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GMs' Responses to the Events of September 11, 2001

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GMs' Responses to the Events of September 11, 2001

Abstract

Hotel managers' actions after 9–11 included modifying marketing activities, reducing employees' hours, and either postponing capital improvements (for lack of cash flow) or accelerating planned upgrades while business is slow.

Keywords

hospitality industry, 9/11, hotel performance, terrorism, recession, lodging industry

Disciplines

Hospitality Administration and Management

Comments

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Voices from the Field

GMs' Responses to the Events of September 11, 2001

Hotel managers' actions after 9–11 included modifying marketing activities, reducing employees' hours, and either postponing capital improvements (for lack of cash flow) or accelerating planned upgrades while business is slow.

BY MASAKO S. TAYLOR AND CATHY A. ENZ

This study attempts to summarize the collective voices of hotel operators in the weeks after the September 11, 2001, terrorist attacks in the United States. Its purpose is to gain an understanding of how hotel operators responded to those challenging times and to document general managers' plans for the future. For instance, what effect did the events of September 11 have on day-to-day operations? What are general managers doing today to maintain operational success? What lessons can be learned by and shared with the industry at large?

Hard-hit after September 11

The economic ripple effects of the September 11 attacks have been widely reported. Globally, that effect was felt primarily in the travel and tourism industry. The World Travel and

Tourism Council noted a 30-percent drop in global travel-industry revenues immediately after September 11, and then predicted a decline of 10 to 20 percent in the United States over the ensuing 12 months.¹ Furthermore, the Travel Business Roundtable Index of leading economic indicators fell 8.4 percent for the month of September 2001—the largest single monthly decline on record.²

In the hotel industry, Smith Travel Research recorded a decline in occupancies in almost all major cities in the world, and noted that room rates were being lowered in most markets.³

¹ "A Business in Search of Customers," *The Economist*, September 29, 2001, pp. 61–62.

² "The Travel and Tourism Industry Hammered Hard in Wake of September 11 Attack," a press release from Travel Business Roundtable, November 13, 2001.

³ See: "Smith Travel Research Global Lodging Statistics, 2001" (an annual report).

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EXHIBIT 1

Survey responses by location within the United States



Today, more than six months later, major U.S. hotel chains are still struggling to regain the business levels that they had before the attacks. For instance, U.S. industry occupancy for the third quarter of 2001 was just 64.2 percent—a decrease of 8 percent when compared to the same period in 2000. Similarly, by the end of September 2001, average room rates (ADR) had dropped 3.4 percent, to US\$83.28, and revenue per available room (RevPAR) had decreased 11.2 percent, to US\$53.44.⁴ Compared to September 2000, the month of September 2001 saw an occupancy drop of 15.9 percent, down to 55.9 percent, and room rate declined 8.9 percent to \$79.30.

While those broad-based performance indicators clearly show a decline in demand and subsequent revenue, the effect of the September 11 attacks at the property level is unclear. In this study we focus on day-to-day operations and explore managers' responses at the property level.

⁴ "Smith Travel Research Announces Third Quarter 2001 U.S. Lodging-industry Results," a press release from Smith Travel Research, October 29, 2001.

The Voices from the Field

To provide a picture of what is happening at the property level in the wake of the terrorist attacks, we asked general managers for the following information. First, we asked the GMs whether they are optimistic or pessimistic about the future of their business. Second, we presented GMs with a list of strategies and asked them which of these actions they were taking to enhance revenues and minimize operational costs.

We sent a questionnaire by fax to a stratified random sample of U.S. general managers on October 8 and 9, 2001.⁵ Of the 15,000 questionnaires that we distributed, 1,033 usable surveys were returned. The hotels' GMs responded from every state in the United States (see Exhibit 1) and were evenly representative of old and new properties. The largest percentage of respondents operated mid-market hotels or motels, although small inns, extended-stay properties, all-suite hotels, conference centers, and convention hotels also were represented in the sample. Most of the respondents operated either mid-market hotels with food and beverage (22.63 percent), properties without F&B (22.92 percent), or economy hotels (24.47 percent), consistent with their supply in the overall U.S. market. Exhibit 2 shows the distribution of the sample by market segment.

The general managers' responses were mixed, and the severity of the effects of September 11 could not be generalized to all hotels in the United States. While some GMs expressed a deep concern for the decline in their market together with pessimism regarding future business, others remained relatively unaffected and optimistic. Consequently, those who anticipated a business downturn took corrective actions while others continued with business as usual. The rest of this article summarizes the various reactions and insights that we collected from the GMs.

Economic Health

At the corporate level, mixed feelings prevail on the prospect for economic recovery. Although the

⁵ The survey was stratified by market segment to ensure that the hotels surveyed would be representative of the population of hotels.

majority of hotel executives and industry experts agree that the industry's economy was affected dramatically by the terrorist attacks, those experts' opinions vary regarding the timing of a full economic recovery. Immediately after September 11, some hotel-industry leaders were optimistic, such as Hilton Hotel executives who believed that business would pick up after a few months. Others were pessimistic about the "pretty devastating" effect of the crisis.⁶

Industry executives disagreed regarding whether the U.S. government would provide subsidies to the hotel industry. Industry leaders from Loews Hotel, Marriott International, Starwood Hotels and Resorts, and Carlson Companies met with the U.S. Commerce Secretary to request government support. Others, such as Hilton Corporation and FelCor Lodging Trust, questioned the necessity for government intervention. Those leaders argued that the federal government should limit financial support to the most needy industries, such as the airlines. Overall, the general consensus at the corporate level on the economic outlook for the industry appeared to be one of uncertainty, which translated into a wait-and-see attitude.

Those executives' feelings of uncertainty and their strategy of wait and see was by no means shared at the property level. The opinions expressed by the hotel managers that we studied reflected an attitude that government or other external assistance was unlikely. More than 80 percent of the GMs in our study expressed their fear that another terrorist attack on the United States was possible in the near future. That fear was coupled with pessimism that the U.S. government would act to shore up the hospitality industry. Only 23 percent of the general managers surveyed indicated that they expected the federal government to provide the necessary tax breaks or other financial relief needed to turn around the hospitality industry. In addition, one-third of the GMs remained uncertain as to whether the government would support the industry at all. Overall, general managers were not hopeful regarding the prospects of receiving governmental aid and were uncertain about the political stability of the country.

⁶ *The Economist*, pp. 61–62.

EXHIBIT 2

Survey responses by market segment

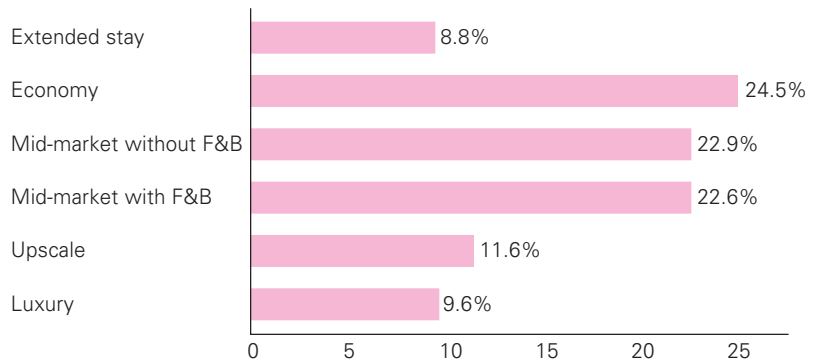
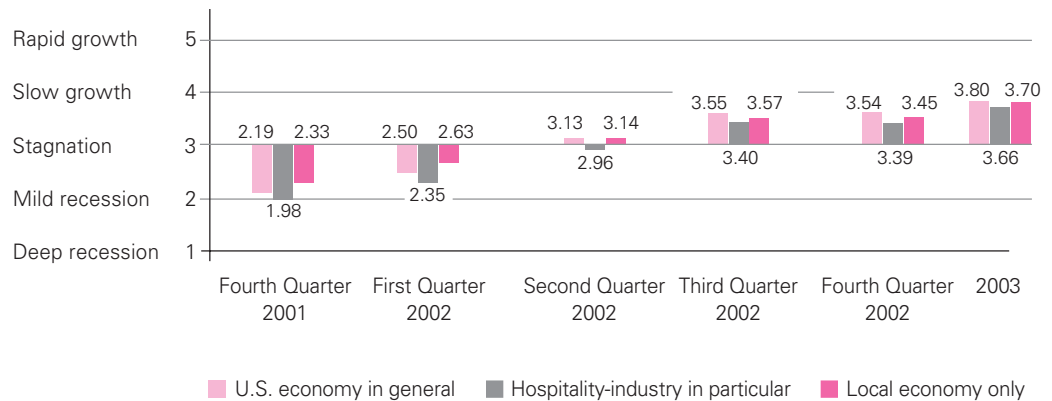


EXHIBIT 3

GMs' perspective on and predictions for the U.S. and industry-related economic conditions



Overall Industry vs. Local Markets

At the property level, general managers predicted that the economy would be sluggish for at least a full year after the attack. As shown in Exhibit 3, general managers expected a mild to deep recession for the two quarters following the events (i.e., October 2001 through March 2002), after which they anticipated economic stagnation for the second quarter of 2002 (April, May, and June). However, our respondents expected some growth in the economy by the end of 2002 (that is, during October, November, and December).

The general managers whom we surveyed expressed a stronger concern for the well being of the overall hotel industry than for the U.S. economy in general. While about 15 percent expected a deep recession for the U.S. economy in the fourth quarter of 2001, almost twice as many expected a deep recession for the hotel industry. Interestingly, despite their pessimism about the hotel industry in general, these GMs remained optimistic about their local markets. This suggests that many hotel operators were not feeling the effects of the deteriorating market environment at the time of this survey. In particular, operators in secondary and tertiary markets understood the effect that the terrorist

attacks might have on the national economy and the hotel industry, but considered their local markets to be less susceptible to significant performance declines.

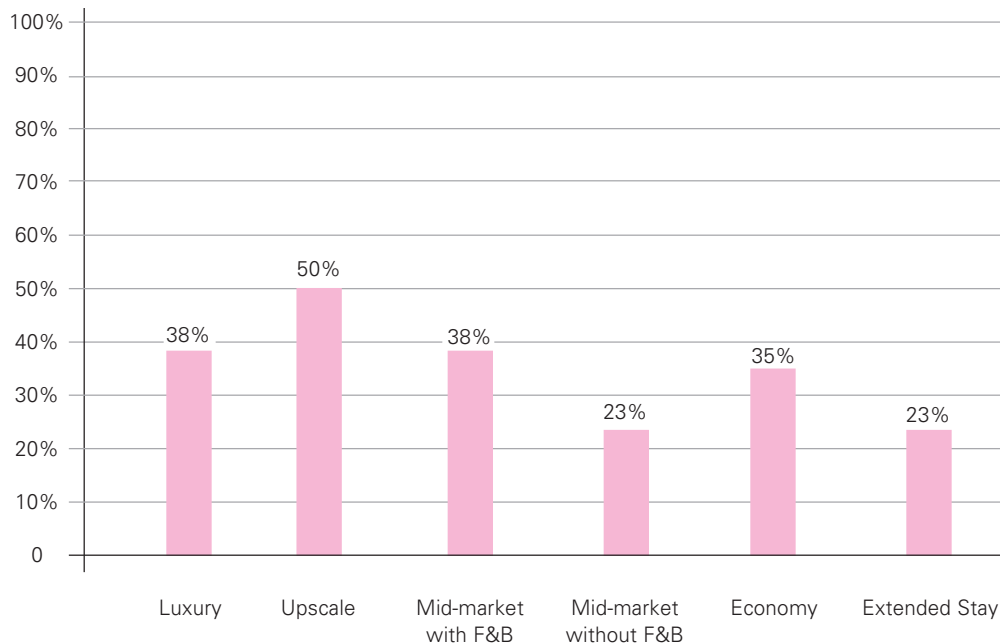
In summary, hotel general managers expected an immediate negative economic effect from the terrorist attacks at three different levels: the U.S. economy, the hotel industry, and the local market. Among those three possibilities, the effect was expected to be strongest at the industry level followed by the national-economy level. These GMs remained relatively optimistic about local markets. For the most part, pessimism gave way to optimism in their expectations for the third quarter of 2002 (July–September), approximately a year after the initial attacks. However, that optimism was tempered by the GMs' reluctance to predict rapid growth in any markets even beyond 2003. As such, according to these GMs, the economy, the overall industry, and local markets are expected to show slow growth at best in the near term (Exhibit 3).

Operational Performance

Our respondents noted the terrorist attacks' negative effect on operations. More than a third of general managers indicated that there was a drop

EXHIBIT 4

Percentage of GMs (by price segment) who noted an economic slow down before September 11



in ADR, and 42.7 percent said that they had experienced group cancellations due to the events of September 11. Looking forward, more than half responded that they expected a decline in occupancy. Given that over 30 percent of the general managers indicated that demand had been slow even before the attacks (as confirmed by the STR data),⁷ the effect of the 9-11 events can be perceived as contributing to an already difficult operating environment.

Although most properties were already experiencing declines in business prior to September 11, GMs from the high-price segments reported a greater decline in business prior to 9-11 than did their colleagues at low-price-segment hotels (see Exhibit 4). In other words, business for all hotels was already falling off before September 11, with upscale hotels being more affected than mid- and low-scale properties.

⁷ STR, December 2001, *op. cit.*

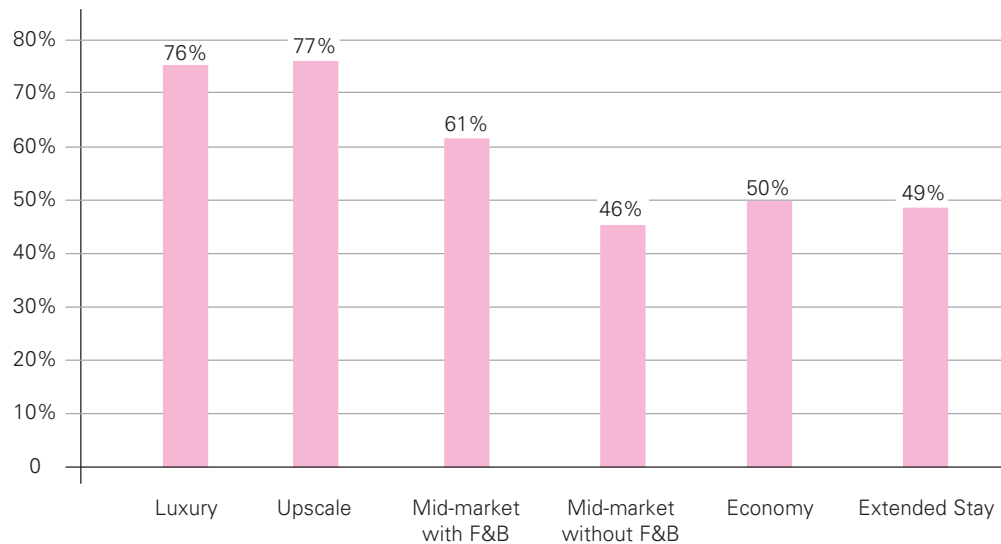
Exhibit 5 (on the next page) shows the percentage of managers who expected occupancy in their market to drop as a result of September 11's events. Consistent with their relative optimism prior to the attacks, low-price-segment GMs (e.g., managers of extended-stay hotels, economy hotels, and mid-market hotels without F&B) reported less pessimism regarding a drop in local market occupancy. On the other hand, GMs of high-price hotels such as luxury hotels, upscale hotels, and even mid-market hotels with F&B reported that their demand was slow even before the attacks and that it had further deteriorated after the attacks. Three out of four luxury- and upscale-hotel general managers expected that their occupancy would continue to drop after October 2001, but less than half of the GMs at low-price-segment hotels anticipated a sustained decline in occupancy.

Coping Strategies

In the wake of economic and political uncertainty after September 11, general managers made im-

EXHIBIT 5

Percentage of GMs (by price segment) who expected to see occupancy declines after 9-11



portant strategic decisions to improve operational performance by responding to evolving customer needs and reducing fixed costs. Those “coping strategies” ranged from modifications in marketing activities to reducing employees’ hours to postponement of capital improvements. Exhibit 6 shows the degree to which general managers used the coping strategies about which we specifically asked them. The averages reported in Exhibit 6 are based on a Likert-type scale ranging from 1 = the strategy was not used at all to 5 = the strategy was used a great deal.

The GMs’ coping strategies can be categorized as revenue enhancing or cost containing. Revenue-enhancement strategies focus primarily on marketing initiatives to raise occupancies, whereas cost-containment strategies focus on human-resources and property-management activities to cut operating expenses. Of all the available strategies, responding GMs relied most on marketing options (e.g., focusing on regional business and redirecting their sales efforts) and human-resources savings (e.g., reducing workers’ hours).

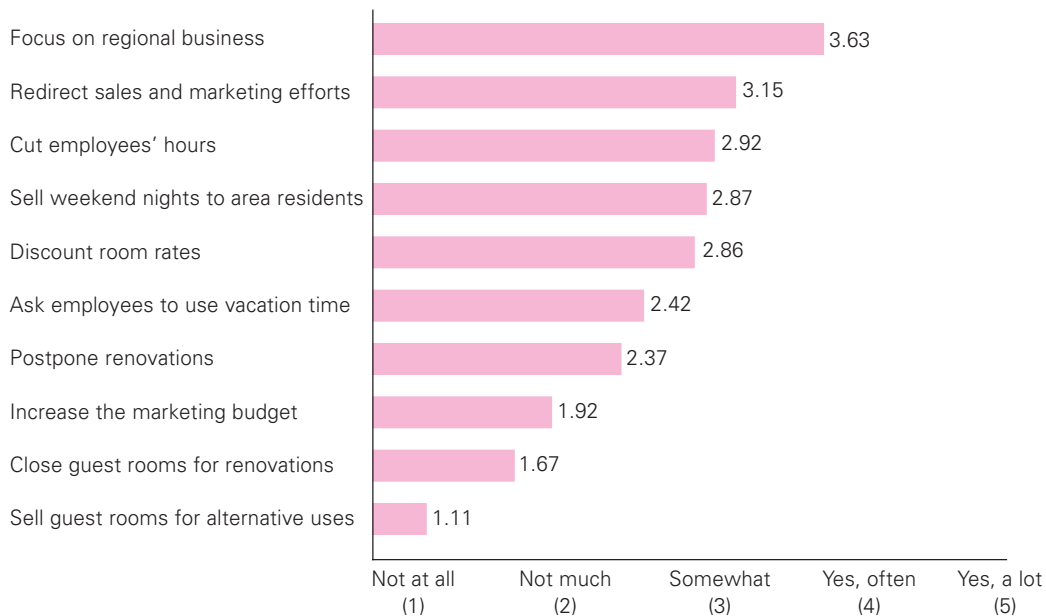
The Key to Revenue Enhancement

Overall, general managers adopted or adapted marketing strategies to deal with their particular market environment. For instance, managers at low-price-segment and airport hotels discounted rates to attract customers. Meanwhile, GMs at luxury hotels, conference-center hotels, convention centers, and resorts redirected their marketing efforts to focus on local business.

One month after September 11, 70 percent of the general managers who responded to our survey had discounted their room rates. Managers at low-price-segment hotels were more likely than their counterparts at high-price-segment hotels to discount rates. Compared to 40 percent of the mid-market and economy-hotel managers, less than 30 percent of general managers at luxury or upscale hotels had discounted their rates. Not surprisingly, many managers at airport hotels discounted their rates. Approximately half of the airport managers who responded to our survey indicated that they used a rate-cutting strategy to offset declining business.

EXHIBIT 6

GMs' use of selected coping strategies after 9-11

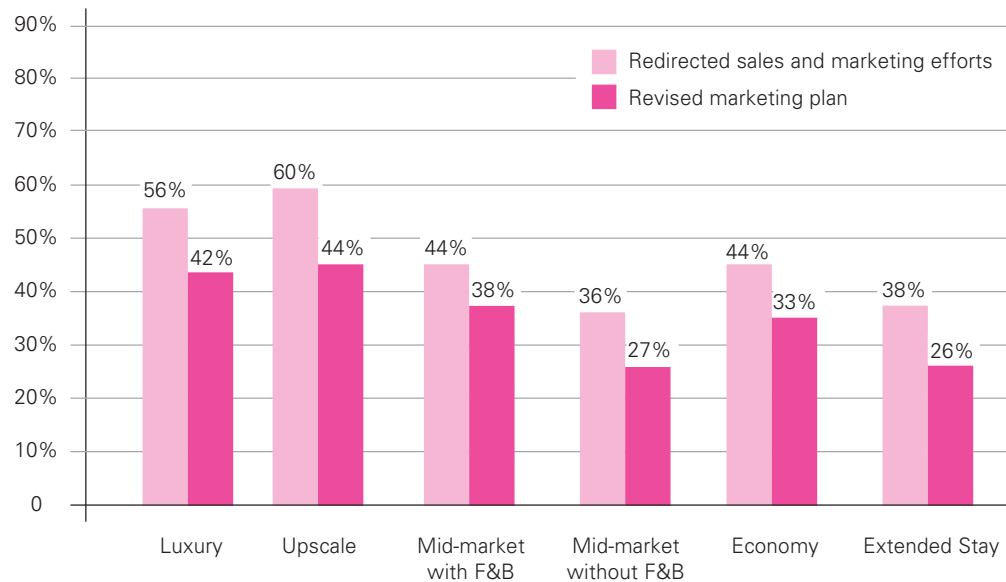


Marketing makeover. About 70 percent of the GMs from our survey indicated that they had redirected their marketing efforts since September 11. Many of those GMs noted that the marketing changes were made in an innovative manner at little or no extra cost. Only 36 percent of those who redirected their marketing efforts also increased their marketing budget. Also, over 90 percent of the general managers indicated that they had redirected their resources toward regional business, with 73 percent revising marketing plans to attract local residents for weekend getaways. Our survey indicates that managers at high-price-segment hotels and conference-convention hotels actively relied on close-to-home marketing efforts. With the general decline in the number of travelers both for business and pleasure, general managers of high-end hotels were not able to maintain business volumes by following their original marketing plans. As such, the general tendency was to creatively and flexibly adjust marketing efforts to make up for lost revenue due to the deteriorating economic environment.

Exhibit 7 (overleaf) reports the percentage of general managers for each price segment who redirected their sales and marketing efforts (i.e., initiated new actions or strategies without a formal plan) and those who formally revised their marketing plans. The general managers of high-price hotels modified their marketing activities most dramatically to best use their capacity. Approximately 60 percent of general managers at upscale hotels and luxury hotels redirected their sales and marketing efforts, and more than 40 percent of them revised their marketing plans. Conversely, managers at mid-market hotels without F&B and GMs of extended-stay hotels were not as active in redirecting their marketing efforts or in revising their marketing plans. That finding may be partly explained by the popularity of a price-discounting strategy used by managers of low-price hotels. In other words, upscale hotel managers relied on marketing strategies to attract new customers while managers of low-price-segment hotels focused on increasing occupancy by offering rate discounts.

EXHIBIT 7

Percentage of GMs (by price segment) who adopted new marketing strategies after 9-11



Convention and conference hotels stood out as the leading hotel type whose managers relied heavily on the strategy of redirecting marketing efforts, as shown in Exhibit 8. However, given the relatively low percentage of convention- and conference-center managers who said that they had revised their marketing plans (35 percent), they might have reacted flexibly to the changing economic environment without revisiting their overall marketing plans. The same pattern can be observed in all-suite hotels. Of the all-suite-hotel general managers who responded to our survey, 43 percent redirected their sales-and-marketing activities but only 14 percent also revised their marketing plans.

The most prevalent marketing strategy taken by general managers was to focus on local business. Indeed, this was the most popular of all coping strategies identified in our survey. As shown in Exhibit 9, this strategy was particularly

popular among luxury hotels and upscale hotels, with over 75 percent of all responding general managers indicating a heavy focus on local business. Approximately half of the low-price-segment hotel managers also reacted by trying to attract local business. Resorts were by far the most-aggressive locations in which hotel managers focused on local business, with nearly 80 percent of the general managers pursuing this coping strategy.

Likewise, conference- and convention-hotel managers also started selling intensively within their local markets (71 percent). This may be due to the high levels of conference cancellations in the weeks after the 9-11 events and customers' reluctance to travel in the weeks after the attacks. Having previously relied heavily on group business, such properties had to deploy unconventional strategies to fill their rooms and to support their meeting and food and beverage facilities.

EXHIBIT 8

Percentage of GMs (by hotel type) who adopted new marketing strategies after 9-11

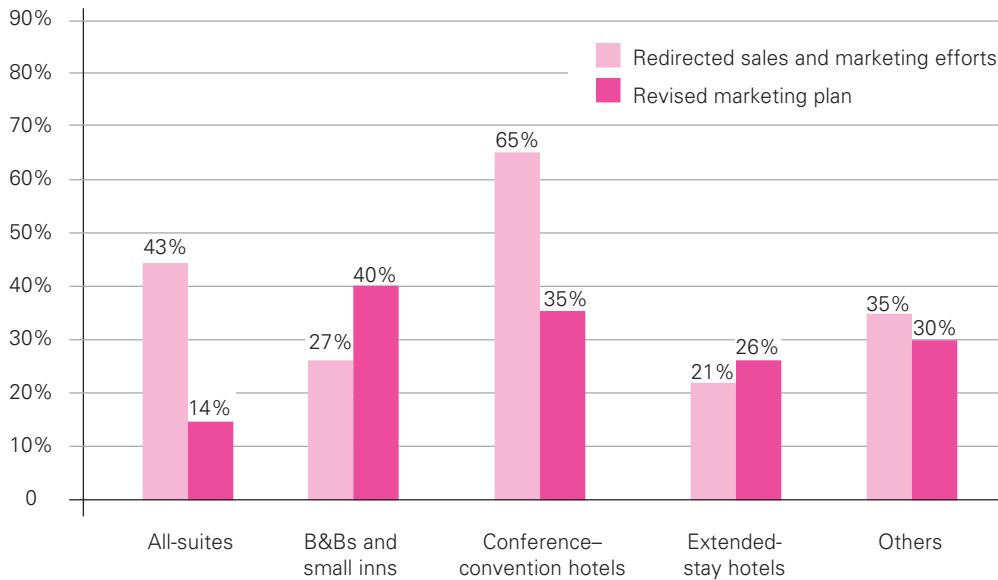


EXHIBIT 9

Percentage of GMs (by price segment) who focused on attracting local business after 9-11

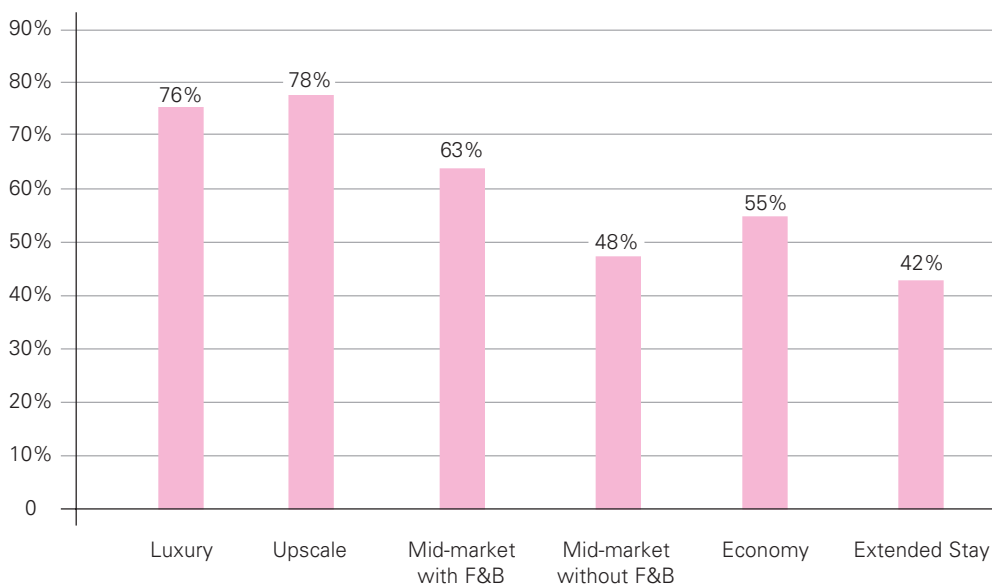
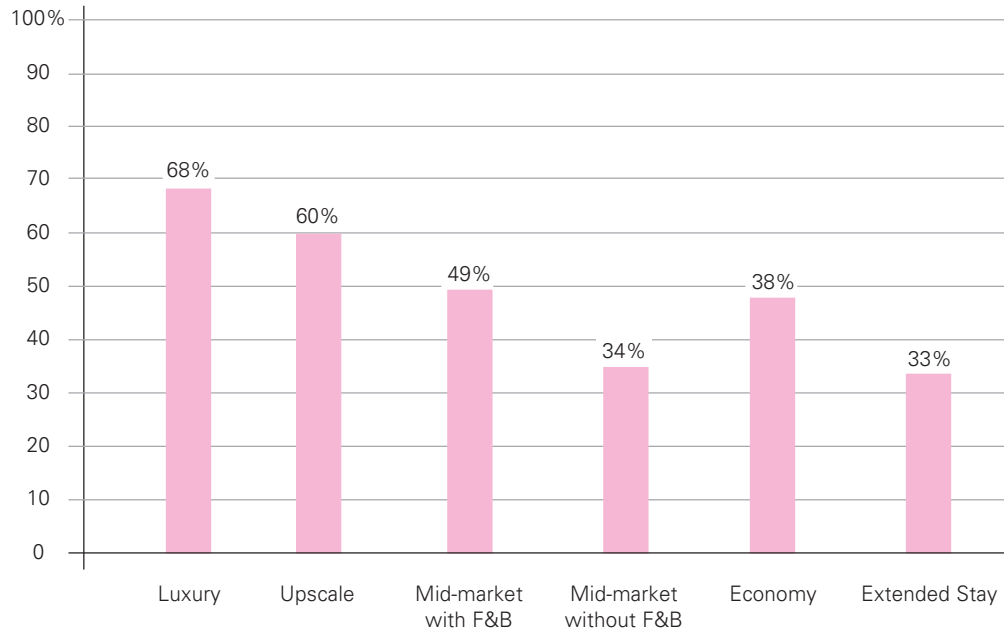


EXHIBIT 10

Percentage of GMs (by price segment) who laid off employees after 9-11



Layoffs and Reduced Work Hours

Barry Sternlicht, Chairman and CEO of Starwood Hotels and Resorts, stated: "Our focus in this crisis has been to react flexibly and entrepreneurially and to run a lean, mean machine."⁸ This quotation is representative of GMs' common strategy to contain costs. Faced with an unfavorable business climate, our respondents deemed it necessary to make difficult choices. Some operators chose to freeze their capital expenditures by putting off projects and renovation plans, while others temporarily reduced their payroll costs by combining employees' jobs and reducing workers' hours. Reducing labor expenses was the most popular approach.

According to the Bureau of Labor Statistics, during the five weeks following the terrorist attacks, more than 88,500 workers lost their jobs. Those job losses were across industries and viewed

⁸ As quoted in: Michael Billig, "Industry Develops Strategies to Offset Downturn After Terrorist Attacks," *Hotel Business*, Vol. 19, No. 20 (October 21–November 6, 2001), p. 9.

as either a direct or indirect result of the attacks.⁹ Indeed, among the workers that were reported laid off, 43 percent were from the airline industry and 36 percent from the hotel industry¹⁰ Moreover, the Hotel Employees and Restaurant Employees International estimated that more than one-third of its members were laid off with many more working reduced hours.¹¹

During November 2001 Starwood Hotels and Resorts formally stated that its intention was to lay off approximately 10,000 employees. In contrast, Hilton Hotels and Marriott International were among those companies that refrained from making public their intentions to reduce staffing levels. Hilton Hotels ac-

⁹ "Impact of the Events of September 11, 2001, on the Mass Layoff Statistics Data Series," from a monthly news release issued by the Bureau of Labor Statistics, November 30, 2001.

¹⁰ *Ibid.*

¹¹ From a press release issued by: Hotel Employees and Restaurant Employees International, December 10, 2001.

knowledge that the company was “experiencing the worst times ever experienced,” and that the plan was for employees to “reduce their work hours.” Similarly, it was reported that employees at Marriott International were working reduced hours, but decisions for layoffs were left to the general managers.¹²

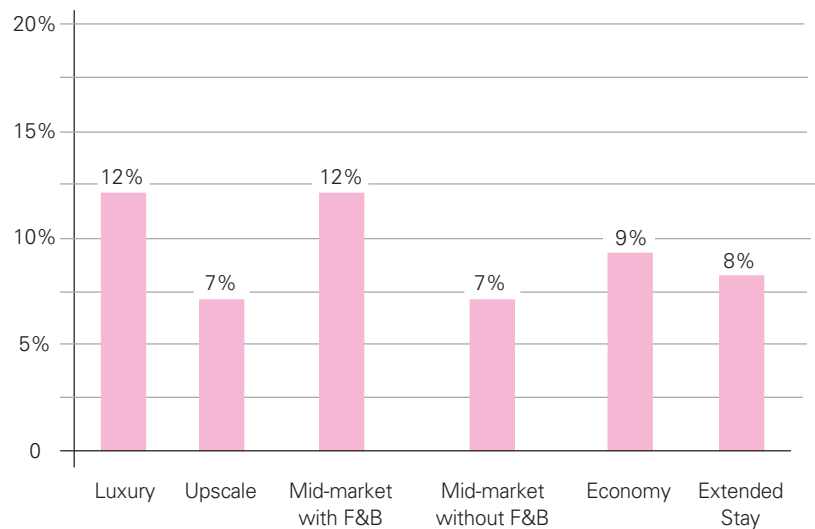
We found that the human-resources strategies of cutting workers' hours, asking employees to use vacation time (or take time off without pay), and instituting layoffs were widely applied after September 11. The extent to which those tactics were employed was not as high as we expected to find, however. In addition, the choice of strategies and the extent of their application differed among hotels. For instance, the strategy to lay off employees was actively pursued mostly by managers of upper-tier hotels, resort hotels, and convention–conference hotels. Likewise, the strategy to reduce employee work hours was used more by managers of upscale and conference–convention hotels as compared to the strategies employed by managers from midscale and economy properties. That is, low-price hotels appeared not to be actively using any of the human-resources strategies to a substantial degree relative to their upscale counterparts.

Overall, seven out of ten managers who responded to our survey used some form of workforce-reduction strategy to cope with their particular situations. Specifically, 55 percent laid off employees, 61 percent scheduled employees to work fewer hours, and 43 percent asked employees to use their vacation time or go on furlough. In fact, 35 percent of those managers deployed simultaneously all three of those human-resources strategies. Among those hotel managers who did not lay off employees, about half asked their employees to work reduced hours and one-third asked employees to take vacations.

Regarding layoffs, we found that the extent of employee displacement was generally less serious than expected and less than that portrayed by the media.¹³ In our survey, the number of

EXHIBIT 11

Percentage (average) of employees laid off after 9–11 (by price segment)

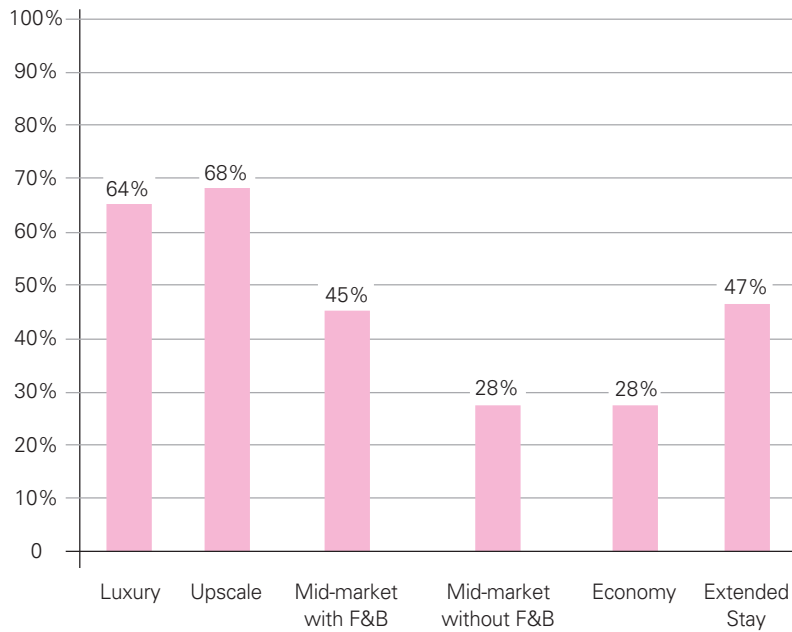


¹² “Hotel Companies Face New Labor Issue as Slowdown Forces Major Staffing Cutbacks,” *Hotel Business*, Vol. 10, No. 20 (October 21–November 6, 2001), pp. 1, 20.

¹³ See: *Ibid.*; and Marilyn Adams, “Cities Suffer as Travelers Stay Home,” *USA Today*, October 3, 2001, p. 3.

EXHIBIT 12

Percentage of GMs (by price segment) who reduced workers' hours after 9-11



workers laid off as a percentage of a hotel's total workforce was, on average, 9 percent. Not surprisingly, that percentage differed by the type of hotel that the managers operated. For instance, as already mentioned, managers at luxury and mid-market hotels with food and beverage facilities laid off larger proportions of their labor force (12 percent on average) than did hotels in other categories. Exhibit 11 shows the percentage of the hotel workforce laid off in various segments.

Relative to their luxury-segment counterparts, managers at low-price-segment hotels overall were less likely to lay off employees. However, among those that did lay off workers, their work-force cuts were quite deep—20 to 24 percent on average. That high percentage suggests to us that there were some economy and budget-hotel operators who seized the opportunity to dismiss

large numbers of employees for reasons that were not all related to September 11's events.

Exhibit 12 shows the degree to which various hotel types reduced employees' work hours. As noted earlier, the data show that the strategy of reducing employees' work hours was used most by general managers of upscale hotels (68 percent, versus only 28 percent for some other types of GMs). We find it likely that that strategy was well underway prior to September 11.

Exhibit 13 shows that hotel managers in resort locations laid off more employees (59 percent) than did managers in any other location. Managers at airport and suburban hotels were not as likely as resort managers to lay off employees, but they still reduced their staffing levels. General managers at 46 percent of the airport hotels and 41 percent of the suburban hotels dismissed about 11 percent of the total workforce in those types of hotels. The general managers at those hotels also relied on other human-resources strategies, such as reducing work hours (almost 50 percent) and encouraging vacations (more than 25 percent).

General managers of highway hotels were the least likely to lay off employees, with only 30 percent of our respondents using this strategy (and displacing on average just 5 percent of their workforce). Strategies to reduce work hours and to encourage vacations were not employed much by these hotel managers, possibly because they simply did not feel the effects of a declining market environment.

Sixty-four percent of the convention-conference hotel managers laid off employees, however, the proportion of their employees laid off was relatively small, with an average of 7 percent. Also, the strategy to reduce work hours was popular among the convention-conference hotel managers (approximately 60 percent). This may suggest that managers at convention-conference hotels simultaneously laid off full-time employees and reduced the work hours of the remaining employees. All-suite hotel managers were also likely to lay off employees (56 percent), although on average those workforces were reduced by only 4 percent. All in all, general managers indicated that the extent to which they reduced their total workforce was relatively small compared to what one might have expected.

Property-management Savings: Not Much

Other cost-containment strategies focused on property-management practices. Corporate managers reported that some hotels were closing guest-room floors, postponing renovations, and canceling major projects. In response to those reports, PricewaterhouseCoopers estimated that 6 percent of the hotel projects slated for a 2002 or 2003 completion would either be delayed or cancelled.¹⁴ We asked our group of general managers what they were doing differently in managing their properties.

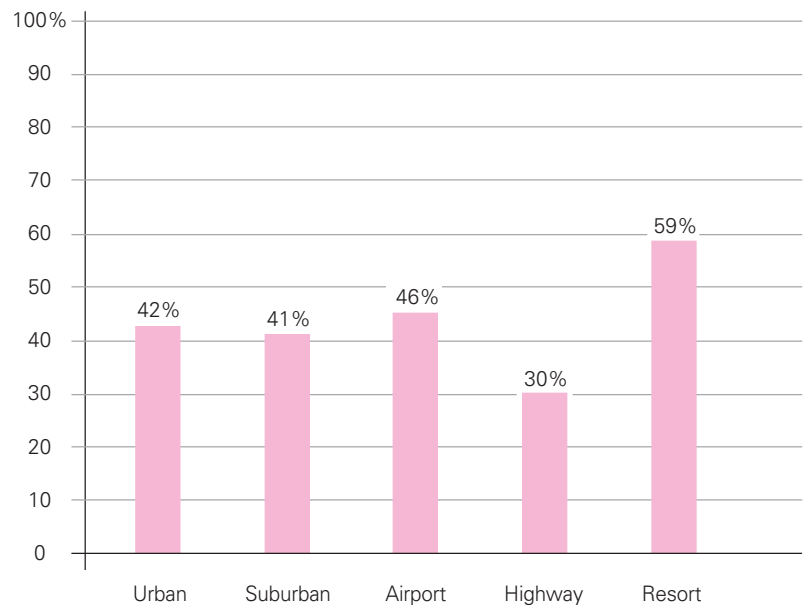
The GMs in our study did not report any strong initiatives in property management. Fewer than 10 percent of the hotel managers surveyed were closing rooms for renovation, and a quarter of the managers were delaying renovation plans. Despite the overall dearth of property-management strategies to cut costs, there were some differences in the initiatives used by various hotel-manager types. For instance, as explained below, managers at the high-price-segment hotels in general took more initiatives in property management after the September 11 events than did their low-price-segment counterparts.

Although the strategy to close unused rooms to speed up a renovation schedule was not frequently used, managers at luxury hotels used this tactic more often than did GMs at low-price-segment hotels. Sixteen percent of the GMs at luxury hotels surveyed closed rooms for renovation, compared to 4 percent of economy-hotel managers. Similar to luxury-hotel managers, some managers at mid-market hotels with food and beverage used the strategy of taking advantage of low occupancy to accelerate room renovations. Also, the strategy to close unused rooms for renovation was relatively popular among managers of resort hotels (14 percent) and B&Bs and small inns (18 percent).

On the other hand, compared to the luxury-hotel general managers who accelerated their renovations, even more GMs at upscale hotels and mid-market hotels with food and beverage

EXHIBIT 13

Percentage of GMs (by price segment) who laid off employees after 9-11



put off their scheduled renovation plans (perhaps because they felt the pinch of the shortage of funds due to a drop in business). Among upscale hotels, 33 percent postponed their renovation projects while 32 percent of mid-market hotels postponed such projects. Also, the strategy to delay renovations was popular among about a third of the managers of urban hotels, suburban hotels, and airport hotels.

Conclusion

We have attempted to summarize the collective strategies of property-level general managers who are dealing on a daily basis with the effects of the September 11 terrorist attacks. We discovered that the economic effect was definitely felt at the unit level and that managers quickly had to make strategic adjustments to cope with their individual situations.

¹⁴ "Hotel Delays Projects, Cuts Costs to Fight Slowdown," *Hotel Business*, Vol. 10, No. 20 (October 21–November 6, 2001), pp. 1, 9.

In presenting our data and observations, we are by no means capturing the complete picture of what is now happening in the field. However, our hope is that this information regarding what did happen gives general managers an opportunity to compare their reactions to September 11 with those of other managers in their market segment and hotel type.

Innovations often happen during difficult times. It is during times of turmoil that managers use their resources wisely to accommodate

evolving customer needs and to contain expenses. For example, we know of hotels in New York City that converted their rooms to accommodate rescue workers and to provide office space for displaced workers. Elsewhere, general managers adjusted their marketing plans to capture business from the local market (to replace that lost by the slowdown of business and leisure travel). Beyond the immediate despair of the events of September 11, we note the inherent strength and resiliency of hotel operators. ■



Masako S. Taylor, M.P.S. (above, left), is a doctoral candidate studying at the Cornell University School of Hotel Administration (MST23@cornell.edu), where **Cathy A. Enz**, Ph.D. (above, right), is the Louis G. Schaeneman, Jr., Professor of Innovation and Dynamic Management and executive director of the Center for Hospitality Research at Cornell University (CAE4@cornell.edu). The authors, who contributed equally to this project, gratefully acknowledge the contribution of Brian Ferguson and Ricardo Anders, of Realtime Hotel Reports (now a part of STR), who cosponsored this survey with the Center for Hospitality Research. Realtime was instrumental in distributing the survey and collecting the data.

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