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The Hospitality Industry

Because of the breadth of the hospitality industry and the wide demographic it serves, the industry is affected by, and must respond to, almost every major global trend. To better understand the effects of some of these trends, we took a look at four sub-sectors within the hospitality industry: Lodging; Food and Beverage; Air Travel; and Tours, Attractions, and Events.

Of course, no one study can exhaustively cover an entire industry, so we designed these insights to provide a bird’s-eye view of how today’s market forces are affecting it and how major players are responding to the constantly changing business environment. These insights are supported by our experience and education, interviews with leaders in the industry, and results from Jabian’s Hospitality Consumer Survey.

While we welcome readers to review the insights cover-to-cover, each of the 12 trends acts as a stand-alone analysis and may be read independently to allow you to focus on what interests you most.

### FOUR PRIMARY HOSPITALITY SUB-SECTORS

<table>
<thead>
<tr>
<th>Sub-sector</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lodging</td>
<td>Defined as any form of travel accommodation, including hotels, resorts, motels, bed and breakfast inns, boarding houses, vacation rentals, home shares, and serviced apartments.</td>
</tr>
<tr>
<td>Food and Beverage</td>
<td>Defined as commercial restaurant services, including table service restaurants, quick service restaurants, cafeterias and buffets, social catering, snack and nonalcoholic beverage bars, bars and taverns, managed services, and food and beverage outlets at lodging establishments.</td>
</tr>
<tr>
<td>Air Travel</td>
<td>Defined as operating an airline/aircraft to transport passengers and cargo. It includes airport management, contract services such as cleaning, passenger services, as well as aircraft manufacturing and maintenance.</td>
</tr>
<tr>
<td>Tours, Attractions, and Events</td>
<td>Defined as experiences or excursions enjoyed for a limited period of time for recreational, leisure, religious, family, or business purposes. These can include sporting events, amusement parks, museums, concert and entertainment venues, convention and conference centers, and cultural attractions.</td>
</tr>
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### IMPACTS AND INSIGHTS

- **Impacts**: As we explore each trend, an impact section will describe how that trend is playing out in a particular hospitality sub-sector. In addition, icons will indicate different types of insights that will help characterize the effect of a particular trend on a sub-sector.
- **Trend in Action**: Current examples of how the trend is in play in the marketplace.
- **Industry Quote**: Comments and quotes from leaders and experts in the industry.
- **Strategic Partners**: Partnerships formed to capitalize on a particular trend in a way neither party could individually.
- **Forward Thinking Concept**: Projecting what the industry could look like five-plus years from now based on the trend.
- **Ideas**: Ideas for organizations to consider in order to capitalize on the trend.
Millennials Emerging as the Largest Customer Segment

Millennials are the hotel industry’s fastest-growing customer segment and will comprise a primary source of purchasing power for the coming decade. As such, lodging companies should understand the needs, wants, and desires of their millennial customer base and take opportunities to involve them in the process.

Creating On-Site Community Spaces: Hotels have started transforming public spaces into social spaces. Even economy segment hotel chains have started exploring ways to create community spaces that appeal to millennials. Red Roof Inn’s president announced that the company is testing outdoor gathering spots with fire pits and picnic areas at specific hotels across the United States.

Engaging Millennials to Co-Create Experiences: Hotels are creating programs and co-creation platforms to engage with millennials on various topics, such as hotel and menu design, community spaces that appeal to millennials. Red Roof Inn’s program and beyond.

The millennials’ preference for social interactions is driving the design of social spaces and technology across the industry.

The Impact of the Sharing Economy on F&B:

**FOOD AND BEVERAGE**

Millennials have high expectations for both experience and speed from food and beverage outlets. They are shaping what we eat, how we eat, and where we eat.

Desire for Instant Gratification: Millennials tend to choose meals based on speed and convenience; they frequently dine at quick service casual restaurants or order from delivery websites such as Seamless (where the experience is mainly based on variety and speed). F&B outlets are starting to adopt next-generation restaurant ordering and payment solutions for faster and more convenient ways to serve customers. Grocery stores and convenience stores will likely increase the amount of space allocated for quick service brands/food options in order to accommodate millennials on-the-go.

**AIR TRAVEL**

Millennials travel differently than any other generation.

The Rise of Wearable Technology:

Smart wristbands are gaining industry insights. Smart wristbands contain computer chips or RFID tags, allowing the wearers to access cashless purchasing and connectedness. Smart wristbands are developing that allows the bands to connect directly with the wearer’s social media platform of choice. Because they appeal to the millennials’ need for convenience, speed, and connectedness, smart wristbands contain computer chips or RFID tags, allowing the wearers to access cashless purchasing and connectedness. Smart wristbands are developing that allows the bands to connect directly with the wearer’s social media platform of choice. Because they appeal to the millennials’ need for convenience, speed, and connectedness, smart wristbands contain computer chips or RFID tags, allowing the wearers to access cashless purchasing and connectedness. smart wristbands are developing that allows the bands to connect directly with the wearer’s social media platform of choice.
The Need for High-Tech and Personalized Customer Service

Technology is becoming an essential component of exceptional customer service. By the end of 2015, 65 percent of the U.S. population will have a smartphone or tablet, these high-tech devices have led consumers to expect innovation, responsiveness, and personalization. Hospitality companies must simultaneously offer cutting-edge, technology-driven customer service, without losing the personal touch.

Elevating the Digital Guest Experience and Self-Service: Operators have started incorporating smartphones and tablets throughout the entire guest experience. For example, mobile technology and apps allow remote check-in and check-out, keyless room entry, room-service ordering, service/appointment scheduling, as well as the ability to control in-room technology (smart TV, temperature, lighting, etc.). In 2014, Hilton announced that it will soon offer room selection via mobile and web-based floor plans. While these capabilities empower the guest and provide seamless customer service, some lodging companies have found them challenging to execute. Hotels will continue to focus on the operational and system components to improve the service experience, but the industry still has a ways to go.

Social Customer Care: Social media is becoming the main customer service platform for lodging companies and should be thought of as separate from social media marketing. Lodging companies are building separate departments to provide responsive and meaningful customer service to guests through social media.

FOOD AND BEVERAGE

The high-tech and personalized customer service trend has already affected F&B companies.

A visible example is the Coca-Cola Freestyle machines that provide guests the ability to create personalized fountain beverages. In addition, many restaurants are now using technology to interact with customers who are waiting to be seated by sending texts when their table is ready. There is also an increasing number of delivery apps that allow third-party vendors to offer takeout and delivery from nearby any restaurant. Here are a few more high-tech and personalized service changes expected to appear:

Intelligent Reservation Matching: Online reservation networks (like OpenTable) are pursuing intelligent reservation matching that benefits both customers and restaurants. To create matches, data about customer behavior and dining history is paired with data about restaurant promotions or specialties to create targeted offers. For example, customers who ordered fish at five different restaurants in the past year might receive a promotional offer for a newly opened seafood restaurant.

High-Tech Self-Service Dining Experiences: Some restaurants have started incorporating technology at the table, allowing customer self-service. From a tablet or personal smartphone, diners can explore the menu, see photos and reviews of dishes, place their orders, track the food prep, and pay.

TREND IN ACTION

Pizza Hut’s Table-Top Technology: Pizza Hut is piloting interactive table tops, developed by Chaotic Moon Studios, which deliver perfect customization through technology. Customers interact with the table tops to build and order pizzas, select additional items throughout the evening, and pay without flagging down the waiter. The tables also let people play games while they wait. This concept is appealing because it is personalized, unique, and entertaining.

AIR TRAVEL

The effort to integrate technology throughout the traveler experience is growing in creativity and popularity.

Mobile booking is on the rise, as are mobile boarding passes. There is also escalating excitement about wearable technology that will facilitate identity screening, as well as mobile payments in airports and aboard planes. Airports are enhancing terminals to provide a more high-tech/high-touch experience, such as providing iPads for passengers to use at the gate. Here are a few other examples:

Baggage Tracking Devices: Air travel companies are enhancing service for check baggage. Delta was one of the first companies to offer baggage location services through its mobile app. More advanced tracking capabilities have started to incorporate GPS location so travelers know the exact location of their bag at all times.

Real-Time Travel Screens and Beacon-Enabled Airports: Many airports are using technology to better service travelers — whether it’s figuring out the best route to the gate or by using smart, real-time travel screens to receive updated information. Some airports have made the commitment to install beacons throughout the airport. The data exchange between the beacons and traveler’s personal devices will help travelers navigate through the airport and can provide customers with targeted and location-specific coupons.

TREND IN ACTION

The Sacramento Kings’ New High-Tech Stadium: The new Sacramento Kings arena, set to open in 2016, is taking mobile interaction to a new level. It will offer mobile applications for check-in, finding your seat, locating the shortest bathroom or concession lines, updating your seat, cashless commissary, and in-seat wireless charging. The Kings are also exploiting the use of drone technology to survey available parking spaces and even provide unique in-arena camera angles.
Demand for Unique and Alternative Experiences

Customer appreciation for authenticity and adventure is on the rise. Unsurprisingly, the result is a wide-spread craving for the creative and unconventional. Products, services, processes, and offerings are becoming increasingly imaginative, generating competitive pressure to create more customer experiences that are authentic, original, and compelling.

TREND 3

**LODGING**

Guests now value the unique over the tried and true.

Their pursuit of the original and authentic has led to the rise of several new brands and lodging options.

**Boutique Hotels Still Profitable but Lifestyle Brands on the Rise:**

The Boutique and Lifestyle Lodging Association (BLLA) defines these hotels by their distinctive design, style, and atmosphere. Boutique hotels are usually independent or part of small brands and offer intimate, luxurious, or quirky upscale hotel environments for a very particular clientele. In 2014, the boutique segment posted the highest revenue per available room (RevPAR) compared to all other lodging segments. More recently, however, the focus has been on lifestyle brands — a relatively new segment that is becoming a bigger player in the lodging industry in 2015 and beyond. Lifestyle hotels are nationally franchised but geared towards travelers who are interested in boutique lodging. These hotels “combine living elements and activities into functional design that gives guests the opportunity to explore the experience they desire,” according to BLLA. New lifestyle brands in 2015 include AC Hotels and Moxy hotels.

**Lodging Alternatives in the Sharing Economy:**

Serviced apartments and home-sharing amenities not found in traditional hotels, such as fully equipped kitchens and additional living space. Many have pointed out recently that Airbnb has more beds than all the world’s hotel chains combined. With Airbnb’s success to date, we can anticipate that new competitors will enter the market and that the big brands will get involved. In 2015, Hyatt became an investor in onefinestay, which rents owners’ upscale vacation homes.

**Air Travel**

The air travel industry is bringing originality to flying through differentiated flying choices, alternative airport spaces, and ultra-luxury travel.

Airlines are redefining fare classes to differentiate in-flight experiences by price point. On the ground, airports are designing alternative spaces, such as gardens, to bring novelty to travel. In addition, luxury brands are entering the air travel space and raising the bar on luxury travel.

**Trend in Action**

JetBlue Airways Launches a New and Distinct Premium Flying Experience:

Launched in late 2014, JetBlue Mint has redefined its premium class, offering a unique flying experience at a cheaper price point than competitors’ premium fares. JetBlue has teamed up with a number of unique partners to provide a distinctive product, including “refresh-mint” and “soothing-mint” experiences containing the latest products and cuisines. Mint offers customized amenity kits such as Birchbox, a 15-inch flat screen with DIRECTV programming, and seats with adjustable firmness and built-in massage features. It also offers private suites with closing doors, a new feature for the American domestic market.

Singapore’s Changi Airport and Sosa’s Incheon Airport Offer Alternative Spaces:

In 2015, Skytrax rated Singapore’s Changi Airport the world’s best airport overall for the third straight year, largely due to its gardens. Changi has a butterfly garden, an orchid garden with a lei pond, and an “enchanted garden,” combing flowers, sculptures, soft forms, and sparkling lights. Sosa’s Incheon Airport, ranked just behind Changi, has two-year-round cultural performances and a dining range.

Four Seasons Debuts a Luxury Private Jet Experience: A new player is offering ultra-luxury in the air travel space. In April 2015, Four Seasons introduced a branded aircraft with the same style, service, and quality the hotel is known for. This private jet provides travel to and from Four Seasons hotels and resorts.

**Food and Beverage**

Restaurant patrons often prefer speed and convenience when selecting dining options, but they also put tremendous value on unique and alternative dining experiences.

**Physically Unique Dining Experiences:** Meals are now served in hot air balloons, on the water, and in submarines. For example, restaurant owners Chef and Thaddeus Fox in Annapolis, Md., launched a gastro pub and restaurant at City Dock inside a decommissioned World War I era submarine.

**Multi-Sensory Dining:** These experiences offer dynamic lighting, sound, and visuals. For example, as you enjoy a bowl of gazpacho, you are surrounded by a life-size projection of a Spanish flamenco show accompanied by the traditional, percussive flamenco guitar and castanets.

**Pop-Up Dining Options at Events or at Home:** Pop-up dining options at music, film, or art events are becoming increasingly popular and often include food trucks or chef demos. Alternatively, mobile apps now allow aspiring chefs to host dinners in their own home. Using Cook.App, amateur culinary artists can create a profile and sign up to host meals, transforming their apartments into pop-up restaurants.

**Industry Quote**

“The big buzzword in food and beverage right now is ‘experience.’ More and more people, particularly millennials, are interested and willing to pay a premium to be a part of something completely unique (as departure from the traditional restaurant formula). As the market shifts to meet demand, an increasing number of dining clubs, pop-up events, and multi-event, foot-half style dining venues have come into the market.”

— Oliver English, Vice President of Strategy and Development at Todd English Enterprises

**Tours, Attractions, and Events**

Tours, attractions, and events providers are luring customers out of their homes by offering unconventional entertainment and leisure options to spark interest.

**Projection Mapping and Unique Visual Experiences:** Projection mapping is being used to create distinct experiences at sports arenas and even at the Magic Kingdom. Projection mapping is also making its way into concert venues and theater. The industry is exploring more advanced visual media like kinetetic machines, which involves projections mapped onto moving objects.

**Quirky Attractions and Events:** Tourists tired of theme parks and museums have plenty of unique alternatives. For example, “Astrotourism,” offered by Trout Point Lodge in Nova Scotia, offers visitors an unobstructed view of the heavens. Located in a “dark zone” with almost no pollution, guests can use telescopes and high-power binoculars to appreciate the stars. On a smaller scale, tourists can even seek alternative experiences for happy hour. The eccentric Hotel Monaco in Portland, Ore, offers a happy hour for both humans and pets. Daily, from 3 to 6 p.m., it offers free wine and provides free psychic pet readings from an intuitive pet communicator.

**Multi-Sensory Dining:**

**Quirky Attractions and Events:**
Rise in Strategic Partnerships and Co-Branded Experiences

The term “strategic partnership” is loosely defined here, describing any type of partnership, agreement, alliance, or affiliation that adds value to all parties involved. Strategic partnerships are valuable because they allow companies to expand their offerings and shape their image by working with a partner that already offers those capabilities. For this reason, strategic partnerships are on the rise as hospitality companies look to improve brand image, increase market share, expand distribution channels, distribute costs, improve customer loyalty, or all of the above.

TREND IN ACTION

Universal Theme Parks and Nintendo: In mid-2015, Universal Parks and Resorts announced its plans to create the world’s first-ever theme park attraction based on Nintendo’s games and characters. Universal will be able to leverage the Nintendo brand and bring the game to life with advanced technology and interactive and engaging activities. This partnership will draw an incredible amount of traffic to the theme park, because of the strength of both brands and the experience they are entrusted to create.

Disney and the NBA: Also in mid-2015, Walt Disney Co. announced its plan to expand its partnership with the NBA by opening an attraction in Downtown Disney, near Orlando, Fla., called The NBA Experience. This new attraction will have high-tech interactive experiences and activities, a sit-down restaurant, and an NBA store all in one. Since Disney is an iconic brand with an international customer base, this partnership will significantly build the NBA brand and potentially draw more patrons to NBA games, after visiting Disney’s NBA Experience.

TREND 4

Collaborative Co-Branding: This is an emerging trend where uniquely branded companies team up to create a new product or concept. Certain breweries have demonstrated this trend by partnering to create craft beer events.

 ingredient co-branding:

Ingredient Co-Branding: This strategy combines two restaurant concepts to make it possible for stores to either gain market share or minimize costs. Restaurant owners have been exploring a few different types of brand partnerships.

Instrument Co-Branding: This strategy incorporates a uniquely branded product into an existing food product for marketing and brand expansion. For example, Smoothie Factory Juice Bar recently started incorporating Red Mango Frozen Yogurt and Smoothies’ yogurt into its beverages and saw a record growth year in 2014.

Franchise Co-Branding: This strategy combines two restaurant concepts and brands into one store to share promotion and operational expenses and to increase traffic to the store throughout the day. For example, Tim Hortons’ partnered with Cold Stone Creamery to draw morning, afternoon, and evening traffic.

Collaborative Co-Branding: This is an emerging trend where uniquely branded companies team up to create a new product or concept. Certain breweries have demonstrated this trend by partnering to create craft beer events.

Food and Beverage

While franchising has been very popular with food and beverage companies, co-branding has just started to gain momentum in the past few years.

Quick service restaurants are testing various co-branding concepts to make it possible for stores to either gain market share or minimize costs. Restaurant owners have been exploring a few different types of brand partnerships.

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Air Travel

Air travel companies are looking at the entire customer travel journey to see how strategic partnerships or branded product integration can better engage customers in the end-to-end travel experience.

The most well-known strategic alliances in air travel are among airlines (Star Alliance, for example). While airline alliances will continue to develop, airlines are looking to other types of partnerships to create reliable, convenient, or luxurious travel experiences that generate additional value.

Partnerships for Travel Convenience: Airline agreements with car service and rental car companies can create a seamless travel experience for the customer. The agreements allow customers to book pre- and post-air travel car service directly on the air carrier’s website — ensuring that neither planning nor travel is interrupted.

Partnerships for Novelty and Brand Equity: Delta recently started serving Georgia’s SweetWater beer on routes from Atlanta to New York to create a hometown feel. Southbeach launched a new inflight entertainment experience by partnering with Beats music, allowing customers access to a wider range of music.

Partnerships that Differentiate the Experience for High Value Customers: Companies must recognize and reward their most loyal and valuable customers with exceptional experiences and service. They often do so by partnering with other luxury brands. Delta Air Lines elevated the sleep experience in its DeltaOne cabins by offering Westin Heavenly InFlight bedding designed and manufactured exclusively for Delta. Delta also introduced a new amenity kit with luxury brands Malin+Goetz and Tumi. To help travelers with connections, American Airlines and Cadillac announced a partnership that provides travelers with “on-ramp” flight-to-flight transfers in a luxury Cadillac. Delta and Porsche have partnered to offer similar plane-to-plane service.

TREND IN ACTION

Airline Partners with Film Location Lodgings for a “Game of Thrones” Travel Experience: This partnership caters directly to travelers thirsty for adventure. This travel experience allows guests to visit the dreamlike “Game of Thrones” filming locations and stay at local Airbnbs (in a room in a castle in Ireland, for instance). These companies have leveraged completely different assets to create a travel experience that neither could offer independently.

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Increase in International Travelers from China

China is now the world’s largest outbound tourist market and spender. By 2023, leisure trips are expected to account for 62 percent of total Chinese outbound travel, with the United States as the top growth destination for arrivals. According to U.S. Secretary of Commerce Penny Pritzker, by 2021, 7.3 million Chinese citizens will be traveling to the states, spending $85 billion per year.

LODGING
Increased travel from China has caught the attention of the lodging community, prompting changes to adapt to the customs and preferences of these guests.

For example, some lodging companies are offering cultural training programs and Mandarin language courses to their staff. Third-party gateway companies, like Attract China, are beginning to help hospitality companies target Chinese travelers by recommending strategies to connect with them, and by educating operators on products, programs, and amenities that fit guest needs. Approximately 90 percent of Chinese travelers are under the age of 45 and are very tech-savvy. As such, partnerships with leading Chinese booking engines, such as Ctrip, can provide access to a large number of Chinese travelers.

FOOD AND BEVERAGE
When traveling to the United States, Chinese travelers tend to visit New York City, Los Angeles, and San Francisco.

“All three cities are ranked among the top 15 global markets in terms of Chinese arrivals and room nights and are expected to remain the most visited within the wider region over the next ten years” (Oxford Economics report for InterContinental Hotel Group).

Other popular U.S. destinations for overseas travelers include Washington, D.C., Las Vegas, and Miami. F&B companies in these cities specifically should take action to capitalize on the growth expected from Chinese travelers.

AIR TRAVEL
Airlines are focused on making improvements to flight schedules, airports, and customer service/call centers to accommodate the influx of international travelers to the United States.

In 2014 and 2015, there has been an uptick in non-stop U.S.-Asia routes. Following United’s and Delta’s lead, American Airlines has recently added flights from Dallas-Fort Worth (its biggest hub) to Hong Kong, Shanghai, and Beijing.

Increase in International Partnerships and Alliances: American Airlines recently signed a marketing agreement that allows Korean Air, a Delta global alliance partner, to easily book travelers on American flights from Seoul. Delta continues to strengthen relationships with China Eastern, China Southern, and China Airlines to increase its intra-China network and capture the influx of additional transfer passengers coming to the United States.

Strategic Investments in Key U.S. Airlines: Airlines have provided capital to renovate specific airports to make them more desirable to international travelers and expand the trans-Pacific network. In the next few years, the Los Angeles and Seattle-International Airports will undergo massive $3 billion and $1 billion renovation projects, respectively.

Heightened Focus on Customer Service and Call Centers: To improve call handling and outcomes, airlines are revamping their call center/service capabilities by improving intercultural communication and offering multiple languages.

TOURS, ATTRACTIONS, AND EVENTS
With increased Chinese tourism, operators are exploring ways to attract and accommodate Chinese travelers as they represent a large potential revenue source.

According to Chinese International Travel Monitor, the top five products/services that are most important to Chinese travelers on an international trip include: free Wi-Fi, China Union Pay/ Alipay, Mandarin-speaking staff, translated travel/tourism guides, and translated websites. Following the lead of hotels and airlines, operators of tours, events, and attractions should consider incorporating these products/services to appeal to Chinese travelers.

TREND IN ACTION
The NBA Expands its Fan Base with Creative Marketing Efforts: Professional sports and theme parks are increasing efforts to develop strongholds into China and India. For example, the NBA is pursuing native Chinese and Indian superstars to fire up fan support and strengthen its social media presence. In January 2015, the NBA announced a five-year sequence of their relationship with Tencent Holdings Limited, a provider of comprehensive internet services in China, that will allow the NBA to broadcast more live games. The goal is to attract more visitors and expand its fan base to drive more revenue.

Six Flags Creates Partnerships to Increase Brand Presence in China: In 2014, Six Flags Entertainment Corp., the world’s largest regional theme park company, entered a strategic partnership with the Riverside Investment Group Co. Ltd., a leading real estate developer in China, and announced its intention to build multiple Six Flags parks in China over the next decade. The partnership lends Six Flags credibility in a new market — one that has the fastest growing travel and tourism industry in the world.
Driving Profitability Through Ancillary Revenue

Hospitality companies are driving profitability by offering creative product and service “extras” in addition to their primary offerings. These offers can generate revenue from excess capacity, tap into new market segments, build brand image, and/or improve flexibility, convenience, and comfort for customers.

LODGING

Lodging companies are pursuing ancillary product and service offerings that not only generate additional revenue but also further define brand image.

First, ancillary revenue can be generated by creating incentives for guests to purchase value-added (and sometimes last minute) “extras” that make use of available resources, generating additional revenue at minimal additional cost. Secondly, as hotels increasingly position themselves as lifestyle connoisseurs, ancillary offerings can help differentiate the brand.

F&BE (Food and Beverage)

F&B outlets have been slower to identify innovative ancillary revenue opportunities outside of F&B itself, but the industry is rich with opportunities.

Demand for “Grab and Go” Food Options: Restaurants are starting to redesign their spaces to adapt to changing consumer behaviors. For instance, some F&B outlets are starting to designate space for “grab and go” food options. Demand for prepared and packaged food is on the rise and could be a source of ancillary revenue with minimal incremental investment. Restaurants can offer partially or fully prepared food options with the look and feel of a deli counter in addition to their full-service offerings. This trend is also growing in full-service hotels as they move away from sit-down restaurants, and in some cases, eliminate room service, in favor of grab and go options. Many airport restaurants are incorporating grab and go as well.

Revenue from Loyalty/Membership Programs: Restaurants could look to expand ancillary revenue by borrowing ideas from other industries. For example, restaurants could offer loyalty programs, in which customers pay an annual fee to receive special offers for exclusive meals or live music nights at select restaurants.

Branded Product Offerings: Restaurants with exceptional food or design elements could cross-sell cookbooks featuring restaurant specialties as well as their unique furniture, bars, and lighting fixtures so customers can recreate the feel at home. In the most recent J.D. Power Lodging Consumer Survey, approximately 55 percent of respondents indicated some level of interest in purchasing a cookbook from a restaurant, but only 34 percent indicated some level of interest in purchasing restaurant logo wear. Survey results also showed that millennials have more interest in purchasing ancillary products from a restaurant than older generations.

AIR TRAVEL

Ancillary revenue is an expanding focus area for airlines.

Revenue from “Extra” and “Added” Event Experiences: Theme parks and concert venues are also earning increasing percentages of revenue from ancillary sources, such as early admissions, upgraded seating, behind-the-scenes access, and special souvenir packages. Sporting events now offer invitations to game warm-ups or the option to stand next to players during the national anthem. Most famously, and perhaps controversially, NFL teams sell Personal Seat Licenses (PSL) anywhere from $1,000 to $15,000 per seat, allowing the customer the right to buy season tickets for certain seats.

TRENDS

TREND 6: Ancillary revenue can be generated by creating incentives for guests to purchase value-added — and sometimes last minute — “extras.”

TACTICS TO PERSUADE ANCILLARY PURCHASE BEHAVIOR

Tactics to Persuade Ancillary Purchase Behavior: A February 2015 Stanford study by Pedro M. Gardete, monitored a seatback ordering system that sold a la carte food, alcohol, and movies to passengers, and recorded a time stamp, seat number, and receipt for every purchase. The study revealed that passengers are 30 percent more likely to purchase if they observe others purchasing. In response, airlines are making in-flight purchases simpler and more visible. For example, JetBlue introduced Apple Pay for onboard sales in June 2015. The convenience encourages passengers to make frequent, visible purchases, which makes others more likely to buy. Also, many airlines, including Virgin America, Delta, JetBlue, and Singapore Airlines, among others, are offering expanded or upgraded in-flight entertainment options for purchase from each seatback display. Some of the more advanced options include games, seat-to-seat chat functionality, SiriusXM radio, online shopping, and music libraries.

IDEAS

Targeted and Timely Offers: Hotels are starting to distribute ancillary offers to guests right before their stay. Offers like room upgrades and meal packages would take advantage of existing resources, while offers for tours, activities, or fitness classes could reinforce the hotel’s lifestyle brand. In the most recent J.D. Power Lodging Consumer Survey, consumers indicated they were interested in receiving offers and discounts right before their stay. Approximately 48 percent of millennials (18-29 years of age) and about 40 percent of each older age group (30+ years of age) indicated they were “very interested” in or “would probably consider” these offers.

Pairing Unique Beverages with Desired Ambiance: For instance, some F&B outlets are starting to designate space for beverages in unique lobby spaces that are designed for social interaction, can create a distinctive atmosphere that both builds brand image and creates a memorable experience for guests.

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IDEAS

Revenue from Loyalty/Membership Programs: Restaurants could look to expand ancillary revenue by borrowing ideas from other industries. For example, restaurants could offer loyalty programs, in which customers pay an annual fee to receive special offers for exclusive meals or live music nights at select restaurants.

Branded Product Offerings: Restaurants with exceptional food or design elements could cross-sell cookbooks featuring restaurant specialties as well as their unique furniture, bars, and lighting fixtures so customers can recreate the feel at home. In the most recent J.D. Power Lodging Consumer Survey, approximately 55 percent of respondents indicated some level of interest in purchasing a cookbook from a restaurant, but only 34 percent indicated some level of interest in purchasing restaurant logo wear. Survey results also showed that millennials have more interest in purchasing ancillary products from a restaurant than older generations.

Revenue from “Extra” and “Added” Event Experiences: Theme parks and concert venues are also earning increasing percentages of revenue from ancillary sources, such as early admissions, upgraded seating, behind-the-scenes access, and special souvenir packages. Sporting events now offer invitations to game warm-ups or the option to stand next to players during the national anthem. Most famously, and perhaps controversially, NFL teams sell Personal Seat Licenses (PSL) anywhere from $1,000 to $15,000 per seat, allowing the customer the right to buy season tickets for certain seats.

IDEAS

Subscription-Based Offerings for Frequent Travelers: Airlines could offer additional subscription-based packages, such as subscribing to an enhanced entertainment package or upgraded food and beverage program. In addition to generating ancillary revenue (and potentially front-loading this revenue), this strategy would also increase the switching costs for customers.

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IDEAS

Corporate Sponsorships Offer Large Ancillary Revenue Opportunities: Corporate sponsorships are a primary source of ancillary revenue, as corporations increasingly view sponsorship as an appealing way to build brand equity. U.S. corporate spending on sports sponsorships totaled an estimated $20 billion in 2013 — one-third of total U.S. TV advertising. Also, sponsorship revenue for the NBA totaled $679 million in the 2013-2014 season. Why are corporations spending so much? Research shows that official sponsors receive greater recognition from sports sponsorship than from ambush marketing techniques, fueling corporations’ willingness to participate.

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Increasing Labor Regulations and Cost

As of July 2015, the U.S. Bureau of Labor Statistics reports 5.5 percent unemployment, but multiple other sources claim the “real” unemployment rate, includes those not looking for jobs, is closer to 11 percent; due in part to political forces creating an environment unfavorable for large employers. The push for a higher minimum wage, broader overtime protection, increased health care expense, and additional immigration regulations are squeezing margins for labor-dependent hospitality companies.

**FOOD AND BEVERAGE**

Effective labor management in restaurants requires constant effort and attention.

In addition to facing an increased minimum wage and, in some places, mandatory E-Verify employee authentication, restaurant managers continue to battle traditional labor issues such as high employee turnover and staffing correctly for unpredictable demand patterns. While there is little F&B managers can do to combat minimum wage and immigration legislation, they can make strides in improving both internal efficiency and their agility in responding to fluctuating demand.

**IDEAS**

Restaurant managers can explore two practices that, respectively, can improve the ability to react to unexpected staff shortages or traffic surges, and reduce the time spent coordinating and communicating with staff.

**Cross-Training Employees:** It is well-known that employees “call off” at the last minute, and that inevitable rushes occur. Cross-training employees is the simplest method to combat being understaffed at crucial moments. Servers might need to help the bartender, or assistant managers might need to run food or seat guests. To avoid the wasted time and cost of training everyone to do everything, managers can identify the one to two functions that most frequently become bottlenecks and train accordingly.

**Using Labor Management Apps:** Managers no longer need to publish schedules on a bulletin board and make multiple phone calls to coordinate labor shifts. Schedule apps can now fulfill these needs in real-time, freeing up management capacity. ScheduleFly, for example, is an app created for restaurants in which employees can record time off and trade shifts, and managers can publish work schedules and view labor reports. Because it operates on a mobile platform, information can be traded in real-time.

**AIR TRAVEL**

Labor is the second highest cost for air travel companies, just behind jet fuel. Similar to other hospitality sub-sectors, air travel has also seen labor challenges recently. Here are a few labor-related hot topics in 2015:

**Labor Standards and Open Skies Policy:** Open Skies is an international policy concept that allows the liberalization of rules and regulations throughout the global aviation industry to create a free-market environment. The United States has struck Open Skies deals with more than 100 countries as well as the EU since 1992. Open Skies agreements have fostered the expansion of three Gulf carriers — Emirates, Etihad Airways, and Qatar Airways — who are using questionable government subsidies (estimated at $42 billion) and leveraging the policy to gain access to the U.S. market. The subsidies not only violate the Open Skies agreements, but also threaten the U.S. airline industry, airline jobs, and the U.S. economy. The three Gulf airlines also have a union ban, resulting in below-market labor costs. U.S. airlines and labor organizations are fighting back with the argument that “fair” policy should accompany “open” policy. This rift could potentially alter regulations and define international labor standards.

**Pilot Labor Shortage:** A pilot shortage has been detrimental to regional airlines and smaller carriers and has impacted airline operations in some parts of the U.S. “The Federal Aviation Administration’s ruling of hiring pilots with minimum of 1,500 hours of flying experience is held as the root cause behind the shortfall in flight crew” (Zack’s Equity Research). This has resulted in increased labor costs (in the form of wages and/or retention bonuses) or decreased route operations. Compounding this issue, according to industry estimates, more than 14,000 pilots will retire between 2015 and 2022.

The increasing ratio of seasonal/hourly/part-time employees to full-time employees has gone from nearly 50/50 in 2011 to about 70/30 in the current survey.

**Affordable Care Act Regulations for Treatment of Seasonal Employees:** The increasing proportion of seasonal and temporary employees could be due in part to PPACA regulations stating that seasonal employees do not qualify as full-time employees (under specific conditions), even if they work 30+ hours/week, meaning that employers do not have to provide medical coverage for, or pay fines for seasonal employees. Supporting this trend, the IAAPA report states that approximately 46 percent of respondents offer health/travel insurance to full-time employees, but only 16 percent offer medical coverage for part-time seasonal/hourly staff.

To combat the additional health care costs of full-time employees required by the PPACA, tours, attraction, and event operators are employing an increasing percentage of part-time, seasonal, and temporary workers.

**TECHNOLOGY**

A Cornell Hotel School article suggested that maintaining the balance between labor costs and service levels will get more challenging in 2015 and beyond.

**Direct Payroll Increases Associated with Changes to Minimum Wage and Overtime Regulation:** In March 2014, President Obama called on U.S. Congress to raise the national minimum wage from $7.25 to $10 per hour for federal employees. While the economic impact is debated hotly at the corporate level, the increased cost will likely be handled through price increases or payroll reductions. In addition, the Department of Labor is assessing overtime pay practices in an attempt to protect more of its workforce (which could include salaried employees).

Direct payroll increases associated with changes to minimum wage and overtime regulation are estimated to impose an additional cost of $6 billion per year, compared to other industries, the hospitality sector is expected to be hit the hardest. In addition to the increased cost of labor, optics, and regulations or cost could have a big impact on margins.

**Employee Benefit Costs Associated with Affordable Care Act:** Mercer, a leading employee benefits provider, estimated that the Affordable Care Act will result in increased labor costs (in the form of wages and/or retention bonuses) or decreased route operations. Compounding this issue, according to industry estimates, more than 14,000 pilots will retire between 2015 and 2022.

**The Increasing Ratio of Seasonal to Full-Time Employees:** The International Association of Amusement Parks and Attractions (IAAPA) recently published the Family Entertainment Center Benchmark Report of 2013-2014, which compiles financial and operational data from more than 300 facilities worldwide. The report states that the average ratio of seasonal/hourly/part-time employees to full-time employees has gone from nearly 50/50 in 2011 to about 70/30 in the current survey.

**Tours, Attractions, and Events**

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Stronger Drivers Toward Sustainability

External drivers continue to fuel expectations of improved sustainability, encouraging hospitality companies to demonstrate social responsibility and comply with legislation. Another compelling driver, however, is implementing sustainable practices to reduce operating costs amid times of rising utility costs and a higher cost to serve.

**TREND 8**

**Boutique Resort Demonstrates Environmental Consciousness:** The Paradise Point Island Resort in California has identified simple and effective ways to promote sustainable practices and reduce costs. For example, guest bathrooms feature low-flow toilets and shower heads, meeting rooms are linen-less to conserve water and laundry chemical use, and drought-tolerant plants replaced 50,000 square feet of turf, saving 1 million gallons of water annually.

Hilton Partners with World Wildlife Fund to Strengthen Sustainability Impact: In mid-2015, Hilton partnered with the World Wildlife Fund (WWF) to reduce its impact on the environment, on a multi-faceted and global scale. Hilton was one of the first major multi-branded hospitality companies to make environmental reporting and continuous improvement a standard for all its hotels across all brands.

**FOOD AND BEVERAGE**

Over the next few years, restaurants should prepare themselves for even greater sustainability scrutiny as industry experts and customers demand to know where their food comes from and whether restaurants are environmentally responsible.

Of course, it is easy to say “go green” or “source locally,” but it can be difficult or costly to implement at scale. The good news is that there are environmentally responsible business practices that also satisfy customer demand and protect the bottom line.

**FOOD AND BEVERAGE IDEA**

**Focus on the Most Impactful Sustainability Efforts:** In the January 2015 Nielsen survey “We Are What We Eat,” over 40 percent of global respondents said “ fresher” and “skimmed” as very important, while organic and local foods were valued as very important, by only 33 percent and 26 percent, respectively. However, importance doesn’t necessarily correlate with willingness to pay.

In the Nielsen survey, organic food was the only category for which importance equaled willingness to pay extra; 53 percent said it was important, and 33 percent were willing to pay extra. The most recent Nielsen Hospitality Consumer Survey found that consumers were also willing to pay a premium for locally sourced food.

Approximately 68 percent of respondents said they would “definitely” or “probably” increase their loyalty or spending if a restaurant or hotel sourced from local farms or suppliers; this percentage increased to 55 percent for millennials alone.

The Use of Green Appliances: Energy-efficient commercial foodservice equipment is increasingly available and can provide long-term cost savings while reducing waste. For example, ENERGY STAR-certified cookers use less than 10 percent of the water used by standard cookers (3 gallons of water/hour versus 45). Similarly, certified hot food holding cabinets are 70 percent more energy efficient than standard models, saving $300/year on average for electricity.

**AIR TRAVEL**

Two of the more visible sustainability efforts within air travel include green airport design and alternative fuels.

**Renovations for Green Airport Design:** Multi-million dollar renovation efforts are underway at LaGuardia, New Orleans, and Dallas-Fort Worth International Airports that will reduce energy and water consumption. The renovations include installing energy-efficient air and plumbing systems, and adding glass walls to allow more natural sunlight.

**Tour Strategies and Event Ideas**

In the past few years, stadiums and arenas have come under fire for their colossal environmental impact.

According to Waste Management (WM), the four major professional leagues (NFL, MLB, NBA, NHL) generate approximately 35,000 metric tons of carbon dioxide (CO2) each year from their fans’ waste activities. Furthermore, stadiums and arenas contribute to the 36 million tons of food waste produced. To go green, venue managers are partnering with sustainability companies or developing their own programs and initiatives to reduce carbon emissions, food waste, and energy consumption.

Sustainable Waste Management in Stadiums: Some solutions to manage waste are simple, such as “FanCans” — recycling containers comically wearing baseball caps or football helmets to encourage recycling. Other solutions are revolutionary, such as the Grind2Energy system that converts food waste into renewable energy. The Cleveland Browns are the first professional franchise to employ the Grind2Energy system from IntSinkEtor. Food scraps that would otherwise go to a landfill are collected and converted into biogas for energy and fuel uses.

Sustainable Construction: Stadium construction, as a standard, now includes techniques such as low-water bathrooms and high-efficiency lighting retrofits to reduce the environmental impact.

**TREND IN ACTION**

**Entertainment Company AEG Creates Sustainability Program:** Entertainment giant, AEG, who owns, is affiliated with, or controls 100 of the world’s most renowned stadiums and arenas, has created a dedicated environmental sustainability program called AEG LEAFTH. Since 2010, it has published an annual sustainability report, showing progress toward its 2020 Environmental Goals. Goal categories include: energy and climate; water; waste; and recycling; responsible purchasing; and education and communication.
Many industry experts have recognized 2015 as the year of upward momentum. Jones Lang LaSalle (JLL) reported, “A rising tide lifts all boats, and the strong flow of cross-border capital into hotel real estate assets is galvanizing increased deal momentum.” JLL forecast global hotel real estate transaction volume would reach $66 billion in 2015, the third-highest annual total on record and a 15 percent increase from 2014 levels. Cross-border trades are predicted to account for one-third of deals in 2015, with the United States, China, Singapore, and the Middle East as the biggest capital exporters. Developers are also exploring new methods of financing offshore, such as crowdfunding, which is growing in popularity.

Availability of Financing and Offshore Investment to Drive Growth

Countries across the globe find various ways to finance growth through domestic and international financing. The United States is still favored by domestic/offshore investors for capital investments because of broad choices in property market. The United States received $366 billion of inbound investment in real estate in 2014.

STRATEGIC PARTNERS
Law Firm Partners with Chinese Investors to Accelerate U.S. Growth: Jefferson Buell and Mitchell (JMMB), a law firm specializing in hospitality real estate development, has worked on a growing number of ventures with Chinese investment in U.S. hotels, real estate projects, and EB-5 immigrant visa projects. This strategic partner helps Chinese investors purchase or invest in hotels and real estate in the United States by identifying and securing purchase and sale transactions; securing debt and equity financings; obtaining government approvals and permits; and planning for tax obligations. JMMB has sourced more than $700 million of EB-5 financing for new development projects.

FOOD AND BEVERAGE
Securing financing is a notoriously difficult task for restaurants. Start-up struggles because they have no historical income and require heavy capital expenditures at the start, and publicly traded chains struggle to maintain consistent investor support because valuation ratios can vary widely due to economic changes. However, the market is experiencing mounting investor interest in fast-growing, fast-casual restaurants.

SEC Provisions Create Opportunities for Fast-Casual Segment: Several fast-casual chains issued IPOs in 2014, including Habit Restaurants LLC, ($100 million), Zoe’s Mediterranean Kitchen ($87.5 million), and El Pollo Loco ($37 million). This trend may be attributable in part to new SEC legislation that makes it easier for Emerging Growth Companies (EGCs) to go public. Here are a few provisions from the Jumpstart Our Business Startups (JOBS) Act, initiated by the SEC in April 2012.

Register Confidentially: EGCs may initiate the SEC registration process confidentially to allow exploration of the IPO without the public commitment and risk.

Ability to Test the Waters with Investors: Before or after filing a registration statement, EGCs may meet with buyers or accredited investors to gauge their interest in a potential offering.

Scaled Financial Disclosure: EGCs may go public using only two years of audited financial statements instead of the traditional three.

Internal Controls Audit: EGCs are exempt from the controls audits instated by the SEC in April 2012.

Extended Phase-In for New GAAP: Private companies are allowed phase-in periods to adopt the new GAAP accounting standards.

The IPO trend for fast-casual restaurants is expected to continue through 2015.

AIR TRAVEL
After years of capacity reductions in the wake of the financial crisis, the airline industry is returning to a period of expansion. In the past few years, the industry has benefited from low interest rates and relatively low fuel prices. These factors, coupled with a flurry of consolidation activity, have left airlines in a financial condition where expansion is once again viable. The result is a greater ability to finance capital improvement projects, grow fleets, and expand routes.

Financing Airport Renovations: Airport renovations are being financed by major airlines as well as offshore investors (specifically Chinese investors).

Fleet Expansion and Renewal: American Airlines announced that throughout 2015 it plans to take on an average of two new planes a week, totaling more than 100 new planes. In April 2015, Copa Airlines of Panama placed an order for 61 Boeing 737-Max Jets. The $6.6 billion deal is said to be the largest transaction between the United States and Panama to date. Throughout the first half of 2015, the Import-Export Bank has continued to provide loan guarantees to international carriers for Boeing jets (not without significant discount from U.S. carriers — Delta in particular).

TREND IN ACTION
Qatar Airways and Delta Air Lines Invest in International Carriers: Airlines across the globe are investing in overseas airlines to expand their footprint. In early 2015, Qatar Airways invested $1.7 billion to acquire a 9.99 percent stake in the International Consolidated Airlines Group (IAG), which owns British Airways and Iberia. Qatar Airways hopes to expand its footprint, which could include codesharing on flights via the Gulf state — allowing the airlines to sell tickets on each other’s planes. Delta Air Lines also dispersed its foreign partnerships by buying minority stakes in three overseas carriers — Aeromexico, Brazil’s Gol, and Virgin Atlantic — and strengthening its existing alliance with Air France-KLM.

By 2020, China is expected to build over 50 theme parks, including Disney, Universal, and Six Flags.
In the most recent Jabian Hospitality Consumer Survey, 54 percent of respondents indicated that improved air quality and circulation would “substantially improve” their flying experience.

Food and Beverage

Health and wellness has been top of mind for many F&B outlets and will continue to be a focus area.

Consumers are now more ingredient conscious and are expressing concern around food safety. A few health-related F&B trends are causing food providers to re-think their menus.

Menu Labeling Requirements: In late 2014, the U.S. Food and Drug Administration (FDA) finalized two rules, requiring that calorie information be listed on menus and menu boards in chain restaurants and similar retail food shops. Impacted providers have one year to comply.

Concern Around Genetically Modified Organisms (GMOs): There are inconclusive studies as to whether or not GMO foods pose health risks. GMO labeling will continue to be a hot topic that F&B outlets need to be aware of since regulations vary regionally and globally.

Increase in Special Dietary Needs: The rise of customers with specialized diets means healthy eating will continue to take on many different, highly specific forms, such as vegan, low sugar, and low sodium varieties, among others. In some cases, these preferences stem not only from health reasons, but also from personal preference and popular culture. For example, gluten-free foods have gained popularity with more than those with celiac disease. In response, fast-casual restaurants will alter their menus to accommodate customers and improve transparency.

Tourism and Attractions

In-Flight Cleanliness and Sanitation: One under-explored area of wellness within air travel is cleanliness. In the most recent Jabian Hospitality Consumer Survey, 52 percent of respondents indicated that improved overall cleanliness on an aircraft would “substantially improve” their flying experience and another 33 percent said it would “improve their experience, a little.” To promote wellness, airlines could take simple measures, such as offering disinfectant wipes on board to clean tray tables. On a larger scale, aircraft manufacturers could consider anti-microbial seat fabrics and/or carpets that repel germs, dirt, and odor. Airlines should also consider aircraft sanitation systems using UV-C lights. Gemfacial has developed a robotic prototype that disinfects all commonly touched surfaces of the passenger cabin with a 99.99 percent germ kill rate in less than 15 minutes of treatment time.

Ideas

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In-Flight Cleanliness and Sanitation: One under-explored area of wellness within air travel is cleanliness. In the most recent Jabian Hospitality Consumer Survey, 52 percent of respondents indicated that improved overall cleanliness on an aircraft would “substantially improve” their flying experience and another 33 percent said it would “improve their experience, a little.” To promote wellness, airlines could take simple measures, such as offering disinfectant wipes on board to clean tray tables. On a larger scale, aircraft manufacturers could consider anti-microbial seat fabrics and/or carpets that repel germs, dirt, and odor. Airlines should also consider aircraft sanitation systems using UV-C lights. Gemfacial has developed a robotic prototype that disinfects all commonly touched surfaces of the passenger cabin with a 99.99 percent germ kill rate in less than 15 minutes of treatment time.
Strategic Cost Management along the Value Chain

In order to maintain profit margins and meet heightened customer expectations, hospitality companies are finding innovative and strategic ways to manage their various costs, fees, and expenses. Companies are not only focused on optimizing operating expenses, they are assessing the value of existing supplier and distribution networks in response to cost increases and inconsistencies.

Lodging

Lodging establishments have been focused on the increasing costs associated with business/guest acquisition.

Lodging companies struggle to best leverage the various distribution channels to generate business while controlling the fees and expenses associated with acquiring that business. Two continuing challenges associated with business/guest acquisition include:

Controlling Customer Acquisition Costs (CACs): These are the costs associated with customer “shopping.” CACs have often been increasing at a faster pace than revenue, largely due to price transparency brought on by the increase in online aggregators and meta-search engines. The ability to attract and retain customers while strategically controlling sales and marketing expenses will be even more important as Google and Microsoft enter the travel space.

Managing Distribution Costs: These are the costs associated with customer “booking,” which include fees and commissions paid to the various distribution channels. Bookings through an online travel agency (OTA) could have a 15 percent fee for a national brand and as much as 30 percent for an independent. With this in mind, there will continue to be significant momentum to encourage and incent guests to book directly with the hotel or brand instead of using a third-party intermediary.

Food and Beverage

Food, beverage, and labor usually represented between 60 and 70 percent of a restaurant’s total costs.

These costs must be carefully managed and monitored in order for a restaurant to maintain profit margins. Food costs have been rising and will continue to do so, according to the National Restaurant Association’s 2015 Industry Forecast. Average wholesale food prices jumped more than 5 percent in 2014, which represents the fifth consecutive annual increase. During the last five years, average wholesale food prices have risen roughly 25 percent. F&B outlets are starting to take action with the following:

- Smaller Portion Sizes and Portion Control: To compensate for rising food costs, some restaurants are offering smaller portion sizes. If done judiciously, smaller portions can encourage healthier eating and may even generate additional sales as customers have room for dessert on smaller drinks.
- Sophisticated Inventory Management Software: Restaurants are leveraging specialized software to manage inventory and reduce waste, minimizing costs in the long run. Software has to be selected judiciously, however, because unnecessary complexities can increase labor hours and diminish any cost benefits.

Air Travel

While many costs are incurred by airlines, the biggest cost continues to be jet fuel, which accounts for roughly 34 percent of an airline’s operating costs.

Airlines have traditionally tried to reduce the volatility and associated cost of fluctuating fuel prices with financial hedging. While financial hedging will undoubtedly continue, new tactics are emerging. Some airlines are analyzing their supply chain in its entirety to identify ways to gain more direct, long-term control of their costs.

Trend in Action

Delta Air Lines’ is shifting focus from competing solely with other carriers to being a high-quality industrial transportation company (think railroads, shipping, etc.). As such, Delta has made two strategic investments to control costs and support their growth strategy:
- Delta Air Lines’ Oil Refinery Purchase: Delta has moved toward vertical integration and better management of fuel costs by acquiring an oil refinery. Delta acquired Monroe Energy for $250 million in April 2012. Since then, the Pennsylvania refinery has expanded production of jet fuel to supply Delta’s operations in New York and Boston. Delta CEO Richard Anderson told CNBC that owning the refinery would allow the airline to participate in the pricing of jet fuel in the United States and would allow Delta greater control over this critical business expense.
- Delta Air Lines’ Oil Transport Strategies: Instead of relying on rail to transport oil, Delta is starting to transport oil via coastal tanker. In August 2014, the Delta refinery began charting a 330,000-barrel Jones Act coastal tanker to move oil from Texas to Delaware. Delta plans on purchasing a vessel and constructing a five-mile pipeline to ship oil from a new crude-by-rail hub near Philadelphia to its Trainer refinery, which would allow the airline to scale back the use of Jones Act barges, for an additional $2/barrel fee.

Tourism, Attractions, and Events

The hospitality industry is beginning to leverage big data as a strategic cost management tool, where “big data” can be described as the exponential growth and availability of data.

As events and attractions become increasingly digital, an expanding array of information can shed light on customer and employee behavior, business seasonality, and operational efficiency. These insights can be leveraged to improve human capital management, as well as provide real-time business intelligence about internal operations.

Ideas

Adjusting Industry Metrics for Better Cost Control: Customer acquisition and distribution costs should be a major focus point among owners, operators, and brand franchise companies. In order to develop a total revenue management strategy, industry metrics need to shift from RevPAR to Net RevPAR to determine revenue generated net acquisition costs, including both sales and marketing expenses and distribution fees and commissions. Companies must also understand true channel profitability. One way to start is by assessing Contribution by Channel, determining the revenue in each channel net of transaction-specific costs.

Trend in Action

IDEAS

The Hotel Nikko San Francisco Creates Cost Efficiencies with Clear Sky Software: The Hotel Nikko recently shifted control of its F&B product inventory over to the Clear Sky software system. This comprehensive system manages purchasing, receiving, outfit transfers, usage, and financials, and with advanced cost-specific reporting capabilities (like F&B costs by location and product), this bar-and-food software, hardware, and services combination will ultimately help The Hotel Nikko manage their food and beverage inventory with greater efficiency while reducing F&B costs and labor (ClearSky Software Press Release on Hotel Online).

Trends in Action

During the last five years, average wholesale food prices have risen roughly 25 percent.
Technology Integration and the Internet of Things

Any object with an on-off switch and Wi-Fi can become “smart.” Adoption of in-home and wearable Internet of Things (IoT) technology will grow in the next five to ten years, driven by millennials and baby boomers. As the IoT gains momentum, customers will expect the same connectedness and convenience they enjoy at home.

LODGING

IoT technology has the potential to significantly upgrade the guest experience and improve the overall operational efficiency of hotels.

Regardless of whether the technology is a mobile app, point-of-sale (POS) terminal, or a network of sensors and beacons, the IoT can create an intelligent system by enhancing the connectedness of devices, data, and transactions.

Energy Management Cost Savings with IoT: In addition to the obvious IoT applications with guests’ personal devices (mentioned in other sections), the IoT can enable operational cost savings from behind the scenes. IoT technology can monitor lighting, temperature, motion, and other factors and make data-driven and autonomous adjustments as necessary. For example, IoT can be set up to turn off HVAC systems when guests leave their room, which can help reduce energy costs for hotels.

Heightened Awareness of Security and Privacy: Companies should be aware that with more devices sharing data (perhaps some more secure than others), greater opportunity exists for security breaches. Operators should be wary of the risk and manage appropriately.

FOOD AND BEVERAGE

Food and beverage outlets are consistently looking for ways to be more operationally efficient.

IoT is starting to transform back-of-house food service operations with “smart” kitchen and storage technology. Smart kitchen technology has a few different applications including:

- Smarter Food Prep and Connected Appliances: IoT technology could eliminate human error by recognizing the type of food being prepared and ensuring the correct cook time and temperatures. This would limit variations in food prep to prevent overcooked or undercooked items that could result in food-borne illness or food waste, respectively. Technology that can scan and read food composition could also give customers precise information about the nutritional value of their meal.
- Inventory and Food Storage Monitoring: Smarter storage facilities will have temperature control monitors that prolong the shelf life of ingredients and prevent food spoilage. IoT technology can also provide alerts when inventory is low or close to expiration, minimizing food waste and improving inventory management practices.

AIR TRAVEL

Airlines and aircraft manufacturers are just starting to adopt IoT technology to improve operational performance and customer experience.

Airlines are starting to adopt baggage-tracking capabilities that are being integrated and displayed through the mobile app. Other applications of technology integration and IoT include:

- Integrated In-Flight Travel Experiences: Technology improvements will be made to the in-flight traveler experience with more streamlined integration of individual data and connectivity between mobile devices/tablets and in-flight screens. Travelers will be able to view and modify travel details in-flight and enjoy an upgraded entertainment experience, all connected to their personal device.

IDEAS

Identifying Maintenance Issues Customers Don’t Share: Maintenance issues often go undetected because guests don’t notify the hotel. For example, how many people get on and off a broken treadmill before it gets reported and fixed? How does a hotel operator know when a guestroom light bulb is about to go out? IoT and connected devices could sense the usage patterns of machines and appliances and automatically alert maintenance or housekeeping when something breaks or is about to malfunction, which would improve customer service and response time.

FOOD AND BEVERAGE

Forward Thinking Concept

Internet of Things Technology Transforming Commercial Kitchens: Gartner, Inc. predicts that by 2020, the connected kitchen will contribute at least 15 percent savings in the food and beverage industry, while leveraging big data analytics. Food preparation could become completely automated with technology to measure ingredients, prepare dishes from a recipe, and coordinate among appliances to make sure that everything is timed correctly and cooked to perfection. This concept would allow for greater operational efficiencies and could potentially decrease labor needs.

Disney Leverages The Internet of Things in Theme Parks: Disney is using IoT technology to enhance its theme park experience, increase security, and gain incredible insight into the habits of visitors. In early 2015, Disney had already distributed 10 million Magic Bands, rubber, wearable technology bracelets that are connected to the park infrastructure. Visitors can connect the Magic Band to their online profile and use it to enter the park, access rides and restaurants (recognizing reservations), and pay for products/services.

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**Trends, Impacts, and Insights Summary**
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It’s no secret that the world moves faster today. But in some ways, the more things change, the more things stay the same.

Shifting customer values, new technology, and the evolving political environment are shaping the hospitality marketplace at an ever more rapid pace; however, these forces have always demanded that companies evolve and adapt. Nevertheless, the foundation of long-term success remains the same: running a great business means getting better every day.

We hope this study provided insight into industry trends, as well as guidance on how key players in the marketplace are handling the newest challenges. Perhaps some of these techniques can be incorporated into your own business to help you achieve long-term success. It’s a Strategy that Works."
About Jabian

Jabian Consulting is a strategic management and technology consulting firm with an integrated approach to creating and implementing strategies, enhancing business processes, developing human capital, and better aligning technology—ultimately helping clients become more competitive and profitable. Jabian blends functional expertise, industry knowledge, and senior experience to think strategically and act practically. It’s a Strategy that Works®.

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