Looking good – but looking out!

By Edgar Hirt

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Members of the International Association of Congress Centres (AIPC) ended 2007 with a high level of business performance and a positive sense of continuing growth in 2008, based on a variety of factors ranging from strong advance bookings to continuing strength in the global economy. However, they were also aware that the recent performance of the industry is also driving owner expectations to levels that will be hard to maintain should the global economy falter and at the same time stimulating new facility development that will result in increased overall competition.

A survey of congress centre business performance released in mid-2007 identified considerable strength in both performance and future business prospects. Amongst the findings:

- The vast majority of members (86 percent) saw their business increase over the past year, with only 14 percent seeing a decrease.

- At the same time, 55 percent stated that they were even more confident in their business prospects for 2007 as opposed to only five percent who indicated they were less confident and 40 percent who expected business to remain the same. Those who indicated greater confidence based this on an improving economy, increased bookings and the prospect of more short term business. Those who had less confidence referenced either local political or logistical reasons unrelated to the overall industry or not being sure they could exceed what were already high levels of performance for 2006.

- The type of business that respondents expected to drive the increase was heavily corporate, followed by conventions. There was less expectation of increased business in the areas of trade exhibitions, consumer events or entertainment / sports events. However, accompanying this success were concerns that many of the factors that drove business growth could also contain the seeds of future challenges. These challenges fell into three groups;

- From an owner perspective, the primary challenges members anticipated, in order of importance, were changing revenue expectations (29 percent), management reviews (25 percent), financing reviews (also 25 percent) and governance reviews (21 percent). Additional challenges identified in this area included skills and labour shortages, the impact of emerging competition, the need for some form of certification and political changes.

- From a market perspective, top challenges were identified as competition from other centres (22 percent), pressure on rental rates (20 percent), client reluctance to pay for extra services (16 percent), environmental concerns (15 percent), greater influence by intermediaries (also 15 percent) and reduced event attendance (12 percent).

- Key internal or operating challenges were seen as increased operating costs (35 percent), labour shortages (26 percent), increasing government regulation (22 percent) and labour disruptions (18 percent). AIPC members reported a variety of strategies for maintaining revenues and responding to the inevitable downturns which occur in a cyclical business. Key factors in this area included;

- The best opportunities for revenue growth were reported as being largely in the traditional areas of event services at 27 percent, space at 26 percent and food and beverage, also at 26 percent. Other potential revenue opportunities were seen as the packaging of products and services, re-thinking or renegotiating government subsidies, attaching hotels or developing event partnerships.

- In terms of how centres intend to respond to these challenges, again the more traditional responses seemed to take precedence, with new sales and marketing initiatives and enhanced service leading at 37 percent and 25 percent respectively followed by staff training at 14 percent and facility upgrades at 12 percent.

While these survey results indicate an overall picture of good business and high levels of confidence, this is driven largely by external factors such as the strength of the overall global economy. But with convention and congress centre business driven to a large extent by economic conditions, more recent concerns about the sub prime mortgage problem and resulting impacts on global financial markets are threatening the ongoing growth of the economy. Centres will be to some extent protected by longer term bookings, but decreasing participation and the cancellation of short term business could take eventually take their toll should the economy falter. Two other issues are emerging that may compound future challenges faced by centres. The first is that many supplier / partners in the industry such as hotels are also experiencing unprecedented levels of business demand and either unable or unwilling to supply the products that make up an essential part of the convention package at attractive rates.

The second is that ongoing labour shortages are making it more difficult for everyone to maintain service levels and quality. This latter issue is obviously not limited to the convention and exhibition industry but is clearly a concern in an industry where service is a critical factor.

In discussions surrounding the release of the 2007 report, AIPC member centres agreed that this current period of above average economic performance and financial strength was a good time to prepare for addressing some of the factors that would become more of an issue when revenues dropped as the business cycle moved on. Amongst these were the need to promote a better understanding of industry economics, particularly in terms of documenting benefits; a need to explore alternate markets and revenue sources; a greater attention to staff training, recruitment and retention initiatives and the exploration of new forms of interactions with industry partners.

The problem with a cyclical industry is that times of business strength inevitably lead to future declines. In carrying out these types of surveys and developing strategies to address the issues they identify, AIPC members are taking the necessary steps toward preparing for the next stage of the business cycle. Events