



2016 Travel and Hospitality Industry Outlook

Interview with Guy Langford



What are some of the biggest challenges facing the T&H industry in the coming year?

Times are vibrant and positive for most T&H businesses, but that doesn't mean organizations can become complacent. In fact, we see four key challenges facing the industry in 2016. Some are new; some are recurring; all have the potential to reshape the marketplace.

It's all about me: Customers want an outstanding, personalized experience

If T&H companies want to deliver an outstanding, individualized customer experience, they should consider understanding their customers' needs and desires and craft a value proposition that speaks directly to them. This can be a challenge because customers—and their likes and dislikes—are continually evolving as generational influences wax and wane.

Case in point: Millennials, individuals born during the early 1980s to early 2000s, are coming of age and influencing the consumption and travel behaviors of both older and younger generations. Who is this evolving customer? Sometimes referred to as "Generation Me" because they are more focused on the self than earlier generations, Millennials are also viewed as being more open-minded, confident, self-expressive, liberal, upbeat, and receptive to new ideas and ways of living.¹ Digitally empowered Millennials want personalized communication (via multiple electronic platforms), seamless planning, flawless execution, and an authentic, customized travel experience. And because Millennials are savvy users of social media, their opinions are prompting other customers to say "I'll have what they're having."

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Companies are data-rich but insight-poor

To truly understand their customers' needs and deliver an outstanding experience, T&H companies should be able to access and leverage the right information at the right time—not an easy task. New technologies and increasing digitalization are generating more data than ever before, but more data doesn't necessarily mean better data. In fact, many T&H companies are data-rich but insight-poor because they struggle to turn the disjointed data they have into useful information, and valuable insights to enhance the experience.

Some T&H organizations are hampered by siloed repositories that limit data-sharing among departments and properties. Others have difficulty determining what information to collect, how frequently it should be collected, or how best to distribute it to internal and external stakeholders. Finally, many T&H companies possess the right information but lack the analytical capabilities to translate it into insights and innovations that can create measurable and sustainable ROI.

You're the one that I want: Recruiting and retaining the right people

Many T&H companies of all sizes are finding it increasingly difficult to recruit and retain individuals with the right blend of interpersonal and technical skills. Part of the problem is that jobs in this industry are becoming much more specialized. In addition, potential hires with the right skill set may be opting for better-paying positions in today's improving economy. Staffing issues are especially worrisome for airlines. The pipeline of qualified pilots that normally flows from defense aviation to the commercial market is slowing, largely because the number of military aircraft programs has diminished. To compensate, some airlines—especially regional carriers—are turning to graduates of civilian pilot training programs.

Developing and implementing an effective recruitment strategy is just half the battle; retaining skilled employees is also difficult. Recent findings from the Bureau of Labor Statistics show that the T&H sectors have some of the highest turnover rates of any industry. While many factors can account for this high turnover—seasonality and young employees, among them—the perception that T&H does not offer abundant long-term career prospects contributes to the problem. The good news is that many leading companies are addressing this concern with a variety of retention strategies; however, reducing full-time employee turnover remains near the top of industry concerns.



The times they are a'changin—so are competitive dynamics

There is little doubt that the T&H competitive landscape is changing. One very evident trend is increasing consolidation, especially among hotels. Recent examples include Marriott's announced takeover of Starwood Hotels and Resorts Worldwide for \$12.2 billion,² and AccorHotels' stated plans to acquire Fairmont, Raffles, and Swissôtel by issuing 46.7 million new Accor shares and paying \$840 million³ in a bid to strengthen its position in the luxury segment.

Much of the uptick in hospitality M&A activity stems from companies' objectives to gain market share, increase operating leverage with online travel agencies, and vertically integrate their product platform (i.e., companies operating in the economy segment want to buy into the luxury segment and vice-versa). Relatively cheap debt and a general belief that the sum of the parts may be greater than the whole are among other factors spurring consolidation. After an active 2015, the coming year will likely see continued consolidation in the T&H space.

The nature of competition itself is also changing. New business models are emerging to meet the needs of the evolving customers mentioned earlier, posing significant challenges to traditional T&H companies. For instance, the world's largest accommodation provider, Airbnb, does not own a single hotel room.⁴ The largest chauffeured car service, Uber, does not own a single car.⁵ And the largest dining reservation booking service,⁶ OpenTable, does not own a single restaurant. Some T&H incumbents are making digital strategy core to their business strategy—for example, a leading coffeehouse chain has been at the forefront of mobile as the driver of its loyalty and payments' platform—it is a fascinating convergence in a world where digital startups are entering niche markets formerly occupied by analog T&H organizations. Gaining and maintaining a competitive advantage in this industry is becoming a lot more difficult.

What developments might disrupt “business as usual” in 2016?

T&H businesses, more than most, are vulnerable to sudden—and not so sudden—external shocks to the system. Any unexpected development in one or more of the four challenge areas, such as a transformational merger, a technology breakthrough by a new market entrant, or similar—could disrupt “business as usual” in 2016. In addition, a few persistent issues continue to demonstrate disruptive power.

Oil prices

Oil prices are a fraction of what they were just two years ago and that market softness is expected to continue. Certainly, airlines have benefited from low oil prices given fuel’s relatively large share of total airline cost structure and the increasing margins that they have driven; on that basis alone, any dramatic upward spike would surely hurt airlines’ bottom line. Similarly, consumers are more likely to take driving vacations—which benefit hotels, restaurants, and all manner of leisure attractions—when gas prices are low. If prices rise, fewer families may “hit the road” in 2016. Conversely, a sustained period of “low oil” is often viewed as a deflationary sign of a global economic slowdown, which may flow into T&H.

Terroristic threats and acts

Recent acts of global terrorism have heightened safety concerns and could reduce overall travel numbers in 2016. However, InterContinental Hotels Group (IHG) CEO Richard Solomons said recently that terrorist threats and acts are not a new phenomenon to travel, and that people move on and business comes back. Becoming more alert, working closely with security organizations, and remaining cautious about operating in different markets are some of IHG’s responses to terrorism attacks.⁸

From a regulatory perspective, heightened consumer and government concerns about terrorism have sparked a movement to substantially tighten the Visa Waiver Program (VWP), which allows travelers from 38 partner countries to visit the United States for 90 days without requiring a visa. While the legislative outcome is far from certain, any meaningful change to the VWP that would make travel to this country more difficult may prove disruptive to the industry in 2016.

Labor costs and regulations

Another ongoing risk is the cost of labor. The call for a \$15 national minimum wage appears to be gaining traction and 2016 could prove to be a watershed year, especially in regional markets. This prospect is unnerving numerous T&H stakeholders, chiefly restaurants, where workers at the low end of the wage spectrum are particularly vocal. A third ongoing risk is regulatory uncertainty, recently highlighted when the National Labor Relations Board redefined what it means to be a “joint employer”—a decision that could upend the franchise and contract staffing model on which so much of the T&H industry is based.

Other disruptions

T&H companies face potential disruptions from many other sources, including pandemics, food safety failures, and, more recently, cyber-attacks. The past few years have seen an array of high-profile incidents that have posed significant risks to brand reputation and growth. Even isolated incidents can result in enterprise disruption and significant reduction in shareholder value.



What are some steps companies can take to foster innovation and/or growth?

Embrace the new sharing economy

The concept of sharing goes to the heart of the evolving customer experience. And sharing finds expression in different ways that T&H companies may leverage for competitive advantage:

- *Sharing means community.* Encourage guest connections. For example, Marriott worked with the Massachusetts Institute of Technology's (MIT) Mobile Experience Lab to develop its Six Degrees application. Guests with common interests who are staying at the same hotel can use this app to connect. Other hotels are reconfiguring their common areas to make them more conducive to gatherings.
- *Sharing means connectivity.* Encourage direct feedback from your guests. It's the best kind of customer engagement data.
- *Sharing means partnering with the customer.* The new consumer wants to participate in the design of his T&H experience. Unbundle your offerings to let this happen.
- *Sharing means cost and market effectiveness.* In a conventional economy, excess supply or demand is the norm. In a sharing economy, supply and demand are in balance. An Uber driver can drive two hours per week or 40 hours per week and an Airbnb host can bring his or her property online for one day or nine months—all depending on what the market requires.
- *Sharing means convenience.* Consumers wouldn't use Uber, Airbnb, or other travel alternatives if they weren't convenient. That's why these "market-makers" are so powerful—by controlling both supply and demand they've created a convenience dynamic never before seen in a service business.

Employ mobile technology and social media as customer service and marketing tools

Mobile technology and social media's importance as vehicles for customer expression and engagement cannot be overstated. Take away someone's voice capabilities on their smartphone and it's still a smartphone; take away their messaging apps and it's a paperweight. Far more communicating is being done today via messaging platforms like WhatsApp, WeChat, and Slack than through traditional voice communication. Messaging links the communication paradigm of yesterday with the on-demand ubiquity of today. T&H companies should consider leveraging chat platforms to engage with customers and address needs and issues throughout their journeys. For example, some hospitality companies have leveraged

the ubiquitous WeChat platform in Asia to promote their food and beverage offerings, with guests able to instantly book reservations.

While using social media to praise or critique a travel experience is quite common, visuals are becoming the primary form of customer expression. Popular online platforms in the T&H space all have one thing in common—they are focused on imagery, not text. Travelers use services like Instagram to tell the story of their journeys in ways far more emotive than words alone. What does this mean for the T&H industry? Companies should be increasingly familiar with Instagram to connect with consumers and translate brand values using pictures. For instance, the W Times Square held a contest inviting Instagrammers to upload images using the hashtag #WDESIGN, creating an opportunity for everybody to engage with the brand and showcase their artistic capabilities.

Don't just collect data, use it

Every customer touch point provides an opportunity to collect data. Incorporate data collection into your strategic planning because it is strategic. Then analyze and share data across all departments and brands.

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Empower and engage employees

Because Millennial-generation employees understand and identify with their influential customer counterparts, long-term retention of Millennial talent is essential for future success. However, in an industry where seasonality may contribute to a sense of "temporariness," Millennials often leave T&H organizations because they feel their input is not valued or they lack "skin in the game."⁹ To invest these and other employees with a sense of ownership, empower and engage them across all strategic pain points. Give employees the ability to deliver personalized customer experiences. Train and incentivize them to make independent decisions. Hold them accountable and reward them for the results of their decisions.

Make risk management a C-suite priority

Even if the majority of companies in the T&H space are doing everything right by traditional standards, strategic risks can still surprise. The challenge is how to anticipate, adapt, make decisions, and change course in the face of these uncertainties.

Whether executives are concerned about potential hacking and security breaches, foodborne illnesses, or supply chain disruption, one thing is clear: the risk wheel is turning and the way that companies manage risk needs to evolve as well. Risk management should be a C-suite priority that is driven top-down throughout the organization. A comprehensive, proactive risk management program may help to mitigate internal and external threats and prove to be a winning differentiator for T&H companies.

Partner to prosper

Disruption has changed the nature of competition in the T&H industry as well as the way companies respond to that competition. Some organizations continue to “go it alone” but increasing numbers are recognizing the value of strategic affiliations and alliances. For example, Hilton and Uber formed a partnership that allows Hilton guests to schedule alerts through the HHonors app to prompt them when they need to arrange a ride via Uber. Starwood signed a deal with Uber that lets riders earn points in Starwood’s loyalty program. United became one of the first airlines to allow users to access Uber via the airline’s mobile app. Concurrently, Uber’s on-demand delivery service, UberRUSH, has formed alliances with various restaurants across the US. Similarly, KLM recently inked a partnership with Airbnb that allows KLM travelers to search for lodging at an Airbnb property via the KLM website when they make their airline reservations. Examples of other partnering arrangements abound; legacy T&H organizations view them as a quick and cost-effective way to adapt their business strategies in a disruptive marketplace.

T&H companies operate in a world where change is the only constant. However, leading organizations have proven a couple of things over the last decade:

- Continuous reinvention is not impossible; it is critical to relevance and success.
- Innovation is iterative and built around the fundamental core of understanding the “job to be done.”

Accepting change is table stakes for survival. Managing change—no matter how disruptive it is—by developing innovative solutions that support new business models is the new paradigm for success.



Endnotes

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