

Development of U.S. Lodging Industry and its Implication

DEVELOPPEMENT DE L'INDUSTRIE DE LOGEMENT DES ETAT-UNIS ET SON IMPLICATION

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Abstract: This article reviews the development of U.S. lodging industry and its implications, it shows the high degree of concentration in some aspects related to development of U.S. lodging industry such as market size, major players, and customer types.. And then further analyses the factors and its implications that influencing the lodging industry of US, it mainly was studied from the aspects of economic, social and technological sides. Finally forecasts the key trends of the lodging industry.

Key words: Development, Influence Factor, Issue, Trend

Résumé: Cet article passe en revue le développement de l'industrie de logement des Etat-Unis et son implication. Cette rétrospective montre la concentration de haut niveau sous certains aspects relatifs au développement de cette industrie tels que la dimension du marché, les acteurs principaux et les types des clients. Et puis l'article analyse les facteurs et ses implications qui influent l'industrie de logement des Etat-Unis dans les perspectives économique, sociale et technologique. Finalement, l'auteur prévoit les tendances importantes de l'industrie.

Mots-Clés: développement, facteurs influants, problème, tendance

1. DEVELOPMENT OF U.S. LODGING INDUSTRY

The perfect storm of 9/11, SAR, Iraq, and weak business travel demand had a devastating impact on lodging industry performance from 2001-2003, but a long recovery is taking shape and pricing power is on the mend. Industry occupancy rates have rebounded above 60%, while revenue per available room (RevPAR) has recovery from its recent slide, particularly in the volatile top end of the market. In 2004, the hotel industry appeared to have finally turned the corner. Overall profitability for the lodging industry grossed \$113.7 billion, an increase of approximately \$8 billion from 2003. Pretax profits rose from \$12.8 billion in 2003 to \$16.7 billion in 2004.

Room sales accounted for roughly 54% of revenues in 2004, lodging industry has become more consolidated over time due to acquisition and internal growth. However, no single lodging company encompasses hotel (including franchises) that account for more than 15% of all hotel rooms in the United

States. Based on affiliated rooms worldwide, the largest U.S. based company is franchisor Cendant, the parent of nine lodging chain with more than 6,500 properties and about 530,000 rooms. Cendant's lodging brands include DaysInn, Howard Johnson, Knights Inn, Ramada(United States), Super 8, and Travelodge. Demand for hotel rooms comes from both US residents and international travelers. In 2004, there was a 13 percent rise in the number of overseas visitors to the US, including a percent increase in arrivals from western Europe and an 18 rise from Japan. (Industry Survey 2005)

1.1 Market Size

In 2006, U.S. hotels were able to turn a healthy 8.8 percent rise in total revenue into an impressive 15.5 percent increase in profits according to the recently released 2006 edition of Trends in the hotel industry published by PKF Hospitality Research. The tremendous increase will be contributed to the strong economy. Hotels have been beneficiaries of strong increase in demand that have resulted in tremendous gain in revenue. PKF-HR breaks down their survey sample into five property categories: full-service, limited-services, convention, all-suite, and resort.

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Among the different property categories, limited-service hotels achieved the greatest increase in revenue (10.3%), while full-services hotels achieved the greatest increase in profitability (19.3%). While convention hotels lagged the other property types somewhat in terms of revenue and profit growth, the 7.8 percent gain in revenues and 12.2 percent increase in profits.

1.2 Major Players in U.S. Lodging Industry

The US hotel market increased by 6.5% since 2003 to reach a value of US\$75.1 billion in 2004. It can be illustrated by following figures. Hotel chains were the largest sector, accounting for 71% of the sales in 2004, worth US\$53.4 billion. Between 2000 and 2004, the sales value of Internet hotel bookings increased from US\$2.63 billion to US\$15 billion. Capacity within the US travel accommodation market increased steadily over the review period, despite fluctuations in demand.

Marriott International Inc. is the biggest player in the hotel market, with a 12.9% market share in 2004, a 3.2% increase over 2003. Marriott International increased its turnover in 2004 to US\$10.1 billion, with operating income reaching US\$477 million. Hilton Hotel's turnover increased by 6.4% since 2003 to reach US\$3.1 billion in 2004, with pre-tax profits of US\$300 million. Hilton Hotels is believed to have allocated a US\$40 million budget for global advertising in 2004. InterContinental Hotels Group achieved a turnover of US\$2.6 billion in 2004, with pre-tax profits of US\$439 million. In 2004, Starwood's turnover increased by 16% to reach US\$5.4 billion. Operating income increased by 53% from US\$653 million to US\$427 million. In 2004, Cendant Corp's hospitality division increased its turnover by 14% to US\$2.88 billion, with pre-tax profits of US\$714 million.

1.3 Customer Types

Lodging industry performance was especially strong at urban and airport hotels, categories that are likely to have benefited particularly from spending by business travelers, leisure travelers and international visitors, during the first five months of 2005, the number of rooms sold at urban hotels rose 4.3% and the revenue per available room (RevPAR) climbed to 10.7%, compared to increases of 3.4% and 7.8%, respectively, for the overall industry. At airport hotels, the number of rooms sold rose 3.7%, year-to-end, and RevPAR rose 10.9% as shown below.

The typical business room night is generated by a male (67%), age 35-54(52%), employed in a professional or managerial position (50%), earning an average yearly household income of \$81,100. For a hotel stay, 39 percent of all business travelers spend one night, 24 percent spend two nights, and 37 percent spend three

or more nights. The typical leisure room night is generated by two adults(51%), ages 35-54(45%), earning an average yearly household income of \$72,600. Of leisure travelers staying in a hotel, 45 percent spend one night, 28 percent spend two nights, and 27 percent spend three or more nights. (Source: D.K. Shifflet & Associates, Ltd.) Leisure rates are increasing but not as much as the effect of the business traveler. There was a period at the end of 2003 in to 2004 where there was more leisure travel than business travel. By the time we got to end of 2004 that reversed. (Market Watch 2006 By Julie Janovsky)

2. FACTORS THAT INFLUENCE U.S. LODGING INDUSTRY AND ITS IMPLICATION

2.1 Macro Drivers

The current macroeconomic climate with high energy prices, emerging inflationary pressures, and rising interest rates indicated that U.S. lodging industry edging past its peak growth rate with more moderate growth. Economic growth in the U.S. currently is very strong, with first quarter GDP growth exceeding 5%. The economy has been growing very strongly. 2005 ended with a GDP that grew by 3.7 percent—that is a positive. A robust strong economy is usually a good predictor of demand. Inflationary pressures are developing, in part due to high energy prices and the depreciation of dollar. Slower growth in the economy and rising costs could reduce consumers to delay or shorten vacations, which would in turn decrease consumers spending in the U.S.

2.2 Depreciation of the Dollar

The weakness of the US dollar, compared with foreign currencies has encouraged travel from various foreign markets. Between year-end 2002 and year-end 2004, the Japanese yen appreciated 15% against the US dollar, while the euro and the British Pound rose 29% and 19%, respectively. This has enabled foreign visitors to convert their local currency into more US dollars, giving them increased purchasing power in the United States. Further depreciation of the dollar against many major currencies will benefit the U.S. tourism. Since travel to the U.S. will be less expensive for foreigners. The U.S. is likely to see increased travel by international visitors, which in turn will increase the revenues of lodging industry. International travel was down 44 percent two years ago, now it is only down 16 percent, so a recovery in international travel will promote tourism industry. And international travelers pay higher rates and stay longer, which will increase the revenues of lodging industry.

2.3 Energy Price and Supply-side Cost

One of the major concerns for the health of the economy is high and rising energy price. with gasoline prices near record of around \$3.24 a gallon, high energy price costs are decreasing consumers' disposable incomes. Supply -side cost-high fuel prices will increase expenses, hotel and restaurants by making all of the goods and services that they provide more expensive. Costs associated with delivering goods to and from establishments will rise, in turn force a rise in the prices that are charged to consumers as well.

2.4 Social Values Are Changing Rapidly

Industrialization raises educational levels, changes attitudes toward authority, reduces fertility, alters gender roles, and encourages broader political participation. The future will be dominated by the materialistic values of Generations X and Dot-com. Growing demand for high quality life and convenience is creating many new niche markets. Reaction against changing values is one of the prime motives of cultural extremism. Generation X-roughly, the 30-plus cohort-and generation Dot-com, now in their 20s, have more in common with their peers throughout the world than their parent's generation. They are entrepreneurial, well educated, and predominately-speaking. Virtually all are materialistic, many are economically conservative, and they care for little but their own bottom line. The trend is toward extreme quality and convenience. Customers want luxurious accommodations, and healthy meals. Travelers used to focus on destinations, now they want experiences. Vacation s are becoming more active and participatory, as tourists become less interested in "go-and-see" and more eager to go and do. This is the trend behind the growth of adventure tourism.Authenticity is another key value. Tourist who want to go to see other countries, regions, rather than their sea, sand, and beaches, want to explore unique natural and culture features.

2.5 Baby Boomer and Aging Customers

Baby boomers are nearing retirement age will well-developed for travel and recreation, in addition to the discretionary income. Thus, as baby boomers retire in the year to come, they are expected to generate a great deal of travel. The Baby Boomers in the United States are a huge demographic with enormous amounts of disposable income. They are expected to live longer, be more active, travel more and desire new experiences both in terms of cultural and event-based tourism. "The percentage of the population aged 65 and over in Europe is projected to increase from 15 percent in 2000 to nearly 25percent by 2015 and increased travel by the 'silver' segment is likely to maintain Europe's

position as the number one tourism exporting region, delivering some 730 million travelers by 2020," says Kyriakidis. "In addition to addressing the needs of aging consumers/travelers, the hospitality industry will need to address talent management issues, as aging populations hamper the ability to find sufficient staff in some regions."

2.6 International Tourist

The lodging industry of U.S. have benefited from the international visitors. The impact of international travelers on the lodging industry is considerable. In 2004, 16 million overseas travelers stayed in a hotel/motel. The main purposes of trips of 55 percent overseas travelers were leisure, recreation, and holiday, 24 percent for business. For the first time since 1992, the United States saw the first double-digit growth in international visitation in 2004. It was down 44 percent two years ago. Now it is only down 16 percent. So we've had a recovery in international travel. International travelers pay higher rates and stay longer.

2.7 Information Technology

The industry is historically in the lowest quartile of technology spending within the consumer business, particularly in reservations, distribution, loyalty programs, and customer relationship management. In the U.S., more people relied on the Internet for travel, rather than relatives and friends. In addition, more customers expect more personalized service, personalized food and beverage selection, favorable room direction and bed, restaurant they like. Another factor affecting lodging industry is booking through hotel websites compared to other distribution channels. The big area of growth has been hotel bookings through hotel branded websites. Of all the internet distribution methods, the hotel proprietary websites produce the highest rate. Electronic booking via internet is becoming prominent way, this convenient and fast way make it easy to gain more consumers. The last factor affecting rate is booking through hotel websites compared to other distribution channels. The big area of growth has been hotel bookings through hotel branded websites. Of all the Internet distribution methods, the hotel proprietary websites produce the highest rate.

2.8 Brand Recognition

Brand is expected to surpass location as deciding factor in hotel choices Today, virtually all travelers consider location to be "extremely influential" in hotel choices, compared with slightly more than half being influenced by the brand. "Customers expect the brand promise to cover every interaction with the organization -- pre-stay, stay and post-stay. If the hotel gets it right, they can expect improved customer loyalty, and guests who are

loyal to their preferred brand are likely to stay more and spend more," stated Kyriakidis. "We estimate that an upscale hotel chain has up to 200 million guest touch points annually, creating challenges in consistent delivery of the brand promise, customer relationship management and talent management."

3. ISSUES THAT FACING U.S. LODGING INDUSTRY

3.1 Environment Issues

Environment calls for green hotel. Going green is a white-hot issue in the lodging-design industry. Kevin Hydes, chairman of the board for the U.S. Green Building Council, said people are beginning to look at sustainable solutions in a whole new way. The perception of green has changed, it has gone from a fringe movement to mainstream.

3.2 Labor Cost

In 2005, labor expenses remained the largest single expense item for hotel managers, accounting for 44.6 percent of total operating costs. Consequently, any trend or issue that could potentially impact labor costs must be taken seriously by hotel owners and managers alike. This analysis is based on the recently released 2006 edition of Trends in the Hotel Industry published by PKF Hospitality Research (PKF-HR), an affiliate of PKF Consulting.

3.3 Multicultural Issues

The newest trends and topics surrounding hospitality research and development is the management of multicultural talent and the political landscape affecting the hospitality industry. Franchise is becoming the biggest industry in the world, the success of franchise lie in the understanding of ownership, internal and external customer- and workforce-related - and top legislative matters, insights of marketing and promoting. With the development of globalization, multicultural issues are facing and disturbing the industry operators.

3.4 Higher Education

Tremendous changes are taking place in hospitality industry which poses several challenges for transformation of the whole educational process including educational curricula, learning materials, instructional practices and education stakeholders. Tourism and hospitality, as a sector within the global economy, has operating and human resource characteristics that differentiate it from other industrial sectors and these have direct consequences for the

delivery of education and training (Baum, 2001). Education systems and institutions must take the challenges of the knowledge economy seriously. This would, however, include restructuring the learning process to reflect the use of information in the real world, changing the role of the educator from presenter of pre-packaged facts to facilitator of active learning and transforming the library specialist to an active collaborator in curriculum planning for effective use and availability of information resources. Indeed, educators need to realize that teaching is not telling, that learning is not absorbing and that knowledge is not static and, in turn, reflect these to their instruction mechanisms and student appraisal systems.

4. MAIN TRENDS OF THE U.S. LODGING INDUSTRY

4.1 Rapid Growth in Vacation Ownership

Vacation ownership is the fastest growing segment of the lodging industry and is likely to continue growing as the baby boomers enter their fifties and sixties. Vacation ownership is the politically correct way of saying timeshare. Essentially, vacation ownership means a person purchases the use of a unit similar to a condominium for blocks of times, usually in weeks. The World Tourism Organization has called timeshares one of the fastest growing sectors of the travel and tourism industry. Hospitality companies are adding brand power to the concept with corporations like Marriott Vacation Club International, the Walt Disney Company, Hilton Hotels, Hyatt Hotels, Promus' Embassy Suites, Inter-Continental and ever Four Seasons participating in an industry that has grown rapidly in recent years.

Resort Condominiums International (RCI), the largest vacation ownership exchange (that allows members to exchange vacations with other locations), has more than 2.8 million member families living in 200 countries. Three thousand seven-hundred participating resorts and members can exchange vacation intervals for vacations at any participating resort. North America remains the global leader with nearly half of all the participating resorts and more than 2 million owners. Europe is second with approximately 22 percent of owners worldwide and more than 1,000 resorts. Timeshare resorts are found around the globe in popular vacation areas near beaches, rivers, lakes, and mountains, and even in major cities.

4.2 Gaming-Casino Industry

An increasing number of hotels are coming on-line that are related to the gaming industry. The casinos hotel industry is now coming into the financial mainstream, to the point that, as a significant segment of the entertainment industry, it is reshaping the U.S. economy.

The entertainment and recreation sector has become a very important engine for U.S. economic growth, providing a boost to consumer spending, thus creating tremendous prosperity for the industry. The fastest growing sector of the entertainment field is gaming. Casino hotels are leaning toward making their hotels into "family friendly" hotels. Circus in Las Vegas pioneered the concept more than a decade ago. Various other casino hotels are following suit. They have baby-sitters available at any time of the day, children's attractions ranging from parks to circuses and museums, and kids menus in restaurants. For adults, in addition to gaming, a multinational cuisine for dining, health spas for relaxation, dance clubs, and dazzling shows are available. Casino hotels are now marketing themselves as business hotels. They include in their rooms work space, a fax, a copier, and computer data ports. Other amenities include a full-service business center, travel bureau, and room service. Larger casino hotels also attract conventions, which represent a lucrative business.

During the second half of the 1980s, Japanese investors were cash rich and in a position to purchase U.S. real estate. This situation was aided by a sharp rise in the value of the yen against the dollar. About 1990, Japanese investment in U.S. hotels peaked; others, notably Hong Kong, Taiwan, and Korea, took their place. The Cheng family of Hong Kong purchased the forty-property Stouffer hotel chain from Nestle S.A... Based in Switzerland, Cheng Yu-Tung also owns controlling interest in New World Development Co. Ltd. New World is the parent company of the 124-unit Ramada International chain and of New World Hotels, which has eleven properties in Asia. The Cheng also own the Regent and Grand Hyatt hotels in Hong Kong.

4.3 Integration & Globalization

Vertical integration is a trend that began a few years ago. Lodging companies realized that guests' accommodation needs were not just at one level; rather, they seemed to vary by price and facilities/amenities.

Almost all major lodging companies now have properties in each segment of the market.

The future of the lodging industry involves globalization. Companies cannot grow unless they venture beyond the United States. American hotel chains and their management techniques were in demand by many developing countries who wanted premium-name hotels. An extensive survey of the condition of the hotel would have shown that substantial amounts of money would be necessary to maintain the hotel's condition. Pool of REITS in the United States has accumulated tremendous amount of money, globalization will be a necessary option in the future.

The complex forces of capacity control, safety and security, capital movement, and technology issues will require a future management cadre that is able to adapt to rapid-paced change across all the traditional functions of management. New and advance technology, multi-culture, new need and demand of internal and external customer, good relationship, new type of marketing and promoting skill call for new management skills.

5. CONCLUSIONS

Though storm of 9/11, SAR, Iraq, and weak business travel demand had a devastating impacts on industry performance, a long recovery is taking in the U.S. lodging industry in name of revenue, profitability, room sale, number of customers etc. The developments of lodging industry were contributed to economical, social, and technological factors.

U.S lodging industry is facing new opportunities and challenges. What issues that U.S. lodging industry are facing can be contributed to environment issues, labor cost, multicultural and education issues. On the other hand, U.S. lodging industry is encountering new chance with the rapid growth of vacation ownership, gaming industry and globalization of lodging industry.

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