

# LAUSANNE

# REPORT

## Executive Summary

### The Objective

As the premier institution for hospitality management education, Ecole hôtelière de Lausanne (EHL) aims to develop and distribute knowledge for the continued growth and renewal of the hospitality industry through applied research, real case studies and innovative publications. Based on this expertise, Lausanne Report identifies key trends and drivers of the global hospitality sector to support its future development.

It strives to stimulate and inspire hospitality leaders, those who will be taking the strategic decisions needed to meet the challenges of the future. At the same time, it addresses the faculties and students in educational institutions that focus on hospitality management, as they too must adapt to a changing business environment. Lausanne Report provides expert advice and knowledge to players in the hospitality industry worldwide.

The main objective of this report, however, is to provoke and stimulate a debate on future risks and opportunities. Its impact lies in exploring possible new landscapes and in disclosing inter-relationships between global megatrends and hospitality trends.

The way people think, behave, communicate, work, consume, live, and perceive reality is changing rapidly. How will these changes affect human preferences? What are the potential disruptions or transformational opportunities these shifts will have on us? In a nutshell: The future of hospitality is all about people. All efforts have to be made in that direction, we have to focus on the human element. In this new landscape, intangibles such as knowledge, experience, and people's involvement in creative processes are becoming increasingly important.

### Methodology

This report is based on the relevant literature and scientific contributions in «trend and future» studies, and it combines these findings with the results of the qualitative analysis of interviews and more than twenty workshops. Forty hospitality industry leaders from fifteen countries have given us their input and shared their views of the future. We have compiled a list of mega-trends, sub-trends and forces that will shape the future and with it, the changes to come.

The main result from this process was the «P-BTE model»; it represents the four pillars of the hospitality environment: people, business, technology, and the environment.

These four dimensions and their mid- to long-term impact were studied in detail. Lausanne Re-

port describes the future environment of the hospitality industry holistically and explains the interaction between the various global drivers of change that are affecting the evolution of hospitality. Some of these trends and relationships will lead to profound changes. The industry has no choice but to embrace them.

We have selected the six most important developments that will change the hotel industry for good.

To show the most important findings of our research, we have developed a method based on «decision making under uncertainty» and «scenario planning». Possible future landscapes are explored to the extreme in two divergent and antagonistic scenarios. We have identified the most important triggers (rationales) for each extreme in the direction of each hospitality driver. The impact – speed, magnitude and reach – of the states of the environment (scenarios) is highest at each extreme.

Under normal conditions (no disruptions or black swan events), many characteristics of both extreme scenarios are valid and co-existing. This situation is represented by the «smiley model» which merges the two perspectives.

In addition, changes in the business environment are put into the context of «what if» scenarios.

What is each hospitality manager's position between these two extremes? The answer to this question defines the mix of constraints and opportunities hospitality managers have to take into consideration to evaluate the best possible strategy for the future – a strategy that leads to decisions that have to be made under uncertainty.

## The six theses

### #1 SHIFT OF MARKET POWER

#### ***Consolidation vs fragmentation***

*Will globalization fragment or consolidate the hospitality industry?*

Fragmentation and consolidation are the two opposite directions in which a market structure may evolve. However, both dynamics can co-exist and create risks and opportunities for the hospitality industry at the same time. The hospitality market in the USA is already consolidated and durably so. In Asia, the hospitality industry could continue to consolidate and create regional hotel chains and ownership. Europe is likely to remain fragmented although consolidation is gaining speed.

### #2 VULNERABILITY ON THE RISE

#### ***Fragility vs resilience***

*Is hospitality becoming more fragile or more resilient?*

Threats resulting from climate change, safety and security issues, wild card events (e.g. SARS, Zika, terrorist attacks, etc.) as well as unprecedented migration streams are today's and tomorrow's game changers. The main challenges for the hospitality industry are the lack of predictability and the magnitude of such events – and how fast the industry can

react and adapt to crises. The hotel industry's ability to deal with this new type of fragility will be key to its success.

## #3 IN SEARCH OF A SENSE OF BELONGING

### **Communities vs individuals**

*Will communities or individuals determine the future?*

Concepts such as crowdsourcing, crowdfunding, crowd creation, peer-to-peer and sharing hospitality have their origins in the relationship between individuals and/or communities. Human beings need to believe and to belong – and the hospitality business has to be able to meet and integrate the demands of individuals, communities and networks.

## #4 THE EMOTIONAL EXPERIENCE

### **High tech vs high touch**

*Does the guest of the future want high tech or high touch?*

New armadas of physical and virtual robots will be deployed to meet customers' needs. And avatars will negotiate with avatars to ensure everyone's demands are met, and negotiate the best deals. However, the answer to high tech is high touch – that means emotions. The hospitality industry has to provide these emotions to attract and retain guests.

## #5 SMART HOTELS DEPEND ON SMART DESTINATIONS

### **Autonomous vs connected**

*Will smart hotels be autonomous or connected?*

By 2030, many cities will be embedded in so-called smart city clusters. This will pave the way for mutual investments, buffer energy and water supplies through decentralized resources, and provide a cluster-wide connected and adaptive safety and security infrastructure. Both infrastructure and management of the environment can be centralized, and new mobility concepts can be introduced and deployed.

## #6 THE SCOPE OF KNOWLEDGE

### **Empathy vs efficiency**

*Must future talents be empathic or efficient?*

Future hospitality managers will be stage directors who create memorable experiences and magic moments for their guests. At the same time, they must meet efficiency and profitability requirements and therefore find the best processes, technologies and methods to run their

business. Last but not least, they must empower their staff and motivate all stakeholders.

## Conclusions. Hands, Head and Heart

From an array of possible future scenarios we have chosen the most striking ones to build our six theses.

Other industries all over the world have experienced a long process of change in the global market: it is now the hospitality industry's turn to face this trend and recognize the powerful potential of mergers and acquisitions. China, the new mega investor, contributes towards this consolidation by bulk buying whatever hospitality offers for sale. However, increasing urbanization and the tourism sector's strong growth give rise to optimism. The hospitality business will undoubtedly continue to thrive, despite a worldwide increase in political instability and uncertainty. What is more, the «silver» segment (baby boomers) with its purchasing power and time to travel will support hospitality and drive it to explore new paths.

Digitization is already affecting the hospitality industry as a whole, an industry usually known to be adverse to change. Everybody speaks about the sharing economy and about robots, virtual reality and other amazing technologies – trends and developments driven by the millennials. The new technologies present considerable challenges to classic hospitality. After a long battle against «evil OTAs», hotel chains have decided to pursue a different approach and fight the «enemy» on their own territory. More is being invested in the pre-stay of the customer journey; hospitality strategists integrate and create their own OTAs, and they exploit new opportunities by collaborating with the peer-to-peer segment.

The question that remains to be answered, however, is what the post-digital economy will look like in an era where digitization has become an integral part of all aspects of life. In hospitality, automation is on its first wave, based on the availability of information, cyber-physical systems and data analytics. Other more advanced industries are already on their third wave of automation. Technology, processes, business models and knowledge will have an unknown impact on our lives, on guests and on service providers.

The automation of industrial production processes could destroy millions of jobs within the next years. Is this also true for hospitality? The arrival of new types of robots, soon available to small and medium-sized enterprises, ensues full and widespread automation. According to the philosopher Bernard Stiegler, «we have to rethink the economy and pass a contributory income». He declares: «Employment is dead, long live work!» The hospitality sector is also a pioneer in devising certain work models: It was hospitality that invented part-time work models, as well as management contracts and franchise business models.

Progress in science and technology manifests itself in different ways in different economies and different political frameworks. Driven by the revolution in knowledge and education, the nature of work will change radically – but only in economies that choose to invest in education, technology, and related infrastructures. Certain types of jobs will be assumed by intelligent robots. Others will be created in areas where the demand for services is growing exponentially, while entry barriers continue to fall. In many hospitality segments, robots will be poor labor substitutes.

The six theses of this report have illustrated our P-BTE model, which represents the four dimensions of hospitality: people, business, technology, and the environment. It has become utterly clear that these are the main pillars of the future. The «P-factor» pre-sents the core of the profit chain in hospitality, it links employee satisfaction to guest loyalty and profitability. We will continue to be «ladies and gentlemen serving ladies and gentlemen». The more important intelligent machines will become (robots, artificial intelligence, and so on), the more important the human factor will be. Hospitality will continue to be about guests and hosts. It will remain a guest-centered industry – with its eye safely on the three Hs: «hands, head and heart».