The hotel industry is fundamentally shifting.

Customers are demanding a new value proposition for travel, and disruptors are stealing both revenue and margins. The growth of online travel agents (OTAs), increased price transparency, peer-to-peer options, and a rise in comparison-shopping are eroding brand loyalty and changing many parts of the travel journey historically directed by hotels. As the ground shifts, hoteliers face a critical task: determining where they can establish a differentiated and defensible position along the travel journey. As they do so, there’s a competitive weapon at their disposal. Hotels possess a valuable and largely untapped asset that could help them enhance guest experiences and solidify their customer relationships. They have unique access to data from which they can understand customers’ preferences and build relationships. But turning this asset into a lever for growth requires making a strategic decision about how to approach data and relationships to create lasting customer mindshare.
Loyalty strategies have lost their luster

Hoteliers have long believed that loyalty programs drive sales, and many spend up to 5 percent of room revenue to operate their loyalty programs.\(^1\) While these programs help hotels remain at parity with competitors, they are less and less influential on choice and do little to differentiate the brand. Accenture research shows that about one-fourth of hotel and lodging customers participate in loyalty programs—a rate on par with other industries. However, the feeling of loyalty toward hotels is less than many other industries. Further, 39 percent of hotel and lodging customers report a loyalty program has no effect on persuading them to stick with a hotel.\(^2\) Loyalty programs are even less influential among the millennial generation. This group is significantly less likely to belong to a loyalty program and, if they do, it is more likely to be one offered by an OTA.\(^3\) Today’s reality is that almost half of hotel and lodging customers shop around for the best deal, and more than 60 percent believe switching hassles to be low.\(^4\)

Experience = Mindshare

As customers consider their hotel choices, they are increasingly placing a premium on experience. For most consumers, experiences are far more memorable than products. This is true particularly for the millennial generation. Harris Research in May 2016 found that 72 percent of millennials value experiences over things.

Expectations of the hotel experience are no longer based on a comparison between two different hotels; they are formed based on experiences in other aspects of guests’ lives. Consider the seamless way Uber helps one to summon a car and pay in less than a minute; the personalized suggestions offered by Amazon; or, the opportunity to co-design a cruise ship with Virgin Cruises (Figure 1).

To improve their experience, many consumers welcome relevant personalization and tailored recommendations, while maintaining control of their choices. In fact, Accenture research shows 75 percent of consumers want personalized services.\(^5\) As described in recent research on Living Services, personalization and purpose are important for brands working to win consumer affection in this digital age.

Simplicity is an important dimension of the experience. The average person makes more than 200 decisions on food alone every day.\(^6\) An increased demand for decision-making takes a physical, mental and emotional toll on consumers. Exhausted from searching the abundance of options, consumers want help narrowing their choices and for things to “just work” for them without effort. Simplifying their life helps contribute to a positive experience.

New lifestyle values

- **Seamlessness**
  - Uber: Summon the car and pay in less than a minute
- **Emotional Connection**
  - Disney: Feel happy
- **Social**
  - TripAdvisor: See where others go/stay/eat
- **Personalization**
  - Amazon: Get customized recommendations for what to buy
- **Speed & Accuracy**
  - New York Times: Jump to top trending stories
- **Convenience**
  - Hilton: Your phone is your room key
- **Control**
  - AT&T: Cut off user data overages with a single swipe
- **Authenticity**
  - Whole Foods: Live mindfully

Figure 1
Picking the battlefield

As experience becomes the lever to win mindshare, how and where can hotel companies differentiate in the eyes of their customers? Consider the travel journey dissected into four basic parts: search, buy, stay and reflect. Hotels have largely lost the search. Search is now predominantly online and OTAs, with a full competitive set as their database, are used more often than hotel branded sites to both research and reserve business and leisure hotel stays.

Many hotel companies are now fighting to own the “buy” portion of the journey to protect their revenue streams and to own the customer relationship from the start of the journey. Whether or not hoteliers can win this war is yet to be seen, but it may not be the primary battlefield.

In the raging battle over the buy, new salvos occur daily. What started with loyalty program points and cancellation policies is moving to mobile check-in and preferred rates. Does it matter if hotels win the “buy”? To the economics, maybe. To the guest, maybe not.

The “stay” portion of the travel journey is the hotel’s lifeblood. It represents the majority of the hotel’s revenue, and it’s also the primary means by which the hotel can affect the customer experience. Recognizing the opportunity the stay presents, OTAs are positioning to move into this battle, as signaled by Priceline’s acquisition of OpenTable and TripAdvisor’s acquisition of Viator.

At the same time, many aspects of the stay are becoming commoditized, including ancillary services. US hotel ancillary telecommunications revenue dropped by more than 42 percent from 2007 to 2014, and movie rental revenue dropped more than 48 percent. Hoteliers must embrace disruption and develop new revenue streams or, alternatively, watch revenues and relevance continue to dissipate (Figure 2). The key is not to deliver a hotel room but to deliver an experience that guests value. As guests “reflect” on their stay, those hotels that are offering a meaningful experience will monopolize mindshare, which can lead to ongoing customer relationships and new economic propositions.

The demise of ancillary revenue

Figure 2

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Hoteliers’ competitive weapon

Building an experience that helps hotels to “own the stay” involves using mobility, platforms and personalization, not products. To date, hotels have been slow to integrate digital value drivers into the stay experience. While some are creating digital experiences for guests (including features such as mobile check-in, advanced room selection, and personal services), and these experiences are starting to get more local and property-specific, these efforts are still in early stages. They have yet to step beyond simply digitizing existing experiences to merge the physical and digital worlds and create whole new experiences. In fact, only 13 percent of respondents to a 2015 Accenture survey said they find digital and physical offers to be well aligned.  

Herein lies the opportunity. The hotel is uniquely positioned to create a new guest service relationship in ways that heighten the experience. Consumers are increasingly mobile and increasingly fluid in their use of information. They have many digital options at their disposal during the stay (for example, Uber for transportation, GrubHub for food, StubHub for tickets, or Netflix for in-room entertainment). However, consumers desire for a simple and memorable experience signals opportunity for those who can provide contextually relevant services during the stay. This is where hotels have a differentiable advantage. Hotels have valuable data about travelers: they may know travel frequency and locations (within their system), dates of future stays, trip purpose (business, leisure, group), historical food purchases made within the hotel, and even patterns of behavior based on micro-locations visited within the hotel area. Through this data, they can build an understanding of customer preferences to provide highly sophisticated and relevant offers that will enhance the stay experience.

Consider a lover of farm-to-table food receiving an offer for a reservation at a local restaurant specializing in that cuisine. Or, consider a guest who frequently purchases show tickets from the hotel concierge receiving a proactive offer of tickets to the most popular performance in town. The possibilities are endless. However, hotels must act before other competitive data networks are formed. Intelligent assistants such as Siri, Cortana or M could quickly take control of the “stay” experience within the travel journey. Connected environments are the future. The question before hotels is not when to act, but, from a practical perspective, how.
Bringing the strategy to life

Utilizing data is fundamental to determining what experiences should be offered to customers. The mobile channel is fundamental to providing the experience, as it is both personal and pervasive. Mobile apps have overtaken the desktop for digital engagement as 54 percent of US digital media time is now spent on mobile apps compared to 38 percent of time on a desktop. The amount of time people spend within apps has increased year over year, signaling they are the right way to connect and engage with people to drive mindshare. How should hotels tap into the connected space?

There is a continuum of approaches we call protect, collect, connect and erect.
The “protect” approach

The “protect” approach is at one end of the continuum, with hotels choosing to protect their territory by ignoring the connected environment. If the hotel chooses to protect its turf, perhaps paralyzed by worry that providing third-party recommendations could cannibalize its own services, consumers could take control of the experience and make choices for food, entertainment and other services that may well be provided by companies other than the hotel.

Blocking guests’ personal WI-FI hotspots was an aggressive protect strategy that did not go well for hoteliers. Ultimately the risk of not actively facilitating the stay experience is that the room and bath become more of a commodity with decreasing relevance; the brand is less meaningful, revenue streams narrow, and margins become tight.

John enjoys keeping fit and is disappointed by the limited options in the hotel gym. So he searches online and discovers an app called ClassPass that allows him to attend a spin class in a nearby gym.

IMPACT: John’s limited experience with the hotel has led him to other third parties who address his desires better.
If the customer attends the yoga class, that information is shared with the hotel which uses the data to enhance its understanding of the customer’s exercise preferences.

**The “collect” approach**

In the “collect” approach, the hotel shares relevant guest information with a third party mobile app provider who already has an established relationship with the customer. The third party then facilitates a more personalized guest experience. Third parties query the data the hotel has on guests (such as preferences, beacon-driven location, etc.) with the intention of making very targeted offers and recommendations to those guests that would enhance their stay.

Such an agreement should be two-way, so that every time a purchase is made through these offers or recommendations, the hotel receives information on the details of that purchase and therefore, improves its understanding of the customer over time. For example, a nearby gym could gain information on when a customer who routinely uses the hotel’s workout facility is arriving and departing and make an offer specific to that customer’s interest in a particular class, such as yoga.

John is already a member of ClassPass and has the app in his phone. ClassPass has access to hotel data via an API which allows them to see that he will be in Manhattan next week on business. It also shows that John often asks the hotel concierge for running maps, so the app suggests some local group running classes in Central Park.

**IMPACT:** John’s experience is improved by the hotel sharing data, but John sees this as something that ClassPass has done for him.
The “connect” approach

Following a “connect” approach, hotels use their understanding of each customer’s preferences to offer guests personalized recommendations and choices that augment their experience by “mashing up” appropriate services offered by others. It does this by curating the recommended, brand-relevant providers and teaming with them to offer selections through an expansion of the current hotel app.

Guest data is used to provide services and selections personalized for the individual guest. This might include Uber for cars, Netflix for movies, or GrubHub for food.

For example, the hotel, using its knowledge of a particular customer’s food preferences, provides the customer with customized food recommendations through a third party app. The fulfillment is by the third party and, as a convenience, the guest might opt to add the cost to their hotel bill.

In the connect approach, openness to new concepts is a must, and brands would be required to invest heavily in remaining current if they want to maintain a higher level of control.

For example, the landscape in which apps operate is changing in dramatic ways, requiring brands to stay forward-thinking about emerging trends, particularly at the local level. Among these changes is that services are becoming more intelligent and integrated, which Accenture refers to as the atomization of apps. Consider the atomization of music streaming apps like Spotify, which now transcends environments (think: your living room to your car to your workspace) and is delivered through various branded partnerships. This is just one of many trends that will impact the evolution of the connected guest experience.

John checks into the hotel and opens the hotel guest services app. In the fitness section, this recommends a number of relevant classes run locally, either covered by John’s ClassPass membership, or offering to enroll him, charging the fee direct to his hotel bill.

IMPACT: John has a good stay experience as a result of the improved selection of services that the hotel has surfaced to him.
At the other end of the continuum is the “erect” approach, where the hotel would opt to control the full experience. The hotel erects a proprietary capability similar to the apps that provide the services consumers are likely to want during their stay. For most hotels, building and managing apps is not a core capability, especially if those apps need to compete with well-established apps such as Yelp, OpenTable, or Messenger. As a result, controlling the full experience is an unlikely alternative.

**Teaming with third parties**

These outlying strategies make less sense than the other two hybrid options based on embracing digital relationships with third parties. Users already have a large number of apps installed on their phones, but restrict their usage to a small subset of these. Research suggests that 43 percent of US smartphone owners use four to six apps each and every day, with 40 to 70 apps installed. Teaming with third parties helps hotels to capitalize on this existing infrastructure and on users’ already established engagement with apps such as Facebook or Messenger.

The hotel engages with a number of local gyms, negotiating revenue sharing deals with each, and building an app to integrate gym timetables from each one separately.

**IMPACT:** The hotel finds it complex and costly to create and manage the bespoke gym app and invariably would not provide as strong a service as other dedicated businesses.
Pivoting to a new business model

Ultimately, while being a data provider or a curator of services are substantive options on their own, they are not either-or strategies. A given hotel may, in fact, need to take a hybrid position along the continuum (for example, serving as a curator of apps while also offering other third parties access to guest data for a fee) based on a frank review of current capabilities and skills. With the competitive battlefield changing at warp speed, here are strategic considerations to help determine the optimal approach:
Commercial model
Various commercial models enable hotels to build a revenue stream from either collect or connect approaches. The hotel could be paid each time data is accessed by a third party. Or it may be possible to generate a participation fee from third parties if the hotel’s brand is strong and the perceived revenue stream for the third party is substantial. The most likely commercial model is that the hotel would receive a percentage of the revenue the third party generates from this channel. Since value is reduced if others have similar data, hotels will have to consistently improve what they know about the customer and how they collect, store and sort data to maintain third-party interest.

Brand control
Certainly the brand has to influence and protect the customer experience. It must make sure third-party partners are consistent with the hotel’s brand standards, that there is control over how many offers a particular customer receives during a stay, that privacy standards are adhered to, and that the most relevant partners to a particular customer are the ones engaged. In the collect approach, the consumer is more likely to see the third party as generating the experience, while in the connect approach, the potential to build brand and customer mindshare is more significant. Brands will need to strike the best balance between “quite closed” and “very open.” Opening up data to most third parties would help enable innovation that the hotel might not otherwise see. This has to be traded off against the risk of damaging the consumer experience, or damaging the hotel brand association from opening up data to too many partners.

Digital trust
Customers take recommendations from trustworthy sources. In addition to the value of the proprietary data, and the brand strength of the hotel and its partners, the upside potential from engaging with the connected guest depends on whether the brands have the guests’ digital trust. In fact, digital trust is more important than ever. Hotels need to make sure the intent of a data exchange is upfront, friendly and clear. Those that fail to earn trust in how they collect, store and control data will not only lose business and face possible legal ramifications; they will fail to reach their full potential.

Eight Questions Hotels Must Answer

1. Are you willing to cannibalize your own sales?
2. Where does the balance of power lie between the hotel and third parties in terms of data?
3. Are the economics substantial enough to go after, or is the experience the real prize?
4. Where does the digital trust of consumers lie between your brand and third parties?
5. Among the sea of emerging disrupters, are you able to identify and engage partners at the local level that best mirror your brand value?
Local curation

The guest experience must be local and authentic and, therefore, connected to local providers in the area. While the corporate brand might issue guidelines, the onus is on the local property to come up with services for a personalized, local experience. For example, OpenTable may be a natural third-party choice for a hotel property in Manhattan, but may not be an appropriate choice in a less restaurant-dense city. Hotel brands, local owners and general managers will need to assess if local personnel are equipped to select and stay abreast of the most relevant services for the location and, if not, who will do so on their behalf.

Business model

Engaging the connected guest in collaboration with third parties may cannibalize a hotel's internal ancillary sales. While cannibalization is already underway by third parties, this model offers the opportunity to offset lost revenue through data monetization and increased customer mindshare. The financial impacts between the brand and local property should be carefully considered. For example, when data is monetized, the local property benefits from the revenue stream. Yet, revenue distribution must consider how the brand and local property are investing in capturing and building digital assets around guest data.

6. Do you trust your local general managers to co-create the experience with your brand manager?

7. How should investment and revenue be shared between the brand and local property?

8. With technology trends moving faster than ever, this new world is more imminent than hoteliers may think. Are your resources moving fast enough?
The lasting value of mindshare

In the connected world, where consumers have access to limitless information and options, the battle is one of customer mindshare. What experiences can hotels drive to gain mindshare? What data can they leverage to own the stay? The answers to these questions are the difference between evaporating revenues and growing revenues. Hotels that are offering a meaningful experience will monopolize mindshare and build ongoing customer relationships.

In this mindshare battle, hotels are clearly well positioned. But, to facilitate the stay experience of digitally connected guests, hotels will need a new competitive weapon and that weapon is data. By collecting and utilizing data intelligently, hotels can refine customer understanding, which leads to more effective data sharing and service curation. Third-party collaborations drive a strong guest experience, resulting in a strong brand value, which therefore encourages the consumer to remain with a given brand. The upside is significant: protected room revenues and potential new sources of revenue through the monetization of data.

Two facts are certain:

Mindshare is the new loyalty and, to dominate mindshare among guests living in a connected world, a new collaborative approach is required.
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