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Introduction and market outlook

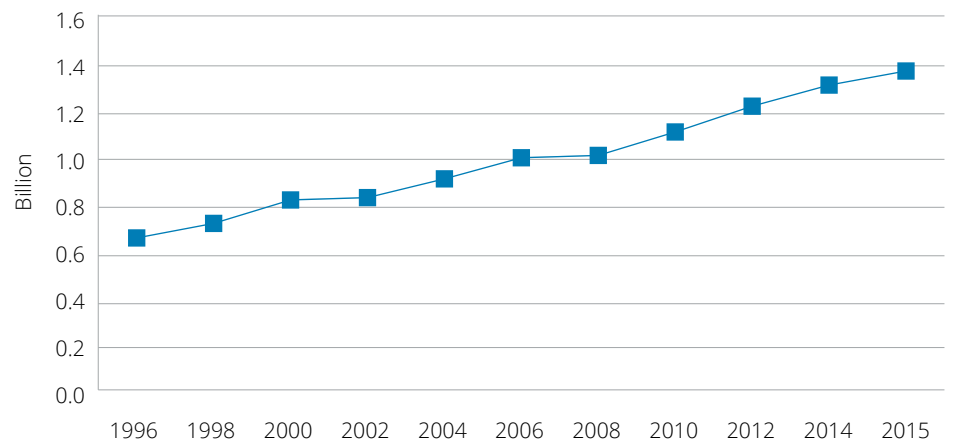
Global travel industry gross bookings reached \$1.6 trillion in 2017, making it one of the largest and fastest growing sectors in the world.¹ Factoring in indirect economic contributions, travel and tourism now accounts for a staggering 10.2 percent of global GDP.²

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 a 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 (see figure 1).³ 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.⁴ Growth appears poised to continue, lifting the industry to new heights in 2018 and beyond.

The US travel market is among the leading beneficiaries of a swelling global traveler pool. Over the past 20 years, international arrivals into the United States grew 72 percent—from 55 million to 76 million.⁵ In combination with other key growth drivers, this influx of spending drove the total US market, comprised of six segments including airlines, lodging, car rental, cruise, rail, and travel packaging to hit a record \$353 billion in 2017.⁶ Strong five percent growth is forecasted for 2018, setting the industry on course to hit a record-breaking \$370 billion by year's end.⁷

Figure 1: Global international departures (1996–2015)



Source: World Bank

Key US travel industry growth drivers for 2018

- **Healthy economic indicators for consumer spending:**

Current signals coming from the US economy indicate continued growth, which is projected to sustain a rate of 2.0–2.5 percent throughout 2018.⁸ Consumers are a key source of that strength. They continue to benefit from a strengthening labor market, low inflation, and rising incomes. Unemployment hit a record low of 4.2 percent in 2017, with an average of about 148,000 jobs added every month over the past year.⁹ Households are also enjoying rising wealth due to increasing housing prices and robust stock markets. These trends helped elevate consumer confidence, and, despite some uncertainty in the geopolitical and economic policymaking arenas, should help spur strong travel spending throughout 2018.

- **Intense airline competition:** Intense competition from low cost carriers and international airlines, along with low fuel prices, will likely continue to drive down fares in 2018. While a challenge for traditional airlines seeking larger margins, low fares may drive spending across other travel segments such as hotels and restaurants, as great deals on airfare often entice travelers to take trips.

- **Healthy corporate travel demand:** Strong economies drive business activity. 2018 is forecasted to be a robust year for corporate travel spending. Pending global uncertainties, corporate travel is expected to surge 6.1 percent, its highest rate of growth since 2011.¹⁰

- **Spending shift from products to experiences:** Travel is outpacing demand for goods. Historical personal consumption expenditure (PCE) data reveals spending on durable goods—including cars, sofas, refrigerators, household appliances, and other typical mainstays of consumer life—has been dropping for a little over a decade. Even clothing and apparel spend is dipping. Instead, experiential spending on recreation, travel, and eating out is trending up.¹¹

Mitigate risk, plan for success

While the stage seems set for a successful year ahead, 2017 was a stark reminder of the vulnerability of our large, but delicate, travel ecosystem. From severe hurricanes, wildfires, and earthquakes wreaking havoc in the United States, 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. Unwilling to sacrifice coveted getaways, travelers, along with the broader industry, have proven to be extremely resilient through trying times. Unfortunate events that occasionally shock the industry are often countered with consumers' strong desire to experience the world, and create meaningful memories with friends and family. 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, high-profile forms of risk such as cybersecurity and food safety.

Innovation will inevitably spark growth and change across the sector in 2018. Established industry players should stay nimble, alert—and perhaps even a bit daring. Travel growth continues to attract waves of hopeful startups, 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 startups raised a cumulative \$30 billion in funding—almost totaling the amount raised over the past 10 years.¹² 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.

Hospitality: Hurdles on the track to growth

While strong post-recession gains appear to be cooling off, the hotel sector is projected to sustain strong 5–6 percent growth throughout 2018, setting up the industry to hit a record-breaking \$170 billion in gross bookings.¹³ Healthy business and leisure demand is helping the industry achieve strong fundamentals, including peaking average daily rates (ADR) (+2.4 percent 2017 YTD October) and revenue per available room (RevPAR) (+3.0 percent 2017 YTD October). Hovering around 66 percent, occupancy seems to have hit a peak.¹⁴

Some industry analysts, however, consider the prolonged strength of the hotel sector to be a cause for concern. Historically, hotel performance has proven to be cyclic, with long runs of growth often followed by intense downturns. With the last down cycle occurring in 2010, some speculate soft market conditions to be imminent, particularly because cycles generally occur every 10 years. However, despite pockets of uncertainty, those bullish on future hotel performance seem to outnumber industry detractors.

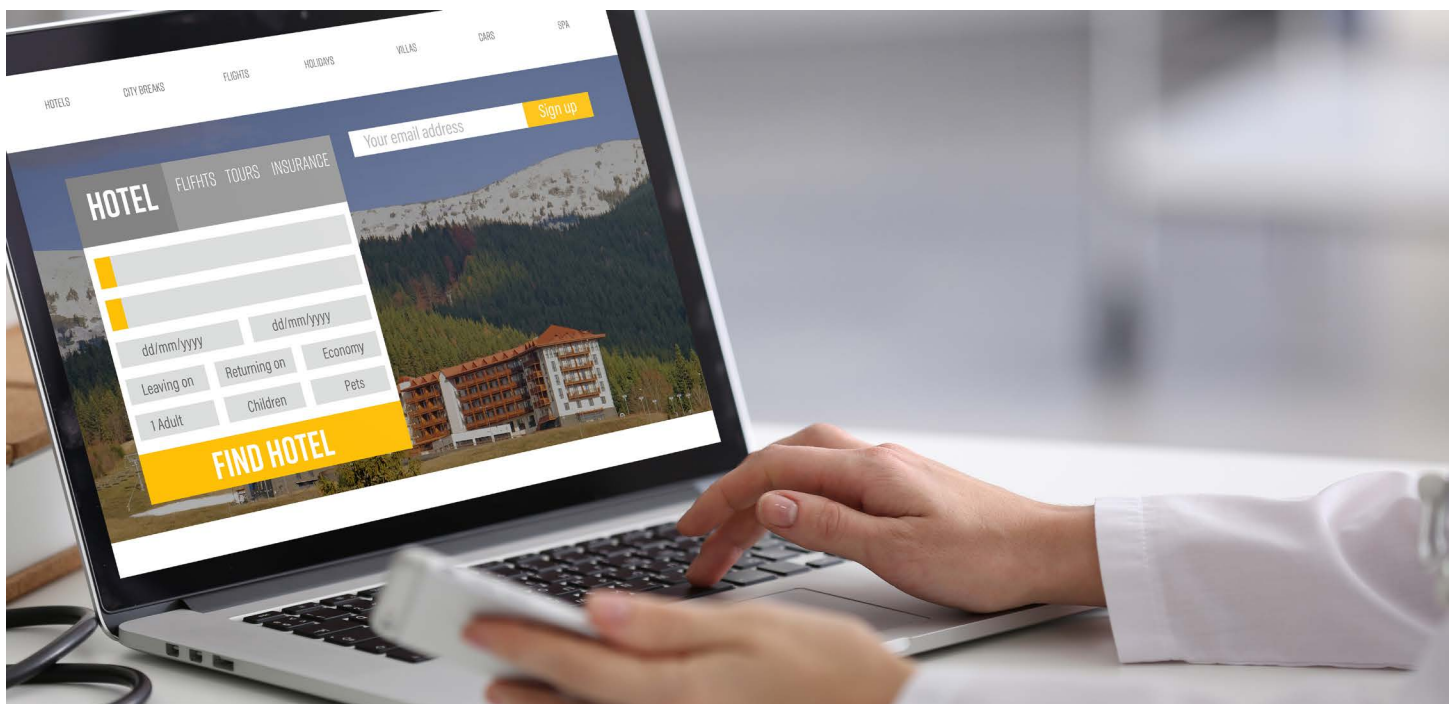
While positive signals continue to emanate from the broader hotel industry, some local markets may continue to face significant hurdles in 2018. In New York and Chicago, for example, hotels are struggling to drive up room rates in a market flooded with new supply. In fact, since 2008, the number of hotels in New York City has grown 55 percent to 634 properties and 115,000 rooms.¹⁵ Already competing with a rise in private accommodation rentals, hoteliers aiming to keep their properties full must offer attractive rates. These local market conditions are weakening growth, and in order to cope with the oversupply issue, some hoteliers are resorting to cutbacks around service, maintenance, and even lobbying with city officials for property tax reform.

Breathing life into the midscale experience

While the outlook for the hotel industry is generally positive, brands who fail to innovate risk losing market share. With just a few swipes in a travel app, today's consumers can compare more hotel and private accommodation options than ever before. Along with unprecedented choice, however, comes unprecedented expectations, and a traveler that does not favor “run-of-the-mill” hotel experiences. With hotel reviews and virtual tours at their fingertips, travelers can easily sniff out “big-box” properties that fail to offer something truly unique and memorable.

Hoteliers are quickly becoming more experience driven, but most are concentrating innovation up-market—leaving the midscale segment in desperate need of an experiential face-lift. If there is one segment that should capture the attention of hotel developers in 2018, it is midscale hotels. Forward-thinking hotel brands are already taking advantage of the opportunity to deliver travelers some of the look, feel, and experience of a pricey lifestyle hotel in an affordable package. Breathing new life into the midscale experience can include modern design aesthetics, better technology for connected travelers, innovation around F&B, and reimagined communal spaces. Midscale hotels are also attractive from an investment angle. Compared to upscale and luxury hotels, midscale properties are cheaper to develop and do not require large staffs to operate.

Midscale competition is poised to heat up in 2018. Awareness of the opportunity is growing, and forward-thinking hotel chains are launching new brands with increased cadence. A strong construction pipeline in the midscale segment suggests more value-driven lifestyle brands will hit the market in 2018.



Airlines: Investing in the future of flight

In 2018, airlines have the opportunity to take progressive steps toward defining the next generation of air travel. Airlines are leaving behind a decade where losses surpassed roughly \$50 billion.¹⁶ Now, bolstered by low fuel prices, tighter capacity, new merchandizing strategies, and industry consolidation, the six biggest US carriers are turning things around—posting a consecutive run of annual profits. US carriers should seize the opportunity of the upswing—and that begins with investment in critical infrastructure and technology that has been sorely lacking given recent industry pressures.

Many airlines are taking steps in the right direction. On the infrastructure side, large US carriers are announcing significant airport investments and fleet expansions that are critical to capitalize on rising travel demand. Carriers are also upgrading fleets with sorely needed amenities to meet rising flyer expectations, including new seats, satellite Wi-Fi service, larger overhead bins, and power for devices. A competitive aircraft leasing market will likely continue to grant carriers easier access to attractive aircraft financing, enabling fleet growth and expansion in 2018.

Air traffic reform will likely continue to be a key infrastructure debate throughout the year, with enormous implications for the industry. Proponents to privatize air traffic control argue that budget uncertainty in Washington limits the FAA's ability to keep pace with technology upgrades such as satellite-based navigation and digital communications that can drastically improve route optimization in an increasingly crowded sky. A pocket of detractors, however, is pushing back, arguing that privatization would allow a corporate monopoly of the nation's skies, heavily influenced by the major airlines.

The next generation of airline technology

The curb-to-gate-to-destination experience needs an extreme makeover. When it comes to customer satisfaction, the airline industry currently ranks 37th across 43 different industries, putting carriers on par with the likes of wireless telephone providers and health insurance companies.¹⁷ The root cause of this state of affairs is not difficult to understand. The business of flying millions of passengers around the world relies on a complex network of ticketing and reservation systems, airports, planes, gates, and baggage systems. These systems are not only suffering from

overcrowding and poor integration, they are often disrupted by weather and equipment failure. Complex logistics have made it difficult for airlines to implement technology upgrades. Case in point: Some airlines are still running on legacy systems that are 10 or even 20 years old.

A confluence of emerging technologies can unlock incredible solutions for airlines, specifically around pain points such as security checkpoints, baggage systems, route optimization, helping consumers navigate busy airports, and mitigating the impact of weather delays and equipment failure. Consider the following scenario that showcases the potential impact technologies like the Internet of Things (IoT), robotics, 3D printing, asset tracking, and smart workforces can have to relieve pain points around aircraft malfunctions¹⁸:

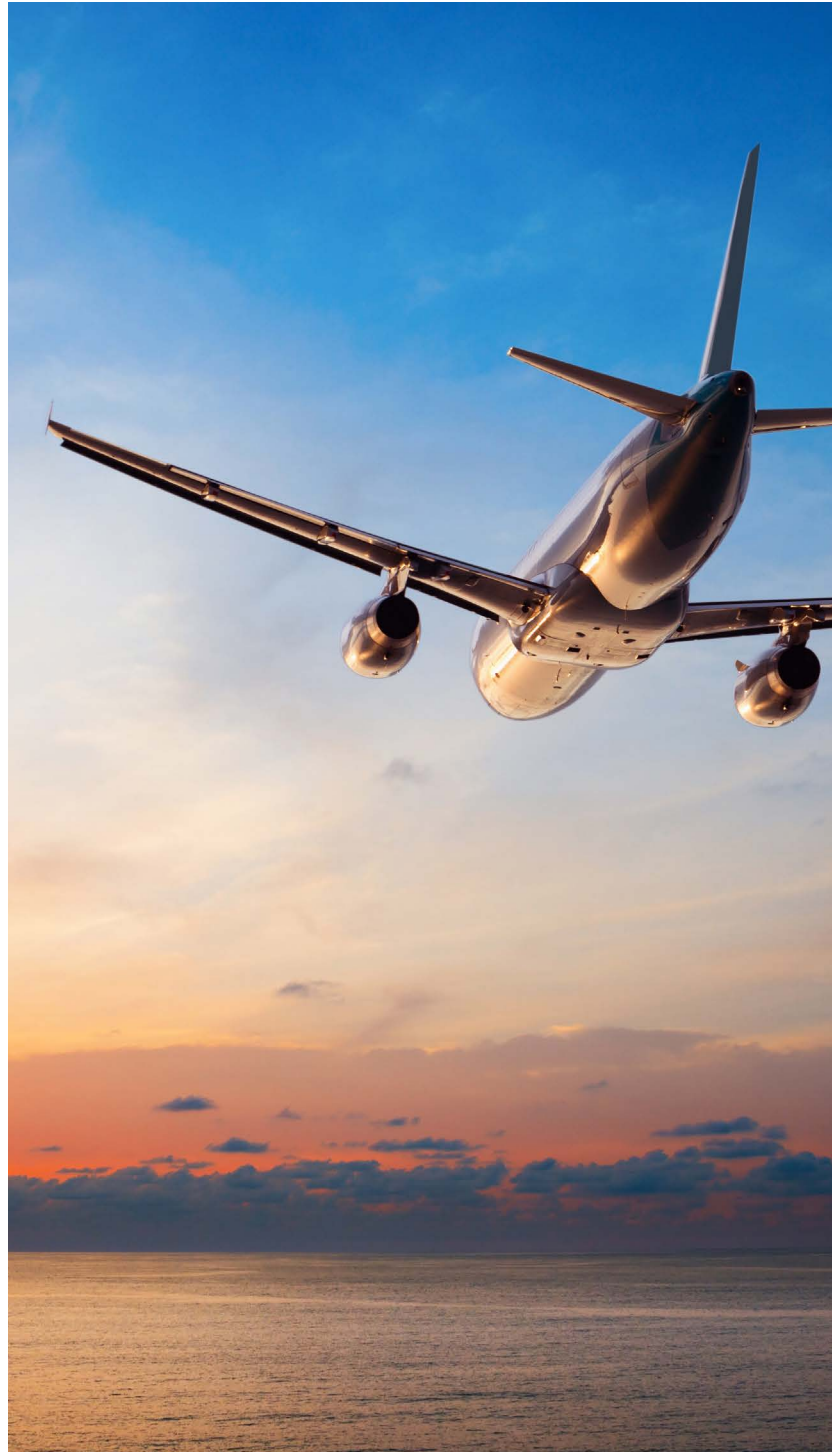
- In-air detection and notification: Mid-flight, an IoT connected aircraft part recognizes it is not functioning properly. The aircraft sends a message to the ground about the malfunctioning part for repair upon arrival.
- The on-demand supply chain: The part used in the repair will need to be replaced upon landing, so before arrival, a 3D printer at the arrival airport receives a signal to print the part.
- The connected, autonomous tarmac: The printed part must be delivered to the arrival gate. An autonomous vehicle picks it up and makes a delivery.
- The connected employee: The mechanic uses heads-up display eyeglasses to reference documents from the cloud. Using a borescope connected to a wireless tablet, the mechanic streams live video to a remote engineer allowing the repair and inspection to benefit from the engineer's authority.

Instead of this aircraft being taken out of service, frustrating travelers with delays, the aircraft leaves on time for its next segment. This example not only demonstrates the synergistic power of different technology platforms, it highlights the inextricable link between airline operations and customer experience.

Matching the low-cost competition

An all-out fare war between traditional airlines and low-cost discounters looks likely to continue throughout 2018—creating challenges around margin growth for the former. One of the greatest weapons in the traditional carrier’s arsenal is creating the perfect blend of product and service quality and price that attracts the largest customer base possible—at the highest price point. As major hotel brands realized long ago—there is no single answer. Rather, diverse brand portfolios open the doors to a wide variety of consumers with spending preferences from economic to upscale.

Many traditional airlines are taking a page out of the hotel playbook. However, while hoteliers seem to be launching new brands at will, airlines are trying to make the most of their cabins. They are aggressively competing for price-sensitive flyers by introducing new basic economy fare classes, while continuing to segment their cabins with more products and sophistication. 2018 may continue to be a learning year for airlines as they experiment with new merchandising strategies in order to extract every bit of value from their fleets.



Restaurants: Driving success in a new era of competition

As Americans put in more hours at work and confront a growing array of food and delivery options, they are spending a growing share of their food budget on eating out—currently estimated at 44 cents per dollar.¹⁹ While the spending shift should help the broader restaurant industry post moderate growth in 2018, brands aiming to grow market share will encounter their fair share of challenges. Seeking exit strategies from the failing dot-com era, banks and private equity firms began injecting billions into the restaurant industry during the early 2000s. There are now more than 620,000 eating and drinking establishments across the United States, with restaurants currently growing at about twice the rate of the population.²⁰

Therefore, the level of competition within the restaurant industry is unprecedented. Success in this environment requires brands to focus on a number of strategic imperatives that will define the industry in 2018 and beyond:

- **Embrace the experience:** In today's competitive restaurant marketplace, successful brands need to do much more than offer good food at a reasonable price. They need to deliver a differentiated customer experience along with their meals. But differentiation is not so simple. It requires restaurants to execute on all dimensions of the customer experience: value, menu, quality, and the right managers and employees to tie it all together.
- **Drive employee engagement:** Many winning brands are discovering that strategic employee engagement programs are the foundation for redefining and transforming the customer experience, driving brand loyalty, and growing their market share. Engaged and motivated employees are at the heart of positive restaurant experiences—from how customers are greeted when they walk through the door, pick up a take-out order, or get home delivery, to how quickly and well their food is prepared and served. According to our recent customer experience survey, a staff of friendly, hospitable employees was cited as the most important element needed for a positive experience at a restaurant.²¹
- **Dominate delivery:** A swell of food delivery apps have permanently changed consumers' expectations of when and how they get their food. For some brands, the shift to third-party digital distribution can translate to massive exposure and order volume. For others, it represents a missed opportunity to engage directly with their customers, understand their preferences, and build better relationships—not to mention lost revenue.
- **Compete with nontraditional players:** The days of high-volume foot traffic at overcrowded mall food courts are mostly over. A rising penchant for unique food experiences, authentic local menus, and convenience are drawing customers away from traditional brick-and-mortar locations as they explore alternatives such as pop-up food kitchens, food trucks, restaurants in premium grocery stores, subscription-based meal kits, and even privately hosted meals enabled by the sharing economy. Traditional players should consider the risks of sticking with traditional strategies.
- **Operational excellence and compliance:** Many restaurants are realizing the pressing need to augment store operations through better technology enablement, which reinforces operational excellence and enhances team member capabilities. Benefits include increased store performance, enhanced "on-brand" guest experience, and stricter adherence to regulatory requirements.

The restaurant industry should anticipate the level of competition and innovation to rise throughout 2018 as Wall Street continues to get more aggressive in the sector. Private equity players and the broader investment community are no longer keeping it safe with larger restaurant brands with proven track records. They are increasingly paying attention to smaller restaurant players with bold, innovative ideas around menu, technology, and supply chain. Deep pockets are hunting for innovation and opportunity. This collision of capital investment and new ideas will continue to drive unprecedented disruption throughout the industry.



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 is all about the experience. 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-conscious 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.²² 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 inroad 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 showerheads—across the brand portfolio.

Health and wellness programming may be more pervasive in the hospitality space today, but will also expand into more facets of the travel ecosystem and will continue to mature into a key element of the travel experience.

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 percent of global travel revenue (roughly twice the size of the car rental market).²³ It's projected to reach \$183 billion by 2020, and hotels and online travel players have an enormous opportunity to integrate tours and activities into their digital ecosystems.²⁴ Tours and activities can not only create new revenue streams, it has potential to give travel brands an entirely new lens on their travelers' 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's comprised of a long tail of small suppliers (more than half generate less than \$250,000 in annual revenue²⁵) who still power their businesses with phone calls and paper ticketing. In fact, more than 80 percent of gross bookings are made offline. The sector has yet to undergo the digital transformation needed 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.

Technologies shaping the future of travel



Artificial Intelligence

Touted as the new electricity, artificial intelligence (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.

Robotics and process automation have several front and back-of-house use cases across the travel sectors—but ground transportation is poised to feel the greatest impact. Ten million driverless cars are estimated to be on the road by 2020,²⁶ culminating in one the greatest changes to the ground transportation industry in recent history.



Blockchain

The tech behind cryptocurrency is becoming more than a buzzword in travel. Big players and startups 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 takeaways

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 employs roughly 1 in 10 in the global workforce.²⁷ There is opportunity for travel brands to approach automation from a reinvestment of talent perspective, rather than one of replacement.

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

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, IoT, and 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 tiptoeing 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

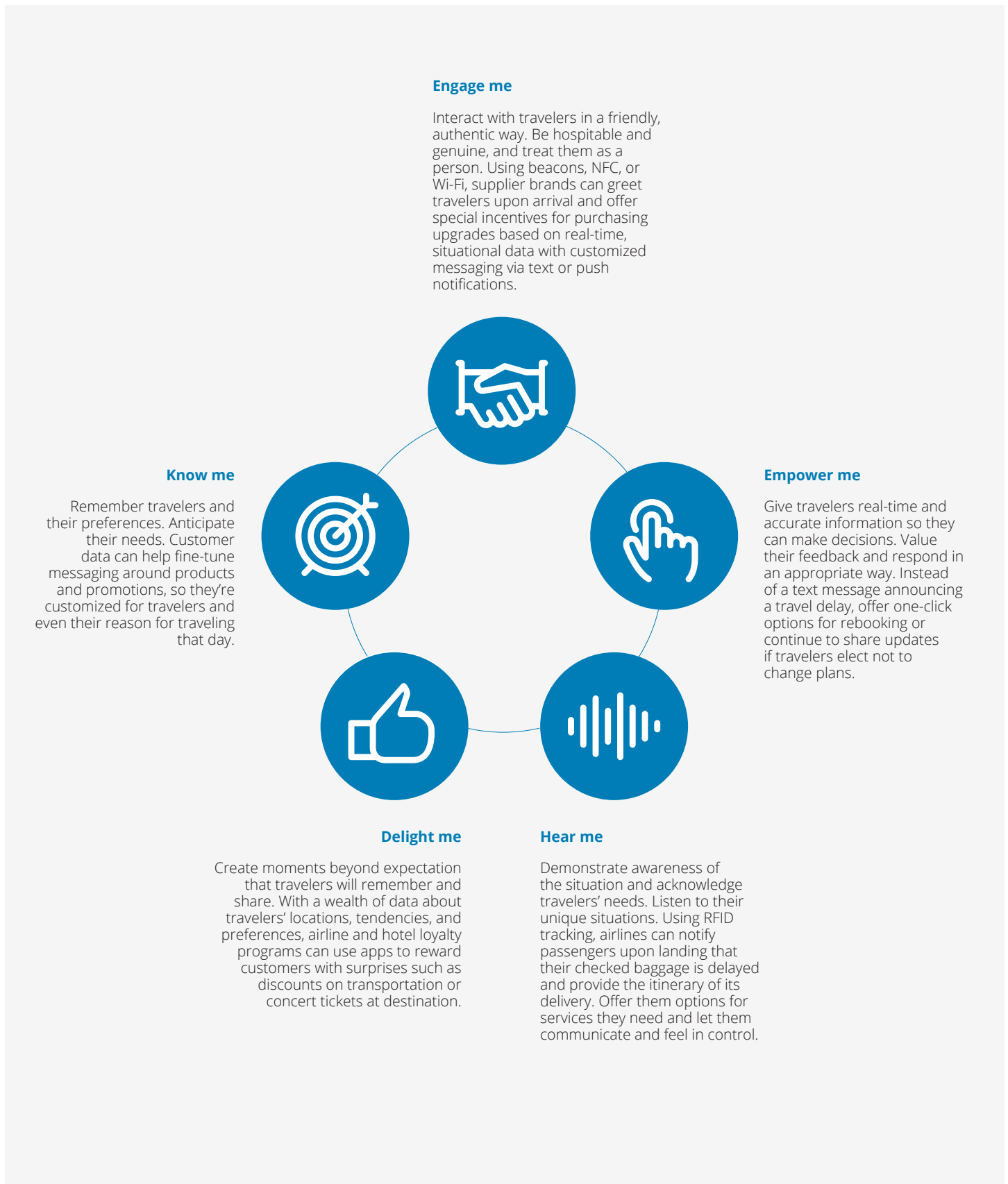
that identify corporate flyers, enabling flight attendants to thank them by name when they check in. In addition, flight attendants are provided recognition seat maps on their mobile devices that identify corporate travelers.

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 the 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.

Deloitte's framework for the customer experience focuses on personalization, and embracing a customer of one strategy.²⁸ Figure 2 explores examples that highlight how emerging technology can lead to more moments that matter across the travel journey.

Figure 2: Deloitte customer experience framework



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. In 2016, OTA lodging revenue grew at nearly five times the rate of the US hotel market.²⁹ Years of strong OTA growth culminated in an important inflection point in the hotel industry. For the first time ever, OTA hotel bookings now exceed total hotel website bookings.

Strong OTA momentum shows little sign of waning. A period of intense consolidation has effectively turned the OTA market into a two-horse race, with just two brands controlling well north of 90 percent of the market.³⁰ Such aggregation of demand among two major players means 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 \$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.³¹

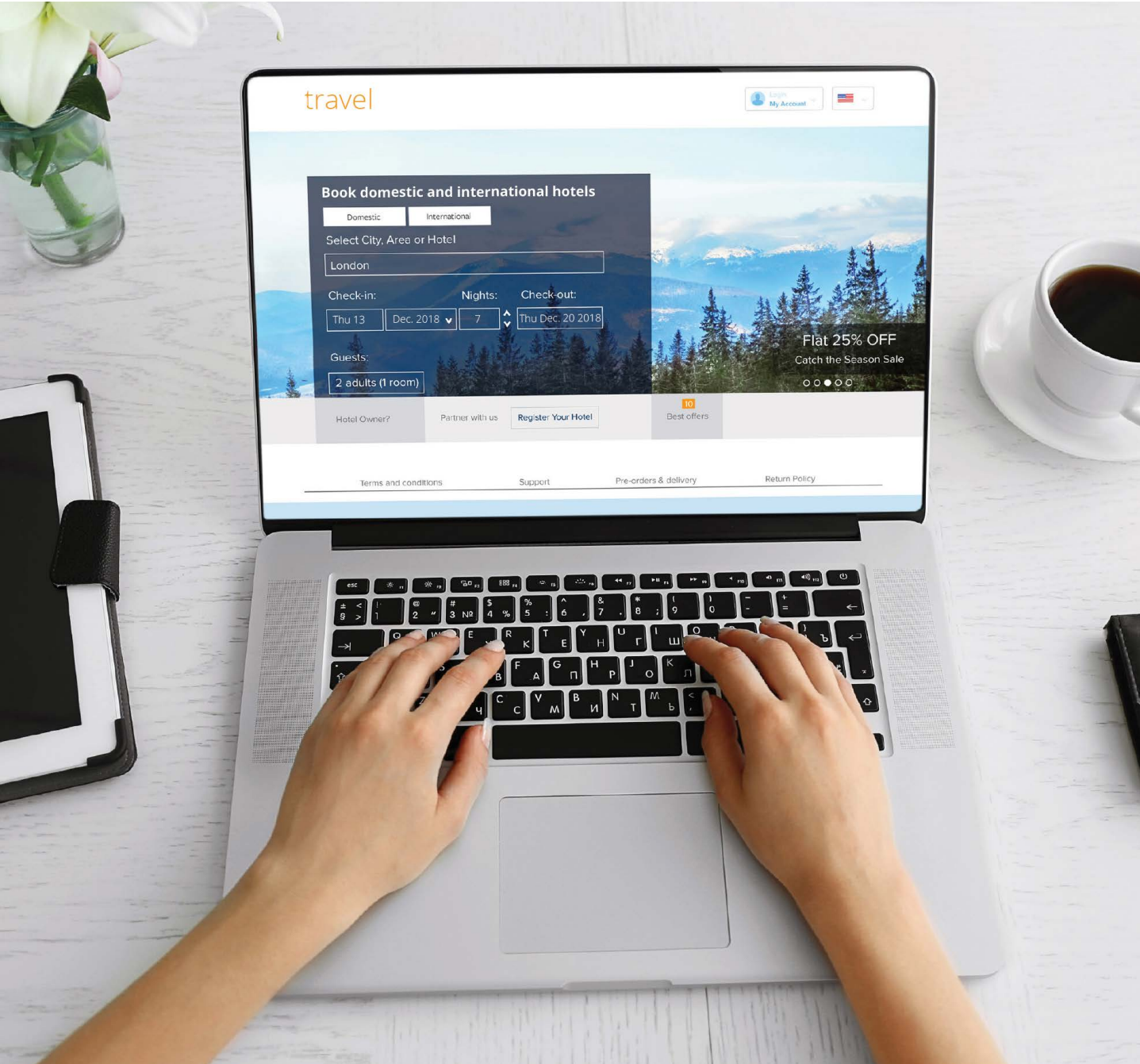
Should the distribution battle continue to lean in favor of online intermediaries, hotels will have more to worry about than just rising commissions. OTAs are not just growing their customer reach, they are expanding their content ecosystems with additional segments such as private accommodations, tours and activities, restaurant reservations, and more. This breadth 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.³² 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 remain regarding the offering of 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 relies 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.

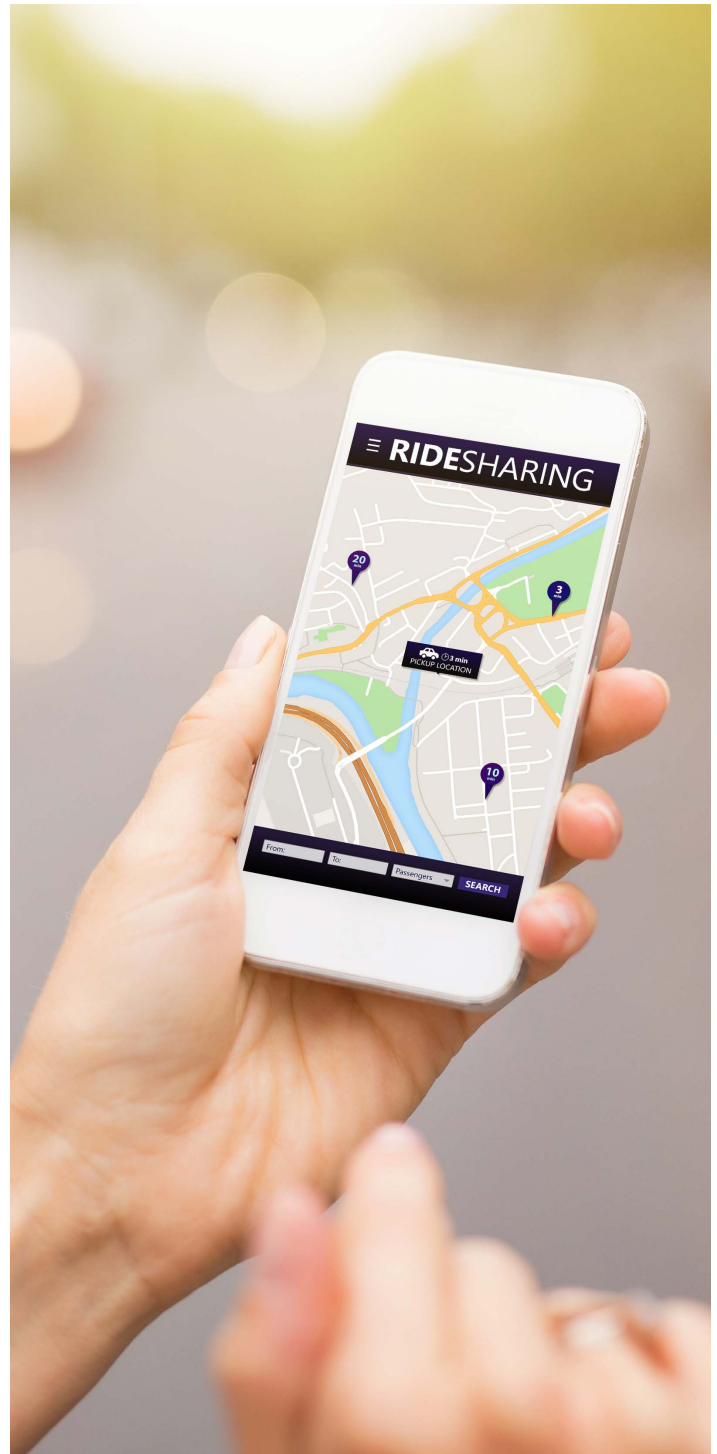


Ground transportation: Implications far beyond travel

If hotels, airlines, and local activities represent the core of the travel industry, then ground transportation is the glue that ties it all together. The innovation revolutionizing ground transportation has implications that extend well beyond the travel industry—it's shaping everyday life. Ride-hailing and car-sharing platforms have completely changed how consumers get around, but all eyes are already focused on autonomous ride-sharing, and the change it will bring to a ground transportation industry already in flux.

Predicting the winners and losers of an imminent autonomous revolution isn't so clear-cut. The ground transportation value chain involves more than just actual transportation. It includes customer acquisition and demand generation, price and promotion management, customer service, fleet operations management, vehicle purchasing, and vehicle remarketing and recycling. And there is a slew of players, including ride-hailing and car-sharing companies, pure technology players, rental car companies, fleet management providers, OEMs, and dealers who specialize in different points in the chain. The next few years may be more than just "winners and losers," but a complete reconfiguration of where current industry players provide value in the new autonomous ecosystem.

At Deloitte, we have been keeping a close eye on the longitudinal spending shifts of our own business travelers across major ground segments including car rental, ride-hailing, car service, traditional taxi, and others, and we are witnessing firsthand the behavioral shifts defining the future ground transportation industry. And from our lens, the disruption is just getting started.



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 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 1 in 10 jobs in the global economy.³³ 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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