

REALITY CHECK!

“IN A HURRICANE,
EVEN A DOG CAN FLY”



AH&LA Summit Presentation - November 2005

D.K. Shifflet & Associates Ltd.

DKS&A Excellence in Travel Intelligence®





DATA SOURCE
D.K. Shifflet & Associates Ltd.



Contacting Over 150,000 U.S. Households/Month

DIRECTIONS[®] *TRAVEL INTELLIGENCE SYSTEM*SM
*PERFORMANCE/Monitor*SM

US Travelers Recent Travel & Attitudes

**Projectable Samples Match Census
Over 15 Years of History**



DKS&A: LODGING SPECIALISTS



Monthly Consumer Behavior By
Brand Usage/Ratings & Metrics for Government & Industry

PARTNERING WITH **AH&LA & TIA**

Continuously Establishing

Travel & Traveler Knowledge For America...

- WHO and HOW MANY
- Did WHAT,
- WHERE, WHEN, HOW + **WHY!**



TIMES ARE GOOD NOW, BUT LOOK AHEAD



Why just rise on the high ADR/RevPar Winds?

- Understand Guest Behavior Behind RevPar
- When the wind dies down,
be positioned to avoid dropping like a rock

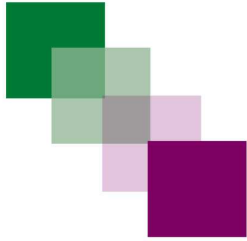
Soar after the wind dies down...



THE BUSINESS & TRAVELER WHY'S BEHIND INDUSTRY STRENGTHS



- ✓ ENVIRONMENTAL Impacts
- ✓ Changes in What Travelers are DOING
- ✓ Changes in WHO is doing it
- ✓ Changes in What they WANT
- ✓ Changes in TECHNOLOGY
- ✓ Accommodation Use ALTERNATIVES



REALITY CHECK! THE ENVIRONMENT





IMPACTS ON CURRENT PSYCHOLOGY



- **Threats** - Ongoing Terrorism & War - Home & Abroad
 - Wars: Afghanistan/Iraq (US), Africa (non-US)
 - Bombings: 9/11 memory & threats, London, Bali, Spain, Egypt, Turkey, etc.
- **Economic** Challenges - Home & Abroad
 - Continuous natural disasters
 - High oil prices: higher transp./heating, goods expenses
 - Growing U.S. debt
 - Rising interest rates
 - Weak US Dollar v. foreign currencies - Esp. Euro
 - Economic reports vacillating & Consumer Confidence with it



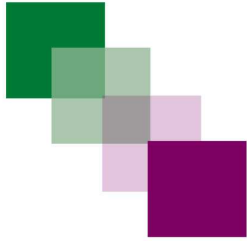
MORE IMPACTS ON OUR PSYCHOLOGY



- **Political** Instability - Home & Abroad
 - Extremes of political & religious parties dominating
 - U.S. Administration staff under indictment,
 - Friendly foreign leaders threatened
 - Poor Int'l image of USA now
- **Airline** industry problems, LLC's Changing Industry

Convergence of Events leading to...

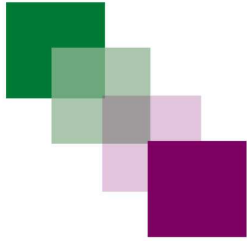
AMERICAN ANGST!



REALITY CHECK!

ANGST IMPACTS ON BUSINESS & LEISURE





REALITY CHECK!

BUSINESS



“RATIONALLY CAUTIOUS”

DKS&A Excellence in Travel Intelligence®



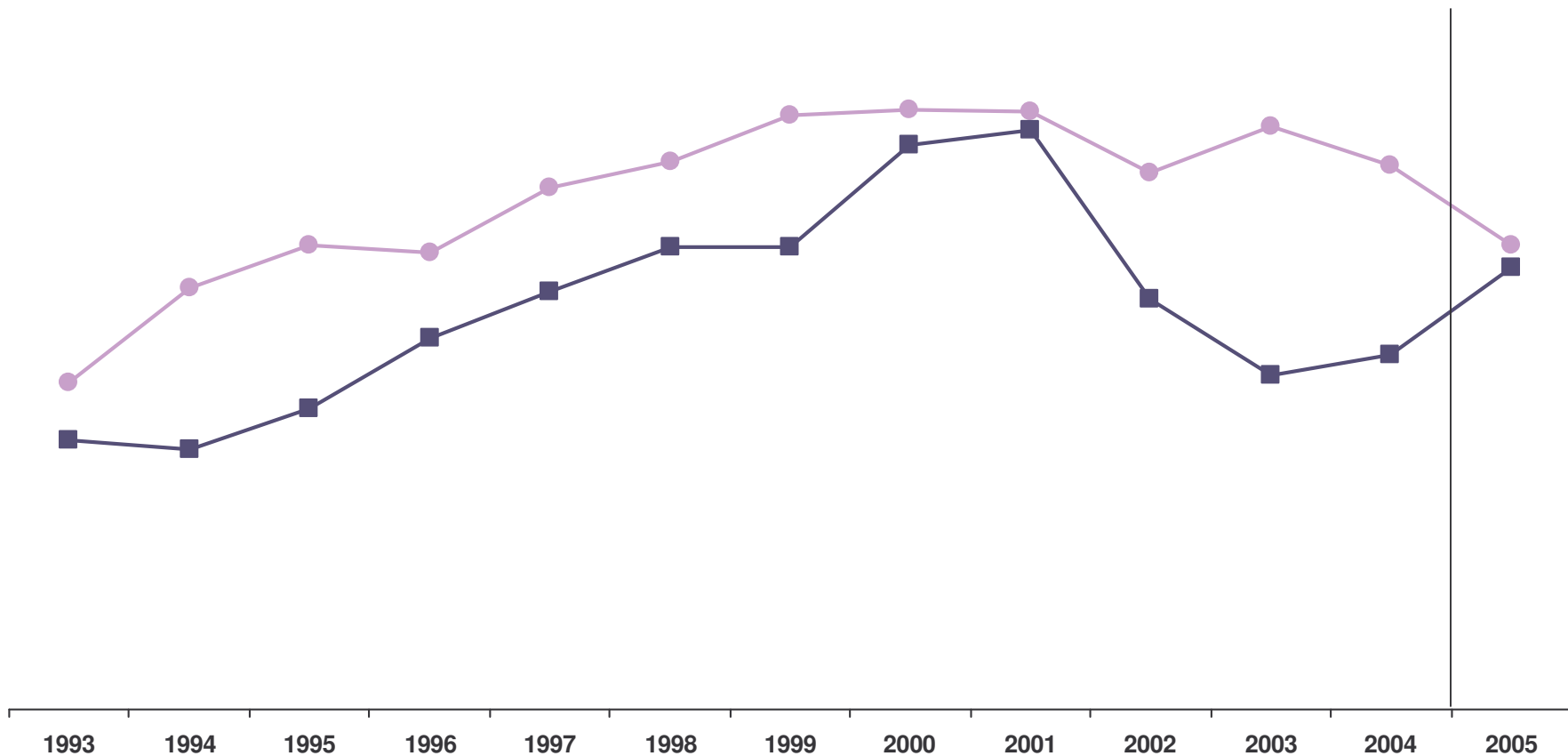


GROUP DRIVES BUSINESS RECOVERY TRANSIENT "INDIV. BUSINESS" FALTERS



HML Paid Business Room-Nights

—●— Transient —■— Group





GROUP BUSINESS: STRONG HIGH-END; Plus Stronger Mid-Level Demand & Trade-Up

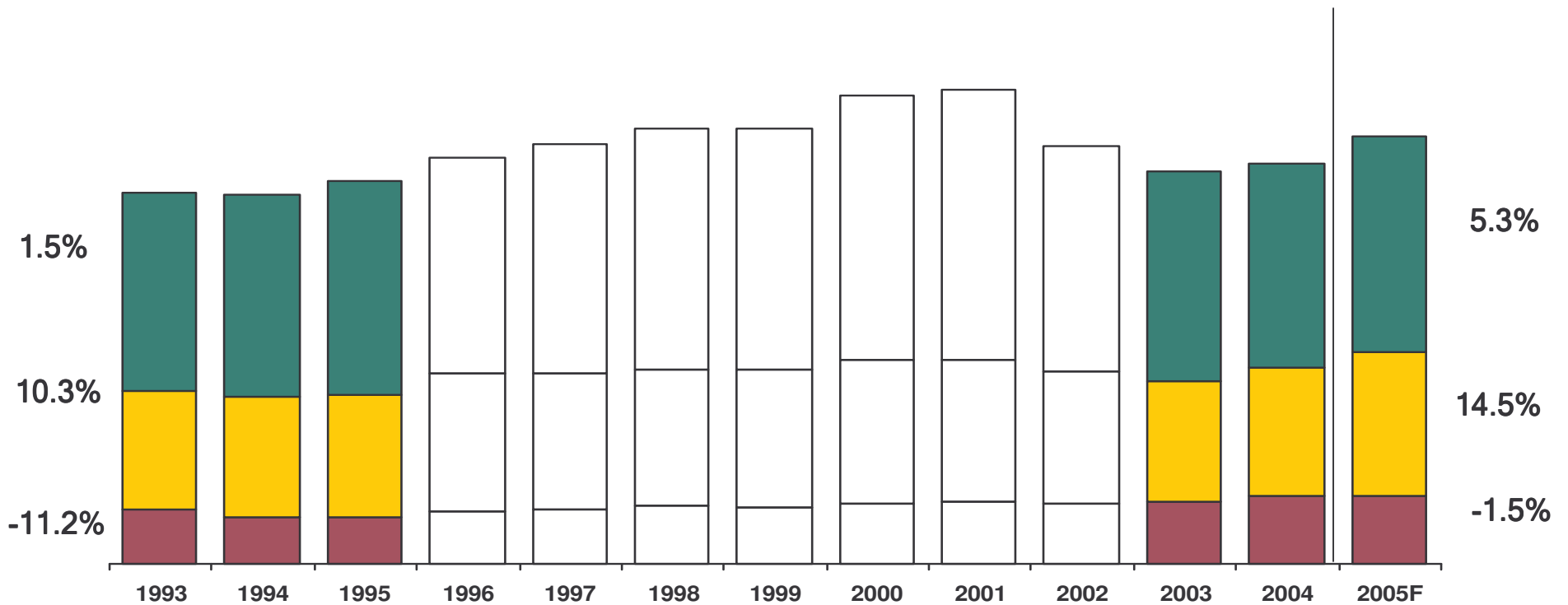


HML Paid Group Meeting Business Hotel Room-Nights

% Change
'93/94

■ Economy ■ Mid ■ High

% Change
'04/05



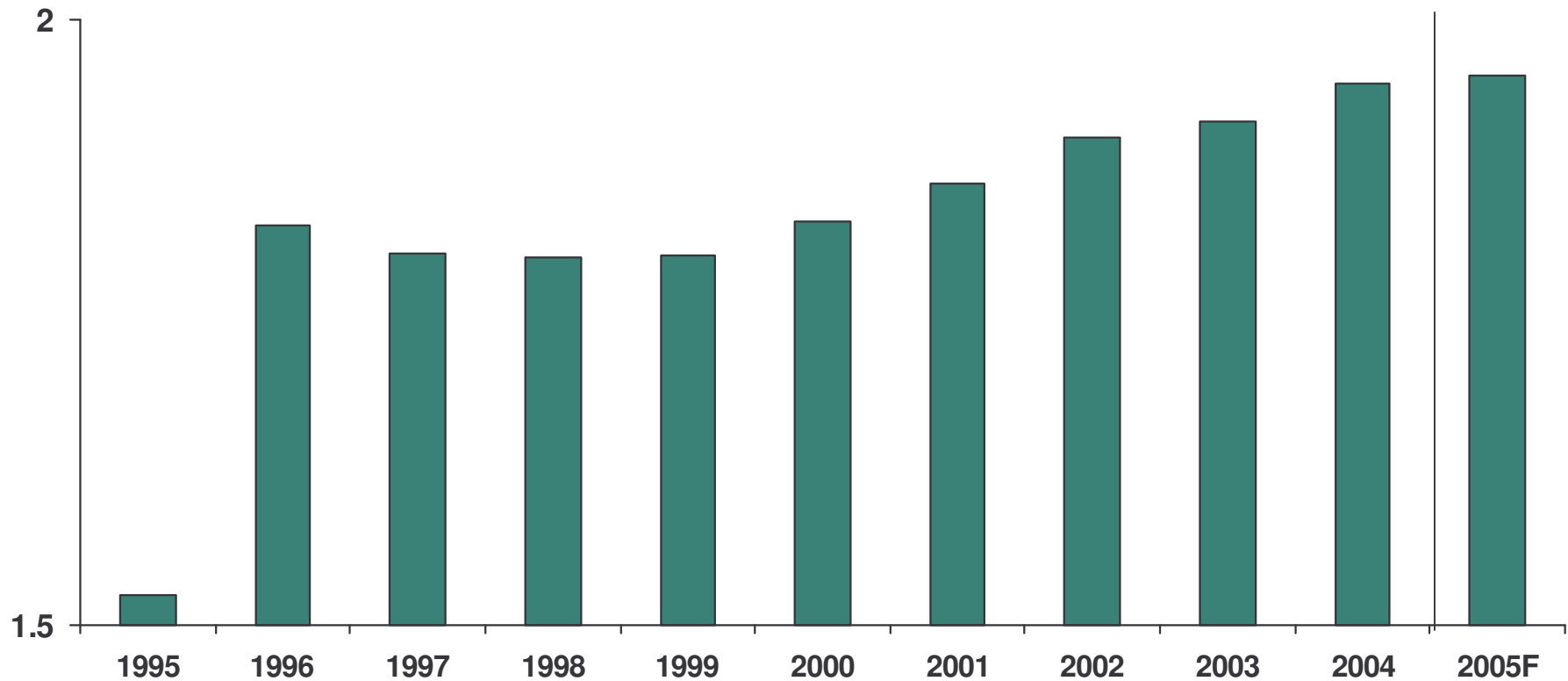


COMPANIES CONTAIN RATE INCREASES *Putting More Guests In The Room*



HML Paid Business Hotel Room-Nights

■ Average Number of People in Room





TRANSIENT - MID-LEVEL GAINS

High-End Trade-Down (Rates), Econ. Trade-Up

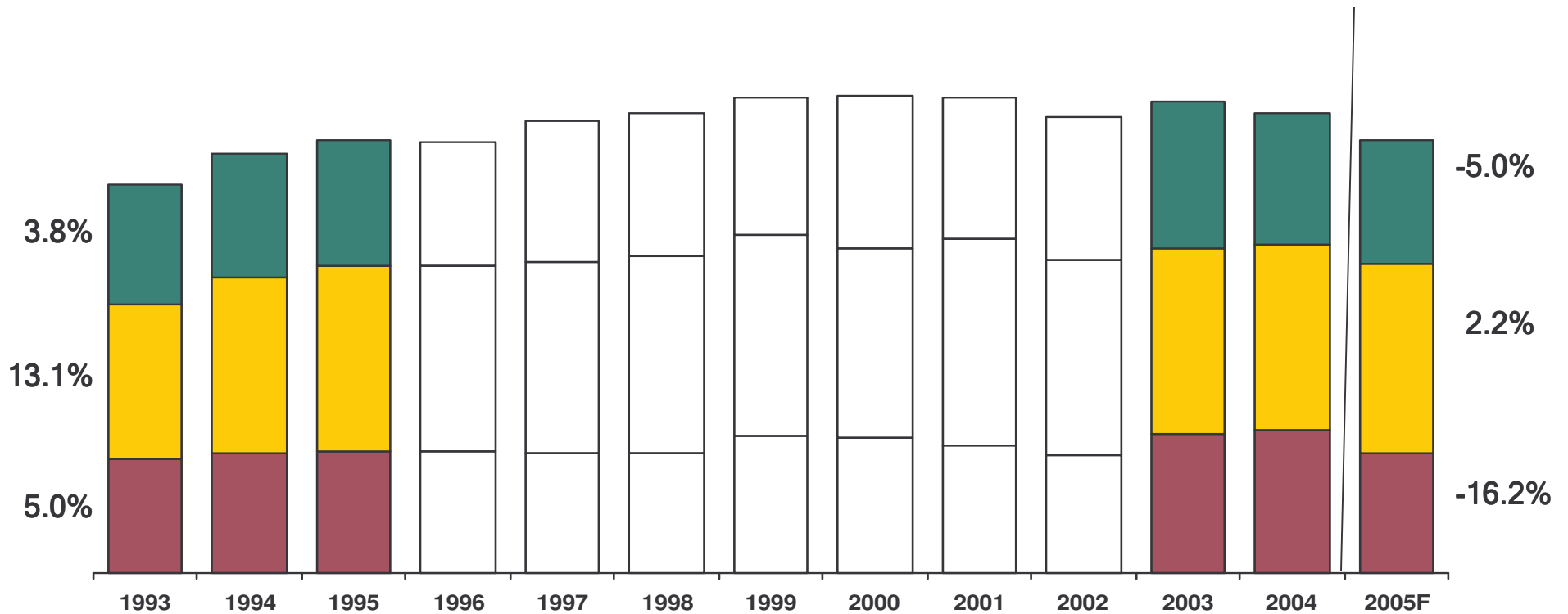


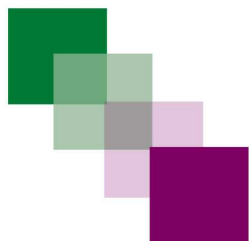
HML Paid Transient Business Hotel Room-Nights

% Change
Q2 93/94

■ Economy ■ Mid ■ High

% Change
Q2 04/05





REALITY CHECK!

LEISURE



LEISURE LEADS
Quasi-Irrational Behavior

DKS&A Excellence in Travel Intelligence®



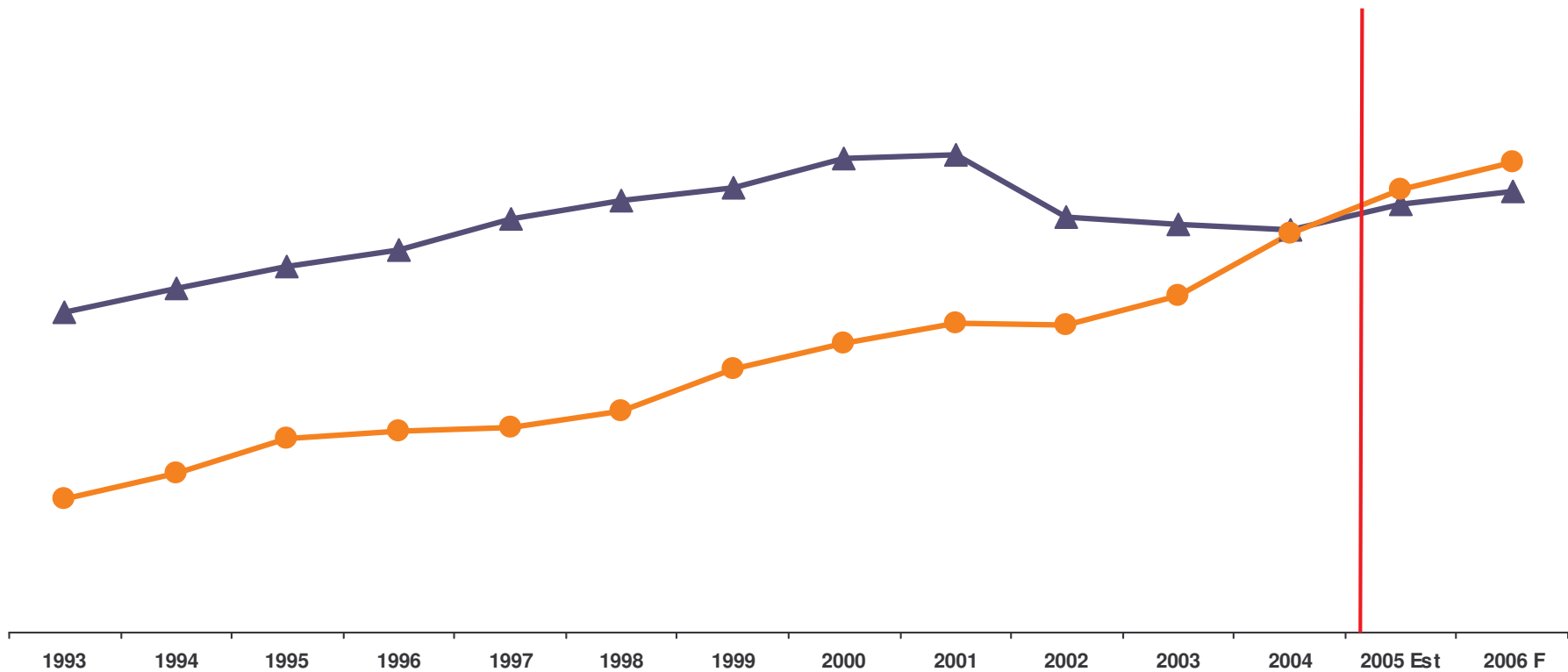


LEISURE NIGHTS SURPASSING BUSINESS



Hotel Paid Room-Nights

▲ Business ● Leisure

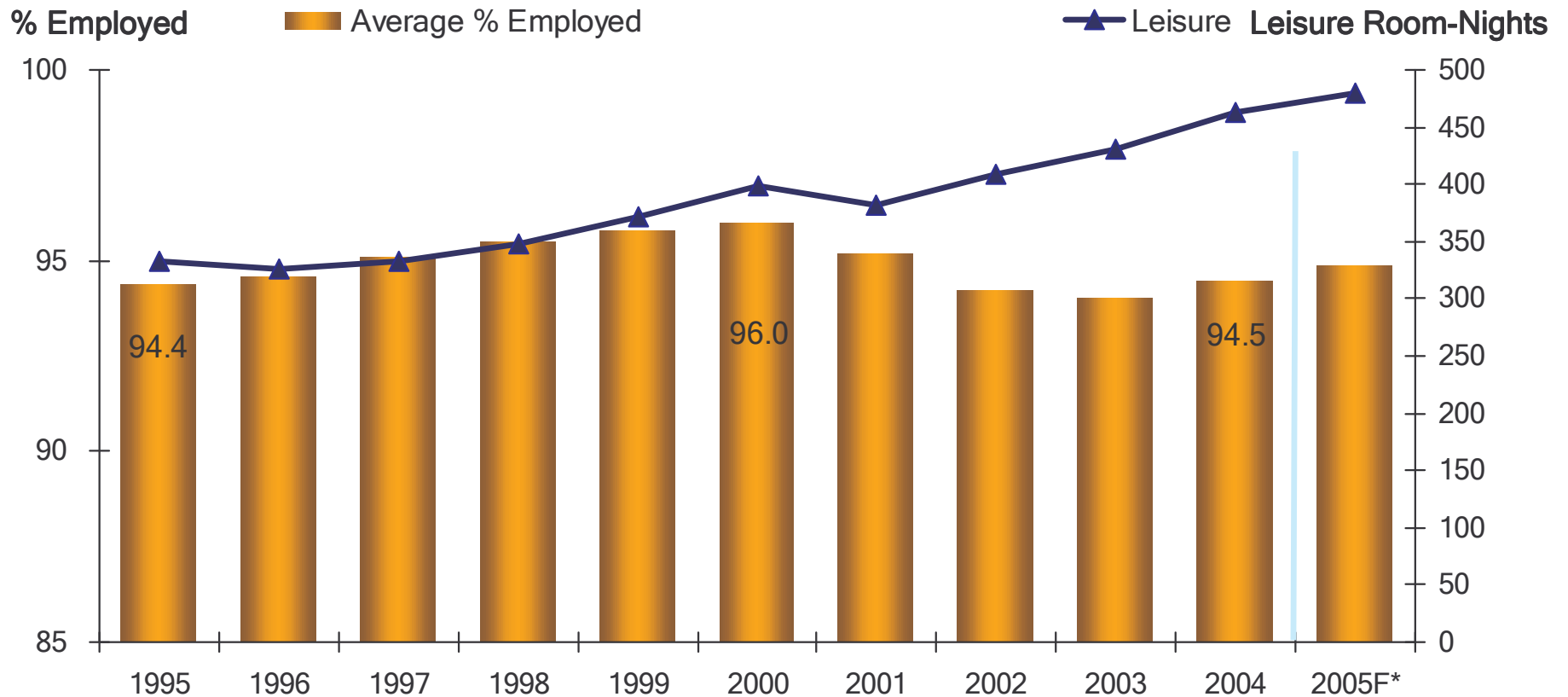


LEISURE GROWTH - IRRATIONAL?



Millions of Domestic Leisure Room-Nights (Paid Hotel) by U.S. Residents

“Just Do It” Regardless of Employment Levels



* Employment Jan-Sept '05 average (source: Bureau of Labor Statistics)

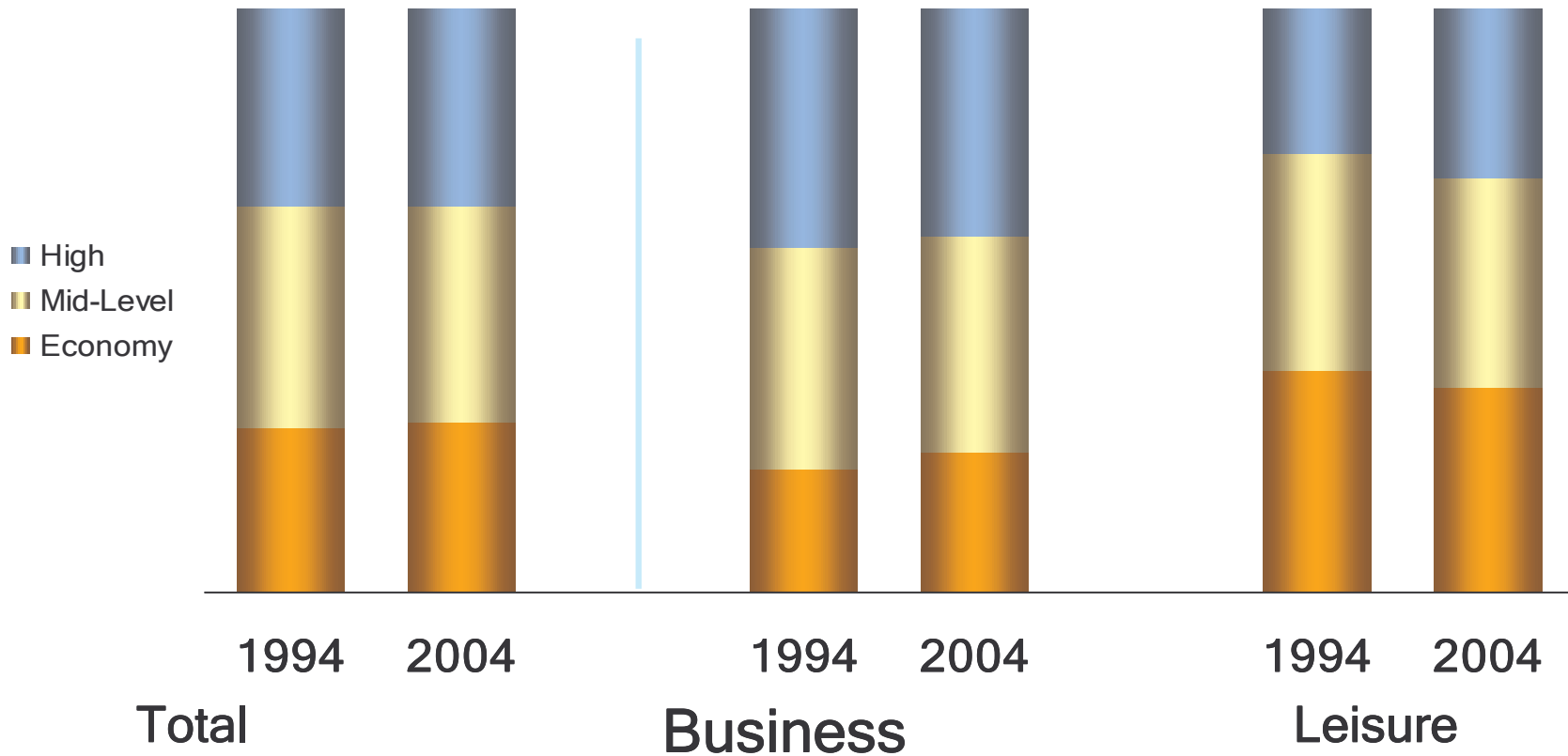


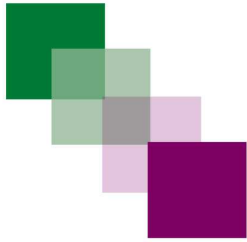
HIGH-END HOTEL SEGMENT: Leisure Gains Offset Business Weakness



% of Domestic Room-Nights (Paid Hotel) by U.S. Residents

MORE AMERICAN'S THAT USED GO ABROAD FOR LEISURE
STAYING IN USA & UPSCALE (2 SHARE PTS BELOW 1990s)





REALITY CHECK!

INTERNATIONAL TRAVELERS TO U.S. HOTELS



UPSCALE RATES NOT SO EURO HIGH

DKS&A Excellence in Travel Intelligence®

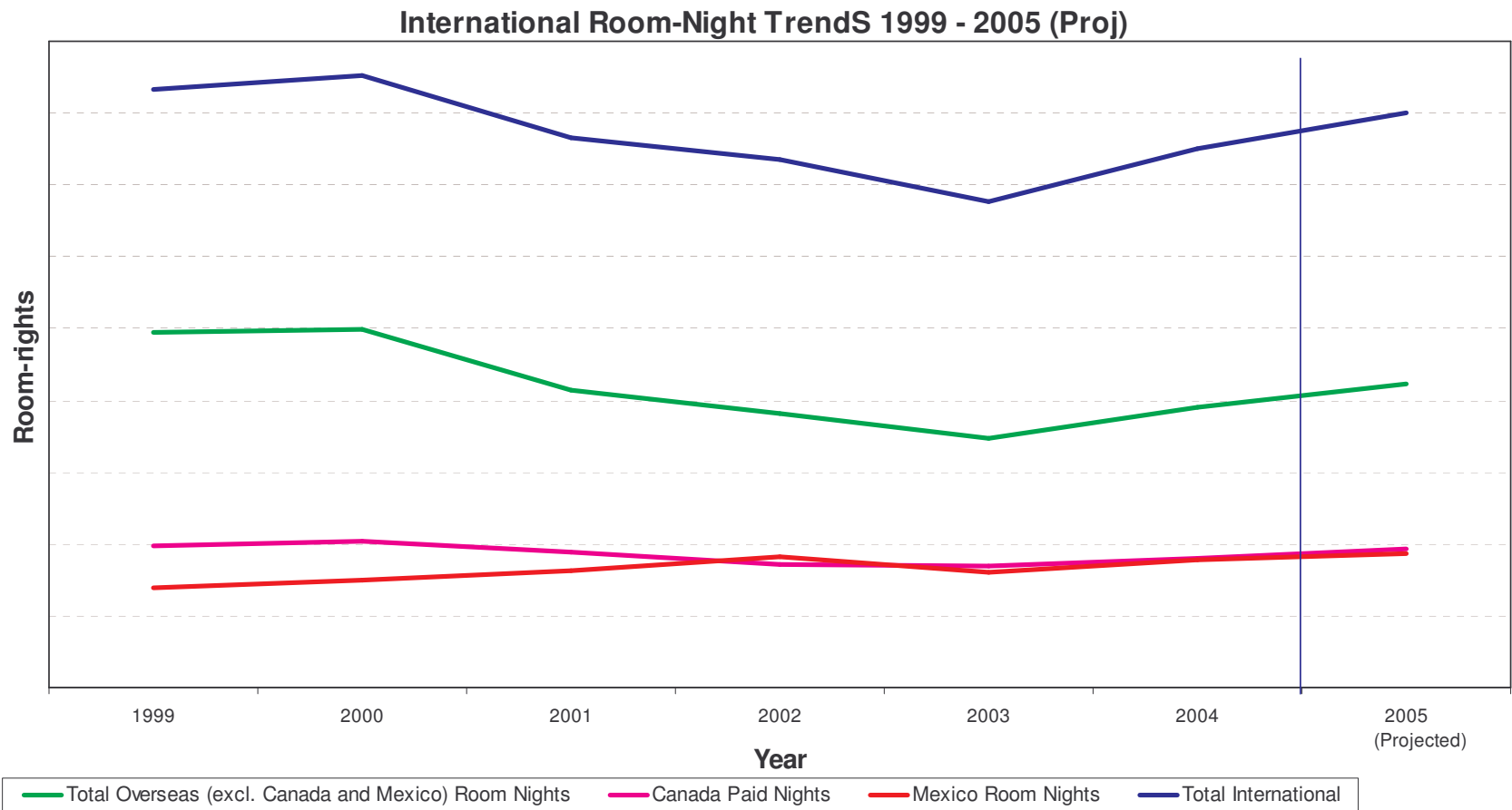




INT'L REBOUND STRONG - WEAK \$ But Still Below 2000



INT'L DELIVERS ABOUT 15% OF ALL US ROOM-NIGHTS





INTERNATIONAL: MAJOR CONTRIBUTION To US Leisure Room-nights

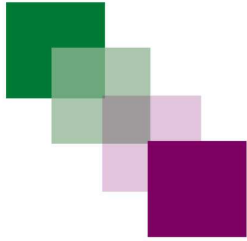


International To USA Mainly Leisure (70%)

- More Upscale (rate support) & Mainly in Major Markets
 - Helped HE Offset Domestic Trade-Down

CONCERN: Int'l Strong Gains Now, But What If:

- US Image Improvement Abroad Gets Worse?
- Dollar Strengthens Significantly?
- Perceived Passport Hassles Increase



REALITY CHECK!

TRAVELERS BY LIFESTAGE



CHANGE IN WHO!



BOOMERS, GEN X, MILLENNIALS

DKS&A Excellence in Travel Intelligence®

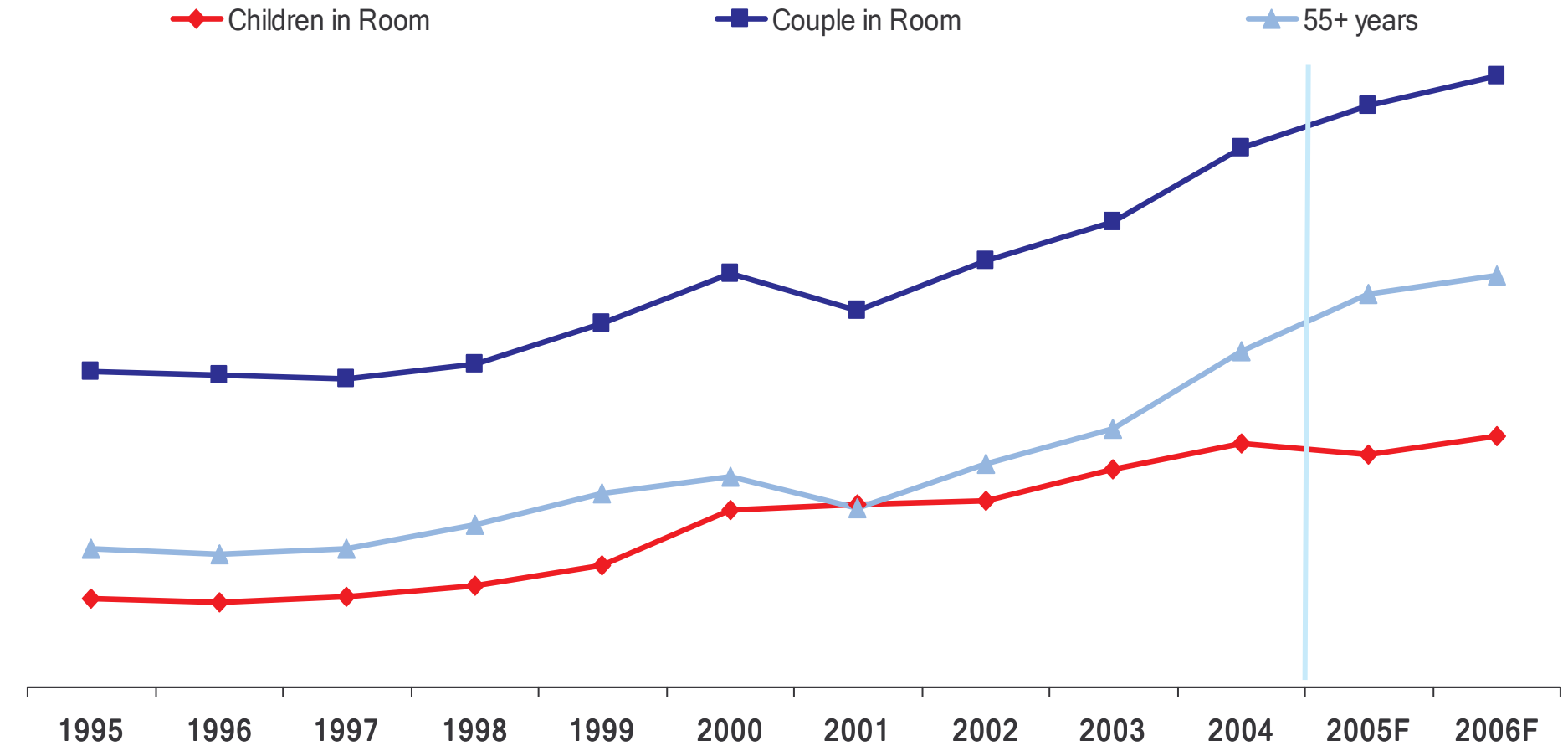




COUPLES DOMINATE LEISURE Families Cautious



Millions of Domestic Leisure Room-Nights (Paid Hotel) by U.S. Residents





GEN X GROWTH CONTINUES



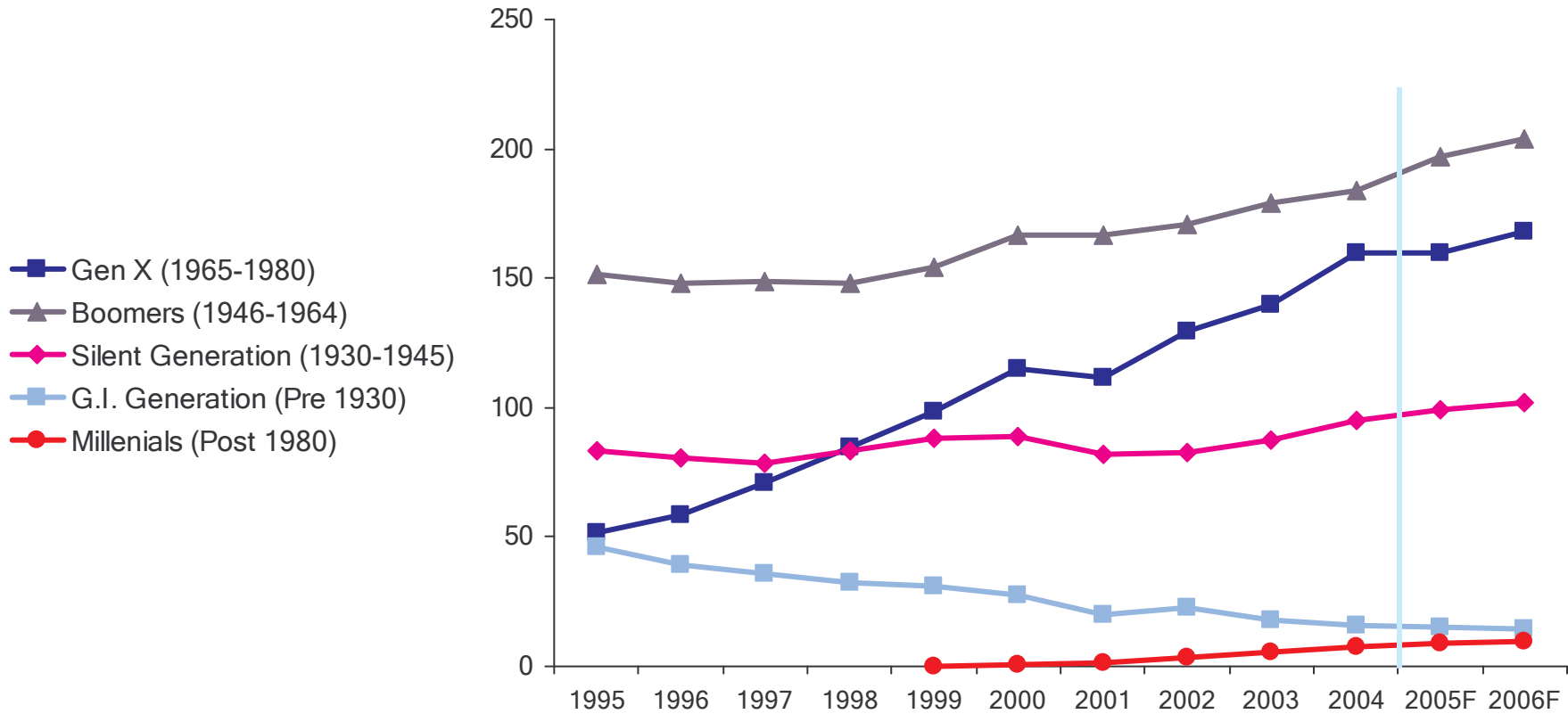
- **GENERATION X**
 - Rapid increase in travel (grown up with confidence and travel)
 - LifeStage: Having children (replacing Boomer Family Travelers)
- **BABY BOOMERS**
 - Leisure travel increasing (modest since 2000)
 - Aging, but with higher incomes - beginning to retire = leisure time
- **MILLENNIALS**
 - Small travel base, but steady growth in travel
 - Young/Lower Income: seek discount air and economy hotels



GEN X GENERATES LEISURE Boomers Still Strong & Retiring With \$



Millions of Domestic Leisure Room-Nights (Paid Hotel) by U.S. Residents



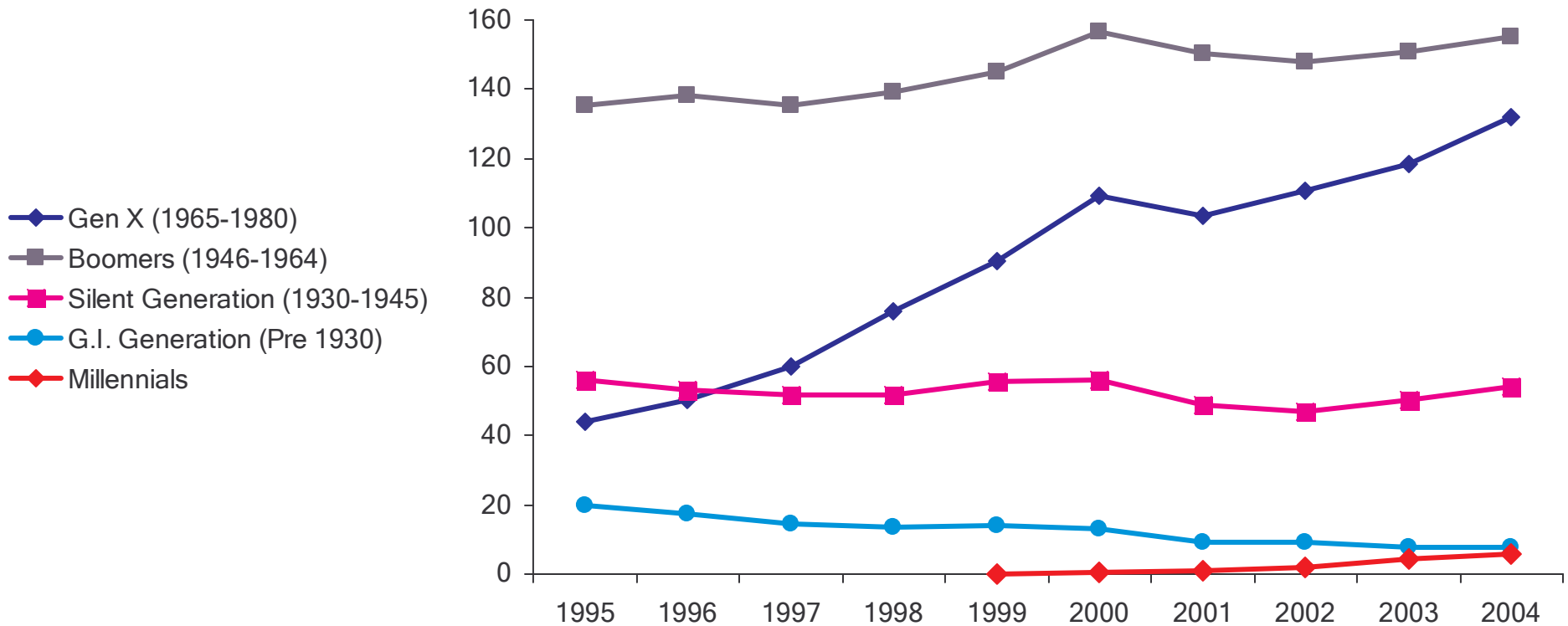


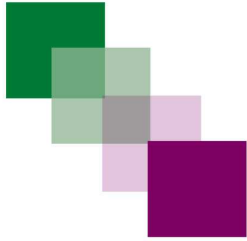
TOTAL HOTEL DOMESTIC SPENDING Increases Most From Gen X



Billions of Domestic Accommodation Spending (Paid Hotel) by U.S. Residents

GEN X \$/PERSON SPENDING ACCELERATING





REALITY CHECK!

TRAVELERS BY LIFE-STAGE



WHAT THEY WANT

BOOMERS V. GEN X

DKS&A Excellence in Travel Intelligence®





Product Preference Differences

(A Taste From Recent Study)



BOOMER PREFERENCES

- More Business & Service Oriented
- More Health & Security
- Extremely Comfortable Bed (Best Target Group)

GENERATION X PREFERENCES

- ✓ More Cutting Edge Electronics & Machines
- ✓ More Free Stuff, e.g. internet, water, extras
- ✓ More Bar & Socializing & Service Kindness
- ✓ Great Bathroom with Jacuzzi



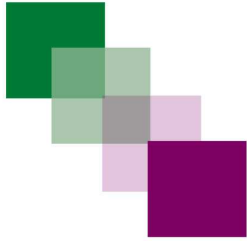
SATISFYING DIFFERENT GUESTS!



Difficult Product Development ROI Choices, Even within Generation:

- **Business V. Leisure Differences**
- **Gender Differences**
- **Travel Party/Group Differences
(Children impact)**

Guest Differences Impact Both Products & Communications!



REALITY CHECK!

TECHNOLOGY USE



DKS&A Excellence in Travel Intelligence®





TECHNOLOGY INCREASES COMPETITION



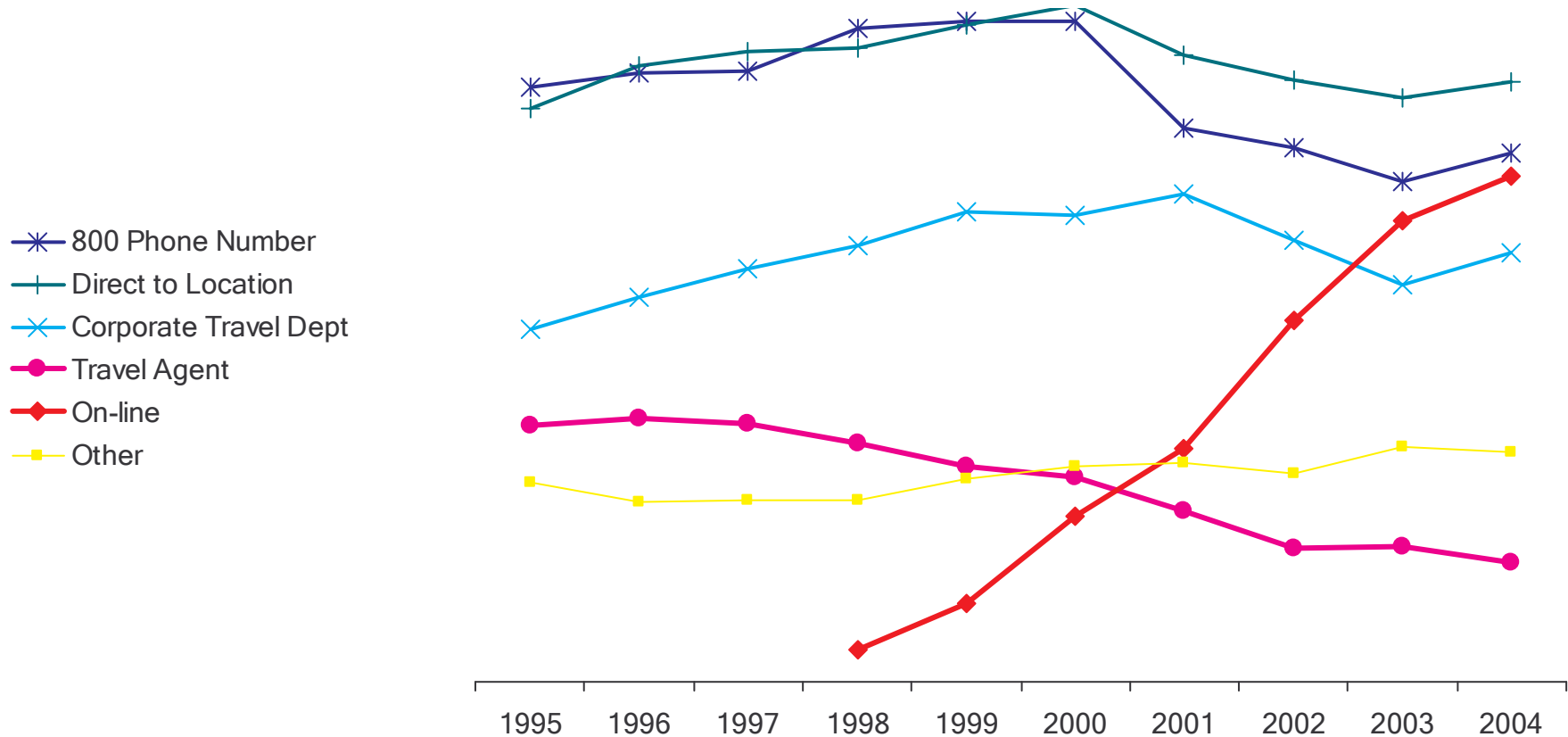
- **INTERNET**
 - Revamps reservation channel mix
 - Is now top travel information source
 - Traveler in control - Value hunting
- **SMALL CHAINS & INDEPENDENTS**
 - Advertising/marketing tool
 - Opportunity to compete with large chains
- **TECHNOLOGY KEEPS US CONNECTED - “DIGITAL HOME”**
 - Interconnected Devices - Continuous Home & Business
 - Telecommuters and remote workers are closing in (VOIP)
 - Replacing some business travel (commuting & travel)



ONLINE DOMESTIC BOOKING GROWTH Travel Agents Losing



ACCOMMODATION RESERVATIONS BY SOURCE Millions of Domestic Total Room-Night (Paid Hotel) by U.S. Residents

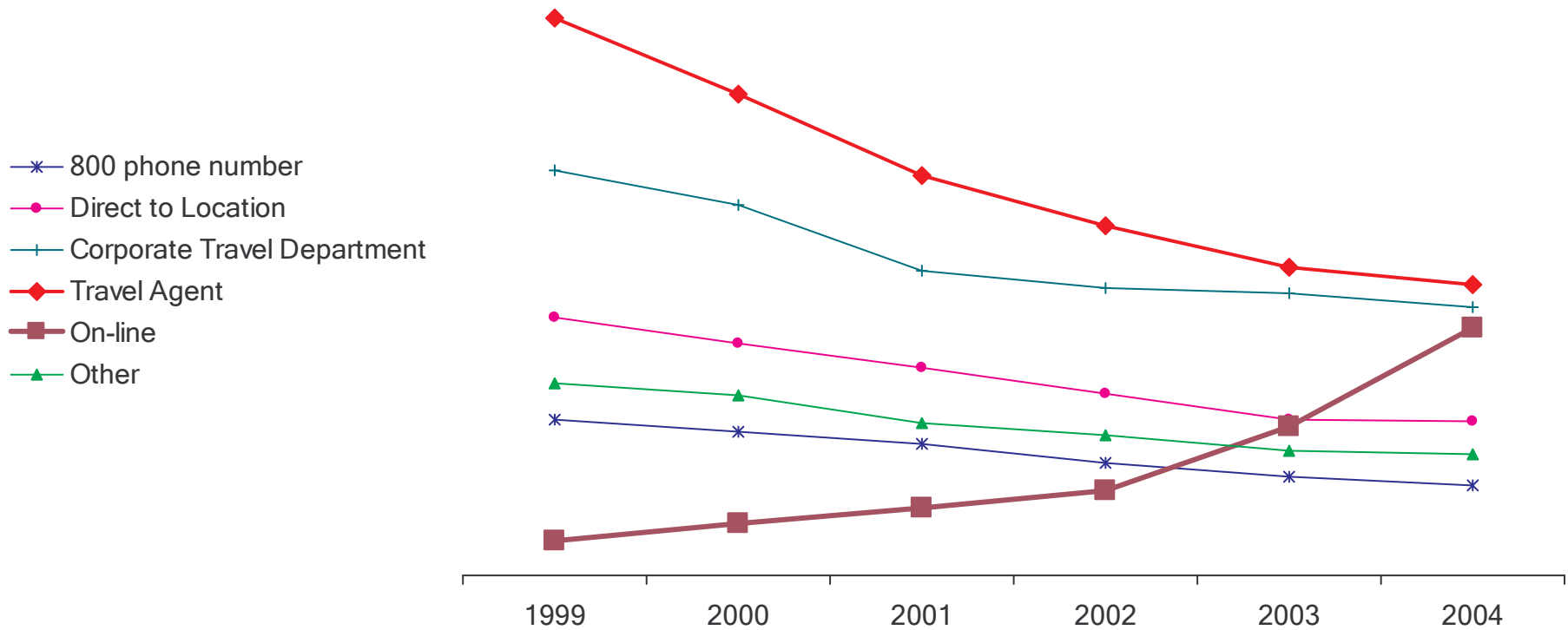


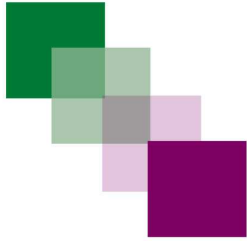


ONLINE INTERNATIONAL RESERVATIONS Only Channel Up In Past Five Years



ACCOMMODATION RESERVATIONS BY SOURCE Millions of International Total Room-Nights (Paid Hotel) by U.S. Residents





REALITY CHECK!

THE FULL, DIRECT, COMPETITIVE MARKET



HOTELS COMPETE BEYOND HOTELS!

DKS&A Excellence in Travel Intelligence®





HOTELS COMPETITIVE ENVIRONMENT



- **PAID ACCOMMODATIONS**
 - *HOTELS = Hotels/All Suites/Resorts*
 - Timeshare
 - Bed & Breakfast
 - Camping/RV
 - Ship/Cruise
 - Corporate Apartment
 - Other's Home/Apt/Condo
- **NON-PAID ACCOMMODATIONS**
 - Friend/Relative's Home
 - "My" Second Home/Apt/Condo
 - Other Non-Paid

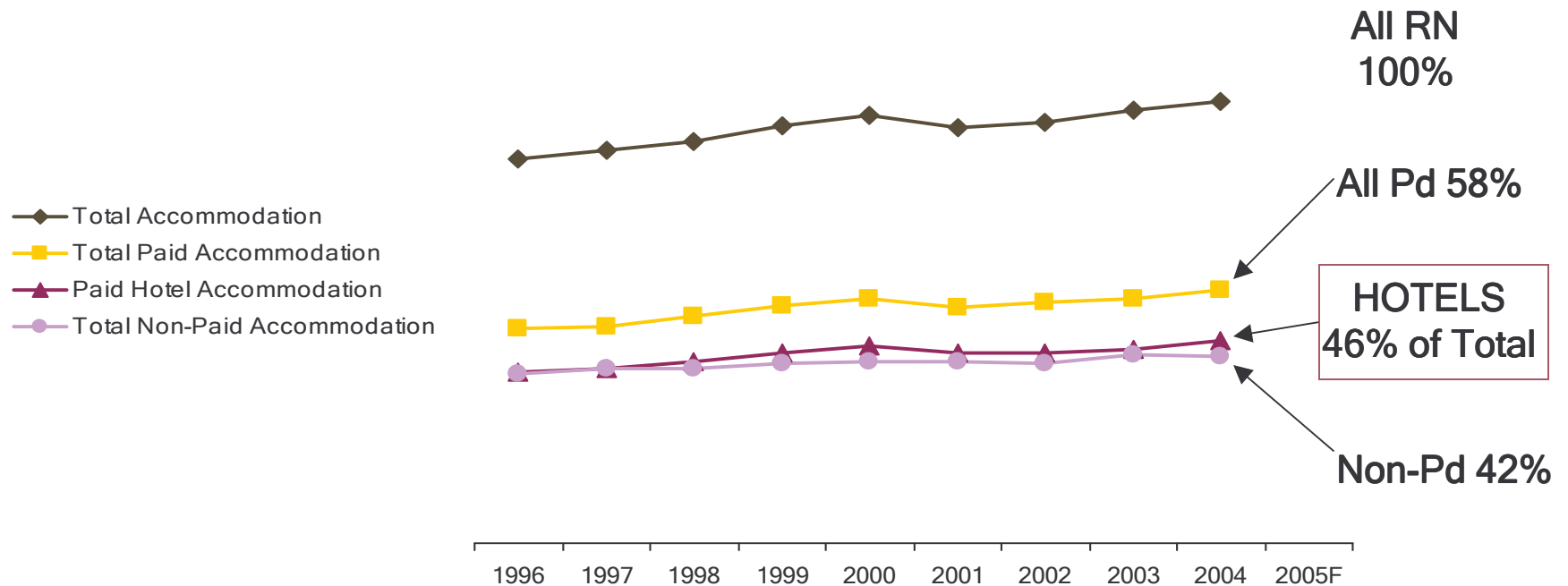


TOTAL ACCOMMODATIONS All Room-nights (Paid & Non-paid)



1996-2005/Millions of Domestic Room-Nights by U.S. Residents

As Economy Improves, Paid Accommodation's Share Increases





COMPETITIVE CONSUMER CHOICES



Competition for Traveler Accommodations is Intense

- All Paid rn stronger as economy improves (58% of total)
- HOTELS are 79.7% of all paid rn, (86% of \$)

BUT...

- Hotels **still below 2000** rn share of total (-0.5 pts)
 - All Paid gained 2.1 share points of total in last year
 - And All Paid now AHEAD OF 2000 (+0.1 share pt)
- PAID **NON-HOTEL** sector is gaining strength over hotels
 - Paid Non-Hotel is +0.3 pts **OVER 2000**

WHY ARE HOTELS NOT GAINING AS FAST?

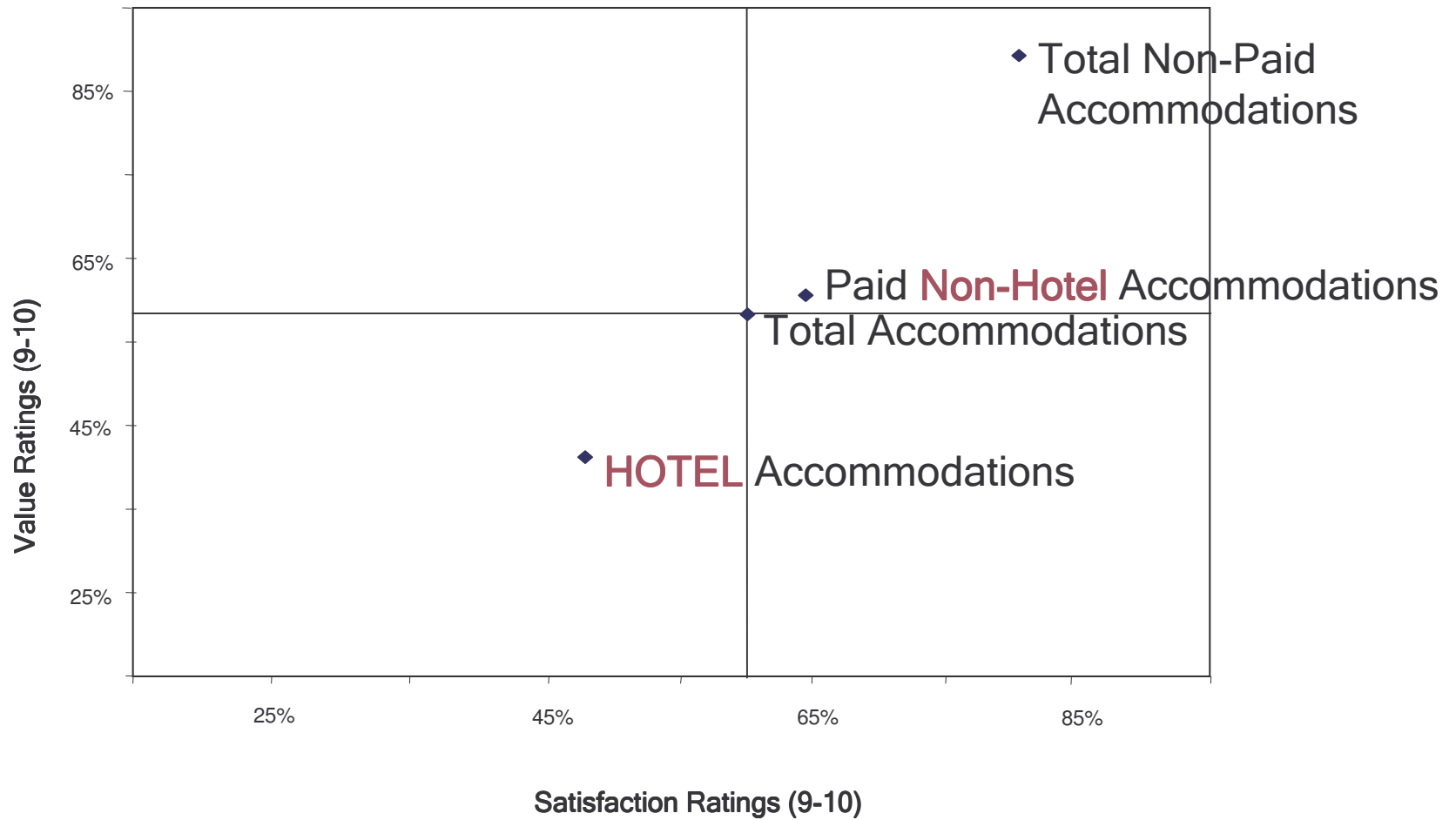


Ratings Of Hotel Accommodations Are Below Other Accommodations

(2004/% of Domestic Room-Nights by U.S. Residents)



High Satisfaction & Value Scores Generate High Rates of Conversion & Return





THE COMPETITION IS TOUGH



- **Hotels** while only 46% of all room-nights, are 80% of all Paid room-nights
- Many Hotels providing experiences that are lower than guests can find in competitive accommodations types

**Hotels Could Get More Business,
But Requires Stronger Competitive
Guest Satisfaction and Value/Quality Experiences!**

CONCLUSIONS



The Lodging Market Looks Good Now, But Mainly Rate Driven

There is **ANGST** Among Us

Different Travel Sectors Having Different Reactions

- **Business is 'RATIONALLY CAUTIOUS'**
 - Group Strength & Trade Down
- **'LEISURE LEADS' - Quasi-Rational "Just Do It"**
 - More upscale
 - Supported by less Americans traveling abroad (Weak \$)
 - Supported by more Int'l travelers to the US (Euro deal)



CONCLUSIONS



WHO is Driving the Market & What Do They Want

The Opportunity:

- Business Groups & Leisure Couples
- **BOOMERS** still just ahead (provide most room-nights)
 - Service Actions, Security, Health and Great Beds
- **GEN X** coming on strong, especially in \$ spending
 - Service Kindness, Social, Technology...

CONCLUSIONS



- Technology driving guest information/choices home & abroad
- Guest Accommodation Choices beyond Hotels are significant & strong
 - Hotels only 46% of all room-nights, but 80% of paid
 - But paid Non-Hotel Alternatives show stronger value & satisfaction

REALITY CHECK!

Lets Look Beyond Rate

To Satisfying Guests at a Value & Service Level
That Keeps them in our hotels...



Thank You!



www.DKSA.com

