

Luxury Alliance

WHITE PAPER

The Direction of Luxury

Recently, at a roundtable discussion, senior management of the six Luxury Alliance member companies met in New York to examine the changing persona of luxury and its direction in 2006 and beyond, with a focus on the luxury segment of the travel industry at a global level. An overview of the observations, opinions and expectations shared at this gathering of highly successful marketing innovators is presented here.

In attendance were:

Paul McManus, President & Chief Executive Officer, The Leading Hotels of the World, Ltd.

Marshall Calder, Senior Vice President, Marketing, The Leading Hotels of the World, Ltd.

Jacques-Olivier Chauvin, Directeur Général, Chief Executive Officer, Relais & Châteaux

Alistair Ballantine, Director of Sales and Marketing – The Americas, Orient-Express Trains & Cruises

Albert Peter, Chief Executive Officer, Silversea Cruises

Bill Smith, Senior Vice President Sales and Marketing, Crystal Cruises

Dennis Pinto, Managing Director, Micato Safaris, an Adventure Collection company

The discussion was moderated by Gregory J. Furman, Founder and Chairman of The Luxury Marketing Council.

Founded in 2000, the Luxury Alliance is a strategic marketing partnership of preeminent brands that individually hold leadership positions in the hospitality industry and collectively set the standard for the ultimate in luxury travel. The two original founding members, The Leading Hotels of the World and Relais & Châteaux, have subsequently been joined by Orient-Express Trains & Cruises, Silversea Cruises, Crystal Cruises and Adventure Collection.

January, 2006

*The
Leading Hotels
of the World, Ltd.*


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CHATEAUX.


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CRUISES


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Defining Luxury: A Blur Around the Edges

Luxury in the twenty-first century has a wider reach than ever before. Once a sign of exalted social standing, luxury has taken on a new persona that is continuously evolving, its perception shaped by a complexity of ever-changing dynamics. Household income and investable assets represent only one benchmark in consumer spending power; and influences on spending patterns now include generational and cultural diversity, financial success on the coattails of modest origins, the ever-increasing pressures of life in the fast lane, and word-of-mouth recommendations.

Among most high earners, the concept of striking a deal can still sway decisions when a purchase is made, and the price of luxury remains a consideration. However, among the seriously rich, whose net worth of US \$22 million+ makes them virtually recession-proof, a luxurious lifestyle may be perceived as a necessity and the word luxury as distasteful or even obsolete.

Luxury Travel: A Booming Industry in a Volatile Global Economy

While economies rise and fall, the luxury travel market is not only robust but growing at a remarkable pace. The year 2005 garnered extraordinary revenues, and global growth at a rate of seven to ten percent is projected for 2006. Luxury Alliance members agree that the period through 2010 looks encouragingly strong—so much so that forward planning by top-end travel providers includes substantial expansion. New hotels and cruise ships are under construction or on the drawing board; mergers and acquisitions are in progress or under discussion. Aggressive planning is further encouraged by a relatively strong stock market and high return on private investment.

Demand for a Rare and Authentic Experience: Diversity is Key

Product diversity is noted as a key component in this success story, with luxury travel now offering an unprecedented range of choices. The charter of a fully crewed yacht for a Mediterranean honeymoon is readily available, as is a fifty-bedroom castle for a family reunion in the Scottish Highlands. Adventure travel may include extreme sports, with butler and spa services at the end of the day; and a round of golf can be played with a celebrated pro aboard a cruise ship mid-ocean. As consumer demand escalates for travel with a rare and authentic experience built in, and the competition to meet that demand intensifies, providers will be increasingly under pressure to re-create their product.

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Shorter Trips with Increased Frequency: Making Every Minute Count

With seasonality no longer an obstacle in vacation planning, the trend for increased frequency in travel is expected to continue, and a preference for shorter trips will establish a pattern among travelers stressed by a busy lifestyle. These shorter trips are likely to be progressively more action-packed for maximum fulfillment.

For business travelers, the pressure to stay connected with the office at all times will continue to build, and time management will become a top priority in order to protect discretionary time, now a precious commodity. Inclusion of a companion on a business trip also has become an established trend that will continue, with time-deprived executives striving to maximize the potential of every moment. The current move towards private aviation as a timesaving factor is expected to expand at the highest level of the luxury market.

Increased accessibility is noted as a major contributing factor in the success of luxury travel, with vacations to exotic destinations now more readily available. Brazil and the Baltic states are noted as hot new choices that will flourish in future years; Asia and the Pacific Rim also will continue to grow in popularity. These hot spots will boost new and more frequent travel rather than detract from established patterns, with tried and tested urban favorites (like London and Paris) holding their own, and celebrated resort areas (like Tuscany and the Côte d'Azur) remaining forever fashionable.

A Focus on Togetherness: New and Future Patterns in Group Travel

The current move towards diversity in groupings for leisure travel has impacted the luxury market substantially and is forecast to continue, driven noticeably by a growing desire for connecting with family and friends. Wise travel providers will build their offerings for family groups, as trips become more frequent, and will become progressively more creative in designing programs for multi-generational group travel to compete for a share of this important growth market. The emerging trend of all-women group travel will make a progressively bigger impact in the luxury sector; and the concept of reunions to reconnect with family, friends or colleagues on distant shores will boost an ongoing rise in intercontinental travel. Similarly, the popularity of destination weddings, bringing together large groups of family and friends, will follow an upward curve, with anniversaries and renewal of vows also representing an expanding segment of the luxury travel market. The cruise ship industry has seen a tremendous rise recently in incentive travel, and views this as an important area for continued growth in the future.

Wise travel providers will need to become progressively more creative

Planning Made Easy: Simplicity and Speed in Booking a Trip

Ongoing expansion of the distribution system continues to facilitate bookings, and increased consumer skills in navigating the Web are generating a huge upswing in online reservations. Cruise travel remains the exception, largely because of the complex range of activities that factor in a cruise vacation; however, a move towards facilitating online reservations in this area is imminent.

In the Know: The Rise of Connoisseurship

The pursuit of knowledge (or even expert status) has grown to be a high factor in determining vacation choices and will have tremendous impact on future leisure travel. Planning will frequently focus on education and growth, with a range of favored topics for exploration that includes art and architecture, landscape gardening, cuisine and enology. Gregarious travelers will venture into progressively closer contact with other nations, as they experiment with new cuisines and learn the intricacies of foreign cultures. Special-interest travel that builds in the opportunity to acquire new skills, e.g. photography, sailing or participation in an archeological dig, will continue its growth as a prime source of fulfillment, providing a transforming experience rather than a hedonistic indulgence and empowering travelers to return home with a sense of accomplishment and pride in achievement. Prestige is a powerful emotional driver, and bragging rights are often a part of the equation.

The Wellness Factor: Spa, Seclusion and Spiritualism

In fascinating counterpoint to the desire for high activity is the quest for quiet relaxation, prompting a location choice that will support contemplation, reflection and renewal in a sanctuary-style environment. Rigorous wellness programs have taken the spa concept far beyond beauty and pampering, expanding the health focus to include on-site physical check-ups and alternative medical treatments, both rapidly growing in popularity. Also expanding is the overall size of spas, as the roster of services grows progressively more complex and the pursuit of stress relief boosts the need for more individual treatment rooms.

Wellness travel has been extraordinary over the past decade, with themes that range from spa to spiritualism, from mud wraps to meditation, and will remain an important growth market for luxury travel. Mature travelers are especially attracted to this genre.

Service Extraordinaire: The Demands of Recognition

A growing take-care-of-me attitude in the quintessential luxury consumer demands flawless service and flexibility by providers. In the highest luxury bracket, a personal butler for each individual guest is now the norm rather than the exception with leading hospitality companies, significantly boosting the staff-to-guest ratio. Recognition through highly personalized, intuitive service has become a prerequisite in the luxury segment, and is noted by Luxury Alliance members as a key element in designing the vacation experience of the future.

Brand Credibility: Exclusivity Is a Must

To build a presence in the luxury market travel providers must ensure and protect brand credibility. With a growing concentration of brands and labels potentially overwhelming the consumer, loyalty can be secured only through building trust in a brand. The Luxury Alliance indicates exclusivity as the primary benchmark for success in this area, and a key feature in the travel experience geared to attract discerning travelers with ever-widening horizons. Now that the concept of luxury goes far deeper than a high price tag, with a complex mix of components shaping the perception of value, an intimate relationship with the brand is increasingly more important.

Loyalty can be secured only through building trust in a brand

The Big Spenders: A New Take on Wealth

Defining wealth has become a challenge. The Luxury Alliance emphasizes the impact of continuously evolving aspirations on spending patterns. Products and services once available only to a select few are becoming increasingly accessible; owning a Lexus or employing a butler can easily become a reality. And the dichotomy of spending patterns

among diverse nations is intriguing; luxury travelers from North America look for value in a special deal, while travelers from Russia view premium spending as a status symbol.

The ageing of the Baby Boomers (b. 1945 — 1960) has a far-reaching impact, with high earners rapidly approaching retirement age. A direct consequence, members note, will be the transferal of enormous wealth, amounting to \$15 trillion in the U.S. alone, that will undoubtedly help shape the pattern of luxury spending over the coming decade. Into the mix come Generation X (b. 1961 – 1980) and Generation Y (b. 1981 – 1995), whose high achievers are in possession of substantial disposable income. Among the newly wealthy are athletes, rising celebrities and entrepreneurs, with women entrepreneurs representing the fastest-growing segment; financial services executives are steadily climbing the ranks. With many of these newly wealthy just now learning the art of spending, providers are in a position to become educators and to help shape luxury spending patterns while building trust in their brands.

Enhanced wealth has in turn triggered a move towards philanthropy. More travelers are now returning from vacations with the added achievement of having invested in a worthy cause along the way. Oftentimes this investment is planned in advance with the itinerary, forming an intrinsic part of the overall travel experience. An example discussed at the roundtable event was the charter of a private jet by a group of six travelers planning a trip with the specific objective of finding worthy causes in Africa for investment. Also referenced was a recent Luxury Alliance member survey that indicates travelers are willing to spend twenty to twenty-five percent more on a trip if its design supports environmental conservation.

In counterpoint to this giving trend is the desire for possession, boosting the fractional-ownership market, which now extends beyond terra firma to the high seas. The Luxury Alliance notes that while villa ownership remains tremendously popular, the idea of partially owning a small yacht has a powerful new magnetism and marks an emerging trend in this growth market.

The members note also the increasing support for the premise that small is beautiful; among guests who subscribe to this theory, the ambiance of a hotel within a hotel and the exclusivity and privacy of residence clubs satisfy the desire for a privileged intimacy. Bringing small and large together, condominiums are now available for individual ownership on board huge cruise ships, creating the new concept of owning a residence that sails the high seas.

Key to ongoing success in this area of luxury travel is management by a well-run organization to ensure high touch for a tailor-made experience. Without this, providers will risk losing clients who find the second-home concept overly demanding in terms of maintenance. Equally, individual styling in the design is imperative, and discerning clients look for properties with unique features that will distinguish them from all others. Décor that reflects the local culture and environment is infinitely preferable to cookie-cutter styling.

New Luxury Travelers Venturing Abroad: Out of Africa, Russia, India and Brazil

New to the ranks of luxury world travelers, these nations are now traveling more frequently and exploring at a global level. Travelers from Russia in particular display an insatiable appetite for the top luxury brands, and their itineraries include the most opulently appointed accommodations and the highest-starred restaurants—a pattern likely to continue well into the future. Among the new traveling nations, Russia represents the largest and fastest growing market segment.

Travelers willing to spend 20-25% more for eco-friendly trips

Chinese Tourists Poised for Growth: On the Fringe of Luxury

While the Chinese are already venturing overseas substantially more as mass market travelers, they are not yet making a big impact on leisure travel in the luxury sector. Luxury spending is currently far more visible in the area of designer merchandise, like apparel and accessories. However, the certainty of steady, long-term growth of luxury travel out of China is already generating the opening of regional offices by global travel organizations in Shanghai and other major cities.

Tapping into Wanderlust: A Lengthy Process

While pockets of new wealth appear periodically around the globe, identifying and locating them can be difficult and the process of tapping into them a lengthy one. Expatriate communities are cited as potential new target markets; Shanghai alone has an estimated quarter-million population of residents from Europe and the U.S. whose lifestyle has grown out of a compelling wanderlust and a penchant for overseas travel.

Alliance members note that luxury travelers from the Gulf States continue to grow in numbers, with Dubai and Abu Dhabi leading the way. Traveler numbers from Asia will continue to expand, with Japan, Singapore and Taiwan at the forefront. Travelers from India are venturing progressively further afield and will spend increasingly more in the luxury sector. Out of Europe, travelers from the Nordic countries will impact the luxury travel market more significantly. From the Americas, heightened activity is seen among travelers from the U.S. and South America, especially from Brazil.

Internet creating
new business
rather than
defraying revenue

Expanding Horizons: The Hot Destinations

As consumers become progressively more adventurous, they will travel further and further afield, and the hunger for a new and rare experience will be sated only by new terrain. Looking forward through the current decade, the Luxury Alliance cites the following hot destinations as growth

areas for luxury travel: Africa, Asia, AsPac, Europe (especially Northern and Eastern Europe, the Baltic states and the Mediterranean), India and the Far East, the Middle East, and South America. The lure of China as a luxury travel destination for both leisure and business will continue to grow, with increased visitor numbers boosting significant development over coming years. Italy will remain a big favorite.

Exotic destinations will continue to stimulate luxury leisure travel. Alliance members project that luxury travelers will want more planning in general—certainly more for trips to new and exotic destinations as their accessibility increases. While online research opens up ever-expanding possibilities for consumers, travel agents will play a major part in matching the best possible travel choices to individual needs and preferences.

Power of the Internet: Don't Cover the World ... Edit the World!

Now that instant access to the world is available on the Internet, the Luxury Alliance underscores the importance of the "editing" role for luxury travel providers. Clients have every continent at their fingertips, and now enjoy the convenience of the Internet as the primary connection point for comparative shopping. However, the infinity of accessible information can quickly confuse and overwhelm them. Consequently, they will look to suppliers more and more for direction with precise, relevant information to support and facilitate the decision process and to ensure that a vacation is custom-tailored to match individual preference in style and focus.

Internet Bookings: Generating Longer Stays and Boosting ADR

The powerful alliance of travel and the Internet was a prime focus of the Luxury Alliance roundtable discussion. In 2005, there were more visitors to travel websites than there were guidebook purchases. As the single fastest-growing distribution channel, the Internet is generating annual bookings upwards of \$35 billion in the U.S. alone. In 2005, twenty-five percent of all hospitality revenues globally were Internet-generated, and in 2006 this figure is expected to reach between twenty-seven and twenty-nine percent. Relais & Châteaux notes that Internet bookings currently account for thirty-two percent of its revenue; The Leading Hotels of the World reports a figure of twenty-one percent of direct consumer bookings.

Luxury Alliance member statistics show that in attracting new consumers to the world of travel, this extraordinarily powerful medium is clearly creating new business rather than defraying revenue from other booking channels. Online reservations are generating longer stays and measurably boosting the average daily rate (ADR). Alliance members forecast a continuation of this upward curve.

Online Marketing: It's Hard to Lose \$5,000

While still an immature technology, the Internet is creating progressively more niche marketing opportunities for hospitality providers, and offers exciting potential for dynamic packaging with direct reach to the consumer. The Luxury Alliance views investment in online marketing as an area where it's easier to turn \$5,000 into \$10,000 than it is to lose it.

Role of the Agent: Those Checks with the Commas in Them

Even with the swing towards online booking, travel agents at the top of the luxury sector continue to play an important role. Wise agents view the Internet as a powerful ally and know how best to utilize it for maximum impact. Knowledge, insight and a strong service ethic are key to an agent's success, and Luxury Alliance members are confident that those in the upper echelon will continue to thrive with clients who enjoy human interaction for planning trips. Travel providers recognize the importance of fostering the agent relationship, especially in the cruise ship business, where ninety percent of bookings are agent-generated and a commission check without a comma is rare.

Wise agents
view the Internet
as a powerful ally

Precious and Bespoke: Reach for the Delete Button!

Luxury Alliance members indicate the growing vogue for overly precious detail by some hospitality providers as a folly that calls for deletion. Do hotel guests really need a choice of eighteen pillow types? Does bottled water truly need a sommelier? Must the bill arrive with a twelve-pen selection for a single credit card signature? Perhaps a reality check is called for in 2006, before even the ice at cocktail time becomes bespoke! If a hospitality leader is known to deliver only the very best, guests will be confident in the quality provided and have total trust in the integrity of the brand.

Challenges, Issues and Solutions: Moving Forward

While 2005 was a record year in the luxury travel business, the Luxury Alliance notes challenges and issues where attention now can pave the way for continued success at a global level in 2006 and future years.

- The life cycle of the luxury travel product is shortening; and dilution of the premium concept is an issue. Luxury Alliance members underscore the importance of:
 - frequent re-direction with innovative design
 - layering and integrating to keep the product fresh, modern, relevant
 - flexibility
 - authenticity
 - unique tailoring to create a rare experience for each luxury travel client
- Air travel is fraught with problems. While airlines have the intrinsic power to “create” a tourist destination (as in the case of Emirates and Dubai), instability among carriers adds a dynamic of uncertainty to travel planning, and insufficient service to new and upcoming destinations creates an imbalance in the count of guest accommodations available vs. airlift to access them. Inconsistency in pricing throws another challenge into the mix. **The Luxury Alliance stresses the need for a dialogue between the airlines and the travel industry at large to address these issues and explore solutions.**
- Discounting, under-cutting and rebating by agents create a price war. Improved monitoring of these practices is necessary.
- Transitioning to new distribution channels is challenging and time-consuming, and can be further complicated by the pressure of maintaining both old and new systems simultaneously for a prolonged period. Adaptability will be key to making the transition seamlessly.
- Demand for the highest level of personalized, anticipatory service calls for extreme attention to detail. Twenty-four-hour concierge service is mandatory at top-end luxury properties, and butler service is called for with increasing frequency. Guest expectations will continue to rise, and providers should be prepared to deliver superb service at all times and in all places, not merely when guests are in residence or on board.
- In extending the service ethic, it is vital that luxury travel providers focus on customer relationship management (CRM) in order to build loyalty. Small gestures like handwritten personal notes demonstrate recognition and a concern for guest welfare, and can be effective in building repeat business.
- Superb service necessitates superior staffing. HR directors will find themselves under mounting pressure in the ongoing search for outstanding employees. Equally, keeping the best people will be increasingly challenging. Alliance members support the strategy of viewing employees as partners, thereby investing them with an interest in company success.
- Volatile issues will continue to impact the travel industry at all levels:
 - An ongoing imbalance in global currency adds complexity to pricing.
 - Offensive treatment by immigration officials is a problem. Securing visas and enduring Homeland Security’s fingerprinting process can be both unpleasant and time-consuming. A recommended approach is to humanize the process, which will necessitate re-training of officials.
 - Global pandemics are a deterrent; the potential scope of avian ‘flu is unknown.
 - Terrorism remains a threat, and fear of additional attacks can impact travel decisions.

Good Business Practices Can Set the Pace for Success

Drawing on observations made and ideas shared during their roundtable discussion, the Luxury Alliance members offer the following recommendations for best business practices to ensure ongoing success and growth for the luxury travel market:

- Loyalty builds revenue. Targeted structure of loyalty programs is a key factor in generating repeat-visitor business. For the wealthiest travelers, however, recognition far outweighs loyalty, and will continue to be an important consideration for providers in future years.
- Growing concern for the environment has kindled a more poignant awareness among travelers around the globe, and a heightened generosity in supporting conservational programs. Travel providers can maximize the impact by promoting the best-designed programs.
- The Luxury Alliance members feel community support should be a high priority for the industry. The importance of corporate citizenship is steadily growing, and successful corporations will do well to give back with generosity.
- With a focus on philanthropy, the hospitality industry is in a strong position to foster the growing desire by luxury travelers to invest in charitable causes during trips. Research and gathering of accurate information by travel providers can assist interested travelers in previewing the options that may be explored during a journey.
- The Luxury Alliance underscores the importance of communication with industry members. Implementing a dialogue can: spark ideas and action; open up the way to pool resources; defray costs; and heighten visibility.
- Similarly, joining forces with strategic alliances can be mutually beneficial and strengthen the impact of a venture. Partnering to source new clients is a proven strategy that minimizes cost. Alliance members advise that successful partnering requires commitment—it's not just about adding a company logo!

The Luxury Alliance is managed by Strategic Vision, a luxury travel marketing company headquartered in New York. Inquiries regarding the research for this document should be directed to Jason Coletta at jcoletta@strategicvision.org. More information on the Luxury Alliance is available at www.luxuryalliance.com.

Luxury Alliance Members



THE LEADING HOTELS OF THE WORLD, LTD., *Founding Member*

The Leading Hotels of the World, Ltd. represents more than 430 of the world's finest luxury hotels. Headquartered in New York City, the company today maintains a network of 24 regional offices in key cities around the world, the collection demands that a hotel must meet exacting standards of excellence in all areas affecting guest comfort, convenience and wellbeing.



RELAIS & CHÂTEAUX, *Founding Member*

Charm, authenticity and superior culinary standards are paramount to the success of the 453 Relais & Châteaux member properties, located in 50 countries on five continents. The prestigious portfolio of Relais & Châteaux properties and Relais Gourmands restaurants has garnered more than 300 Michelin stars and prominent rankings in surveys by *Travel + Leisure* and *Zagat*.



CRYSTAL CRUISES

Named "World's Best Large-Ship Cruise Line" by *Travel + Leisure* and "Best Large-Ship Cruise Line" by *Condé Nast Traveler* every year since 1996, Crystal Cruises leads the way in luxury travel on large ships. Crystal Symphony and Crystal Serenity make up its fleet.



SILVERSEA CRUISES

For the ninth consecutive year, Silversea Cruises was named "Best Small-Ship Line" by *Condé Nast Traveler* magazine. Recognized as an innovator in the luxury segment, Silversea offers guests large-ship amenities aboard four intimately sized vessels.



ORIENT-EXPRESS TRAINS & CRUISES

For over a century, rail travel on the Orient-Express has epitomized European sophistication and continental chic. The Orient-Express portfolio has grown with diverse luxury rail journeys, elegant canal and river cruises, and many landmark hotels and restaurants.



ADVENTURE COLLECTION

Formed in 2000, this prestigious association comprises 11 of the world's leading independent active travel companies including: Backroads, Buddy Bombard's Europe, Bushtracks Expeditions, Canadian Mountain Holidays, Geographic Expeditions, Lindblad Expeditions, Micato Safaris, Natural Habitat Adventures, National Outdoor Leadership School (NOLS), Outdoor Adventure River Specialists (OARS), and Off the Beaten Path.

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