

# The austere traveller: the effect of corporate cutbacks on hotels

A report from the Economist Intelligence Unit

**Executive Summary**

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## Introduction

- The expectations of business travellers are changing. Economic pressures mean that executives now care less about luxury and instead are concentrating on whether hotels deliver on the basics.
- The downturn will lead to fewer, shorter business trips and executives expect to downgrade hotels. Travel buyers will take advantage of this fall in demand to extract the best possible room rates.
- Business travellers will be less likely to take their chances with the unknown, preferring trusted brands.
- It is a time of real opportunity for budget hotels. But they will need to compete on more than price. Despite the downturn, executives still expect a minimum level of service.

In tough economic times, it may be assumed that executives' need for a bit of pampering to take their minds off the stresses of corporate life would increase. But hotels that think the way to attract flustered businesspeople is to up the luxury will be wasting their money, according to our survey of senior executives.

Welcome to the age of the austere traveller, where business guests care little about whether the hotel restaurant has a Michelin star or the gym has the latest crosstrainer, and a lot about the basics—good WiFi access, an easy check-in and a quiet room. It is an age where business is conducted within the confines of the hotel bedroom using remote office software, rather than in plush hotel business centres; and where the majority of executives value convenience over comfort. Perhaps Richard Branson best summed up today's sober attitude when he said at the opening shindig of the world's most expensive hotel, the US\$1.5bn Atlantis in Dubai: "It'll be the last party of the decade, probably."

Unsurprisingly, our survey has also found that the downturn is leading to corporate travel budgets coming under greater scrutiny. Pressure is coming not only from CFOs looking to cut cost from their bottom lines, but also from shareholders keen to address criticisms that corporate culture had become excessive before the downturn.



As a result, executives believe that they will travel less on business in the next 12 months—many significantly less—with executives based in Asia-Pacific and North America likely to see the biggest cutbacks in their travel plans. In contrast, over one-half of those based in Europe believe that the number of their trips will be unchanged. But this will not be the only hardship with which the hotel sector will have to deal. Alongside fewer trips, business travel will also get shorter in duration and, in many cases, companies will expect executives to downgrade from business-class cabins and five-star hotels.

It should not come as a shock that in the current climate hotel guests will become more price-sensitive. But it is also the case that executives will be more likely to revert to trusted brands. A smaller hotel budget means taking less of a risk with the unknown: out goes the cultural or luxury leisure experience; better, it seems, to go for a hotel with a uniform level of service across locations. This is particularly true for respondents based in North America and Asia-Pacific.

In keeping with the new mood of the times, it is the budget chains that have a good opportunity to expand their market share. But competing on price alone will not be enough. Despite austere times, executives are clear that they expect a minimum level of service.



## About the research

**T**he austere traveller: the effect of corporate cutbacks on hotels is an Economist Intelligence Unit executive summary, sponsored by Amadeus.

The Economist Intelligence Unit surveyed 354 executives worldwide in November and December 2008 to obtain their views on how the global economic downturn will feed into corporate travel plans, with particular focus on the impact on the hotel sector. All of the executives surveyed travel at least once a quarter for business, with 37% travelling more than once a month and 7% travelling weekly. Forty-four percent of the executives in this survey were C-Level/board level, with the remaining senior executives and other managers. Geographically, respondents were split as follows: North America 29%, Europe 29%, Asia-Pacific 29% and Rest of the World 13%.

Amadeus and the Economist Intelligence Unit jointly developed the survey. The Economist Intelligence Unit was responsible for writing and editing the executive summary. Our thanks are due to the survey respondents for their time and insights.

NB: Please note that percentages in the tables in this summary may not always add up to 100%. This may be either due to rounding, or because survey respondents were offered the option of choosing more than one option per question.



## Key findings

### Fewer, cheaper, shorter

**A**s the economy in much of the world goes into recession, it stands to reason that hotels will find their operating environment tougher. Close to one-half (47%) of the executives in our survey say that they plan to take fewer trips over the next 12 months because of the economic downturn. Of particular concern for hotels is that a sizeable proportion of these (16%) believe that economic woe will mean a drop of over 30% in the number of trips undertaken.

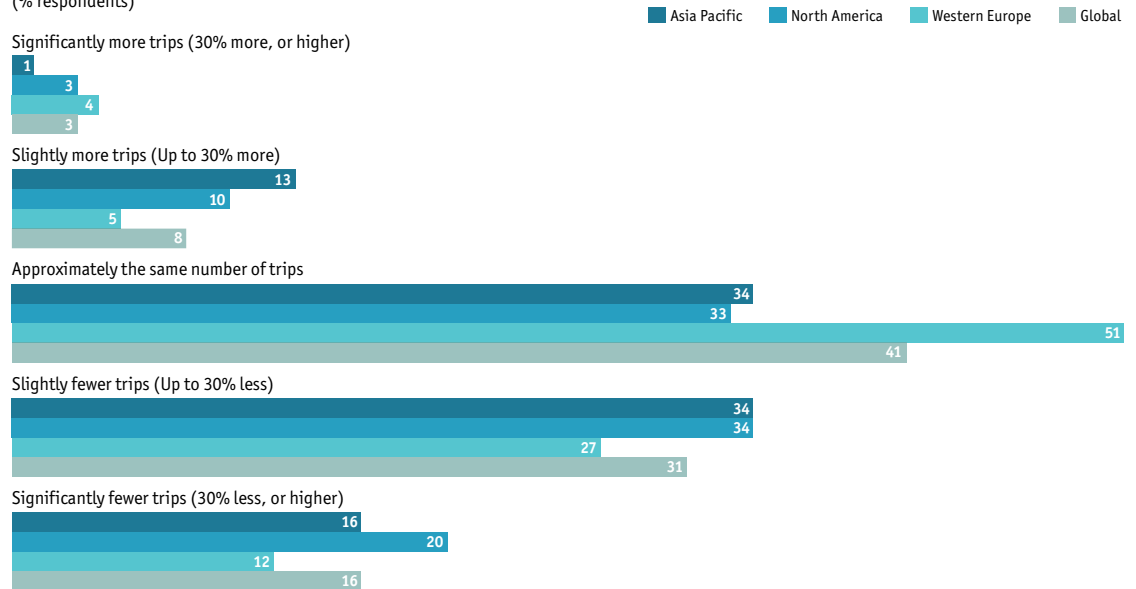
Travel budgets are under pressure worldwide, and companies are pursuing various strategies to keep them under control. The most popular has been to cut out travel for internal meetings—an approach that has been adopted by 46% of respondents' companies. But it is not just a drop in the frequency of trips that will concern hotels. Even where trips are undertaken, business travellers will be asked to economise. For business class read economy; for five-star read three. Over one-quarter (28%) of executives surveyed expect their company to downgrade them from five- and four-star establishments. Keenest of all to cut out the luxury will be Asian business travellers—33% of executives from that region expect to be downgraded. (Hotels can at least console themselves that they are not being targeted as much as airlines—36% of executives expect to start taking an unfamiliar right turn into an airline's economy class over the next 12 months.)

Another strategy that companies may look to follow is convening larger, centralised meetings in regional hubs, rather than sending out individuals into provincial offices. This may be good news for hotels in cities such as London, New York and Hong Kong, where supply already struggles to keep pace with demand, but bad news for everyone else. Close to half of respondents agree that their company would follow this model. Other popular measures to curb travel expenditure will include requiring trips to be signed off by a more senior manager, cited by 37% of respondents; cutting back on travel for junior staff (33%); and only allowing travel that is linked to new business generation (24%). If there



**Compared to the last 12 months will a global economic downturn mean you are likely to take more or fewer business trips in the next year?**

(% respondents)



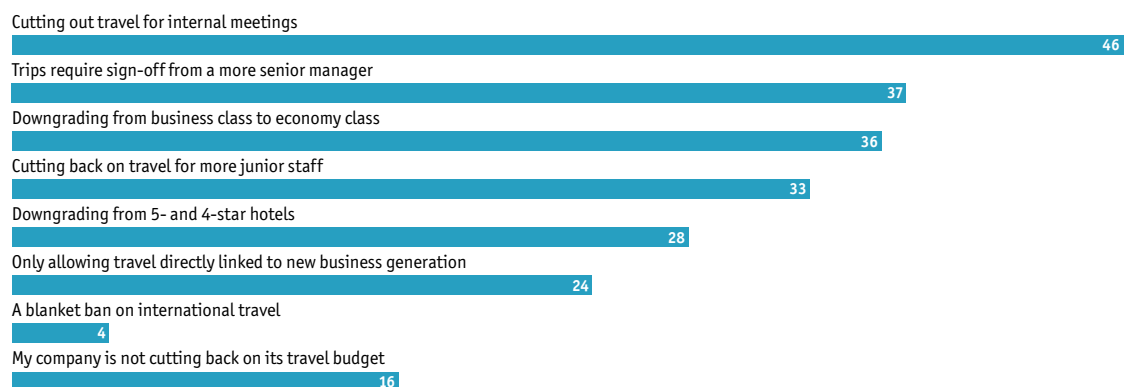
is a silver lining for the hotel sector, it is that very few businesses indeed are looking to implement a blanket ban on international travel.

As if having to contend with fewer, more parsimonious travellers were not pain enough for hotels, the executives surveyed also predict that business trips will become slightly shorter. Over the past 12 months, the average length of stay for 11% of executives was one night. Over the next 12 months, this figure is expected to rise to 16%.

Unsurprisingly, companies, overwhelmingly, see pressure within their organisation to reduce costs as the primary reason to cut back on hotel spending. But this will not be the only impact on hotels. Expensive business trips are increasingly being shunned as companies use collaborative technologies, such as video-conferencing, cited by 41% of executives as a factor that would encourage them to curtail travel over the next year.

**If your company is cutting back on its travel budget, how are these cuts being made?**

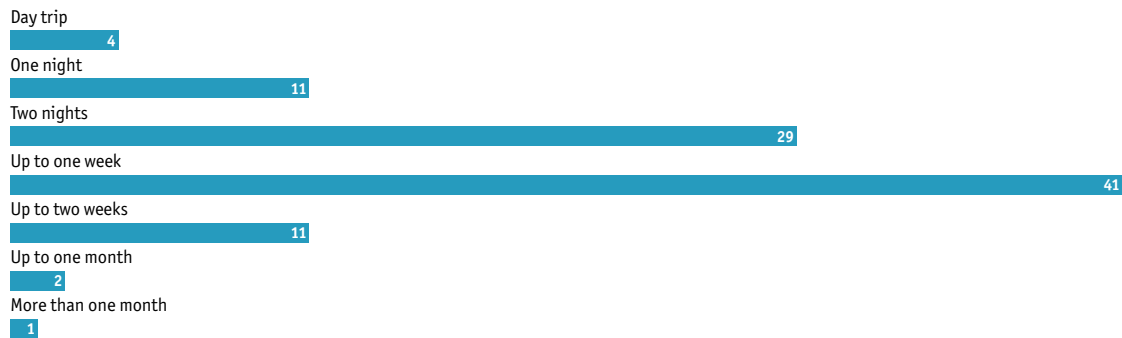
(% respondents)





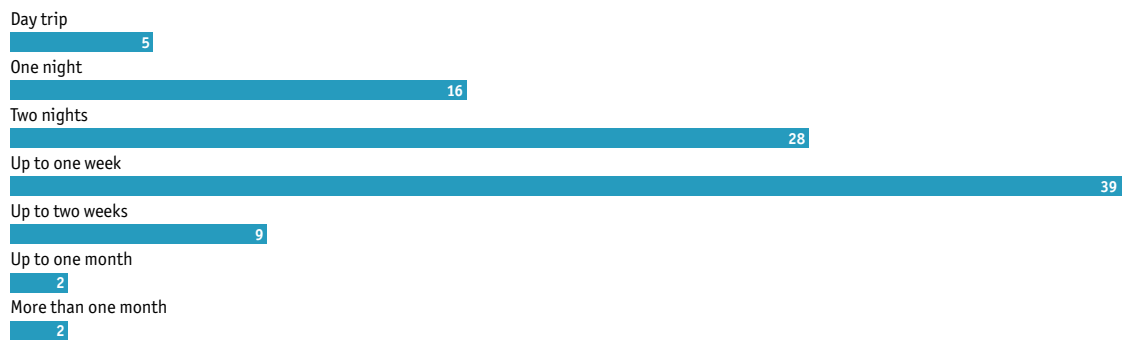
### What would you estimate to have been the average length of stay per business trip over the last 12 months?

(% respondents)



### What do you expect to be the average length of stay per business trip over the next 12 months?

(% respondents)

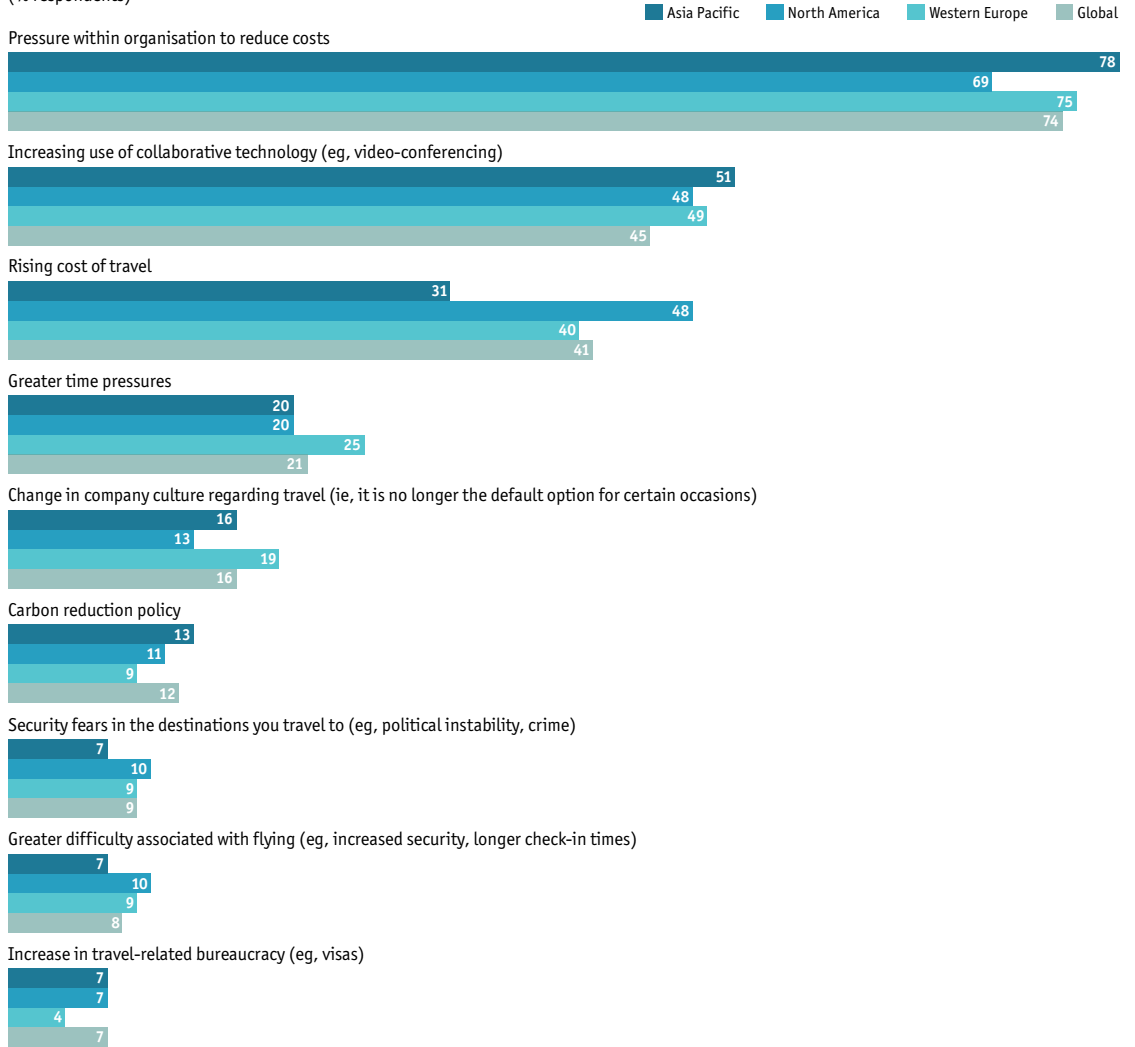


But the research is clear that in order for hotels to continue to attract business travellers, price will be of the essence. Forty-five percent of our executives agree that room rates would be “absolutely decisive” to their choice of hotel in the coming year, with a further 36% ranking it an important consideration. Furthermore, companies won’t be shy in pushing home an advantage as hotels fight for fewer customers. Most respondents say that their company would use the economic downturn to extract the best possible rates from hotels. Interestingly, however, although this approach will be almost uniformly adopted, there are three exceptions. Visitors to Japan, the UK and US are much less likely to barter down hotel rates than elsewhere in the world.



**Are any of the following factors likely to encourage your company to curtail business travel in the next year?**

(% respondents)





## Sober attitudes

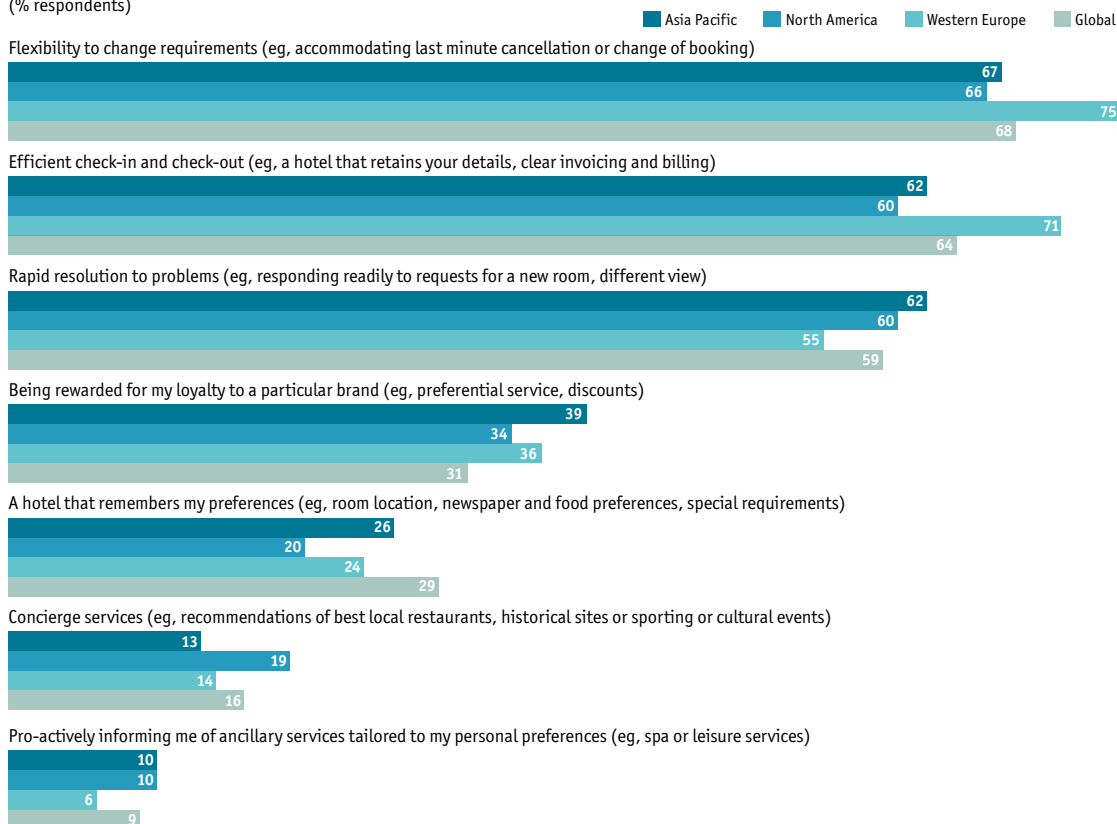
Perhaps most interesting is the effect that this belt-tightening will have on the type of hotel that executives will choose. With less money to spend on exclusive hotels, most business travellers will revert to the tried and trusted. A huge proportion (61%) of executives cite a dependable brand, with uniform levels of service across locations, as something that will be important to them over the coming year. Brand is particularly important to executives in the Asia-Pacific region and in North America. West Europeans (53%) are relatively less likely to stick with what they know. In contrast, very few executives will feel the desire to stay somewhere that offers a cultural experience of the destination country.

But executives are realistic about what this means in terms of service. They are willing to accept less luxury for fewer dollars. Our research suggests that hotels that bolster their high-end, ancillary products in order to gain an advantage, or install fancy business centres or meeting facilities, will be wasting their money—at least when it comes to attracting business travellers.

Instead, executives will be focusing on whether hotel chains do the simple things well. For instance, fine dining or ancillary products such as spas and golf courses are considered far less important to the choice of a hotel than, for example, good WiFi connectivity or a seamless booking process. However, there are regional differences. Just a solitary executive from Western Europe says that a good range of ancillary products would be decisive in his choice of a hotel, compared with 5% of executives in the Asia-Pacific region.

### Which of the following would you consider to be the best indicator that you are receiving good service at a hotel?

(% respondents)





When it comes to what is considered good service, again getting the simple things right is a must. An efficient check-in (68%), flexibility to change requirements, such as a last-minute cancellation (64%), and a rapid resolution to problems (59%) are considered the best indicators of good service. In comparison, anything with a whiff of luxury—such as concierge services—is considered far less of an indicator. Even being rewarded for loyalty to the brand falls way down the list. But there are slight regional variations. West European executives, for example, are more likely to be impressed by a flexible check-in, while Asians are keener than others to have their loyalty rewarded.

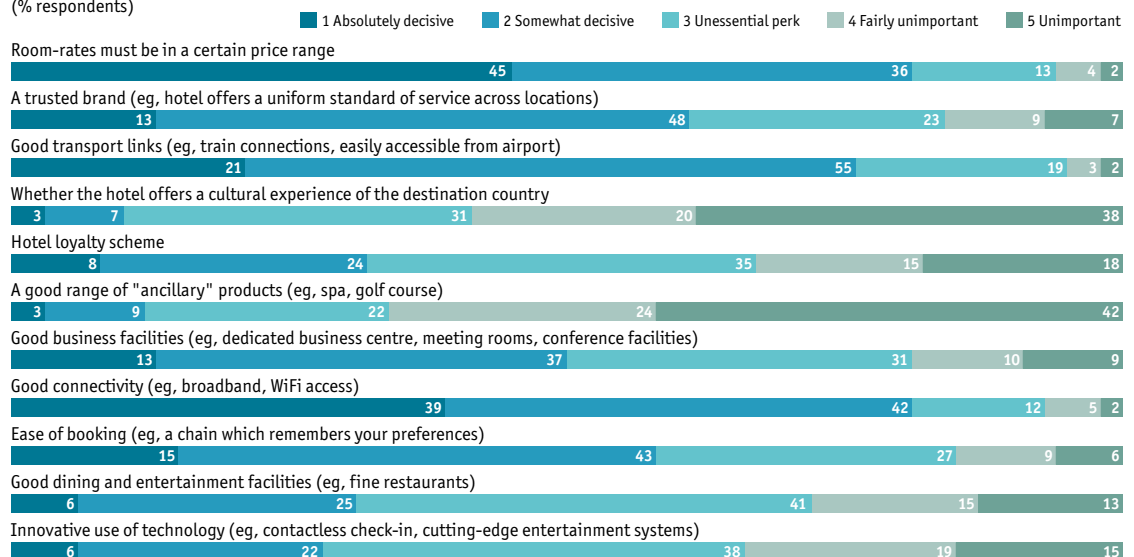
As if to underline the all-pervading sense of austerity, well over one-half (54%) of respondents say they value convenience over comfort, few (19%) like to travel on business trips with their families and less than one-half (43%) consider extending their business breaks to include some leisure time. Again, there are subtle differences across the regions, with North Americans the most likely to travel with their families, and North Americans most likely to take in a holiday at the end of the trip.

## Staying within a budget

**O**f all players in the hotel sector, budget establishments are particularly well placed to treat the downturn as an opportunity. Confirmation of this is the recent emergence of high-profile advertising campaigns from budget hotel chains in publications such as *The Economist* and *Financial Times*—where Travelodge now jostles for attention next to upmarket chains such as Shangri-La and Mandarin Oriental. Indeed, 44% of our survey panel agree that putting up executives in budget hotels is a smart move in the current climate. In comparison, 29% feel it is important for the prestige of their company to stay at the best hotels. However, top-end hotels in London, Milan or Paris might want to take heed: the number who equate the prestige of the company to the prestige of the hotel they are staying in drops alarmingly in Western Europe—to just 14%.

### Please rate the extent to which the following factors will positively influence your choice of a specific hotel for a business trip in the coming year.

(% respondents)

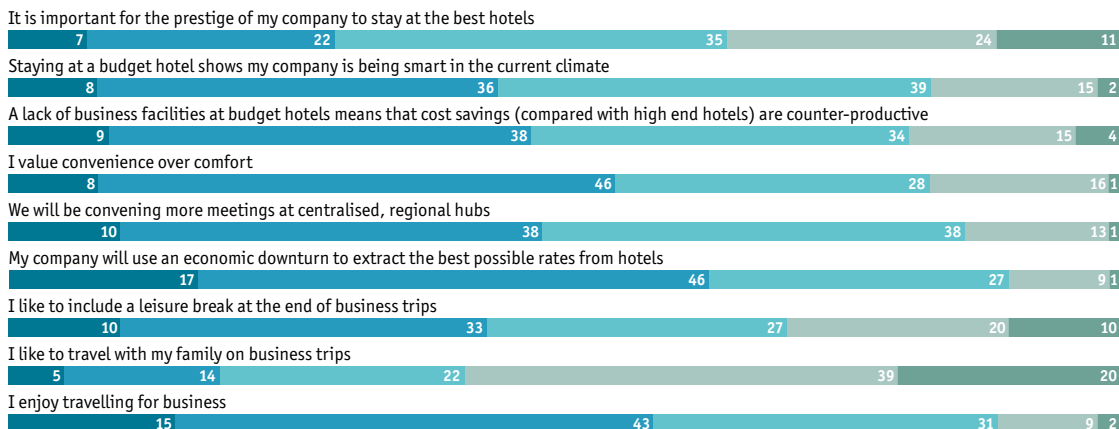




**Do you agree or disagree with the following statements?**

(% respondents)

Strongly agree Agree Neither agree nor disagree Disagree Strongly disagree



But, even in the downturn, for budget hotels to be successful they will need to compete on more than just price. While executives are actively seeking cheaper alternatives, they are clear about the minimum level of service that they expect from a low-cost alternative. Most important of all is Internet connectivity. Over three-quarters say that an inability to log on in their room would stop them from staying at a budget hotel. Good transport links, a quiet room and a central location are also considered essentials.

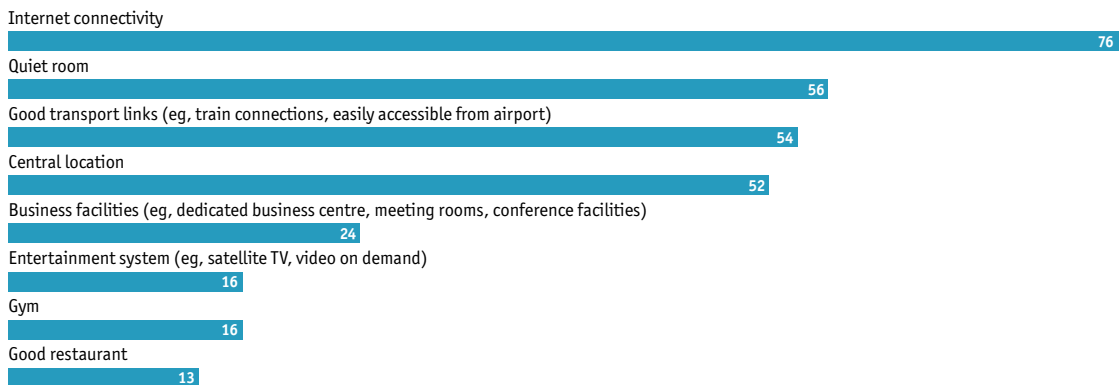
What is not apparently considered as important—in either budget or full-service hotels—is the quality of the business facilities. Only 24% of respondents say that the lack of such facilities as a dedicated business centre would stop them from staying at a budget hotel. At higher-end hotels the figure was, interestingly, even smaller, at 13%, although a further 37% cite them as somewhat important.

Obviously, in the age of Skype, easily accessible e-mails and remote office software, the only thing the modern business traveller really requires to be able to work effectively from a hotel is good Internet connectivity.

**Would the absence of any of the following stop you from staying at a budget hotel on a business trip?**

Please select all that apply.

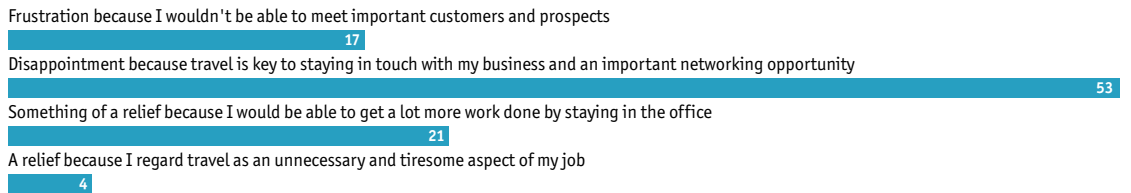
(% respondents)





**What would your reaction be if you had to travel less for business due to a downturn?**

(% respondents)



That there are relatively cost-effective ways for hotels to continue to appeal to business travellers in the lean times should be of some comfort to the sector. But, in an age of increasing time pressures, security fears and greater bureaucracy—when the conventional wisdom sometimes seems to be that business travel has become something of a chore—perhaps the most heartening finding of the research is that executives still enjoy and see the benefit of travelling for work. Most of our executives either “agree” or “strongly agree” that they enjoy travelling for business. In addition, 70% agree that the expected cutback in travel would be frustrating, either because they would lose out on meeting important clients or prospects, or would be less able to stay in touch with their businesses. All of which augers well for a return to more normal levels of business travel in years to come. Whether corporations will be able to kick their enthusiasm for more modest accommodation, however, is another matter entirely. It just might be that business use of budget hotels will remain part of the mainstream in the way that budget airlines did following the last downturn. Austerity may be here to stay.

Whilst every effort has been taken to verify the accuracy of this information, neither The Economist Intelligence Unit Ltd. nor the sponsor of this report can accept any responsibility or liability for reliance by any person on this white paper or any of the information, opinions or conclusions set out in the white paper.

LONDON

26 Red Lion Square

London

WC1R 4HQ

United Kingdom

Tel: (44.20) 7576 8000

Fax: (44.20) 7576 8476

E-mail: london@eiu.com

NEW YORK

111 West 57th Street

New York

NY 10019

United States

Tel: (1.212) 554 0600

Fax: (1.212) 586 1181/2

E-mail: newyork@eiu.com

HONG KONG

6001, Central Plaza

18 Harbour Road

Wanchai

Hong Kong

Tel: (852) 2585 3888

Fax: (852) 2802 7638

E-mail: hongkong@eiu.com