

Lodging Industry Trends

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The lodging industry in the United States as a whole achieved a room occupancy rate of 59.2-percent in the year 2002 compared to 60-percent in 2001 and 63.5-percent in 2000. These falling occupancy levels reflect the most significant decline in the industry in over 50 years. A low occupancy rate, combined with a drop in room rates have resulted in lower room revenues and profits. Smith Travel Research (STR), a lodging industry consulting firm, projects the 2003 occupancy rate in the U.S. to be 59.4-percent and the 2004 rate to be 60.6-percent.

The lodging industry is heavily dependent on consumer confidence or how people feel about the current economic environment. Business travel, the largest segment in the industry, fluctuates directly to overall economic conditions. Leisure travel is usually avoided or postponed in times of economic uncertainty. The demand for lodging will not pick up until people are more confident about the state of the economy.

The Midwest (Wisconsin, Michigan, Minnesota, Indiana, Iowa and Illinois) experienced a decline in room occupancy rate in the year 2002 and again in 2003. Wisconsin's decline of 0.6-percent for 2003 was the smallest in the region. Wisconsin was the only state in the Midwest to experience a rise in ADR (average daily rate) for both the year 2003 and 2002, with a 0.9-percent increase in 2003.

Key Trends in Lodging

The following are some of the major trends facing the lodging industry:

Consolidation: The joining or merger of two firms is referred to as consolidation. There is a long-term trend toward consolidation in the lodging industry due to the benefits of size and market penetration. Marriot Lodging, for example, now operates 11 brands ranging from Fairfield Inns to Ritz Carlton hotels.

Larger consolidated companies can offer economies of scale that provides effective cost controls, frequent traveler

programs, reservation systems, sales and marketing programs. Acquisition activity has been slow in the last three years after significant activity in the late 1990's.

Third party reservation: Companies like Travelocity, Expedia, Priceline.com and Hotels.com are used increasingly by travelers for reserving their hotel and motel rooms. By the year 2005, an estimated 1 in 5 hotel bookings will be made online, up from 1 in 12 bookings in 2002. According to Jupiter Research, online hotel reservations will grow from \$5 billion in 2002 to \$14.8 billion in 2007.

According to Cendant Corporation, customers shopping for a room online want a friendly and efficient booking experience, great prices, and a well-known and trusted brand.

New technologies: Technology is being used to attract potential customers and to keep operating costs lower at hotels and motels. High-speed internet, wireless internet access and teleconferencing capabilities are some examples of technologies that are attractive to business travelers. Some hotels are using automated guest check-in to keep their costs down.

Operations: During times of declining occupancy and economic uncertainty, lodging operators are continuing to explore new and effective cost controls. The challenge is to maximize cash flow without hurting customer service. Outstanding customer service and guest rooms are critical factors in maintaining and improving market share.



Customer market segments: Some companies are paying special attention to certain customer segments that may not be very sensitive to economic conditions. These can include seniors, fraternal and religious groups and wedding parties.

Development: Extended stay hotels have emerged with a unique, apartment-style format (with kitchen, dining and work areas) for longer-term stays. The growth of condominium hotels represent an alternative to traditional lender financing and, at the same time, provides a "built in" customer base. Boutique hotels that offer a "home away from home" feeling are becoming more popular as these hotels offer unique personalities achieved through their designs and surroundings. In a bid for additional sources of profit, hotels are adding new services and amenities such as spas.

There is a slowdown in new hotel construction as lenders are more interested in deals such as refinancing, consolidation, renovation and repositioning of existing properties. Lenders are also becoming stricter about their terms. Local and regional banks, the biggest funding source for limited-service hotels, are requiring developers to have strong existing relationships with the banks and solid project characteristics like location, brand and management.

Successful existing properties are continuously renovating their properties. Furniture, fixtures, equipment and building materials need constant update regardless of economic conditions.

Excess supply is a significant problem faced by the lodging industry. Occupancy levels have fallen in the last few years due to room supply increasing faster than room demand. Hotel companies are solving this problem by reassessing their capital plans so that they can decide whether to undertake certain projects. Some companies are also eliminating certain properties or parts of their properties that they feel do not have a strategic value. The cutting back of room supply may be a blessing for the lodging industry in the long run as it allows demand catch up with supply.

Conclusion

During difficult times like these, it is essential that hotel operators and business counselors be aware of the trends and changes occurring in the lodging industry. Competition will remain intense in the industry as customers become even more price conscious and demanding. Large chains will continue to dominate and third-party reservation systems will constrain rates. Successful operators must

navigate through fluctuating market conditions, but never turn their back on the delivery of excellent guest service.

Source:

"Annual Report," Marriot International, Inc.

"Annual Report," Six Continents PLC.

"Cornell University Experts Advise Hotels Challenged by Online Bookings," Linda Myers

"Hotels Put Out Welcome Mat for Online Bookers," Cendant Corp.

"Show Me the Money," Edward Watkins, Lodging Hospitality; May 15 2003

"Travelers Prefer Boutique Lodging," www.boutiquelodging.com

"Wisconsin Lodging Conference and Trade Show," Smith Travel Research

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