

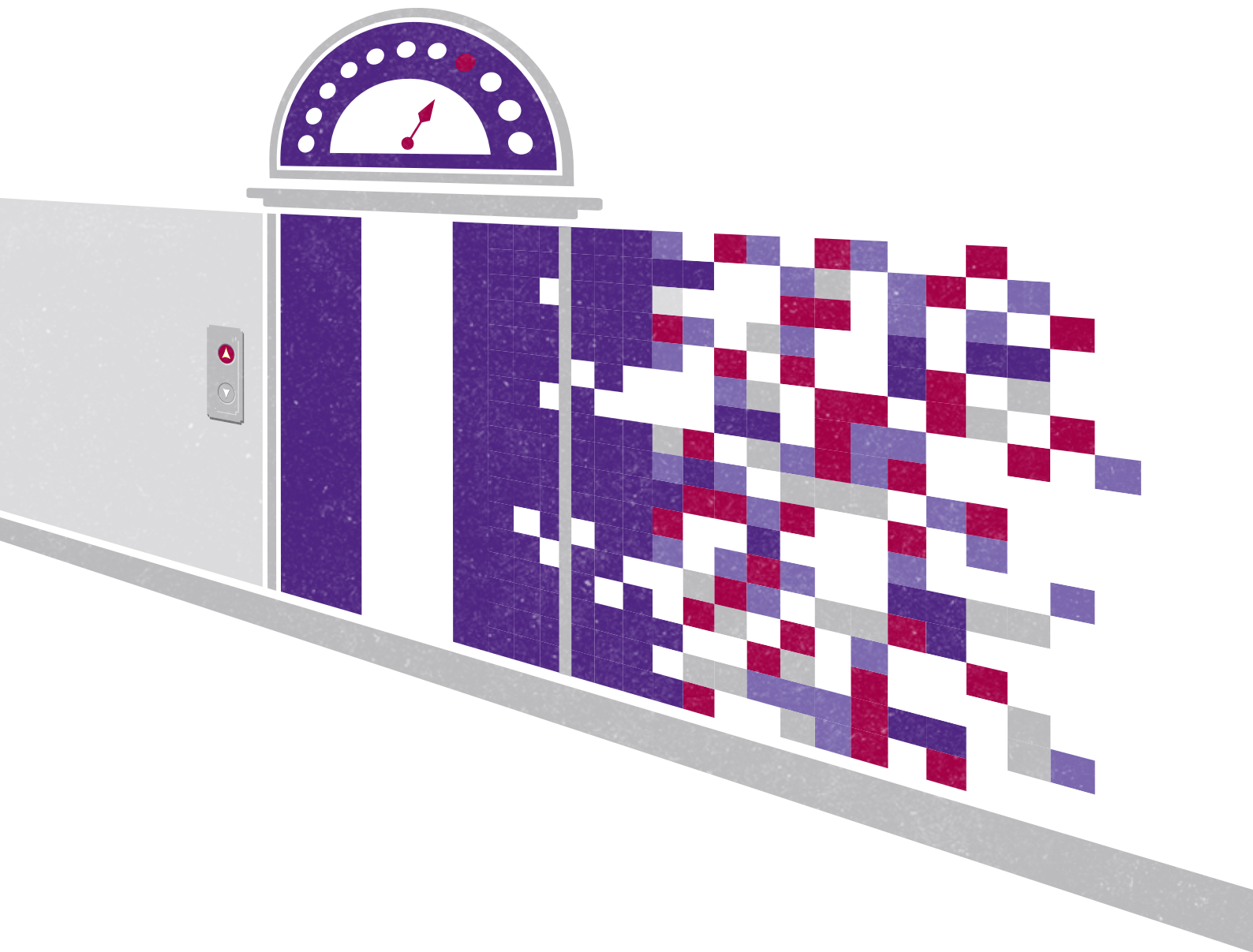


Grant Thornton

An instinct for growth™

Business model innovation:

Hotels' roadmap to 2020



Opportunity from disruption

Harness the power of change

Responding to digital and disruptors

Hotels are in flux. Guests are less loyal and more demanding than ever before. They flock to online travel agents (OTAs) and aggregators to find the best hotels and deals – which helps operators fill their rooms, but at a cost. Meanwhile Airbnb and the sharing economy continue to grow in popularity.

The wider hotel sector as we know it is also shifting dramatically. There has been a flurry of multi-billion dollar M&A activity in recent months, as well as new entrants to the market. Looking further ahead, commentators look at technology giants such as Google and Amazon and ask if, or when, they will use their extensive consumer insight to further disrupt the sector.

At Grant Thornton, we believe that short-term agility and medium-term strategic innovation are viable responses to these challenges. If hotels embrace the digital revolution – technologies that blur the lines between the physical, digital and human spheres – they can turn disruption to their advantage.

One thing is certain: in what has become a fast-changing and unpredictable sector, hoteliers must think in bold new ways, even if this means challenging the tried-and-tested business model.

Xavier Lecaille

Partner, Head of Hotel and Tourism industry
Grant Thornton France



"Innovation is good for our industry. I say 'bring it on'. Airbnb encourages more people to travel and have travel experiences. Disruptors such as Airbnb force hotel operators to up their game."

James Kaplan

Senior vice president, Minor Hotels Group

Drivers of change

2 million

listings on Airbnb, which is increasingly setting its sights on business travellers¹

US \$335bn

projected value of the sharing economy by 2025, up from \$40bn in 2014²

US \$14.4bn

value of Marriott International's acquisition of Starwood Hotels & Resorts in March 2016³

"Every time an organisation comes in and disrupts the marketplace it's a good time to reassess your model and adjust your mission statement."

Jean-Pierre Soutric

Senior vice president, sales and marketing, Oetker Collection

¹ 'Trust,' Airbnb, 2016

² 'Uber and Airbnb are just the beginning. What's next for the sharing economy?' *Entrepreneur*, 2015

³ 'Marriott wins over Starwood with \$14.4b bid,' *Boston Globe*, 2016



At the crossroads:

time to rejuvenate, or rethink?

In recent years, the hotel sector has become more innovative. Take Marriott International, the group has invested in the sort of structured innovation activity usually associated with automotive or consumer goods, which has led to its appearance in Boston Consulting Group's annual review of the world's most innovative companies⁴.


Hyatt, meanwhile, has innovated through acquisition – buying a stake in Onefinestay⁵, an upscale version of Airbnb. Some hoteliers believe such platforms are positive because they expand the travel market, even if they are a step outside the norm.

“Theme parks, cruise liners and cinemas have been creating immersive experiences – virtual-reality rollercoasters, robotic bartenders and 4D cinema screens. By comparison, in terms of innovation the hotel industry is still on the ground floor.”

Adrian Richards

National leader of consumer products, Grant Thornton UK

But there are still areas for improvement. Many hotels have yet to land on the right approach to business innovation, with some feeling anxious about investing during an ongoing period of margin pressure.



“If you look at some of the world's most innovative companies, they have the authority and resources to experiment. That's what we need in the hospitality industry right now.”

Rohit Verma

Singapore Tourism Board distinguished professor, Cornell School of Hotel Administration and executive director, Cornell Institute for Healthy Futures

⁴ 'The most innovative companies: An interactive guide,' Boston Consulting Group, 2015

⁵ 'Hyatt invests in home-rentals firm,' The Wall Street Journal, 2015

According to Steven Perkins, Grant Thornton's global leader of technology, many hoteliers have yet to get to grips with the promise of digital technology. "The threat to hoteliers is that they are intermediated before they even get to begin playing," he explains. "Technology transformation throughout has to be a fundamental component of the business strategy."

Yet for creative hotel groups the possibilities are almost endless. By identifying and understanding the threats they face, they can turn disruption into a very good thing.

In particular, many of their biggest decisions around innovation will centre on the business model. This leads to one key question: should they think again about how they drive revenues, or should they focus on honing and updating their traditional offering?

"Customers are looking for technology to enhance their experience whether it be meetings, events or guest stays. The average buyer's level of sophistication has increased, and so must the technology in order to be competitive in the marketplace."

Joann Cangelosi

Partner and hospitality leader, Grant Thornton US

In this report we outline some of the changes hoteliers could make to strengthen their business models and prepare for the future. We broadly outline two strategies for this: radical innovation and incremental change. The two are not mutually exclusive and can often be blended to achieve the best outcome.

"I usually define innovation as accelerated evolution. We are on the verge of a great evolutionary leap in the sector. Until now, our industry changed little or very slowly, but it will have to evolve."

Amancio López Seijas
President, Hotusa Group



Radical change:

rethink business models

NEW PARTNERS, NEW PROSPECTS

The most innovative hotel groups work actively with new partners – and celebrate the resulting fresh perspectives. Hoteliers that are interested in transforming their business models should consider abandoning the rivalries of the past and developing alliances with one another and new entrants.

“I’m running a business and my business is to produce the most profit I can. If I have to get into bed with Airbnb, I’m happy to do that. We can make it work for both of us.”

John Wagner

Development director, Cycas Hospitality

In particular, collaborating with new entrants is a way to channel disruption into a positive result. Selling rooms through Airbnb, for example, may be more economical than dealing with the OTAs.

Elizabeth Randall-Winkle, Chief strategy officer at STR commented that “the commission rate for Airbnb is 3% versus 10% to 25% on a traditional OTA. So if Airbnb formally enter the hotel distribution space and become a channel which hoteliers adopt, its impact is likely to be a bigger disruption to the OTAs than it is to hotels.”

Hotel groups should also think laterally about partnerships. Alliances with providers in supply chain, technology and distribution will inspire fresh ideas and untried tactics. Andrew McBean, a partner at Grant Thornton Thailand, says hoteliers are “desperate for help from technology providers. They’re stuck with these expensive legacy systems they can’t justify the cost of changing, IT providers have to help them with that.”

WOWING GUESTS EVERY STEP OF THE WAY

Inspired by pioneers in the airline industry, some hotels are developing end-to-end services. They are connecting with guests throughout the journey, from information-seeking to after check-out, and are simplifying travel. In so doing, they can develop a business model that has an edge over the sharing economy’s accommodation-only offer.

Hybrid platforms such as Be Mate, which offers a concierge service in partnership with a local hotel – offering everything from food delivery to babysitters – show what is possible.

“Our users have often told us that, all things being equal, they would prefer to book directly with hotels.”

Nik Gupta

Director of hotels, Skyscanner



SMARTER PRICING

In another approach that was pioneered originally by airlines, hotels are considering dynamic and unbundling pricing strategies that give guests greater choice over what they pay and what they receive as a result. For example, hotels could price rooms differently depending on their view, or placement on a floor, such as being closer to the lift. Services could also be priced differently, so guests who wanted their rooms cleaned less frequently would pay less.

"Prices must evolve, remaining faithful to the product offered and the response of the market. Some years ago, many hoteliers dropped their prices. This is a short-term solution that does not benefit the industry or market. At Room Mate, we have developed our own models of multivariable price fixing based on predictive analytics."

Enrique Kike Sarasola
Co-founder, Room Mate Hotels

Another opportunity for hoteliers is to tailor their price to different demographics. "Baby boomers want higher-end service," explains Doug Bastin, hospitality leader, Grant Thornton Canada. "The younger generation want technology that makes it easy for them to make a reservation and check-out and move on if they don't like what they get."

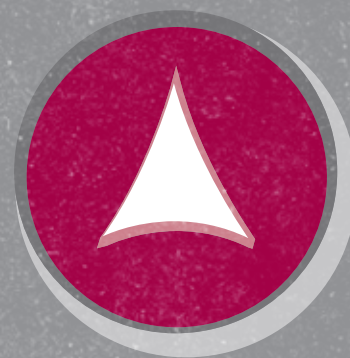
By investing in new data and analytics tools, hotels can pursue more sophisticated pricing strategies. These offer a compelling value proposition to prospective guests.

⁶ 'Boutique hotels now listing rooms on Airbnb to fill vacancies,' *FoxNews*, 2015

⁷ 'Uber and Hilton team up for seamless travel,' *Uber Newsroom*, 2015

⁸ 'Landmark agreement between Alitrip and Marriott International brings new travel options to Chinese consumers,' *Marriott News Centre*, 2015

⁹ 'Accor is now AccorHotels and fights OTAs with open enrollment for independents,' *Tnooz*, 2015



The changing business model: four recent steps forward

- 1 Independent hoteliers in the US are increasingly putting their rooms on Airbnb. New York's Box House Hotel, Riff Hotels and Union Hotel are all doing exactly that⁶. In this way, Airbnb is effectively becoming a cheaper OTA.
- 2 Hilton, Starwood and IHG are partnering with Uber. Hilton guests can now access the Hilton HHonors app through Uber and use it to check-in, request a digital key and access the 'Local Scene' information to enhance their travel experience⁷. Starwood guests earn loyalty points when they use Uber.
- 3 Marriott International is targeting China's growing middle class with a booking service that operates through Alitrip, part of Alibaba⁸. And the group came 19th in BCG's '50 most innovative companies 2015', ranking higher than Netflix, Facebook and Cisco Systems.
- 4 Accor has opened up its AccorHotels.com distribution platform so that guests can access independent hotels as well as its own properties⁹, aiming to counter OTA power.



Think incrementally:

start with small changes

PLAY TO YOUR STRENGTHS

Hotels have one major advantage over the sharing economy: they can offer a consistent optimised guest experience that delights customers. Marriott's tie-up with Netflix¹⁰ to provide a new room entertainment service and Virgin's¹¹ new bed for business travellers recognises their preference for working on a laptop in bed show what is possible. Other hotels are rethinking their facilities and services to appeal to certain guest demographics such as older travellers or long-stay business travellers.

"It's about how you develop a new experience in each brand, whether through local traditions or culture or something about the hotel itself. You have to give the traveller a new experience."

Irene Janti

Brand director, POP! Hotels, Tauzia Hotel Management

Hotel groups should understand the advantage they have over industry disruptors, and use this to inform strategic thinking and investment decisions. Not only do they offer better services and facilities than sharing economy providers, but also security, consistency and certainty. Now they must also find ways to secure this advantage and work harder to communicate the benefits.

Standardising and automating the business model delivers a consistent experience, while making it easier to differentiate locally. Mass customisation involves tweaking a standardised offering to delight individual segments. Standardised technology and processes gives customers greater control over their stays.

Bespoke Hotels unmask the Gotham experience

Bespoke Hotel Group's Hotel Gotham has been described as an 'exclusive venue with a cheeky twist', with a look and feel that was developed to chime with locals¹².

"We were very deliberate about slicing and dicing the audience we wanted to attract," says Bespoke's founder, Robin Sheppard. "A huge amount of analysis went into profiling what we thought the product's look should be and whether the audience would warm to it."

The branding of the hotel plays on its former bank location, while the development works sensitively with the art deco style of the building. A thriving cocktail bar reflects Manchester's local nightlife.

Gotham has been a huge success, exceeding its third year targets after only one year. Sheppard puts part of its success down to the distinct experience the hotel provides. "I think the consumer is increasingly looking for a hotel experience," he says. "They want to go somewhere that feels like an event."

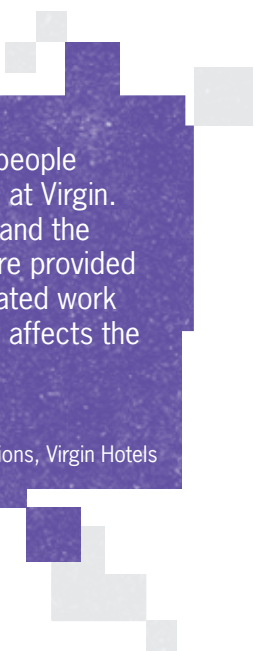
At the same time, personalisation¹³ is a key differentiator for hotels. Hoteliers that can put guests in control of their stays will build much stronger bonds with customers and repeat business.

¹⁰ 'Marriott Hotels becomes first to offer Netflix on guest room televisions,' *Marriott News Centre*, 2015

¹¹ 'The wakeup call we've all been waiting for,' *Virgin Hotels*, 2016

¹² 'Hotel Gotham,' *The Telegraph*, 2015

¹³ 'The power of personalisation: Hotels' roadmap to 2020,' *Grant Thornton*, 2016



“For us, it starts with the people who are attracted to work at Virgin. The training they’re given and the career opportunities they’ve provided with create a highly motivated work environment. That directly affects the guest’s experience.”

Allie Hope

Head of development and acquisitions, Virgin Hotels

UNLOCK NEW VALUE FROM TALENT

Hotel groups have long understood that they stand or fall on the quality of their people. Yet the industry has seen many frontline staff move to new positions in other sectors. Hotels today must encourage their people to become revenue generators and managers. They must also equip them with the skills to build rapport with global travellers, creating multi-skilled ambassadors for the hotel. The banking sector, where process automation has enabled cashiers to become personal relationship managers, is one good example.

Hotels can also bring in new partners to plug specific skills gaps. Steven Perkins of Grant Thornton says: “How do you develop a core competency so that you can evolve at the pace at which data and analytics technologies are evolving? Partnerships can give you access to the best talent.”

SCALE AND CONQUER

The recent spike in hotel-group deal-making reflects the desire of many groups to innovate at scale. As hotels look for new opportunities, we expect M&A to become increasingly attractive. As well as giving guests greater freedom to experiment, it also provides more scope to invest in R&D.

Doug Bastin of Grant Thornton Canada explains the rationale: “what deal-makers are trying to do is improve their profitability while still trying to build guest experience and loyalty, and to do it at a competitive price,” he says. “Dealing with technology change over a broader base of properties makes it easier to absorb the cost.”

Scale also gives hotels greater leverage in their dealings with OTAs, which – as we have heard – otherwise require hotels to sacrifice margin. Through M&A, hotels can gain greater clout.

Puneet Chhatwal, Chief executive officer at Steigenberger Hotel Group commented “My answer to those who worry about the OTAs is that you have to negotiate the best deal you can for the best interest of your company – for many hotel groups, they can be an excellent way to get global reach.”

BRAVE NEW WORLDS

If hoteliers are looking to rejuvenate their existing offerings, one avenue may be to explore new markets. China has the largest middle-class population of any country in the world, and hotels are increasingly targeting these travellers. Louis Vuitton’s launch into the hotels sector underlines the potential for luxury brands in this sector¹⁴. While citizenM’s carefully constructed identity attracts millennials who might otherwise flock to Airbnb.

Hotels should also consider how to upgrade their premises in specific locations, as these locations evolve due to changing traveller tastes – as Angeles Alarcó Canosa, president of Paradores de Turismo, explains. “There are destinations in Spain that used to be mature destinations but they’ve managed to renovate,” he says. “They have done so by providing a component that would add value to the destination. For example, Ibiza and music. In Ibiza, it was a very classic kind of tourism, but music has renewed the destination and increased prices.”

“Our scale will be really important for the guests. As they move around the globe, they’re dealing with one company and they can have the same expectations and consistency of service standards everywhere.”

Hassan Ahdab

Vice president and regional director, Starwood Hotels

¹⁴ 'LVMH Group (Louis Vuitton) launches hotel brand,' *CPP-Luxury*, 2010

The future of a changing sector

WHAT'S COMING NEXT?

The hotel landscape is changing fast. There is increased pressure to innovate and create business models that work in the new digital environment. Here, we outline what the future might hold.

THE CHANGING HOTEL BUSINESS: FOUR POSSIBILITIES

- 1** Tiered pricing has not yet been fully explored. Hotels could offer individual pricing packages to customers based on data indicating their frequency of travel and where they stay.
- 2** Large hotel groups could follow the lead of smaller independent hotels by selling rooms on Airbnb.
- 3** By 2100 one in three people will be from Africa, where there is a burgeoning middle class. Businesses should consider the needs of this growing market, and whether new disruptive business models could succeed here.
- 4** The director of innovation role could become a board-level position in hotel groups, as it increasingly is in other sectors.

How Accor is playing the OTAs at their own game

When Accor rebranded as AccorHotels in summer 2015, it promised to open its booking platform to independent hoteliers. Eventually, it hopes to give travellers access to 10,000 independent hotels in 300 destinations, as well as its own properties. Not surprisingly, many in the industry saw this as a bold move¹⁵.

“We are becoming a trustworthy, selective and transparent third party,” declared Sébastien Bazin, AccorHotels chairman and CEO, when unveiling the move.

AccorHotels' thinking is that a broader offer will encourage more travellers to use the channel rather than an OTA. It can then boost customer loyalty and curtail leakage to the OTA sector.

The initiative will also boost AccorHotels' revenues directly because it will take a commission on guests' bookings with independents – a commission that would otherwise have gone to the OTA.

¹⁵ 'AccorHotels opens its distribution platform to independent hotels,' *Hospitality ON*, 2015



? Six questions for hotel groups

- 1 Have we optimised our distribution strategy to maximise revenue? Are we pushing direct channels and managing the number of rooms on OTAs to minimise high commission rates and maximise our profit?
- 2 Do we have a culture of idea-sharing and innovation enabled by digital platforms? Have we appointed someone to lead this effort?
- 3 What partnerships should we explore? Are we open to new business models and collaborating with competitors, or should we tap into technology to innovate?
- 4 Has our talent strategy moved with the times? Do we organise and position our staff to leverage technology and meet changing guest expectations?
- 5 Does our location or customer demographic make us more vulnerable to competition from the sharing economy? If so what can we do to compete?
- 6 Who owns the guest relationship? Do we as a hotel, or is it the airline or the OTA. How can we own this relationship?

OUR EXPERIENCE WITH HOTELS

Our team has a broad range of hands-on experience in the hotel and broader hospitality sector, bringing insight and in-depth knowledge of sector trends. With specialist teams in more than 130 countries, we can help you develop and implement strategies that will surprise and delight your guests – and keep them coming back for more. To learn more or connect with a specialist in your country, visit: www.granthorton.global

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