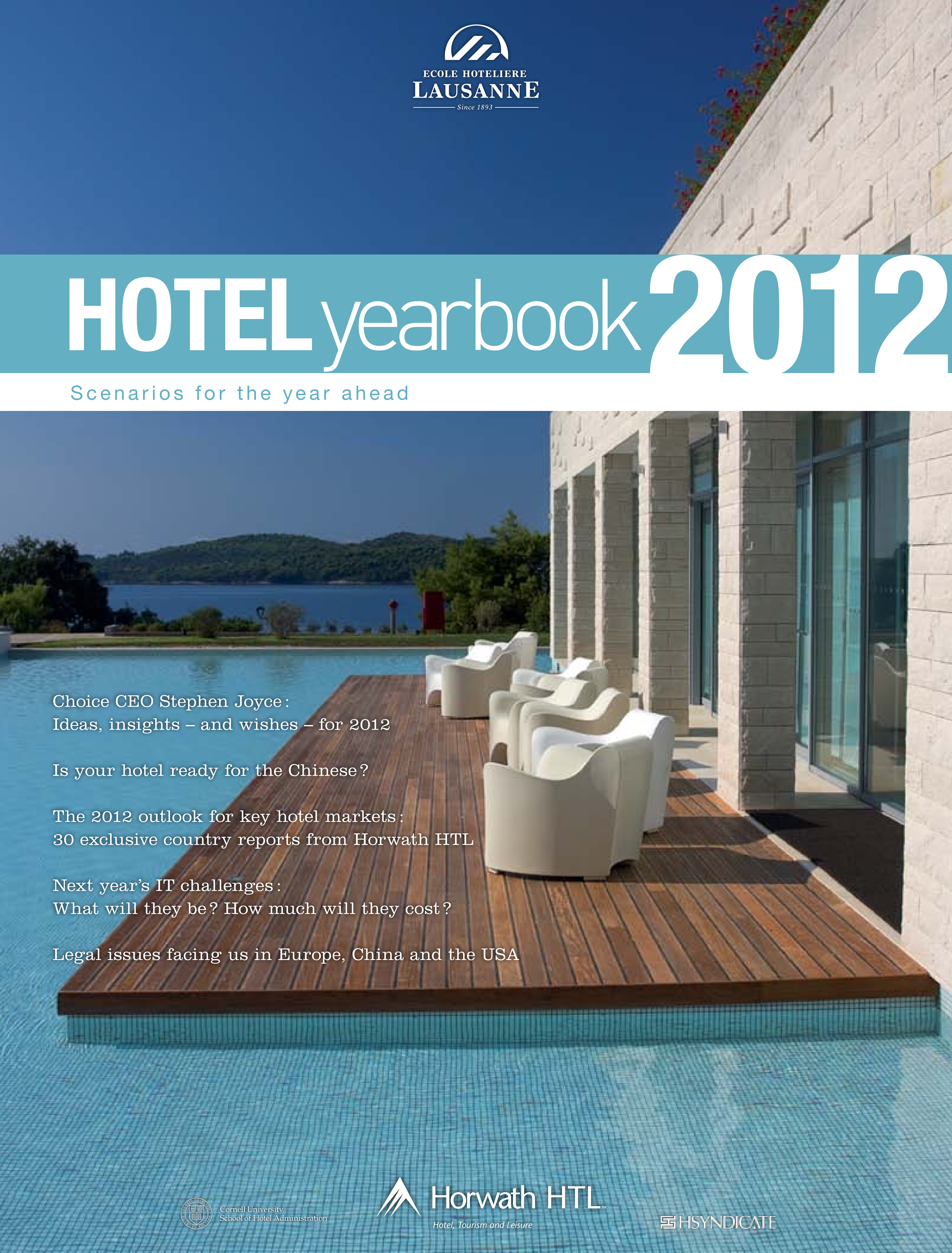

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LAUSANNE
Since 1893

HOTEL yearbook 2012

Scenarios for the year ahead

Choice CEO Stephen Joyce:
Ideas, insights – and wishes – for 2012

Is your hotel ready for the Chinese?

The 2012 outlook for key hotel markets:
30 exclusive country reports from Horwath HTL

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What will they be? How much will they cost?

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ECOLE HÔTELIÈRE DE LAUSANNE

The Ecole hôtelière de Lausanne (EHL) is the co-publisher of The Hotel Yearbook. As the oldest Hotel School in the world, EHL provides university education to students with talent and ambition, who are aiming for careers at the forefront of the international hospitality industry. Dedicated to preparing tomorrow's executives to the highest possible level, EHL regularly adapts the contents of its three academic programs to reflect the latest technologies and trends in the marketplace. Since its founding in 1893, the Ecole hôtelière de Lausanne has developed more than 25'000 executives for the hospitality industry, providing it today with an invaluable network of contacts for all the members of the EHL community. Some 1'800 students from over 90 different countries are currently enjoying the unique and enriching environment of the Ecole hôtelière de Lausanne.

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Horwath Hotel, Tourism and Leisure consulting are the world's number one hospitality consulting organisation, operating since 1915. Horwath HTL are the industry choice; a global network offering complete solutions in markets both local and international. Through involvement in thousands of projects over many years, Horwath HTL have amassed extensive, in-depth knowledge and understanding of the needs of hotel & real estate companies and financial institutions.

Horwath HTL are the world's largest consulting organisation specialised in the hospitality industry, with 50 offices in 39 countries. They are recognised as the pre-eminent specialist in Hotels, Tourism and Leisure, providing solutions through a combination of international experience and expert local knowledge.

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With an exclusive focus on global hospitality and tourism, Hsyndicate.org (the Hospitality Syndicate) provides electronic news publication, syndication and distribution on behalf of some 750 organizations in the hospitality vertical. Hsyndicate helps its members to reach highly targeted audience-segments in the exploding new-media landscape within hospitality. With the central idea 'ONE Industry, ONE Network', Hsyndicate merges historically fragmented industry intelligence into a single online information and knowledge resource serving the information-needs of targeted audience-groups throughout the hospitality, travel & tourism industries… serving professionals relying on Hsyndicate's specific and context-relevant intelligence delivered to them when they need it and how they need it.

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Founded in 1922, Cornell University's School of Hotel Administration was the first collegiate program in hospitality management. Today it is regarded as one of the world's leaders in its field. The school's highly talented and motivated students learn from 60 full-time faculty members – all experts in their chosen disciplines, and all dedicated to teaching, research and service. Learning takes place in state-of-the-art classrooms, in the on-campus Statler hotel, and in varied industry settings around the world. The result: a supremely accomplished alumni group-corporate executives and entrepreneurs who advance the industry and share their wisdom and experience with our students and faculty.

More belt-tightening

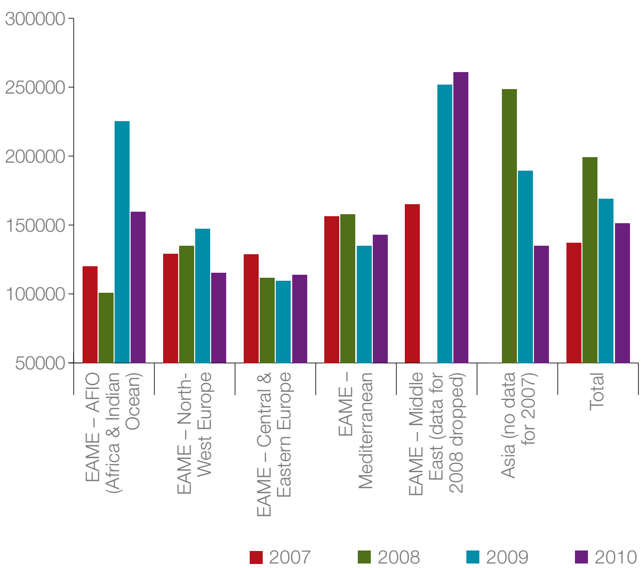
TWO YEARS AGO, IN THEIR HOTEL YEARBOOK ARTICLE *WHAT'S NEXT FOR IT SPENDING?*, **HILARY MURPHY** AND **INES GHORBAL** FROM THE **ECOLE HÔTELIÈRE DE LAUSANNE** REPORTED ON THE REDUCTION IN IT SPEND AT THE PROPERTY LEVEL IN THE EAME REGION AND PREDICTED THAT THE TREND WOULD BE MAINTAINED. UNFORTUNATELY, THOSE PREDICTIONS WERE CONFIRMED, AND ACCORDING TO THE AUTHORS, BELT-TIGHTENING IS STILL ON THE MENU FOR 2012 AS THE FINANCIAL CRISIS MUTATES INTO A LONG-TERM ECONOMIC STRUGGLE. HOWEVER, UNLIKE TWO YEARS AGO, THERE IS SOME GOOD NEWS: SIGNS OF RECOVERY ARE EMERGING FOR SOME REGIONS AND PROPERTIES. THAT MAY BE AN INDICATION OF THE END OF THE BUDGET COSTS PERIOD.

Launched in 2008 by Lausanne Hospitality Research (LHR), the IT Benchmark report tracks IT spending at property levels on an annual basis. The report was designed in collaboration with the CIOs and VPs of some of the key European hotel companies (among them Starwood, Rezidor, Golden Tulip, Four Seasons, Mandarin Oriental Hotel Group, Jumeirah Group, and Corinthia). It contains key metrics and analyses resulting from data supplied from midscale and upscale properties throughout EAME. The survey that is sent each year contains three main dimensions:

1. demographic data describing the property
2. financial data which provided annual figures from the closing financial reporting
3. IT expenditure/usage data which revealed CAPEX and OPEX spend and distribution of IT spend.

This year's fourth edition of the IT Benchmark report presents the results for a total of 154 hotels from the EAME region and tracks the data over a 4 year period that spans from 2007- 2011.

GRAPH 1: AVERAGE IT INVESTMENT AT PROPERTY LEVEL IN EAME



Trends in the global economic environment for the coming year are uncertain. The struggles in the Euro-zone, the increasing debt levels of Western countries, and the stagnation of their economic outputs point to a difficult year ahead for the USA and Europe. At the same time, despite a slowdown in their annual GDP growth, issues with their balance of trade, the so-called « emerging countries » seem to confirm their strong presence on the international economic scene. Driven by this global economic situation, it is with no surprise that we identify the same pattern in the tourism and in the hotel sector. In its 2011 Barometer, the WTO reports that the *« multi-speed recovery [is] slower in most advanced economies [and] much faster in most emerging and newly industrialized markets. »* (WTO, 2011:1). At the hotel level, the results of the IT benchmark also reveal a regional clustering in terms of IT spend per property, with for instance a clear slowdown in the Northern European Region (see graph 1).

PROPERTY OPERATING INDICATORS: WHAT HAS CHANGED?

A first look at the 4-year comparison of financial indicators can suggest a negative outlook for the region. The EAME region records a steady average annual 3 % decline in occupancy over the past 4 years (see graph 2). However, a closer look at the result allows for hope.

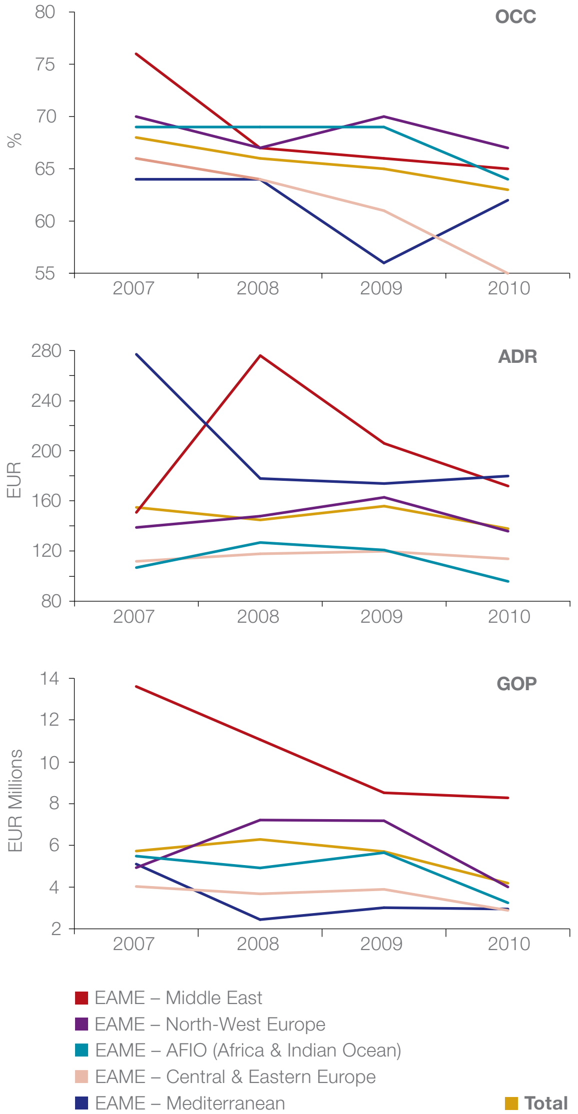
Over the last year, occupancy has further decreased from its 2009 level, but the decline is less important than in the past. In the Middle East region, for instance, after the abrupt 10 % drop of occupancy between 2007 and 2008, the decrease is only by 3 % and 2 % during the 2008-2009 and 2009-2010 periods respectively. Signs of a slow recovery and the light at the end of the tunnel may be in sight in 2012, as the GOP has been maintained at a steady level over the past year and the WTO forecasts an increase in inbound arrivals in the region.

Similarly to the changes in occupancy, overall ADR in the EAME region has decreased by an average annual rate of 3 % (graph 2). But again, signs of recovery are appearing. The Mediterranean region, for instance, which recorded the highest increase in occupancy level of the sample in 2010, is offsetting

More belt-tightening

its drop of 2009 while maintaining a rather steady ADR and GOP (see graph 2).

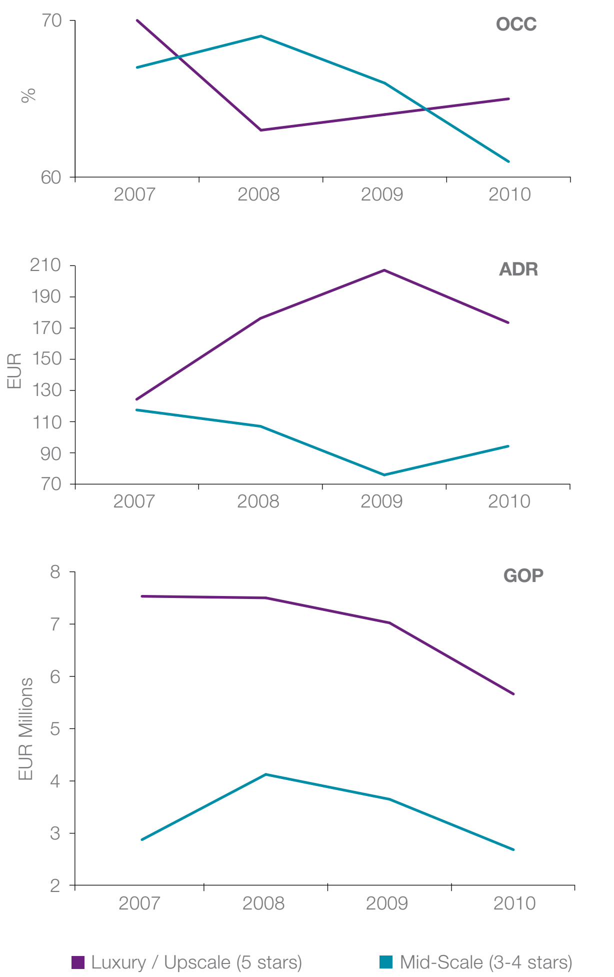
GRAPH 2: REGIONAL DIFFERENCES: OCCUPANCY, ADR, AND GOP BY REGION (2007-2010)



From a service level standpoint, the past four years are a perfect example of two opposite selling strategies that, unfortunately, have led to the same negative result. While the upper-end segment of our sample sacrificed its ADR last year to successfully increase its occupancy, the mid-scale group has increased its ADR and sacrificed its occupancy. The overall result for both strategies has been a steady decrease in GOP (see graph 3). But again, despite how it may look, all is not doomed. ADR of both segments has fluctuated but reverted back to their 2009 levels, which combined with the positive indicators for tourism, is a positive sign. The good news, however, seems to be more directed towards the luxury segment than mid-scale, whose occupancy has dropped to below the crisis' level (see graph 3).

More belt-tightening

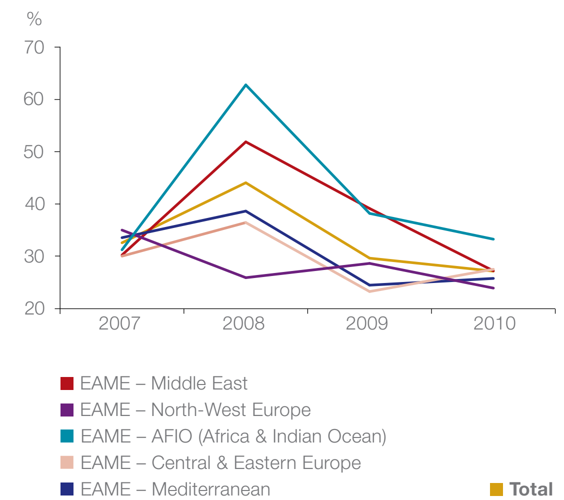
GRAPH 3: OCCUPANCY, ADR, AND GOP BY SERVICE LEVEL (2007-2010)



PROPERTY IT SPENDING: WHAT HAS CHANGED?

Property-level IT spending has changed both in the overall amount spent per room and in the distribution of spend, i.e. less investment in technology and more short-term exploitation. This is evident in both the upscale and mid-scale sectors and in all regions in EAME. The only region to remain fairly consistent is North West Europe, i.e. the more established markets, despite a decrease in its overall property level financial indicators (see graph 4). It may be because these markets and suppliers are well established and spend is on upgrades rather than on entirely new investment. Given that much of the hotel industry is on a 7-year technology-buy cycle, then this fluctuating picture in the regions would appear to continue for next year, though trends are still towards a relative percentage increase in IT OPEX spend with some « spikes » in spending in new build and emerging markets where the base percentages are low to begin with. This increase is more noticeable in the hotels with between 100 and 200 rooms (see graph 5), whereas the hotel properties with 201-300 rooms seem to have a more stable OPEX spend on IT (300-350 Euros per room) – see graph 5. However, the total amount of money spent at property level has declined since 2008, at the beginning of the economic crises (see graph 1), and continues to worsen for all but very few regions. An exception is the Middle East, which experienced a slight increase in overall IT spend in 2010 but has yet to repeat the very high level of IT investment that was experienced in 2008.

GRAPH 4: CAPEX ON IT, % CHANGE



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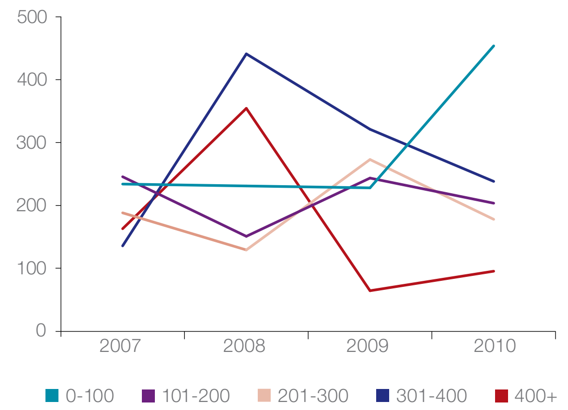
GRAPH 5: OPERATING EXPENDITURE ON IT BY PROPERTY SIZE (NUMBER OF ROOMS)



WHAT NEXT?

It is becoming more and more difficult to forecast for an entire region, as tourism and hotel performance are a reflection of the global economic situation. Similarly to the economic outlook,

> This concept of remote hosting is becoming more attractive, and more widely available, from IT vendors to the hospitality sector

some sub-regions are showing signs of recovery; others are still struggling. The Middle East region is an illustration of this situation. So what should come next in terms of IT spend at the property level should also reflect this pattern. We expect that the sub-regions that show signs of recovery will budget a higher level of IT expenditures, while others will wait for clearer skies and more long term positive economic indicators. *But overall, considering this situation, the shift from CAPEX to OPEX will be maintained over 2012.*

This is reflected in the continued year-on-year decrease in CAPEX spending from 2007 to 2010; in 2010 this decrease was 8.4% and is relatively significant to overall IT budgets in Europe (IT Benchmark report 2011). There is a long-term shift in CAPEX to OPEX spending (see graph 6), explainable in part by the rise in outsourcing/cloud computing and net-based applications (software as a service, SAAS). This concept of remote hosting

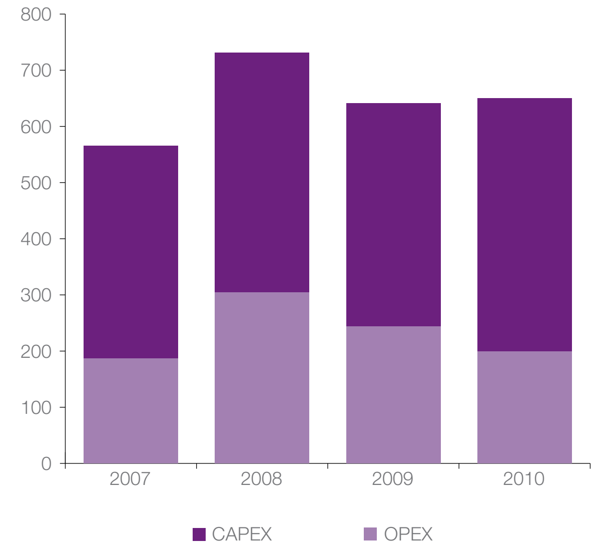
> Some sub-regions are showing signs of recovery; others are still struggling

is becoming more attractive, and more widely available, from IT vendors to the hospitality sector. This is likely to continue through 2012 as consumers and businesses alike become more familiar with tools such as Dropbox, Google Docs and Skydrive to remotely store content and access software. Forrester (2011) predicts that cloud computing is going to increase from about $41 billion in 2011 to $241 billion in 2020, making an even stronger case for spending on OPEX to continue when storage cost (formerly hard drives, servers, etc...) migrate to temporary, flexible, rentable, lower-risk options.

Additionally, the continued shift from CAPEX to OPEX spending in 2010 may be related to the shorter-term thinking that prevails as the economic outlook remains unpredictable and the debt crisis in Europe worsens. Though «belt-tightening» was precipitated by the economic situation in 2008, the economic situation did not significantly improve in 2010 and 2011 and heralded even further economic crises within the Euro-zone, which are unlikely to improve. *Our predictions for 2012 are that IT spend in real terms will continue to decline for the regions where the economic outlook is negative, and stagnate for the others,* as more value is extracted from existing systems and short-term thinking and risk-reducing purchasing prevails.

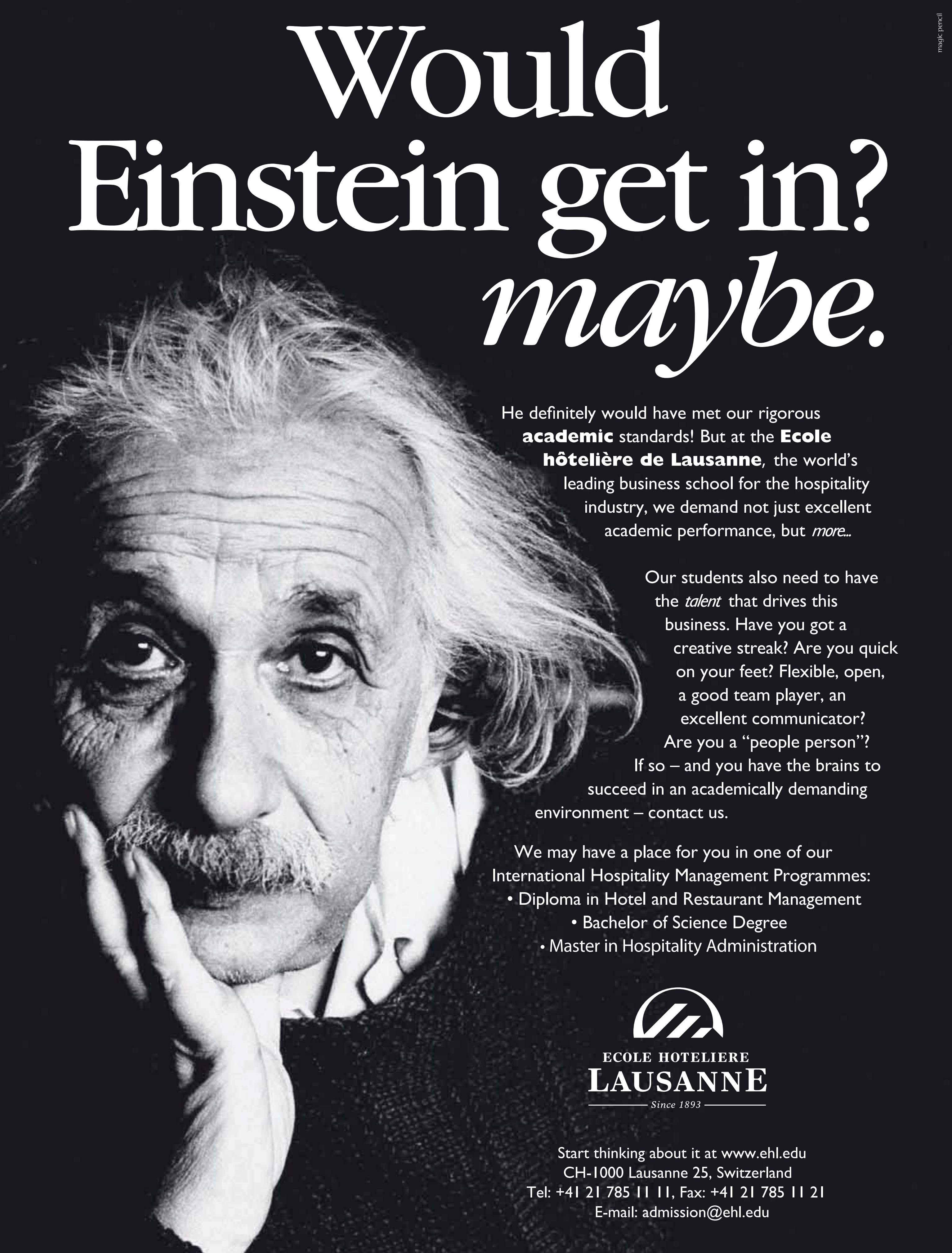
More belt-tightening

GRAPH 6: AVERAGE CAPEX/OPEX PER ROOM, IN EUROS



As hotel performance is closely related to tourism performance, it is encouraging to see that the UNWTO (2011) predicts the global growth in tourism to continue, but at a « more moderate pace » – around 4.2 %. This is due to such factors as the increasing cost of travel and lower level of elasticity to GDP (a proxy measure for traveler affluence). The UNWTO also predicts that emerging-economy destinations will surpass advanced destinations in 2015 in arrivals, with Europe dropping by 10 % over the next 20 years or so, whereas growth is forecasted for Africa to grow from 5 to 7 % and Middle East from 6 to 8 %. Though these figures are encouraging, the base is low, so these markets may not be reliable in terms of growth to replace the loss in Europe. It is likely that this will be replaced by increased demand in Asia and the Pacific rim countries.

In 2012, we expect hotels to take steps to maintain GOP, by maintaining occupancy rates, stabilizing ADR and being extra prudent on costs. We anticipate, in the light of this financial prudence, that *IT spend in 2012 will be cautious,* with fewer long-term capital investments, and *large-scale IT investment opportunities will be limited for hotels owners, contract managing companies and suppliers.* ■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