

Finding Rationality in an Irrational World: The Economics of Successful Hotel Negotiations

Isaac Collazo, Vice President, Performance Strategy & Planning, InterContinental Hotels Group (IHG)

Maria Lowry, Area Director of Revenue Management, Americas-Eastern Region, Marriott International

Michael Sacks, Associate Professor in the Practice of Organization and Management, Emory University

Agenda

- A Review Of The Economy and Lodging Industry
- The View From A Revenue Management Perspective
- Strategies For Successful Negotiations
- Panel Discussion

A Review Of The Economy And Lodging Industry

Isaac Collazo

Vice President, Performance Strategy & Planning
InterContinental Hotels Group (IHG)

The economy and industry are being dominated by the three Cs.

Chaos

- The euro crisis has resulted in widespread economic forecast downgrades.
- A resolution will remain elusive.

Cautious

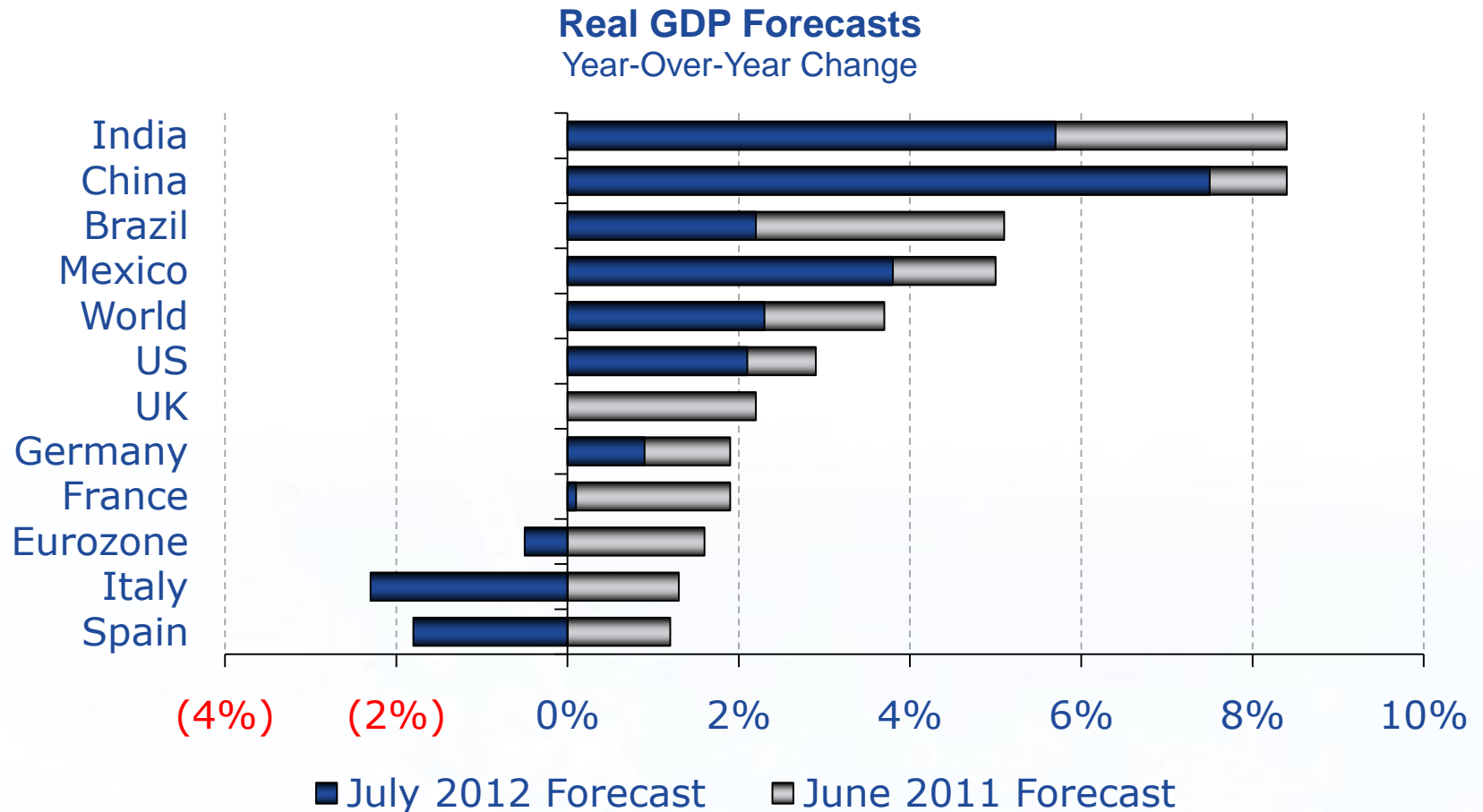
- New hiring plans remain mostly on hold as few companies are willing to take any risks given the economic uncertainty.

Corporates

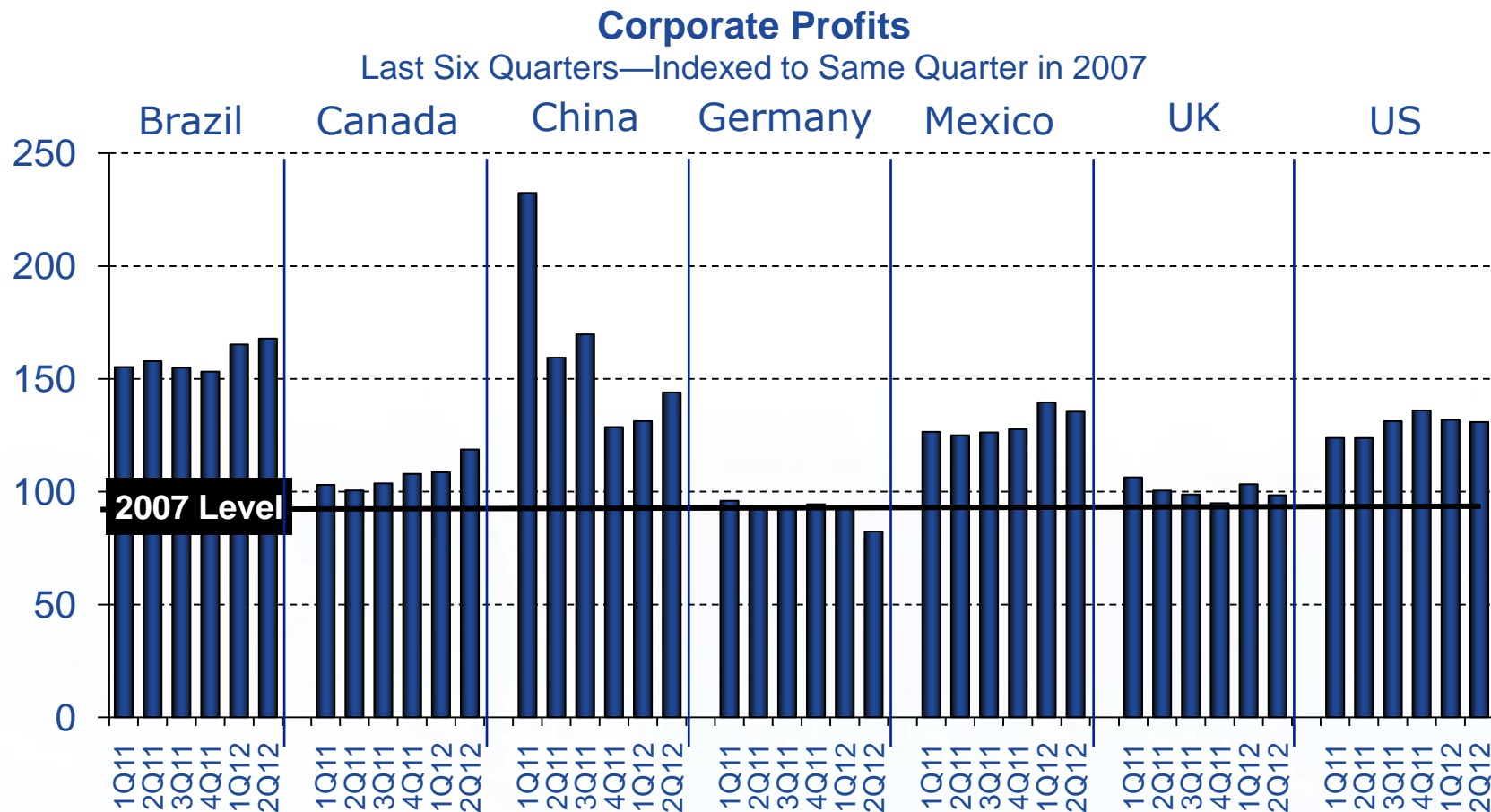
- Healthy balance sheets and solid profits have driven travel demand over the past year or so.



GDP forecasts are being revised downward.

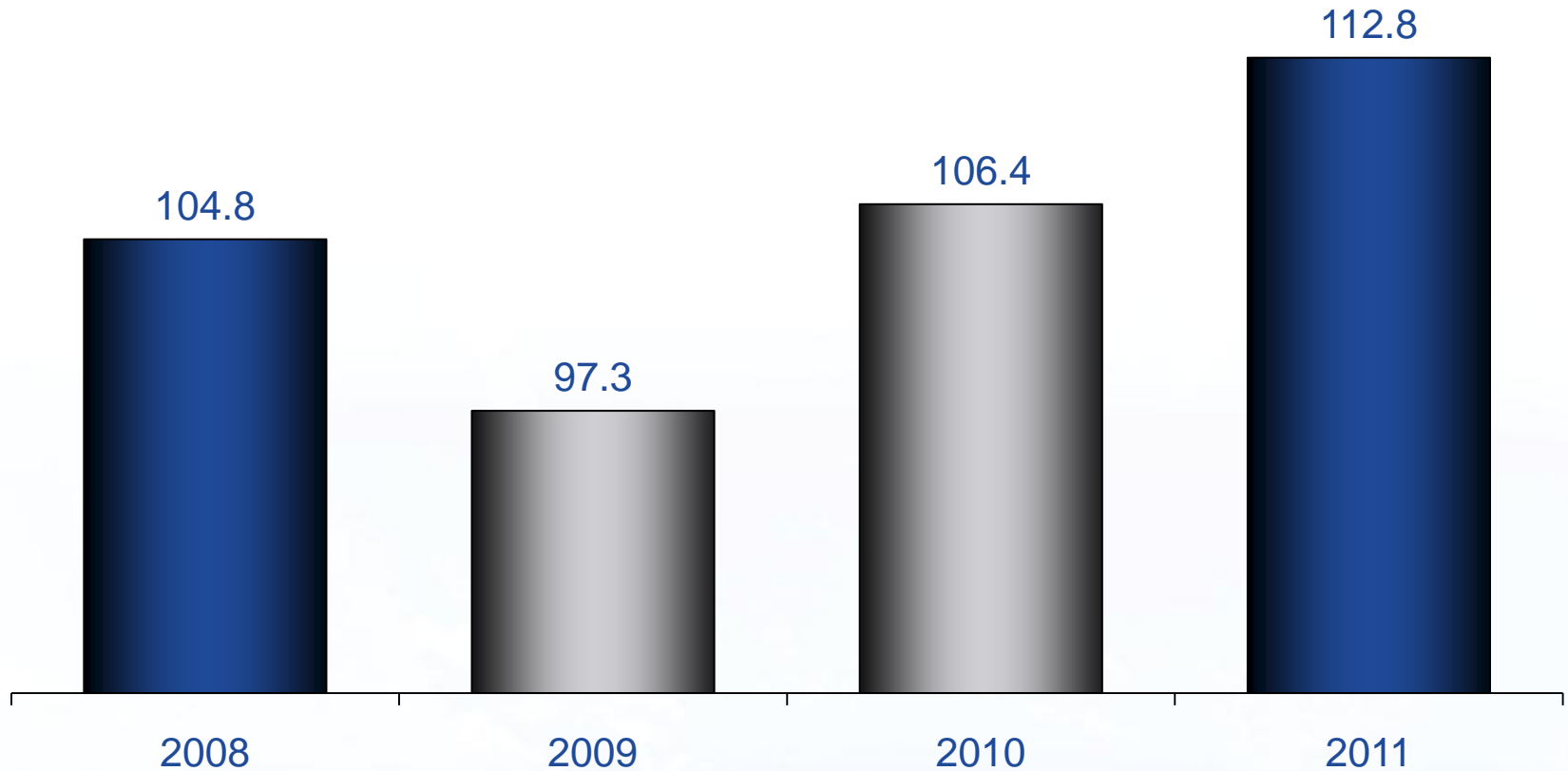


But, corporate profits are at an all-time high as are corporate cash levels.



As a result, transient business trips have recovered while group remains curtailed.

Global International Business Trips
2007 Index



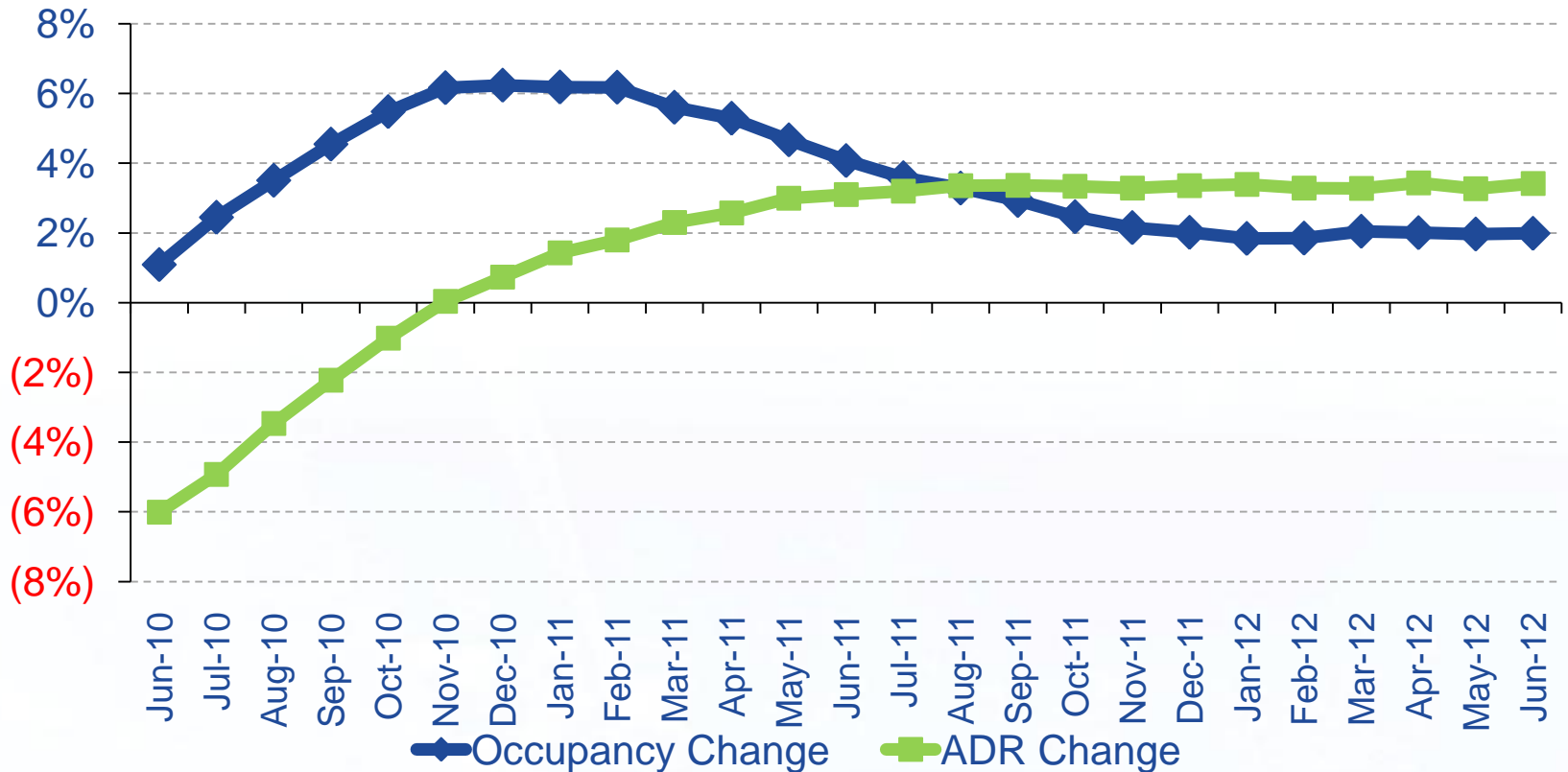
Placing the lodging industry in a transition.



Increasingly, the lodging industry is being driven by ADR growth.

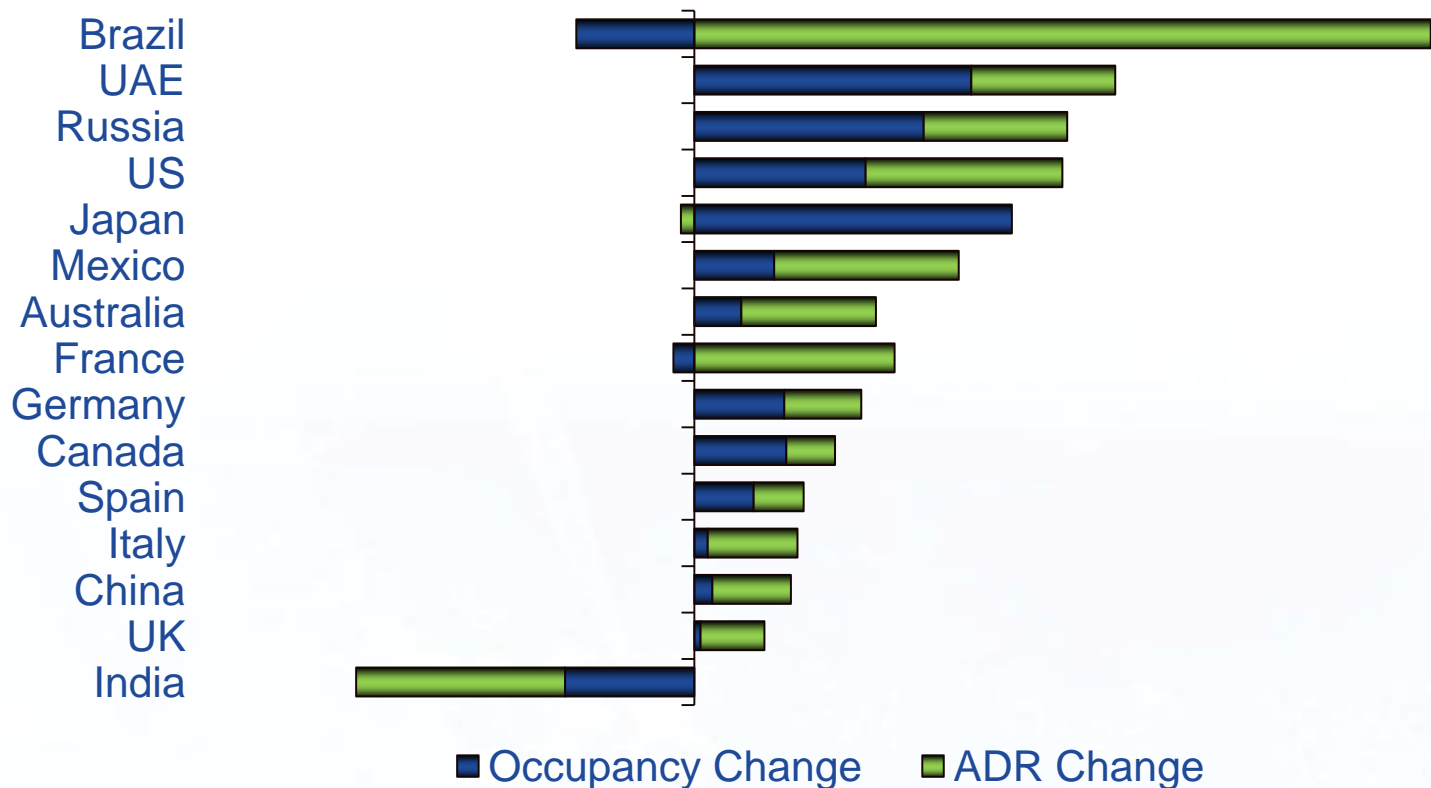
Global Industry Occupancy and ADR Change

12-Mth Average—Year-Over-Year Change—Constant Sample—Constant USD



ADR gains are also generally driving growth in most key markets.

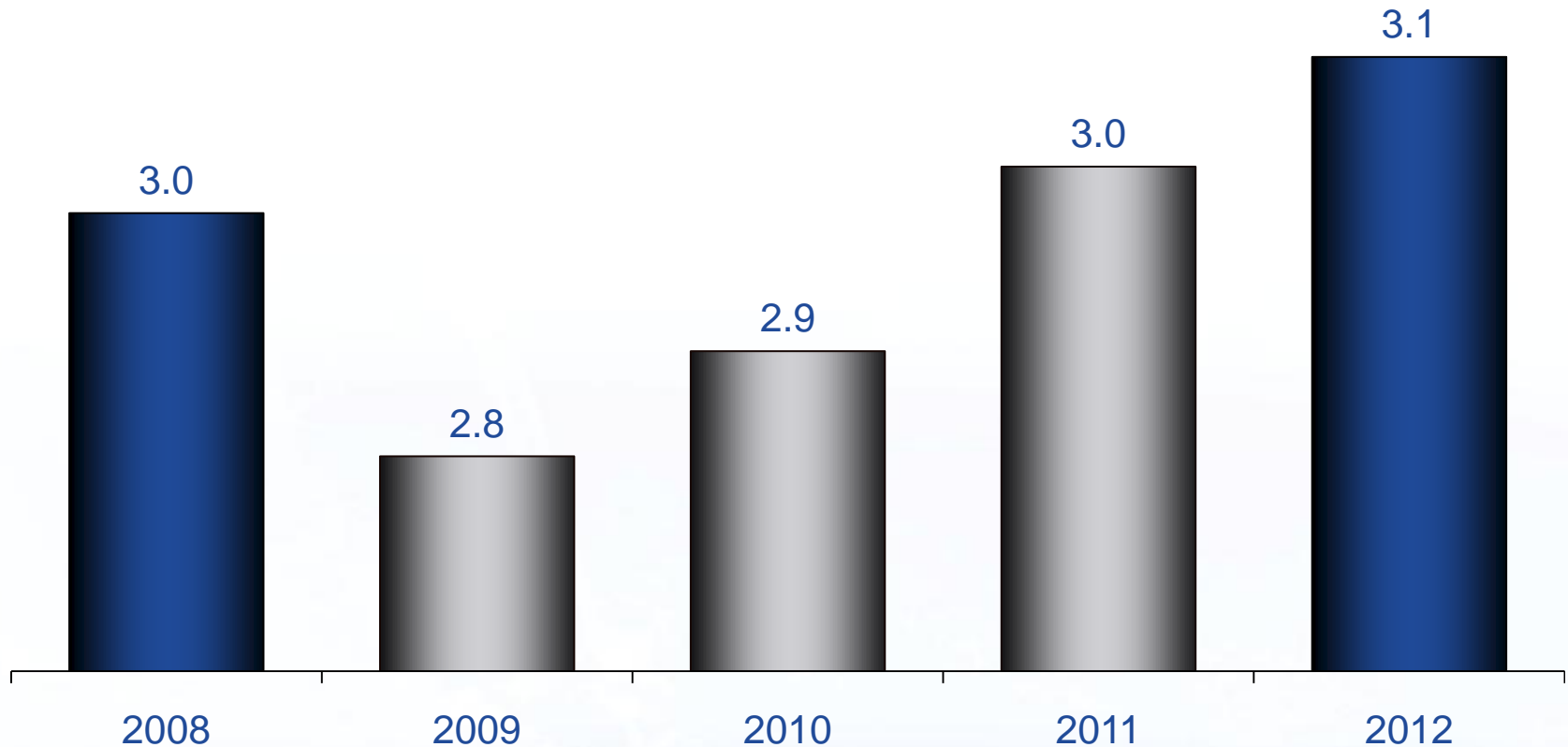
Industry Occupancy & ADR Change By Key Countries
12-Mths Ending June 2012—Year-Over-Year Change—Constant USD



While growth is slowing, global demand is at a record level.

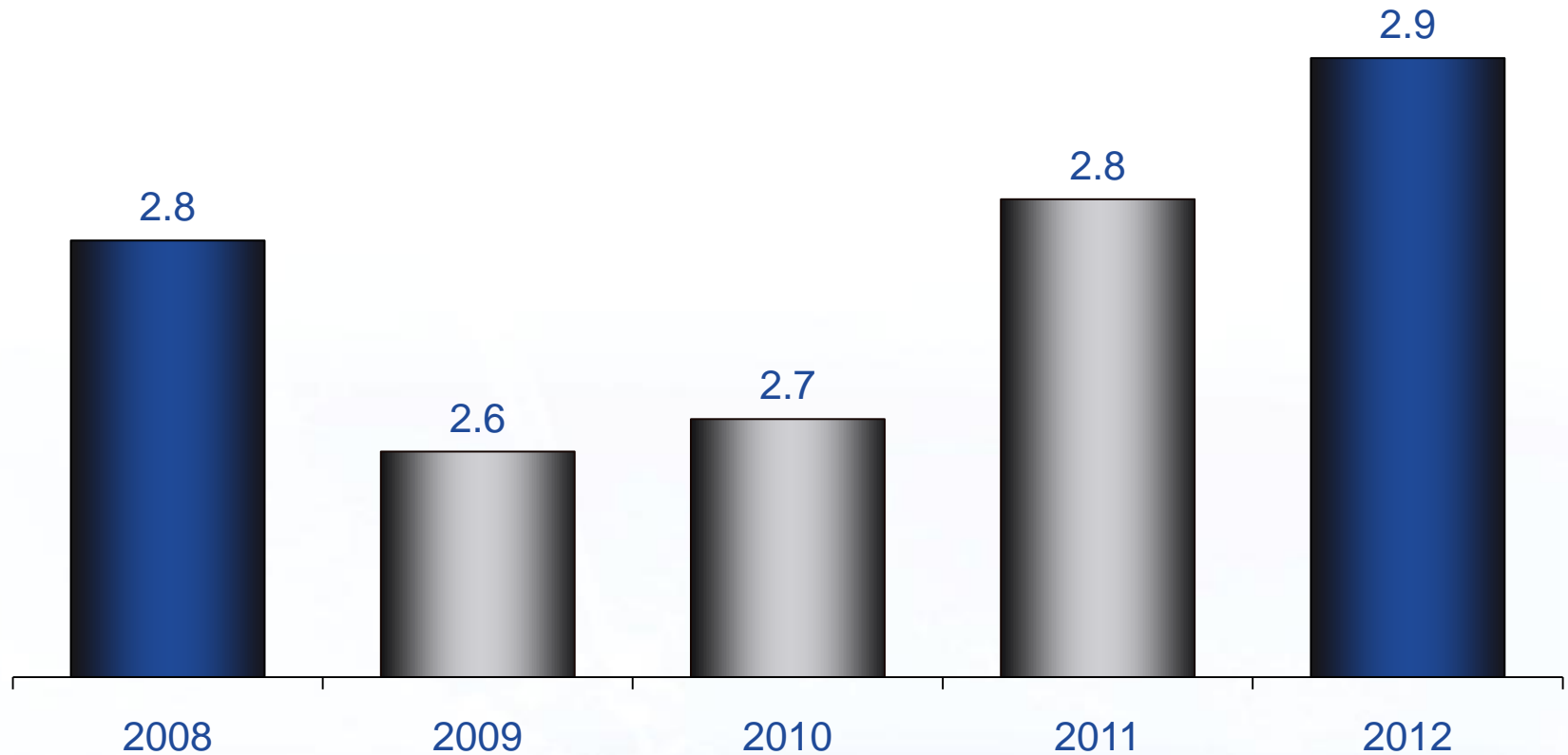
Global Industry Room Demand

12-Months Ending June 2012—In Billions—Constant Sample (100 Countries)



US demand is also at a record high. Nearly 3 million rooms are being sold everyday.

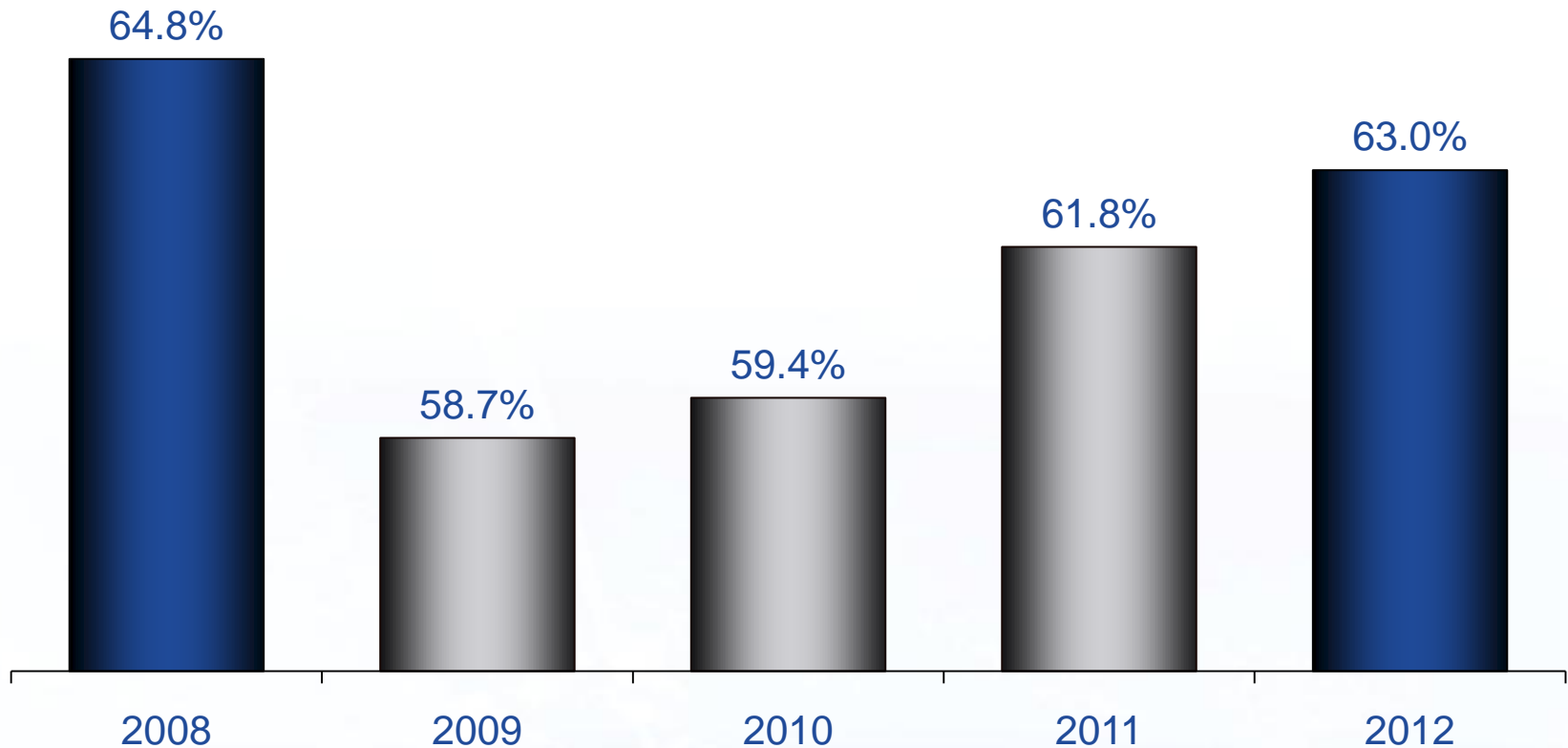
US Average Daily Room Demand
12-Months Ending June 2012—In Millions



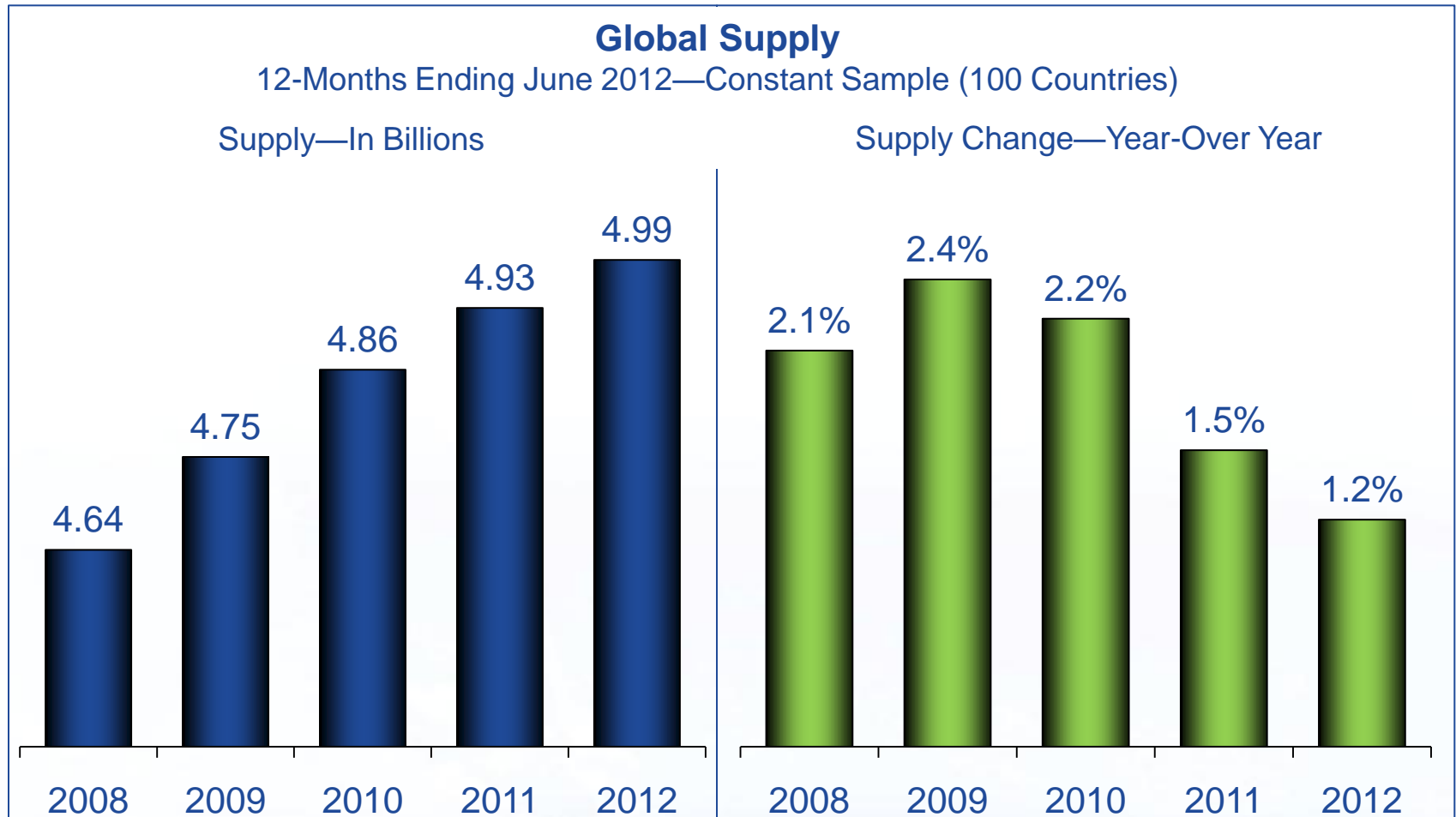
Occupancy, however, remains below its previous high.

Global Occupancy

12-Months Ending June 2012—Constant Sample (100 Countries)

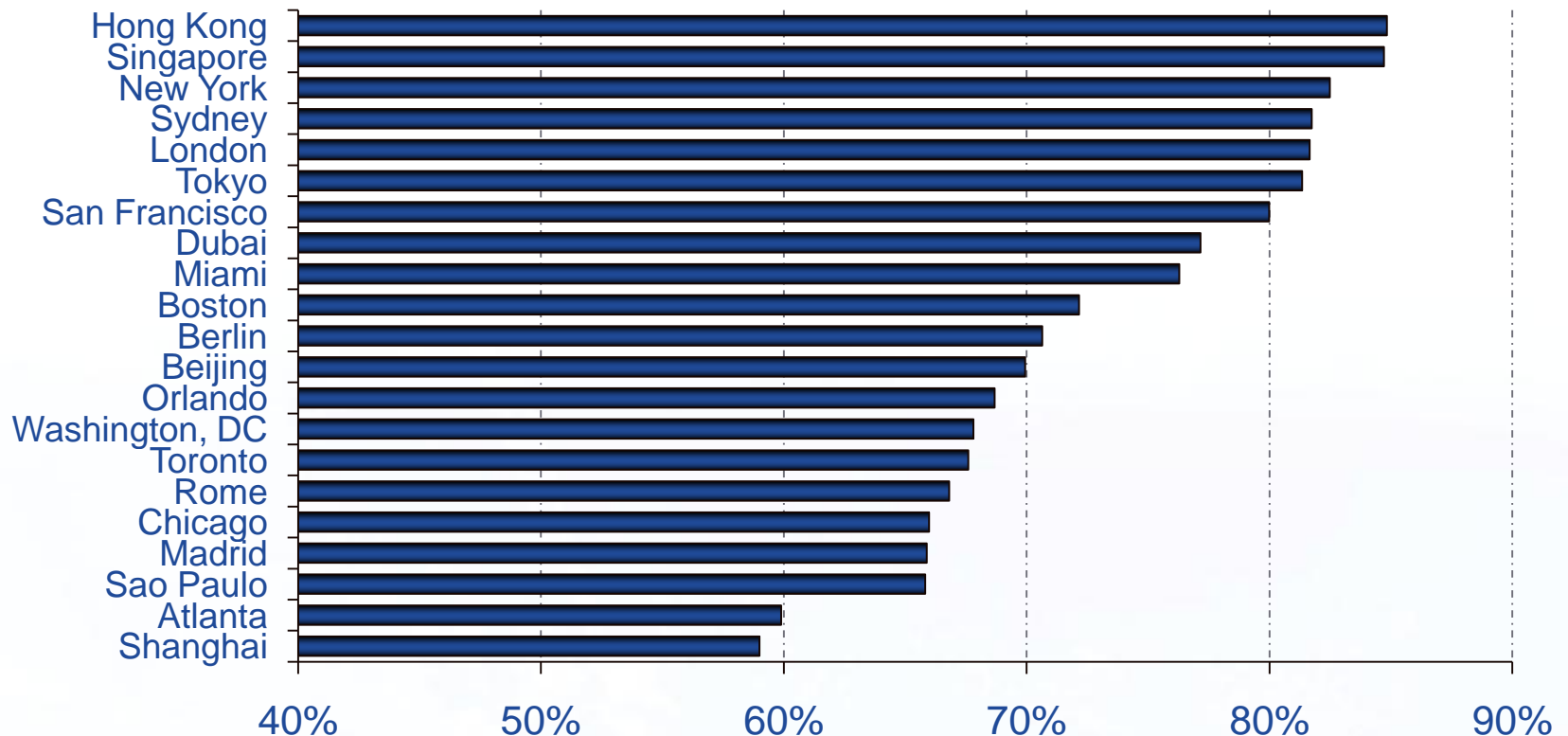


Supply gains during the recession is holding back today's occupancy; growth is slowing.



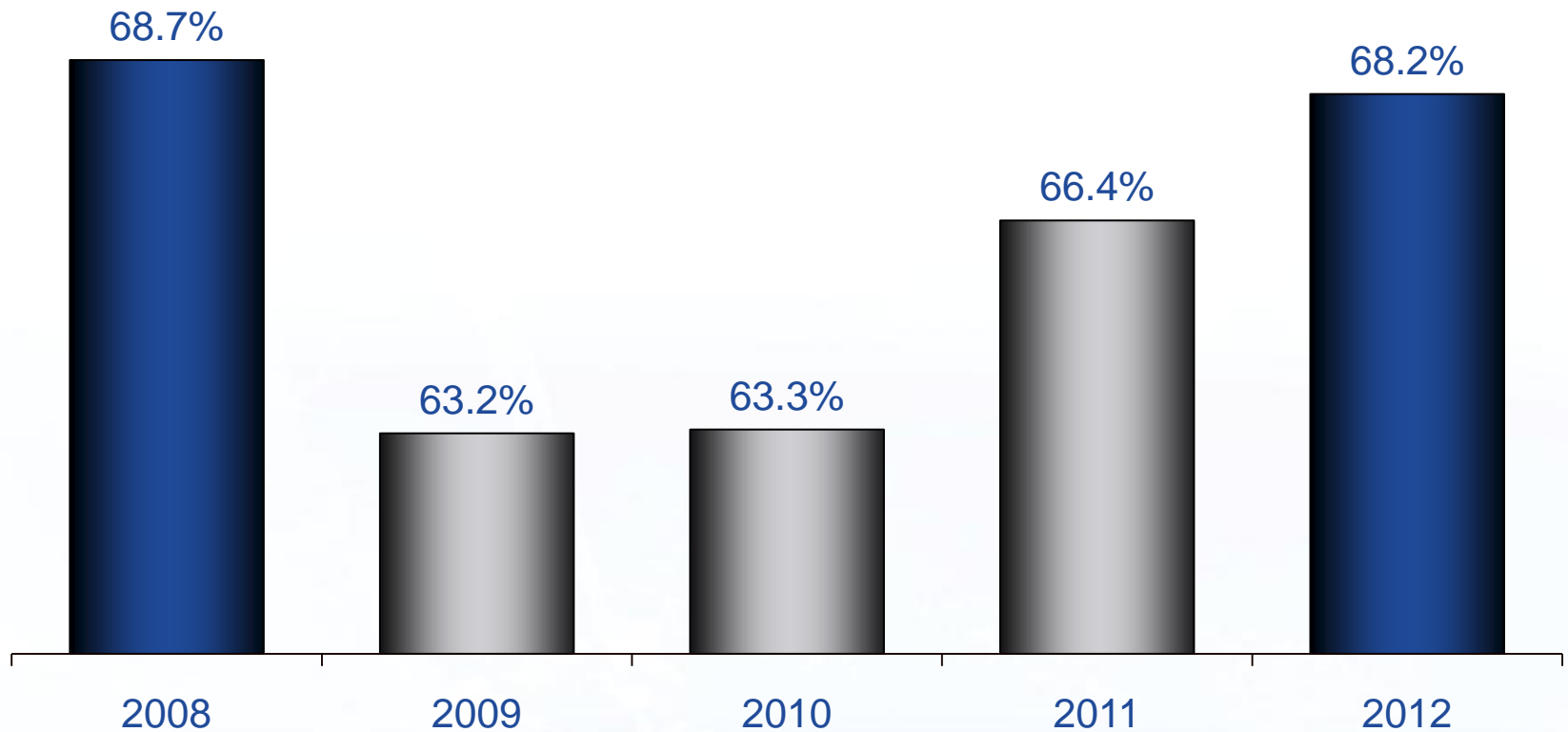
Occupancy in key cities has generally been high and it's still increasing.

Occupancy By Key Cities
12-Months Ending June 2012

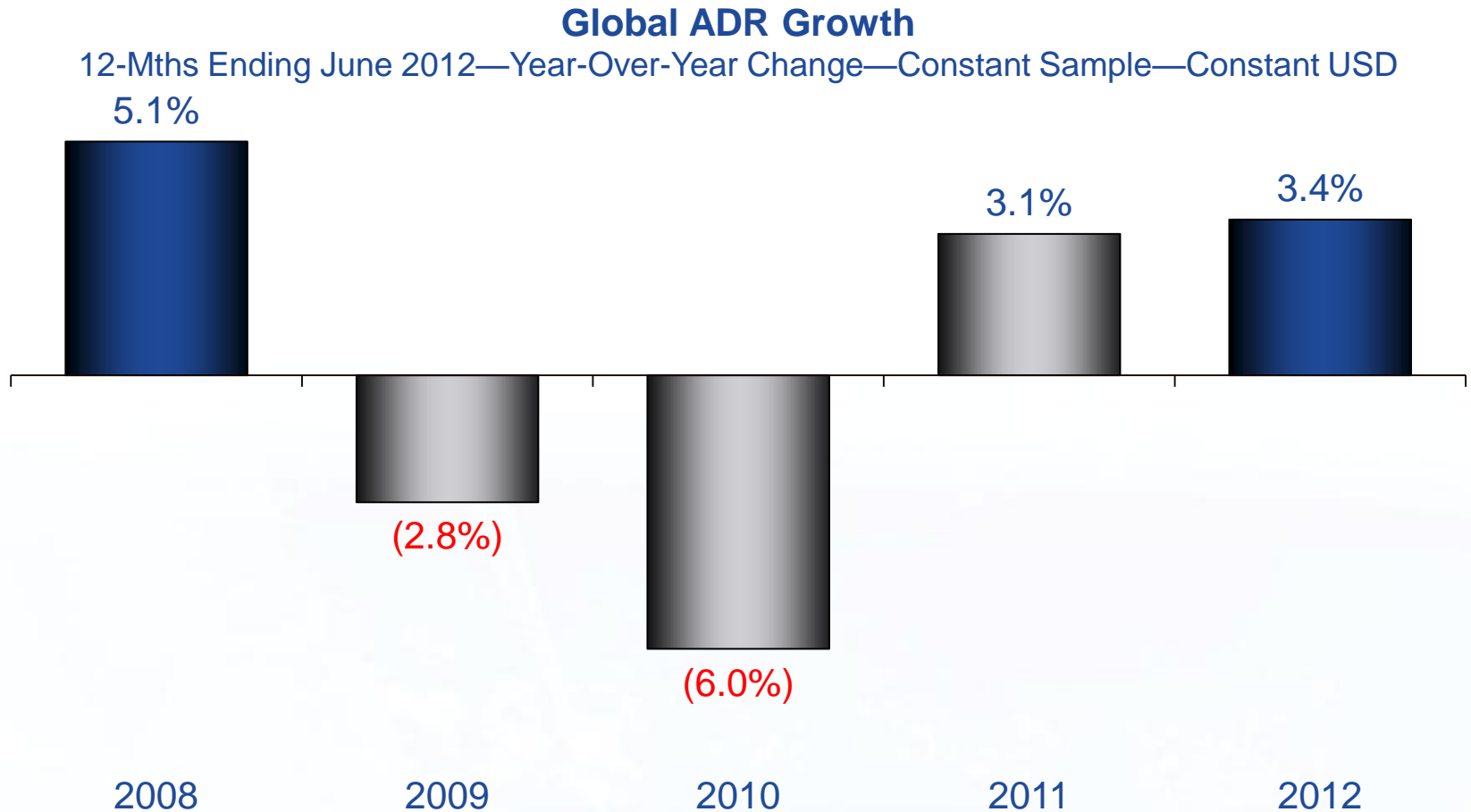


As a whole, large group & meetings hotels are nearing their previous occupancy peak.

US Occupancy—Meetings Hotels
12-Months Ending May 2012—2,249 Selected Hotels



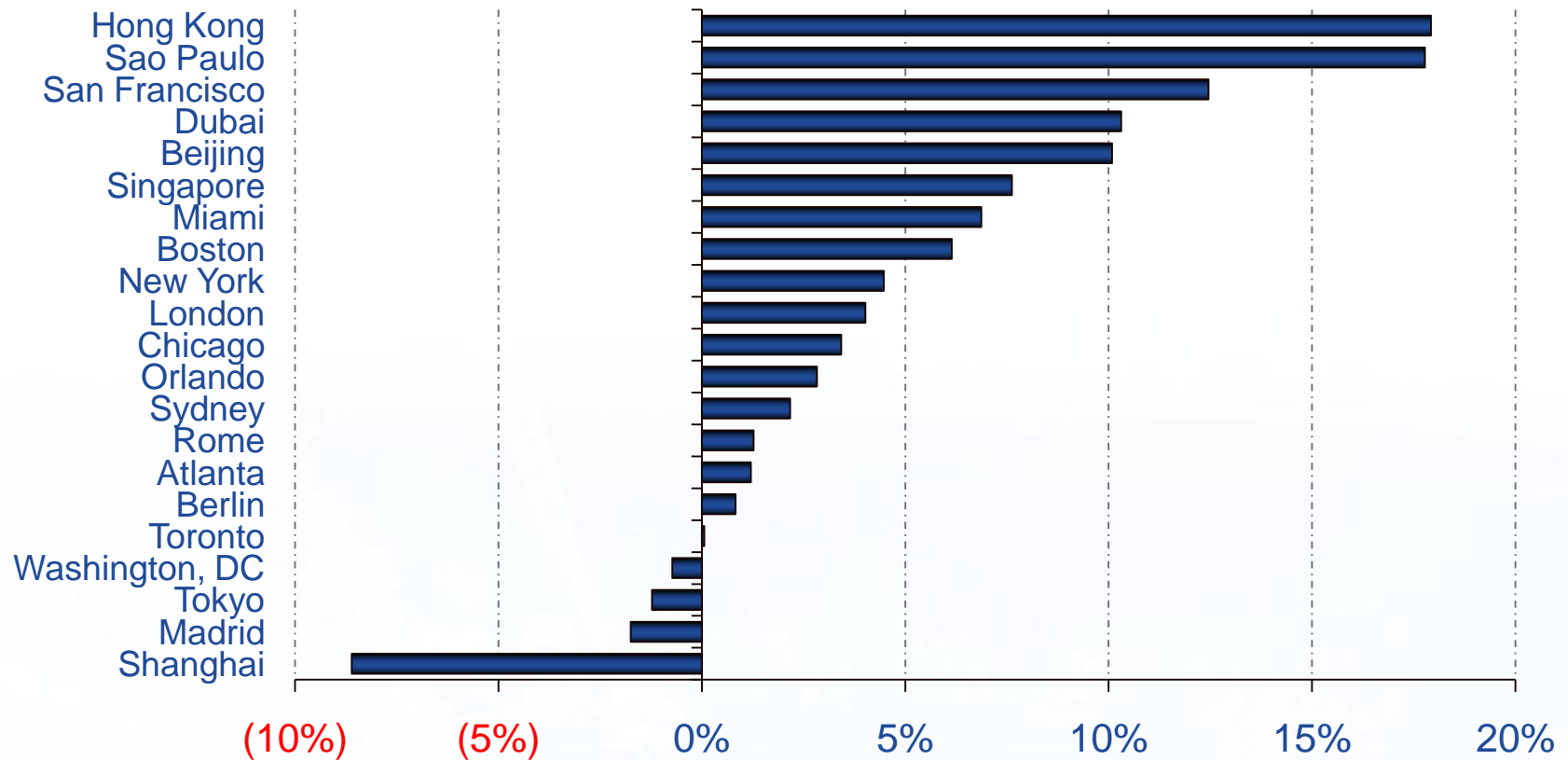
While increasing, ADR gains have been fairly subdued so far.



In the key cities and among business hotels, ADR growth has been more significant.

ADR Change By Key Cities

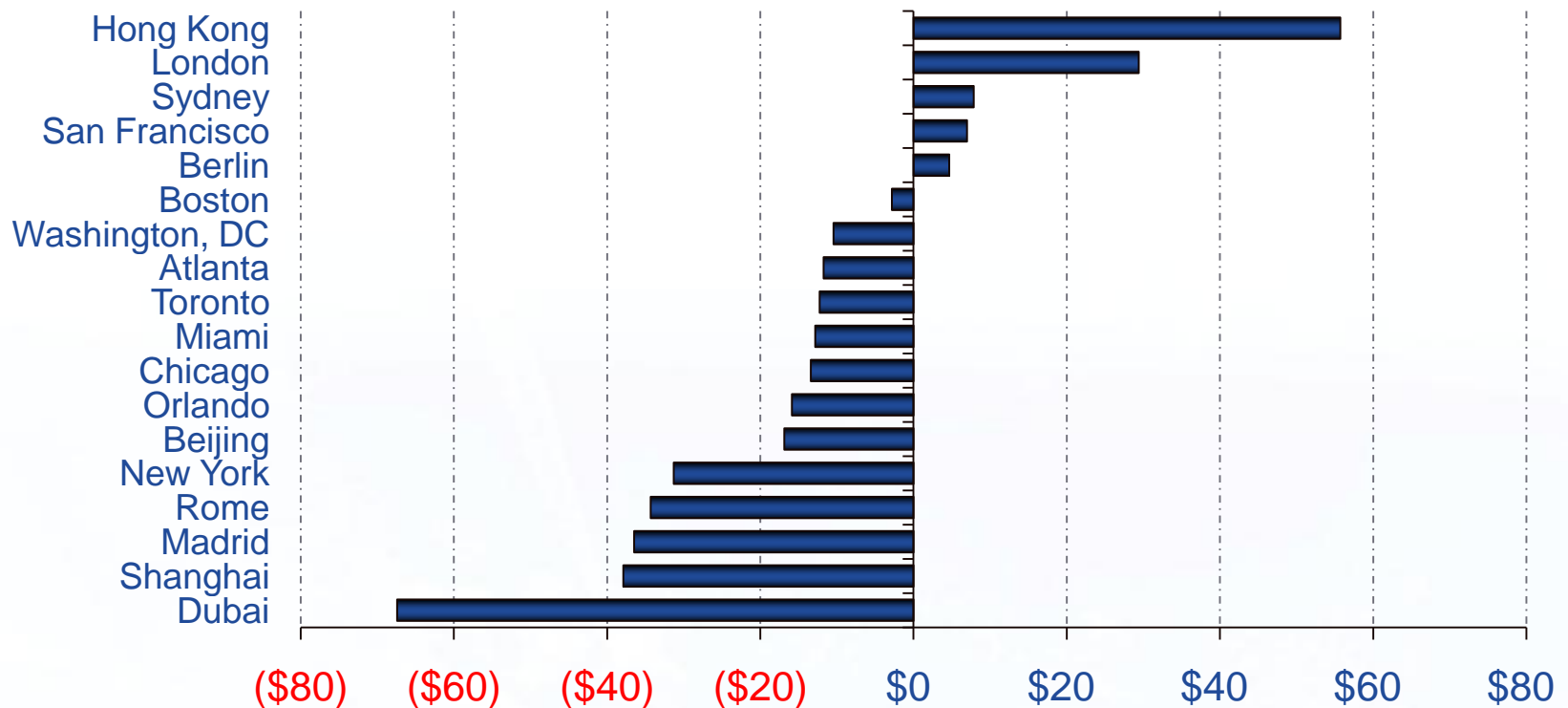
12-Mths Ending June 2012—Upper Upscale, Upscale & Upper Midscale



Overall, the average business hotel is still priced well under their 2008 level.

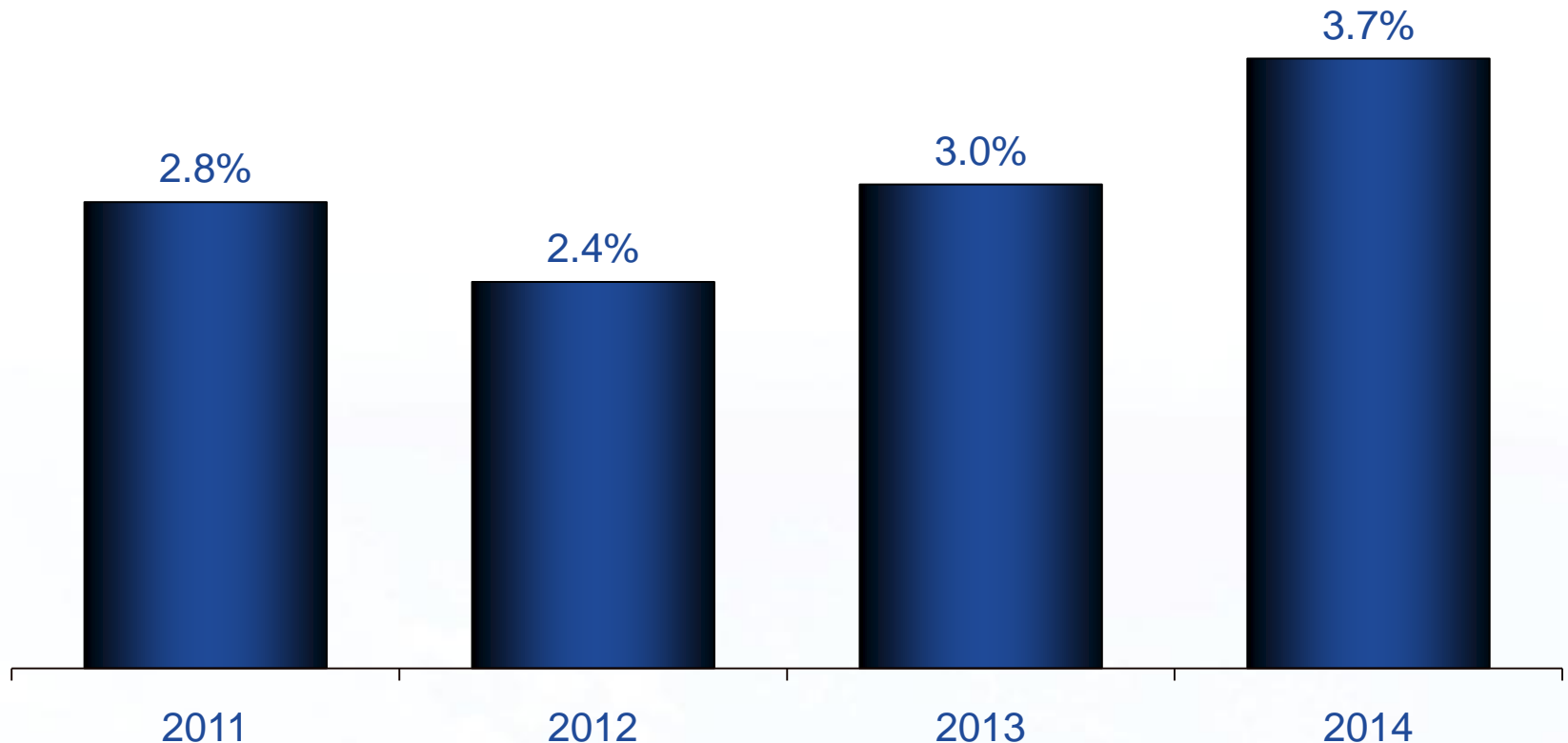
ADR Deficit By Key Cities

12-Mths Ending June 2012 Compared to 12-Mths Ending June 2008
Upper Upscale, Upscale & Upper Midscale—Constant USD



Global economic growth is expected to wane this year, but a recession is not anticipated.

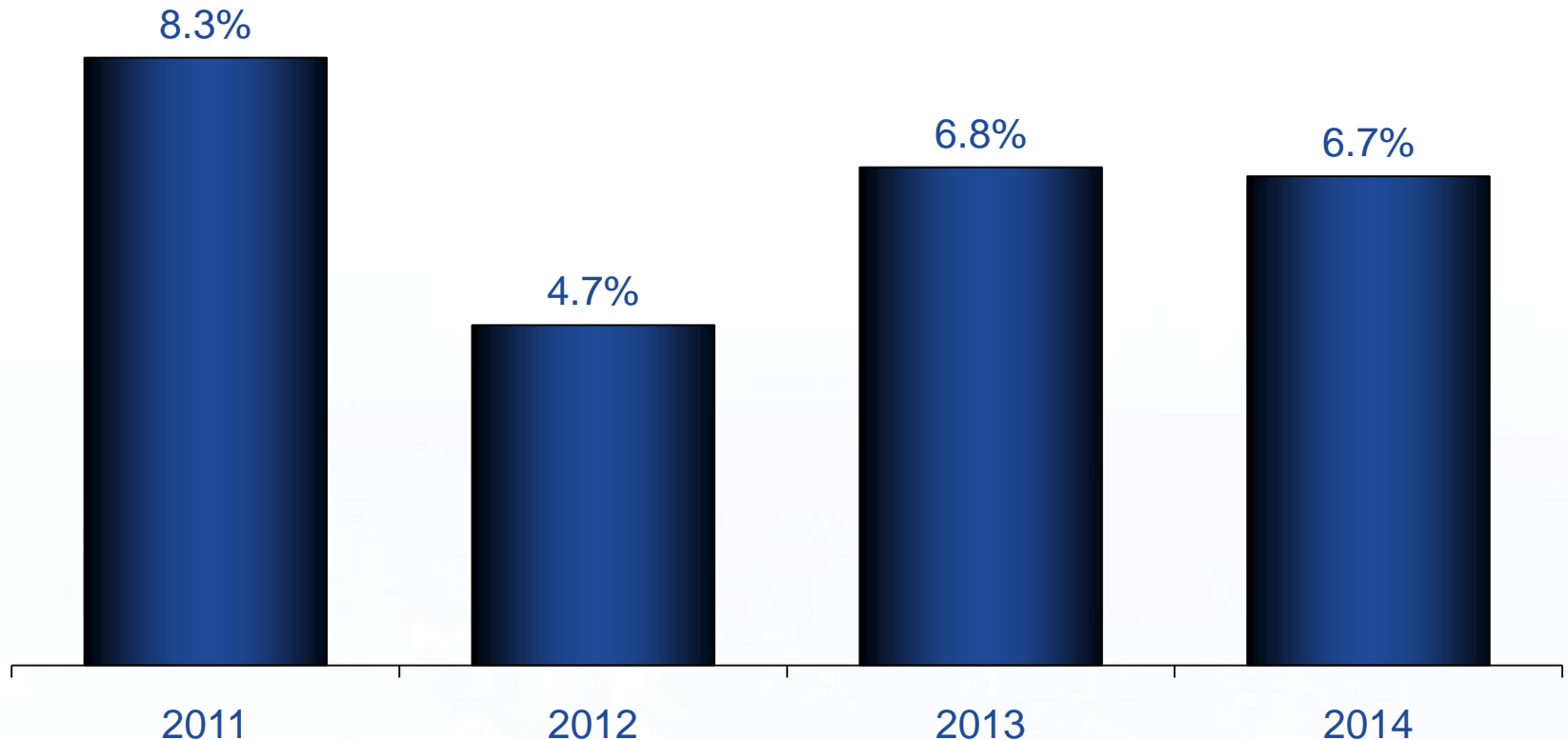
Global GDP Forecast
Year-Over-Year Change



Corporate profits will likely remain positive, resulting in continued business travel.

Global Corporate Profits Forecast

Simple Average Based On 44 Countries—Year-Over-Year Change



Growth in hotel room nights will slow, but they too will likely remain positive.



The travel outlook remains moderately positive.

- Uncertainty to remain in place for the foreseeable future.
- Global economic growth will moderate in 2012. Stronger growth is expected to materialize in the second half of 2013.
- Europe and slowing global trade remain as key risks.
- With solid travel intentions and healthy companies, the hotel industry will likely see continued growth over the next three years.
- Thus, understanding both the seller's and buyer's needs is vitally important in negotiating a win-win outcome.

The View From A Revenue Management Perspective

Maria Lowry

Area Director, Revenue Management
Americas - Eastern Region
Marriott International

Communicating the Supplier needs

- Costs go up each year
- Budget guidelines based on anticipated economic conditions
- What is hotel's goal?
 - Increased volume?
 - Increased rate?
 - Better pattern?
- Every Market is different ... one size doesn't fit all

Understanding the Buyer needs

- Understand their travelers
 - Offer variety of hotel solutions ... most hotel chains have an array of hotel choices designated by trip purpose
- Value adds
 - If requested value add is free in another brand, can travel be shifted to that brand
- Location vs. Price
 - What is total stay cost?

Pricing Options

- Seasonal fixed pricing
- Dynamic pricing
- Multiple room types
- Length of Stay

Bridging the gap between buyers and suppliers

- Successful negotiation is getting harder to achieve as more electronic mediums and third parties are incorporated into process
- Same policy message for multiple/all markets are difficult to meet due to different market conditions
- Need to find the common ground

Strategies For Successful Negotiations

Michael Sacks

Associate Professor

Practice of Organization and Management

Emory University

Panel Discussion: Finding Rationality in an Irrational World: The Economics of Successful Hotel Negotiations

Isaac Collazo, Vice President, Performance Strategy & Planning,
InterContinental Hotels Group (IHG)

Maria Lowry, Area Director of Revenue Management,
Americas-Eastern Region, Marriott International

Michael Sacks, Associate Professor in the Practice of Organization
and Management, Emory University

Send Your Questions to:

IC@IHG.Com