for tourism experiences which combine travel with work opportunities to improve the environment.

In the short term, the majority of travellers may continue to prioritise value for money ahead of concern for the environment, but a growing awareness of climate change could lead to a shift in priorities.

Low cost low emission

The concept of 'carbon neutral travel' is being popularised by celebrities and dignitaries such as rock band Coldplay and the Queen during her recent visit to the United States. A number of travel companies are already following this lead by encouraging air passengers to 'offset' carbon emissions by making donations to renewable energy schemes and reforestation projects.

In future, companies may offer integrated products combining the cost of the holiday with a built-in carbon offset charge, an approach which has proved successful in selling motor vehicle insurance. The first operator to devise the 'low cost, low emission' holiday concept is likely to have an advantage.

New Orleans following Hurricane Katrina, looking towards Lake Pontchartrain
Source: United States Coast Guard, 2005

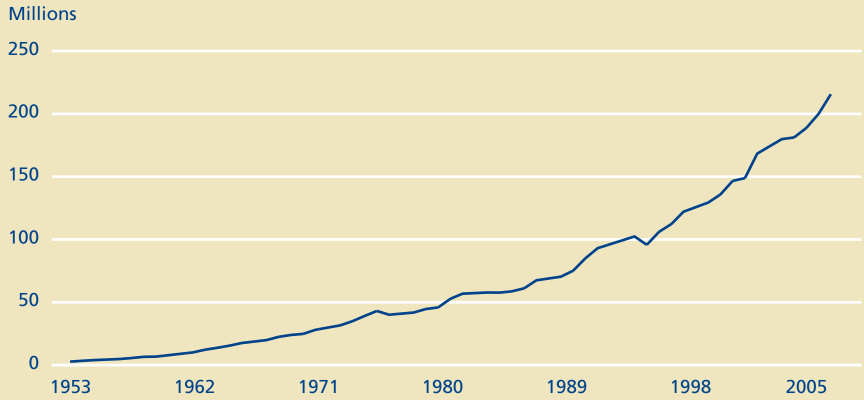
Under pressure
Air travel faces mounting criticism. Aviation is currently only responsible for around 2% of global CO_2 emissions but its share is expected to increase faster than that of other industries. Rapid growth in airport passenger volumes is eroding the fuel efficiency gains made by airlines. (see Chart 5 below)

The UK Government's decision to double Air Passenger Duty to £10 on short haul flights from February 2007 in order to tackle aviation emissions is likely to have little impact on consumer behaviour. A 'carbon tax' of US$100-200 (£50-100) per flight may have more effect were this to be applied in future. Although air travel continues to expand there are some signs of a shift in attitudes.

A Guardian/ICM survey in May 2007 revealed that 13% of people no longer intend to fly because of environmental concerns, and around one third have reduced their number of flights, both short haul and long haul. Public opinion appears divided over the question of carbon taxes on flights with 30% wanting a reduction and 20% supporting an increase[1].

Window of opportunity
If public opinion grows more critical of air travel the likely outcome is that more travellers will choose to fly shorter distances, primarily within the UK, then to continental Europe rather than further afield.

Chart 5 – Terminal passengers at UK civilian airports



Source: Department for Transport

Domestic holidays will need to be evaluated in order to demonstrate that they actually do have a smaller carbon footprint over the entire holiday than trips involving longer distance flights. A growing number of green travellers may decide not to fly at all and holiday closer to home, providing another boost for the UK tourism industry.

The controversy over aviation could open a window of opportunity for bus, ferry and train operators to promote lower carbon alternatives to air travel which could appeal to environmentally conscious holidaymakers. For example, Eurostar has announced plans for a 25%[2] reduction in carbon emissions by 2012, by reducing electricity consumption, switching to greener energy sources and improving capacity utilisation.

If these modes of transport are to become viable alternatives to air travel they will have to address common complaints about the frequency and quality of service, as well as concerns about journey times and the economic costs as opposed to the environmental costs.

One-stop solutions
Deloitte has formed a partnership with the University of Reading National Centre for Atmospheric Science – climate programme – and its 150 research scientists to develop one-stop solutions for assessing the business performance implications of climate change and devising strategies to respond.

Together we provide advice to clients in many industries on the impact of global warming on a wide range of problems ranging from flooding, which may affect regional property values, to crop growing and drought, which have supply chain implications.

The advance of climate change will impact the personal lives and business interests of millions across the globe, travellers and tourism operators alike. The future is uncertain but the tourism industry needs to act now if it is to minimise risk and maximise opportunity in the years ahead.

Lis Gibson
Partner, Deloitte UK
Tel: +44 20 7303 3040
Email: ligibson@deloitte.co.uk

1. Eurostar sets 25% emissions reduction goal, Guardian Unlimited, 17th April 2007
2. Flying addicts take dim view of air taxes in poll, The Guardian, 26th May 2007

New dawn for Japan's tourism industry

The sun is rising again for Japan. Having stumbled its way through the last decade, a powerful combination of economic and demographic change is now sweeping the country.

Japan, still the world's second largest economy despite the burst of the great bubble in 1990, is enjoying a prolonged period of growth; and for the first time in 15 years, land values in Tokyo are rising. While the Government is working to reassert Japan as the financial powerhouse of Asia, mergers and acquisitions are at an all-time high.

The number of Japanese families with large amounts of disposable income and a willingness to spend it on more luxurious life styles is soaring. At the same time, the Government's innovative Visit Japan campaign is opening up the country to thousands more tourists each month, and has an ambitious goal to bring in 10 million a year by 2010.[1]

All of these factors have naturally impacted the country's tourism industry, particularly the hotel sector, which has recently seen one of Japan's largest real estate transactions. Here, we take a closer look at what's happening, especially within the luxury hotel segment.

The ups and downs

Hotels began to transform the country's skyline back in the 1960s and 1970s, with the 1964 Olympics in Tokyo, the Osaka Expo World Fair in 1970, and the Sapporo Winter Olympics in 1972 all driving development.

Among them was the Hotel New Otani Tokyo, which, along with the Imperial Hotel, Tokyo – which first opened in 1890 – and the Hotel Okura Tokyo, became Japan's classic top three hotels. The trio remained in a class of their own until the 1990s, when the Four Seasons Hotel Tokyo at Chinzan-so, the Park Hyatt Tokyo, and The Westin Tokyo replaced them in the classic luxury hierarchy.

Many hotels prospered through the 'age of leisure' of the 1970s and 1980s, a time of high economic growth, increased personal incomes and robust domestic demand. Hotels became the preferred venues for weddings, corporate meetings, negotiations and banquets.

As this period was more about prosperity rather than rivalry among hoteliers, outsiders from other industries – railroad companies, airlines and real estate firms for instance – moved in, as they sought to diversify their business portfolios.

Airlines, in particular, followed aggressive development plans to accommodate the enormous increase in the numbers of Japanese travelling abroad. In most cases, employees from the parent companies were assigned to run the hotels, even though they had no specialist knowledge of the sector. But at a time when everyone was making good money, this was not an issue.

While it's easy to profit in a rising market, when things started to go wrong in 1990, the situation changed. Japan's bubble burst, and the hotel industry was among the first to suffer. With less money to spend on corporate entertainment, weddings and other celebrations, the gap between those with professional management and those without quickly widened.

Consolidation and restructuring began, and even long-established companies were forced to sell company housing, recreation facilities, and other properties they had owned for decades. Companies with hotel subsidiaries in their portfolio couldn't carry the poor performers and had to either shed their hotels or outsource their management while they focused on core activities.

Good news for investors

While the downward spiral was bad news for some hotels, the ensuing fall in rents and property prices was good news for foreign and domestic investors, who were attracted by the falling rents and property prices in central areas. Redevelopment projects began as businesses and individuals relocated back to Tokyo at an accelerating rate.

The more favourable conditions in the real estate market led to the emergence of the first Real Estate Investment Trusts (REITs). J-REIT funds were established in 2001 and by early 2007 had reached a total market capitalisation of over US$48billion (¥6 trillion.)

These funds provide an investment vehicle while promoting transparency and liquidity in the real estate market. However, with a large number of private real estate funds, some analysts believe the commercial property investment market is overheating. This prediction, on top of diminishing returns, has led investors to choose hotels and other operational assets instead, accepting the greater risks for potentially higher returns.

This shift is illustrated by several major purchases, including the Seahawk Hotel & Resort in Fukuoka from Daiei by Colony Capital in 2003, the Shin-Kobe Oriental Hotel from Daiei by a Morgan Stanley real estate fund during the same year, and the acquisition of The Westin Tokyo in Meguro from Sapporo Holdings by the Morgan Stanley Group in 2004. These moves also led to the separation of ownership, management and operations, which had previously been integrated.

The launch of the first J-REIT to specialise in hotels – Japan Hotel and Resort, Inc, which was listed in February 2006 – is another example of the trend.

Sluggish real estate prices have kept property-related costs low for hotel management, encouraging market newcomers. Some international brands, for instance, have been welcomed by developers to join them in redevelopment projects, as a luxury hotel enhances the site value while giving the hotel brand a great opportunity to enter the Japanese market.

The added incentive for the developer is that incorporating a luxury hotel enables them to utilise exceptions to floor space ratios and other building regulations, thereby making the project more cost-effective. The number of new hotels located on the upper floors of office buildings with high-rise lobbies confirms the popularity of this move.

A taste of luxury

Japan has seen a major boost to its luxury hotel market recently. The Conrad, Mandarin Oriental and Ritz Carlton are all boosting the number of high-end rooms in Tokyo. The Peninsula is also scheduled to open in September.

Meanwhile, Morgan Stanley plans to acquire IHG ANA's 13 hotels in Japan for US$2 billion (¥280 billion) – one of Japan's largest real estate transactions and one that has attracted massive media interest.

As well as the strengthening economy, the demand behind these developments is from overseas visitors and from Japan's rapidly growing 'nouveau riche'. Both groups of people are keen to spend their money on luxurious items such as top-notch hotel rooms, and both groups are expanding.

Chart 1 below shows the success of the Government's sustained marketing campaign in bringing in more visitors from around the world.

According to the Ministry of Land, Infrastructure and Transport, 5.21 million people visited Japan in 2003 when the campaign was launched. This number has risen to 7.33 million in 2006 – up by more than 40%.

Visitors from Asia make up around 70% of the total, and China is expected to become an increasingly important source market. According to the Japanese National Tourism Organisation there were more than 632,000 visitors in February this year, up 22% year-on-year and the highest number on record. The number of visitors from Canada, for instance, is up by 29%, from France, up 18.6% and the UK up 9.7%

If these patterns continue, the country will undoubtedly hit its 10 million a year target.[1]

The picture at home

Looking at domestic demand, two factors are having a major impact. First, the retirement of thousands of the 'baby boomer generation' workers, all with plenty of free time on their hands to travel within their own country and overseas.

Second, the rise of the 'nouveau riche'. While middle class numbers have actually decreased in the last few years, those earning US$24,400 (¥3 million) or less a year and those with incomes of US$162,000 (¥20 million) or more a year have gone up.

The baby boomers and the newly-rich, with their experience of luxury hotels abroad, are looking for similar standards at home and are happy to pay for it. Those with healthier bank balances are also keen to spend money on spas, beauty salons, health clubs and other private facilities, often found within Tokyo's luxury hotels.

Pushing up demand

While some analysts suggest there is an oversupply of hotel rooms in Japan – with more than 1,700 foreign-owned rooms added to the total in recent years – in reality, the increase in supply is simply pushing up demand. Some hotels are proving so popular that reservations must be made months ahead, and some have to restrict access to facilities such as restaurants to hotel guests only.

These relatively small-scale, ultra-luxury establishments represent a new segment for Japan and while 1,700 is a sizeable amount, it still only represents 2% of the overall hotel market in Tokyo, so the competitive impact remains small.

However, as many of these niche hotels are still regarded as a novelty by Japanese consumers, who tend to favour the new, it's too early to predict the longer-term impact. By the time the Shangri-La Hotel is due to open in March 2009, the competitive landscape will be easier to assess.

More to come

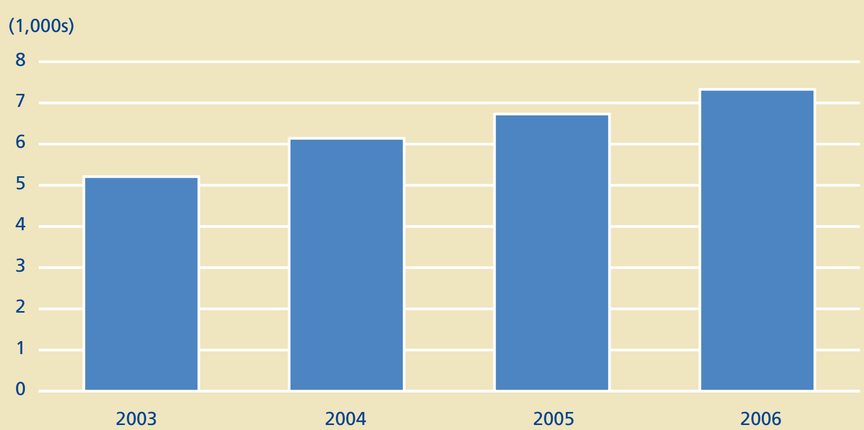
Like any market in its early stages, Japan's luxury hotel sector has had some teething problems. Its rapid expansion raises issues over staffing, as the demand for qualified people to work in this class of hotel – where professional service is rated very highly – is already outstripping supply.

The tourism infrastructure also needs more attention, as access from Narita Airport for visitors is a problem; and the lack of year-round international conference business makes it difficult for hotels to maintain a steady flow of income.

However, there are several positive factors that play to Japan's hand. First, Tokyo's status as a world city and key player in the global economy continues to pave the way for strong hotel performance. The city's average room rates now outperform not only their Asian rivals, but also many of the European powerhouses.

According to the HotelBenchmark™ Survey by Deloitte, Tokyo's revenue per available room (revPAR) stands at US$181 for the first five months of 2007 – almost on a par with London (US$188). In fact of all the major

Chart 1 – Overseas visitors to Japan



Source: Statistics compiled by the Ministry of Land, Infrastructure and Transport

Western European cities, only London and the perennially expensive pair, Paris and Geneva at US$196 and US$198 respectively, achieved higher revPAR than Tokyo during this period. This impressive performance from Tokyo was driven by an average room rate of US$236, which rose by 10% from the same period in 2006.

Second, there are plenty more overseas visitors on the way. The number of people travelling by air is expected to reach 2.3 billion by 2010[3], and with more luxury hotels opening, Japan will be able to give many of them a warm welcome.

Meanwhile, Tokyo is bidding to host the 2016 Olympics, and the gaming industry is hoping the ban on casinos will be lifted across the country. The signs, therefore, continue to look good for the tourism industry in the land of the rising sun.

Ryuji Sawada
Partner, Deloitte Japan
Tel: +03 6213 1122
Email: ryuji.sawada@tohmatsu.co.jp

1. Japanese National Tourism Organisation (JNTO)
2. Japan Tourism Marketing Co, www.tourism.jp
3. Hospitality 2010 Report, produced by Deloitte, 2006

"According to the Ministry of Land, Infrastructure and Transport, 5.21 million people visited Japan in 2003 when the campaign was launched. This number has risen to 7.33 million in 2006 – up by more than 40%."

Delivering the brand promise

Brand is the critical tool for achieving differentiation and success in today's competitive hotel market.

Hospitality 2010, Deloitte's research into the future of the industry, has pinpointed brand as a key driver of change for three reasons:

1. Loyalty schemes, traditionally the preferred tool for winning and retaining hotel customers, have a declining impact. Many hotel guests now own loyalty cards for all of the major chains, therefore such schemes are no longer a dominant factor in their choice of where to stay. Whilst for some 'point chasers' loyalty schemes do change perception, brand will increasingly be the 'X factor' which influences the decision-making process for travellers.
2. Many hotel groups are divesting their real estate interests and pursuing an 'asset-lite' strategy in order to free up capital for expansion. Ownership of bricks and mortar is giving way to ownership of the brand itself, in both its physical and intangible aspects: a major cultural shift in the industry.
3. Hotel expansion is intensifying competition, most gateway cities are reaching market saturation with leading brands sited close to one another, and travellers frequently spoilt for choice. In the future, brand will increasingly be as important as location in determining customer choice.

There are now clear signs that hotel groups are beginning to recognise the importance of brand management within their organisational structure. However, this remains very much a work in progress. Deloitte has identified some key obstacles and challenges which go to the very heart of the hospitality business model, and which will need to be addressed if companies are to deliver their brand promises more effectively.

Regional hurdles

Most global hotel groups have evolved on the basis of a geographical operating model. Organisations are structured around large regions: typically the Americas, Asia-Pacific and EMEA, further sub-divided into smaller geographical blocs such as Australasia, Europe or the UK.

The regional vice-president has traditionally been responsible for all of the brands falling within that region, leveraging the power of the local infrastructure in finance, IT, call centres and logistics across all brands. Whilst this regional model has day-to-day operational advantages it can lead to a diluted form of brand execution, with considerable geographical variance and inconsistency.

However, there are often practical reasons why regional brand management is not appropriate. For example, if there are only a few hotels of a particular luxury brand in the Asia-Pacific region, it doesn't make good commercial sense to manage these separately.

New dynamic

The emergence of brand management as a growing strategic priority is injecting a powerful new dynamic into the traditional operating model. Many companies are beginning to centralise and create management teams around specific brands.

These brand teams may still be organised on a regional basis, but increasingly many are run as global entities. This is particularly the case in the luxury sector where brands such as Marriott's Ritz Carlton are managed by the same team regardless of whether the hotels are located in Boston, Bahrain or Beijing.

Friction

In many parts of the industry this structural change has led to greater complexity and sometimes friction between centralised brand managers and the regional operation teams who are, of course, ultimately responsible for delivering day-to-day performance.

But friction between the centre and the regions is only part of the story. Brand managers are a relatively new and evolving animal in the hotel industry, with many having been imported from outside the sector. The rise of the proactive and participative brand manager within the organisational hierarchy poses a further challenge for the established management culture.

Brand sceptics

Senior executives in the industry have traditionally won their spurs at the sharp end of hospitality, starting at the bottom, acquiring in-depth operational knowledge and credibility on their way up the career ladder.

This has created a management culture which today remains fundamentally 'operations-led,' and which is still often sceptical about the importance of brand. Brand is an intangible concept compared to the nuts and bolts, 'real business' of running hotels. Critics in the industry dismiss it as cosmetic icing on the hospitality cake, composed of mere marketing gimmicks, adverts, jingles and logos.

Regional operations teams still hold the balance of power in the industry and can view their brand colleagues as lacking credibility, especially if they have little or no experience of working on the frontline in an actual hotel.

Development decisions

But operations teams are not the only organisational obstacle to delivering the brand promise. Hotel development teams also have an agenda which can sometimes be at odds with the group's overall brand strategy.

Charged with selecting the properties, locations and specifications for each brand in the group's portfolio, the hotel development team plays a critical role and is vital for future growth.

Hotel operators are desperately seeking new properties to meet the current high demand for rooms. Development teams often have a capacity-driven approach, driven by growth targets and the size of deals rather than encouraged to follow specific brand criteria.

While the brand team often has a role in the decision making process, ultimate authority tends to rest on the development side, and all too often the interaction between the two teams is weak.

The danger is that the pipeline of future hotel development may not match the strategic goals of the group. In some cases hotel properties have been opened in locations inappropriate for that brand, leading to inconsistency and a further dilution of the brand promise.

Seamless integration and orientation

Close collaboration and tight structural interaction between the development and brand teams is crucial. Marriott is an example of how this can be achieved via a centralised development function which requires agreement from both operations and brand managers before a development decision can be approved.

Operations, development and brand teams, across both regional and central levels, must be integrated seamlessly if a hospitality organisation is to successfully deliver its brand promises.

However, Deloitte has also pinpointed a further group of stakeholders who are the leading actors in the brand story – particularly outside of the budget sector – and whose alignment behind the brand is crucial: hotel employees.

Soft challenge

Budget chains such as Hotel Formule 1 and Travelodge focus on selling 'hard' products and a basic set of guaranteed standards – cleanliness, convenience and price – which are relatively easy to control and replicate on a large scale, even within a global franchise model.

But the 'softer' hotel brand values become, the more service-oriented and experiential for example, the harder it is to consistently meet customer expectations, especially on a large scale across geographical boundaries.

Mid-scale hotels – a hybrid of product and service – have to work harder than the budget brands to fulfil their promises. Upscale brands such as Ritz Carlton and Four Seasons Hotels & Resorts have to work harder still to deliver the highly personalised, intangible experiences their guests demand.

Work experience

Delivering the brand promise in experience-led hotels vitally depends on the quality of staff/guest interactions, something far more unpredictable and more difficult to replicate than harder, product-driven brands.

Mid and upscale brands are discovering that in order to deliver a great customer experience they must first invest in creating a great employee experience. The 'colleague engagement' programme adopted by InterContinental Hotels & Resorts, the luxury brand of InterContinental Hotels Group, epitomises this approach.

Creative tension

Hotel groups have made significant progress towards the integration of brand management within their organisational structure. However, much remains to be done. The industry is still in the process of evolving a business model fully geared to the challenges of the future.

Many hotel groups are organised around a matrix reporting structure, with highly complex relationships between regional vice-presidents and operations teams on the one hand and increasingly centralised functions in finance, IT, HR and marketing/brand on the other.

At its best this complexity can result in a creative tension between the interlocking parts which ensures that the best decisions are made for the group as a whole. At its worst it can lead to division, inefficiency or an unsatisfactory compromise in the best interests of no-one.

The future is likely to see further changes in organisational structure. How radical will these changes be? Today operations teams still rule the roost, albeit within a shifting framework. But tomorrow? Could the hotel industry of the 21st century become truly brand-led?

Robert Bryant
Partner, Deloitte UK
Tel: +44 20 7007 2981
Email: rmbryant@deloitte.co.uk

Mike Tansey
Director, Deloitte UK
Tel: +44 115 936 3970
Email: mtansey@deloitte.co.uk

Case study

InterContinental Hotels Group (IHG) is a leading global hospitality group, with over 3,600 hotels across nearly 100 countries and territories.

Following a few years of indifferent performance by its luxury hotel brand InterContinental Hotels and Resorts, IHG decided to take action.

InterContinental faced some huge challenges:

- Significant cultural and language differences from its diverse operations across the US, Central and Latin America, Europe, the Middle East and Asia Pacific.
- A large percentage of hotels under local management.
- A mix of both city-based hotels and resort locations, targeted at both the business and leisure markets.

After redefining its brand positioning, and conducting surveys into guest and employee satisfaction, InterContinental asked Deloitte to help turn its strategy into reality.

Colleague engagement
Deloitte helped develop and implement a global programme to enable InterContinental employees to understand the brand values and their role in making these values a reality. This included a new service ethos to embed the behaviour required to reposition the brand, and to ensure that the brand lived and breathed throughout the organisation.

The colleague engagement programme, called 'The InterContinental Experience – You Bring It To Life', was rolled out to 40,000 employees in 2006.

The core brand values were translated into three guest service and three colleague promises which articulate what the InterContinental experience should feel like:

- Genuine interest in our guests and each other.
- Taking ownership of requests.
- Sharing local knowledge and authentic experiences.

Delivering guest experience
The programme empowered employees to make the link between the brand, the guest service and colleague promises and enabled them to make the changes needed to embody the brand values and make the right decisions to deliver the desired guest experience.

Deloitte also helped InterContinental to develop a new package of tools designed to create a personal link between hotel and guest, including a new concierge experience.

Ownership and integration
The engagement programme was steered by a committee consisting of all the regional Vice Presidents in charge of operations around the world. Their sense of ownership and belief in the project was channelled back into their regional organisations at grassroots level. This integration was vital to the success of the programme.

A version of the programme was also delivered to the corporate offices around the world, incorporating all departments including development. This enabled the brand message to permeate throughout the organisation and prevented the brand team from being isolated.

Tangible success
Although it is early in the programme, tangible success can already be seen with an extremely strong pipeline of new hotel openings, particularly in the USA and Asia, and an increase in consumer brand awareness.

InterContinental expects increased occupancy and average room rate to follow as the programme cascades throughout the organisation and the new concierge experience is rolled out globally.

> "It takes best in class commercial execution to turn a powerful brand into increased market share and bottom line value. Deloitte is helping us to create that within our business, and bring InterContinental's performance to the next level."

Jenifer Zeigler, Senior Vice President, Global Brand Management, IHG.

Outlook for US summer travel – sunny with an occasional cloud

Summertime. And temperatures are rising – the planes are filling up, and millions of people are planning their annual vacation.

In the US, a wave of optimism is spreading across the tourism industry, with a record 53 million international travellers expected to arrive this year.[1] The global airline industry is experiencing its best performance since 2001, and for the first time in five years, no large US carrier is operating under bankruptcy protection. After several disappointing years, US airlines expect to make profits of around US$4 billion.

Clearly, there is plenty of positive news coming out of the US travel industry; but there are also a few clouds on the horizon.

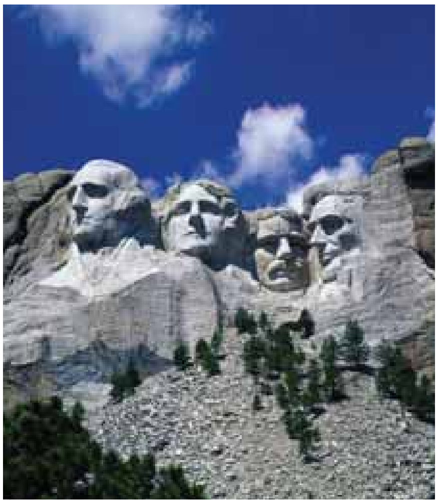
With holiday-makers preparing for the great summer 'take off', this article looks at the excellent aspects for US air travel, as well as some of the small irritants that need to be tackled.

Economic impact

Tourism and leisure supports around 8.3 million jobs in the US[2] – more than in construction, finance, education or health care – so the industry's wellbeing has far-reaching consequences for the economy as a whole.

Fortunately then, despite crowded aircraft, delays, restrictions on carry-on liquids, lost luggage and forecasts of another tough hurricane season, people are still prepared to get on board.

According to the International Air Transport Association, 2007 is set to be the best financial year since 2001. The aftermath of September 11 had a predictable impact on travel, but recent figures confirm the travelling public has become more resilient.



In 2006, business and leisure travel generated over US$661.3 billion in sales, a figure that is expected to go up in line with traveller numbers.

This summer, the Travel Industry Association expects leisure travel to increase 1.4% year-on-year, despite higher fuel prices and vacation costs in general, while business and convention travel is predicted to grow faster, at 3%. The Deloitte & Touche US Travel Survey published in February 2007, indicates that spending on long distance travel is set to rise 19% over the previous year.

The Federal Aviation Administration (FAA) predicts a 3.8% increase in global passenger traffic in 2007 to 768.4 million, and – following the Open Skies talks – even more people will be heading to the airports. Earlier this year, the US and European Union reached a tentative Open Skies agreement to allow their airlines to fly to any destination within the EU and the US. Lower air fares and more transatlantic air travel will be the logical consequence when the agreement becomes effective in March 2008.

In under a decade, worldwide air travellers are expected to pass the one billion mark, making the modernisation of air traffic control systems at US airports a priority, and the focus is now on a satellite-based system to replace ground-based radar.

The current system, supported by aviation user fees and excise taxes, is nearing capacity and is prone to breaking down, but the cost of the 'next generation' system – estimated at US$47 billion through to 2025 – remains a major stumbling block.[3]

First, get the passport

However, before some Americans can even start planning their journey to another country, they face the challenge of getting a passport.

Traditionally, the number of US citizens with a passport has remained low, compared to other countries; with State Department data confirming that, at the end of 2006, only just over a quarter of eligible people owned one.

In January 2007, the Western Hemisphere Travel Initiative (WHTI) came into effect, making it mandatory for all air travellers (but not those arriving by land or sea) to show a passport when entering the US from Canada, Mexico or the Caribbean – except for US territories.

Most US consumers – 83% according to our Travel Survey (February 2007) – are aware of the changes. However, the length of time it takes to get a passport has increased in line with the unexpected surge in new passport applications.

In some cases, passports are said to be taking up to 12 weeks to be processed, compared to a much shorter turnaround time last
year. With the US State Department expecting to issue 17 million passports in 2007, up from a record 12.1 million in 2006, interim arrangements have been put in place.

In June, the State Department advised Americans who have applied for a passport, but are still waiting, to use a driver's licence or similar government-issued ID for travel, along with proof of their submitted passport application. This temporary policy is expected to expire later this year. In the meantime, an ongoing information campaign is encouraging people to plan well ahead when applying.

The second part of the WHTI, due to come on line in January 2008, would also require all US travellers arriving by land or sea to have a passport. Currently, Congress is discussing pushing this back until the summer of 2008.

New passports are now equipped with an RFID chip containing personal information about the owner. There have been some concerns from privacy advocates that these chips can be tampered with – a claim that has been denied by government agencies – and the debate continues on the need to balance increased security with individual privacy.

Frequent travellers are making use of an innovative programme, initiated in Orlando in July 2005 and now being rolled out across other US airports.

For an upfront fee of US$99.95, approved travellers receive a smart card containing their biometric information for identity authentication. The aim of the programme is to have the smart card owner move through airport security much faster and get into their airline seats ahead of the crowd.

Time to wait

Even with a smart card though, travellers cannot control the weather conditions that led to hours of waiting on the tarmac or in departure lounges during the severe winter of 2006 – 2007. According to the FAA, around 61,000 flights were delayed for two hours or more on the runway during 2006.

As a result, two separate 'passenger rights' bills are now under consideration by the US House and Senate, requiring airlines to allow passengers to leave the aircraft when there are long delays. Travellers would be kept informed of delays, cancellations or diversions. To date, it is not known whether either bill, as drafted, will go through.

Much of the dissatisfaction with delays and lack of information seems to have fed into a hospitality industry survey, carried out by Market Metrix, LLC. Results for the first quarter of 2007, showed that while hotel guest satisfaction climbed to near record levels, airline passenger satisfaction dropped. Every cloud, though, has a silver lining, and with people spending more time at airports – mostly due to more extensive security measures – revenues from shopping and eating are going up.

Latest figures show that gross food and beverage sales at airports in 2005 were up 19% over 2004, specialty retail was up 7.5%, and news and gift sales were up 22.5%, according to Airport Revenue News. Sales per square foot, a measure of retail strength, are often higher for retailers within airports than for their stores in traditional shopping centres.

Increasingly, airports are becoming home to high-end dining and buying outlets, and well-known chefs, picking up on the trend, are moving in.

Airports and airlines are also bringing in advanced technologies to keep their customers happy. Wi-Fi is becoming more widely available through passenger terminals, enabling travellers to keep in touch with work or family through web-enabled devices. T-Mobile intends to provide Wi-Fi wireless broadband access in the terminals and all public areas of Los Angeles International Airport and LA/Ontario International Airport.

According to our US Travel Survey, 46% of respondents would like to see Wi-Fi at the airports they use. This figure rose to 57% among the 18-44 year age group.

US airlines, like their counterparts across the world, are also making more use of digital technology and the Internet to interact more with their customers. E-tickets are replacing the paper version, and passengers can check in online, 24 hours in advance. Several companies also offer free online and text message alerts to give customers real-time information on latest fare offers and flight status.

As our table below shows, total sales in 2006 from US tourism and leisure were up by 6.9%. The industry is now hoping that the record number of people expected to set off for the US this summer will make for an even better performance in 2007.

Adam Weissenberg
Vice Chairman, Tourism, Hospitality & Leisure, Deloitte & Touche USA LLP
Tel: +1 973-683-6789
Email: aweissenberg@deloitte.com

1. US Office of Travel and Tourism Industries
2. US Bureau of Economic Analysis
3. Air Transport Association

The figures that count

2006 US Travel and Tourism Sales	
Total	$661.3bn
(Up 6.9% from 2005)	
Accommodations	$112.1bn
Airlines	$111.4bn
All other transportation	$130.9bn
Food and drink	$119.1bn
Recreation/entertainment	$83.9bn
Shopping	$104.0bn

Source: US Bureau of Economic Analysis

Spending by business and government employees represents slightly more than a third of the total industry sales. Remaining tourist sales were to US residents and international travellers to the US.

Tourism and leisure supported 8.3 million American jobs in 2006. More people are employed by tourism and leisure-related industries in the US than are employed individually in the construction industry, the business and financial industries, agriculture, education, or healthcare.

Prices for tourism and leisure goods and services have been rising faster than the overall rate of inflation. In 2006, prices for tourism and leisure rose 3.7% over 2005, compared with inflation, as measured by the Consumer Price Index, which was up 3.2%.

The US welcomed 51.1 million international visitors in 2006, a 4% increase over 2005. The US Office of Travel and Tourism Industries projects a record 53 million international travellers in 2007.

Contacts

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

Global Leader
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
Lorna Clarke
+ 44 20 7007 1563
llclarke@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
Crawley
Graham Pickett
+ 44 1293 761 232
gcpickett@deloitte.co.uk

Asia/Africa/ Middle East/Pacific

Asia Pacific Leader
Tony Cotterell
tcotterell@deloitte.com.hk

Auckland
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@tohmatsu.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 Kluft
jkluft@deloitte.nl
Onno Oldeman
ooldeman@deloitte.nl
Athens
Michael Hadjipavlou
mhadjipavlou@deloitte.gr
Austria
Michael Koevesi
mkoevesi@deloitte.at
Denmark
Helle Simonsen
hsimonsen@deloitte.dk
Frankfurt
Reinhard Drewes
redrewes@deloitte.de
Madrid
Javier Jimenez Garcia
jjimenezgarcia@deloitte.es
Malta
Nick Captur
ncaptur@deloitte.com
Milan
Marco Zalamena
mzalamena@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
dherskovits@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
Wade Mcknight
wmcknight@deloitte.com
Jeffrey Ortwein
jortwein@deloitte.com
Tom Walker
towalker@deloitte.com
Los Angeles
Neale Redington
nredington@deloitte.com
Steve Steinhauser
ssteinhauser@deloitte.com
Miami
John Zamora
johnzamora@deloitte.com
New York
Michael Gamache
mgamache@deloitte.com
Guy Langford
glangford@deloitte.com
Phoenix
Shaya Schimel
sschimel@deloitte.com

www.HotelBenchmark.com

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