

# Luxury Alliance

WHITE PAPER

## The Direction of Luxury

Senior management of the Luxury Alliance partner companies gather once a year for a roundtable meeting to review developments in the luxury segment of the global travel industry, and to discuss issues that will impact marketing strategies now and in the near future.

The annual white paper that follows presents the definitive view of the Luxury Alliance partners on global trends in the luxury travel market, as well as observations and ideas to shape future strategy.

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The roundtable meeting is 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 are The Leading Hotels of the World and Relais & Châteaux.

January, 2007

*The  
Leading Hotels  
of the World, Ltd.*



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## I. OVERVIEW

Hand in hand, luxury and affluence are on the rise. More consumers with more disposable income are entering the luxury arena, and reshaping the profile of the luxury traveler.

Gen X-ers have become key players in the luxury marketplace, with the Millennials making progressively greater impact as they enter the work force and embark on a career course. Meanwhile, Boomers now have unprecedented amounts of disposable income and the luxury of time to spend it.

Changing demographics call for progressively more creativity in marketing campaigns and strategic planning targeted to emerging and growth market segments. Similarly, a hunger for experiential luxury and the growing need for maximum personalization in delivery of the luxury travel product are driving a new approach to marketing.

Spa and wellness travel is the fastest-growing segment of the hospitality industry. According to the International Spa Association (ISPA), in 2005 the U.S. spa industry generated \$11 billion, which equates to 6% of the total U.S. travel and tourism industry, as reported by the World Trade and Tourism Council (WTTC).

This white paper addresses the impact of the changing landscape on marketing strategy, and elaborates on the following key issues identified by the Luxury Alliance as representing serious challenges for luxury providers in the hospitality industry:

- Faux branding is confusing the luxury hotel profile as revered hotel brands extend to collections of questionable integrity.
- Wall Street profiteering is impacting the industry with a flip-and-run policy geared to turning a fast profit on property purchases and speedy re-sales. Without the underpinnings of service or quality, these all-money deals lack integrity and value.
- Corporate identity theft in the form of online piracy is posing a serious threat to established brands that work diligently to create and maintain trust with consumers.
- Talent is short. Human resources represents the biggest strategic challenge facing the hospitality industry today.

## II. THE CHANGING PERSONA OF LUXURY

### The Generation Story

As generations acquire success and wealth at a progressively earlier age, they impact spending patterns in luxury goods and services, changing the profile of the luxury consumer and presenting new challenges to marketers. Three generations are currently at the forefront of the luxury marketplace.

Extraordinary amounts of disposable income and increasing time to spend it mean **Baby Boomers** (b. 1946 to 1964) are traveling now more than ever before. Approaching retirement with far more energy than previous generations, they pursue their interests and hobbies with a remarkably youthful zeal.

Their vacation decisions follow in-depth online research, but are influenced also by word of mouth. Their trips tend to be:

- longer, allowing for in-depth exploration at a leisurely pace
- often themed or educational (e.g. art and architecture, cuisine, enology, estate planning)

Now grandparents, Boomers are largely the organizing force behind multi-generational travel, an area of tremendous growth that has escalated dramatically since 9/11/2001. Re-connecting to strengthen relationships through togetherness, extended families are traveling in increasingly larger units. Growth of family travel is especially strong in the area of destination weddings, with group sizes now averaging between 50 and 100 members.

Boomers may have generated more ink to date in luxury marketing surveys than any other demographic group, but it's the **Gen X-ers** (b. 1965 to 1979) who will likely impact overall sales of luxury goods the fastest. The size of this consumer segment is in itself a factor that significantly impacts the marketplace. The European Commission noted in its report *Confronting Demographic Change: A New Solidarity Between the Generations* that across Europe, 25- to 49-year-olds are and will remain the single largest demographic group, representing 31.1% of the population in that area by 2025. Similarly, figures from the U.S. Census Bureau show that in the U.S., 20- to 44-year-olds form the single largest age group, and will equate 32.3% by 2020. Looking at the global picture, Forrester Research, Inc., notes: "In key world markets, when Boomers are divided into younger/older groups, Gen X dominates."

Gen X-ers have been outspending Boomers in the luxury goods category by a hefty 18%, according to the second annual American Express Platinum Luxury Survey published in June 2005. However, in the area of travel, Forrester reports on the U.S. market: "Gen X may be willing to part with their dollars, but U.S. Boomers spend one third more on travel."

"Boomers who are hitting 60 this year are approaching life like 35-year-olds."

The following figures are given:

Annual U.S. Household Spending on Leisure/Personal Travel		
Seniors (62+) . . . . .	\$2,842. . . . .	4.1 trips per year
Older Boomers . . . . .	\$2,995. . . . .	4.2
Younger Boomers . . . . .	\$2,947. . . . .	4.6
Gen X . . . . .	\$2,227. . . . .	5.3
Gen Y/Millennials . . . . .	\$1,581. . . . .	5.0

The Gen X approach is impulsive. A do-it-NOW philosophy leads to spur-of-the-moment leisure travel, with frequent weekend trips interspersed between longer vacations.

“When it comes to travel, make it international and extreme but with boutique accommodations. Food and beverages, make it quick, delicious and about me! Internet...it’s a way of life, fully integrated into every facet of the Gen X day.” – *Packaged Facts*, November 2006

Raised in a more moneyed and sophisticated environment than Boomers, many of whom achieved wealth after relatively modest beginnings, the Gen X luxury consumer:

- is fearless about spending
- has more disposable income at an early age
- carries substantial debt (e.g. credit cards and a high mortgage)
- is not intimidated by luxury
- enjoys a high degree of luxury in the home environment, and expects even more from a hotel room

“Generation X wants active days followed by very comfortable nights.”

While fine taste does not always guide the Gen X decision process, a sense of entitlement makes the rewards lavish and guilt-free. Trading up is as much a part of the day as going to the gym.

“They are very demanding, and they look for diversity.”

With higher expectations than any previous generation, **the Millennials** (b. 1980 to 2000) are poised to impact luxury spending with new direction now that older members of this group are entering the workforce. A protected childhood watched over by armies of caregivers, educators and chaperones has shaped Millennials to be confident, informed and inter-

ested in everything around them. Technology drives their decisions; they speak technology like a first language.

In their book *Millennials Rising*, Neil Howe and William Strauss write: "Today's kids believe in the future and see themselves as its cutting edge. They show a fascination for, and mastery of, new technologies—which explains why math and science scores are rising faster than verbal scores. Teens rank 'scientists' and 'young people' as the two groups that will cause 'most changes for the better in the future.' Nearly three in four 8- to 12-year-olds use computers, outdistancing older teens and adults alike."

Also: "By a huge ten-to-one majority, they believe it's their generation—and not their parents'—that will do the most to help the environment over the next twenty-five years."

Clearly, an environmentally-conscious approach by luxury marketers will be important in outreach to this group.

### Young Consumers Enjoy a Material Lifestyle

Research of leisure travelers conducted in 2006 by Forrester Research indicates greater focus among Millennials and Gen X-ers on preening and impressing people with their lifestyle. Forrester reports: "As consumers mature, their priorities shift. They're less likely to focus on 'preening,' and more likely to focus on their families or communities."

The same research project reveals a perception of luxury among these younger segments as "saving time and reducing hassle, not wider seats or club-level rooms – especially (for) Gen X."

Brand loyalty is not a primary driver of travel choices by younger consumers. Of people who consider themselves to be brand-loyal to any single travel company, Forrester reports a figure of 28% in the Millennials segment and 26% among Gen X-ers. This compares with 32% among older Boomers.

### Multi-Generationals Favor All-Inclusive Resorts in the Luxury Sector

A focus on value in multi-generational group travel spearheaded primarily by Boomers has been a catalyst for the emergence of more all-inclusive resorts in the luxury sector. Until recently, only a select few all-inclusives ranked in the ultra-luxury market. By covering all meals and beverages, and often sporting facilities and special amenities, they:

- offer value at the luxury level
- facilitate advance planning with a single, understandable price
- eliminate surprises in the bill

"Luxury travelers will know the cost of their suite in advance, but value can be an issue when a €9 coke or a €25 martini appears on the bill."

Luxury cruises have become a strong choice for multi-generational, particularly in Europe where families are arranging custom shore tours and enjoying the variety of complimentary activities for different age groups. Families are recognizing that the weak dollar has increased the already strong value of buying a European cruise in U.S. dollars.

"Boomer focus on family activity is driving increased interest in residence clubs and locations conducive to multi-generational group connections."

Residence clubs also are on the rise, offering stylish luxury accommodations for family groups. The Luxury Alliance forecasts a continuance of this trend as progressively more Boomers retire.

**Value in Luxury**

Underscoring the importance of value in the luxury sector, a 2006 comparison by Forrester of U.S. mass-market travelers and travelers with a net worth of \$1 million or more, exclusive of home and retirement funds, notes: "More affluent travelers than mass-market consumers may be brand-loyal, but they're equally price-focused."

Statements on value and price in the travel product generated the following responses:

	Affluent who agreed	Mass-market who agreed
Travel is an area in which I'm willing to indulge myself.	59%	34%
I would pay more for products that save me time and hassle.	51%	39%
I am willing to pay above-average price for noticeably better-quality travel products or services.	50%	35%
When buying leisure/personal travel, I consider myself to be brand-loyal.	41%	28%

**New Faces / New Places**

**Outbound Travel:** Luxury Alliance partners have seen significant growth in revenue through arrivals from Germany, Russia, the U.K. and the U.S.; Brazilians are traveling more, and the Japanese are covering progressively more terrain. China is clearly a huge growth market, but at this time a survey conducted by The Leading Hotels of the World estimates that only 250,000 Chinese represent a match for the company's demographics.

Changing demographics continue to reshape the profile of the luxury consumer. A forecast by the Hong Kong research firm CLSA Asia-Pacific Markets projects that the number of high-income households in India and China will more than double by 2010, reaching a combined total of 6.6 million. Rising levels of disposable income in emerging economies are making luxury increasingly accessible at a global level and boosting outbound travel figures.

In its 2006 edition of *Tourism Highlights*, the UNWTO reports on outbound travel: "In 2005, most markets continued the growth regained in 2004, when they rebounded from the depressed results of the preceding years."

**Inbound Travel:** While many traditional destinations remain all-time favorites with luxury travelers, the Luxury Alliance forecasts that destinations of enhanced interest in 2007 will be:

- Argentina
- Baltic States
- Botswana
- Brazil
- Indian Ocean
- Peru
- South Africa
- Vietnam

"While chic metropolitan capitals remain irresistible magnets for luxury travelers, the focus on exotic travel is building. In the luxury sector, destinations with a last frontier appeal, like the Galapagos Islands and the Serengeti, are attracting progressively more international arrivals."

The Alliance reports that the Mediterranean and the Baltic remain hot favorites for summer cruising; sea voyages to Brazil, China, India and Russia are gaining in popularity. Multi-component vacations are on the rise, e.g. passengers cruising from Cape Town to Dubai might leave the ship to take a safari in between, then return to the cruise.

In international arrivals, as reported by UNWTO, Turkey shows the highest growth rate for 2005 at 20.5% over 2004, followed by China at 12.1%. In this period, Turkey's revenue from tourism grew by 14.2% and China's by 13.8%.

Looking forward, the UNWTO projects the following international arrivals by region, with an anticipated total of almost 1.6 billion by 2020. The growth rate quoted here is calculated from 1995 through 2020.

Region	Arrivals Forecast 2010 (in millions)	Arrivals Forecast 2020 (in millions)	Average Annual Growth Rate % 1995 – 2020
Africa.....	47.0.....	77.3.....	5.5
Americas.....	190.4.....	282.3.....	3.9
East Asia/Pacific.....	195.2.....	397.2.....	6.5
Europe.....	527.3.....	717.0.....	3.0
Middle East.....	35.9.....	68.5.....	7.1
South Asia.....	10.6.....	18.8.....	6.2
<b>TOTAL.....</b>	<b>1,006.4.....</b>	<b>1,561.1.....</b>	<b>4.1</b>

**Growing Demand for Personalization**

The acquisition of wealth is progressing at an unprecedented pace, with increasingly more consumers gearing up to luxury purchasing. In the U.S. alone, the number of people with over \$1 million in liquid assets (i.e. excluding their home and retirement funds) is approaching nine million, equating 3% of the population according to Forrester Research. Forrester also notes: "Nearly 6% of Asian/Pacific Islanders claim combined household assets of \$1 million or more (excluding homes and retirement funds)." Using this \$1 million figure to define affluence, the firm reports: "Affluent travelers spend 2.7 times more on leisure travel than mass-market travelers." Amounts spent annually per consumer on travel by these segments are given as \$6,223 and \$2,341 respectively.

In this climate of enhanced affluence, guest relations call for progressively higher levels of personalization, sparking a rise in concierge services as a key focus of CRM (customer relationship management). Talented staff members now have a concierge mindset and are engaging guests in detailed discussion about accommodation choices and luxury services, and significantly impacting sales. A direct correlation between increased concierge services and guest spending is clearly visible; most frequently, a reservation placed with a concierge will encourage buying up and consequently be of significantly greater value.

This pattern is especially visible in tertiary cities, where hoteliers in the past have not always perceived the concierge as an asset. Now concierge value has appreciated by actively leveraging profitability; in driving luxury sales through personalization, concierge service is itself becoming a profit center.

Looking at the impact of personalization on reservations, the luxury sector has seen an increase in yield and conversion rate through voice. Relais & Châteaux reports that 42% of calls placed to its dedicated reservations line convert to bookings; and 32% of all bookings are made through voice contact. The Leading Hotels of the World reports a premium of \$161.10 with reservations made through voice, which have an average daily rate (ADR) of \$576.10 in comparison with an ADR of \$415 for overall reservations.

In-depth knowledge of the customer has gained heightened importance. Updating a guest profile is not simply a question of building a database of statistics but involves activities like:

- noting special dietary needs
- listing personal preferences illustrated in previous visits
- learning names of new family members

Clearly, customer relationship management (CRM) drives results. A focus on collaboration with the customer opens the door to a new paradigm in luxury marketing, with personalization and the creation of custom-designed services at its core.

### Ultra-Luxury Sets a New Pace

A quest for the very best is re-shaping the character of the luxury market, creating a climate where price is not an issue and ultra-luxury is out-performing all other luxury areas.

“With a concierge approach, we find that 97% of our customers are buying up; and it’s not a matter of rate, but a matter of wanting the best.”

“We book from the top down, and we teach our people to sell up.”

In the ultra-luxury sector of the hospitality industry, the most expensive hotel rooms and suites – and the most opulent staterooms on cruise ships – are now the first to sell. Lavish styling defines these accommodations. In direct contrast to the mood of minimalist austerity and sparseness that has driven many design projects in the luxury sector, a move towards *maximalism* is now adding extraordinary richness to the interiors, and a distinct sense of place.

### III. NICHE MARKETING

Strategic marketers are identifying new and expanded opportunities in the luxury marketplace, and are learning the enhanced impact of targeted niche-marketing initiatives to grow their market share.

Growing a community around a brand demands ingenuity in marketing campaigns, and a focus on emerging and growth market segments. Increased consumer interest in education and improving skills is an area where creativity in targeted initiatives can be effective. Topics of high interest among luxury travelers currently include art and architecture, food and wine, cooking, music and literature.

The gay, lesbian, bi-sexual and transgender (GLBT) community is clearly a growing luxury market segment, with the average U.S. household annual spending on leisure travel by this group reported at US \$4,766. Also an important growth market is women in business, now the fastest-growing entrepreneurial group in the U.S., with 7.5% owning a small business of 50 or fewer employees. Figures were provided by Forrester.

In marketing and advertising, campaigns designed to reach these and other specific communities, three key elements come into play:

- diversity
- customization
- sensitivity

To become a trusted brand, marketers must communicate in a language that resonates with a specific target market; distribution must be user-friendly, service-oriented and not intimidating. Sensitivity to cultural differences is critical in copy and visuals for collateral and marketing materials. Similarly, sensitivity in choosing advertising media is a key factor that can shape success, coupled with a respect for the community and its preferences.

In luxury niche marketing, as in all areas of luxury marketing, top producers recognize the importance of bespoke packaging to meet the ever-growing demand for customization and an experience that is both exquisite and unique.

### IV. PROTECTING THE BRAND

#### Brand Extension: True or Faux?

The Luxury Alliance has observed a plethora of brand extensions in 2006.

The December edition of *Hotels* reported announcements in mid-November by several prominent hotel companies to extend the brand, including the London-based Dorchester Group, currently with a portfolio of five hotels, and now planning to re-brand as the Dorchester Collection and grow through management contracts in Europe, the U.S. and Asia.

Expansions to be effected through marketing and alliances include the Waldorf Astoria Collection (owned by Hilton), St. Regis Hotels & Resorts, and the Crillon from Starwood Capital. In each case, the flagship property behind the name is a legendary hotel of extraordinary cachet and a landmark in a major metropolitan city.

“Faux brands equate to a lack of consistency and a departure from the real roots.”

The positioning raises several questions:

- Do these new collections truly extend the brand?
- Will the new properties that bear the brand name be equipped to match the ultra-luxury levels of comfort and service associated with the original flagship hotels?
- Or, lacking a service ethic, will they disappoint, and thereby diminish the profiles of these trusted brands?
- Will the outcome be brand dilution?
- Does this form of brand extension amount to exploitation of a celebrated name exclusively for marketing purposes?

For the Luxury Alliance hotel companies, protecting the brand against dilution is a priority over growth, with quality assurance always top of mind.

"We're protecting the brand because it's our number-one asset. It was a strategic direction we took 10 years ago to ensure our status as an exclusive association, and to guarantee the integrity of the brand by not permitting dual membership."

The brand-within-a-brand concept is rapidly growing, with *haute couture* a notable player in the hospitality arena. Armani, Missoni, Versace and Bulgari are leading the influx of designer names into the luxury boutique sector of the hotel industry. Primarily design-driven, will the properties bearing these celebrated names of fashion succeed in achieving consistency of product and service?

"With the rise of M&A activity, where Wall Street is looking for quick turn-around with no regard for service and branding, the Luxury Alliance is concerned about the ability to maintain identity and longevity."

## Flip and Run

The prospect of turning a quick profit has attracted a stampede of maverick financiers to the hotel industry, whose tactics are to purchase a property, operate and market it, then make a quick sale and exit with the profits.

Repercussions of this buy-and-flip ethic can be complex, and include:

- damage to a brand
- decrease of value for the consumer
- demoralization of employees

In the December 25, 2006, edition of *Travel Weekly*, Bill Poling wrote: "It may be too early to tell, but 2006 could go down in history as the year that kicked off a major wave of merger-and-acquisition activity in travel, fueled in part by an influx of cash into private equity and

hedge funds, the kinds of funds that have lots of money to spend on GDSs."

In the current market, the Luxury Alliance hopes that a Wall Street mergers-and-acquisitions approach will not ignore the importance of the underlying fundamentals of hotel hospitality that support a brand. Questionable branding and acquisition practices that employ marketing strategies to hype brand value without the underpinnings of true service and quality could present a serious threat to the industry, putting its credibility in jeopardy.

## A Return to Authenticity

The challenge of creating an ever more exclusive guest experience has sparked excesses that can jeopardize quality. Luxury travel providers are continually pressured to identify new trends that will endure and be of value, as opposed to fads that will quickly fade and die.

A move away from gimmicks has triggered a return to authenticity and credibility in the luxury hospitality experience, with a focus on consistency of quality in product and service.

Monitoring quality levels, Leading Quality Assurance conducts frequent and anonymous property inspections for members. The company's managing director, Trent Walsh, notes: "Hotels are moving away from contrived gimmicks like in-room dog menus. The focus is now back to creating special moments and memories that endure, like dinner for two served by a private chef on an elegantly set table just a few feet from water's edge."

Walsh notes that spa gimmicks, on the other hand, have risen, and many treatment menus have run amok with options of questionable value, e.g. wine and chocolate wraps. Walsh sees these foibles as short-lived, and already on the way out. The spa as well as the hotel experience is heading back towards authenticity.

Linked to this progression is an editing of superfluous staff positions, like tea sommeliers and housekeeping employees who come in only to deliver soap and shampoo. Wise hoteliers are protecting the brand through an increase in dedicated staff members to take special care of customers. Villa guests, for example, are now likely to be served by one employee who learns their needs and preferences, and protects the privacy and intimacy of their luxury vacation environment.

"It's more desirable to have a dedicated staff member and a sense of intimacy than 50 people who know you by name."

Luxury Alliance partners see a correlation between increased sales and consistency in the quality of product and service.

"The constant demand for novelty is an issue, and what is perceived as new can be excessive. It's important to recognize the value of quality and not lose your soul for the sake of newness."

## V. WEB PROMINENCE

### Re-Visiting the Marketing Mix

In 2006, worldwide Internet advertising grew from US \$18.7 billion in 2005 to \$24.4 billion, according to *ZenithOptimedia*, which anticipates further growth at a rate of 28.2% in 2007, seven times faster than the projected growth rate of 3.9% for other forms of advertising.

Forrester reports the dominance of search engine marketing, with \$7.07 billion spent by U.S. advertisers on this medium alone in 2006, and projected growth to \$11.6 billion by 2010. These figures are rounded and represent 6% and 8% respectively of amounts spent in the U.S. on all advertising media.

Travel marketers in particular are re-visiting the marketing mix and diverting funds from traditional marketing. In December 2006, *eMarketer* projected the following: "The advertising category that will really take off is hotel advertising, which will increase by approximately 8% – 9% in 2007, with some companies expecting to allocate as much as 20% of their advertising budgets to online marketing."

Internet users now total 1,091,730,861 globally (as of December 30, 2006), according to *internetworldstats.com*, which reports a growth of 202.4% in usage since 2000. Impact on the luxury sector has skyrocketed, with younger luxury consumers depending progressively more on the Internet as their primary source of information and communication. Affluent consumers are now more Web-savvy and actively engaged by online marketing.

Travel is becoming progressively more Web-driven. Luxury Alliance partners have seen significant growth globally in online sales over the past year:

"Ten years ago, you couldn't reach the affluent via the Web. It was a mass vehicle; today it's also a class vehicle."

- Relais & Châteaux reports online bookings at 37% of overall bookings for 2006, up from 32% in 2005.
- The Leading Hotels of the World reports Web bookings at 22% of overall bookings in 2006, an increase of approximately 30% over 2005.
- Orient-Express reports that online business continues to grow at 10%+ per annum.

Forrester projects a growth in U.S. online consumer spending on leisure travel from approximately \$70 billion in 2006 to approximately \$100 billion by 2010, and notes: "Leisure travel will account for 34% of the U.S.'s online consumer spending in 2010." In comparison, the estimated figure for Europe is 29%.

### More Destination Focus

However, the Luxury Alliance notes a distinct lack of online information for travelers, with too many hoteliers using the Internet merely as a platform for presenting a profile and offerings. Insufficient or inappropriate links fail to deliver the greater picture of the destination or a true sense of place. With increased vision and planning in website structure, providers can create more relevance for online consumers, which in turn will generate increased repeat business.

"With the excess of information now on the Web, guests need guidance from reliable sources."

Effective communications are better supported by an understanding that the Internet provides:

- a unique global forum for the exchange of ideas and opinions
- instant contact with the consumer
- a support arm for meeting guest expectations
- a vehicle for customization and integration through dynamic packaging

Delivery of accurate and up-to-date information is critical to preserving brand credibility with consumers who can now preview, plan and book all elements of a trip, from transportation and accommodations to spa treatments, dinner reservations and customized bespoke experiences. Dynamic packaging is facilitated by this enhanced accessibility, and on the rise. Consequently, linking to informed sites is key.

## Web Impact on the Role of the Travel Agent

With continuous change in the online landscape, many agents now are identifying opportunities in the growth of the Web, and stepping in to fill the vacuum between technology and human contact. In the luxury sector, the role of an advisor is more important than ever in creating a unique, custom-designed travel experience.

In spite of increased Internet usage, the affluent consumer is still a less engaged online buyer. Research in the third quarter of 2006 by Forrester indicates that while the average mass-market consumer researches 71% of his/her leisure travel online and buys 62% online, the affluent consumer researches just 68% online and buys 54% online. For the affluent traveler, a higher degree of control over specifics in the booking process, such as choice of room, is important and underscores the necessity of voice contact.

Knowledgeable agents are providing a fee-paid consultancy service, offering privileged access and seamless detailing. In emerging markets the ongoing need for agents is especially important, and their role is of significantly greater impact than in more mature ones.

Consolidation in the travel agent sector has led to increased strategic partnering, with top U.S. producers now working in partnership with luxury travel providers. The Luxury Alliance anticipates global growth for this marketing trend.

“The destination section on our home page is the most popular on our website. Clearly, it’s important to be selective about other sites we link to in order to provide accurate information for guests.”

## Web Piracy Tantamount to Corporate Identity Theft

Success has inevitably become a magnet for crime now that the Internet equips anyone with a website and a phone line to "create" a hotel chain. Fraudulent websites have sprung up in recent months from multiple sources, notably Eastern European and Southern African countries, posing as big-brand sites and luring customers to inferior hotel properties with no relation to the named brand.

Generally, in this situation, the consumer is in for a singularly unexpected guest experience. Without enlightenment, that consumer will blame his misfortune on the brand that fell victim to this new take on identity theft.

“The bogus website designers are highly skilled. They emulate the look of the real brand by copying the typeface and graphics style, often reproducing images from the original.”

These copycat websites and URLs represent a growing detriment to established brands and their loyal customers. Costs for legal intervention by victim brands are escalating dramatically, and the ongoing battle increasingly takes time away from the business of running an organization. Costs are incurred also by the need for policing the Web to uncover misrepresentations and ill-informed attacks that malign the brand and can cause long-term damage.

With no laws in place to regulate website content, the rise of intellectual piracy through fraudulent sites is causing marketplace confusion. Deliberately misleading the consumer, Web pirates feed off the good name of luxury companies while selling inferior services or products.

“Fraudulent activity dispels the illusion that branding alone is enough to attract the consumer into a relationship.”

The Luxury Alliance partners underscore the need for a global entity to control unethical Web practices, and advocate a joint initiative by government and business to form an agency tasked with this responsibility.

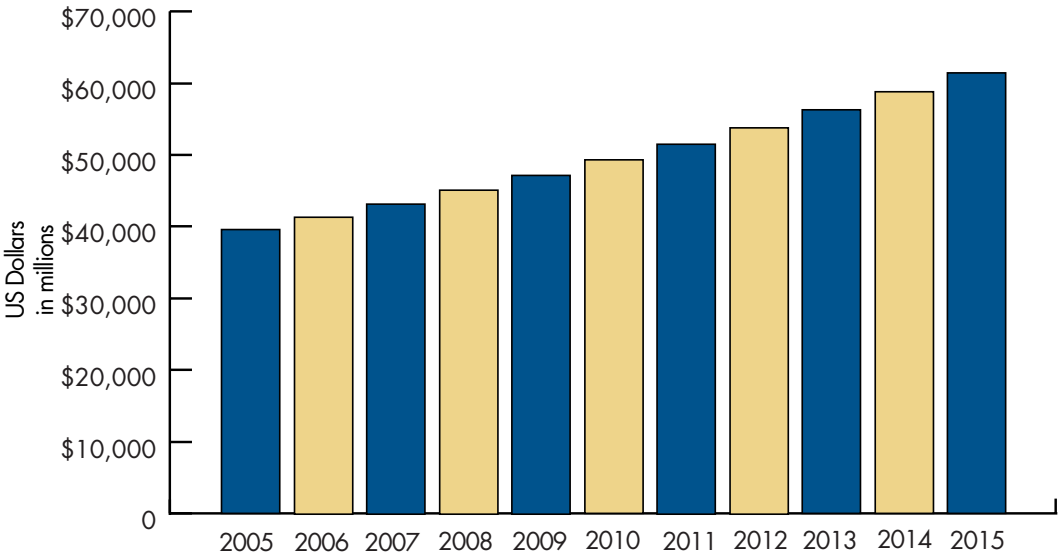
## VI. THE LUXURY OF WELLNESS

### Unprecedented Growth of Spa

Spa is currently the fastest-growing segment of the hospitality industry, and according to a 2004 travel monitor study by Yesawich, Pepperdine, Brown & Russell is the deciding factor behind one third of all leisure travel. In its May 2006 “Hot List” issue, *Condé Nast Traveler* reported: “The number of readers who have visited a spa abroad has more than doubled in the past five years, contributing to a \$40 billion annual business.”

Utilizing the 6% correlation documented in the U.S. and applied to the projected growth rates for geographic markets around the world as determined by the WTTC, The Leading Hotels of the World has projected a growth of the spa industry to more than US \$60 billion over the next 10 years.

Spa Industry Projected 10 Year Growth



## Growth and Emerging Markets

Leading Spas (within The Leading Hotels of the World) cites the following market segments for greatest growth:

- family and friends reuniting
- couples seeking to re-connect
- aging Boomers wanting to age in a healthy manner
- individual travelers looking to experience a unique destination
- travelers looking for relaxation through a spa/golf combination (often couples)
- freight professionals traveling on business and seeking a means to de-stress

Emerging spa market groups are:

- men\*
- pregnant women
- teens
- Boomers

\*A study by the Hartman Group with ISPA reports that men equate 29% of the spa clientele.

"Our spa bookings have doubled in the last year. The length of stay for spa properties is longer and the ADR is significantly higher."

## Spa Impact on Profits

No longer seen as an amenity, the spa has become an integral part of the hotel experience and an absolute necessity to a luxury property. Its role is multi-faceted. A spa can significantly enhance brand value, and is an important profit center in its own right, while simultaneously boosting profit levels in other operational areas.

"The average duration of a stay at a Relais & Châteaux property that has a spa is 32% longer than the global average at a Relais & Châteaux without a spa."

Spa reservations with The Leading Hotels of the World are of a significantly higher value, traditionally worth US \$5,000. Figures for the company's experiential spa packages, and several other special-interest packages that include a spa component, in November 2006 showed an average daily rate (ADR) of US \$525, with a premium of \$110 over the company's overall ADR of \$415. Sales of experiential packages doubled in 2006 in comparison with 2005.

"There's a trend towards a greater menu of services, and the appeal of spas is now spanning many generations because it's seen as a way to healthier ageing."

For total enjoyment of the very best spa experience, luxury spa travelers in general:

- stay longer and spend more
- book the highest-priced accommodations
- travel year-round, boosting shoulder periods
- prefer bespoke packages
- plan and book treatments in advance to avoid disappointment, sparking the new expression, "anticipointment"\*

\*A report by Leading Spas notes that "the primary complaint among spa goers, especially when travel is involved, is the inability to confirm and obtain scheduled time for spa treatments."

According to a survey conducted by Leading Hotels, 75% of luxury travelers would prefer to book spa appointments online rather than by calling the spa. This preference eliminates potential problems incurred by language barriers, human error, on-hold queue, difference in time zones, accessibility, unanswered calls and a restricted view of available services.

Benefits of online booking for the spa also are significant, lowering the chance of loss of business through on-hold queue, failure to meet service expectations, and human error.

A trend towards more exquisite services is emerging. The double spa suite is becoming increasingly popular, and family travel to spa properties is on the rise. A focus on diversity in fitness routines has lengthened the menu of

program offerings, now featuring such regimes as Pilates and Chi Kung, plus bodywork therapies like Zero Balancing, Reiki and Cranio-Sacral. Preventive therapy is as much in demand as curative treatment, and the emotional benefits are valued now as highly as the physical ones, making a spa visit a body-mind-and-spirit affair.

“In the past two years, the number of spas within Relais & Châteaux has grown at a pace of 30 new spas per year.”

### Investment in the Spa Concept

Forward-thinking hotel companies are investing heavily in the spa concept with new builds, and reinvesting in existing properties with additions, expansions and upgrades. In some cases, guestrooms are being reclaimed to grow the spa space.

This activity is raising the level of sophistication and diversity, which in turn generates greater return. More treatment rooms and expansion of exquisite treatment selections can significantly build profits. A March 2006 report by *hotel-online.com* presented data from PKF Hospitality Research that confirmed “a high correlation between the number of treatment rooms and total spa revenue.”

### Medical Spas and Cure Travel

More luxury consumers are choosing to combine surgical procedures, especially plastic surgery, with vacations that extend through the post-op recovery period. Overall price and the interest level of the destination drive decisions.

“Western Europeans and North Americans are traveling to India for a procedure with a top surgeon at a top facility. Recovery time is a spa vacation. And the total cost is a fraction of the procedure alone in their home city.”

A growing focus on travel for advanced medical treatment, for both life-threatening illnesses and elective surgery, now necessitates a high level of involvement by medical practitioners. Affluent patients are crossing continents to find the best possible physicians and care, traveling in particular to the U.K., U.S., Sweden, China, Singapore, Thailand and India, according to Fred Nazem, chairman and CEO at Flagship Advocates, an organization that connects members with top physicians around the world.

Nazem feels that research on the Internet has awakened an understanding among patients of the vast differences in quality within the medical world, and comments: “There’s been an explosion of knowledge in medicine, and the key to its benefits is not the institution you go to or the health plan you have; it’s the physician you choose.”

## VII. THE TALENT CHALLENGE

### Inadequate Initiatives

Continuously challenged by staffing problems, the hospitality industry is urgently in need of an influx of talent. Initiatives to attract young people to career positions are currently inadequate, doing little to promote the attractions of an industry that can fast-track promising candidates to mid- and senior-management positions with excellent salaries and benefits, and great potential for world travel.

The concept of enrichment, reward and success is sadly overshadowed by the image of long hours and poor pay that has long defined the environment of transient workers in the industry's low-level jobs.

### Collaboration

While the best hotel schools provide an excellent foundation, there are too few of them to meet the growing demand for management-quality graduates. Furthermore, a distressingly high percentage of new graduates are lured away by other industries, discouraged by a poor perception of what the future holds in the hospitality business and attracted to avenues with more visible promise of success.

"Service is the largest industry in the world and we need to convey its scope of opportunity."

Immediate steps that luxury travel providers might consider include:

- Increased collaboration with consulting firms and academic institutions.  
"We need to work more with hotel schools like Cornell, where there were 10 student applicants for every place last year."
- More internships for hospitality students, potentially leading to career positions.  
"Sponsorship of hotel schools is productive. By creating internships for 230 students, we have attracted more than half to become company or member hotel employees."
- More training, plus special programs and events to reward employees and express appreciation.  
"Investing in staff is key. Training, recognition and mobility are important. Give employees the tools they need, reward them for good work, and open the door for changing positions."
- An open-door policy for valued staff returning to a company.  
"When staff leave, you don't want to close the door. Those who return later bring more experience to their positions, and send a positive message that this is a good company to work for."

"The travel industry needs a wake-up call on people and HR issues. The industry has done a miserable job of publicizing career opportunities for educated people."

## VIII. THE WAY FORWARD

In addressing key issues and challenges faced by the industry, the Luxury Alliance offers the following recommendations:

### **Acting as a Consumer Advocate – Faux Branding**

The Alliance underscores the need for taking a consumer advocacy position on the matter of branding practices. It is hoped that new hotel properties bearing revered names will be marketed and operated with integrity, and in keeping with the luxury travel industry's underlying premise of world-class destinations, service and people.

### **Countering Web Piracy**

The need for a qualified and dedicated agency is crucial in order to curb the rise of fraudulent websites that now operate on a basis tantamount to corporate identity theft. The Luxury Alliance partners view a collaboration of government and industry as the most effective foundation for such an agency.

### **Designing Targeted Marketing Initiatives with Maximum Creativity**

New and emerging markets require special focus and call for sensitivity to the culture and language of a community. In-depth local intelligence is important in developing targeted initiatives.

### **Building Loyalty**

As Gen X and Millennials mature, their brand loyalty will become increasingly more important. Luxury travel providers will benefit long-term by laying the foundations now for an ongoing relationship.

### **Achieving Consistency of Quality in Product and Service**

Consumer trust and loyalty are built on consistency. Brands that invest in achieving and maintaining consistency are trusted brands and will endure.

### **Ensuring Authenticity in the Travel Experience**

Underscoring the focus on quality, Alliance partners support the move towards authenticity in creating a luxury travel experience that is memorably enduring in its purity, and free of contrivance.

### **Tapping into Young Talent**

In this highly competitive business environment, corporations are already investing heavily in the Millennials. The travel industry, however, has yet to discover this valuable source. Wise luxury travel providers will quickly tap the talent of this newest generation with a strategy that encompasses recruitment, training, management, motivation, reward and building a future.

### **Maintaining a High Level of Flexibility**

The travel industry is forever at the forefront of any type of crisis on the planet, from natural disasters to acts of terrorism, fluctuating oil prices and economic volatility. Even media reporting can impact business. While protection against the unexpected and the unpredictable is an enormous challenge, the Luxury Alliance underscores the importance of maintaining a level of flexibility.

# Luxury Alliance Partners

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## THE LEADING HOTELS OF THE WORLD, LTD.

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 meet exacting standards of excellence in all areas affecting guest comfort, convenience and wellbeing.



## RELAIS & CHATEAUX

Charm, authenticity and superior culinary standards are paramount to the success of the 460 Relais & Châteaux member properties, located in 51 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 the readers of *Travel + Leisure* and "Best Large-Ship Cruise Line" by *Condé Nast Traveler* readers for 11 consecutive years, 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*. Recognized as an innovator in the luxury segment, Silversea offers guests large-ship amenities aboard four intimately sized vessels.



## ORIENT-EXPRESS HOTELS 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.

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