

Executive Report

The magazine for the Tourism, Hospitality and Leisure industry

The search for an oasis

Middle East tourism gets set for takeoff

Going private – why it's so appealing

The growth of the private equity investor

Why investing in casinos could be a safe bet...

Putting the glamour back into gambling

Issue 8

January 2007

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Welcome

A positive outlook

Dare I say it but, we seem to be enjoying a period of sustained recovery – although due to escalating HR costs, overall, margins are still behind the 2000 levels. The important thing is that the outlook, on all fronts, is robust, underpinned by strong fundamentals. These are the ever growing appetite for air travel, the impact of the emerging markets of China, India and Russia and a generally positive economic outlook. It is the same for the USA where consumer confidence is waning and may set back the world's biggest tourism market in 2007. Even the threat of escalating oil prices has, for the time being at least, receded.

In this edition, we take a closer look at the future consumer, the power of brands, the emerging market of Brazil, the future of the casino industry, the increasing public to private play and focus on the performance of the Middle East hospitality industry. All good news...

As the New Year begins, the single most important 'To Do' on most CEO agendas is the war for talent. Changing demographics, an ageing population and a significant shortage of young talent in many developed countries means that the industry, more than ever

before, needs to focus on recruitment and retention. The hospitality industry, with a non-managerial turnover rate of 50% and managerial turnover rate of 25% will simply not live up to its brand promise unless this critical issue is addressed. The war for talent is on. What is your winning strategy?

As always, I welcome your feedback on our report.

Best Regards





Going private – why it's so appealing

Competition is red hot. The spectacular growth seen in Private Equity investment over the past decade reached record levels in 2006, and there is continued growth in the volume and size of Private Equity funds.

No wonder it is a favourite topic among tourism, hospitality and leisure market analysts. Here, we consider why this sector is so attractive to Private Equity investors; we look at recent acquisition activity and question whether the current level of activity will continue.

Unique opportunities for growth

Even though the tourism, hospitality and leisure industry is cyclical and vulnerable to external factors such as terrorist attacks and political upheaval the performance of the sector has proved amazingly resilient over the past few years, and confidence remains high.

Private Equity has dominated the top ten leisure sector deals across Europe during the first nine months of 2006 – accounting for six out of the top seven transactions.

European deals overview

Steady cash flows and typically asset-backed businesses make this an exciting sector for Private Equity investors. Many areas of the tourism and leisure industry are still relatively fragmented, offering 'buy and build' consolidation opportunities. Banks are keen to finance add-ons, so Private Equity firms can profit from relatively high gearing.

The hotel sector is a great example of successful Private Equity interest. In 2005, 40% of European hotel deals involved Private Equity groups, compared to just 1% five years earlier. Today, every time a hotel deal comes onto the market, property funds and private equity firms fall over themselves to sign the contract. Clearly, private investors, looking for businesses with potential in an expanding market, are maximising the opportunities in this high-growth sector.

More transactions

If we look first at the UK, the diverse leisure sector has proven to be a strong magnet for Private Equity. Since 2002, around 10% of Private Equity transactions in UK companies have been in the leisure sector.

The size of Private Equity leisure deals in the UK are gradually increasing, rising from €210 million, in 2004, to €270 million the following year and €290 million in the first three-quarters of 2006, when some 22 leisure-related deals have transacted.

Recent successes included EQT's €2.6 billion acquisition of Select Service Partner and Creative Host Services from Compass, and Dubai International Capital's €0.9 billion acquisition of Travelodge from Permira.

Growth patterns are similar across mainland Europe, albeit from a considerably lower base. In 2005, there were 23 deals valued at around €9 billion, up from 10 deals worth €2 billion the previous year. Much of the growth in average deal size was driven by Cinven and BC Partners €4.3 billion move for Amadeus Global Travel Distribution and Starwood Capital Group's €2.6 billion takeover of Groupe Taittinger and Société du Louvre.

More money

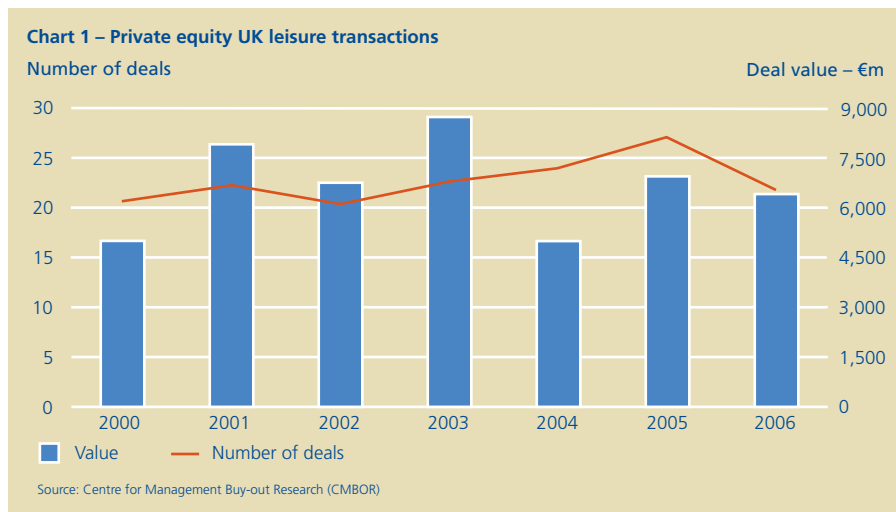
Although scrutiny from several regulatory bodies is increasing and many analysts are predicting a slowdown in Private Equity merger and acquisitions, record aggregate funds are still being raised.

For the first nine months of 2006, €300 billion was raised globally compared to €250 billion for the whole of 2005. These record levels of fund raising are driven by the recent emergence of the mega buy-out funds, including the \$15.6 billion

Table 1 – 2006 Top 10 announced deals in the European leisure sector

Announced date	Bidder Company	Target Company	Deal value €m
April 2006	EQT Partners & Macquarie Bank	Select Service Partner	2,628
June 2006	Uberior Investments plc	De Vere Group Plc	1,406
August 2006	Dubai International Capital	Travelodge Hotels Limited	991
January 2006	BC Partners	Hyatt Regency SA	941
September 2006	Apax Partners and Permira	Sisal SpA	900
June 2006	The Carlyle Group and Vista Desarrollo SA	Turned SLU	900
June 2006	GI Partners	Punch Taverns PLC (290 Spirit pubs)	832
September 2006	Genting International Public Limited Company	Stanley Leisure plc	817
March 2006	Masampe Holding BV	Codere SA	743
July 2006	Mitchells & Butlers plc	Whitbread plc (239 pub restaurant sites)	728

Source: Mergermarket



(€12.3 billion) raised by Blackstone Capital Partners, which created the world's largest Private Equity fund.

There was also the \$15 billion (€12 billion) raised by both Kolberg Kravis Roberts & Company (KKR) and Texas Pacific Group (TPG); €11.1 billion by Permira and €6.5 billion by Cinven.

Lenders are also making senior debt available on ratios considerably higher than historically offered. This, coupled with the increasing levels of available equity, has intensified bidder competition amongst Private Equity investors themselves, and with other private investors (property and hedge funds).

More competition

More aggressive competition and larger transactions have resulted in two trends. Firstly, Private Equity funds are clubbing together to reduce risks and circumvent investment limits from one fund on any particular asset. Private Equity investors typically expect a return of 20% - 25%, but the increase in competition and hence prices is increasing the risk on exit multiples.

One example of a consortium bid was the acquisition in 2005 by a consortium comprising Lehman Brothers, Realstar and the Government of Singapore (LRG) of 73 UK Hotels from IHG for 9.3 times Earnings Before Interest, Taxes, Depreciation and Amortisation (EBITDA).

Secondly, the increasing use of auctions – More and more deals across the UK and mainland Europe are going to auction, often attracting in excess of 30 first round bids.

This move towards auctions and controlled sales give sellers more say in the transaction process, and limits the amount of pre-transaction planning in which a buyer can engage. Private Equity firms are rapidly becoming adept in open auctions. In the UK market, Private Equity was successful in 74% of auctions in 2005, compared with only 30% in 2001.

A recent study by Deloitte also revealed that the superior transaction execution of Private Equity bidders has enabled them to frequently knock out the corporate competition.

If they are to truly compete with the Private Equity sector, corporate buyers now need to update their skills in the buyers' marketplace and deliver shareholder value, or they could ultimately become targets for private investors themselves.

Playing for time

Private Equity investors are now looking for opportunities with a strong headline exit, and the gaming industry ticks all the boxes.

Operators of bingo and casino establishments, for instance, are asset-based, with non-elastic customer demand, and are very cash generative. There is also a significant amount of deregulation taking place, particularly in the UK.

In 2005, Permira acquired a 33% stake in the Gala Group (valuing the business at circa £1.9 billion). Leading the way in 2006 was the acquisition by BC Partners of 51.57% of Hyatt Regency Hotels & Tourism from its majority shareholder Hellenic

Casinos Company. Headquartered in Athens, Hyatt Regency Hotels & Tourism is the leading operator of casinos in southeastern Europe with casinos in Athens, Thessaloniki and Tirana.

Despite the proposed smoking ban, the bingo sector, where a high proportion of customers are smokers, has seen continued interest by Private Equity investors – Buckingham (Alchemy Partners LLP), Mayfair Gaming, and Thomas Holdings LLC (Hermes Private Equity).

Hotel market heats up

The hotel industry has seen unprecedented levels of transactional activity in the past five years. In 2005, European volumes were up 57% – at €15.7 billion – year on year. We expect 2006 levels will be almost as impressive at circa 20% up on the previous high in 2001.

With hotels offering a yield of around 6%, compared to the sub 5% through offices, retail and other forms of property, it's not surprising that hotels have become more attractive to buyers. Separating hotel ownership from operations has been a clear trend in the hotel industry in recent years with opco / propco splits and sale and leasebacks or sale and managebacks driving many of the recent transactions.

Further structuring opportunities and expected earnings growth are proving attractive to Private Equity firms, who, keen to unlock the value in an industry supported by strong fundamentals, have pounced on this sector. Private Equity groups have taken a stake in around 35% - 40% of hotel deals across Europe in the last couple of years – an amazing leap since 1998 when it was less than 20% and the year 2000 when it was just 1%.

The major Private Equity acquisitions in the European hotel sector in 2005 included Starwood Capital's acquisition of Louvre Hotels as part of the wider acquisition of Groupe Taittinger and the acquisition by Starwood Capital and Lehman Brothers of the Le Meridien hotel chain. 2006 has to date included the acquisition of 24 InterContinental Hotels across Europe (comprising a mix of Crowne Plaza Hotels & Resorts, Holiday Inn Hotels and Express by Holiday Inn Hotels brands); 6 Principal Hotels being acquired by Permira; and Blackstone's purchase of 8 hotels across Europe previously owned by Hospitality Europe B.V.

However, as in other sectors, Private Equity investors are facing increasing competition for hotels from other buyers, such as property investors and institutional investors, as well as from strategic partnerships which include joint venture entities comprising a mixture of buyer types. An example of a particularly active strategic partnership is HHR Euro CV, which comprises Jasmine Hotels – a subsidiary of the Government of Singapore Investment Corporation; Host Hotels – a US Real Estate Investment Trust – and Stichting Pension funds. This group joined together to acquire a portfolio of Starwood Hotels in Europe and the Hotel Arts in Barcelona.

Decreasing yields across the property sector as a whole coupled with increasing competition amongst bidders has driven up prices. Excepting ‘trophy hotel assets’ multiples 2-3 years ago were typically in the range of 8x to 12x EBITDA depending on location; upside potential etc. This contrasts with the EBITDA multiples currently being achieved which have generally been above 12x and as high as 20x in 2006.

Future exit strategies are likely to include further secondary buy-outs as well as some hotel companies or hotel investment vehicles listing on Alternative Investment Market (AIM) and Euronext, as an alternative to the main market.

The emergence of Real Estate Investment Trusts (REITs) is also likely to offer alternative exit routes for some investors. The French REITs, Fonciere des Murs, has already acquired 2 Accor portfolios and with the introduction of REITs in the UK in 2007, more hotel REITs are anticipated in the medium term.

Health warning

The Health and Fitness sector is an excellent example of how changing market demand and competition from alternative investors can impact investments and acquisitions. During the 1990s, when everyone wanted to belong to a gym, the health and fitness industry was on a roll. Joining fees were acceptably high as membership became a token of middle class aspirations, but rapid expansion by market newcomers slowed the sector down.

Private equity houses stepped in and acquired Holmes Place, Esporta Health Clubs, Fitness First and Cannons, among others, and these were all de-listed. But even in private ownership, many clubs struggled to attract and retain members,

especially as the number of high quality clubs and competition for dwindling numbers of fitness enthusiasts increased.

Consolidation was the obvious solution, and there has been a great deal of activity in 2006. Acquisitions of LivingWell Premier Health Clubs, Fitness Exchange, Dragons Health Clubs, and Next Generation Clubs, as well as the Virgin Active takeover at Holmes Place contributed to one of the busiest mergers and acquisitions (M&A) seasons the health club sector has seen.

Deloitte expects the market to stay buoyant as alternative investors start to circle the sector and Private Equity investors further consider their exit and consolidation plans for their health and fitness investments. Duke Street Capital has recently sold Esporta Health Clubs to Simon Halabi, the Syrian private investor for over £460 million (€678 million), seeing off bids from MidOcean Partners, Legal & General Ventures and Next Generation Clubs. Cannons, meanwhile, remains under strategic review.

Enduring appeal

We believe the leisure sector overall will continue to attract Private Equity investors, and that the betting and gaming and hotel sectors’ will be the hot favourites. Especially as increases in disposable income means that leisure goods and services now make up close to 20% of household expenditure across Europe.

Alex Kyriakidis, Global Managing Partner, Tourism, Hospitality & Leisure of Deloitte sums up the appeal of the market so well. “This industry is appealing to Private Equity because its fundamentals are very robust. Global travel is set to increase from 1.5 billion to 2.3 billion by 2010, the silver segment is not only growing due to the ageing population, but living longer and spending on tourism, hospitality and leisure. In addition, the emerging middle classes in China, India and Central and Eastern Europe will provide the ‘turbo charge’ to the industry.

The betting and gaming sector is gearing up for a dynamic future. When the UK Gambling Act 2005 comes into play in the autumn of 2007, international competition is likely to intensify, and Gala Coral Group is among the UK players that will be interesting to watch over the next year.

The proposed introduction of a smoking ban across England could also impact investment in the betting and gaming market.

Initial findings in Scotland, where smoking has been banned already, suggests customers will drift away, however many operators expect business to return to historical levels. Deloitte’s ongoing involvement in transactions in this sector supports this view, and as noted above, the smoking ban has not deterred private equity investors during the past year.

The hotel sector is also one to watch closely. A panel debate at the 2006 New York University International Hospitality Industry Conference was asked whether the wave of hotel merger and acquisitions had peaked. Several CEOs of leading hospitality companies suggested that we are “two to three innings into a nine inning game.”

Although most of the mega deals in the hotel sector may have come and gone, we can expect to see plenty of smaller asset and portfolio moves while companies balance their portfolios and dispose of non-core properties. We anticipate more secondary buy-outs by Private Equity investors, but within a more competitive forum, comprising property investors and strategic partnerships.

Currently breaking news in the hotel sector are Blackstone’s acquisition of the Interhotel Gruppe in Germany comprising 16 hotels; and the ongoing disposal of Scandic Hotels by Hilton which is generating significant Private Equity interest.

There is clearly plenty of life in the tourism, hospitality and leisure sector yet and the value and volume of deals will stay high for some time to come. ●

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The world on a plate

How do you convince a consumer to purchase a product which appears to be no better than any other, yet no cheaper? The answer is usually simple: you lower the price.

This raises the spectre of commoditisation, bringing disaster in its wake for companies selling goods and services to consumers. Ruinous price competition ultimately leads to low or even non-existent margins. Even worse, it leads to the destruction of brand equity. It may be the only way to sell cement or petrol, but it is no way to sell appliances, still less meals, hotel rooms or holidays.

Commoditisation has become the defining challenge of our time. Its insidious influence can be found in countless industries ranging from retailing to financial services to telecommunications to leisure. So what can companies do to avoid it? Fortunately there is much they can do. After all, Starbucks Coffee sells a commodity (coffee) at non-commodity prices with a strong brand message. Apparently there is hope.

Before offering solutions let us consider the business environment that has led us to this point.

Rising expectations

Throughout much of the world, inflation has been tamed and consumers no longer expect price increases on a regular basis. In fact they often expect prices to fall, given the impact of discount retailers and internet selling across many products and services.

People are more price sensitive than ever, often postponing purchases lest they miss a bargain. It is far harder now to convince customers of the value of relatively high prices. Of course there are exceptions. Successful luxury brands such as Orient Express Hotels have convinced affluent customers that premium prices are justified.

Consumers have also grown accustomed to the ever increasing quality of many goods and services. Improvements in the technology of manufacturing, and in service delivery have vastly enhanced the quality of almost all purchases.

As a result consumer expectations have risen sharply. No longer must a price premium be paid in order to obtain good quality. No longer are premium brands the only way to obtain a world class product. However when quality is taken for granted, price becomes an even greater sellingpoint. This leads to the rise of discount retailers, private label products, and no-frills service providers such as low cost airlines and budget hotels trading purely on price.

Switched on consumers

Consumers today have access to vast swathes of information unimaginable just a decade ago. Through the internet they can learn about products and services, read reviews, and compare prices to a degree that enables them to effectively possess full information.

In the tourism and hospitality industry, for example, websites such as Tripadvisor and IgoUgo enable customers to share the experiences and recommendations of other travellers, view their travel photos, and search for the lowest prices.

Such developments undermine the effectiveness of traditional marketing tools. In the past, companies have used mass marketing to inform consumers about brands and their attributes, often attempting to convey impressions that are not necessarily related to the basic facts about the brand.

Traditional marketing is less likely to resonate with today's wired and inquisitive consumers, who increasingly seek confirmation from their peers. Companies must find new tools to build brand equity. These can involve building or supporting networks of consumers with likeminded interests or life styles. They can also involve inviting consumers to react to products and participate in improvements and innovations.

Avoiding commoditisation

So what can companies do to avoid commoditisation? The fundamental problem with a commodity product is its strong resemblance to the products of its competitors. Avoiding commoditisation means being different.

Leisure services can be differentiated in three ways:

- By product innovation (Starwood Hotels and Resorts iconic Heavenly Bed, Bath & Crib).
- By target consumer (InterContinental Hotels Group's Indigo aimed at customers with a "style-conscious, tech-savvy mindset", seeking affordable luxury).
- By the manner of service delivery (Lastminute.com's leveraging of e-commerce and m-commerce distribution to reinforce a brand story focused around spontaneity and life style).

However, it is far harder for companies to differentiate whilst continuing to target a mass audience. Greater differentiation is likely to mean a growing trend towards niche selling, as operators learn to exploit the much discussed 'long tail'.

The long tail

If consumer groups are distributed in a bell shaped curve, the mass market is generally located in the middle. Today, the middle of that bell is often saturated and increasingly commoditised. However, the long tails at either end of the bell may offer significant untapped opportunities.

Within the travel market, for example, most large-scale operators live within the middle of the bell, and they compete vigorously on price with razor-thin margins. The meteoric rise of budget airlines and the emergence of web comparison meta search engines have led to an increasingly commoditised industry with many of the big players focused on the mass market of price sensitive consumers.

But on the long tail of the bell we find the educated, upper income, experience-hungry traveller who is less price sensitive, focused on quality, seeking adventure, discovery and authenticity.

Operators such as First Choice Holidays in the UK are successfully targeting this consumer by moving into lower volume, higher margin areas of business such as longhaul, eco and activity-based travel. The result is higher prices, fatter margins, and greater opportunities for engendering customer loyalty.

This long tail is where future profitable growth opportunities will lie. Consumers will continue to fragment into more narrowly defined groupings, a trend reflected and encouraged by the fragmentation of mass media. Targeting the long tail will involve building relationships with more narrowly defined consumer groups, through new forms of marketing and Client Relationship Management (CRM) activity.

The new challenge

In this environment brand equity becomes critical. In a commoditised world, consumers are increasingly indifferent to brand messages, with the notable exception of luxury goods. The rise of private brands, no-name brands, and one-price stores reflects this indifference. The growth of third party, intermediary websites selling travel and

hospitality products has also helped to dilute the brand message in the tourism industry. Brands now assume even greater importance to consumer oriented businesses than in the past. Today the challenge is not only to build brand equity. The new challenge is fourfold:

- To create differentiating factors in order to attract a target consumer.
- To use new marketing tools to engage the consumer in a dialogue.
- To use this dialogue to build a brand that conveys the differentiating factors.
- To execute the strategy in order to convince consumers of the reliability of the brand.

This is a tall order for all tourism, hospitality and leisure businesses.

Emerging market consumers

None of the challenges discussed are unique to the developed world. Yet the threat of commoditisation is less worrying in emerging markets for a variety of reasons.

Consumer markets in the emerging world are growing very rapidly, especially in China and India. It is easier to latch onto a growing market than to build market share in a stagnant one.

Emerging market consumers are relatively more brand conscious, not yet jaded by the excellent levels of service taken for granted by their counterparts in developed markets. A truly better brand is more recognisable to an emerging market consumer.

The mass market still exists in emerging economies. Mass communication remains fairly effective, and the 'middle of the bell' still holds great potential for travel and leisure operators.

Emerging market consumers still lack the full information to which the developed world has become accustomed. This makes it easier to convince consumers about the strength of a product or brand.

Lucrative targets

Emerging markets offer disproportionate growth opportunities for global consumer oriented businesses in the years ahead, and the range of opportunities is expanding. Until recently, companies focused on relatively up-market customers in countries like China and India. This is now changing as lower to middle income consumers are seen as legitimate and potentially lucrative targets.

This process can be seen in the hospitality industry where global chains seeking to invest in China initially concentrated on the upscale, luxury hotel end of the market. Opportunities are now beginning to open up in the mid-range and budget segments, where a growing number of Chinese business travellers are poorly served by a largely unbranded and low quality domestic hotel industry.

Part of the passion

The tourism, hospitality and leisure consumers of the future will be hard to define because they will be so varied. Their purchasing patterns will run the gamut and they will not be easy to reach through traditional mass communications. Yet there will be some common features.

They will use technology to search for knowledge prior to purchasing. They will be well informed, averse to clever gimmicks, but amenable to intelligent discourse. They will be price focused, but will be willing to pay a premium for a better product or a better and more enjoyable experience.

Future consumers will be loyal to companies who treat them with respect, and will enjoy being part of a community of like-minded individuals who are passionate about a particular experience or life style.

Tourism, hospitality and leisure operators who become part of that passion will be the winners. ●

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Your life in their brands

From dawn 'til dusk brands rule our daily lives, influencing our decisions and defining our experience of how we clean, dress and feed ourselves as well as how we relax and play.

Lynx or Imperial Leather? The Body Shop or Estee Lauder? Starbucks Coffee or Caffé Nero? Pret a Manger or Marks & Spencer? Bacardi or Stella Artois? Silentnight or Slumberland? Durex or Mates?

Whether we opt for one of these pairings, or indeed an alternative, our brand choices are important to us, even helping to shape our identities in subtle ways, by reflecting how we see ourselves, our tastes and preferences. Above all, brands help us by simplifying the decision-making process. Today's consumer can receive an estimated 3,000 marketing messages during the course of a typical day in our media-saturated society. In the face of

such information overload, evidence suggests that consumers are switching off and traditional advertising is becoming less and less effective.

A powerful brand can cut like a blade through this tangled thicket of everyday purchasing dilemmas. Brands reduce the complexity of consumer choice, to perhaps a handful of options, sometimes even less.

The importance of brand

The importance of brand is nothing new. Indeed, attempts to brand consumer products go back at least two centuries. During the current decade however, we are

seeing a shift towards what is sometimes termed the 'experience economy.'

The experience economy represents a deepening of the idea of service into the creation of an emotional engagement between company and consumer. The most powerful mechanism for engaging customers on this level is undoubtedly the brand.

A strong brand is a highly efficient piece of coded information which instantly conveys a range of desirable qualities, stories and promises to the consumer. But how do companies create such an intangible and elusive entity?

The Fantastic Four

The strength of a brand depends on four critical success factors: **differentiation, unique look and feel, consistency and innovation.** We call these the 'Fantastic Four', a name which underlines the super-hero qualities of these factors and the dramatic impact they can have on any business. Let us examine each of our brand superheroes in turn.

Perhaps the single most important attribute of a strong brand is differentiation. What does a company do that is different from its competitors? Has it managed to communicate this difference to its customers? What makes it stand out in the crowd of 3,000 voices

clamouring for our attention each day? Differentiation is the x-factor which separates the strong brand from its weaker rivals in the minds of consumers. For tourism, hospitality and leisure operators the key differentiating factor today revolves around experience. This can simply be a unique kind of experience that is hard to obtain anywhere else in the market. For example, a travel operator who specialises in a specific, perhaps unusual destination or niche type of holiday.

However, in an ever more crowded and competitive marketplace it is not always easy to identify a unique proposition. Differentiation may mean offering similar core services to competitors, while giving a fresh spin to the familiar by focusing on the non-core elements of the experience. For instance, an airline may offer unexpected on-board experiences such as a massage

therapist and bar area, or a casino may focus more heavily on its restaurant and entertainment facilities than its gaming tables.

Strong clear voice

Differentiation is closely linked to the second attribute of a strong brand: unique look and feel. This factor is the vehicle which conveys the central brand message to customers, and lets them know instinctively which organisation they are dealing with. This means developing a marketing approach which embraces all channels of communication, both offline and online, across all contact points with the customer. All of the words and images a business uses to describe itself should be unique to that business, and not be open to confusion with those of its competitors. As well as look and feel, it is also about creating a strong, clear voice in the marketplace. This voice says who a company is, what they do and how they do it, all rolled into one.

Achieving consistency

The third critical success factor is consistency. This is the bedrock of a strong brand. Do all of a company's customers receive the same quality of experience all of the time? If the answer is yes, that company is able to generate trust, security and confidence in its services.

Consistency requires constant vigilance and attention to detail. This can be a major challenge for many leisure and hospitality operators whose business may include a very large number of customer touch points. A stay in an upscale hotel, for example, can involve the customer in a multitude of interactions with hotel employees. Such complexity can make it harder for companies to deliver a consistent experience.

Achieving consistency is becoming ever more important in the age of blogging and online customer reviews. In the offline world of the past, one disgruntled customer might complain to a small group of friends or colleagues. Today's wired consumer is able to spread bad news to thousands of potential customers in a matter of minutes.

Continual innovation

The Fantastic Four is completed by innovation. A strong brand must constantly seek to improve the customer experience. This means the willingness to invest in the



development of new ideas, products, services and technologies. Customers in the experience economy are more easily bored, or jaded with the uninspiring and unpredictable. The most successful brands are not simply satisfying existing demand. Through continual innovation they are anticipating and even creating new demand which did not previously exist.

Understanding the Fantastic Four enables any consumer-facing company, regardless of sector, to grow their business by attracting and retaining customers, increasing customer referral rates both off and online, and by raising their level of market penetration.

The creation of a strong brand is also the key to commanding a price premium.

Ultimate payoff

Properly managed, a strong brand can help to create a sense of pride amongst those employees who are central to its successful and consistent delivery. The ultimate payoff is the building of strong, lasting relationships with customers, and the formation of real personal loyalty which impacts directly on the bottom line.

Differentiation, unique look and feel, consistency and innovation. What business in today's world can afford to ignore them?

Consider their opposite numbers. Similarity, uniformity, inconsistency and stagnation. We could call this unappealing quartet the 'Feckless Four!' No successful brand would be seen dead in their company. ●

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To help companies with the process discussed in this article, Deloitte has designed a set of tools known as the Brand Strength Assessment. These tools can be applied quickly and effectively to both evaluate and improve the brand strength of any customer-facing business.

Case study: Travel Counsellors

Deloitte's Brand Strength Assessment can be successfully applied to businesses of all sizes from global corporations to small, localised operations.

Travel Counsellors began life with turnover of around half a million pounds in 1993. Since then it has grown to become one of the UK's largest independent travel companies, with current sales of over £175 million. The company now employs over 120 head office staff and has 665 self-employed homeworkers in the UK & Ireland. It has also expanded into the United States and the Netherlands, soon to be joined by Germany.

Differentiation

The brand is constructed around a unique selling point: providing customers with expert travel advice, and selling them tailor-made holidays in the comfort of their own homes, via telephone, email or home visit. The other key differentiator is the independence of the brand – the company is not tied to any specific tour operator.

Faced with the decline of the high street travel agent, and the rise of Do-It-Yourself Internet travel booking, Travel Counsellors bucked the trend to focus on high quality personal service. Consultants work from home and have an unusually high average of 18 years travel industry experience.

Unique look and feel

Travel Counsellors has a distinctive logo, and a marketing message which conveys an image of personalisation and friendly professionalism.

However, we believe that the group can improve further in this area. A customer who walks into Starbucks would know instantly they were in a Starbucks from the look and feel of the place, even if they did not see the brand logo. Travel Counsellors has not yet achieved this high benchmark of unique identification.

Consistency

Travel Counsellors places a heavy emphasis on high quality service across its entire customer base. A committed workforce is seen as critical in delivering this consistency, and the group seeks consultants "who believe in going the extra mile for their customers each and every time." Travel Counsellors' figures indicate that their (commission-based) agents are earning "substantially more on average than home-based agents working for other companies."

The level of consistency achieved across the company's workforce is demonstrated by very high rates of repeat business – an average of around 60% per counsellor.

Innovation

Travel Counsellors constantly seeks to improve both the experience of its customers and its employees, often focusing on technological innovation.

The company has recently launched e-tc, a customer e-zine featuring clickable webcasts on travel topics and destination news, as well as features by respected travel journalists.

The company has also introduced TCTV, a weekly webcast unique in the UK travel sector, broadcast from its head office, which allows the management team to motivate and train agents remotely.

The introduction of the Customer Contact Centre in early 2006 allows all counsellors to manage and market to their personal customer database.

The next phase of development will mean that if an existing customer phones an individual counsellor, their personal details and previous booking information will automatically appear on the screen before the call is even answered.

Measuring success

In October 2006 the group was nominated Best UK Travel Agent in the prestigious Guardian/Observer Travel Awards voted for by over 15,000 readers. On quality of service, Travel Counsellors scored an impressive 99.29%, the highest total score of any company in the awards.

Travel Counsellors was the winner of the Queen's Award for Enterprise in 2003, and the winner of the technology in business category of the 2005 Confederation of British Industry (CBI) Growing Business Awards.



The search for an oasis

Middle East tourism gets set for takeoff

It's almost a tale of two regions. From the politician's point of view, the Middle East dominates the agenda for all the wrong reasons – the Iraqi insurgents, tension between Israel and Lebanon, concern over Iran's nuclear threat, and the continuing terrorist attacks.

But from the tourism industry's perspective – the Middle East is the outstanding success of the decade. During 2006, travel and tourism is expected to have generated around US\$148 billion¹, a figure that could double in the next ten years.

Even with the current backdrop of political unrest, destinations in the Middle East are developing at a phenomenal rate and now attract around 5%² of the world's tourists, making this the fourth most visited region in the world.

Massive investment in hotels, resorts, air travel and sports facilities have put other regions in the shade, and there is no shortage of funds as the Gulf States continue to diversify their economies. Tourism now rivals the traditional industries of oil and gas, and many countries are pursuing aggressive growth strategies.

Fastest on earth

The economic outlook for the Middle East as a whole is way ahead of the rest of the world, and hotels are being completed at breakneck speed to accommodate the expected influx of visitors.

Dubai is the undisputed powerhouse of the region and home to some of the world's tallest, largest and most opulent developments. It is said to be the fastest growing place on earth and, with a budget

surplus of US\$1.58 billion in 2005, there's plenty of cash to support the Emirate's expansion plans.

Although Dubai currently looks like one big construction site, its popularity is astounding. More than 6 million³ visitors poured in during 2005 – doubling the number of tourists in just six years – attracted by year-round sunshine, key conferences including CITEX and Cityspace and massive shopping malls. The UK is the largest source market, with Europe as a whole accounting for nearly a third of all arrivals.

Dubai's strategy is also to maximise the tourism potential of world-class sport. Having staged the world's wealthiest equestrian event – the Dubai Cup – for some time, it now hosts the Dubai Tennis Championship, the Desert Classic Golf Tournament and, more traditionally for a



Gulf State, camel racing. Ski Dubai opened in 2005, enabling people to enjoy winter sports while, outside, other holiday-makers swelter in the sun.

The Dubailand development will include the world's first purpose-built sports city, covering 50 million square feet. This will include a golf course, a sports academy and a residential community – with the entire development set for completion by 2010. With so much to offer, it's not surprising that according to the HotelBenchmark™ Survey by Deloitte for the first ten months of 2006, Dubai was the top performing Middle Eastern market in terms of both hotel occupancy and average room rates. At US\$237, average room rates in Dubai are among the highest in the world, bypassing other first-class destinations such as New York, London and Paris.

Some analysts suggest Dubai's hotel market is overheating, but with government plans to drive up tourist numbers from 6 million in 2006 to 15 million by 2010, hotel performance in Dubai will continue to do well. However, with more than 55,000 rooms predicted to enter the four and five-star market in the United Arab Emirates (UAE) over the next five years, the rate of growth may be restrained.

Neighbouring countries, like Qatar and Abu Dhabi, are keen to emulate Dubai and multimillion dollar projects are changing the Gulf landscape forever. The makeover of Abu Dhabi is moving ahead quickly. The country now has its own airline – Etihad Airways – its own tourism board and many new hotels. In the first ten months of 2006, Abu Dhabi recorded the highest growth in average room rates across the region, up 47.6% to US\$158, helped by several major exhibitions and conferences.

Bahrain has basked in the glory of Formula One Grand Prix, bringing in thousands of spectators to this small island, while enjoying the attention of millions of TV viewers. However, 2006 gave Doha the chance to shine, as the country hosted the Asian Games in December – second only to the Olympics in terms of global multisports events.

Investment is being pumped into airport expansions and new aircraft, especially by Qatar Airways, which is now one of the fastest-growing in the world. Qatar also invested heavily to bring its roads, hotels and leisure facilities up to international standards for the Asian Games in December 2006.

In the firing line

The two countries caught in the firing line of Middle East politics are Lebanon and Egypt. Lebanon, having pulled itself together after years of civil unrest, had been making solid progress until its Prime Minister was assassinated in February 2005. That year, visitor numbers went down by 10% to 1.2 million.

The future looked more positive in 2006, with 49%⁴ more tourists arriving during the first six months of the year. However, the picture changed in mid-July, when the capture of two Israeli soldiers by Hezbollah led to a devastating response from Israel. A review of hotel performance based on figures from Daily HotelBenchmark™ by Deloitte shows that during the first three weeks of the crisis, Beirut hoteliers saw occupancy fall to around 33% – some 40% below the levels achieved in 2005. Rates remained fairly stable during the first week of the conflict; however these subsequently fell by over 30%⁵ in the second and third week, resulting in revenue per available room (revPAR) falling to just under US\$40.

Despite this, the net impact on the city for the first ten months of 2006 was negligible. Although average room rates in Beirut dropped 5.2%⁶ to US\$137 compared to 2005,

occupancy managed to increase slightly to 51%. This reinforces the belief that as tourists become more resilient, the impact of such events is increasingly becoming relatively localised and short-lived. Egypt's image was damaged through a series of bombings at popular resorts, but tourists are not easily put off. The country hopes to bring in 16 million international visitors by 2014. It is also appealing to Arab tourists and its Nawart Masr – 'You light up Egypt' – campaign is expected to drive Middle Eastern holiday-makers numbers up by 30%.⁷

The world's best

Hotels in the region enjoy some of the world's highest occupancy and average room rates. For example, in 2005, the Middle East region saw revPAR increase 21.4%, helped by an incredible 22.8% increase in average room rates – up to US\$117 compared to US\$95 in 2004.⁸

Looking at the first ten months of 2006, revPAR was up 14.5% compared to the same period last year. Although continuing terrorist threats in key areas combined with an increase in hotel supply has seen occupancy fall 2.0% for the first ten months of 2006, average room rate growth remains strong. This surged 16.8% to US\$131, and as the table below confirms, the resulting US\$89 revPAR puts the Middle East just behind Europe.⁹

Room for development

A number of international hotel chains have rapid expansion plans for the Middle East, including Accor, which hopes to increase its portfolio of 18 hotels to 58 by the end of 2009. Marriott International is planning a 250% increase in its rooms over the next five years, while Mövenpick Hotels and Resorts will add 13 properties by 2008.

Millennium Hotels and Resorts has opened regional headquarters in Abu Dhabi to oversee the development of 35 hotels in the Middle East and North Africa over the next five years. Hilton Hotels Corporation and Four Seasons Hotels and Resorts are also expanding fast.

Although international operators tend to dominate, local operators are also staking their claims. Aldar Properties is planning 32 hotels in Abu Dhabi within the next three to seven years, ranging from small boutique accommodation to major resorts.

Emirates Hotels & Resorts is building a US\$490 million 77-storey hotel in Dubai's Business Bay area. The Emirates Park Towers Hotel and Spa, the group's fifth property, scheduled for completion in 2010, will have 900 rooms and 300 serviced apartments.

To date, most hotel development has focused on the luxury end of the market but the gap in the budget sector will soon be filled. easyHotel has signed a deal with Dubai-based investment company, Istithmar, to bring 38 budget hotels into the Middle East, North Africa, India and Pakistan by 2011.

Yotel, a revolutionary hotel concept inspired by Japanese pod hotels and business class air travel, will also challenge the status quo. Its first hotels in London's two main airports, Heathrow and Gatwick, will soon be followed by others in the Middle East.

Whitbread Plc, one of the UK's leading hospitality companies, plans to bring its Premier Travel Inn brand into the Middle East. Initial sites will be in Dubai, adding 800 rooms for the business traveller. The first Premier Travel Inn scheduled to open is the 300-room hotel at Dubai Investment Park in the final quarter of 2007.

InterContinental Hotels Group will join the budget market push in 2007, when the first Express by Holiday Inn opens at Knowledge Village in Dubai with 240 rooms. The group has plans for around 20 properties in the Gulf and 20 more in Lebanon and Syria.

Going large

At the high end of the spectrum, the development pipeline boasts schemes that will enhance the Middle East's image as a place where fantasy meets reality.

For instance, real estate developer Nakheel has teamed up with US developer Donald Trump to create a centrepiece for the Palm Jumeirah. Located on the 'trunk' of the palm, the 48-storey Trump International Hotel and Tower will comprise a 300-room condo hotel, 360 freehold residential apartments, offices, restaurants, business centres, health clubs, swimming pools and entertainment venues.

Dubai already has the world's tallest tower, largest shopping mall and many other projects described in the superlative, and now it will boast the world's largest hotel. With 6,500 rooms, the Asia-Asia hotel will be the centrepiece of a US\$27.3 billion tourist and leisure resort located in Dubailand.

Not to be outdone, Abu Dhabi is pushing ahead with its Emirates Pearl Island project, plus another US\$27 billion island development. This will create an island half the size of Bermuda, with 29 hotels, including one with a 7-star rating. It will be developed in three stages between now and 2018 and will eventually become home to 150,000 residents.

In Oman, The Wave is being built on reclaimed land along the Seeb seafront. This US\$800 million resort will stretch along 7.3km of beachfront west of Muscat and is due to open in 2009.

By the plane load

Passenger traffic is growing faster in the Middle East than anywhere else in the world – up 15%¹⁰ in 2005, according to the International Air Transport Association. All the major airports are being upgraded, and regional carriers are placing multibillion-dollar orders to expand their fleets.

Table 1 – Global hotel performance for the first ten months of 2006

	Occupancy (%)	Average room rate (US\$)	RevPAR (US\$)	Change (%)
Middle East and Africa	67.6	131	89	14.5
Asia Pacific	71.1	117	83	8.1
Europe	69.6	139	97	9.6

Source: HotelBenchmark™ Survey by Deloitte



Over the next 20 years, Middle East airlines are expected to buy around 870 aircraft worth US\$115 billion. In 2005, Emirates Airlines placed the biggest order Boeing has ever received for 42 Boeing 777s, worth US\$9.7 billion. Qatar Airways, with a current fleet of 45 all-Airbus aircraft will soon include 60 generation Airbus A350s as well. The airline will be among the first to fly the innovative twin deck A380 super jumbos.

Sustainable growth

The World Tourism Organisation predicts the region will see an average annual growth rate of 6.7% – the highest in the world – leading to around 68.5 million international visitor arrivals by 2020.

But this incredible transformation of the region comes at a cost to the environment, and the global tourism industry is beginning to question whether the current level of growth makes sense and is sustainable.

Some experts are calling for immediate action to preserve the region's ecology, and many developers are adopting high standards to protect and conserve the natural environment. Nakheel, for example, has invested in more than 20 research projects to promote environmental sustainability. Marine regeneration has created a new ecosystem on The Palm, while the shelter of the breakwater provides

a fertile habitat for coral to grow. There is also the pressing issue of recruitment, as the demand for trained staff increases. Concerns are likely to escalate, because many of the hotels and resorts are huge multimillion-dollar schemes, needing thousands of staff to look after guests and run the business.

For example, the 300 room Emirates Palace in Abu Dhabi has more than 1,000 staff. Acquiring, developing and retaining staff will therefore be a major challenge, and one that will be exacerbated by the fact that the traditional Indian workforce may prefer to return to their own country, where the hotel sector is also booming.

Putting these two issues to one side, the sun will undoubtedly continue to shine in the Middle East and despite the shifting political landscape tourism is likely to remain big business. ●

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1. World Travel and Tourism Council
2. World Travel Organisation (WTO)
3. Dubai Department of Tourism and Commerce Marketing
4. World Travel Organisation (WTO)
5. The HotelBenchmark™ Survey by Deloitte
6. The HotelBenchmark™ Survey by Deloitte
7. Asia Travel Tips
8. The HotelBenchmark™ Survey by Deloitte
9. The HotelBenchmark™ Survey by Deloitte
10. International Air Transport Association

Full details of hotel performance in the region can be obtained from Deloitte's HotelBenchmark™ team. The HotelBenchmark™ survey tracks more than 420 markets in 140 countries on a daily and monthly basis.

Why investing in casinos could be a safe bet...

With *Casino Royale*, the 21st film in the world's longest running series, putting the glamour back into gambling, the time is right to look at the reality of the casino market.

The stakes are just as high in the betting and gaming industry worldwide as they are in the latest Bond movie, when 007 faces his rival across the poker table.

The market in Europe, for instance, is worth in excess of US\$160 billion; and Macau, known as the Monte Carlo of the Orient, is about to rival Las Vegas in terms of revenue from gambling. Already, this growing industry is providing the Macau government with 64%¹ of its income.

Increased competition, deregulation and increasing acceptance of gambling as a leisure activity means there is much more to play for. With big profits on the cards, Private Equity firms are moving in, and governments keen not to miss out on gaming tax revenues are rethinking their regulation policies.

In this article, Deloitte specialists consider how the global market adds up.

Moving places

Clearly, the leading lady in the casino market is the US, where the sector has been hugely successful for decades.

Over the past two years, there has been a great deal of consolidation, including the world's biggest casino operator, Harrah's Entertainment Inc., for instance, acquiring Caesars Entertainment. We've also seen the MGM MIRAGE buy-out of Mandalay Resort Group, and Penn National Gaming's purchase of Argosy Gaming.

However, even the biggest player is not immune from a potential takeover, as the \$15 billion private equity bid for Harrah's

shows. This deal, if it goes ahead, represents the first move into the US gaming market by a Private Equity firm. Analysts expect similar deals to follow, depending on licensing and operational issues.

Meanwhile, US operators are keen to expand into Europe and Asia, enticed by deregulation moves in the UK and the shining example of success in Macau.

Harrah's recent acquisition of London Clubs International for US\$570 million is a good example, as it gives the company a useful foothold in Europe. London Clubs International already operates six casinos in the UK – four in the capital – and has permission under previous UK gaming law to build six more. All of these will be sizeable locations of between 45,000 – 55,000 sq ft.

All change in the UK

Currently, there are around 165 licensed casinos in the UK. 140 were trading as of March 2006, and a further 63 applications for new licences were submitted under the 1968 legislation before the closing deadline.

The country's betting and gaming industry has now been widely revamped moving from a complex system of licences, permits and registrations, towards a new system overseen by the Gambling Commission. The Gambling Act 2005 established the framework, and this will be implemented by September 2007.

The new Act fundamentally changes the regulatory and licensing regime and introduces three categories of casinos – regional, large and small. Original plans were cut back following misgivings across

the political spectrum, and only a limited number of licences will now be granted – one regional, eight large and eight small. Don't be fooled by the terminology however – even the small casinos will be significantly larger than Britain's existing casinos, allowing for up to 80 machines compared to the limit of 20 under the old law. Little surprise then, that there has been extensive interest in the new licences.

Winning locations will be revealed in January 2007, and if the initial developments prove successful, more may follow. Two important changes were embedded in the Act; first, advertising restraints have been removed, so casinos have greater freedom in the way they attract potential customers; and second, the 24 hour cooling off period, which was designed to prevent spontaneous gambling, has gone.

These changes, as well as a simplification of the regulatory environment, have made the market more attractive to many investors; not just existing UK operators, but overseas players and Private Equity houses as well.

Apart from Harrah's, other overseas companies keen to move into the UK include the Singapore listed Genting International, who won control of London's Stanley Leisure Plc in October 2006. This was seen as part of its plan to become one of the largest casino groups in the world. Genting already owns London's Maxims Casino, so taking control of Stanley strengthens its competitive bid for the UK's regional casino licence.

Gala Coral Group and Rank Group Plc are the other two main UK players. Gala is currently held by Private Equity, and there is



speculation about its future when the current investors realise their investment in what is speculated to be about 18 months time. Rank Group Plc, meanwhile, continues to attract coverage about a possible takeover.

European overview

As previously mentioned, the European betting and gaming market is worth more than \$160 billion. It is a mix of regulated free markets, such as France – the largest market in Europe – and the UK; and wholly-protected national monopolies, such as the Netherlands.

As European integration moves ahead, EU commissioners are questioning the practises of some states, which restrict the gaming activities of member states while promoting their own. There is likely to be more pressure to conform to EU law and open up markets which currently have a government monopoly.

Even if we look across Europe right now, it's clear that there is plenty going on. The Italian government, for example, surprised operators with the speed of deregulation when it recently invited sealed bids for 17,000 new betting licences.

There are also rumours that Italy is considering granting some internet and telephone gambling licences, legalising the industry in

the same way as the UK. It may also change its stance on casinos. Currently, there are only four casinos in the country, and these only exist because they found a loophole in the Criminal Code, which otherwise bans them.

Spain has the first resort style casino in Europe – Don Quixote Kingdom. This may accelerate growth of gaming in Spain, especially as foreign investors collaborate with local companies on joint ventures.

Greece, which has an established casino market, is seeing new investment through Private Equity. BC Partners recently acquired a stake in Dionysus Leisure Entertainment, the country's largest casino operator. This demonstrates the broad spectrum of potential investors, and the increasing acceptability of gambling as a business concern.

The Baltic States of Croatia and Hungary, have also taken their seats at the poker table. However, the picture is not as positive across the entire continent. A proliferation of small casinos and slot halls within Russia, proves that Australia has not been the only country to face the challenges of far too rapid deregulation. This has led to a rethink of legislation in Russia. A gambling bill proposed by President Putin will remove 'small-time'

casinos and slot machines from the streets by early next year; and potentially also relocate larger casinos to designated, tightly restricted, gambling zones, as the government seeks to balance the social impact of gambling with an individual's freedom to choose it as a leisure activity.

Macau – a Mecca for gambling

Gambling in Macau was legalised in the 1850s under Portuguese rule and the industry has never looked back. Until five years ago, however, it was a closed shop, with one legal operator, Stanley Ho. Stanley Ho still operates many of the casinos in Macau but competition is set to increase.

Following the transfer of administrative power from Portugal, the Macau Special Administrative Region welcomed new operators from 2001. This led to the opening of the Sands Macau in 2004, and the Wynn in 2006. Many other casinos are on the way and business has been so spectacular, that Las Vegas Sands is now building its second casino and Wynn Resorts is already expanding.

In Macau, unlike western markets, table games rule, and slot machines are less common. But gambling is so popular that the success of one of the few legal casino markets

in Asia has been breathtaking. The pastime draws in massive numbers of visitors from mainland China, who are seeking a legalised gaming environment. An expanding Chinese middle class and stable economies are all helping to boost business.

Gambling now accounts for 40% of Macau's Gross Domestic Product (GDP) and 64% of Governmental income. In 2005, direct gaming taxes hit a record of US\$2.07 billion and revenue has now reached 75% of that generated by the Las Vegas strip. In the first eight months of 2006, gambling revenue in Macau rose to US\$4.3 billion and should soon overtake Las Vegas¹.

A balance to be made

Putting Macau to one side, there are few places in Asia where casinos are legal. South Korea has 14 establishments for tourists and one for Korean nationals in Kangwon Province. Malaysia has one land-based casino, while India's Goa state has one floating casino and a number of five star hotels with slot machines. Goa also plans to allow ten more floating casinos to operate off its shores to drive tourism revenue.

Nepal opened its first casino in 1968², and now has six, including the Casino Anna in Kathmandu. Nepal and Sri Lanka are the only two countries in South Asia that award licences to casino operators. Gambling is popular in other Asian countries, including Pakistan, Bhutan and Kazakhstan, but sites here tend to be unregulated, and not all have licences.

Many governments are concerned about levels of illegal gambling, crime and addiction, and also the number of people willing to travel to satisfy their eagerness to gamble. But they recognise there is a balance between the social impact of gambling, and the economic benefits – in terms of taxes and employment – that can be gained.

Singapore is an excellent example. In 1991, the country's then Prime Minister said that a casino would never exist in Singapore as long as he was leader, but when he was replaced in 2004, the Government sought the population's views. Residents were already travelling regularly to Malaysia and Macau to gamble and they wanted to be able to do so at home.

As a consequence, Las Vegas Sands Corporation won the licence for Singapore's first casino, and Marina Bay Sands is due to open in 2009. Several companies are competing for the second of Singapore's casino resorts. Genting has put in a joint bid with Star Cruises Limited for a US\$5 billion development on Sentosa Island, competing against Kerzner International and Eighth Wonder.

Japan is considered to be the largest gaming market in the world and has five million gaming devices located in 16,000 pachinko parlours, but – as yet – no casinos. However, Japan has the highest per capita GDP in Asia and it is unlikely the government can resist the revenue potential of a casino market for long. There is speculation about

urban casinos being opened in partnership with the big Las Vegas brands, which would provide capital investment and know-how.

No shortage of funds

Clearly, this sea change in attitudes towards gambling across Asia, where gambling continues to be frowned upon in many instances, is due to the outstanding success of Macau, as well as relative economic stability in the region. There are plenty of overseas suitors, with no shortage of cash, keen to take a slice of the business.

Governments, in Europe as well as Asia, are weighing up the potential social issues with the prospects of substantial tax revenues, while market newcomers are being drawn in by excellent returns on investment. With deregulation adding impetus to an already changing gaming industry, many more investors will find the dice in their favour. ●

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1. Macau Finance Bureau Statistics (www.dsf.gov.mo)
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There's so much more than coffee in Brazil

Brazil is a coffee-lover's paradise, and is home to the samba, the Amazon rainforest, tropical beaches, and the world's most colourful carnivals. It is the fifth largest nation in the world, the largest economy in Latin America, and has a remarkably young, football-obsessed population.

Traditionally, the country's economy has relied on massive exports of commodities, including iron, sugar, meat – and coffee of course – and, more recently, commercial aircraft; but today, the focus is on tourism.

Tourism is already the country's fourth biggest revenue earner, generating more than US\$11 billion and more than 1.1 million direct and associated jobs. Last year, a record-breaking 5.4 million tourists poured into the country. This was a 120%¹ increase on the year 2000, helping hoteliers drive up both average room rates and occupancy levels.

The country's Tourism Ministry is now building on Brazil's renewed popularity, and is aiming for 7.5 million² visitors by the end of next year. In this article, we will consider the country's chances of reaching this ambitious goal.

Ahead of the curve

Over the past few years, the number of tourists arriving in Brazil has steadily increased at rates way ahead of the world

average. According to the World Tourism Organisation (WTO), worldwide numbers dropped by 2% in 2003, with a 10.7% uplift in 2004 and 5.5% the following year. Brazil's growth, however, has been continuous during this period, climbing 9.2% in 2003, then 16% the next year and 11.80% in 2005, when 5.4 million visitors arrived, generating US\$4 billion³.

Brazil appeals particularly to German visitors, who comprise 45%³ of international tourists, with the remainder coming from Argentina, the US, Uruguay and Portugal. Research shows that many first-time visitors are so impressed with the country's hospitality they come back again and again,

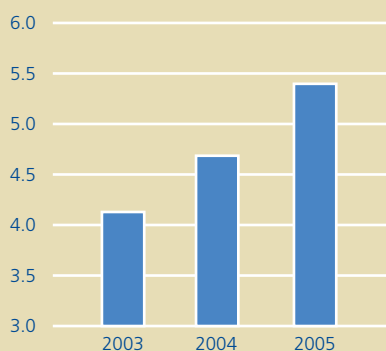
bringing friends and family with them. This is a huge country, with a population of over 170 million, offering visitors a diverse range of enticing options – from the breathtaking falls at Foz de Iguacu, one of the world's greatest natural wonders and five times larger than Niagara; to the stunning city of Rio de Janeiro, which is often the first stop for tourists. There are the world famous beaches of Copacabana and Ipanema; the Amazon tropical rainforest, exotic festivals and carnivals, plus cosmopolitan cities to rival New York. No wonder the travel business is booming.

A popular choice

Rio de Janeiro, instantly recognisable in travel brochures with its statue of Christ the Redeemer on Sugarloaf Mountain, is the favoured destination of more than a third of all Brazil's visitors. Known as 'the marvellous city' by Brazilians, it is the home of the bossa nova and the samba and hosts the world's most famous carnival. It is the world's largest tropical city, and has become a magnet for business conferences and trade shows, as well as international tourists.

Rio's continuing popularity gives it the highest revenue per available room (revPAR) among the big Latin American cities. According to the HotelBenchmark™ Survey by Deloitte, Rio recorded a 15.7% increase

Table 1 – Number of foreign passenger arrivals in Brazil (millions)



Source: Embratur and Brazilian Tourism Ministry

in revPAR – in US dollar terms – in the year to September 2006, compared to the same period in 2005.

The wealthiest and most developed Brazilian state is São Paulo, which rivals New York as a cultural and gastronomic centre. A surge in new hotel rooms over the past few years has led to an over-supply, which has held back average room rates; but even so, the city managed a 29.6% revPAR increase and an occupancy lift of 9.4% during 2005. For the first 10 months of 2006, revPAR was up 23%, year on year⁵.

Brazil wears its Portuguese, Spanish and Italian legacies with ease and elegance, but visitors to Salvador can also experience the African influence on the Brazilian culture. It was once the country's busiest port and its unique racial character is now helping it to become one of the fastest-developing tourist attractions.

Boosting the brand

For a nation that's passionate about football and has produced several footballing legends, it seems logical that the country should have a detailed game plan to win with tourism.

Three years ago, Brazil's Ministry of Tourism launched a national plan with some demanding targets. These included pushing visitor numbers up to 7.5 million, and encouraging every visitor to spend 50% more in 2007 than they had done in the year 2000. Encouraging more people to spend more money should generate around US\$8bn and lead to the creation of around 1.2 million new jobs⁶.

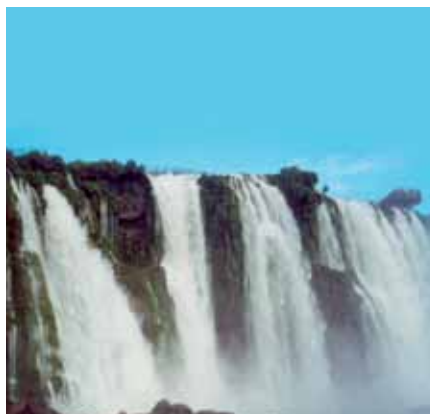
Investments of US\$5bn were pledged to underpin this growth, while major marketing campaigns have been developed to boost the Brazil brand internationally. The country's tourism representatives are also keen participants at industry events in key source markets such as Spain and Portugal, as well as the emerging hot spots of China and India.

Meanwhile, construction of holiday resorts in the North East of Brazil, famous for its white sand, paradise-like beaches and exotic backdrops, is underway. Development agencies have extended credit facilities to enable around 25 resorts to be built, providing around 12,000 rooms.

Calculating the costs

Although the country is making excellent progress in achieving its tourism potential, there are several issues that have to be faced. Some of these are financial; others are linked to Brazil's travel infrastructure and workforce availability.

For instance, although the cost of living in Brazil is cheaper than most of Europe, currency exchange rates mean that tourists don't get as much as they would like for their euros, or dollars. Over the past three years, the local currency – the Real – has appreciated by around 40%⁵, meaning that tourists see Brazil as a more expensive choice than emerging holiday destinations. There is also a heavy tax burden impacting hoteliers' profitability. A recent Deloitte study compared the financial performance of major hotels over a two-year period, and found that even though gross income was up 10%, profits were held down significantly by tax liabilities. The additional threat of increased competition from cruise operators, offering potential guests an alternative to hotels, is another concern.



Some hoteliers are also being impacted by the lack of skilled labour, but Government-funded training schemes, especially in the developing North East region, will help. Airline operators – critical to the sector's success – need additional support as Brazil responds to the collapse of Varig, the traditional national airline. Several routes formerly operated by Varig have been granted to international airlines, while the two main Brazilian airlines – TAM and Gol – are investing in more aircraft to meet increased demand. At a more basic level, work is continuing to improve the essential

tourism infrastructure of road and building signage and services, which will help to sharpen up the country's image. While security used to be an issue, the country is benefiting from the fact that – unlike other tourist destinations – there have been no terrorist activities or threats. The country's political stability can only add to its many attractions.

Sports showcase

Brazil still has a year to go to meet the Tourism Ministry's targets, and it will be able to showcase its success when it hosts the Pan-American games next year. This multi-sports event is held every four years and attracts athletes from North and South America as well as the Caribbean, plus the thousands of spectators and media that go with an event of this size.

Rio de Janeiro will host the Games in July 2007, and hopes to use them as a launching pad for an even more ambitious sporting trophy.

If all goes to plan, Brazil will apply to stage the Soccer World Cup in 2014, bringing football 'home' in the most spectacular way. Hosting this event – which it has won five times – will not only enhance the country's image as a player on the world stage, it will encourage many more tourists to stay on and sample caipirinha, the unique Brazilian drink of sugar cane brandy, or savour the country's special blend of coffee, samba and soccer. ●

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- 1. Embratur, the Brazilian Tourist Authority
- 2. Brazilian Tourism Ministry
- 3. Embratur and Brazilian Tourism Ministry
- 4. HotelBenchmark™ Survey by Deloitte
- 5. HotelBenchmark™ Survey by Deloitte
- 6. Brazilian Central Bank

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

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