

Hotels 2020 – Responding to Tomorrow’s Customer and the Evolution of Technology

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Rohit Talwar is a futurist for the global travel industry and author of the *Hotels 2020* study commissioned by Amadeus. In this article, Rohit draws on the study findings to explore how customer behaviours might evolve, discusses how technology could transform the future travel experience and explores the strategic implications for the branded hotel sector.

1 Hotels 2020: Beyond Segmentation

The future of travel and tourism is being driven by a complex set of converging forces which are forcing the industry to think about how they might reshape the experience. As hoteliers respond to increasing economic turbulence and start developing strategies for the next decade, it is critically important to scan ahead, understand these key external drivers of change and identify the emerging opportunities that could shape the strategic agenda for the sector. The **Hotels 2020: Beyond Segmentation** study set out to explore these “future factors” and explore the implications for hotel strategy, brand portfolio, business models, customer targeting and innovation. The study placed particular emphasis on the impact of increasing personalization, emerging technologies and a changing economic outlook.

We used a range of primary and secondary research techniques to identify key drivers of change, emerging opportunities and evolving guest and traveller expectations. We also scanned widely for examples of how the hotel sector in particular was already innovating, for ideas on what future innovations might look like and for technology developments that could impact the industry. We used these to suggest a range of future scenarios covering how guest behaviour might change, what the implications might be for the services, facilities and technologies hotels would require and how hotel groups might evolve their strategies, business models and market positioning. We then tested guest and industry responses to these scenarios in a global survey with just over 600 respondents.

2 Drivers of Future Traveller Behaviour

The role of travel in our lives is changing. In a survey conducted as part of the study, 83% of respondents strongly agreed or agreed that *“People will view travel as a right rather than a luxury and consider it an increasingly important part of their lives”*. As individuals, we are facing increasing pressure on our available leisure time, which is driving the desire for unique and personalized experiences. We are also not completely logical and consistent in our behaviours. On the one hand we want constant connectivity, yet on the other we are looking for stories to tell our friends about the remote new “unspoilt” destinations we’ve discovered!

Concerns over environmental impacts of tourism, and greenhouse gas emissions from transport in particular, are encouraging travellers to think more carefully about their ecological footprint. In the study 82% agreed that *“Environmental considerations will play an increasing role in the choice of business and leisure hotels”*. For tourism destinations, environmental factors are forcing a rethink of how many tourists to allow in, what to charge and who to target. Political upheavals and security concerns are also leading some travellers to rethink the desirability of visiting certain locations. Finally, innovation is reshaping the travel experience by – for example – enabling shorter flying times.

3 New Customers, Emerging Destinations

The study found that declining real incomes in the developed world coupled with rising affluence in the emerging nations are reshaping the visitor profile and driving a shift in emphasis on which outbound markets to target. In the survey, 75% believed that *“The Asian middle classes will make up the largest share of international travel”*. There is a growing understanding of the value and cost of servicing different groups of customers. While some leave a room cleaner than when they arrive, others can be expensive to service. Hence, 97% felt that *“Hotels will increasingly consider factors such as cost of servicing, level of spend and average length of stay when targeting potential customers in different geographic markets”*.

As a consequence of the expected growth of developing destinations, 79% agreed that *“Heavy investment in emerging tourism markets will widen traveller choice, increase competition and potentially drive down prices and profit margins across the spectrum of hotels”*. The rise of new competitors was also expected to see new strategies for destination marketing emerge, with 82% expecting that by 2020 *“City or country based alliances are likely, resulting in preferential marketing/pricing of certain destinations”*. Despite its growing economic power, only 32% felt China would become the world’s top tourist destination by 2020.

4 The Quest for Unique and Individualized Experiences

The core finding of the study is that our guests will want a more personal, connected and informed experience. Customers are getting used to increasing choice and personalization – from the way in which we communicate to them to the choice of seat in the plane – they want it “their way”. The danger in an increasingly fragmented world is to still try and think of customers as segmented groups as we have in the past. However, an increasingly diverse customer base and technology enabled personalization mean that guests no longer fit into the clean segments of yesteryear. Survey respondents agreed and 71% believe that *“Traveler motivations will become increasingly fragmented and diverse and harder to segment into clearly definable customer groupings”*.

5 Beyond Segmentation – the Rise of the Service Spectrum

We believe that over time, the traditional customer segmentation approach will instead be replaced by personalized service spectrums and a “total service model”. In the survey 92% supported the idea that *“Hotel guests will expect their stay to be personalized around a set of choices they make at the time of booking or prior to arrival”*. This will mean the guest of the future will be able to tailor every aspect of their experience including technology, hotel services, the bedroom, the journey, pricing and communications. Each guest will have their own preferences, demands and characteristics. The challenge for hotels is to understand and act upon these evolving requirements.

6 Technology Enabled Customization

Technology is helping to bring about this personalization of the travel experience. For example, via our smartphones, we can receive “augmented reality” digital overlays of information on real world objects to enhance our experience. Hence, I can now look at the Brandenburg Gate in Germany and with my phone scan around to see what the Berlin Wall would actually have looked like before it came down.

7 Personalizing the Hotel Experience

For hotel’s personalization and effective use of technology are expected to be major brand differentiators – at least until the competition catches up or overtakes us! For example, social media is now a serious channel for hotels to build their

brands and develop customer relationships. Hotels such as Joie de Vivre already use social media very effectively to build and reward a loyal fan base by making regular special offers to those registered on its Twitter and Facebook sites. In response to the rise of social media, 96% felt that *“Hotels will need to develop strong social media „listening skills“ to understand how customer needs and perceptions of brands and service quality are truly evolving and to develop service propositions, marketing messages, and pricing solutions that reflect the needs of an increasingly diverse customer base“*.

The rise of social media also creates the opportunity for customers to define their requirements individually and collectively, and reverse auction them to the travel providers who can best respond. In the survey 90% of respondent agreed that *“Customers will increasingly use social media and collective intelligence travel services (like Dopplr) to define the desired „product“ for a temporary self-forming group“*.

Technology will also enable us to capture and build up guest profiles that can be updated on each visit, based on what facilities and equipment the guest actually uses and does during their stay. Advances in areas such as artificial intelligence and modelling are also enabling us to become better at using customer data to anticipate future guest requirements. Perhaps unsurprisingly, 95% expect that *“Hotels will increasingly look to new technologies to drastically increase efficiency, reduce costs, personalize the customer experience and improve service“*. Despite the emphasis on technology, people will still be the ultimate differentiator – 93% agreed that *“Highly trained staff backed up by technology will be key to delivering personalized service and experiences“*.

8 Evolving the Intelligent Hotel

The potential to deepen customer insight with technology is almost limitless. For example, embedding cheap motion sensors in all the furniture and equipment in a room will enable hotels to monitor how often each item is used and for how long. Over time, as hotels are refurbished and new properties built, this data on usage and customer preferences would allow owners and operators to get a feel for what they actually need – rather than putting one of everything in every room. Accurate usage data and increasingly modular designs will thus enable hotels to reduce the total amount of furniture, fittings and guest equipment required for a hotel.

9 Delivering a Total Service Model

Over time there will be an entire spectrum of options over which the customer could be offered a choice. These range from selecting their own room, to deciding whether they want a TV or other audio-visual equipment, choosing the bed and

linens, specifying the brand and range of amenities in the bathroom and picking the artwork displayed on the walls. For example, how many people would prefer to have their own photos or the work of their favourite artists displayed in a digital frame rather than somewhat forgettable artworks? In the case of TV's, while many people now bring their entertainment with them on their phone, tablet pc or laptop, there may be an interesting revenue opportunity in hiring out the latest technology such as 3D TV's or their successors to those guests that request them.

Hence a total service model means that you could have customers paying very different rates for adjacent rooms in the same hotel. One may simply want a good bed for six to eight hours sleep and a place to hang their clothes. Their neighbour may be looking to really embed themselves in a room for a few days and have a totally immersive environment. Of course there will always be customers who just want the standard offering, but there will also be this growing group who want this more personalized approach – selecting and paying for the elements they want. Expectations around personalization are high – 86% believe that *“By 2020, personalization will have been embraced wholeheartedly by the sector and that „customers will have the ability to choose the size of room, type of bed, amenities, audio-visual facilities, business equipment, etc. on booking and pay accordingly“*.

Clearly there are concerns over the cost of moving to personalized service model and whether customers would bear the cost. The research suggests the demand will exist – with 92% agreeing that *“In a highly automated world, there will be a range of customers at every price point who are willing to pay for personal service”*.

Technology will also allow us to transform the future guest experience. In the next few years we can expect to see augmented reality, room environment management systems and service robots become commonplace as guests demand even greater personalization, increased comfort and more innovative experiences. As we look to 2020, we will have to consider innovations such as intelligent furniture, personalized nutrition and responsive technologies that understand our cognitive functions.

The key to success in personalization lies in really engaging the customer through genuine dialogue about service improvement. We can have these dialogues during their stay, via open innovation processes, and by paying close attention to what's being said by guests on social media forums.

10 Beyond Hotels – The Rise of Virtual Experiences

The discussion so far has focused on how hotels can respond to evolving guest expectations and use technology to enhance, personalize and deepen the physical travel experience. However, increasingly, technology is also offering the potential to address the needs of those who want to experience a destination but without the time, cost or environmental impact of physical travel. This is the point where hoteliers need to close their eyes or cover their ears!

Already through webcams, virtual worlds, augmented reality, 3D virtual reality and other immersive technologies I can get a feel for a destination and travel experiences through the eyes of other visitors. For example, in soccer, the UK's Premier League is aiming to launch a 3D television service within the next five years that will give fans the experience of sitting in any part of the stadium they choose and watching the game as it would be experienced by those physically in attendance. Developments such as super wide photography and 3D graphical representations will be combined to recreate the live stadium experience.

11 From Virtual to Immersive

Advances in science and technology will continue to extend the potential of virtual experiences. For example, the cognitive sciences are constantly breaking new ground, teaching us more about the functioning of the brain and the electrical impulses that are triggered by each of our senses. Once these electrical patterns have been decoded, we will be in a position to go well beyond sharing just the audio-visual experience of a trip to the Galapagos Islands. The next stage in immersivity and augmented experiences will be to recreate electronically the smells, tactile experiences and taste sensations as if we were there for real. As we look at what is coming out of the labs, it is likely that such developments are only a matter of 5–10 years away.

The more immersive the technology becomes, the closer we will be able to mimic the live experience through virtual channels. For example, the Maldives could today recreate itself in a virtual word down to the last detail. In the near future, using multi-sensory virtual reality, it could provide virtual tourists with an experience something close to the physical one. Populating this virtual world with locals, hotels, restaurants, service staff and other visitors will help enhance the experience. New employment opportunities could be created for people to act as a hotel concierge or tour guide in the virtual world. The virtual holiday can also become a year round “any time any place” experience. Quiet Sunday afternoons, boring daily commutes on public transport and long train rides can all be transformed through immersive technology.

Virtual tours on demand will allow us to dip in and out of a travel experience at will. How different might your daily life become if you could tour the Taj Mahal on your way to work, stroll down the banks of the Ganges on your way home and join in the Mumbai Diwali celebrations after dinner?

12 Memory Transfer – The Ultimate in Immersive Reality?

With the developments described so far, the virtual traveller or “user” will still be able to distinguish between those vacations which they have experienced physi-

cally and those which they have only consumed electronically. However, there is the potential to extend the experience to “full memory transfer” – where it will be much harder to distinguish real from virtual. As science deepens our understanding of how we process information and encode our memories, so we are learning how to transfer electronic information directly to the human brain. Experiments have already been undertaken where individuals have transmitted numbers, colours and basic images to each other wirelessly.

The ultimate goal here is what inventor and futurist Ray Kurzweil terms “the singularity” – the point at which we can all connect to each other, share information and deepen our “collective intelligence” via the internet or its successor. Kurzweil argues that the exponential rate of development in fields such information technology, genetics and the cognitive sciences mean that the singularity could be with us as early as 2045.

13 Full Experience Transfer

Long before the singularity arrives, we should be in a position to capture every aspect of the multi-sensory experiences of a physical tourist, encode them and then enable others to download those experiences directly to their memories. At that point it really isn’t clear whether we’ll still be able to distinguish these new downloaded memories from those based on our own physical experiences. The potential then emerges to offer tiered pricing for different categories of experience. So would you prefer to see London through the eyes of the chauffeur driven billionaire staying at the Savoy, or go for the experience of the backpacker staying in a youth hostel and duking it out with the rest of us on the subway?

The potential for disruption to the social order is immense. Imagine the scene, you walk into the office on Monday morning and begin to recount the amazing week you’ve spent in Venice with Megan Fox or Brad Pitt. To your horror and confusion, you discover that two other workmates are claiming to have had exactly the same experience down to the magical kiss in the gondola and fantastic spaghetti marinara in that quaint restaurant just off St Mark’s Square!

14 Winning in Turbulent Times

So having explored the far horizon, let’s bring the impact analysis closer to the present day. What seems clear is that we are entering an era where deep customer insight coupled with smart technologies should enable motivated, smart, well-trained employees to deliver a genuinely guest-centred service experience. While the words may all be familiar, the reality is that most hotels have some way to go to reach the kind of personalized service experience we’ve discussed here. So what will it take to make the transformational journey implied by the study’s find-

ings? In the report, we identify ten key characteristics of the successful global hotel brand of the future:

1. An organisation capable of surviving and thriving in turbulence and uncertainty
2. A portfolio of strategies for an evolving marketplace
3. Deep understanding of an increasingly geographically, financially, generationally and attitudinally diverse and rapidly evolving customer base
4. Delivering a personalised experience through a wide spectrum of service choice
5. Immersive, tactile and multi-dimensional technology interfaces
6. An open, listening, collaborative and experimental approach to innovation
7. Continuous search for ancillary revenues
8. Connected, adaptive and predictive
9. Asset light, insight rich
10. Continuous evolution – the hotel as a living laboratory

We explore four of these in more detail below.

14.1 A Portfolio of Strategies for an Evolving Marketplace

In the survey 81% felt that *“By 2020 hotels will increasingly experiment with a range of business models”*. The study highlights a range of alternative strategies and models that the branded hotel sector might consider in response to ever intensifying competition. These were tested in the survey, and the key findings were that by 2020:

- 78% agree that global hotel groups will increasingly seek to cover the full spectrum from budget through to luxury and heritage properties
- 79% expect that a new category of co-branded and co-designed “signature” properties will emerge within hotel chain portfolios, providing differentiation and opening up ancillary revenue stream options
- 77% think we will see the emergence of a new breed of unbranded hotel group, offering “white label solutions”- including sophisticated marketing, very high standards of service and advanced technology support while allowing owners to develop their own brands
- 46% anticipate the emergence of invitation-only hotels’
- 69% predict that hotel groups and owners may increasingly seek to co-locate different categories of hotel from budget to luxury in a common location with shared catering and leisure facilities for use by all guests.

14.2 Deep Understanding of a Rapidly Evolving Customer Base

Our customer base is becoming increasingly diverse, with three key drivers. Firstly, we all expect to see growth in visitors from developing markets as new middle classes emerge and start travelling for the first time, but it's by no means clear how profitable this business will be. Secondly, as the average age rises in developed economies, this is creating a growing group of older and often wealthier travellers who have differing needs to younger business or leisure guests.

Finally, the fallout from the global financial crisis means we could see an even broader spectrum of guest types and needs coming from more established markets – demanding shorter breaks and increasing value on the one hand and a more and more unique luxury experience on the other. Combined with what we've just discussed about personalization, these drivers suggest we will need to take our approach to customer insight to whole new level.

14.3 Immersive, Tactile and Multi-Dimensional Technology Interfaces

A key characteristic of tomorrow's successful hotels will be the ability to master and accommodate a rapidly evolving range of technology interfaces coming into our hotels in the hands of our guests and our staff. I have already talked about how augmented reality is blurring the boundaries between the physical and the digital world. At the same time, the hotel lounge of the future will be home to voice recognition, gesture interfaces, heads-up displays, projection screens, 3D displays, touchable holograms and an ever-widening array of interfaces through which we'll display and interact with our computers, phones and data.

14.4 Continuous Search for Ancillary Revenues

Confronted with economic uncertainty and intensifying competition, there is a clear need for hotels to invest time and energy in driving revenues. In the research 91% predicted that *„In the face of intense competition, hotels will increasingly turn their attention to generating ancillary revenues through activities such as increasing their share of the spend of each guest staying at their property“*. Options might include:

- adopting alternative pricing mechanisms such as auctions of spare capacity, best price guarantees and “pay what you think it's worth”;
- capturing a share of pre- and post-trip travel spend – 80% predict that hotels will use discount offers on the purchase of luggage, clothing, transportation, insurance and duty free;

- selling the products guests have experienced in their rooms – 67% expect that Hotels will create their own catalogues of branded amenities, clothing, furniture and decorations;
- business support services – 89% believe hotels will increasingly provide additional services e.g. translation, access to local legal and accounting advice, secretarial support, company formation and organization of small meetings.

15 Embracing New Management Thinking

The challenges and opportunities outlined in the report suggest that hotels will need to place an increasing emphasis on transformational strategies and on approaches to innovation which place the voice of the customer at the heart of the change agenda. Approaches such as open innovation and crowd sourcing are now in widespread use in other parts of the business world and the hotel sector will need to learn from best practice on how to truly value voices from outside the organisation and the industry. In the survey, 96% felt that *„In the face of intense global competition, the hotel industry will develop a strong focus on strategy and innovation – adopting approaches such as crowd sourcing and open innovation to generate new ideas“*.

Hotels 2020 represents a wakeup call to the fact that the world has changed fundamentally. The path of the economy and hotel market over the next ten years is uncertain. So we have to prepare for a range of possible future scenarios. This implies development of leaders, managers and staff who are curious, tolerant of uncertainty, capable of scenario thinking and willing to make decisions with imperfect information.

16 Conclusion – Transforming Hotels from the Outside In

So, to conclude, hopefully this article and the report it's based on have highlighted that we are entering a world where the winning strategies of the past are no longer certain to succeed in a fast changing and turbulent world. Brands that don't recognise and respond to this run the risk of falling seriously behind the competition. While some of the developments discussed here are twenty years or more from affecting us, others are already having an impact and the pace of change is only likely to accelerate. Responding effectively means a fundamental reframing of how we view our hotels. We need to develop a mindset that enables us to rethink our strategies, revolutionize business models, rework service delivery and – as a result – reinvent the customer experience.

The transformational changes we are describing will require bold decisions, bold actions and bold new thinking. We can't rely on incremental improvements to marketing and service delivery to attract tomorrow's guest. We may have to redesign fundamentally the services we offer and re-imagine how we'll relate to an increasing diversity of future guests with constantly evolving needs. To succeed, hotel groups may increasingly view themselves as being in a constant state of experimentation – with the individual properties as living laboratories for the development and testing of new ideas. In “Hotel 2020” every customer interaction could be viewed as a potential source of feedback, new ideas and competitor insight.

Hotels 2020 is not a destination but a transformational journey. This requires us to develop deep customer insight, embrace technologies that will help us enhance the visitor stay and develop leadership and a workforce that can go beyond segmentation to deliver a truly personalized guest experience.

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