



## Hospitality 2015: Tourism, Hospitality, and Leisure Trends

# Contents

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<b>Emerging markets in the hospitality industry</b>	<b>1</b>
Expand contractions globally hitting the road? The new middle class in China and India	2
• How big is the opportunity?	3
• Turning consumers into customers	5
• Constraints and considerations	6
• Deloitte’s emerging markets framework	7
<b>Sustainability in the hospitality industry</b>	<b>8</b>
For consumers, sustainability and luxury are becoming a single value proposition, increasingly powered by social media	9
• Who cares about sustainability? Everyone, really?	10
• Step 1: Leverage consumer sentiment	12
• Step 2: Engage guests and consumers	13
• Step 3: Leverage social networks to communicate	14
• Step 4: Create a special customer experience	15
• Step 5: Use a solid framework to keep sustainability alive	16
• Conclusions	17
<b>Brand building and beyond: Using social media strategically</b>	<b>18</b>
What could be more hospitable than using social media to reach out to everyone: customers, employees, recruits, and the public at large?	19
• Why does social media matter?	20
• Social media in the hospitality industry today	21
• Social media done “right”: Views of the “should be” state	23
• Social media: An enterprise framework	25
<b>Contacts</b>	<b>26</b>
<b>References and further reading</b>	<b>27</b>

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# Who's hitting the road? The new middle class in China and India.



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For the past several years, companies in the hospitality industry have counted on the burgeoning baby boomer generation to fuel growth in expenditures on leisure and travel. A safe bet, everyone agrees.

Now, a second demographic trend has the potential to bump up spending: the quickly growing middle class in China and India, newcomers to leisure travel and a potentially huge (and untapped) group of customers for hospitality companies. In the past, investment in emerging markets has focused on upscale, luxury hotels for well-heeled tourists. But the new middle class opens up the door for the development of mid-market, budget properties in virtually virgin territories.

#### **What's an enterprising hospitality company to do?**

The same fundamental building blocks used for making sound investments — and then realizing a sufficient and sustainable return — apply when considering expansion in emerging markets: 1) identify practical opportunities, including the partners and structures most likely to plant a solid footprint; 2) understand consumers, what they want, and how to reach them; and 3) anticipate challenges, from regulations to infrastructure. An understanding of these fundamentals can create a context for informed decisions about emerging market strategies and objectives.

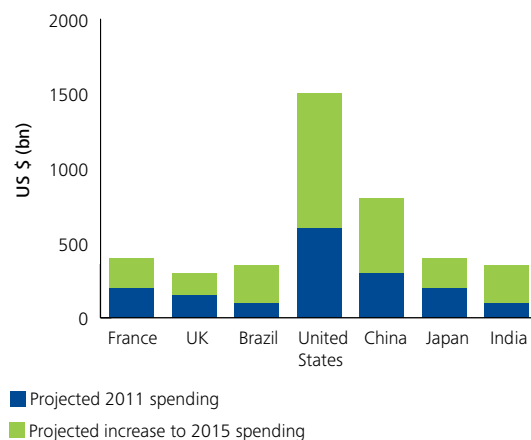
**Where will your business be in 2015?**

# 1. How big is the opportunity?

**What's the expected growth rate for tourism spending in China and India? How big are the investment opportunities for hospitality enterprises? What organizational structures are most likely to enable entry and support ongoing success?**

Based on original Deloitte<sup>1</sup> research,<sup>2</sup> we expect China and India to experience growth in leisure tourism spending comparable to or greater than that for many mature markets through 2015 (chart A).<sup>3</sup>

**Chart A: Projected Leisure tourism spending: 2011-2015**

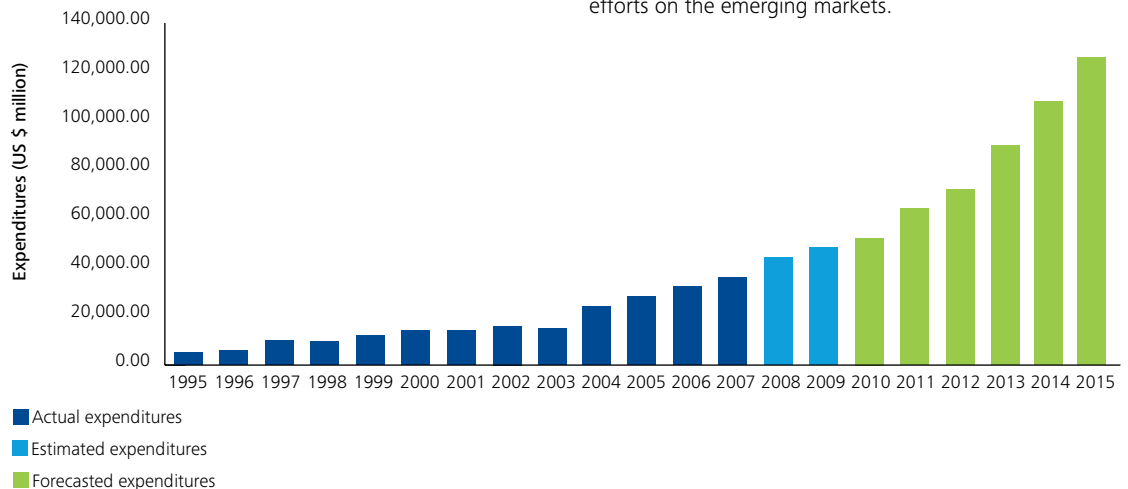


The growing size of the middle class — forecasted to exceed 600 million people for India and even more for China<sup>4</sup> — has led to an increase in domestic travel in these countries. In China, domestic tourism grew by 30 percent from 2005 to 2007 (Chart B).<sup>5</sup> In India, domestic travel increased by 15.5 percent in 2009 (Chart C)<sup>6</sup> and international tourism is expected to quadruple by 2015.<sup>7</sup> Of course, while middle-class tourists might like to travel as much as the wealthy, their budgets are relatively modest; hence, the booming opportunity for hotels in the mid-scale-to-budget spectrum. Growth in the hospitality industry in China and India, especially at mid-market levels, has also been fueled by recent international events, such as the 2010 Commonwealth Games in Delhi and the 2008 Olympics in Beijing.

Many hospitality companies have already built hotels to appeal to luxury markets, targeting mainly the international trade (see sidebar, U.S. Hotel Chains in China). But as the number of domestic travelers begins to surpass that of globe-trotters, the same hotels are welcoming the opportunity to expand their operations in China and India by building properties for secondary and tertiary markets.<sup>8</sup>

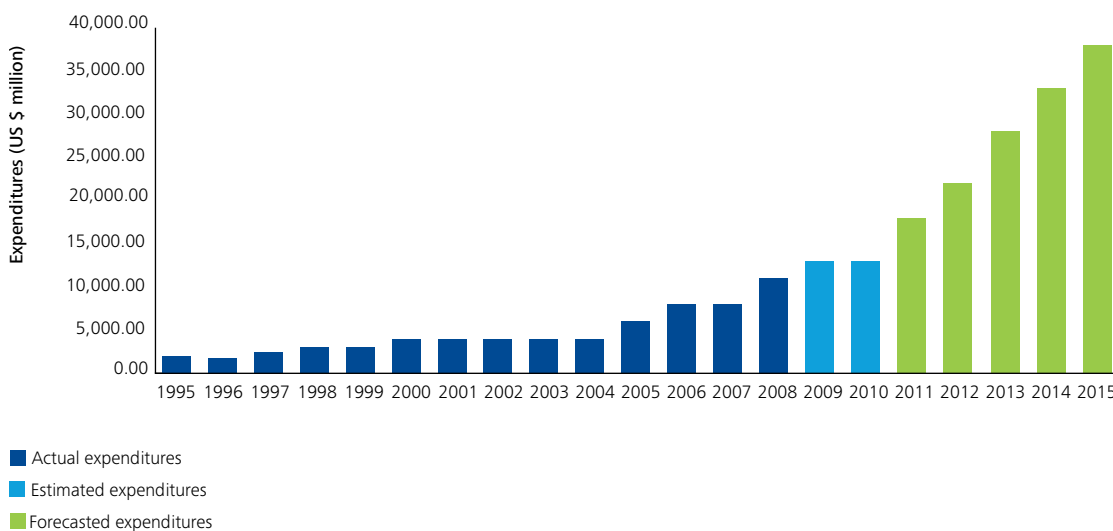
Compounded annual growth rate is expected to reach 25 percent in the “budget” segment compared to 8-10 percent in the luxury segment. Towards the end of 2010, 10 percent of the hotels in China were international chains, with more middle-market hotels like Hampton Inn, Four Points by Sheraton, and Holiday Inn Express focusing efforts on the emerging markets.

**Chart B: Total tourism expenditures – China**



Source: Economist Intelligence Unit (EIU), Data Services, December 2010

**Chart C: Total tourism expenditures – India**



Source: Economist Intelligence Unit (EIU), Data Services, December 2010

Eager to promote growth in their hospitality sectors, China and India have increased their budgets for marketing and traveler/developer incentives.<sup>9</sup> To combat the pressures associated with the economic downturn, the Reserve Bank of India launched a stimulus package to foster and encourage growth, while reducing interest rates and cash reserve ratios — all to promote India as an international tourist destination through its “Visit India” campaign in 2009.<sup>10</sup> China has significantly improved its infrastructure to make traveling across China less burdensome and more cost-effective, thereby encouraging hotel companies to expand outside of major cities (see section III).

**Inside track: Joint ventures ease entry**

The success of Western companies in emerging markets often depends on joint ventures or partnerships. Eighty percent of the world’s largest enterprises who have established a presence in China have done so through joint ventures.<sup>11</sup> Hospitality companies are no exception. In a typical joint venture, the physical structures are Chinese-owned, while the international hotel brand is responsible for worldwide marketing, management, training, and compliance with brand standards.<sup>12</sup>

In China, joint ventures (or some other form of partnership) are not just popular but necessary because of the heavy restrictions imposed on foreign entities (see section III). In India, the largest incentive for joint ventures is a lower tax rate for a domestic business versus a foreign entity operating in the country.<sup>13</sup> Foreign hotel groups also face growing, local competition. According to Philip Ho, vice-president of Leading Hotels of the World, Asia-Pacific, domestic investors in China are hoping to create their own hotel brands. “On one hand, they will collaborate with global chain brands; on the other, they also want to create their own legends, and this is where we come in,” he says.<sup>14</sup>

**U.S. hotel chains in China**

- Starwood Hotels: 62 hotels, 86 more in the pipeline
- Marriott International: 46 hotels, 29 more in development
- Hilton Worldwide: 13 hotels, 55 more in development
- Carlson Hotels: 11 more planned
- Hyatt Hotels: 12 hotels, 22 more in the pipeline
- Wyndham: 270 hotels

Source: [http://travel.usatoday.com/hotels/2010-10-26-chinahotels26\\_CV\\_N.htm](http://travel.usatoday.com/hotels/2010-10-26-chinahotels26_CV_N.htm)

## 2. Turning consumers into customers



### What appeals to the emerging middle-class travelers in China and India? How does a Western company reach them and please them?

When it comes to entering new markets — especially with a service as personal as hospitality — it's fundamentally important to “get” the local consumer.

For example, the needs and priorities of Chinese travelers differ from those of their Western counterparts. For one thing, the Chinese have a greater desire to be associated with branded hotels, as 49 percent of the Chinese public believes that branded goods are better than nonbranded goods, as compared to only 16 percent of Americans.<sup>15</sup> Additionally, the dietary needs of Chinese travelers are different. While many international hotels feature a hamburger on their menus, more hotels are now incorporating Chinese delicacies to their offerings to satisfy Chinese guests. Similarly, hotels are offering more vegetarian options to accommodate Indian guests.<sup>16</sup> Also, to satisfy Indian travelers, foreign hotels are training their staff on how to host an Indian wedding and how to care for other large groups travelling together.<sup>17</sup>

The differences in consumer expectations are evident in ranking systems. The five-star system to rank hotels used in the United States and Europe is applied similarly in emerging markets, but with vastly different

and inconsistent results because of poorly enforced guidelines.<sup>18</sup> The result, according to Artemis Wang, a former member of Accor's branding team, is that a hotel's score is relatively inflated. For example, Holiday Inn and Howard Johnson, considered mid-scale hotels in the US, are four- and five-star hotels in China.<sup>19</sup> This can lead to disappointed customers and brand confusion, especially for hospitality companies with multiple sub-brands under their international umbrella.

On the flip side, while a Western hotel might have a smaller market share compared to a domestic company serving China and India, it does have the advantage of a global brand. With relatively robust marketing groups, Western hospitality companies generally know how to leverage economies of scale to reach and attract both international and domestic travelers through the Internet, advertising, and promotions.

In fact, travel Web sites play an important role in enabling Western brands to reach domestic travelers. In China, Internet-initiated travel is more than \$122.4 million annually,<sup>20</sup> with a huge potential for growth. In 2010, India saw a 50 percent jump in visitors to travel sites compared to one year prior. Now, 37 percent of Internet users in India are accessing travel websites.<sup>21</sup> Clearly, the Web is an unmatched opportunity for Western brands to reach more individuals in markets in every corner of the world.

# 3. Constraints and considerations

## What barriers might inhibit or prevent a successful expansion in China or India?

### Red tape and taxes: Regulations challenge Western investment

In India, a hotel wanting to set up shop needs 110 licenses or clearances from the government. Also, the regulatory environment limits ownership of a US firm operating there. Prior to 2009, foreign entities could own only up to 40 percent of an Indian company. That number has since increased to 100 percent in some cases. Companies can open foreign branches in India, but the liability of the parent company is greater. Additionally, India has signed a double taxation treaty with more than 70 countries worldwide to prevent foreign entities operating in India from paying taxes on earnings in India and their home country. While tax rates for foreign entities are still higher, Indian policies are increasingly more open to foreign investment, as a tool to fuel the growth in the emerging market.<sup>22</sup>

China's regulatory environment poses even greater challenges for Western firms. If an international organization wants to form a joint venture in China, the government has final approval of the contract. In fact, the government can demand changes to the contract terms up to the moment of sign-off. Hotel projects, including the development and operation of luxury hotels and resorts, are considered restricted. Government approval for projects, including new construction and redevelopment, is required on a case-by-case basis. Joint ventures, with foreign majority ownership, have an easier time getting approvals for the construction, renovation, and operation of hotels and restaurants.<sup>23</sup>

### Getting around: Infrastructure is evolving

When it comes to infrastructure, the story has a "good news/bad news" balance.

First, the bad.

In both countries, land is scarce and expensive, especially in the major metropolitan centers. The cost of land can

account for 30-50 percent of development costs for a new hotel, compared to the more typical 15-20 percent. The cost has been driven up by the limited supply, coupled by bidding wars among international developers.<sup>24</sup> While the cost of ongoing operations is more reasonable, hotels outside of the major markets are not always accessible to visitors, either domestic or foreign.<sup>25</sup>

In addition, in many of the smaller cities, it is difficult to find a talented and skilled workforce to staff the hotels. One study of hotels in China discovered that customers were unsatisfied with the level of knowledge staff had about hotel services and felt that the food and beverage service was lacking.<sup>26</sup> To help combat this issue, several hotel companies have opened up dedicated training academies in China, and Accor plans to do the same in India.<sup>27</sup>

Now, the good (or mostly good).

China has made great strides in building up local infrastructure to open access for domestic travelers across the country. At the end of 2010, the fastest train in the world began running from mountains in the Southwest, allowing travelers to move from Chongqing to Wuhan in 10 hours when it previously took 22.<sup>28</sup> In addition to improving ground travel, China is also accommodating the growth of domestic air travel by planning to build nearly 100 new airports over the next 10 years. In 2008, the largest airline terminal in the world opened in Beijing, while passenger capacity at two major airports, Shanghai and Guangzhou, increased. By 2020, China is expected to add 1,600 jets to its fleet.<sup>29</sup>

In India, the government is spending \$1 billion to modernize non-metro airports in secondary cities like Ahmedabad, Bhopal, and Pune in hope of easing congestion and delays at airports in Mumbai and New Delhi.<sup>30</sup> Yet, train and road travel remains underdeveloped, especially in villages. Dr Anand Sethi, an adviser to European corporations, says "We have world-class hotels and airlines, but only basic transportation in the villages."<sup>31</sup>



# 4. Deloitte's emerging markets framework

Emerging markets present seemingly limitless opportunities for hospitality and tourism companies. To help our clients exploit that potential, Deloitte has created an emerging markets framework.

The framework guides a company in adapting its offerings to align competitively with local markets and preferences. Large hospitality enterprises can leverage the quality and service associated with their brands to develop new properties that appeal to the middle-class domestic travelers who are fueling tourism market in countries like China and India.

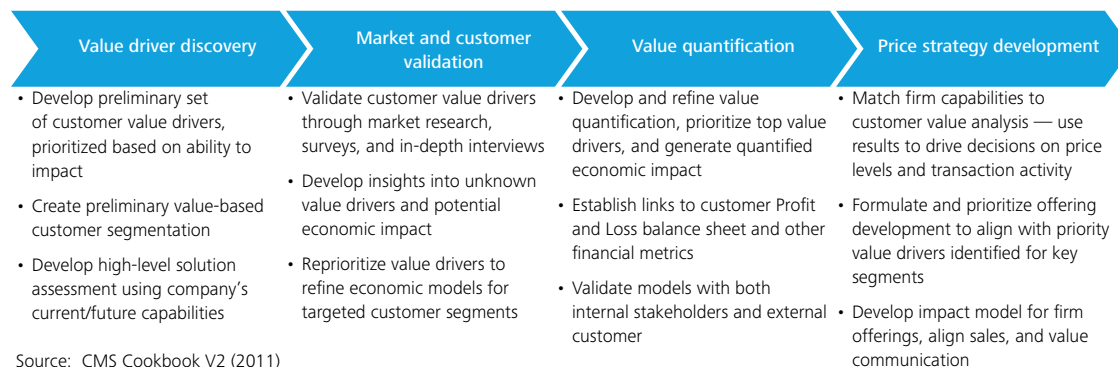
The framework maps the 10 dimensions of performance required to support value creation, protection, and enablement (Chart D). These 10 dimensions (such as business strategy, risk management, operations and logistics, and talent management) encompass 30 capabilities, which need to be developed, in varying degrees, depending on the company's strengths and strategies.

Included in the framework are methodologies to help guide international businesses in their efforts to understand business and related requirements when entering and operating in emerging markets.

For example, a customer value and profitability analysis shows the value generated by different groups or types of customers. Measuring customer value involves answering two questions: "How do we measure value? Which

**Chart E: Customer value and profitability analysis**

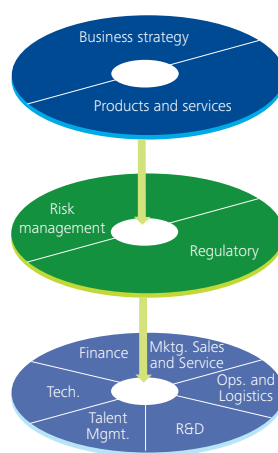
## Approach key activities



Source: CMS Cookbook V2 (2011)

customers drive value creation?" Being able to segment and categorize customers allows the hospitality company to make better decisions about development locations and property types (budget to luxury). To conduct an analysis, an organization defines the customers or segments to be evaluated, and then assesses and profiles each segment based on revenue generated, costs to acquire and serve, and potential value to the company (chart E).

**Chart D: Emerging markets framework**



■ Value creation ■ Value protection ■ Value enablement

### Value creation

Companies first use capabilities within these dimensions to set the approach for emerging market growth and the go-to-market strategy

### Value protection

Once companies have selected the countries for sales focus, a critical requirement is understanding how local regulations and market-specific risks will influence how the company operates in country

Strong regulatory and risk management capabilities are essential to navigate the risks and challenges associated with emerging markets

### Value enablement

Key consumer-facing and back-office capabilities are determined once the business, go-to-market, and country strategies are developed

## What's your next step?

If you'd like to explore your strategic options or your operations plans for expanding and growing your business in emerging markets, such as India and China, we'd like to help.



# For consumers, sustainability and luxury are becoming a single value proposition, increasingly powered by social media



Sustainability initiatives are often seen as antithetical to the pampered experience that hospitality companies aim to deliver. But for US consumers, there is growing evidence that the two ideas are no longer always at odds. In fact, as consumers come to care about their collective impact on the environment, they increasingly choose to do business with those companies that can deliver value in a responsible and resource-conscious manner. At the same time, economic pressures continue to prompt a pursuit of “bigger bang for the buck” value, especially among middle-class consumers, the bread and butter of the business. By 2030, the global middle class is expected to triple.

In light of these trends, we propose that when it comes to sustainability, the question is not “Should we?” but rather “How can we do it all — deliver sustainable, yet still luxurious, service — for less?”

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Sustainability — defined by the U.N. World Commission on Environment and Development as “development that meets the needs of the present without compromising the ability of future generations to meet their own needs” — is one way a business in the hospitality industry can find a point of differentiation in a highly competitive field full of “same as” enterprises.

But will it pay? The answer, “yes.”

# Who cares about sustainability? Everyone, really.

In a recent study, Deloitte found that consumers who characterized themselves as “green” tend to be “somewhat older, have more income than average, have fewer people in their household, and are better educated than average” — in short they’re baby boomers (born 1946-1964).<sup>32</sup>

Coincidentally, Baby Boomers are also expected to have the greatest impact on the hospitality industry in the near term, as detailed in “Hospitality 2015 – Game changers or spectators?” (Deloitte, 2010). “By 2015, US boomers are expected to own almost 60 percent of the US nation’s wealth and account for 40 percent of spending. For many, travel [tops] their list of desired retirement activities.” One can reasonably assume that those who are eco-conscious in choosing consumer products will exhibit the same behavior while traveling.

This is not to say that an interest in sustainability is exclusive to Baby Boomers. In fact, resource conservation is a global movement in which everyone is a stakeholder. A recent Deloitte study found that while Baby Boomers are most likely to engage in sustainable behavior while traveling, Gen X (born 1965-1979) are most likely to work

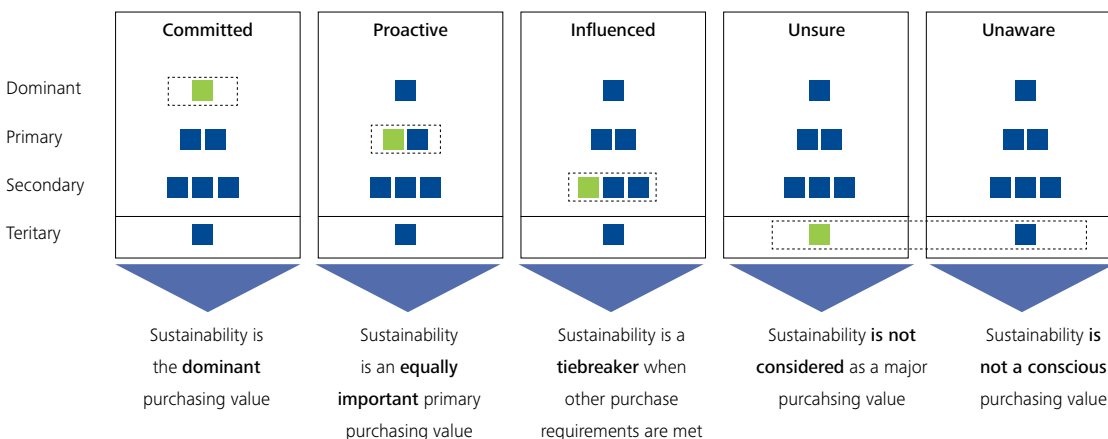
and travel for companies that value sustainable partners, while Gen Y (born 1980-1994) are most likely to pay extra to stay at a green establishment.<sup>33</sup>

Surprisingly, the same study showed that green consumers buy more and shop more often, a finding in stark contrast to the depiction of the eco-conscious consumer as an austere idealist. Each consumer, green or otherwise, has a value hierarchy that includes price, quality, and convenience. In categorizing consumers based upon the relative importance of sustainability in relationship to these other values, we created a behavioral model, illustrated in chart 1.

Fifty-four percent of the 6,000 consumers surveyed classified themselves as committed, proactive, or influenced. In other words, more than half considered sustainability when making a purchasing decision. To be clear, however, while sustainability was not weighted equal to the other values, it did act as a differentiator or “tiebreaker” when all else was equal. In a crowded marketplace sector like hospitality, leveraging such a differentiator could make the difference between being a market leader or follower.

**Chart 7: “Green” behavior model**

The behavioral model illustrates green as a purchase driver relative to its position in the shopper value hierarchy



Given those powerful and persuasive arguments that lay a foundation for a strong business case, what might explain the disconnect between what guests are looking for and the value proposition of most hospitality providers? One major problem is out-of-date hotel rating systems. For example, one major rating agency requires a five-star hotel to have a “cloakroom” service, an amenity of little or no value to most guests; yet, the system does not incorporate “green” as a positive characteristic in the rankings. Consequently, an opportunity is being squandered to engage green consumers, as hotels continue to “check the boxes” when describing the value they deliver, even though some of these features do not necessarily enhance a guest’s experience let alone appeal to eco-conscious consumers.

Granted, sustainability can seem a little esoteric; but that makes it simply more important that each company define a value proposition and a return on investment (ROI) that are aligned to its business strategies and goals.

In a recent story in GreenBiz (June 22, 2010), Frits van Paasschen shared the plans of Starwood Hotels and Resorts to cut energy use by 30 percent and water consumption by 20 percent in each of its 1,000 hotels by 2020. The CEO says that sustainability makes good business sense because “guests are choosing brands that share their sense of purpose for reducing environmental impact. Meeting and exceeding these expectations of our brands is a critical aspect to the way we see the future and importantly, our future success.”<sup>34</sup>

With this context in mind, there are five steps a hospitality company should take to make sustainability a viable — and profitable — part of its business and operating strategies.



# Step 1: Leverage consumer sentiment

To date, most sustainability initiatives in the industry are on the supply side with the intent of reducing costs. For example, across its \$10 billion supply chain a major hotel brand has asked vendors for products, such as green key cards, “room-ready” towels, recycled pens, low volatile organic compound (VOC) paint, biodegradable laundry bags, green laundry detergent, low-energy light bulbs, low environmental impact carpet, water-efficient toilets and shower heads, and EcoSmart™ pillows.<sup>35</sup>

A next step is for companies to include consumers in their sustainability programs, which makes sense since this more assertive stance would require the enterprise to define a clear value proposition, and then calculate an ROI for any programs and promotions.

Specifically, a company would need to dematerialize its service offering so that luxury is measured not in terms of material inputs but rather in terms of the “customer experience.” The new ROI calculations would need to weigh quantitative costs against qualitative benefits, such as customer loyalty. These actions would clarify a revenue-driven model for justifying an investment in sustainability and enable the company to pursue this emerging and evolving market. Thus, demand-side initiatives could grow revenues by catering to consumers who are increasingly eco-conscious.

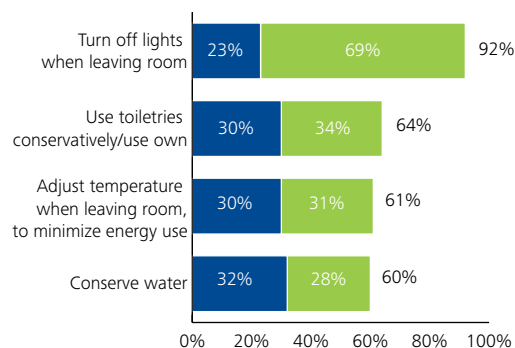
Of course, when it comes to energy usage and resource consumption, the hospitality industry differs from most in that, at any time, a property’s performance depends on a collection of consumers with differing agendas and motivations. Consequently, sustainability goals cannot be reached by corporate edicts alone.

The good news: consumers as a whole are already progressing along a green learning curve. A recent Deloitte survey assessed actions business travelers “always” or “frequently” take (chart 2) when staying in a hotel. The results demonstrate that 1) some consumers are already or always willing to act sustainably and 2) others would likely exhibit the same behavior if reminded to do so. That’s why consumer engagement (step 2) and education<sup>36</sup> have to be part of a revenue-driven business case; without it, a hospitality provider can’t be certain of optimizing its sustainability strategy or performance.

And there’s more good news: once sustainability tips the scale in a purchasing decision, the consumer tends to be more loyal to that choice, as documented in many Deloitte studies. Specifically, when a shopper consciously selects a green product, the implied personal contract of social responsibility makes it less likely that he or she will change that choice in the future.

**Chart 8: Actions on the road**

Business travellers take numerous green actions while staying at a lodging facility



# Step 2: Engage guests and consumers



Every brand wants to make an emotional connection with customers, and hospitality providers are no exception. Sustainability is an opportunity to hit this sweet spot. If the company can position itself as “the place” where guests can remain true to their values, committed to socially and environmentally responsible behavior even when away from home, it can strengthen its brand identity and increase customer loyalty.

Initiatives to engage guests on sustainability need not — should not — trigger drastic behavioral changes. Instead, brands should enable and encourage guests to participate in activities designed to promote sustainability. For example, Starwood’s “Make a Green Choice” program rewards guests who forgo towel and linen replacement or general housekeeping with a \$5 gift card or loyalty points.

Engaging consumers begins with an understanding of their behavioral drivers.

Deloitte has found that, at the point of sale, a customer’s inclination to buy green is often inhibited by 1) lack of information on how to act, 2) confusion about priorities, or 3) a limited understanding of the costs and benefits of living more sustainably. Hence, the importance of communicating the right messages — not just on site but in marketing materials and online (perhaps especially online, since most reservations are made via electronic channels). Specifically, communicating a green value proposition is essential to generating awareness and influencing purchasing.

# Step 3: Leverage social networks to communicate

The challenge of social networking is to understand the “how” and “how much” of leveraging it, not only to communicate a message, but also to solicit ideas about what that message should be.

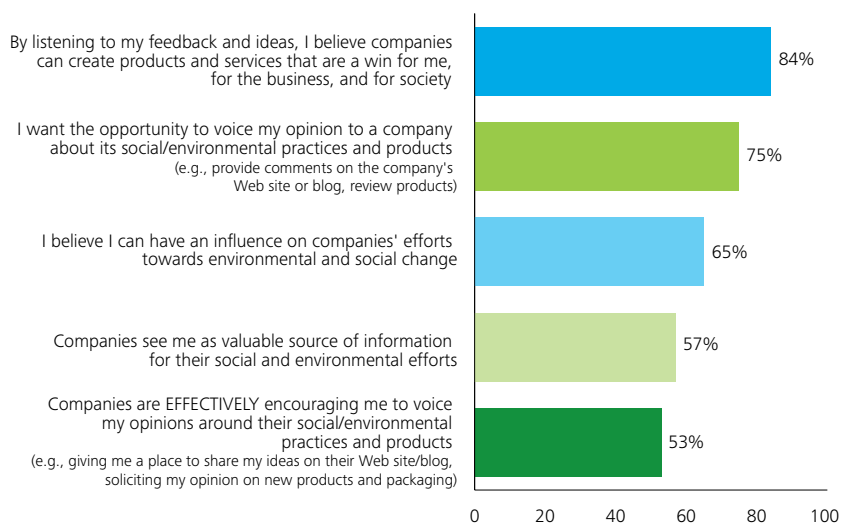
A recent report from CONE states that “84 percent of Americans believe their ideas can help companies create products and services.” Chart 3, taken from the report, illustrates the ways consumers want to be engaged in companies’ social and environmental efforts. The same research found that 60 percent of consumers would be more likely to buy a product from a company that had already incorporated consumers’ ideas about environmental and social issues; more than half would be more willing to recommend the company to others (chart 4).<sup>37</sup>

Elaborating on these findings, CONE senior vice president Jonathan Yohannan says that companies have a “tremendous opportunity to more actively collaborate with consumers and other stakeholders to achieve mutually beneficial solutions. We call this collaborative approach to addressing social and environmental issues ‘Shared Responsibility’ because diverse stakeholders each have a specific value, role, and stake in solving today’s complex global challenges. Companies can’t go it alone.”

An example of such collaboration is Myoo Create, a company specializing in environmental and social innovation that helps companies harness the collective creativity of an online community, thereby providing decision makers multiple perspectives, each with unique insights. Not only do sites like this provide a forum for the exchange of ideas, they also filter idea submissions to identify the most practical ones, putting what they determine to be the best to the test of public opinion. In this way, the client company has, in effect, a feasibility study of a sustainability initiative (including messaging) before implementation.

In short, social media can reduce risk significantly. But on the flip side, inconsistent and/or inauthentic messages can burn a brand and even destroy demand; no company wants bad buzz on Facebook, Twitter, YouTube, or any other social media site.

**Chart 3: Consumers and collaboration**



**Chart 4: The payoff: revenue, loyalty, and referrals**

Effective engagement can lead to bottom-line benefits. If a company incorporated their ideas, consumers would:





# Step 4: Create a special customer experience



A recent study published in the *Journal of Sustainable Tourism* indicates that 40 percent of the tourism market may be composed of consumer segments interested in minimizing their environmental impact, while still demonstrating a disposition for high expenditures. These findings confirm our original hypothesis: sustainability and profitability need not be tradeoffs.<sup>38</sup>

Hospitality providers have begun to appeal to these segments with programs above and beyond resource conservation. For example, “ecotourism” links travel to areas of natural or ecological interest with learning about the environment. Other options include supporting

the local environment with amenities. For example, on the menus of the Fairmont Mayakoba, a resort on the Yucatan Peninsula, are organic vegetables farmed by the surrounding Mayan community, shade-grown organic coffee, and organic wines. Just as attractive, the hotel donates a percentage of revenue to regional conservation efforts. In these ways, the hotel empowers its guests to participate in sustaining local environments, thereby creating the highly sought but elusive “experiential” service offering.<sup>39</sup>

The opportunities to boost the “experience-sustainability” factor in a customer’s stay are nearly limitless. For example, a hotel or resort could:

- Provide services and amenities that appeal to health-conscious consumers, including healthy dining (organic or locally grown food and beverages) and/or more options for exercise, such as premium rooms with their own stationary bikes or treadmills.
- Offer transportation options and perks, such as fuel-efficient shuttles to take guests to and from the airport, zip cars for local trips, bicycles, and preferred parking for guests with hybrid vehicles.
- Engage guests in conservation by giving them an option for sourcing energy and allowing them to control the room’s climate to minimize energy usage when they’re out of the room.
- Use smart phone applications to give preferred guests touch-screen power for ordering or scheduling room service, gaining access to the room (making the key card virtually obsolete), selecting a preferred room, and checking in and checking out.

# Step 5: Use a solid framework to keep sustainability alive

How does a hospitality provider embed sustainability in the processes and practices of its business? Ideally, by striking the perfect balance between guests (whose actions are recognized, recorded, and rewarded) and supply chain partners (who provide the appropriate products and services). Essentially, when the forces are of equal strength, the system is dynamic and responsive.

Getting there can begin with answering these questions.

## Strategy

- What is the brand strategy and how is sustainability incorporated into the strategy?
- What is the consumer perception of value related to sustainability programs associated with the brand?
- Is the brand achieving the targeted customer experience?
- How does sustainability impact loyalty within the brand, and at what cost?

## Information management

- How can the business synthesize sustainability-related information to enable and empower internal and external stakeholders to make informed decisions?
- Can the company's data collection system and analytic capabilities provide an accurate representation of the brand's footprint along the value chain?
- Are the right IT systems and devices in place to process the surge of data likely to result from technological advancements, such as the smart grid?

## Business analytics

- What new analytics must be developed to quantify the effectiveness of the sustainability initiatives?
- How should ROI be calculated to measure more qualitative factors, such as customer loyalty?
- To report on sustainability initiatives, what new metrics must be tracked so that internal and external stakeholders can make informed decisions?
- What is the optimal level of sustainability in a property's operations?

## Public relations

- How does the brand get the right messaging on sustainability effectively and efficiently to all potential consumers?
- Has a clear message been conveyed to consumers using all appropriate channels, including social networks?

# Conclusions



Following this five-step process can make sustainability a smart brand strategy, which is important for two reasons: consumers want a sustainable choice, and our global resources will certainly be only more constrained in the future. In the hospitality industry, sustainability can be a companion of luxury, a unique concentration of value delivered without excess.

Sustainability is also a way for an enterprise to stand out in a crowded field. By following these five steps, a hospitality company could attract the growing population of eco-conscious consumers, win their loyalty, and increase revenues profitably — all while providing consumers the satisfaction that comes from simply doing the “right” thing. As the sustainability movement continues to build momentum, we expect first movers will gain comparative advantage to best serve their guests, employees, and shareholders.



# What could be more hospitable than using social media to reach out to everyone: customers, employees, recruits, and the public at large?



Given that almost half of travel is booked online, hotels would seem likely to be among the most aggressive users of social media for all kinds of purposes: customer service, talent recruiting and management, marketing, and public relations, to name a few. Yet, relatively few hotel operators today leverage the full potential of social media; nor are they well positioned to capture the benefits of this channel, especially when compared to companies in related industries, such as gaming and airlines.

What's needed to get a hotel on board with social media? A more disciplined and structural approach, driven from the top down, including a well-defined strategy that covers core functions in the enterprise.

With the expected growth in the use of social media platforms by 2015, hotel operators should start the conversation in their own organizations by asking these questions:

- Have we considered all implications and potential value of using social media?
- Are we aligning social media with the business strategy?
- Do we have the required people, tools, and structures in place to execute our social media strategy?

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Today, communication is all about social media: people are as much (if not more) influenced by the content on Facebook, YouTube, and Twitter as that on traditional online channels.

# Why does social media matter?

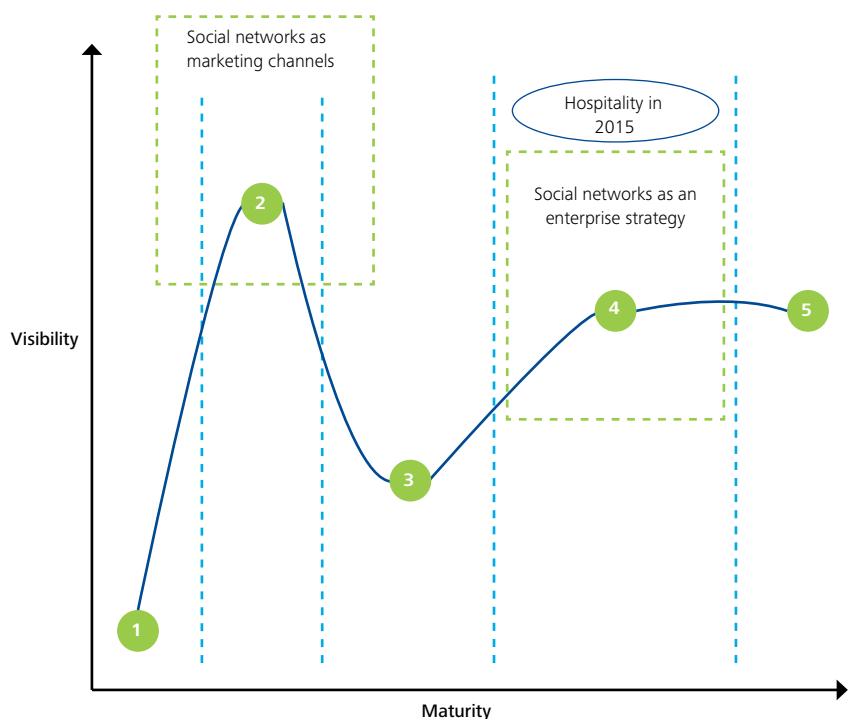
Social media is visible, pervasive, and searchable. In these channels, praise or complaints from customers can go “viral” and a positive or negative review can have a disproportionate impact on business. At the same time, employee participation in social media can impact perceptions and morale within the company. The more customers and employees communicate via social media, the more urgent the hotel’s need to engage fully with these ad hoc communities.

For these reasons, in the hospitality industry, social media has potential applications beyond traditional marketing activities. By effectively monitoring, cultivating, and acting on information gathered through social media, a hotel can position itself to do a better job not just of managing customer relationships, but also of attracting and recruiting employees.

Yet, the use of social media in related industries (such as airlines, gaming companies, and cruise lines) is more mature, more strategic, and better integrated. For example, one airline has adopted a social media strategy that fits the company’s culture and engages all its employees. The company’s “new media” function operates as a sub-division of the communications team, but with distinct cross-functional linkages. The approach ensures a 24-hour monitoring of social media channels, integration into the organization as a whole, and adequate communications skills for individuals speaking on the company’s behalf. Perhaps most important, these tools and technologies are in place to enable interactions with consumers at any place and anytime.

By comparison, hotels are not as sophisticated. While they are often present on major platforms, they are well behind the social media “hype cycle” devised by Gartner (figure 1); in fact, the analysts predict that the industry won’t catch up until 2015 (assuming it stays on its present course). While many hospitality companies are beginning to build capabilities around social media, relatively few have settled on a cohesive corporate strategy around the technology and its uses.

Figure 1: Gartner “hype cycle” for social media in hospitality<sup>1</sup>



- 1 Technology trigger:** A breakthrough, public demonstration, product launch or other event generates significant press and industry interest
- 2 Peak of inflated expectations:** During this phase of overenthusiasm and unrealistic projections, a flurry of well-publicized activity by technology leaders results in some successes, but more failures as the technology is pushed to its limits. The only enterprises making money are conference organizers and magazine publishers.
- 3 Trough of disillusionment:** Because the technology does not live up to its overinflated expectations, it rapidly becomes unfashionable and the press abandons the topic.
- 4 Slope of enlightenment:** Focused experimentation and solid hard work by an increasingly diverse range of organizations lead to a true understanding of the technology's applicability, risks, and benefits. Commercial off-the-shelf methodologies and tools become available to ease the development process.
- 5 Plateau of productivity:** The real-world benefits of the technology are demonstrated and accepted. Tools and methodologies are increasingly stable as they enter their second and third generation. The final height of the plateau varies according to whether the technology is broadly applicable or benefits only a niche market.

# Social media in the hospitality industry today

In this industry, the use of social media varies widely, from continuous and proactive to occasional and reactive. While a few hotel operators are deploying content purposefully, most view social media as a channel to adopt because “everyone else is doing it.” But the value in using social media can be huge for those companies that appreciate its strategic potential.

The traditional channels for communicating with customers (e.g., guest comment cards or e-mail) are one way. They’re used inconsistently and with suspect reliability. Social media, on the other hand, encourages feedback, and customers are generally willing (even eager) to share their experiences, positive or negative. Also, social media enables two-way communication, thereby promoting better choices from hotel operators and consumers alike. While consumers benefit from the input of others, broken down by preferences and select experiential dimensions, the hotel gains access to a broad set of data points that detail the customer and brand experience in a more revealing and direct manner. In essence, social media offers a platform that tends to offer more trustworthy, user-generated content.

Within the hospitality industry, 60 percent of leisure travel and 40 percent of business travel is booked online.<sup>41</sup> At the same time, recent Deloitte research found that US consumers, empowered by new technologies, are increasingly active online and that social media has more effect on their purchasing decisions than does one-directional, online marketing. Here are additional findings from the study:<sup>42</sup>

- Last year, 51 percent of those surveyed purchased a product based on an online recommendation.
- Sixty-five percent of consumers surveyed frequently/ occasionally visit websites as a result of someone’s online recommendation.
- In 2010, among online US leisure travelers, 72 percent participated in social media at least once a month. This is almost 100 million people — a 24 percent increase in participation since 2008.

As these trends continue, social engagement in the hospitality industry will only increase, as consumers gain more power to impact the success of each business through social media.

## Organizational barriers to success

A review of the social media presence of 55 hotel and resort brands within the six largest global hotel groups shows that social media is rarely treated as a key element in an overall business strategy. For one thing, in almost all instances, social media channels are separate from main websites; this seeming reluctance to link their sites to social media platforms sub-optimizes the value that hotels could derive from a social media presence.

As a rule, hospitality companies house their social media activities within the corporate marketing function. Some hotel companies look at social media as extensions of their Public Relations programs, from a sales and marketing perspective and from a customer relationship perspective. Overall, many hotel sites have booking widgets on the page with the content heavily geared toward promotions and sales. Measurements of success, as reported by companies, almost universally focus on marketing and sales, which can prove difficult to track in social media platforms.

Overall, luxury brands tend to do a better job incorporating social media into their overall consumer strategies; as a result, they have higher user engagement through social media channels (specifically Facebook, Twitter, and TripAdvisor). Among mid-scale and economy/budget brands, the quality and consistency of social media activity varies, often with mediocre quality at the property level; not surprisingly, customer and fan engagement is more limited. For many of these brands, social media is not being fully leveraged to its potential. The bottom line is that use, structure, and application of social media platforms vary tremendously across brands.

## Most popular social media sites for hospitality companies

### Facebook

Facebook, with more than 600 million users, has considerable hotel participation. In fact, virtually all hotel brands can be found on Facebook. Most brands have an official company-created Facebook page, where content is centralized and controlled consistent with corporate messaging. But local properties also tend to have their own pages, which is understandable given hotel guests want to socialize around the actual property they're interested in and given that the franchise model gives property managers "ownership" of their own social media strategies and content. Here, then, is a duality that contributes to the industry's lag in exploiting social media. Some luxury brands show little to no variation between the corporate sites and the local property sites.

### TripAdvisor

TripAdvisor has a significant impact on the consumer's travel buying cycle and is, therefore, of crucial consideration for hotels.<sup>43</sup> The site attracts more than 50 million unique visitors a month and has also purchased a collection of other travel sites over the years.<sup>44</sup>

On TripAdvisor, hotel-specific pages (whether monitored by the company or not) provide users reviews on a property-by-property basis. In some cases, property managers choose to interact directly with reviewers, seizing the opportunity to respond directly to reviews and to enhance customer service. Users are very active in this platform, rating not only the hotel properties themselves but also ancillary services, such as dining, spas, and other leisure activities. Business users are also active on TripAdvisor. As their traffic and widespread use increases, sites like TripAdvisor will continue to influence user decisions, especially as content becomes richer with more dimensions covered. This type of information can be readily available to hotels to incorporate into customer relationship management systems and programs.





# Social media done “right”: Views of the “should be” state

When a hotel “gets” social media, it can become an integrated, active part of the enterprise strategy. Here are some ways of using social media in an effective way: as a means to achieving corporate business objectives and sustaining long-term competitive advantage.

## **Introduce new and better ways to communicate with customers and guests**

Hotels can use multiple social media sites to interact with customers and guests, perhaps even using different languages and channels, thereby augmenting traditional marketing communications. Social media can also enable hotels to identify and track a consumer through various channels, giving the hotel access to the insights needed to avoid damage to the overall user experience.

A hotel’s ability to provide extraordinary service can be facilitated and improved by real-time social media. To provide this higher “touch” and quick response, the hotel may need to add customer service resources. Hotels can also consider greater automation and/or outsourcing of customer service in other channels to help free-up resources. How the effort is organized matters. For example, a leading telecom company manages its social media presence through a committee consisting of representatives from various departments. While the customer service team owns specific social media initiatives, all employees are empowered to engage on the Web by funneling inquiries to the applicable, specific channels.

## **Share leading practices and information**

Since communication in social media forums centers on user communities or “tribes,” a hotel will not have the same influence and control over messaging it has in other channels. Consequently, communication specialists should cultivate, interpret, and disseminate leading practices throughout the organization. Content posted on social media is as much a part of the company’s messaging as any other official communiqué. The employee policies and procedures that guide those communications should also apply to social media, including consideration of the fact that the company could be held liable for any content issued on its behalf.

In a recent case in point, JetBlue faced a challenging public relations situation when one of its employees quit by leaving a plane through an emergency chute. The company’s original inclination was not to respond (certainly, a position pushed by the legal team), but the silence was met with negative feedback. Only after the company responded in a humorous and light-hearted manner through its blogs did the comments turn positive. Overall, analysts think the episode increased the airline’s “social trust equity.”<sup>45</sup>

## **Nurture “super users” to drive positive content**

User-driven content can drive significant change across social, cultural, political, and economic issues. For businesses this can be worrying because they lose control over content. To get some of that control back, a hotel should develop “super users” who establish authority in sharing information on the hotel’s behalf through their trustworthy and frequent use of these channels. Of course, companies must identify the legal ramifications of deploying content on social media sites. Maintaining control of what is said on the company’s behalf is critical, and compliance and legal departments need to stay plugged in and up to speed at all times to activity taking place on the company’s behalf.

## **Coordinate franchised brands**

Since all content on the internet is becoming more easily searchable, it is important for hospitality companies to continually monitor what is disseminated. Often, outdated content can be more damaging to the brand than no content at all. One key to controlling the quality and timeliness of content is engaging and coordinating local franchisees. In many respects, a social media approach could mirror other franchise policies that control brand consistency. User-generated content is enabling greater visibility into a franchisee’s operations. A company needs to be aware of — and get ahead of — negative content, such as the *TripAdvisor 10 Dirtiest Hotels* report, because of its power to embarrass or do real damage to the brand.

### Leveraging insights about guests, employees, and competitors more strategically

Significant, multidimensional insights can be gathered through social media — so much so that the real challenge for hotels is to adapt to the speed of information flow and quickly sift through content to determine what is useful and relevant. For example, online surveys are replacing written comment cards. Hotels should get comfortable in having these readily available on their websites in a user-friendly fashion.

Just as they can learn about their own customer experiences, hotels can benefit from customer feedback about competitors, which is publically available and can easily be used for their own benefit. Of course, the flip side is just as true, so it's important to monitor the risks associated with social media content, including ones that are less obvious. For example, employees often place a great deal of sensitive information on business networking sites. By adopting the perspective of a competitor, a company can consider the many and various angles of content being disseminated through social media forums. Recognizing the power of social media, the National Collegiate Athletic Association (NCAA) has restricted its members from contacting potential recruits through these channels in an attempt to create a more equitable process.<sup>46</sup>

### Invest in the "right" operations

The breadth and depth of social media activities require that companies have the appropriate means to deal with these channels effectively. To that end, hotels will likely need to allocate resources, investing time and capital to put in place the required people, processes, systems, and tools.



# Social media: An enterprise framework

A good framework for addressing social media challenges should be holistic (figure 2), encompassing the behaviors of consumers, employees, and competitors, while integrating multiple areas of the enterprise.

Here are the steps in developing the framework:

## Understand the benefits of social media

Many stakeholder groups are impacted by social media, including customers and guests, shareholders, company

management, new and existing employees, and other interested parties. What are the benefits to each of these stakeholder groups? How might social media be used by multiple functions throughout the organization?

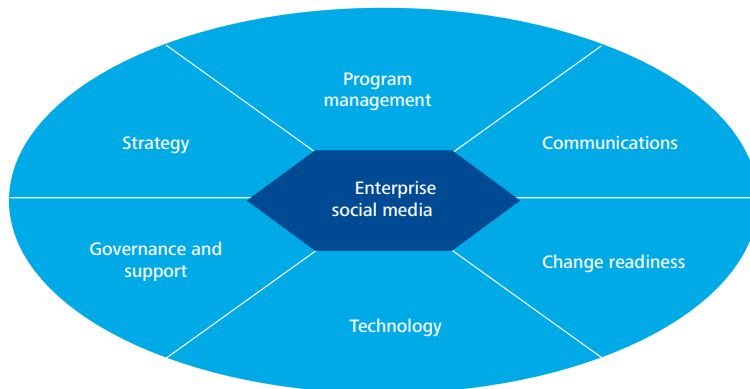
## Define the strategy

The ability to measure the ROI of social media is achieved by clearly laying out objectives and goals for interacting with customers, employees, or recruits. Once these objectives are defined, it is important to identify critical measures of success. The key to being effective in social media begins with a well-defined vision, strategy, objectives, and priorities to drive results and performance goals.

## Put in place the 'right' organization to enable execution

A centralized center of excellence for social media that brings together multiple functions can serve as go-to resource for practices and activities. Participation should span multiple functions, including legal/compliance, customer care, and others.

Figure 2



### Key questions:

Strategy	<ul style="list-style-type: none"> <li>• What is the enterprise social media vision and strategy?</li> <li>• How developed is the business case for social media?</li> <li>• What value creation opportunities exist and how do they tie into business imperatives?</li> </ul>
Program management	<ul style="list-style-type: none"> <li>• How does the brand execute its social media strategy?</li> <li>• What is the road map of initiatives and projects?</li> <li>• How does the brand measure progress and success of its initiatives?</li> </ul>
Communications	<ul style="list-style-type: none"> <li>• What are globalization factors to consider?</li> <li>• What are communication best practices for social media?</li> <li>• How should stakeholders and other key constituents be engaged?</li> </ul>
Change readiness	<ul style="list-style-type: none"> <li>• How does the brand encourage adoption and use of social media?</li> <li>• What are the cultural factors of the organization to consider?</li> <li>• What types of global, national, regional, and property-level learning programs should be instituted by the brand?</li> </ul>
Technology	<ul style="list-style-type: none"> <li>• Which vendor(s) should be utilized?</li> <li>• How does the brand architect and integrate a solution?</li> <li>• What are the application design and user experience considerations?</li> </ul>
Government and support	<ul style="list-style-type: none"> <li>• What are the enterprise social media risks, and how does the brand mitigate or govern them?</li> <li>• Who needs to be involved?</li> <li>• What type(s) of report structures are required?</li> </ul>

## What's your next step?

If you'd like to discuss your strategic options for social media, we welcome the conversation.

# Contacts

## For more information

Visit us at [www.deloitte.com/us/thl](http://www.deloitte.com/us/thl)

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## Endnotes

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- <sup>35</sup> Industry benchmark data suggests that the pursuit of supply chain sustainability correlates with stronger performance. According to a report from AT Kearney, companies with a commitment to sustainability were the "clear leaders in their financial markets" in 16 out of 18 industries.
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