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Introduction

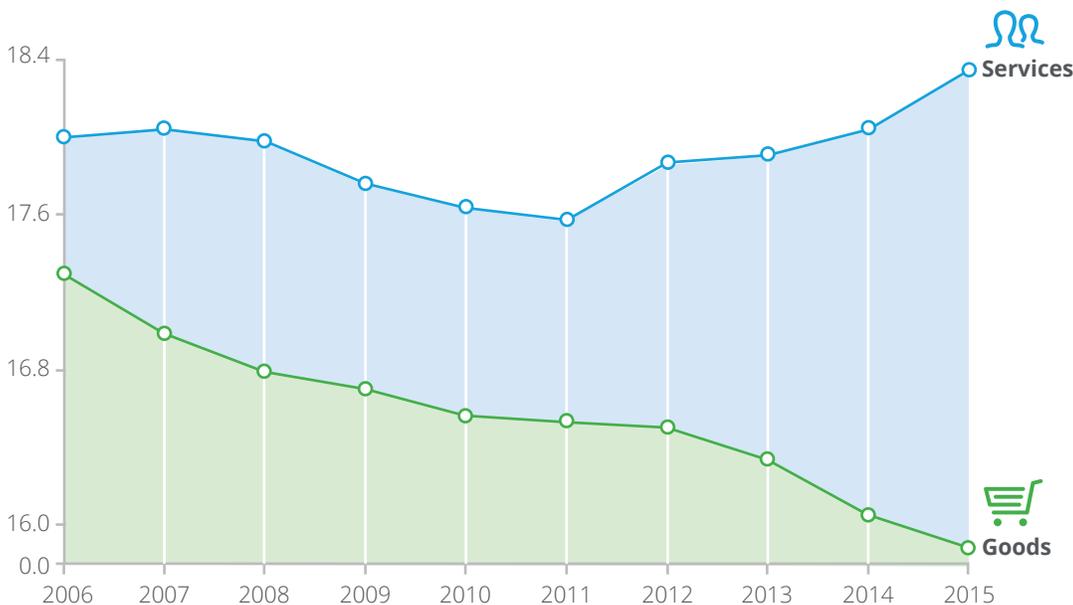
The world of travel and hospitality has entered a new era of growth and transformation. Global business travel spending hit a record-breaking \$1.2 trillion in 2015, up five percent from the previous year.¹ In the United States, renewed consumer confidence, along with a shift in household spending from goods to services and experiences² (Figure 1) helped leisure travel gross bookings sustain a growth rate well ahead of gross domestic product (GDP).³ Healthy booking growth is projected to continue across the leisure and business fronts in 2017, but the spoils are not guaranteed to travel's biggest or most-well-known brands. The past few years taught established industry incumbents to never again underestimate a seemingly innocent travel startup.

A combination of forces, including shifts in the global economy, game-changing innovation, geopolitical turmoil, natural disasters, pandemics, and rising consumer demands reshaped the travel landscape in 2016. Expect a similar climate in 2017. Most smart travel leaders have come to accept this frenetic pace of disruption as the norm and must try to remain vigilant, as the winners in 2017 will likely be those most responsive to change.

Deloitte's popular Patterns of Disruption series offers critical insight into the manifestations of disruption, and advises businesses to become laser-focused on five specific catalysts of change: the economy, enabling technology, platforms, consumer mindsets, and public policy.

In this year's outlook, we reflect on some of these powerful elements of change and how they may impact travel in 2017.

Figure 1. Consumer expenditure (percent of total household expenditure)



Source: Bureau of Labor Statistics, 2016

Note: Goods include food and drinks, tobacco, clothing and footwear, and household goods.

Services include communications, leisure and recreation, and hotels and catering.



Economy

While much of the hype around disruption often centers on technology and innovation, travel and hospitality companies must keep a close eye on economic trends. Hotels, airlines, and other travel segments are particularly vulnerable to the ebbs and flows of economic conditions. The recent recession was a harsh reminder that consumers will be quick to cut travel from their budgets at the mere hint of a financial downturn.

Strong economic indicators help fuel travel demand in 2017

Economic fundamentals for consumer spending are solid going into 2017. The labor market continues to strengthen. An average of 181,000 jobs were added per month in 2016.⁴ As the labor market tightens further, income growth is likely to edge up in the short to medium term. Disposable personal income was up 3.4 percent towards year end, and average hourly earnings are accelerating.⁵ For consumers, income growth is corresponding with rising asset prices. House prices crossed their pre-2008 peaks and key equity indices hit all-time highs in November. This boosted household wealth and aided consumer spending. Overall, consumer confidence remains elevated, even after the exhausting election cycle of 2016.

Projecting the influence of that election cycle on consumer spending and the broader economy, however, remains difficult. Notwithstanding, travel companies have good reason to remain optimistic. Improvements in the job market have helped boost family income for the first time since 2007,⁶ and should help the US travel industry sustain a growth rate significantly faster than GDP. The US leisure travel market notched its fourth straight year of five percent growth in 2015, reaching \$341 billion.⁷ Stronger growth (closer to six percent) is projected for 2017, pushing the market closer to \$381 billion by the end of 2017.⁸

Confident consumers will likely bode well for hotels, airlines and online players—despite the surge of new inventory into the marketplace

Travel companies should anticipate healthy demand for all types of trips throughout 2017, including domestic, inbound and outbound. The impacts on bottom line, however, will vary across travel segments.

Hotels to capitalize on healthy demand

Major hotel groups, including Marriott, Hilton, and InterContinental Hotels Group, reported steady earnings throughout 2016.⁹ Most were able to capitalize on healthy travel demand to hit record-high

levels of occupancy, which hotel managers leveraged to drive up room rates. While occupancy looks to have hit its peak, other major hotel key performance indicators (KPIs), including average daily rates (ADR) (3.1 percent) and revenue per available room (RevPAR) (2.9 percent), remained positive throughout the year.¹⁰

One of the biggest challenges hoteliers will face in 2017 is sustaining growth as online private accommodation aggregators flood the marketplace with new inventory. There is little doubt that companies like Airbnb already compete head-to-head with hotels in certain segments of the market. Some of this business may be additive, as travelers take more or longer trips than they would without the option, but perhaps more importantly, private accommodations have altered consumer expectations on a fundamental level—by redefining what and where a hotel is. The hotel industry has proved to be extremely resilient during this marketplace shift. Industry forecasts project continued success, estimating a 4.3 percent gain in hotel revenues for 2017.¹¹ This is phenomenal growth considering one in three US leisure travelers stayed in some form of private accommodations in 2015.¹²

OTAs reap the rewards

Strength in the lodging sector will continue to benefit online travel agencies (OTAs) as travelers turn to them to sort through options and find deals in a fragmented marketplace. OTAs should continue to leverage their technology expertise to provide online travel planners with best-in-class shopping and booking experiences (particularly on the mobile front), or risk losing market share to travel suppliers who will continue their relentless effort to drive direct bookings.

Headwinds for airlines?

Strong consumer confidence also helped airlines fare well in 2016. But while major carriers reported steady profits and healthy margins throughout the year, challenging times lie ahead, particularly for legacy airlines. For some, new labor deals will put immense pressure on operating costs. This will occur as the industry also begins to deal with an uptick in oil prices.

Ultimately, airlines will have little option but to increase fares and prices of ancillary products to offset rising operating costs. But this is easier said than done. The fare environment is still extremely competitive, making it difficult to simply charge more to boost profits. Traditional legacy carriers continue to receive competitive pressure from every direction, including low-cost carriers (LCCs)



and the intrusion of foreign competition from expanding gulf carriers. Many airlines are planning for low-single-digit growth next year, with even less growth expected in the trans-Atlantic sector, where Brexit and terrorism concerns are already hurting revenues.¹³

Neglect risk management, and risk losing your traveler's trust

The risk of external events always lingers on the horizon, ready to disrupt any positive impacts of a robust domestic economy. For example, the influence of Brexit and recent terrorist acts in Western Europe are reminders that, while globalization has brought innumerable benefits to the travel market, interdependence also has its downsides. Pandemics such as the Zika virus can also have regional and global impact on travel behavior.

Additionally, travel and hospitality companies will become more vulnerable to other risks in 2017, such as cyber-attacks and food safety. Data breaches are happening more often—and with unprecedented sophistication. In the months ahead, mitigating cyber-risk will only prove more challenging as travel companies continue to open their doors to new technology enablers and

third-party vendors. And, in an effort to satisfy the enormous demand for locally-sourced, organic food options, restaurants and hotels are leaving themselves more exposed to food safety incidents. A recent study by the Centers for Disease Control and Prevention (CDC) linked the rise in organic farming to increased foodborne illness outbreaks.¹⁴ Consumer perception often credits organic foods as being safer than conventionally produced foods, but organic standards do not always address safety issues such as microbial hazards.

Investing in enterprise risk management (ERM) is no longer an option for travel and hospitality companies. Thoughtful awareness of risk should be embedded into the very fabric of the organization—with senior executive and board level support. Travel brands bridge a physical gap with their customers unlike most other types of businesses. Hotels are temporary homes for their guests. Airlines fly passengers around the skies. Relationships between travel brands and their customers are heavily built on trust, and businesses which want to drive bookings should strive to do everything in their power to protect this delicately balanced relationship.



Consumer mindsets

Businesses are driven by customer demand. But customers' values, preferences, and expectations are not fixed, nor are they universal. Changing consumer expectations will continue to force travel businesses to adapt in 2017.

Travel brands still aspire to meet high expectations set by non-travel brands

With the exception of frequent business travelers, most consumers do not travel very often—maybe two or three times a year. Consequently, their exposure to travel brands is relatively limited. Everyday brands such as Amazon, Starbucks, and Seamless, however, showcase their innovation and services to their customers often—sometimes daily. Many of these brands are leading on the customer experience front and setting the bar high for consumers' brand expectations.

For example, Amazon retrained consumers to expect products on their doorstep in record time (and at a very low cost). Starbucks gifted coffee drinkers with mobile functionality to streamline their daily coffee purchase. Food-ordering service Seamless and a slew of dating apps raised expectations about what is possible with just a few taps or swipes. Travel and hospitality brands will find themselves subject to the same expectations. Those able to capitalize on these changing expectations with speed and agility are more likely to capture their share of the billions of dollars in 2017 global travel growth.

But what exactly are these expectations? While different businesses offer consumers various products and services, there are overarching themes around how expectations are changing—and these generally center around **authenticity, personalized experiences, removal of friction, and on-demand functionality.**

Moving beyond brand: Meeting new expectations with a differentiated experience

Great travel experiences are truly valuable and memorable. Today's hotel guests, for example, will define a brand by the quality of their experiences across a proliferation of touchpoints, including smartphones, desktops, wearable apps, over the phone, and on-property. Brands which make an effort to infuse elements of on-demand, personalization, and authenticity into these channels will likely fare much better than brands which do not, generating more revenue by driving loyalty, positive reviews, social likes and shares, and word-of-mouth recommendations. Experience is now integral to core travel product offerings.

Striving for authenticity

There should be no doubt as to whether the rising penchant for authentic and unique products and experiences is real. For Example: The explosion of craft beer; the rising demand for locally sourced and organic food; and even "indie" music has gone mainstream. The customer is changing, and it's impacting travel in a big way. The rapid growth of Airbnb proves there is an enormous market for travel products outside of mainstream offerings—and smart hoteliers are capitalizing on the trend.

Hilton is one example. The hotel giant disrupted the midscale category with the 2016 launch of its Tru brand—even as competitors rushed to market with their own boutique and lifestyle brands. Tru is not only on pace to be Hilton's most valuable brand, it is its fastest-growing brand in company history.¹⁵ Tru properties, as well as other brands in the midscale segment, are beginning to see the benefits of offerings such as smart and efficiently designed guest rooms, reimaged public spaces, and creative updates around food and beverage. Additionally, investing in mobile check-in, fast Wi-Fi, and digital room keys can also help properties deliver elements of on-demand. Brands that embody a lifestyle that goes beyond their offering are receiving positive reactions from the marketplace.

Rising demand for authenticity also continues to rattle the restaurant industry. Established fast-casual brands, as well as a number of rising stars, continue to capitalize on shifting consumer behavior by offering meals with high-quality, organic ingredients that are customizable and served quickly. This unique product offering has helped the fast-casual segment sustain double-digit growth over the past few years.¹⁶ The big question is whether this growth will continue during 2017. Overall, it is not looking likely. While high-quality, farm-to-table dishes are certainly appetizing, there is only a finite population of consumers willing to dish-out the average \$8-\$15 these meals typically cost.¹⁷

Authentic and unique experiences create a social ripple effect

The rise of authentic products and experiences has many likely drivers, but travel companies should pay close attention to the influence of picture- and video-based social platforms—namely Instagram and Snapchat. Younger generations are using these social networks to do more than keep in touch with friends and family. They leverage platforms like Instagram to curate and market their own individual brands. And they do this by using just pictures and short videos (and sometimes a few words). Trips make excellent opportunities to generate "likes" and "shares," and travel



companies should make it a point to create experiences worth sharing in order to capitalize on the enormous exposure these platforms provide. Providing a “sea of same” experience will not generate a ripple-effect in 2017’s social ecosystem.

Travel’s big problem with personalization

Personalization has been a hot industry topic for a few years. Most travel brands realize that making a traveler feel special and appreciated can go a long way. Ultimately, the goal is to leverage data to automate personalization and drive conversion but, so far, much is left to be desired in terms of the travel industry’s effort on the personalization front. In fact, most consumers probably do not feel that travel brands offer much personalization, at least not in the way that Amazon provides recommendations based on personal tastes.

Why is the travel industry coming up short? Here are a few potential reasons:

- Infrequent travel makes it incredibly difficult for travel companies to capture enough behavioral data to determine actionable preferences.
- While mobile is helping digital travel companies establish customer identity, most online customers are still anonymous.
- Whereas companies like Spotify own the end-to-end experience of their products, vacations and business trips often involve shopping and purchase activity across a large number of websites and travel suppliers, making it difficult for travel companies to understand the “big picture.”
- Perhaps most importantly, consumers are **different travelers on different trips**. Travel behavior and preferences change dramatically depending on the context of a specific trip, such as traveling alone for business or taking a family vacation. It is extremely difficult for travel companies to predict intent before travel planners land on their website. Or is it?

Can social network data take personalization to the next level?

The more you know about your customer, the better equipped you are to personalize. In this respect, social networks such as Facebook and Instagram may be the key to achieving true personalization. Every day, users of these networks reveal intimate information about themselves that could give travel companies a better lens into customer travel preferences.

Consider this scenario. A couple is planning a destination wedding, and in the months leading up to their event, the bride and groom use Instagram and Facebook to post updates, tag pictures, and “like” content related to their big day. This data is not only timely, it is contextual, and can be leveraged to help personalize hotel and flight offerings when the couple begins to plan trips online. While this scenario might seem a bit simplistic, the point is that much of the data travel companies need to achieve true personalization already exists. Leveraging it, however, requires a shift in how companies and organizations break down data siloes in ways that are beneficial to everyone involved. And of course, consumer data privacy issues will remain a hurdle.



Enabling technology

Navigating the technology paradox

Over the past few years, millions of dollars have been spent upgrading properties with tablet kiosks, assuming hotel guests would prefer a digital check-in experience. After all, digital kiosks have been a huge hit for airlines. However, in many hotels, newly installed kiosks went largely unused. Hoteliers failed to consider that guests might still value the opportunity to interact with staff to talk through the details of their stay—and possibly bargain for a suite upgrade. In the end, app-based mobile check-in proliferated, making hotel tablet kiosks virtually obsolete.

This is an important lesson for the travel industry. 2017 should be the year travel companies think beyond the “what” of technology innovation and proliferation—the shiny devices, applications, and capabilities—and understand what technologies consumers are ready to adopt, and what experiences will drive real value. Travel companies must first envision the customer experience they want to deliver. Then, they can explore the technology options best suited to support their goals. Companies should resist the urge to invest in new technology simply because it seems innovative.

Making the right technology plays, however, will only become more difficult in the years ahead. From augmented and virtual reality to the Internet of Things (IoT), the promise of emerging technology has never been greater. What is poised to transform the travel experience in 2017—and what technology is still mostly hype?

Travelers will feel the true power of mobile in 2017

2017 will be the year when travelers experience what mobile truly has to offer. Until now, travel suppliers such as hotels and airlines have tested the waters with basic functionality—including flight and hotel check-ins, boarding passes, itinerary updates, and shopping and booking capability. A confluence of technologies, including faster processing power, cloud computing, and IoT will come together to push the mobile channel to the next level—removing existing pain points from travel and improving the overall trip experience in the process.

Delta Air Lines emerged as a mobile leader late in 2016. The airline’s latest app upgrade enables flyers to track their bags using radio-frequency identification (RFID) technology. In reality, the number of flyers who lose their bags is actually quite small—but this is irrelevant. The underlying offer is peace of mind, and in this case, Delta Air Lines successfully leveraged technology to remove an existing pain point in the flying experience. Travelers who fly

with the carrier no longer have to wonder if their bags will meet them at their destination. This experience can make a difference the next time a Delta Air Lines flyer needs to choose between two carriers for their next flight.

In 2017, hoteliers will leverage the power of mobile to take the on property experience to the next level. For example, Virgin’s hotel app “Lucy” provides some visibility as to where things may be headed. Branded the app that “Makes Things Happen,” Lucy enables guests to control the temperature of their room, order room service, book spa appointments, and even text with hotel staff and other guests. 2017 may be the year when functionality like this loses its “wow” factor and becomes the norm. Hotels should seriously contemplate the implications of falling behind during this next wave of mobile transformation.

Machines come of age

By machines, we do not mean robots that deliver towels to your hotel room (even though that is a reality in some hotels today). Artificial intelligence (AI) and machine learning are reaching a new level of maturity and are poised to transform how consumers plan travel, as well as offer travel businesses a way to slash operating costs.

At a high level, AI is software built to think like a human—and it is at an evolutionary tipping point. Consumers already encounter elements of AI in their daily life in the form of complex yet overlooked functionality, such as texting autocorrect and product recommendations. Tech giants such as Google, Apple Inc., and Amazon are all heavily engaged in an AI arms race, which will likely push the technology into the consumer market at groundbreaking speed in 2017.

Virtual travel agents may be closer than we think

So far, the most popular use case for consumer-facing AI within travel is virtual assistants and chat bots, which are typically embedded in messaging platforms. The vision of dozens of hopeful startups (and established industry players) is to remove some of the friction in online travel planning and booking, allowing consumers to text with virtual travel agents rather than visiting dozens of different travel websites. While virtual assistants are not new in travel, ones that become smarter as they interact with users are on the rise. The concept is forward-thinking—and represents a dramatic shift away from traditional online travel planning. But the vision may have a fundamental flaw: Are travelers ready to trust

robots to recommend and book the perfect vacation at the best price? The question may sound a bit futuristic, but companies seem to be investing in technology without considering this critical point.

For 2017, AI holds the most promise for streamlining business processes and reducing operating costs. Airlines have moved past the experimentation phase with machine learning to implementing it. EasyJet is using AI to better stock its planes with food and beverages prior to takeoff. A smaller branch of AI, robotic process automation (RPA), applies principles of AI to help increase efficiencies of enterprise applications such as customer relationship management (CRM) and supply chain management. Overall, throughout 2017, travel companies should be aiming AI at low-hanging fruit by implementing it to automate tedious customer service tasks such as reservation switches and cancellations.

Sensors shape the travel experience

Imagine a groggy business traveler arriving at a hotel after a long, sleepless, red-eye flight. Upon entering the lobby, the traveler's smartphone communicates with the hotel's property management system (PMS) and automates check-in. The PMS then sends a digital alert to the closest member of hotel staff to greet the guest by name and help with luggage. When the traveler approaches their room, the door automatically unlocks and the lighting, temperature, and entertainment settings automatically adjust to the traveler's preferences. After ordering room service, a connected dining tray senses the guest is finished eating, and alerts housekeeping for pick-up. It's no surprise that this traveler books with this hotel often because they find the experience to be exceptional.

These technological capabilities are enabled by IoT, a system in which sensors are embedded in objects linked through wired and wireless networks—not only via the Internet, but also through Bluetooth, near-field communications, cellular, and Wi-Fi. While the technology to facilitate these experiences has existed for quite some time, we are on the cusp of an explosion in the adoption of IoT due to the proliferation of connected devices and because costs and technological barriers are coming down.

The promise of IoT

The promise of IoT goes beyond the customer experience. Hoteliers, airlines, and other travel companies can also leverage connected sensors to improve operational efficiencies such as energy and water consumption. Additionally, once enough sensors are in place, the integration of advanced analytics and machine learning will propel the IoT platform to an entirely new level some are calling "Cognitive IoT," which bridges the gap between virtual and physical, creating environments that learn and adapt to customer behavior in real time. It may be a while until the travel industry reaches that level of sophistication, but the wheels are certainly in motion. IoT is scaling quickly—particularly in hospitality and retail, where machine-to-machine connections grew by 88 percent in 2014.¹⁸

"2017 will be a pivotal year where ground transportation players have something to prove."

While the future of IoT looks very promising, many travel companies are embracing the technology with some calculated caution. As with any leading-edge technology, hurdles exist. For hoteliers, developing a holistic and impactful IoT strategy will likely be a challenging endeavor with many things to consider, such as deciding what functionality to aim at first, picking the right hardware and technology vendors, and coordinating a plan to retrofit existing properties. This could be particularly challenging for large hotel chains with multiple different owners, which should strive to synchronize implementation across properties to help ensure travelers have a consistent brand experience. Cyber security should also remain top-of-mind, as more connections create more vulnerability.

2017 may prove that the ground transportation battle is far from over

Few industries have felt the impact of enabling technology like ground transportation. Within this segment, rising technology stars are challenging established industry incumbents for a dominant position in the marketplace. 2017 will be a pivotal year where ground transportation players have something to prove. Late in 2016, ridesharing receipts exceeded traditional ground transportation for the first time ever among business travelers.¹⁹ While this might lead many to believe that ridesharing is now the standard, the space remains open to competition.

The ridesharing economic model is a complex balance that connects a healthy supply of non-contract, transient labor looking for the highest wage with demand from consumers looking for the lowest fare. Inevitably, ridesharing companies continue to battle for the long-term sustainability of the economic model while still navigating a complex regulatory environment involving labor and public safety.

While ridesharing brands have certainly established a strong foothold in ground transportation, do not expect former incumbents like rental car and taxi cab companies to continue on without a fight. They continue to implement technology at key pain-points, in an attempt to win back customers who have new expectations of what ground travel feels like. Overall, these dynamics set up 2017 as a year when ground transportation tackles a pivotal question with sector-wide relevancy, "Can a low-cost customer experience be a profitable business for all?"

Platforms



Conceptualize your brand as a platform and seek new avenues to scale

Finally, in 2017, we urge travel companies to conceptualize their brands as platforms for new opportunity and growth. Travel is fragmented across many micro-experiences. For example, during a single trip, a traveler may transact with a variety of suppliers and businesses—including hotels and private accommodations, airlines, cruise ships, and multiple modes of ground transportation. And don't forget destination activities and shopping. Most travel companies operate in just one (or maybe a few) of these verticals. With organic growth hard to come by in a consolidated and mature domestic market, travel brands must realize the benefits of scaling across the travel experience—rather than only trying to grow within their vertical.

While Airbnb has enjoyed phenomenal growth in the rental space, the private accommodation pioneer realized that technology that connects renters with local hosts is a perfect platform for selling nearby destination experiences. Airbnb users can now book private accommodations, as well as destination activities using the new "trips" feature. Airbnb not only opened up a new revenue stream, it now has greater visibility into the customer travel journey and a better understanding of its users' preferences and behavior.

Casinos are another example of a segment that stands to benefit greatly by embracing a "more is better" paradigm. In Las Vegas, sustaining gambling revenue is proving to be a challenge—even

for the strip's premier properties. A shift towards online gambling options and fantasy sports is a likely driver. For major players in gaming, attracting visitors may require a complete rebranding of the casino experience, where traditional attractions like slot machines and table games share more of the limelight with other entertainment culture elements such as high-end restaurants, nightclubs, and shows.

Customer experience will drive more loyalty than points and miles

Expect healthy M&A activity and strategic partnerships throughout 2017 as travel companies continue to expand their offerings across the customer travel journey. Priceline's acquisition of OpenTable, is a clue that suggests travel companies are growing more willing to venture outside their comfort zones to provide travelers a more a more holistic offering. In this vein, hoteliers should reimagine the hotel experience to include strategic partnerships with retailers, restaurants, and local events and activities.

For years, travel suppliers have been trying to crack consumer loyalty by offering intricate programs and schemes. 2017 calls for a shift in thinking to make customer experience paramount. Over the next 12 months, travel companies should leverage an increased awareness of customer expectations, re-imagined technology strategy, and differentiated offerings to provide unmatched travel experiences. Loyalty will follow.

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