Horwath HTL™

Hotel, Tourism and Leisure

SOUL LUXURY

Rethinking Luxury in Hospitality
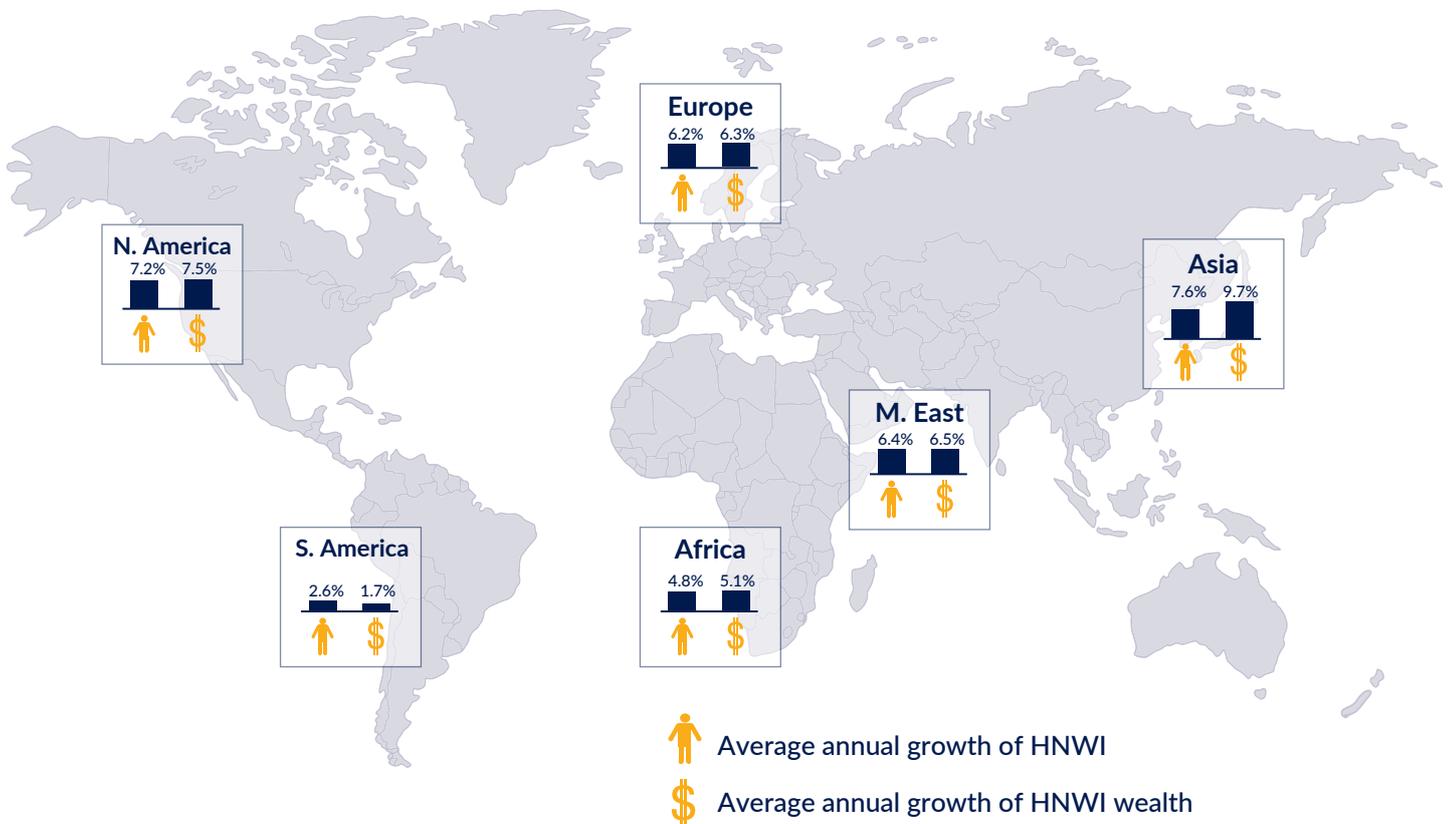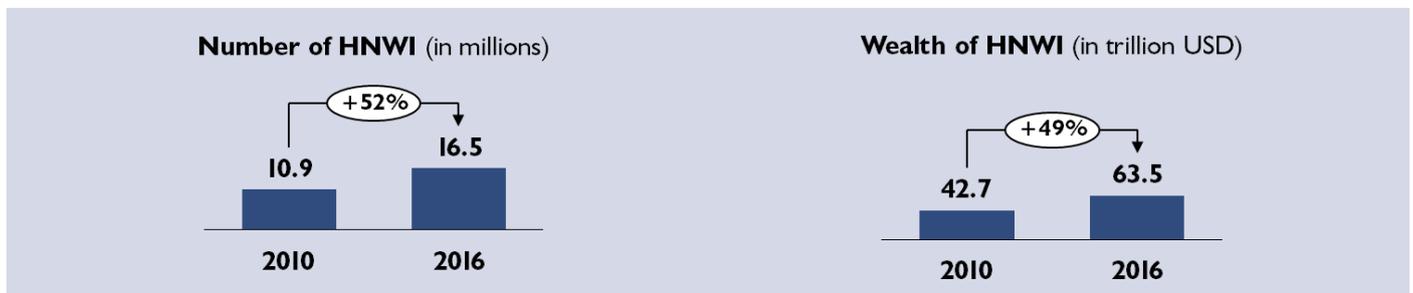
Global luxury market continues to grow

The worldwide luxury market was estimated at €1 trillion in 2016, with an average annual growth of 4%. Over a six-year period (2010-2016), High Net Worth Individuals (HNWI) grew in number by 52%, in addition to their wealth, which increased by 49%. The Asian and North America regions are primary drivers of the growth.[1]

In addition to the luxury market and customer base growth, the world has changed, and the pace of change is continuing to grow. In the previous period luxury travel has been growing faster (+4,5%) than overall travel

(+4,25%) and the forecasted growth rate of luxury travel is also higher (+6,2%) than overall travel (+4,8%).[2] This growth has been followed by an increase in competition, due to both an increase in the number of luxury properties as well as improvements in the service delivery to luxury guests in existing operations.

Together, Horwath HTL and Soul Luxury are helping clients navigate this fast-changing environment and have decided to combine our project experience and insights to rethink 'New Luxury in Hospitality'.

Number and wealth of High Net Worth Individuals (HNWI) 2010 - 2016

Number of HNWI (in millions)

+52%

10.9   16.5

2010   2016

Wealth of HNWI (in trillion USD)

+49%

42.7   63.5

2010   2016

Europe
6.2%   6.3%

N. America
7.2%   7.5%

Asia
7.6%   9.7%

M. East
6.4%   6.5%

S. America
2.6%   1.7%

Africa
4.8%   5.1%

Average annual growth of HNWI

Average annual growth of HNWI wealth

Note: HNWI – High Net Worth Individuals: People with financial assets
(apart from their primary residence) above 1 million USD
Source 1: Capgemini World Wealth Report 2017
Source 2: Tourism Economics 2016

Luxury customer mindset is shifting

The market for luxury hospitality is growing at a steady pace, but it remains lucrative. With 700 thousand luxury rooms in the global pipeline[1], increased guest mobility and a flood of quality online marketing, the competitive landscape is intensifying.

Today, luxury hospitality is under the influence of an evolutionary shift. Fast technological advances drive society to develop at an unprecedented rate, impacting the human condition as never before.

Hoteliers are facing a critical challenge that will be the significant battleground for growing the HNWI market in the long-term – how to continuously deliver on the expectations of a shifting customer mindset.

While HNW travellers still expect every detail of their travel to be taken care of - the thread count of their linens, the temperature of their plunge pools - what is new is the aspiration behind the journey, not just experiences, but transformational experiences, self-actualisation, more profound meaning and sincere human connections. Going to a spa and moving from one room to another doesn't create a narrative for genuinely transformational experiences. This shift is triggered by 2 key factors:

1. Changes in lifestyle habits:
- New and deeper awareness of personal wellbeing is shaping a trend referred to as 'health is the new luxury'.

- Globally there has been a substantial shift towards stronger self-consciousness both in terms of leading a healthier lifestyle as well as minding the surroundings (both social and ecological), true sustainability.

- Key for guest retention is how they have felt throughout the stay, with an emphasis on emotional resonance. Creating emotional connection is not something new, but the hospitality industry has started to target emotions more efficiently, and actively manage the customer journey. Emotional value enhancers (EVE) are defined, as they need to be unique to each brand and delivered continuously along each guest journey. Why should your clients care and how can you touch their lives are the fundamental questions to be asked.

- As guests are becoming more demanding, the average expected standard for their future stays has risen significantly, and guests even expect their 'unspoken' needs to be fulfilled. Digital technology is increasingly used to address this challenge. Soon, advancements in artificial intelligence (AI) will enable comprehensive tracking of client behaviour.

2. Digitization:
- The crucial role of digital technology in today's society causes a paradox of connected disconnection which attempts to reconcile two opposites:

  - Digital intensity and the need for a digitally aversive experience.

- The tech-obsessed always-on culture surrounds customers, requiring state-of-the-art digital solutions. On the other hand, the possibility to completely disconnect becomes a privilege of its own. In a future of 5G mobile networks, we will see more offline or wi-fi free areas within hotels as well as a total digital free hotel experiences. Balancing between these two opposites and choosing the level of focus is becoming strategically important.

Digitally Intensive

Connected Disconnection

Digitally Aversive

- 45% of the market will be Millennials in 10 years[2]
- Fast digital adoption of the 'Non-Millennial' generations
- 17 hours/weekly spend on internet on average[3]
- 80% of luxury sales are digitally influenced

- Backlash against the tech-obsessed, 'always-on' culture
- Stronger well-being consciousness
- Searching for a purpose in a fast everyday life
- Care for belonging, human connection and sustainability

Sources: 1) https://www.tophotelprojects.com; 2) PMX agency;
3) USC Annenberg's Center for the Digital Future

What is the 'New Luxury in Hospitality'?

'New Luxury in Hospitality' means that the traveller is seeking a more transformative and soul-enriching experience.

The emotional impact on guests, therefore, needs to be a strategic focus. The strength of emotional touch points is in direct relation to brand engagement.

Luxury hospitality is traditionally known as a human-centric, and we believe it will always stay human-centric. However today we need to be aware of one significant difference: it must have a transformational impact on the individual.

We have defined 'New Luxury in Hospitality' through five perspectives needed for a transformational impact:

1. Purpose:
Customers are in pursuit of a better, more fulfilled - lifestyle, increasingly turning their backs on spending on superficial brand experiences.

Brands must address (in business terms) - Maslow's 'Self-Actualisation' as a business strategy. Visionary brands recognise that society is in the midst of a major paradigm shift which is not a trend; it is evolution.

2. Personalisation:
The brand should develop a genuine interest in the guest's lifestyle to create an understanding of preferences. Only with this understanding is personalisation possible, thus as a consequence must have the potential to evoke feelings of appreciation and surprise. This is the opportunity to develop an intimacy with the guest and as a result, generate trust.
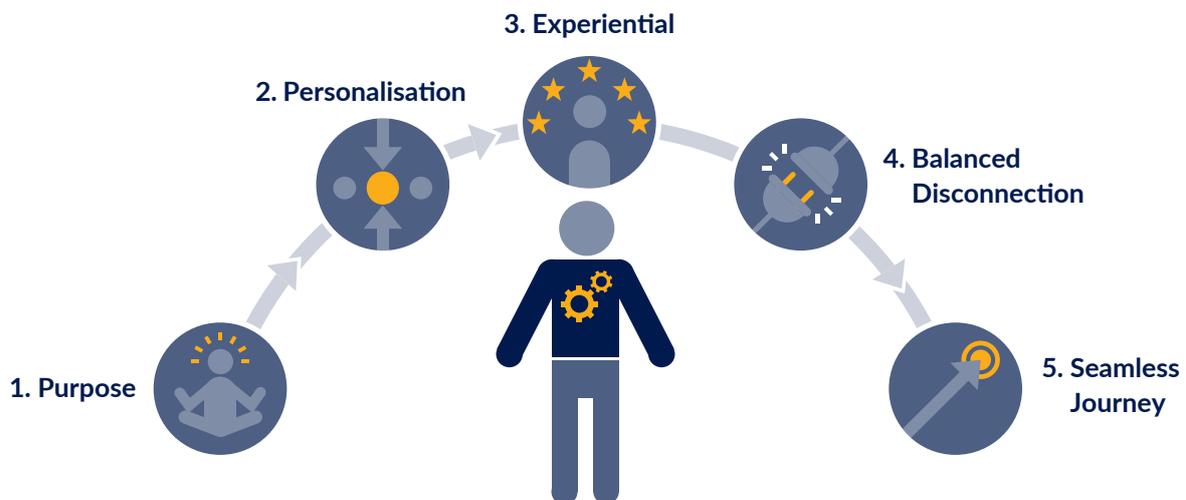
3. Experiential:
This perspective pushes us to rethink guest experience and take it to the next level by focusing on the emotional value and the potential to transform 'me'. The evolved mindset of travellers is to seek lifestyle solutions while travelling. This shift concentrates increasingly on experiences that address the physical, mental, spiritual and emotional needs.

4. Balanced Disconnection:
The opportunity lies in focusing on an approach to balance between digitally intensive and digitally aversive experiences. Ironically, technology can serve as an enabler for a personalised and seamless experience leading to a transformational impact.

5. Seamless Journey:
Impeccable service has always been the core of the luxury hospitality, and today new methods and technologies support delivery of the service. This increased complexity requires detailed planning including scenario planning approaches.

How to deliver 'New Luxury in Hospitality?

To deliver 'New Luxury' to customers, two perspectives should be addressed:

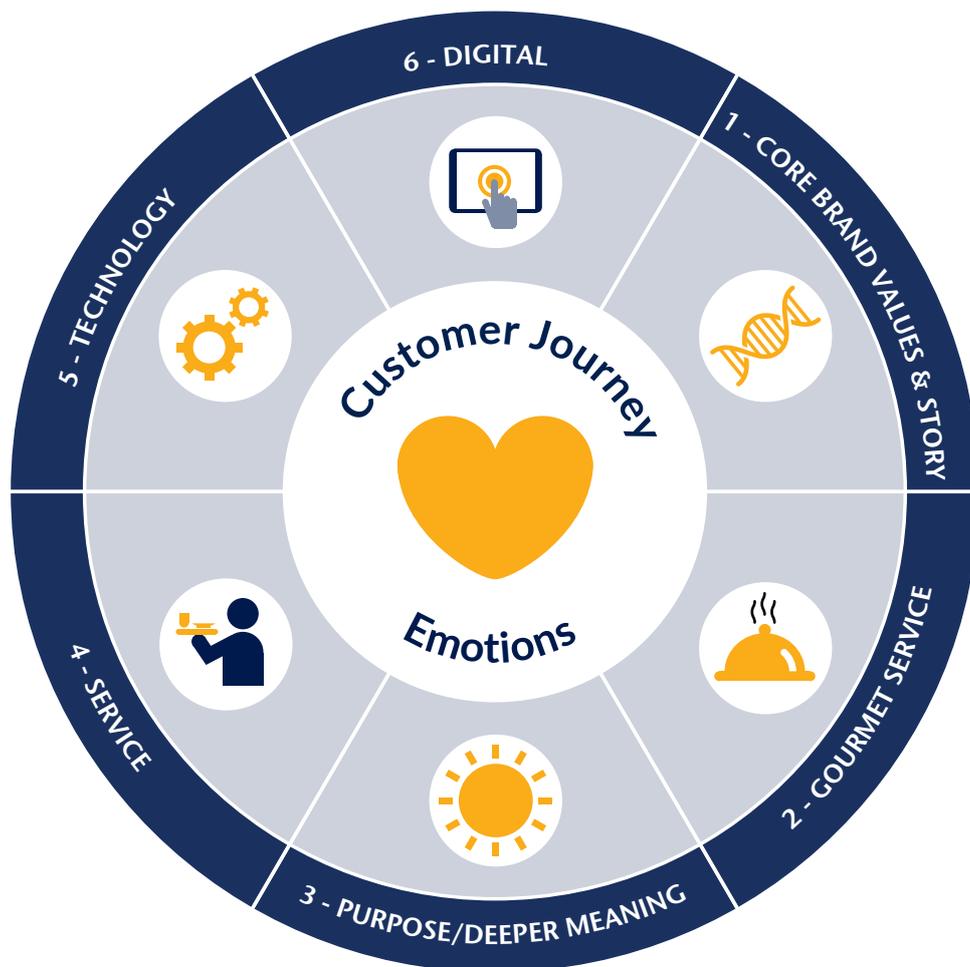- **Customer journey and emotions as the essence**
  To understand how to provide luxury, hoteliers need to follow the customer journey of each segment (in the future we will be able to follow each individual guest and achieve one-to-one marketing) as well as the emotions correlated to each touchpoint (even well before the physical hotel experience starts).

- **Comprehensive integration**
  From brand promise to technology integration, every aspect has an impact on delivery. Thus understanding how to provide the right amount of each component, at each touchpoint is crucial.

To ensure comprehensiveness in the approach, we have developed a 360° framework for delivering 'New Luxury'.

Horwath HTL 360° New Luxury framework

How to deliver 'New Luxury in Hospitality?

1. Core Brand Values and Story

The definition of a clear hotel concept is an essential ingredient of long-term success - whether offering medieval luxury experience in castles or luxury escape retreats, the customers expect more of the hotel than a great asset and excellent service.

The concept should act as a baseline for brand development. It is crucial to get to core brand values, as well as a clear brand essence and brand identity, backed up with appealing storytelling – upon which everything within the property should be aligned (from service, design, communication etc.). For long-term success, consistency in the brand delivery is fundamental.

2. Gourmet

Influenced by the global increase in gourmet curiosity (following shows like Chef's table and No Reservations, the rise of food Instagram etc.), customer expectation of F&B has risen significantly. While a high level of standard in gourmet delivery has always been an integrated element of luxury, there is now a stronger emphasis on the experiential component, sometimes extending beyond the kitchen and restaurant.

The key to delivering these experiences is clear gourmet concepts, aligned with the whole hotel/ destination surroundings and with relevant global trends (especially concerning significant shifts in eating preferences, healthy eating etc.). At the end it is essential that the gourmet concept is a logical and seamless extension of the desired hotel experience (e.g. transformation of guest's eating habits).

3. Purpose/ Deeper Meaning

The thought behind core lifestyle values has significantly shifted in the last couple of years. To deliver on expectations the hotels first needs to clarify the key customer segments.

Currently, popular lifestyle segmentation is often a buzz word which it is not entirely understood and implemented. The future will enable much more precise segmentation and targeting once we get closer to one-to-one marketing.

Hoteliers should try to identify the potential transformative objectives within each of the customer segments and integrate emotional triggers within the customer journey. Examples may be a feeling of achievement for a MICE guest, or the sense of disconnection for a leisure guest.

Desired goals should match with aligned offerings such as transformation programs for busy business lifestyle guests, individual destination/community experiences for the explorers etc.

4. Service

Impeccable service has always been and remains one of the critical pillars of true luxury. But the new age of luxury sets new demands with one key remark in mind - there is no 'silver bullet'.

Delivering the perfect service starts with a set of details and small gestures serving as the baseline for the experience. But several guidelines should be used to set an excellent platform to enhance the service:

More personalisation - Stronger utilisation of technology solutions to provide additional personalisation (especially in predicting guest behaviour to tailor the service accordingly.

Take on the role of experience builder - Educate and motivate staff to support the guest in developing their experience throughout the whole stay through a proactive, recommendation based approach, in experience offering. But to manage this approach, the hotelier needs to integrate structured guest data collection and analysis, thus increasing the suitability and effect of the offered experiences

Offer a stronger touch of human sincerity - Acknowledge the staff as a crucial part of the success. In terms of management of the staff it is of essence that all of the staff are emotionally attached to the hotel and to other team members.

5. Technology

The critical challenge for technology for hoteliers is to strongly consider the type and level of technology integration based on the concept (i.e. escape vs city) and customer segments, with particular consideration to:

- **Guest technology platforms** - The hotels need to consider integrating most of the technology and platforms that guest may use at home in order to offer a seamless transition between their home/ business and their stay.

- **Back office technology as a support for experience building** - The luxury approach will become more fact-based due to the maturity of data management technology. Hoteliers should prepare their IT landscape in order to learn as much about their guests as possible in order to deliver all the other elements at an even higher level.

- **Technology as solution for higher operational efficiency** - Innovations in this area are occurring on a daily basis, thus hoteliers should consider options that would put stronger focus on to value added activities.

6. Digital

With the continual growth of digital channels relevance for luxury (OTA's, impact of social networks etc.) the critical challenge can be defined as providing a digitally enhanced experience throughout the journey.

The problem is in providing an authentic and unique 'look&feel' in the digital world and removing frictions between the phases (i.e. the transition from inspiration to reservation). To address this, hoteliers should rethink their digital approach, especially concerning the following :

- **Great mobile experience throughout the whole journey** - As mobile bookings have risen 26.7% in 2017 (yoy)1 it is unquestionable that the mobile promotion-to-booking process needs to be optimised. Most of the guests are still attached to their devices during the stay, and mobile device should be an integral part of the experience (for those who choose to use these options).

- **Prepare your digital story** - It is tough to tell your story in a digital world saturated with examples. Hoteliers need to consider how to stand out in the process, possibly by creating a structured funnel of messages with the mission of first hooking the potential guest to the story and afterwards revealing exciting details and curiosities that will finally lead to a booking conversion at the end. An excellent way to approach this is by considering the possible emotions you should be addressing and creating the content to reflect those.

- **Digital content creation** – Hoteliers should consider how to motivate their guests by providing user-generated content to confirm their perceived value from a third party perspective. Examples include giving relevant hashtags in the hotel (both permanent and trending), professional communication and management of social networks, and offering incentives to guests based on different activities online.

Sources: 1) eMarketer

Change in order to win

The luxury market and customer base are growing. The world has changed, and the pace of change is continuing to grow. Luxury travel is following this trend, and the luxury customer is evolving.

We consider 'New luxury in Hospitality' as still essentially human-centric but with a transformational impact on the individual. This is why we define it through five perspectives needed for the transformational impact.

To fully deliver 'New Luxury' to customers we are focussing on the customer journey and emotions as the essence, combined with the complete integration of critical elements.

Our 360° framework for delivering the new luxury ensures comprehensiveness by covering:
1. Core Brand Values and Story
2. Gourmet
3. Purpose/ Deeper Meaning
4. Service
5. Technology
6. Digital

Finally, to come back to the fundamental trigger of the change, we have to acknowledge the mindset of the affluent consumer which continues to evolve.

Luxury is taking on a new meaning: Consumers are turning their backs on mindless extravagance. We are saturated with the accumulation of possessions. Luxury is shifting from possession and experiences to health, wellbeing and the mind. The most significant luxury of our times is 'not having to worry'.

The traditional economic value is upside down. Revolution of the luxury hospitality is happening. Whether a global brand, a niche player or an individual luxury property, no one will be able to avoid the reality of the new paradigm.

As always, those who are rethinking, planning and implementing and fundamentally changing, will be the winners. The others will have to think of good excuses.

Sources:
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Emanuel is Managing Partner at Horwath HTL Croatia, focused on strategy and operations consulting in the hospitality and tourism and leading Horwath HTL's Global Strategic Advice business line.

Due to his dedication to value creation and strong belief in importance of customer centricity, from the numerous projects in hospitality and tourism, he is particularly passionate and hands on when it comes to the luxury topics. Emanuel's consulting expertise in hospitality and tourism: Strategy; Marketing & Sales; Restructuring, Organization, Operations and Process optimization.

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Claudia is a former senior executive in luxury hospitality lately working as Vice President for The Leading Hotels of the World, the world's largest luxury hotel collection. Her international career served as an inspiration for Soul Luxury.

She is a unique voice understanding the deeper insights into the evolutionary shift in luxury lifestyle and is a pioneer in the Transformation Economy. Claudia founded Soul Luxury to help visionary brands create a new paradigm of success where emotional connection and deeper meaning underpins business strategy.

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Andrej is a Senior Project Manager with Horwath HTL Croatia, focused on strategy and operations consulting in the tourism & hospitality sector. Andrej's primary engagement focus has been on end-to-end transformation engagements offering consulting support from strategy development through operational optimisation, and all the way to "hands-on" implementation & change management.

Andrej's consulting expertise is: Growth Strategy, Digital Strategy, Transformation & Restructuring, Organisation & Process Optimisation, Data Analytics, Project Management and Implementation

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