

# How can hotel groups win in a changing world?

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*Highlights from Egon Zehnder's Global CEO Hospitality study*

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The world's top hotel groups have long prided themselves on their ability to create memorable customer experiences – greeting return guests by name at check-in, anticipating and exceeding their every wish during their stay, and delighting them with amenities and décor.

Their focus, however, has been mostly on customers' "on property" experience – leaving a gap for online travel agencies (OTAs) and other digital and technology disrupters such as Airbnb. These players are tapping into mobile and social technologies to offer customer experiences and build relationships well before the guest arrives at check-in. As a result, they are winning control of the customer's "off property" experience – when travel is still only an idea, the destination is not yet decided, and "which hotel?" is a far-off question.

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Reflecting this new reality, the markets are putting a serious premium on OTAs over large global hotel groups. For example, Priceline, owner of booking.com, has a market capitalization greater than Marriott, Starwood, Hilton, IHG, and Hyatt combined.

How can hoteliers take more territory in the digital and online world? And as they do so, how can they create greater long-term value? These were the questions that Egon Zehnder's global Travel & Hospitality Practice set out to address in a recent study that interviewed and surveyed leading CEOs and executives across the hospitality industry.

The study made it clear that technology is not just a threat, but a tremendous opportunity for hoteliers. By strengthening their digital platforms to engage with customers from the moment they start thinking of traveling, hotel groups can make their off-property customer experience just as compelling as their on-property offerings.

Getting this right will create upside in an increasingly global travel market, enabling hotel groups to inspire and attract new guests from fast-growing regions well before they get on a plane. A related opportunity lies in the wave of consolidation underway in the industry: Increased scale will give hoteliers new scope to invest in technology, strengthen customer loyalty programs, and appeal to multiple customer segments through new brands and concepts.

However, the study emphasized that hotel groups will need to drive a revolution in talent if they are to seize these opportunities. In this regard, there are still more questions than answers. How can hospitality companies make sure their top teams include executives with a strong grasp of technology and digital connectivity, who are able to attract talent in this field and drive their involvement in the business? Does the industry's traditional leadership path – which is property-based and operationally focused – need rethinking as talent and career paths become more diverse? And should hotel groups bring personalities from disruptive technology companies onto their Boards?

## Digital engagement: not just for OTAs

In a worst case scenario for hotel groups, OTAs will totally outflank hoteliers on digital channels in the next few years – so hotels won't know the customer until he or she shows up at the check-in desk. In this case, not only will OTAs and their like grab margin from hotels, they will also capture the primary customer relationship – and with it, important information about the customer's tastes, preferences, and behavior. In the words of one of the CEOs we interviewed:

“Technology has brought us an opportunity to deliver better experiences that would not have been possible before – but equally has allowed someone else to get between hotel companies and their guests.”

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What makes this threat all the more worrisome is that customers themselves increasingly live in a world mediated by digital and social technologies, which make everything from hailing a cab to booking a table a seamless, connected experience. Always-online millennials are keen travelers and make up a growing proportion of hotels' customer base. Unless you succeed in creating compelling pre-check-in experiences for them – experiences that they want to repeat – you will lose their loyalty to digital players. Older travelers, too, increasingly expect the convenience, transparency, and personalization that the best digital apps offer. Another CEO noted that:

“As a consumer of technology, it is only a matter of time before you would expect a hotel company to recognize you, understand your preferences – not only at your point of arrival but even before you make a reservation – and send you offers that make sense to you as an individual.”

In our view, effective digital engagement with customers is the game-changer for the industry. Investment in this area will trump almost any other strategic lever, including scale, consolidation, and proliferation of concepts. Hotel groups must invest in platforms that truly engage with millennials and other tech-savvy customers – across online, social media, and more – to create compelling experiences and optimize customer flow from the earliest stages. In doing so, hotels can mine the valuable customer data generated on their properties to create customized offers and communication that are more sophisticated and targeted than anything the OTAs can generate.

Many of the participants in our study emphasized that new-generation loyalty programs – built on mastery of “big data” – will become an increasingly important differentiator for hotel chains. Not only will these programs help maintain a strong customer base, they will also create opportunities for partnerships and co-branding with companies in other industries. A compelling example is Starwood's partnerships with Emirates Group and Amex Travel, and its recent efforts to partner with Uber on a limousine service. Such partnerships help create a differentiated, more integrated offering that cannot be easily replicated by OTAs.

In the interviews, several executives argued that companies with effective loyalty programs, enhanced with strong digital platforms, would be able to sustain a core customer base which would render OTAs much less of a competitive threat. As one CEO said:

“If you look at the OTAs as an important aspect of the inventory management proposition, then I think the hotel companies and the OTAs can co-exist.”

## Harnessing consolidation to drive customer loyalty

In our survey, 64% of respondents said they expected increasing consolidation to have a big impact on the hotel industry – a point emphasized in several of our interviews. In the words of another CEO:

“There will be pressure on consolidation, not just among the big players but I think with

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the small sub-scale or mid-sized companies that have high overhead costs already – with increasingly less to offer relative to the technology platforms of the larger players.”

Alongside large-scale mergers such as the proposed Marriott-Starwood tie-up, several smaller chains are being acquired by larger companies. The synergies that larger companies can create will be an increasing advantage – but only if consolidations leverage technology to achieve greater customer engagement and economies of scale. As another CEO emphasized:

“Consolidation must drive common systems, processes, and technology – which are key success factors for businesses and operations.”

Size for its own sake will not create enduring value. Rather, hotel groups must leverage their new scale to challenge the OTAs and reverse the disintermediation they have wrought on the industry. Hotels can also harness scale to provide more meaningful loyalty benefits and to appeal to many different segments and price points through new concepts and niche brands. Scale also gives them the ability to take risks on such new concepts, and the capacity to recruit the creative talent to shape these concepts.

It is critical, however, that hotel groups use big data and customer insights to make sure that new concepts actually find their target demographics. In other words, they must create the right fit between customer and concept. This is a key point to bear in mind as the proliferation of new concepts – from lifestyle hotels, to budget options, to wellness offerings – proceeds apace. Indeed, 74% of our survey respondents said they expected this proliferation to have a big impact on the hotel industry in the years ahead.

## The globalization opportunity

As study participants emphasized, international travel is likely to continue to outpace global GDP growth. The largest opportunity will be in Asia, particularly in China and India, while other emerging markets such as Latin America and Africa will also see rapid expansion – and growth in developed markets will be much slower.

Hospitality groups will need to continue to put increasing focus on the Chinese market, as well as on serving outbound Chinese travelers. In our survey, there was overwhelming agreement on the critical role of China: 74% of respondents said China’s growth was likely to redefine the industry or have a big impact.

Globalization underlines the importance of off-property digital engagement. Hotel groups must inspire and attract new travelers from growth markets well before they get onto a plane heading to the US or Europe. This means building digital teams that are agile enough to harness and use local platforms to create content and engagement that is timely, relevant, and suited to local tastes. The groups that succeed in the new global travel market will be those that can balance global brand standards and control with delegated and nimble local teams.

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In a globalizing industry, it will be increasingly critical that top executives have international exposure – with the implication that best-in-class development programs will increasingly include rotations out of the home country. Moreover, the rapid pace of growth will mean that internally grown talent will not be sufficient: Hospitality groups will need to be open to talent from related industries.

## Making it happen: building talent to win in the changing hotel world

Translating the opportunities discussed above into enduring value will require bold new approaches to talent and leadership. Yet most hospitality leaders acknowledge that they have not yet done enough to put the right talent in place: Only 30% of respondents in our survey agreed that their company had a strong talent pipeline that would fit the future requirements of the industry.

Our study highlighted five key talent questions for the decade ahead:

- 1. How do we build a digitally savvy leadership team?** A major focus is needed on finding and developing powerful and commercially minded technology and digital leaders who in the new world will be as important as the more traditional functions. However, merely hiring a couple of digital stars will not be enough. The entire leadership team, from the CEO down, must have the curiosity and insight to drive digitization of everything from customer experience, to branding, to sales and marketing, to revenue management and cost control.
- 2. How do we make sure our business thinks globally and acts locally?** In implementing their strategy, hotel groups will need to create clear guidelines and structures on how to use local channels to engage with customers. It will be critical to balance centralized global management with the need for nimbleness in rapidly evolving markets. This is particularly true in emerging and growth markets, many of which have strong local digital platforms; customer perceptions can shift quickly in these markets, and need careful management.
- 3. How can we create strength from diversity?** As hotel groups expand their teams, build compelling customer experiences, and create innovative new concepts, they will need to welcome a more diverse talent pool into their organizations – and create value from that diversity. Diversity in leadership teams (and beyond) can bring fresh perspectives, creative stimulation, more agile management, and breakthrough insights on how to engage customers. It can help overcome group-think, uncover opportunities in new services and markets, and strengthen hotel groups' appeal to a wide range of customers. In recruiting talent, hotel groups will need to be open-minded and look well beyond their industry to other sectors that are driving digital engagement really well, such as consumer goods. They will need to find ways to cross-fertilize talent from such sectors with the experience of hotel industry experts. They will also need to be ready to question the industry's traditional leadership path, which still prizes property-level experience as the foundation for executive roles.

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- 4. How can we keep our talent fresh?** More than ever before, hotel groups will need to invest in development planning – including finding developmental roles for high-potential talent – and get beyond the one-dimensional thinking that is still too common in current roles. A key lever they have available is sending people around the world and tracking their careers accordingly. If this broadening can be coupled with strong exposure to the new functions driving the “off property” guest experience, we may see a new “hybrid” form of digital-savvy, globally experienced top talent emerging from the hotel world.
- 5. How can we reconfigure our Board?** Last but not least, hotel groups can also gain from bringing personalities from disruptive technology players – and other innovators – onto their Boards. Such Board members can serve as a “talent magnet,” reassuring others from outside the industry that their experience in digital or other non-traditional areas will be valued. Companies should pay careful attention to integrating these new Board members, who may be considerably younger than the rest of the Board and have less management experience.

The digital disruption is upending old certainties in the hospitality industry, and ushering in new competitors and new customer expectations. Without doubt, it represents a threat to companies that do not adapt fast enough. More than that, though, it represents an exciting opportunity to engage and delight customers, build new experiences and businesses, and create meaningful new career and leadership paths for talent from inside and outside the industry.

## About the study

This article is based on a study conducted by Egon Zehnder’s global Travel & Hospitality Practice in 2015. It included interviews with 12 CEOs and Chairmen of major global hospitality and investment companies around the world, along with a survey of 24 of the industry’s most senior executives.

Participating leaders for interviews and survey were from Abu Dhabi National Hotels, Accor, Aman Resorts, Carlson Rezidor, Falkensteiner, Four Seasons, Hilton Worldwide, Intercontinental Hotels, Jumeirah Group, Kingdom Hotel Investments, Majid al Futtaim, Movenpick Group, NH Hoteles, Oberoi Hotels, Parques Reunidos, Regent Hotels and Resorts, Rotana, The Rezidor Hotel Group, Shangri-la Hotels and Resorts and Starwood Hotels & Resorts

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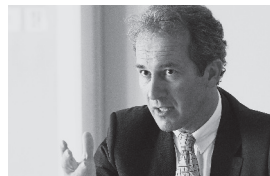
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