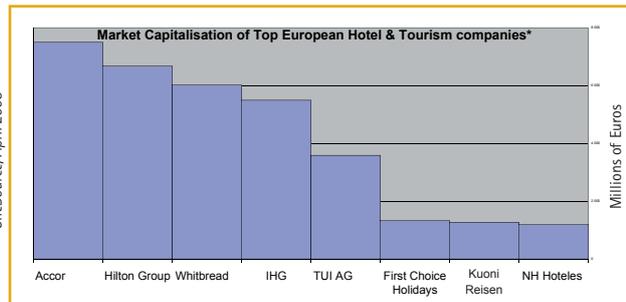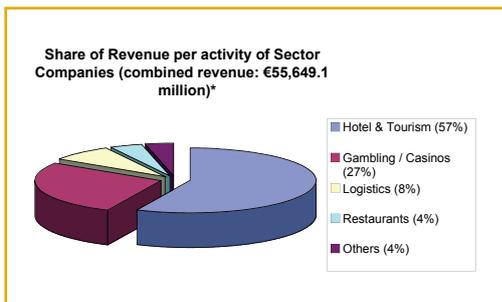# Hotel & Tourism
Sector Report

This sector report describes the **social and environmental impacts** *of the European hotel and tourism industry and the associated* **risks and opportunities** *for companies' long-term returns. Please note that it does not cover the following business activities of the sector: gambling, shipping, restaurants, pubs and alcohol sale and ancillary services.*

Hotel & Tourism Features

- About 60% of revenues are generated from rental accommodation. Provision of additional services, including food and beverages, account for between 20%-30% of revenues, with the rest relating to transport and tours, entertainment and conferencing.

- Demand is driven by leisure travel (which can be dampened in times of decreased economic performance or after events such as 9/11 or the Iraq conflict) and the strength of corporate earnings, which determines the level of business travel.

- Hotel companies diversify their product in terms of budget range (budget, mid-scale and luxury) and services offered. Brand recognition and association with varying qualities of service are important factors in the success of global hotel chains.

- The industry employs a large proportion of young people, with a high ratio of women, for many of whom it provides an entry point into the working world. The sector faces exceptional peaks of work to which it responds by maintaining a large pool of temporary labour. Consequently, turnover is high, usually between 30%-50%, making recruitment and retention ongoing challenges.

- Employment expenses make up the largest part of the cost base for this industry.

Share of Revenue per activity of Sector Companies (combined revenue: €55,649.1 million)*

- Hotel & Tourism (57%)
- Gambling / Casinos (27%)
- Logistics (8%)
- Restaurants (4%)
- Others (4%)

Market Capitalisation of Top European Hotel & Tourism companies*

* OneSource, April 2005

Millions of Euros

Accor | Hilton Group | Whitbread | IHG | TUI AG | First Choice Holidays | Kuoni Reisen | NH Hoteles

Hotel & Tourism Trends

- There is a significant degree of variance in asset management between hotel companies. A common trend is for branded hotels outside Europe to be managed or franchised, due to higher levels of risk and legal obstacles related to owning assets overseas. Recently, several hotel companies have been selling off their assets in 'sell and manage-back' schemes. These types of "softer" ownership structures are likely to make CSR-related risks more difficult to manage.

- More innovative use of information technology in the sector is yielding cost savings by cutting out intermediaries. Hotel and tourism services are increasingly being offered and purchased via the internet, while services at hotels in Europe are becoming ever-more automated.

- Consumer trends are changing rapidly. Low-cost airlines and internet-based booking systems are attracting holiday-makers who prefer to organise holidays independently rather than to seek package deals. Traditional tourism companies are therefore re-evaluating their products and are moving away from vertically integrated service models.

Climate Change

The over 300,000 hotels around the world use large amounts of energy. If poorly managed, hotels can consume considerably more energy per occupant than households. **Implementing energy efficiency measures** is therefore important, not only because energy is scarce in many tourism destinations, but also because of the significant atmospheric emissions generated as a result of energy consumption that contribute to climate change.

If the Kyoto Protocol and national carbon reduction policies target aviation in the future, the cost of air travel is likely to rise substantially. **Higher travel costs** are likely to impact destination patterns and reduce the demand for international travel and tourism, potentially impacting hotel and tourism companies' revenues significantly.

Although it is a gradual process, rising sea levels, due to **global warming**, are likely to affect coastal regions around the world. Parts of the Maldives and other island vacation regions are expected to suffer. Increased flooding and failure of sea defences will also directly threaten the viability of hotel and tourism assets.

Environmental degradation

Uncontrolled tourism threatens many natural areas by putting **pressure on ecosystems** and leading to impacts such as soil erosion, increased pollution, discharges into the sea and biodiversity loss[1].

Most tourism facilities generate large volumes of solid **waste**[2] that can result in negative ecological and aesthetic impacts.

Hotels also use huge amounts of water, and often put pressure on local **water resources**. To reduce this environmental impact, they can adopt a range of water efficiency and conservation measures.

Companies closely associated with environmental degradation may face difficulty in accessing new sites and being granted future **licenses to operate.**

Over the long term, unsustainable tourism operations may degrade the very environment and assets that they seek to profit from.

Increasing interest in 'sustainable tourism' is creating **new business opportunities** in the sector. This can also lead to different forms of eco-tourism.

Labour standards and working conditions

Working conditions in this sector are only marginally more attractive than those offered in other low-skilled sectors: the seasonal and part-time nature of many jobs, the low wages, poor overtime rates and irregular working hours can restrict career development and demotivate employees. The hotel & tourism sector therefore faces **challenges in recruiting and retaining employees**. In addition, there are widespread examples of violations of workers' labour rights, enshrined in the ILO Core Conventions. It is common for management to fail to hold effective **dialogue with workers** and their representatives and occasionally to refuse to acknowledge unions or engage in anti-union discrimination.

Companies can address these issues by adopting and upholding codes of labour standards and ensuring that opportunities for career advancement and training are not limited to international managerial staff, but are also available to **local employees**. This benefits both the sector and the community by developing a more diversified pool of skills.

The International Labour Organisation estimates the cost of replacement per employee to be between US$3,000 and US$10,000. Failure to guarantee good working conditions and to put in place effective recruitment and retention strategies may undermine the sector's ability to access and retain labour in the long term, with an **impact on costs.**

Investing in staff and retaining them can also contribute to delivering **higher quality service**, a potentially important value driver and differentiator in this sector.

Poor working conditions, which can lead to labour disputes, may harm the brand image and **reputation** of a hotel group.

Industrial action resulting from a breakdown in, or lack of, dialogue creates operational disturbances that can quickly translate into decreased efficiency and operational losses.

Human rights & corruption

Some hotel and tourism companies operate in countries where corruption is rife and where human rights violations linked to the sector are common, such as **sex tourism, child prostitution** and **kidnapping** (e.g. Burma, Colombia). While multinational companies are unlikely to directly and deliberately promote any of these activities, ignorance and lack of action to mitigate them can contribute to the prevalence of such social problems.

Association with sex tourism, child prostitution and similar social problems can cause considerable **long-term damage to companies' reputations** and may result in a company being denied future licenses to operate in those countries, and perhaps others.

Hotel and tourism groups can face **international boycotts**, as has been the case with Burma.

Local community investment

Hotel and tourism companies contribute positively to the social and economic development of the countries in which they operate. Hotels often hire a majority of their employees locally and pay local taxes; tourists spend money on **local goods and services,** thereby boosting the local economy. However, as the tourism industry is dependent on the goodwill of host countries, making additional investments in the area, or working to support local charities can help to maintain good relations with local communities.

Investing locally can help to safeguard companies' **reputations** and their **brand equity.** This may enable hotel groups to more easily acquire licenses to operate and facilitate the process of establishing operations and securing business partners in local markets.

Companies that build a good reputation and are seen as contributing positively to the social or economic environment in which they operate may find that governments and communities welcome their expansion into other countries.

Safety & security threats

The hotel and tourism sector is highly dependent on the public's perception of global health and security risks. Security scares can reduce demand for hotel and tourism services. The sector, however, can play a preventative role. Given the multiple crises that have damaged demand for travel and tourism in recent years, including **terrorism**, the spread of **epidemics**, such as Severe Acute Respiratory Syndrome (SARS) and natural disasters such as earthquakes and **tsunamis**, hotel and tourism companies must be involved not only in crisis prevention, but have measures in place to adequately respond to crises. Companies can thereby play a role in reassuring the public as to the safety of travel and tourism.

Demand for hotel and tourism services is highly dependent on customer perception of the safety and security of travel.

Safety and security crises can lead to **legal action** in cases where they have failed to protect client safety.

Health and safety is an essential element in the **delivery of quality services.** Failure to ensure such safety can negatively impact brand image.

---

1 The World Wide Fund for Nature (WWF) reports that ecosystems around the Mediterranean are threatened with over 500 plant species in the region in jeopardy of extinction at least in part due to intense pressure from such development.

2 According to UNEP, tourists from developed countries create up to 2 kg of solid waste/per person/per day; from "A Manual for Water and Waste Management: What the Tourism Industry Can Do to Improve Its Performance".

Steps to stop sex tourism

More and more hotel and tour operators are joining together to combat sex tourism and promote the rights of children around the world. The hotel chain Accor for example has been working with ECPAT (End Child Prostitution, Child Pornography and Trafficking of Children for Sexual Purposes) to heighten awareness in their hotels located in zones at risk for child prostitution and child pornography.

Besides distributing over 500 000 brochures in 325 travel agencies in 2003, Accor is currently launching a new awareness-raising initiative against sexual exploitation of children at the Novotel Bangna in Bangkok, Thailand. The hotel will be running a video spot in all of its rooms through its internal television circuit. The video spot, which explains that there are laws to prosecute child sex offen-

ders in their home country as well as in the country where an offence took place, was originally developed by ECPAT France and screened on long-haul Air France flights in an effort to curb international child sex tourism. Similar efforts have been made by other airlines but this new Accor endeavour marks the first time that a video spot will be used inside a hotel. It is expected that other Accor hotels in Bangkok will follow the example of Novotel Bangna.

The Bangkok-based pressure group ECPAT said some three million children are sexually exploited worldwide.

Furthermore, on May 17th 2005 the French government and 17 tourism professionals - including hotel group Accor, Air France, Club Med, lastminute.com and Thomas Cook

- signed a charter that promotes «tourism which respects the rights of children». The charter binds the companies and the French government to «back economic and social development projects needed for the emergence of a respectful tourism» in the countries in which the companies work.

The signatories also pledged to step up public awareness campaigns aimed at travellers.

These initiatives are vital steps towards eliminating child prostitution and pornography worldwide. The efforts companies have made in trying to prevent sex tourism reflect the importance of these issues to the hotel & tourism sector as they relate to brand value and reputation.

Sources: AFP, ECPAT, Accor

UK hospitality industry makes major contribution to energy efficiency and carbon reductions

Latest data from Hospitable Climates – the Hotel & Catering International Management Association's (HCIMA's) Carbon Trust-backed energy efficiency advisory programme for the UK hospitality industry – reveals that Hospitable Climates is not only delivering major cumulative cost savings to the 4,000-plus businesses currently signed-up to the programme of well in excess of £13m per year, but is also well on track to meet targets for annual reductions in carbon dioxide emissions, helping

the Government to fulfil its Kyoto commitment.

A total of 53,000 tonnes of carbon dioxide is currently being saved annually by the Hospitable Climates programme, whilst a total of 131,000 tonnes has been saved since the programme's launch in February 2000. Saving 130,000 tonnes of carbon is the equivalent to the amount of carbon that would be absorbed by planting 650,000 trees! Managed by the HCIMA on behalf of

the Carbon Trust, Hospitable Climates offers a free-of-charge advisory service designed to help reduce energy consumption in the UK hospitality industry by as much as 40 per cent – improving bottom-line profits and customer experience.

The aim of Hospitable Climates is to reduce these global warming gases by improving energy efficiency, resulting in significant cost savings.

Source: www.ehotelier.com