

Focus on: **hospitality**

International Business Report 2009 - Sector focus series

The Grant Thornton International Business Report (IBR) 2009 reveals that privately held businesses (PHBs) in the hospitality sector are markedly less confident regarding economic prospects for the year ahead than they were in 2008, dramatically affecting the 'big decisions' these businesses have to make. In 2008 a net balance¹ of +57 per cent were optimistic compared to +2 per cent this year. Across all sectors, businesses are also less optimistic (-16 per cent) than in 2008 (+40 per cent).

IBR 2009 has examined the optimism of privately held businesses across eight sectors which we are pleased to share through our sector focus series.

Of the eight sectors, hospitality is the most buoyant with an optimism/pessimism balance of just +2 per cent; ahead of technology (-7 per cent), financial services (-9 per cent), health and education (-19 per cent), manufacturing (-19 per cent), construction and real estate (-20 per cent), retail (-20 per cent), and transport (-39 per cent).

This series will provide key findings, insights into specific national market sectors and our perspective on the outlook for each sector. It will also suggest what tactics businesses should consider in the current economic climate.

If you have 'big decisions' you need help with, please visit www.gti.org. For more information on IBR, visit www.internationalbusinessreport.com

The hospitality sector

Steadily rising global affluence, the upsurge in cheap travel and the development of middle class tourism in populous economies such as mainland China and India provided a strong impetus to the international

tourist industry in recent years.

Corporate hospitality was similarly boosted by cheaper and faster travel at a time when corporate finances were exceptionally strong on the back of sustained and robust global economic expansion.

With the onset of a severe global recession in 2008, the industry entered a much more difficult phase. Hospitality is seen as discretionary and luxury spending and the sector is suffering from the retrenchment in the face of pressure on personal incomes and increasing corporate financial concerns. This is highlighted by cutbacks by business and leisure travellers alike. In the United States, for example, hotels in May 2009 posted their 19th consecutive month of declining occupancy, the worst spell for decades. That occupancy drain, coupled with declining room rates as hotels compete for customers, is expected to result in the hotel industry's steepest decline in revenue per available room for many years.

The impact at the top end of the market has been especially severe as holidaymakers seek out cheaper accommodation and people frequenting restaurants trade down. But some sections of the industry are less badly affected. Discount hotel chains and caravan sites are benefiting at the expense of premium brands.



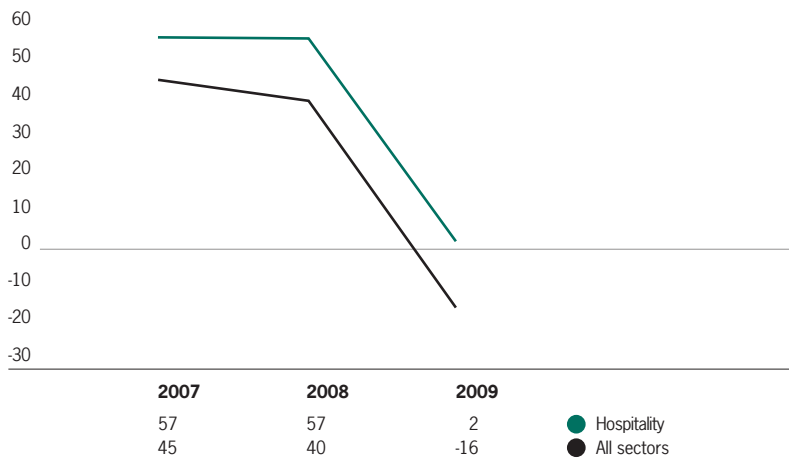
¹the balance is the proportion of companies reporting they are optimistic less those reporting they are pessimistic.

Optimism/pessimism

- PHBs in the hospitality sector are considerably less optimistic about their country's economic outlook (+2 per cent) compared with 2008 (+57 per cent)
- across all sectors, levels of optimism regarding economic outlook are down 56 percentage points compared with 2008.

Figure 1: Outlook for the economy over the next 12 months: 2007-2009

Average percentage balance of businesses indicating optimism against those indicating pessimism



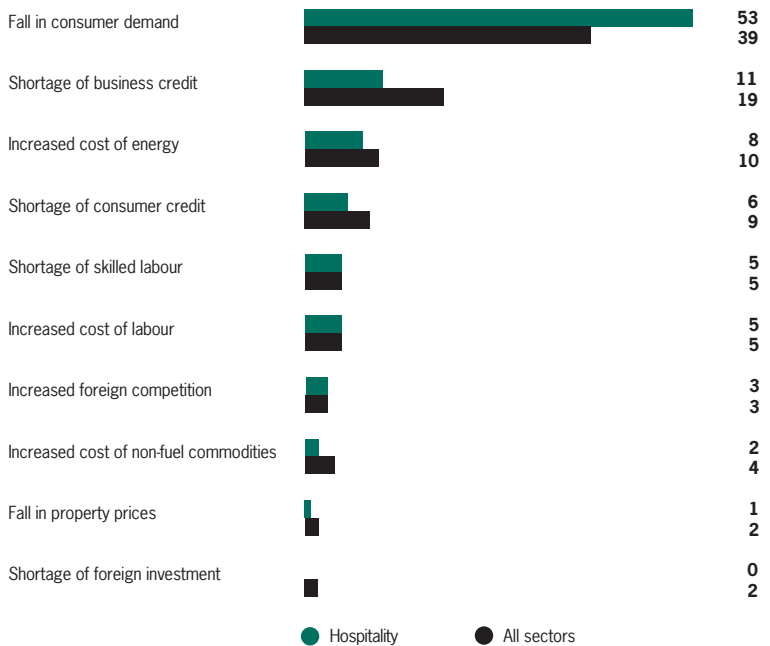
Source: Grant Thornton IBR 2009

Greatest concern

- at 53 per cent, a fall in consumer demand is viewed as the greatest concern restricting expansion for PHBs in the hospitality sector. This is well above the average for all sectors (39 per cent)
- a shortage of business credit is of greater concern to PHBs in all sectors (19 per cent), than to those in the hospitality sector (11 per cent).

Figure 2: Greatest concern in the next 12 months

Average percentage of business



Source: Grant Thornton IBR 2009



Gillian Saunders
Grant Thornton, South Africa

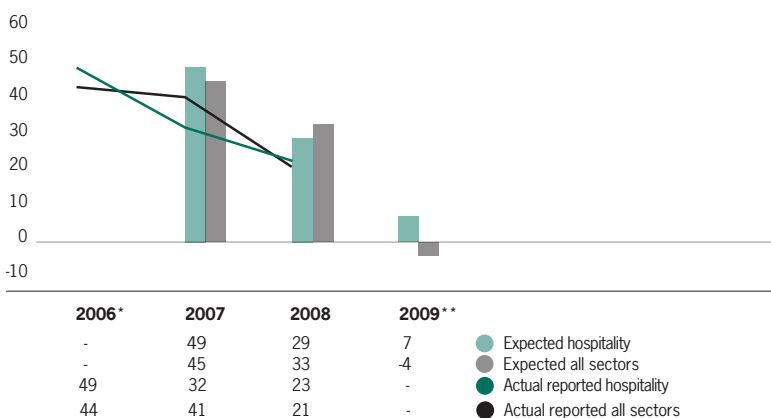
“Even though South African lenders have been less affected than most, they are still being very conservative about their lending so we are seeing many new projects, such as hotels, failing to source finance. We will need the lenders to come back to our sector or we could start to see a shortage of room supply and leisure facilities after the World Cup in 2010 when we expect good tourism growth from the tournament and the release of pent up tourism demand.”

Employment

- similarly to businesses in all sectors, expected employment growth in the sector has fallen sharply; from +29 per cent in 2008 to +7 per cent in 2009
- businesses across all sectors expect employment to contract even more sharply; expectations falling from +33 per cent in 2008 to -4 per cent this year
- actual employment growth in the sector in 2008 (+23 per cent) was lower than expected (+29 per cent).

Figure 3: Employment history: 2007-2009

Balance percentage of businesses



*expected data for 2006 not available

**actual data for 2009 will be available in IBR 2010

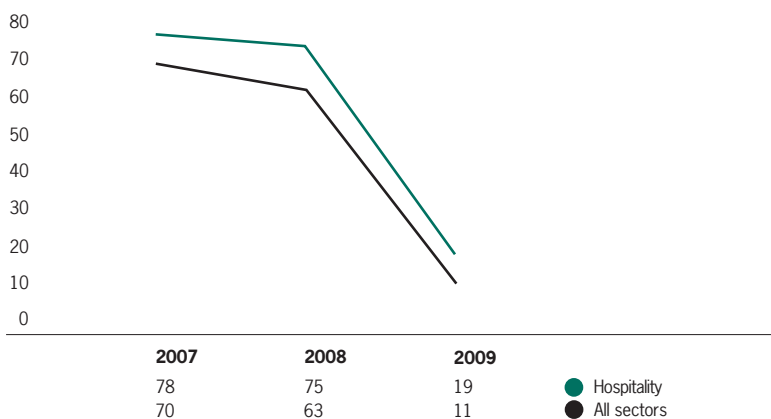
Source: Grant Thornton IBR 2009

Revenue expectations

- PHBs in the hospitality sector are much less optimistic about their revenue prospects (+19 per cent) compared with 2008 (+75 per cent)
- across all sectors, levels of optimism regarding revenue prospects have fallen 52 percentage points compared with 2008.

Figure 4: Revenue expectations: 2007-2009

Average percentage balance of businesses indicating optimism against those indicating pessimism



Source: Grant Thornton IBR 2009



Helen Riley
Grant Thornton, United Kingdom

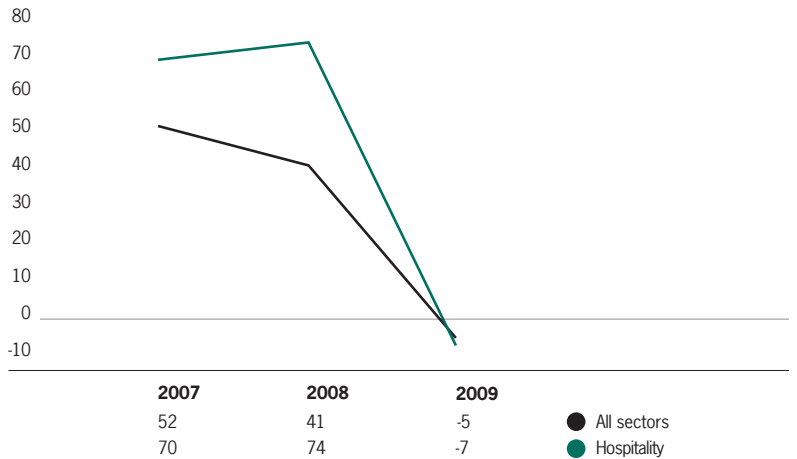
“Some of the smaller businesses will struggle to reduce their costs as much as the larger businesses. However, there are some good opportunities to reduce property costs and renegotiate rents. Businesses with the funds available may be in a great position to prepare for the upturn by purchasing cheap sites or acquiring competitors to boost their market share.”

Profitability expectations

- PHBs in the hospitality sector are less optimistic about their profitability prospects (-7 per cent) compared with 2008 (+74 per cent), declining by 81 percentage points
- across all sectors, levels of optimism regarding profitability performance have fallen 46 percentage points compared with 2008.

Figure 5: Profitability expectations: 2007-2009

Average percentage balance of businesses indicating optimism against those indicating pessimism



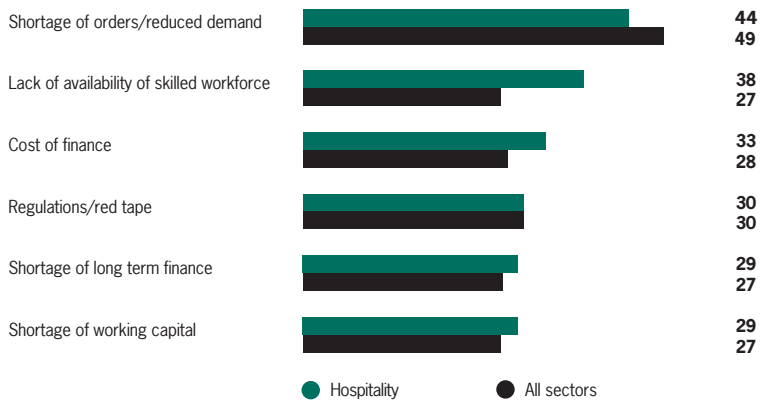
Source: Grant Thornton IBR 2009

Constraints

- a shortage of orders/reduced demand is viewed as the major constraint restricting expansion for both PHBs across all sectors (49 per cent) and in the hospitality sector (44 per cent)
- a lack of availability of a skilled workforce is of more concern to PHBs in the hospitality sector (38 per cent), than it is to businesses in all sectors (27 per cent)
- all financial constraints are cited by proportionately more PHBs in the hospitality sector than across all sectors.

Figure 6: Constraints on expansion

Average percentage of business rating constraint 4 or 5 on a scale of 1 to 5 where 1 is not a constraint and 5 is a major constraint



Source: Grant Thornton IBR 2009



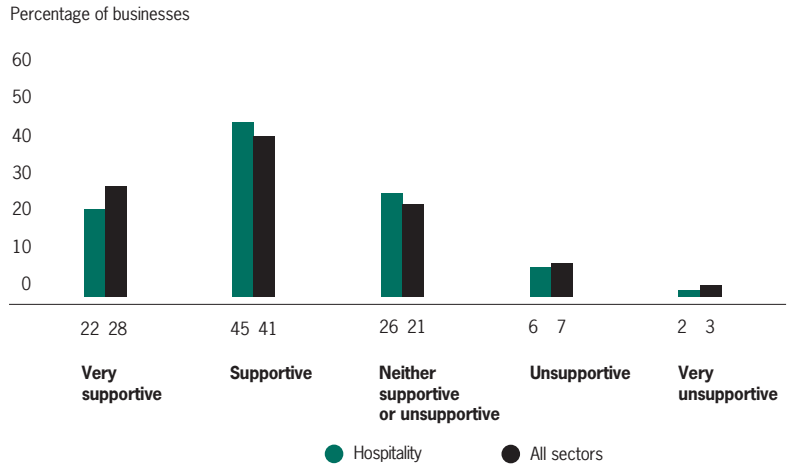
Joshua Bushard
Grant Thornton, United States

“The US government has restricted business travel for some companies receiving bailout funds. The publicity and the politics of this has caused corporations, in addition to what they would already do in a poor economic environment, to pull back even more to avoid negative PR. The ripple effects have compounded what is widely viewed in the US as the worst environment for the sector in 20-30 years.”

Support of lender

- 67 per cent of PHBs in the hospitality sector class lenders as either very supportive or supportive towards their business. This is marginally below the average of all sectors (69 per cent)
- similarly to businesses across all sectors, just 8 per cent of PHBs classed lenders as either unsupportive or very unsupportive of their business.

Figure 7: Level of support provided by lenders

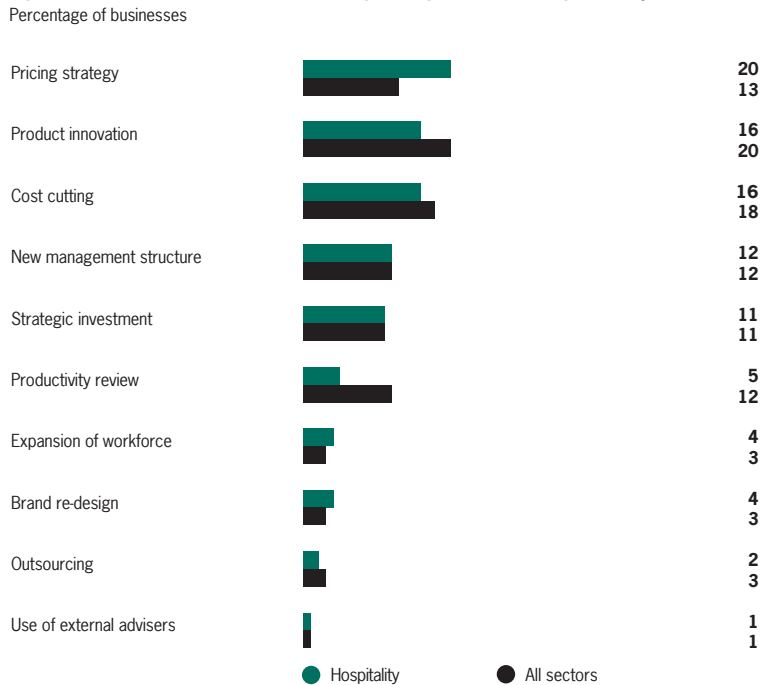


Source: Grant Thornton IBR 2009

Business planning

- pricing strategy is the most successful initiative PHBs in the hospitality sector have put in place to increase profitability (20 per cent). This is above the average across all sectors (13 per cent)
- the most successful initiative introduced by PHBs in all sectors - product innovation (20 per cent) - has been the second most successful in the hospitality sector (16 per cent)
- productivity reviews have been more successful across all sectors (12 per cent) than in the hospitality sector (5 per cent).

Figure 8: Successful initiatives that have been put into place to increase profitability



Source: Grant Thornton IBR 2009



Waris Watanakun
Grant Thornton, Thailand

“The Thai Government has elevated hospitality to the national agenda, with many public organisations focusing on re-attracting tourists, re-establishing tourist destinations, creating new facilities and improving awareness and competitiveness. Thailand, with its relatively lower costs and attractive tourism options, should benefit quickly from the start of the economic upturn - as long as the political situation remains relatively quiet.”

Outlook

The current economic crisis is very worrying for the industry. In past recessions, only casinos have been immune to the malaise affecting households and businesses. After months of increasingly gloomy news, the industry is bracing itself for further cuts in discretionary spending. Eating out will become less frequent as unemployment takes its toll and consumers become more defensive. Even if conferences take place, they will be on more restricted budgets. Hotels that are seeing lower occupancy rates will renegotiate corporate deals, but again the industry's revenue will suffer. Geographically, the more mature countries are likely to suffer more than emerging markets, where growth is still positive and the sector has a greater chance of riding out the downturn.

Tips for survival

- consider shifting attention to domestic tourists
- consider creative promotions
- focus on cost reductions and efficiencies
- take special care of regular customers
- position brand to meet needs of travellers
- consider introducing loyalty programmes
- examine opportunities in new markets
- add extra value to conference packages
- look out for bargains
- leverage from publically funded initiatives
- renegotiate fixed costs, where possible eg rents.



Reasons to be cheerful

- in most countries the recent boom has provided huge investments in long term infrastructure
- business travel is expected to expand from 2010
- capital spending plans are at a nine-month high
- market is still active with some good acquisition opportunities
- companies who get their strategy right will do well
- downturn will bring consolidation and remove 'dead-wood' from the industry.



Doug Bastin
Grant Thornton, Canada

“Given the increased cost of travel and economic uncertainty, more business people will restrict their international travelling. Canadian businesses’ traditional focus on international travellers will need to shift towards the domestic market in order to survive the downturn.”

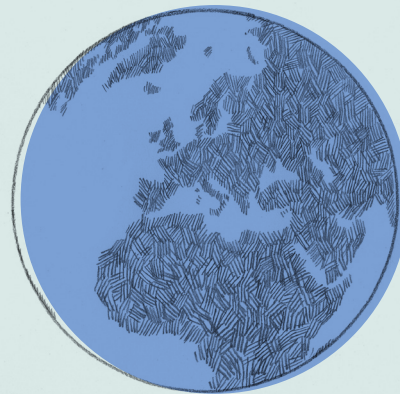
The Grant Thornton International Business Report (IBR) is an annual survey of the views of senior executives in privately held businesses (PHBs) all over the world. Launched in 1992 in nine European countries the report now surveys over 7,200 PHBs in 36 economies providing insights on the economic and commercial issues affecting a segment often described as the 'engine' of the world's economy.

To find out more about IBR and to obtain copies of reports and summaries visit: www.internationalbusinessreport.com

The site also allows users to complete the survey and benchmark their results against all other respondents by territory, industry type and size of business.

Participating economies

Argentina	Japan
Armenia	Malaysia
Australia	Mexico
Belgium	Netherlands
Botswana	New Zealand
Brazil	Philippines
Canada	Poland
Chile	Russia
Mainland China	Singapore
Denmark	South Africa
Finland	Spain
France	Sweden
Germany	Taiwan
Greece	Thailand
Hong Kong	Turkey
India	United Kingdom
Ireland	United States
Italy	Vietnam



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