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Hotels 2020: Welcoming tomorrow's guests





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Rolling out the red carpet for the customer-led industry of 2020

The hotel industry is going through a period of unprecedented, irreversible change and will look very different in 2020 than it does today. We shed light on some of the biggest questions facing the sector – how will hotels attract the business and leisure guests of tomorrow? How can they compete in a digital world? And what will their future business models look like?

On the surface, a casual observer might think that the sector is in good shape. By 2016, total hotel revenues are expected to exceed half a trillion US dollars¹. Occupancy, RevPAR and average daily rates are all high, making for a good outlook.

Yet strong trading figures are only part of the picture. Hotels are feeling the impact of a much deeper trend. The industry is increasingly consumer-led and guests are calling the shots.

As in other sectors, digital technologies are shifting the balance of power towards the consumer.

At the same time, consumers are changing. Over the next few years, we will see 'millennials' – digital natives who bring a strong desire for local, 'authentic' experiences – becoming the primary consumer market². International guests, especially

from emerging markets, are also growing in importance. In the UK, foreign guests are expected to drive nearly all hotel growth between now and 2020. For hotels, this means travellers increasingly demanding services (and languages) tailored to their needs.

With these trends making a growing impact on hotel operators worldwide, Grant Thornton examines how the consumer-led economy will change the playing field for hoteliers between now and 2020. We explore the principal challenges and opportunities for hotels across four key themes, drawing out the foremost questions that hotels should be asking as they prepare their businesses for the future.

¹ 'Global hotel industry revenue from 2008 to 2016,' Statista, 2015

² 'How millennials will change travel by 2020,' Hotel News Now, January 2015

Themes

Embracing personalisation

Digitally enabled guests expect hotels to give them ever more personalised services. With millennials as a key target segment, personalisation will grow hugely over the next few years. Hotels will need to personalise services from guests' booking experience to their in-room preferences around lighting, temperature and refreshments. Hoteliers that can deliver effective mobile-centric personalisation will become brands of choice.

Taking a new approach to data and talent

Almost 90% of enterprises across sectors believe that data analytics will redefine their industry by 2017³. Yet we believe that most hotels are moving too slowly or are simply not ready for the era of digital, data-centric business. As such, they risk being left behind. In particular, they must think about the talent they will need: data scientists, sensor specialists, social media experts and more.



Gillian Saunders
Global leader of hospitality and tourism
Grant Thornton

Keeping the brand relevant

Travellers and commercial bookers already rely heavily on online travel agencies (OTAs) and meta-search engines. Hotel brands are less visible during the booking process than they used to be. In 2020, we believe the smart hotels will find new ways to use their brand messaging, and the distinct experiences they provide, to connect with individual consumer segments. First, they need to truly understand what their customers are seeking. Then they need to adapt their business to meet those needs.

Rethinking the business model

Some hotels have been largely dismissive of the threat posed by Airbnb and other rivals from the sharing economy. But, by end-2014, Airbnb had already become the world's largest provider of rooms⁴. To compete in 2020, hotel groups need to revisit their underlying business models and ask fundamental questions about how they operate. This means taking proactive steps to introduce more innovative pricing and collaborating with strategic partners. 'Wait and see' is not an option.

The hotel industry is likely facing more disruption now than it has at any other time in its long history. Many face being marginalised, just as flat-footed rivals in other sectors have found. But, at Grant Thornton, we believe that the opportunities are immense for those hoteliers prepared to change with the times.

³ '84% of enterprises see big data analytics changing their industries' competitive landscapes in the next year,' Forbes, September 2014

⁴ 'Inside Airbnb's grand hotel plans,' Fast Company, April 2014



Risk and reward: putting mobile personalisation at the heart of the hotel experience



Risk and reward: putting mobile personalisation at the heart of the hotel experience

Smart mobile devices present a major opportunity for hotels to personalise the customer experience. Yet the sector is lagging behind other industries, many of which are already using mobile technology to provide accessible, customised and relevant customer services. Hotel companies that can deliver effective mobile-centric personalisation will become brands of choice for the guests of 2020.

Smartphones today are ever-present, but their rate of adoption remains surprising. Although in existence since the 1990s, the market took off after Apple launched the iPhone in 2007. Just seven years later, there were 1.75 billion smartphones in circulation⁵. Hoteliers can assume that most guests have a smartphone or similar device – and that the ones who don't will get one soon.



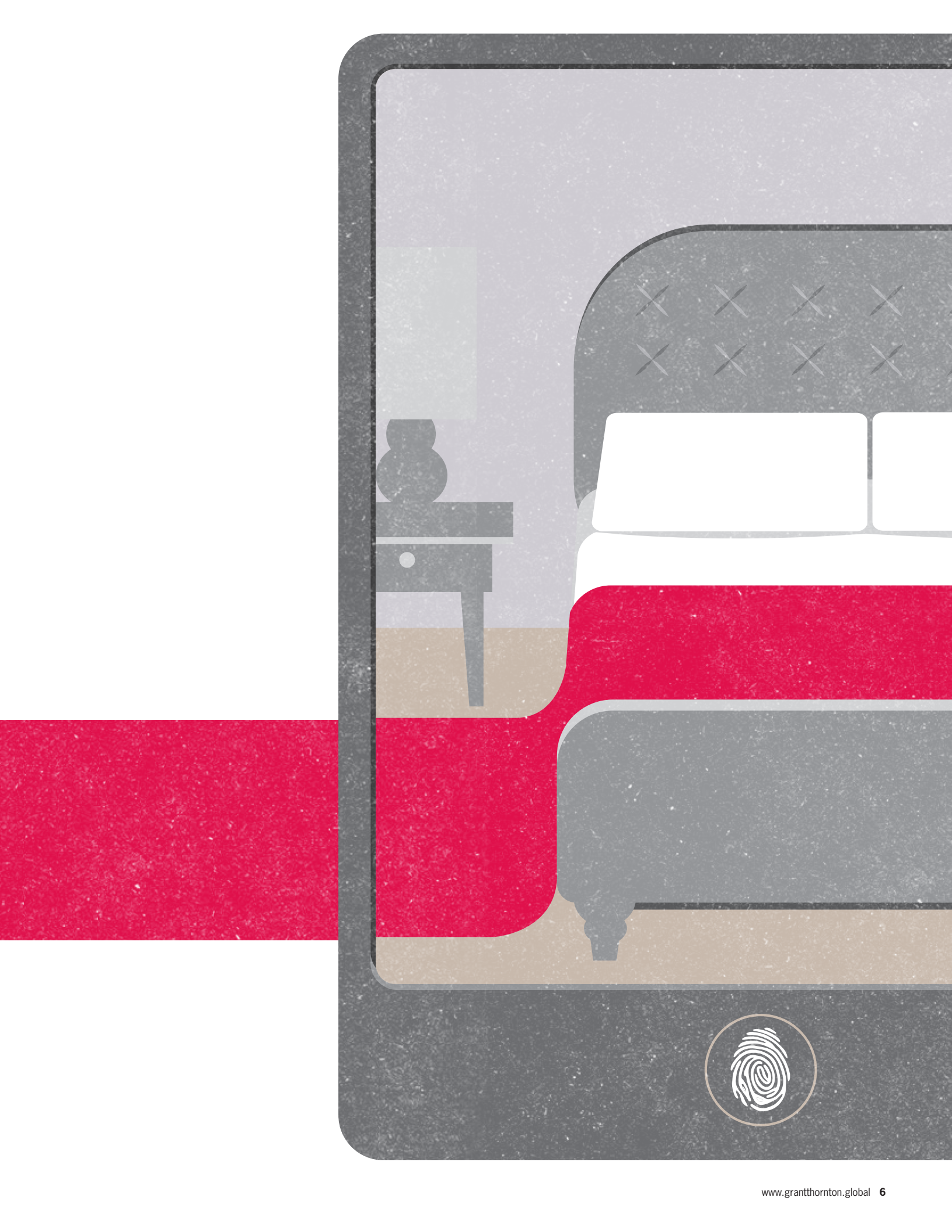
46% of millennials agree that being able to check in/out using a mobile device would motivate them to return⁶

Between now and 2020, hoteliers will have to use mobile to engage with their customers. In particular, they must consider apps to personalise the guest experience – from choosing rooms to specifying lighting and temperature levels. Some hotels are already making progress. Holiday Inn teamed up with Samsung during the London 2012 Olympics to enable guests to control their rooms' TV, air conditioning and lights with their smartphones⁷. While various other hotels are rolling out apps to let guests use their phones to open their room doors.

⁵ 'Smartphone users worldwide will total 1.75 billion in 2014,' eMarketer, 16 January 2014

⁶ 'Creating 'moments of trust': the key to building successful brand relationships in the kinship economy,' InterContinental Hotels Group, 2014

⁷ 'The new kinship economy: From travel experiences to travel relationships,' InterContinental Hotels Group, 2012



Apps are just one side of the story, though. Hotels can mine insights from the customer data that smartphones generate to enhance their services. And, as digital-native millennials become the dominant consumer group in the marketplace, set to outspend baby boomers on hotels by 2017⁸, the pressure on hotels to exploit the platform will intensify.

Playing catch up

But are hotels behind the curve when it comes to exploiting mobile technologies? Steven Perkins, global leader of technology at Grant Thornton believes so. "The biggest hotel brands may have announced mobile strategies," he says, "but they are doing so far later than leaders in consumer packaged goods, personal banking and transport. Many are still focused on developing their websites, whereas the guests of 2020 will search, price-compare, book, and check-in through apps on their mobiles."

We believe the hotels that build mobile-first strategies will gain a significant competitive advantage. But they should remember that this opportunity does not come without risk.

"Definitely mobile is the future, if not the present."

Enrique Sarasola, co-founder of BeMate.com, a Spanish online platform for hybrid accommodation offerings.

Mass personalisation in practice

"Hotels need to understand where and how they can deploy mobile technologies to deliver the personalisation that consumers expect," says Erik Janse, information technology services partner at ConQuaestor Grant Thornton in the Netherlands. The obvious starting point is user-friendly apps that enable mobile check-in and room selection. This will be especially important for commercial bookers and business travellers making brief visits to a location.

"Long queues at reception, checking in, typing in of stuff on the terminals – people will not have any patience with that approach in 2020," agrees Dr Pearson, a futurologist.

Many global chains are already responding. "We have apps that allow guests to input preferences about room temperature or what type of bed they need," explains Régis Kahn, director of strategy and e-commerce at InterContinental Hotels Group (IHG). "And now, when a guest passes a restaurant or retail outlet, a promotional offer or video can be delivered to them directly through our mobile app, too."

In the future, hotels will need to use mobile to personalise not just the immediate hotel environment, but also guests' overall experience of the destination. IHG has created a Concierge Insider Guides app, to provide local insights for guests. And the Ritz-Carlton app, launched in 2014, provides concierge services such as booking reservations, local city guides, and special offers⁹.

"Making a stay more local – this is something hotels are going to do a lot. They'll have an app that includes information about the coolest local places to go, so you can try and localise your stay," asserts Jeff Weinstein, editor-in-chief of Hotels Magazine.

Hotels could potentially use such an app to strengthen their connection with the local community and to compete with the 'authentic' experiences offered by rivals such as Airbnb. To do this, they may need to connect their mobile channels with external partners. "The goal is collaboration between next-gen travellers, travel providers and retailers to co-create highly customised travel plans tailored by taste and preference," says a spokesperson on behalf of Amadeus' Hotels Management group. For example, Hyatt recently integrated with Uber, to allow guests to call Uber cars from within their app¹⁰. In the future, some external partners could simply be local hosts adopting the home-away from-home aspect of the sharing economy.

Mobile will also be crucial for hotels to better serve rising numbers of guests originating from emerging markets. In 2013, 97 million Chinese tourists travelled abroad; by 2020, this will more than double to over 200 million¹¹. Hotels cannot afford to ignore this trend, and will need to tailor their services accordingly. The Conrad Concierge mobile app already allows guests to choose Chinese TV channels, minibar foods and other amenities in Mandarin on their mobile before they arrive¹³.

8 'How millennials will change travel by 2020,' Hotel News Now, January 2015

9 '5 hotel brands with useful mobile apps,' Digiday, July 2013

10 'Hyatt hotels app integrates with Uber,' Hyatt, 2014

11 'Hotels – UK,' Mintel Group Ltd, October 2014

28%

of smartphone or tablet owners used a mobile device to research their last hotel stay¹¹ (Source: Mintel)

By 2020, more and more travellers will expect such services, as well as other apps that break cultural and language barriers. Google and Microsoft both recently released trial versions of apps that allow for live human language translation. These will be widely in use within a few years.

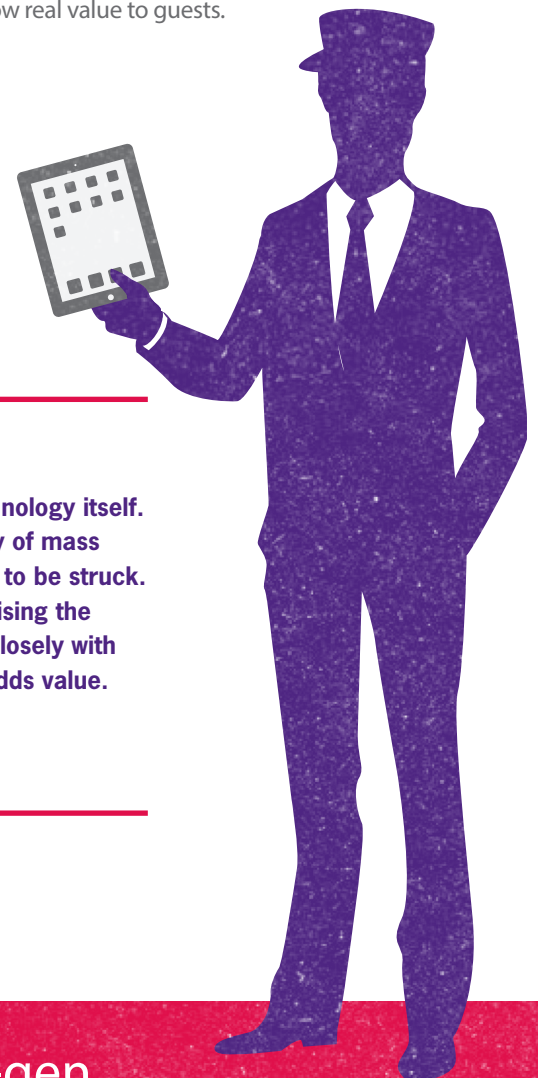
Finding the personal-digital sweet-spot

As well as opportunities, mobile brings risks. Firstly, many leading hotels focus on providing a personal care service to seem more welcoming and to differentiate their brands. If guests are expected to use their smartphone to manage their own stay, much of this differentiation is lost. "I call it the 'care economy'. And, as technology becomes more sophisticated, it forces us to focus on the personal interaction side and that becomes a differentiator," says Dr Pearson.

Michael Dominguez, senior vice president for hotel sales at MGM Resorts International, says that the business community will continue to demand a strong emphasis on face-to-face interaction.

"If a third party is booking a hotel on behalf of a business executive, they want to build that trust through a direct relationship," he says.

Another risk is that personalisation is heavily reliant upon consumers sharing their data. The European Commission is pushing for stricter regulation of personal data use¹⁴, and hoteliers will be reading the headlines about data breaches and hacking losses with concern. Already, a hotel management company has admitted data breaches at 14 branded hotels¹⁵. To become recognised as secure custodians of data, hotels will need to rethink their risk management, ensuring oversight across the organisation. For those that get it right, there is an opportunity to show real value to guests.



Act now to welcome 2020

Worldwide, we are seeing consumer demands evolving as rapidly as mobile technology itself. We believe that hotels must act now to differentiate themselves, making a reality of mass personalisation to surprise and delight guests. But there are important balances to be struck.

As they invest more in mobile, hotels must understand risks around de-humanising the hotel experience and data security. Getting this right will involve working more closely with guests and consumers over the next few years to establish where mobile truly adds value.

Adrian Richards

National leader hospitality and tourism, Grant Thornton UK

¹² 'Chinese outbound tourist numbers to double by 2020,' China Briefing, 21 January 2014

¹³ 'Western hotels cater to Chinese, now the biggest travel spenders,' The Seattle Times, November 2013

¹⁴ 'Reform of data protection legislation,' European Commission, September 2014

¹⁵ 'Hotel franchise firm White Lodging investigates breach,' Krebs on Security, 31 January 2014

"The goal is collaboration between next-gen travellers, travel providers and retailers to co-create highly customised travel plans tailored by taste and preference."

Spokesperson on behalf of Amadeus' Hotels Management Group



Five personalisation questions for hotels

- 1 Where will your guests most value human interaction before, during and after each stay and in what areas will they simply be looking for speed and convenience? How will this balance differ by customer segment?
- 2 Where can you start building out the functionality of your mobile offerings to deliver more personalised services?
- 3 What emerging technologies, such as wearables, will likely play a key role in your future services? How are you keeping abreast of the latest technology trends?
- 4 Are you communicating clearly how you would like to use customers' personal data? How do you plan to modify this over the next few years?
- 5 Do you have robust processes in place to mitigate against cyber-risk? How will you modify these over time to keep up with the hackers?





The digital ready hotel: recruiting tomorrow's talent



The digital ready hotel: recruiting tomorrow's talent

Hotels are assessing how they can use digital technologies and data analytics to deliver memorable guest experiences. As 2020 approaches, they will need to make digital a part of everything they do – from marketing and distribution to in-room entertainment. But most hotels don't have the talent, technology or organisational structures to achieve this. They will need targeted investment and creative solutions to transform key areas of the business.

The hotel sector is not unique in its need to reinvent itself for a digital future. But, unlike other industries, the sector has yet to see large-scale digital disruption. Internet banking, for example, delivered a digital investment ultimatum to the financial services sector several years ago.

Hotels have escaped such severe disruption so far, but that may change soon. Not only must hoteliers satisfy the demands of empowered and digital-savvy guests, but they must also understand how they can extract meaningful insights from customer data. They can use this to further segment their B2B and leisure customer bases and anticipate future guests' wants and needs.

"This will help them create marketing initiatives and customised offerings to compete against rivals. If they don't, someone else will."

Steven Perkins

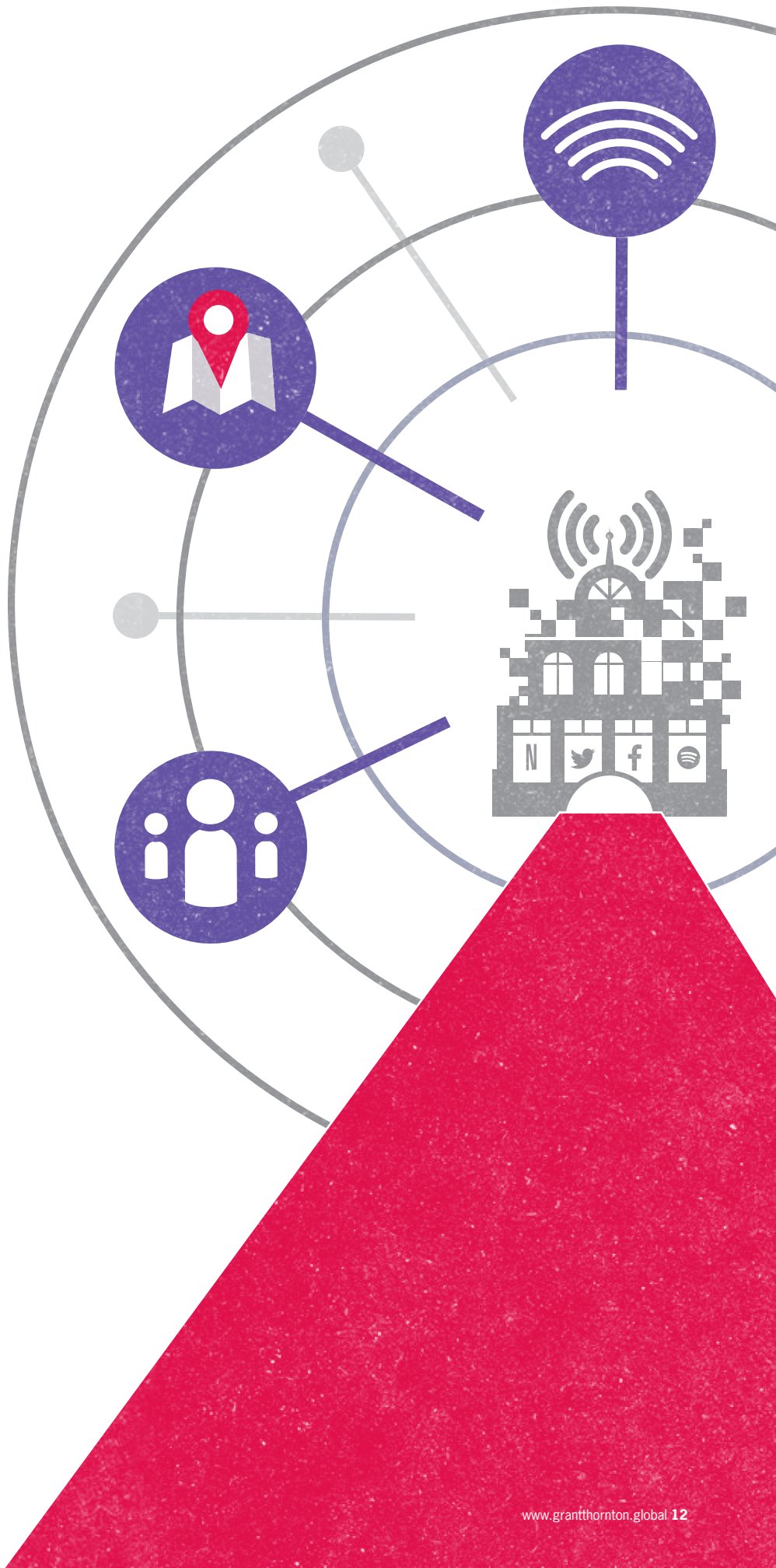
Global leader – technology, Grant Thornton

At the same time, hotels should see social media as a vital channel to engage with consumers. According to Mintel research, Hilton is currently dominating the sector's conversation on social, claiming a 45% share of voice¹⁶ through its prize competitions on Facebook and its @HiltonHelp guest assistance team on Twitter. This is giving the hotel chain an advantage as it seeks to acquire new guests in a world in which hotels are losing traditional touch-points with consumers (see 'Brand matters: winning the battle for relevance' for more). Many commentators indicate that most hotel businesses are not equipped to cope with the digital era.

¹⁶ 'Hotels – UK,' Mintel Group Ltd, October 2014

“To satisfy today’s consumers and get better insight from data, you can be sure that hotels will be competing against other industries for the best talent.”

Erik Janse
Information technology services partner,
ConQuaestor Grant Thornton



Hotels will also need to build an IT infrastructure that can support growing data-driven demands and handle new challenges around risk.

We can see some hotels already investing significant amounts in the digital space. Meliá Hotels International, as one example, is committing over US\$1 million over the next three years in technology and digital marketing expertise¹⁷. Meanwhile, Accor has committed US\$225 million to a major digital transformation project¹⁸. To compete, the others will need to take action quickly or risk getting left behind between now and 2020.

The talent conundrum

The hotel sector is about to enter a digital talent war. The problem is, it's a war being fought on multiple fronts. Almost every other industry is also competing for digital expertise. As businesses reshape themselves around digital, there is a surge in demand for tech skills – from strategic digital planning through to data scientists and programmers.

“The hotel sector is about to enter a digital talent war.”

Steven Perkins

Global leader – technology, Grant Thornton

As hotel brands seek to boost social media engagement and build their presence across channels such as Facebook and Twitter, it is clear that mastering social media requires a skill set of its own. Hilton has demonstrated, through its success on social channels, that hotels with dedicated staff and expertise in social marketing will dominate the conversation on these channels. At the same time, hotels should consider how unfavourable comments on social media can do significant damage to their reputations. Many have already brought in people to monitor customer reviews and respond where necessary to regain goodwill or counter malicious campaigns. At the same time, they should ensure they are using the latest technologies to help them become more effective in this area.

Some hotel executives have seen this in practice as front-of-house teams use their digital skills to respond to guests' needs.

“A guest could be on our mobile app but will also have the ability to chat live with our service manager, so it's all about being able to reallocate resources between the digital and physical space so we can serve these evolving consumer needs and expectations.”

Michael Dominguez

Senior vice president for hotel sales, MGM Resorts International

30%

of global hoteliers plan to hire staff specifically for social media¹⁹

To ensure they have people with the required mix of advanced technical skills, hotel HR teams will need to reconsider their approach to talent management, reviewing how they find, assess and recruit new staff.

Time to upskill

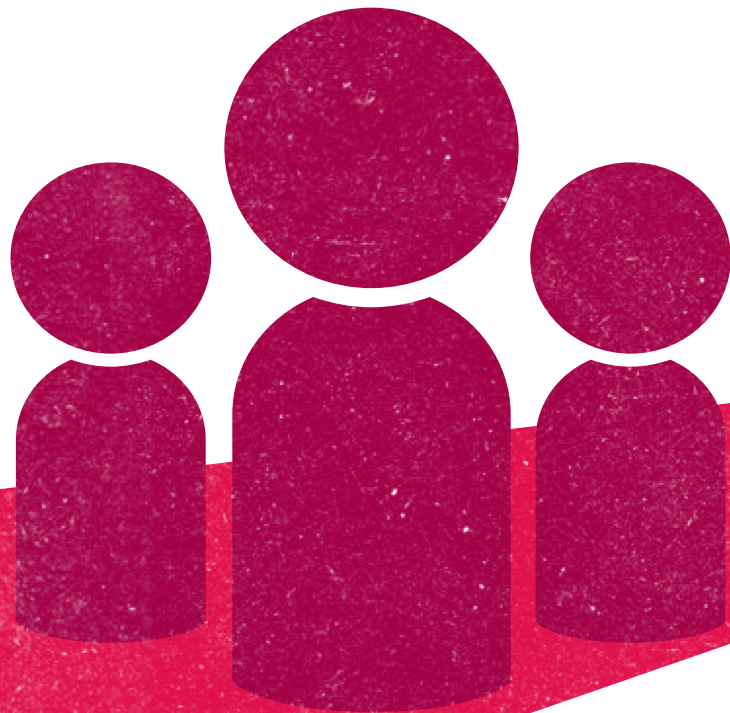
Talent recruitment is not the only priority for hotels – they should also rethink their internal training activity. “Unfortunately, the people with the most contact with guests are usually the lowest paid. The person behind the desk doesn’t have the training to mine data, so it’s going to be a challenge to make that data readily available to them in a way that enables personalisation,” says Jeff Weinstein, editor-in-chief of Hotels Magazine.

Over the next few years, hotels will need to focus on up-skilling these employees, and on translating complex back-office data analytics into user-friendly systems that will enable front-of-house staff to personalise guests’ experience.

“The technology has to become easier and easier to use moving forward. If you’re talking about apps that require the concierge to have direct interaction with the guest based on their input, for example, it has to be very simple to operate.”

Régis Kahn

Director of strategy and e-commerce, InterContinental Hotels



17 Meliá Hotels International creates Meliá Digital to lead the digital transformation of the company,' Meliá Hotels International, November 2014

18 'Accor launches its digital transformation – 'Leading digital hospitality,' Accor, October 2014

19 'Hotels increase 2012 marketing budgets for mobile and social campaigns,' TravelClick, 2011

Building the infrastructure for 2020

Hotels' efforts to recruit digital-savvy talent will be futile if they do not equip that talent with the right technology.

To drive insight from data, hotels must enhance their ability to process and analyse it in real-time. This means updating their systems to enhance the data-processing capacity. "A lot of hotel groups are now at a crossroads where they know they really need to invest in their core IT infrastructure if they want to grow their business," says a spokesperson on behalf of Amadeus Hotels Management Group.

For some hotel management companies, a challenge may be that their owners are reluctant to invest heavily in upgrading their properties' IT systems. This could add tension between hotel managers and owners and potentially gives an advantage to those hotel groups that own a greater number of their properties.

Hotels will also need to learn to gather data in new ways. Some of the most innovative means of creating personalised services rely on sensor technology to understand customer behaviour. The Ericsson Mobility Report for 2014, for example, predicts that the number of active cellular machine-to-machine devices will increase three to four times by 2019²⁰.

This opens many opportunities for differentiation, if hotels can learn to use sensors effectively. Westin Hotels is already trialling new smart sensor technology that allows it to track guests' sleeping patterns and offers personal coaching tips to help them sleep better²¹.

Act now to welcome 2020

In our view, most hotels are simply not geared-up for the digital business era. And, of those that are showing interest, far too many are taking a too-slow, too-conservative approach. Over the next few years, hotels must prioritise investment in the new talent and technology they will need while reshaping their organisational structure to fit a new business model. The battle for talent is fierce, and may require creative thinking – such as working more closely with strategic external partners. Hoteliers that can drive their businesses based on properly interpreting and acting on the data will be the winners in 2020.

Erik Janse

Information technology services partner, ConQuaestor Grant Thornton

20 'Ericsson mobility report: Global 4G/LTE divide will be wide in 2019,' Ericsson, June 2014

21 'Westin hotels offers guests sounder sleep through smart tech,' Quicken, March 2014

22 'Meliá Hotels International creates Meliá Digital to lead the digital transformation of the company,' Meliá Hotels International, 28 November 2014

23 Amadeus and Fast Future, 'Hotels 2020 – beyond segmentation,' 16 April 2014

24 'Accor launches its digital transformation: Leading digital hospitality,' Accor, 30 October 2014

300

team members were
trained to use Meliá Hotels'
new sales app at its 2014
global sales convention²²

of respondents in an Amadeus survey believe the hotel industry will adopt approaches such as crowdsourcing and open innovation to speed innovation²³

96%

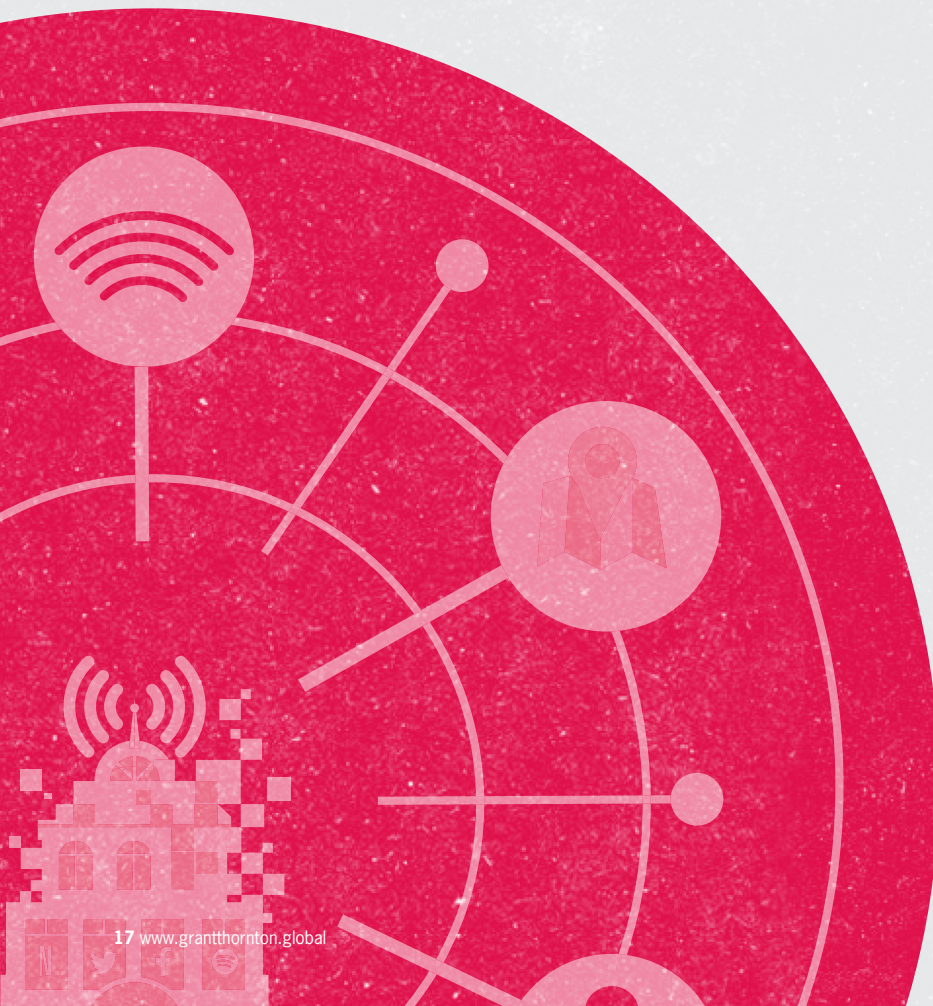
€225
million

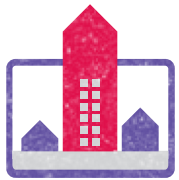
is the amount Accor will invest in its digital transformation by 2018²⁴



Five digital-ready questions for hotels

- 1 Which areas in your organisation will you need to strengthen the most, in relation to digital talent, between now and 2020?
- 2 Will you seek to bring talent in-house, or work in strategic alliances with external service providers?
- 3 Do your IT systems have the capability you will need to support mobile applications and process greater volumes of data in real-time?
- 4 Are your front-of-house teams prepared for the implementation of new digital technologies?
- 5 How will you make your risk function ready to defend against escalating cybercrime?





Brand matters: winning the battle for relevance



Brand matters: winning the battle for relevance

As consumers use online intermediaries to find the cheapest rooms and the most convenient locations for their trip, hotels face a future in which the strength of their brand has dwindling influence over customer choice. But the hotels that can get branding right in a digital era face a clear opportunity to grow market share.

When finding a hotel, leisure travellers increasingly rely on online travel agencies (OTAs) like Expedia and Booking.com, or meta-search engines such as Trivago and Kayak to find a good deal and read other consumers' feedback. As a result, convenience and price are overtaking brand recognition as the driving forces behind leisure guests' booking decisions. In the digital world, hotel brands are becoming less visible.

"Most people look first on OTAs and comparison sites. They read the reviews, then book, and only then notice there's a brand attached."

Adrian Richards

National leader of hospitality and tourism, Grant Thornton UK

"David Michels famously said, 'One day there'll only be one brand,'" says Robin Sheppard of Bespoke Hotels, "and that brand is already here. It's called TripAdvisor." Frank Croston, founding partner of Hamilton Hotel Partners, agrees the hotel brand is losing currency in a digital world. "If you're going to a city you haven't been to before," he says, "the psychological comfort of a familiar brand used to be disproportionately high. Now, you look at an aggregator and see a whole range of choices."

For business travellers, the picture is slightly different.

"I think it depends on who the consumer is. For a 30-year-old booking a vacation, brand won't even cross their mind. But I think your more seasoned business traveller does care."

Alvin Wade

National leader of hospitality & tourism, Grant Thornton US



48%

of guests will not visit the
hotel's website before arrival²⁵

"In tomorrow's
hospitality industry,
savvy hoteliers
will still be able to
use their brands to
influence consumers."

Gillian Saunders

Global leader of hospitality & tourism,
Grant Thornton



Even though business travellers often do not make bookings themselves, reinforcing the brand is important because their preferences will influence the decisions of commercial bookers.

New touchpoints

According to a Mintel study in 2014²⁶, only half of guests will visit a hotel's website before booking. And many business travellers will arrive at a hotel that has been booked for them by others – they will have no visibility of the brand before check-in.

If guests aren't visiting the brand's websites, hotels have lost a vital channel to communicate their brand message. "If you take an OTA," explains Eric De Neef, EVP and chief commercial officer at Rezidor, "you have no brands. The OTA is just a distribution channel."



0

Number of hotel groups in Forbes' 2014 list of the world's 100 most valuable brands²⁷

79%

of guests see price as a key factor when choosing a hotel²⁸

In response, hotels should develop new touchpoints to communicate with their current and prospective customer base. Hotels need to learn to talk to their customers through mobile, social media and online channels more effectively. As discussed in 'Building the digital-ready hotel: how to avoid disruption', they also need to think about how negative comments left on social media can do lasting harm to their reputations.

Some hotels are already using digital to support their branding in this way. This is most notable among smaller independent and boutique hotels, whose websites frequently contain well-crafted content about local attractions, restaurants and things to do. CitizenM, for example, produces CitizenMag, its own 'online lifestyle magazine.' As guests share this content on social media, they are making the hotel brand stronger.

"The brand playing field for boutique hotels has been massively enhanced by social media. Their websites are more content-rich, more linked to sites in the destination."

Frank Croston

Founding partner, Hamilton Hotel Partners

Meanwhile Michael Dominguez, senior vice president for hotel sales at MGM Resorts International, says hotels should encourage authentic video content from guests. "We want videos that go viral. Those that do tend to be organic – it can be as simple as a business executive taking out their camera while having an experience", he explains. "But hotels have to avoid the temptation of trying to control the message. The hotels that will be most successful are those that are prepared to be transparent and to allow something to grow organically."

Over time, as we have seen in other industries, hotel brands will increasingly become content publishers. They will need to consider what is likely to appeal to their guests and make it available through the most appropriate channels.



26 'Hotels – UK,' Mintel Group Ltd, October 2014

27 'The world's most valuable brands,' Forbes, 2014

28 'Hotels – UK,' Mintel Group Ltd, October 2014

More distinct experiences

A guest's perception of a hotel's facilities and service will influence their future choices. An extreme experience, whether good or bad, is likely to make them voice their feelings on social media.

"The experience you have at the property level is now the only thing that hoteliers own," believes Rezidor's De Neef. "Brand communication comes through in the hotel experience. The most successful brands will be those that anticipate guests' needs and deliver the promise accordingly."

"If I book a Marriott, Comfort or Hilton Garden Inn I know what I'm going to get because their brand standards are so tight."

Joann Cangelosi

National leader of hospitality, Grant Thornton US

A number of boutique and smaller hotel chains are creating distinctive experiences that resonate with their core customers. In early 2015, Virgin Hotels said it was differentiating itself by providing a 'female-friendly' experience, featuring better security and enhanced bathrooms²⁹. Meanwhile, the Hoxton is pursuing a global expansion programme while promoting itself as an 'anti-hotel' geared around giving guests an authentic experience of the city they're visiting.

Hotel Verde in Cape Town, which has been described as 'Africa's greenest hotel', focuses on giving business guests an environmentally friendly, carbon-neutral experience. "There are more and more people specifically asking for green accommodation," says founder Mario Delicio. "The time is right for hotels that are built on sustainable principles."

Hotels targeting the B2B segment also need to consider how guest experience will influence the future decisions of business travellers and commercial bookers. The challenge is to ensure they give every guest the same experience and that their staff interacts with guests in a way that is consistent with the brand.

Fragmenting the brand

"I think most people have different patterns of behaviour according to what it is they're doing," says futurist Dr Ian Pearson, "whether they're going on a holiday or a quick business trip. I think you can justify a variety of different offerings."

In recent years, this belief has led many hotel chains to develop a portfolio of brands with distinct offerings. Hilton, for example, offers a luxury stay to guests through its Conrad Waldorf Astoria hotels while providing a lifestyle-oriented experience through its new Canopy by Hilton range. Similarly, Marriott operates Ritz-Carlton for high-end travellers as well as its highly style-conscious boutique hotels, Marriott Moxy.

28% of business travellers are influenced by a hotel's proximity to their meeting³⁰



Grant Thornton's Adrian Richards says, "You've got multi-branding because you've got different socioeconomic groups and they're trying to segment the market. You haven't got a big multi-national saying, 'This is what you're going to receive'. The consumer is saying, 'No, this is what I want'. Hotel chains are having to react accordingly."

Régis Kahn, director of strategy and e-commerce at InterContinental Hotels Group agrees. He says, "I believe the trend will be for brands to stop being uniform and to match needs that hotels are currently not matching."

"One of the dangers of this approach is that there can be brand confusion, with consumers expecting the same kind of offering across all sub-brands."

Adrian Richards

National leader of hospitality and tourism, Grant Thornton UK

"Hoteliers are increasingly looking at the cost of guest acquisition," says a spokesperson from Amadeus Hotels Management, "not just in terms of one single stay but the lifetime value of a guest. This is where having a single view of the guest across all operations is essential for hotel brands to be able to identify the right potential guests to target via which channel with which offer at which time."

Another important question will be how far multi-branding can continue over the long term. Rezidor's De Neef says, "I think, at the brand level, we will face a consolidation. When I look at an operator with 11 or 15 brands, I ask myself, 'Can you really drive this in Paris?' It's very costly. It's demanding workload-wise. And it's confusing for the guests, as the brand value proposition can't be distinct enough."

Act now to welcome 2020

We think the hotels of 2020 will still be able to use their brands to influence consumers – but only if they can truly understand and capitalise on individual market segment needs. Hotels will need to create content that is meaningful for their guests to maintain brand identifiable and unique touch-points in a digital age.

Ultimately, hotels will have to work through the impact of technology as well as brand fragmentation and the challenges of delivering customised experiences to their market segments whilst maintaining a single brand.

Alvin Wade

National leader of hospitality and tourism, Grant Thornton US

29 'Plenty more space in the closet,' Economist, January 2015

30 'Free wifi tops business travelers' list of hotel must-haves,' Skift, 25 August 2014

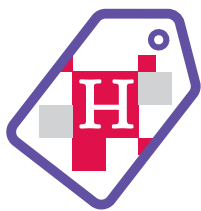




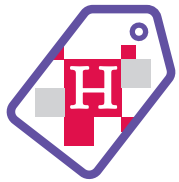
Five brand questions for hotels

- 1 Which guest segments will be most valuable to your hotels over the next five years?
- 2 What kind of content are these guests looking for – and how do they prefer to consume it?
- 3 What experiences are they looking for, whether travelling for business or for leisure?
- 4 Can you deliver these experiences in one physical hotel under one brand? If not, can you fragment your brand without weakening its power?
- 5 How can you ensure your employees know what your digitally augmented, personalised experience brand stands for and can deliver your brand promise?





New business models: disrupting the disruptors



New business models: disrupting the disruptors

Hotels have largely been dismissive of any threats to their core business model over the past five years. But by 2020, the exponential growth of various online platforms will have forced them to change and innovate—or force them out of business. The good news is that traditional hotels have numerous options at their disposal: rethinking the experience they offer, unbundling pricing, setting up new partnerships and more.

The past twenty years have seen a lot of changes in the way hotels are marketed and sold, not least thanks to OTAs and price comparison sites (and apps). “Six years ago, there were 20 million reviews on TripAdvisor. Last year, there were 170 million. When something is growing at that rate, you have to ask what it will be like in 2020,” says Adrian Richards, national leader of hospitality and tourism at Grant Thornton UK.

But the latest threat to the industry started off in an unlikely place: people’s sofas. What was initially a means for people to find a spare bed in a new city has rapidly evolved into a highly traded marketplace, with everything from flats to castles on offer. The biggest of these is Airbnb. It acts as a platform, without the need to own, develop or maintain any rooms of its own. “This holds huge ramifications in terms of the speed at which it can scale,” says Ramón Galcerán, a partner at Grant Thornton Spain.

Until now, though, the hotel industry has largely dismissed the sharing economy. But the numbers are telling. Between February and December 2014, Airbnb’s stock of available rooms expanded from about 300,000 to over one million³¹. This puts it ahead of InterContinental Hotels Group (IHG), Hilton, and Marriott as the world’s biggest provider of rooms.

Of course, Airbnb remains a relative minnow in terms of actual guest bookings. A recent Barclays report estimates that Airbnb sold about 37 million room-nights last year; by contrast, IHG sold 177 million³². Yet Airbnb was only founded in summer 2008, while IHG traces its history back to 1777.

31 ‘Airbnb will soon be booking more rooms than the world’s largest hotel chains,’ Quartz, 20 January 2015

32 ‘Barclays report projects Airbnb bookings to surpass hotel companies,’ Travel Pulse, 19 January 2015

33 ‘Airbnb will soon be booking more rooms than the world’s largest hotel chains,’ Quartz, 20 January 2015

Over 1 million

rooms available via Airbnb by the end of 2014, up from 300,000 earlier in the year³³

Furthermore, there are still differences across regions. Alvin Wade, national leader of hospitality and tourism at Grant Thornton US, says, "To me, millennials would be more interested in Airbnb. I think that it's a long way from posing a significant threat in the US."

Yet, as millennials grow in influence, we can expect Airbnb to make a more pronounced impact between now and 2020. As Frank Croston of Hamilton Hotel Partners puts it, "In my business, all of the sub-35s are booking holidays via Airbnb or similar. That's a bit scary, not least as they're all in the hotel industry themselves." Robin Sheppard of Bespoke Hotels adds, "Airbnb is here to stay and we need to get used to it."

Wait and see

Thus far, hotels have largely adopted the strategy of ignoring the platform, or hoping regulators will solve the problem for them by requiring health and safety compliance, and to charge taxes on listings. Greater regulatory oversight is likely inevitable by 2020, but it is unclear to what extent this will slow the growth of the sharing economy. Many hoteliers also believe that sites like Airbnb operate in a fundamentally different niche to theirs: it's not for business travellers, they argue, it's just for students looking for a spare sofa, or people willing to share a room.

But if hotels do not adapt by 2020, we believe they will face significant disruption. First, regulatory change is easing in some markets: in June 2014, for example, the UK removed a 1970s rule that required Londoners to apply for planning permission if they wanted to rent out their homes for less than three months³⁴. Second, Airbnb's strategic goals for 2015 show clear plans for global expansion including introducing cleaning services; key handovers; and 'business-ready' listings³⁵.

343%

growth in number of unique
visitors to Airbnb's website
between June 2012 and
June 2014³⁶

³⁴ 'Hotels – UK,' Mintel Group Ltd, October 2014

³⁵ 'Inside Airbnb's grand hotel plans,' Fast Company, 17 May 2014

³⁶ 'Hotels – UK,' Mintel Group Ltd, October 2014



“This is a big threat to the major hotel brands.”

Gillian Saunders

Global leader of hospitality and tourism, Grant Thornton

“Millennials expect companies to make their lives more convenient. This trend will only intensify over time. If Airbnb develop these add-on services through their mobile platforms before hotel companies and OTAs master this, it will become increasingly attractive for a wider set of consumers,” she explains.

Of course, awareness is growing rapidly. Carlson Rezidor’s Eric de Neef is open about the challenge: “Airbnb is clearly a disruptive operator. It will change the way we’re looking at our business. We need to understand what guests want, and we need to evolve our business model,” he says.

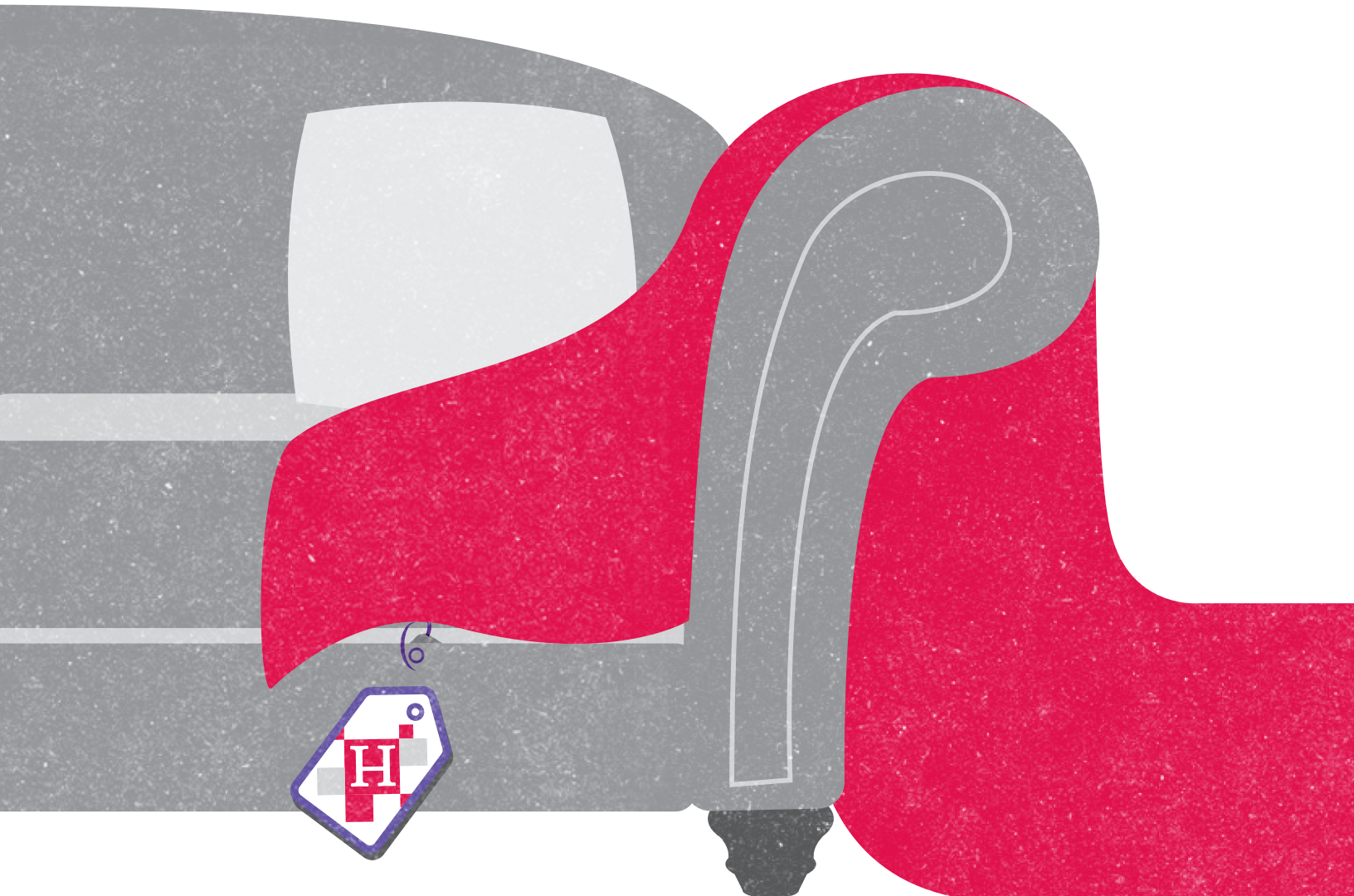
It is also important to note that there is currently greater opportunity in some regions than in others. As Hisham Farouk, managing partner at

Grant Thornton UAE, explains, “The Middle East market gives operators the opportunity to innovate and build different operating models from the start. This is because many groups in the region are scaling up quickly to satisfy rapidly escalating demand.”

Response strategies

So what can hotels do? In a word: innovate. Unlike Airbnb, which has no control over its listed rooms, hotel groups can introduce new services and room offerings – and market these on the back of their powerful brands.

Already, new rivals are emerging, and more will follow between now and 2020. Spain’s BeMate.com is one example, which delivers a new hybrid accommodation offering. It offers over 2,500 rooms that combine the freedom and flexibility of an apartment with the services of a hotel. “I think the traditional hospitality industry hasn’t bet enough on innovation,” says Enrique Sarasola, the site’s co-founder.



BeMate's innovative approach cooperates with hotels. It selects apartments close to hotels, which can use their services, while splitting revenues. It also aims to provide a more local service: "The customer has new needs, traveling with children, pets or with their elders. They want to live like a local and not as a guest," says Sarasola.

Collaborating with new ventures could be one approach for hotels. But many will seek to reinvent the services and attractions they offer. "We see room for both Airbnb and more traditional hotel chains," says Gillian Saunders, global leader of hospitality and tourism, Grant Thornton. "Millennials in particular seem to feel they get a more real experience of a place if they stay in a flat or apartment within a city rather than a hotel. Hotel brands can respond to these disrupters on both price and experience."

For example, Miami's Eden Roc hotel recently agreed a deal with Nobu, the high-end restaurant group, to provide all food and beverage on site³⁷. A related trend has been to offer more ancillary services, with some hotels even selling their own branded beds and pillows.

Pricing

Hotels will need to do more to reinvent their pricing. For example, adoption of techniques such as dynamic pricing has been relatively slow. The unbundling of room pricing is also moving too slowly.

Some are responding, though. Hilton Hotels announced last summer that its loyalty members would be able to select a specific room when booking, which it rolled out across over 650,000 rooms worldwide last year³⁸. By 2020, this kind of choice will be expected by guests. "This level of personalisation, where you can select your room, select your view, choose the minibar, that's the level of personalisation where brands can score heavily, but it requires them to invest in their own website, mobile platforms and technology," says Colin Feely, hospitality and leisure partner at Grant Thornton Ireland.

In some segments, more could also be done to price in optional services. Westin, Amway Grand Plaza, Seven Springs, are just some of the brands that now offer vouchers, loyalty points or discounts for guests who don't require daily cleaning³⁹.

"We expect to see more personalised pricing," says Amadeus Hotels Management's spokesperson. "This means allowing each and every valuable component – whether a specific type of bed, a late checkout or a 'grab and go' breakfast – to be priced and offered in different combinations via different channels."

Act now to welcome 2020

Today's 'wait and see' strategy is not a solution for hotels that wish to remain competitive in 2020. Like it or not, alternative business models will take root – even if they are more tightly regulated. We recommend that hotel groups urgently revisit their underlying business models and ask how and where they are best placed to meet customer demands with multi-pricing and tailored, destination-integrated experiences while still offering value for money. Not all of these ideas will work, but taking a proactive response will do far more than hoping that the underlying problem will simply go away.

Ramón Galcerán
Partner, Grant Thornton Spain

³⁷ 'Nobu will open new hotel in Eden Roc Miami,' Travel Agent Central, 10 December 2014

³⁸ 'Hilton revolutionizes hotel experience with digital check-in, room selection and customization, and check-out across 650,000-plus rooms at more than 4,000 properties worldwide', Hilton Worldwide, 28 July 2014

³⁹ 'Make your own bed at some hotels and get a reward,' Reuters, 14 October 2014

⁴⁰ 'Inside Airbnb's grand hotel plans,' Fast Company, April 2014

99%

of countries with at least one Airbnb room on offer. Compared to the most expansive hotel chains IHG and Starwood, which offer rooms in 52% of all countries⁴⁰



Five innovation questions for hotels

- 1 How clear are you about your unique selling point for your target demographic, or are you trying to be all things to all guests?
- 2 How could you effectively unbundle your pricing, or introduce more dynamic pricing elements?
- 3 Are there new partners you could engage and experiment with, to refresh your hotel offering, such as in the F&B space?
- 4 Are there more radical business model adjustments you could consider, such as setting up wholly new room or service offerings?
- 5 What more could you do to create a more integrated online-offline offering for guests?

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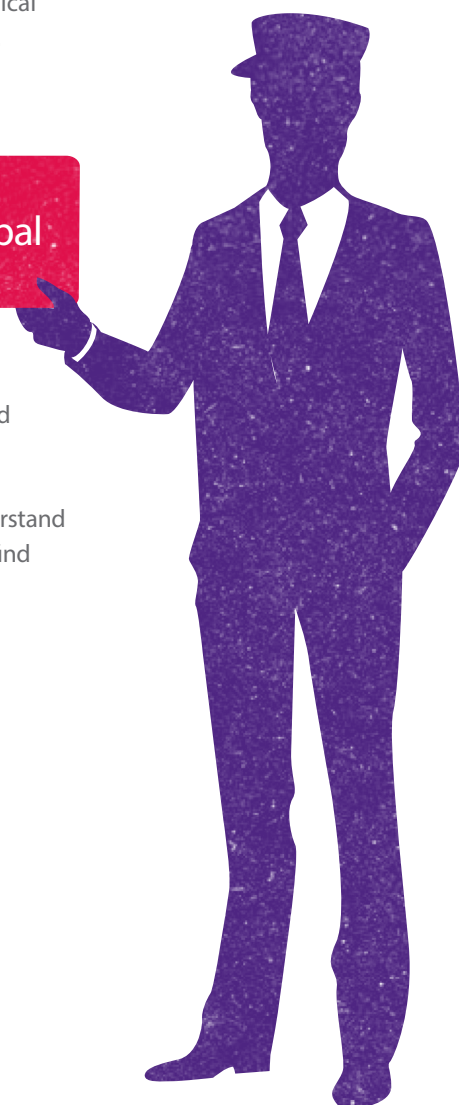
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