



Moving the global travel industry forward

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Evidence of a maturing global travel industry is emanating from all corners of the world. In Latin America, online bookings continue to rise, driving an increasingly competitive digital distribution landscape that will help connect travelers to more product and improve online travel planning experiences. In China, higher incomes, favorable exchange rates, and easier visa processes are fueling record breaking outbound tourism. In fact, in 2017, China was the biggest source of tourists for 10 nations – Thailand, Japan, Russia and South Africa among them.¹ In Africa, progress around liberalized, open sky initiatives is poised to stimulate more of the continent’s untapped tourism potential, and in the neighboring Middle East, hotel pipelines and airport infrastructure upgrades are soaring. And, despite their relative maturity, the US and Europe continue to attract the attention of the international investment community, with many looking to emerging opportunities in cities such as Dublin, Lisbon and Copenhagen.

While local dynamics may differ, travel markets across the globe continue to thrive, and together, are contributing to a global travel industry that has reached unprecedented size and momentum.

According to Phocuswright, global travel industry gross bookings* reached US\$1.6 trillion in 2017, making it one of the largest and fastest growing sectors in the world.² Factoring in indirect economic contributions**, travel and tourism now accounts for a staggering 10.2 percent of global GDP.³ A strengthening global economy lies at the heart of industry growth. Each year, the global traveler pool is flooded with millions of new consumers from both emerging and developed markets, many with rising disposable incomes and newfound ability to experience the world. A sleeping giant has truly awakened – the impact of which cannot be underestimated.

Over the past two decades, the number of international travel departures across the globe has more than doubled from roughly 600 million to 1.3 billion.⁴ Many travelers from emerging countries are leaving domestic borders for the very first time, injecting billions of dollars of new growth into the travel economy and helping the industry outpace global GDP.⁵ Growth appears poised to continue, lifting the industry to new heights in 2018 and beyond.

While the stage seems set for continued growth, 2017 was a stark reminder that, while large, our travel industry remains vulnerable. From severe hurricanes, wildfires and earthquakes wreaking havoc in the US, Mexico, and the Caribbean, to senseless and horrific attacks in Barcelona and Las Vegas, external events have the potential to cause a ripple effect of disturbances across the industry.



* Gross bookings include airline, hotel, car rental, rail, travel package, and cruise

** Indirect economic contributions include travel and tourism investment spending, government collective travel and tourism spending and impact of purchases from travel suppliers. Induced contributions also include the spending of direct and indirect travel and tourism employees on food and beverage, recreation, clothing, housing and household goods



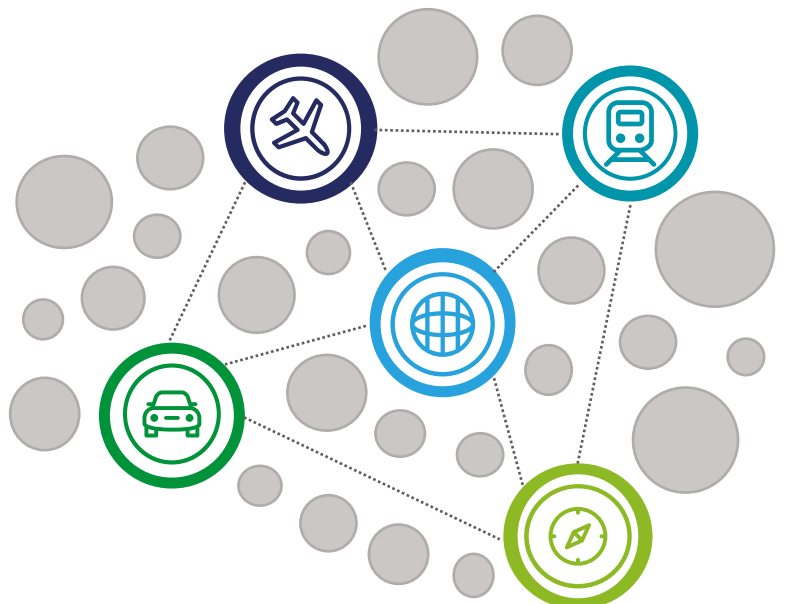
Yet, unwilling to sacrifice coveted getaways, travelers and the broader industry have proven to be extremely resilient through trying times. Unfortunate events that occasionally shock the industry are often countered with consumer's strong desire to escape routine and experience the world. However, given the unpredictability faced by travel brands, strategic Enterprise Risk Management (ERM) must be inextricably linked with long-term growth strategies – with vigilance around evolving and high-profile forms of risk such as cybersecurity and food safety.

Innovation will continue to spark growth and change across the sector. Established industry players should stay nimble, alert – and perhaps even a bit daring. Travel growth continues to attract waves of hopeful start-ups, each armed with bold ideas on how to change the status-quo.

The flood of capital investment into innovation across the global travel ecosystem should not be taken lightly. Over the past two years, travel start-ups raised a cumulative US\$30 billion in funding – almost totaling the amount raised over the past 10 years.⁶ The potential for one of these companies to completely change industry dynamics is likely not a matter of if, but a matter of when. We already have examples to point to in ground transportation and hospitality.

While regional markets and travel brands are on slightly different journeys, some opportunities and challenges are prevalent across the global industry.

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Building bigger ecosystems: Unlocking the power of adjacent spaces

While hotels and airlines represent the bulk of industry gross bookings, most travelers do not take trips to sit on airplanes and spend time in hotel rooms. Whether they want to unwind on an exotic beach, try new cuisines, or explore ancient ruins – travel centers around experiences. Today's biggest travel suppliers can benefit from thinking outside the box, and find ways to be more relevant to their customers across their travel journeys. For many, this means looking outside their core competencies like flights and hotels, and exploring the power of adjacent spaces.

Healthy hospitality: Embracing the health consciousness consumer

Health and wellness represents an enormous opportunity for brands to elevate the travel experience for rising legions of health-conscious consumers. Touted as the next trillion dollar industry, health and wellness touches everything from fitness and healthy eating, to spas, workplace wellness, alternative medicine and beauty and anti-aging.⁷ Many hotels are taking notice. They are implementing a variety of strategies to expose their brands to exciting new growth opportunities in the health and wellness space.

The bleeding edge of health and hospitality exists at dedicated wellness resorts. While these resorts have been delivering healthy hospitality to guests for decades, their offerings are rapidly maturing. On a mission to offer cutting-edge wellness experiences, these resorts are staffing experts from across the medical field – including medical doctors, nurses, nutritionists, physical therapists and behavioral health experts. Their expertise enables them to go above-and-beyond the typical wellness offering of morning yoga classes and healthy food options, and integrate the medical evaluations needed to take personalized healthy-living programming to the next level.

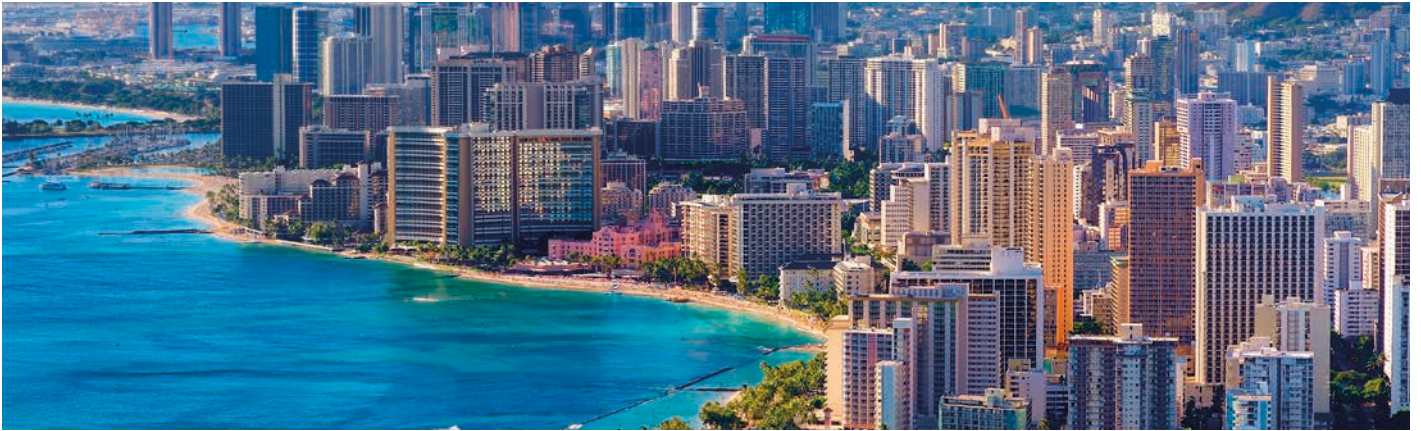
Hotel chains eager to up their game around health and wellness may have key challenges to overcome. For one, health and wellness resorts like those described above are often incredibly expensive, so larger hotel chains may need to find creative ways to package offerings for a more mainstream consumer. Equally challenging, consumers share diverse attitudes and preferences around healthy living, meaning big chains with large customer bases should look to facilitate choice across the brand portfolio. While some consumers may welcome, or even actively seek healthy options while traveling, others might be turned off by them.

Despite challenges, many chains are making strides in the health and wellness space. Some are making key acquisitions of resorts and spas, and launching new fitness inspired brands of their own. These strategies give hotels a direct in-road into the health and wellness space without impacting the feel of their other brands. Others are taking a more surgical approach by introducing targeted experiences – such as branded room upgrades that feature air purification, in-room fitness equipment, and vitamin infused shower-heads – across the brand portfolio.

There is also enormous opportunity for hoteliers to tap into rising investments around wellness programs that are part of broader employee engagement strategies – particularly for companies with workforces that spend a significant amount of time on the road.

Tours and activities: The final frontier of online travel

Tours and activities represent another big opportunity for travel brands to leverage adjacent spaces. While the travel industry often gets preoccupied with the big sectors (hotel and air), spending on activities is often overlooked.



Travel activities, the aggregate of in-destination spend on tours, activities, attractions and events, is the third-largest segment in travel and accounts for 10% of global travel revenue (roughly twice the size of the car rental market).⁸ It is projected to reach US\$183 billion by 2020, and hotels and online travel players have an enormous opportunity to integrate tour and activities into their digital ecosystems.⁹ Tours and activities can not only create new revenue streams, it has potential to give travel brands an entirely new lens on their traveler's preferences and interests.

But there is a big reason why opportunity around the tours and activities sector has largely been dismissed. The market is incredibly fragmented, lacks standardization, and is digitally inept. It is comprised of a long-tail of small suppliers (more than half generate less than US\$250,000 in annual revenue)¹⁰ who still power their businesses with phone calls and paper ticketing. In fact, more than 80% of gross bookings are made offline. The sector has yet to undergo the digital transformation needed in order to centralize inventory and make online distribution possible on a global scale.

These market conditions are changing quickly. Digital tours and activity aggregators are taking on the problem, with a select few making some very good progress.

For travel brands, the right partnerships in the tours and activities space could be a key stepping stone to bigger ecosystems and driving experiences for their guests beyond the walls of their properties and core offerings.

The Path forward: Data-centric personalization

The travel industry is on the verge of an evolutionary leap where the relationship between customer and brand becomes truly real-time and relevant. Technologies such as AI and machine learning, the Internet of Things (IoT), Near Field Communication (NFC) are coming of age, and together, share the potential to create personalized moments that matter, and bring joy to a travel experience still riddled with pain-points, interruptions and a lingering one-size-fits-all mentality. While travel brands have been tip-toeing around personalization for quite some time, 2018 could be a year for meaningful progress.

What are personalized moments that matter? It's a brand interaction, in the digital or physical realm that demonstrates the willingness of a business to go above and beyond to provide their customers with experiences and services tailored to individual needs and preferences.

It's a frequent business flyer who finds their favorite drink waiting at their seat after they are greeted by name when they board. It's a hotel guest that finds the temperature in their room already set to their liking before they enter. It's a push notification about a jazz show downtown sent to a hotel guest with a passion for live music—with a link for discounted tickets. In the coming years, technology can enable large brands who serve millions of travelers each year to interact with their customers more like small businesses.

Along with experiential upgrades, personalized interactions can unlock new revenue streams and facilitate a more surgical approach to marketing and merchandizing. Consider the potential solutions for airlines who continue to unbundle their products. A digital promotion for a free checked bag may not be relevant for a business flyer packing light to attend a one-day meeting, but may be extremely attractive to a family of four gearing up for a two week vacation abroad. Increasing sophistication around personalization can help link the right promotions and messaging to the right travelers.



Of course, there are significant hurdles around data-centric personalization. With years of investment in big data analytics under their belts, travel brands and technology partners are becoming proficient at analyzing new, complex data streams. The problem lies with operationalizing it in real time, and getting relevant data and information out to the front lines via digital channels or through employees where it can impact the customer. The rise of machine learning will inevitably speed up this journey, but some personalization pioneers are already taking their first steps. Some airlines, for example, are piloting check-in recognition programs that identify corporate flyers, enabling flight attendants to thank them by name when they check in. In addition, flight attendants are provided recognition seat maps on their mobile devices that identify corporate travelers.

Similar innovation is emerging in the restaurant industry through next-generation CRM systems. Restaurants who leverage the technology are able to link reservations to detailed guest profiles.

At any moment on a busy evening, the maître d or floor manager can open an app to visualize their floor plan, click on a table and get to know their guests, identifying first time diners, allergies, past purchases and more. The system also pushes notifications to restaurant managers after significant events, such as the seating of a high-spending VIP or purchase of an expensive bottle of wine, so the manager can visit the table and build rapport.

These examples highlight how the future of customer-centric value creation, while made possible through data, is not limited to digital touchpoints, but often powers more meaningful human-to-human interaction between employees and customers.

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TECHNOLOGY SHAPING THE FUTURE OF TRAVEL



ARTIFICIAL INTELLIGENCE

Touted as the new electricity, AI is the power behind many emerging technology platforms – from building smarter virtual assistants to techniques around big data.

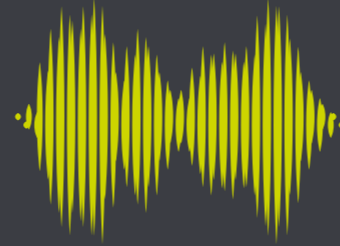
Travel websites are ‘learning’ to deliver more personalized results for travel planners. Chat platforms are helping suppliers provide better service. Machine learning is helping travel players make sense of volumes of unstructured data connected to their businesses – including photos, video, social network data and natural language.



IoT

Imagine a connected airline seat that measures a traveler’s anxiety, body temperature and hydration level to provide better service, or a hotel room that automatically adjusts temperature to personal preference. Connected sensors, devices and machines create a new form of dialogue with the physical world, enabling brands to ‘up’ the experience.

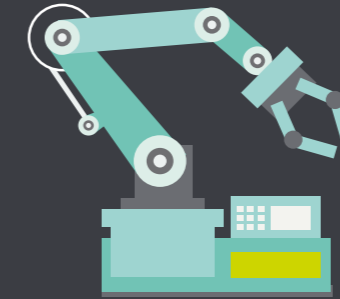
While IoT brings huge implications for airlines, connected hotel rooms outfitted with smart home technology will continue to provide some of the biggest improvements to the travel experience in 2018.



VOICE TECHNOLOGY

A close cousin of AI, voice interactions are already replacing screen time as adoption of digital home assistants rises.

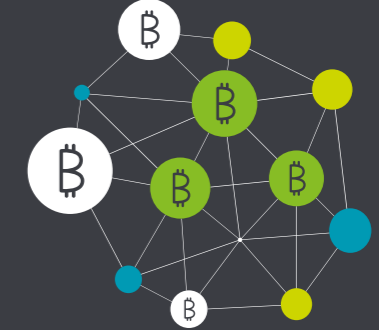
Traveler search-shop-buy behaviors may shift as consumers rely more on conversational exchanges to plan travel and interact with travel providers during their trips. 2018 was the first year a major hotel chain installed AI assistants in every room. Voice still has a lot of growing up to do. Travel is complicated and natural language processing isn’t easy. But heavy investment may power huge leaps forward in 2018.



AUTOMATION

A mix of software and hardware platforms that digitize tasks and workflows based on pre-programmed rules, automation essentially takes humans out of the equation.

Automation is starting to have a significant impact on the future direction of transportation. The widespread push to develop connected, driverless vehicle technology is causing many players across the automotive value chain to re-evaluate their business strategies in order to remain competitive as this paradigm shift in mobility evolves over the next 10-15 years.



BLOCKCHAIN

The tech behind cryptocurrency is becoming more than a buzzword in travel. Big players and start-ups alike are looking to blockchain for solutions to industry pain points, including streamlining online distribution and reimagined loyalty programs. The technology also has implications around travel payments, settlement and fraud.

While heavily impacting some industries such as banking, there is still some lingering speculation about the degree of disruption blockchain will spur in travel.

Key takeaway

AI still has a long way to go. More may happen behind the scenes in 2018 compared to what travelers may actually experience. Travel providers and technology players continue to develop the technology and work out the kinks.

While dropping quickly, cost is still a big challenge, as are issues around cybersecurity. Rising regulatory climates around cybersecurity and IoT may present risks for IoT early adopters.

Voice is likely to disrupt business travel distribution before leisure. Travel’s road warriors know what they want, and don’t need much information to book. It’s a good market for early iterations of voice based travel booking.

Workforce automation is a rising issue in an industry that employees roughly 1 in 10 in the global workforce.¹ There is opportunity for travel brands to approach automation from a *reinvestment* of talent perspective, rather than of one of *replacement*.

Blockchain sits in the middle of being over-hyped and revolutionary. The technology may not put travel brands out of business, but may force some to adjust their business models.

¹ WTTC

The battle for the customer

The perpetual tug-of-war between travel suppliers and online intermediaries may intensify throughout 2018, particularly in the hotel sector where the stakes are rising. Online hotel booking growth continues to outpace offline – and online travel agencies (OTAs) continue to flex their strength in the space.

Strong OTA momentum shows little sign of waning. Continued OTA aggregation translates into enormous leverage at the negotiating table. Adding fuel to the fire, OTAs continue to invest aggressively in their technology stacks, creating digital trip planning experiences that are difficult to match (some OTAs are spending more than US\$1 billion on technology annually). OTAs are being rewarded for their efforts. When it comes to the most popular travel apps downloaded by US consumers, OTAs are at the top of the list, and hotels are nowhere to be found.¹¹

Should the distribution battle continue to lean in favor of online intermediaries, hotels will have more to worry about than just rising commissions. OTAs are not just growing their customer reach, they are expanding their content ecosystems with additional segments such as private accommodations, tours and activities, restaurant reservations and more.

This breath of diverse shopping and booking data, together with massive investment in emerging technology, may open new doors for OTAs around personalization across the customer travel journey.

Suppliers fight back

Despite strong OTA growth, hotels are not powerless in the battle for distribution. They are doubling down on a mix of direct booking campaigns and member-only rates they hope will lure travelers to their websites. So far, the impact of these strategies remains unclear. Some recent studies suggest direct booking campaigns have been effective.¹² The real question for 2018 is whether hoteliers stick with current direct bookings strategies, or pivot to something new. While member only rates serve as a creative way for hotels to bypass OTA rate-parity agreements, questions need to be asked of offering big discounts to the loyal customers that represent a core of the hotel business.

Perhaps the biggest advantage hotels have is their ownership of the on-site guest experience. In 2018, hotels should continue to invest in the features and functionality that have the ability to drive loyalty. It is an incredibly difficult task – not to mention incredibly expensive as well. Customer expectations are high, and seemingly new hotel functionality such as mobile check-in and room selection, and digital room keys, for example, are quickly transitioning from cutting-edge to commonplace.

Overall, the relationship between OTAs and hotels, while rocky at times, should be approached from a perspective of collaboration, rather than one of all-out-competition. The two could potentially exist in harmony. The brand agnostic deal-hunters who typically shop on OTAs (rather than supplier.com) will always represent a large portion of the travel pool, and OTAs provide a valuable service in marketing to and delivering these new customers to hotels. Without OTAs, a customer acquisition strategy that relied heavily on paid search would still be equally as expensive, or potentially more expensive compared to OTA commissions. While OTAs concentrate their efforts on delivering volumes of price-sensitive travelers to hotels, brands can concentrate on digital and experiential enhancements that resonate with more loyal, higher-spending segments like business travelers and frequent leisure guests.

The human element of the travel experience

While our outlook for 2018 focuses heavily on the growing role of technology within the travel ecosystem, technology alone will not give brands all of the tools they need to succeed in 2018. In fact, for travel suppliers in particular, too much focus on technology has the potential to create cold and robotic experiences and environments.

At its heart, travel is still very much a people to people experience. For today's travel brands (and tomorrow's), technology must be leveraged to produce elevated, authentic experiences without losing sight of the human connection.

For travel brands, people and culture will always be a competitive advantage. The global travel and tourism industry employs roughly 300 million people – the equivalent to one in ten jobs in the global economy.¹³ Despite the growing focus on technology, people are likely to remain a main conduit of the travel experience. The future of the travel experience must be a seamless blend of talent and technology, where machines are tasked to do more of the 'machine' work – freeing (and empowering) humans to provide better service experiences, and more meaningful connections.

Today, corporate hotel dollars are often weighted strongly toward customer experience and digital investments. This typically leads to underinvestment in the employee experience, which can create an imbalance at the point of experience. In light of this gap, investments in employee engagement have likely never been more important. A brand's commitment to the employee experience can have considerable reach and strategic value, both as a driver of workplace satisfaction and as a profit-enabling initiative.

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