

Hospitality and leisure trends 2019

Companies must find ways to be
distinctive to combat disruption

Part of PwC's 22nd Annual Global CEO Survey trends series



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Creating a distinctive experience

The hospitality and leisure (H&L) industry is big and diverse; it has traditionally claimed some of the closest relationships with global consumers of any sector. People eat, sleep, play games, cement friendships and seek cures in H&L facilities. Given this dynamic, it isn't surprising that the ability to create brand awareness campaigns that feel like one-on-one communication with potential customers — that is, campaigns that speak directly to customers' preferences and desires — has always been a keystone of success for H&L companies. But recently, for many parts of the hospitality and leisure industry, that connection to consumers has frayed.



Nowhere is this truer than in the hotel segment of the industry. Not long ago, marketing campaigns were focussed on creating an image that distinguished a company's hotels anywhere in the world – and consumers chose rooms based on certain perceptions they had developed about specific brands. Did they want a swanky hotel or a budget one? Were they looking to be pampered with a smorgasbord of services, or did they simply want a clean bed and free breakfast? Did they prefer chic or old-world? Spa or first-class chef? Kid-friendly or romantic? They'd contact the hotel whose brand

most closely matched their personalities and inclinations through the web, phone or travel agent and book the room directly.

No more. A growing number of rooms are now booked through third-party services such as booking.com, hotels.com or TripAdvisor. On these platforms, hotels are barely differentiated, except by price. And although brand still plays a role, its importance is outshone by consumer reviews and star ratings.

For hotels, this change has severely impacted the top line. Commissions paid to third-party booking services siphon off

10% to 15% of revenue for large chains and 18% to 22% for independent hotels and small chains. But much more devastating to hotels is that their rooms are becoming commodities. As long as reviews are generally positive across platforms, many guests believe that a room in one hotel is the same as another room in a different hotel.

Partly as a result of disruptions in their ability to connect with customers directly, H&L CEOs are pessimistic about the future for their businesses. In PwC's 22nd Annual Global CEO Survey, only 27% of H&L respondents said that they

45%

of H&L CEOs believe global economic growth will 'improve'

40%

of global CEOs believe global economic growth will 'improve'

were 'very confident' about revenue growth during the next 12 months, compared with 35% of all CEOs surveyed. And these gloomy sentiments are punctuated by the fact that H&L CEOs were actually more bullish about overall global economic growth during these next 12 months than the full group of chief executives surveyed – just not for their own businesses (see Exhibit 1). (These H&L results are for the industry as a whole, although CEOs from the hotel segment represent by far the largest proportion of respondents.)

To overcome these very real obstacles (and revenue losses) from third-party booking services, hotels must find a way to again make themselves distinctive destinations for customers. If vacationers and business travellers alike develop preferences and loyalty for the facilities and amenities offered at specific chains and independent lodges, they'll go to them first when planning a trip – instead of the third-party bookers.

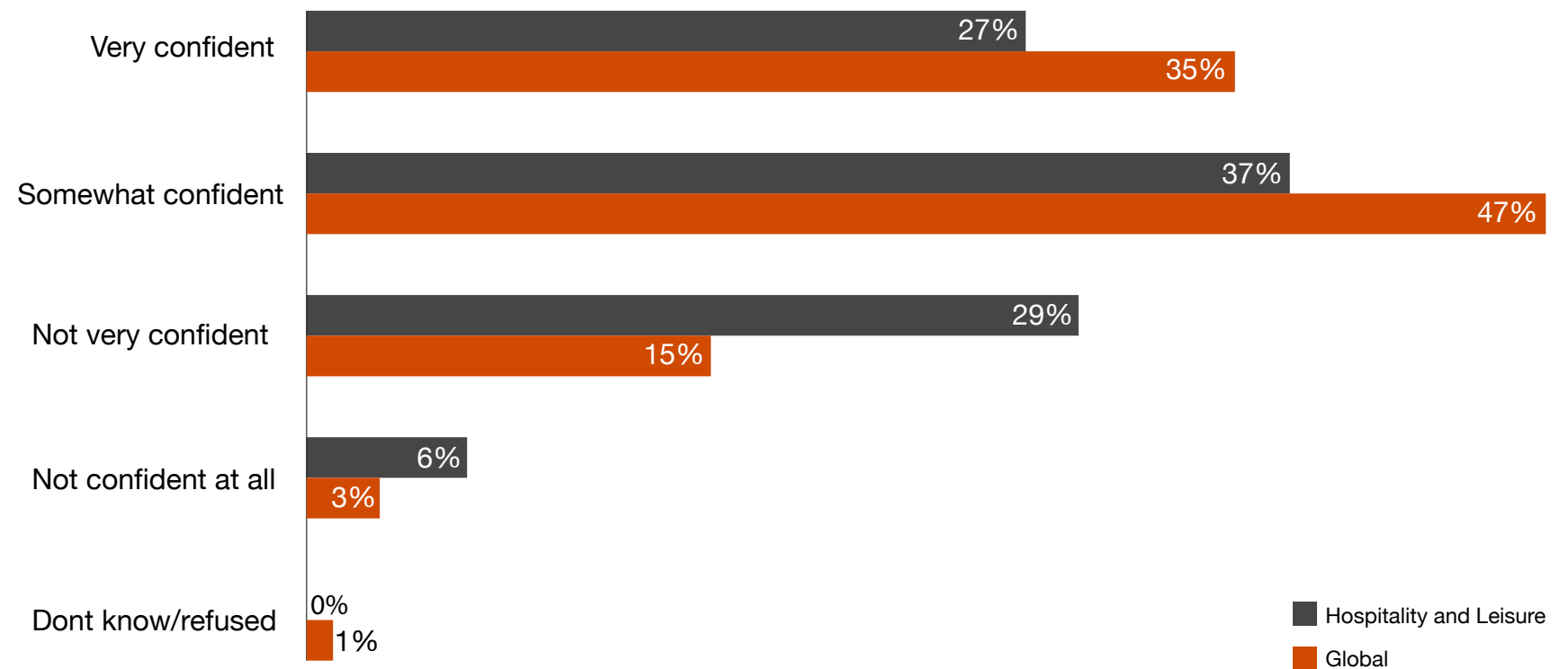
One positive sign for hotel companies is that by a large margin most vacation travellers would prefer to stay at a value hotel (37%) or a high-end hotel (23%) than at shared lodging options such as those provided by Airbnb (12%), according to PwC's 2019 Global Consumer Insights Survey. But to maintain

EXHIBIT 1

H&L CEOs' confidence in their own organisation's revenue growth over the next 12 months is notably lower than that of CEOs globally

QUESTION

How confident are you about your company's prospects for revenue growth over the next 12 months?



Source: PwC, 22nd Annual Global CEO Survey
 Base: All respondents (hospitality and leisure CEOs, 51; global CEOs, 1,378)

this measure of support and stem the tide of travellers reaching out to third-party bookers, traditional hotel brand awareness campaigns won't do the trick; they feel too detached in today's 24/7 you-are-there media environment. Instead, hotels must provide a more highly personalised experience that anticipates and then goes beyond the needs of their particular customer base — and count on word of mouth and allegiance to keep this base coming back and expand the pool of potential customers. Three strategic approaches should be priorities: modernise the service offering; hire high-touch-oriented employees who can make guests feel noticed, welcomed and pampered; and implement the latest technology to realise savings on back-end administrative processes, which could be invested in new digital-based programmes that improve the quality and convenience of the interactions between guests and the hotel.

Modernise the service offering

Modernised services can cover a wide range of options. They can include innovation touching on sci-fi, such as Crowne Plaza's use of a robot named Dash to deliver snacks, toothbrushes, messages

and other items to guests in their rooms. More pedestrian services are in-room TV-based workouts — often with an exercise apparatus that can be delivered to a guest's room — and 24-hour snack bars for guests who want a bite at 3am. And some hotels have expanded their business centres into shared working spaces to accommodate people — predominantly millennials — who are accustomed to working in offices with an open floor plan. At least one hotel, the Revolution Hotel in Boston, lets nonguests use this office space and drink all the coffee they want for a fee, providing an additional revenue stream.

To draw customers, these new services have to surpass in quality similar offerings in the local area. Twenty-four-hour snack bars may stand out to guests if that's the only place they can find food in the wee hours — but not if Uber Eats also delivers in the area at any time of the day or night. And the value of a shared workspace in a hotel may depend on whether there is a similar, more fully equipped facility, such as a WeWork site, within walking distance.

There are two approaches for enhancing services that hotels should consider. The first is unbundling services to keep

top-line rates competitive. Rather than increasing room fees to cover the costs of a multimillion-dollar spa upgrade, charge guests to use the spa. Guests who use the spa will enjoy the improvements, and those who don't will not feel that they are being forced to pay for something they don't need.

The second option is to partner with local facilities, including spas, shared workspaces, gyms and restaurants. Many such facilities — especially if they belong to a chain — would welcome providing discounts to guests, as some of these guests may continue to use the company's facilities when they get back home.

Hire high-touch-oriented employees

People who think about the top ten experiences they have had in hotels more than likely recall unexpectedly good interactions with hotel employees. Did they take care of a guest who was ill? Were they nice to a guest's children? When a guest was lost, did they walk him or her to the destination instead of just pointing.

But putting together a top-notch, customer-centric staff is not easy for hospitality and

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leisure companies. In fact, 63% of H&L CEOs in our survey said that it was difficult to hire workers — and that this difficulty stemmed from the ‘industry’s reputation’ and ‘working conditions’, among other factors (see Exhibit 2).

To overcome some of these issues, hotels must begin to pay higher wages, which will go a long way toward recruiting staff who view hospitality as a legitimate career path and not a stopgap before they get a better-paying job. Moreover, hotels need to broadly increase their headcount in front-end, customer-facing employees. Too many facilities are understaffed and it shows in the generally lacklustre experience that guests have — which, of course, leads to the attitude that one hotel is just like another. Two or three extra employees in the lobby to help guests as they enter — to ask them about their trip, go over hotel services, answer questions about the best local restaurants and so on — can start off the guest relationship on the right foot.

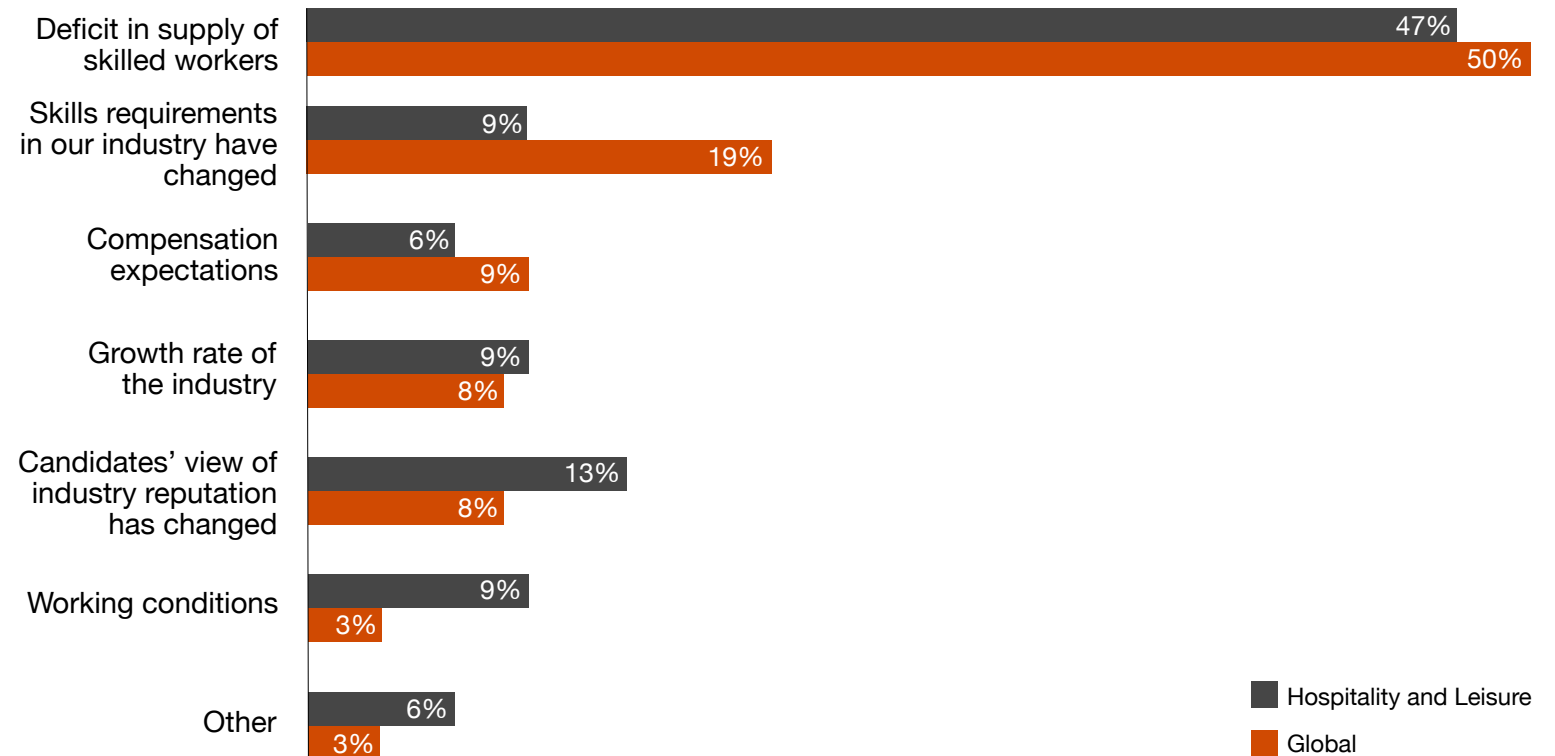
Cross-training is also a good way to heighten a customer-centric experience. Although some jobs, such as bartending or mechanical maintenance, require specialised skills, most front-line hotel employees can be trained to do more than one job. Customers respond well and feel they are being taken care of when, for instance, a front-desk staffer quickly delivers a bottle of wine within minutes of the call to room service or brings extra towels immediately

EXHIBIT 2

More H&L CEOs than global CEOs believe that candidates’ views of the industry’s reputation and working conditions have changed

QUESTION

Which of the following is the primary reason it has become more difficult to hire workers?



Source: PwC, 22nd Annual Global CEO Survey

Base: All respondents (hospitality and leisure CEOs, 32; global CEOs, 852); ‘don’t know’ responses not shown

instead of waiting for a person in a housekeeping uniform to be available.

CitizenM, a Dutch hotel chain, has focussed on improving employee-to-customer interaction by automating as many guest activities as possible — from self-service check-in and checkout to lights and curtains controlled by apps — freeing up staff to be prepared to immediately help customers with any request. At these hotels, the emphasis on automation is punctuated by a high-tech environment, which includes Wi-Fi throughout the hotel, not just in guest rooms, and TV screens doubling as laptop monitors. Meanwhile, every worker, no matter the job title, is expected to proactively approach guests who appear confused and ask if help is needed — and to provide aid personally, if possible.

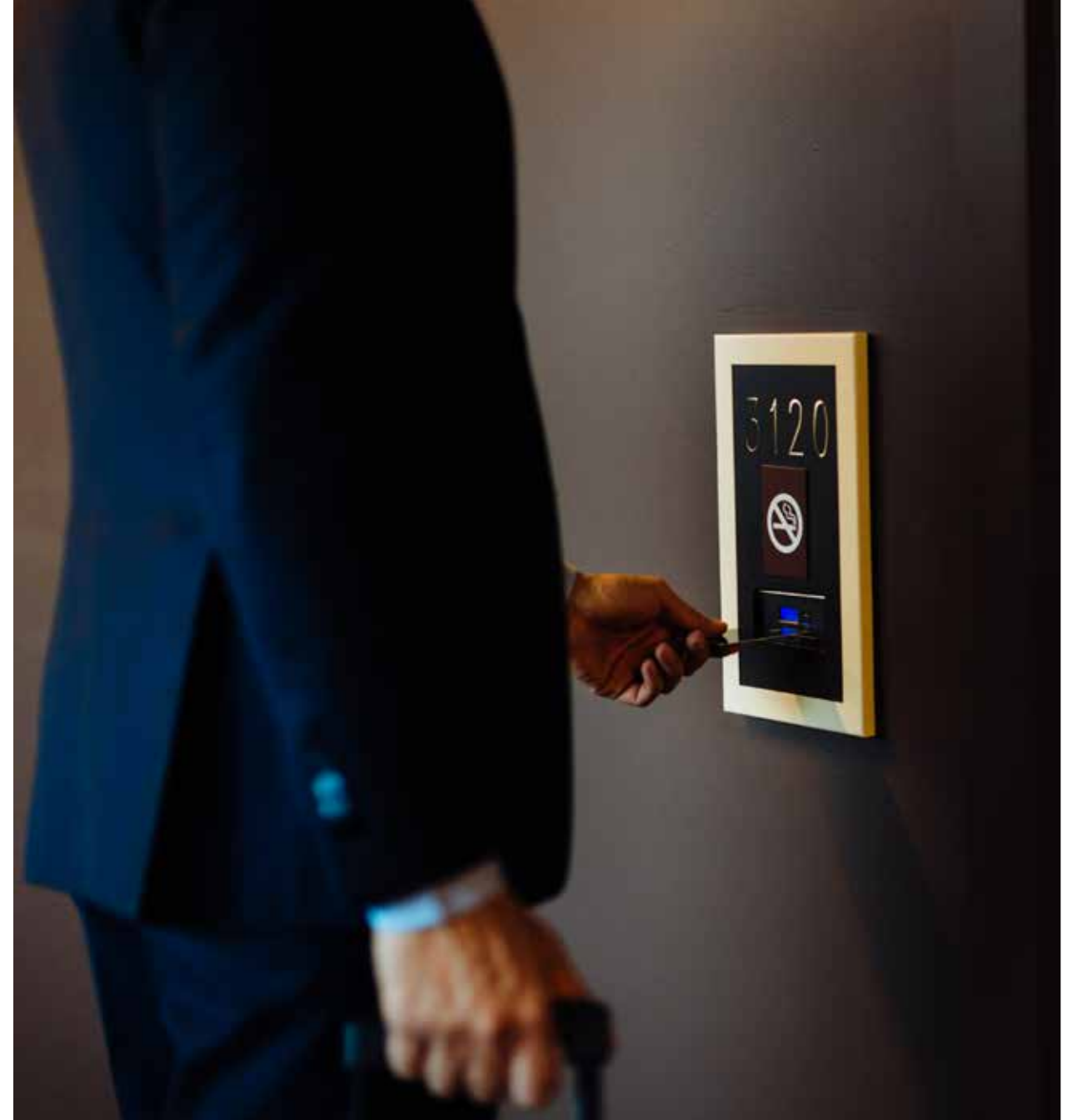
For all hotels, management plays an important role in maintaining a sense among staffers of putting the customer first. Too often managers tell staffers to do

a job — for instance, polish 1,000 glasses for an upcoming banquet — and dissuade them from leaving that task even if a guest approaches with a request. For employees sufficiently skilled to do multiple jobs, managers should encourage a more flexible attitude.

Implement the latest technology

Hotels generally have not been disciplined enough in implementing new technology as a way to free up employees to spend less time with data entry and paperwork and more time with guests. In fact, although many hotels are automating and digitising back-office and administrative tasks, too often this is done in an attempt to reduce headcount as opposed to hiring staffers in customer-facing roles. That strategy may provide short-term gains, but in the long run could reduce customer bookings.

The newest and as yet not fully tested technology is artificial intelligence (AI). Only 25% of H&L CEOs expect AI to significantly change their business over the





next five years. However, data systems that incorporate AI can be used to upgrade customer relationship management (CRM) systems in ways that improve guest experiences.

Overall, CRM programmes are underutilised. They collect and store huge amounts of data from every interaction with guests and at best churn out relatively generic emails and direct mailings to customers who belong to the hotel's loyalty programme or whose name was bought from a mailing list of frequent (or even infrequent) travellers. Nothing in these marketing campaigns suggests that the hotels have given much thought to who the customer is: where she stayed, her travelling pattern, her demographic and her likes or dislikes when away from home.

When AI is linked to CRM data, though, interesting possibilities emerge from the machine's ongoing analysis of information in the system — and that analysis goes a long way towards building loyalty with individual customers. For instance, if a guest is visiting a hotel in London exactly a year after celebrating her wedding anniversary at a hotel in Pittsburgh, the AI programme could alert the British hotel

to proactively send a piece of cake and a congratulatory bottle of champagne up to the room.

To succeed in this new and difficult environment, hotels should reimagine the notion of brand loyalty, which must be built now on unique and unexpected conveniences and amenities. Importantly, hotels should go beyond the tried and true, testing out new features, taking risks with new ideas and anticipating what will be most attractive to guests. Hotel companies that make the right decisions about the services they offer — and that apply technology and skilled staff to provide these services at a high level — may find that connecting directly to customers and forging an ongoing relationship with them need not be a thing of the past after all.

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About PwC's 22nd Annual Global CEO Survey

PwC conducted 3,200 interviews with CEOs in more than 90 territories. There were 51 respondents from the hospitality and leisure sector, and 14% of hospitality and leisure CEOs had more than 5,000 employees.

Notes:

- Not all figures add up to 100%, as a result of rounding percentages and exclusion of 'neither/nor' and 'don't know' responses.
- We also conducted face-to-face, in-depth interviews with CEOs and thought leaders from five continents over the second half of 2018. The interviews can be found at ceosurvey.pwc.
- Our global report (which includes responses from 1,378 CEOs) is weighted by national GDP to ensure that CEOs' views are fairly represented across all major regions.
- The research was undertaken by PwC Research, our global centre of excellence for primary research and evidence-based consulting services: www.pwc.co.uk/pwcresearch.

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