

## Industry leaders plot recovery strategy

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Hotel & Motel Management

National Report-The hotel industry is assessing its situation and planning to improve business after terrorist attacks crippled it last month.

Frank Nardozza, managing director, KPMG Consulting, said it will be survival of the fittest for hotel companies.



"I would anticipate that if [the war against terrorism] becomes some sort of a prolonged event as [the Bush] administration's talking about, I would expect that some of the weaker, less amply capitalized companies and hotel owners are going to really struggle for their existence," Nardozza said during a conference call of members of the Lodging Industry Investment Council. [See related story on page 3.] "The strongest companies are going to do all the right things that are fiscally responsible to tighten their balance sheets and try to contain costs ... and see opportunities either during or shortly thereafter the peak tension periods to capitalize on them. That's happened the last two cycles."

Hanson

Some of the top hotel companies have a plan, he said.

"What I heard from them is they've gone into an immediate action plan of battenning down the hatches and waiting for the storm to blow over," he said. "... They have looked at all the capital spending within their organizations, and they've tried to identify those capital-spending items that are discretionary or fixed. They've put a moratorium on them.

"A couple of companies have a SWAT-team approach of trying to identify all areas of spending within the organization that could also be contained or on a moratorium basis and redirecting spending ... toward those activities that have the immediate short-term effect of driving up occupancies and room rates. ... They're looking at ... layoffs in some of these companies for the first time in many years."

Several scenarios will help the industry, according to Bjorn Hanson, global industry leader-hospitality and leisure, PricewaterhouseCoopers. One would be the federal government providing an economic stimulus package.

Another scenario would occur with the financial support and rebuilding that happens through insurance claims. He said hotels make great temporary offices for claims adjusters, consultants and rescue workers.

Hanson suggested that hotels try to get public-relations coverage by making rooms available for trauma counseling, maybe at a reduced charge or no charge. He said this brings people into hotels and helps generate food-and-beverage revenue. Also, he said it was beneficial for hotels not to enforce cancellation policies.

The issue for Randy Smith, founder of Smith Travel Research, is that when demand returns, how will it come back? He said he is unsure whether demand at airport hotels and resorts will be hurt more than the rest of the industry. Will there be a resurgence hotels located near highways? In what form will the demand come?



Room rate also is an important issue. Hoteliers cutting rates dramatically won't help the industry in the long run, Smith said.

Peter Yesawich, president and c.e.o. of Yesawich, Pepperdine & Brown, said a huge catalyst for the rebound is the reduction in airline and hotel prices. Mike Cahill, president of Denver-based Hospitality Real Estate Counselors, also said he is worried about low room rates.

"My concern is that as all the companies start to scramble for additional business, that they go out and tell the people to get the business at any cost," Cahill said during the LIIC conference call. "For the industry, if we start having average-room-rate declines in these markets and start a discounting battle among competitors, in many market areas, the declines in average room rate could be significant for the industry."

## Marketing

Consumer marketing is key to helping get hotels back on track, but it will be a difficult task for the industry, according to Smith.

"We have to be sensitive to the issues of travelers," he said. "We have to get it across to people that it's our patriotic duty to travel. We have to get it across to people that now is the best time to travel because airports and hotels are empty and the rates are good, but we have to be sensitive in marketing that."

Yesawich advised hotels to focus on their frequent guests and business travelers because those travelers will come back first. But he said promoting travel is a delicate issue.

"Timing is everything, and right now is not right," he said. "Anybody who appears to be exploiting [travelers] will be on the wrong side of this."

Hanson said smaller hotels should withdraw attempts to market against the bigger hotels and market to the incremental traveler in the next month or two.

Nardozza said hotels will emphasize local markets.

"A couple of the major hotel companies have put out memos to their properties saying to really emphasize the local events, the local catering and social events," Nardozza said. "Several of the major hotel companies are looking at whether or not they should quickly enter into partnerships with some of the video conferencing companies to at least fill their ballrooms locally with commercial accounts that are looking to host meetings audio visually rather than through the on-site meeting they originally were planning."

"The whole issue of regional emphasis is there for meetings and to also have their hotels do everything in their power to maximize local revenue sources. That's going to be somewhat of a stop-gap measure."

Peggy Berg, president of The Highland Group, said consumer confidence is a response to the government and the news media.

"They should help people evaluate consumer confidence, and realistically, it's not happening right now," she said. "I hope the government and the media will have a more pragmatic approach to this."

Regardless, the industry must continue on, Berg said.

"The first thing the industry can do is get off its duff," she said. "I was appalled that conferences were canceled in October. If we can't show confidence, then how will our guests have confidence? This is no time to wait. We have to have these meetings. We're going to plan to have a life and a business. It's not optional."