



LAUSANNE REPORT

shaping the future of hospitality – outlook 2030

extract

INTRODUCTION

Inspiring leaders and pioneers

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

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

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

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

We are quickly entering an age in which access to assets means more than ownership. People are joining forces to create new currencies to support them in their goals and the new paths they want to explore. Cities are fueling this people-centric economy by building innovative hubs to rethink traditional hospitality systems and models.

Lausanne Report exposes different scenarios to respond to these challenges ahead, providing thought leadership, promoting creative thinking and worldwide benchmarking in hospitality. It paints an ambitious view of our future; let us embrace it. ■



Guglielmo L. Brentel
President of the Board of
Directors EHL



Prof. Michel Rochat
CEO EHL

executive summary

SHAPING THE FUTURE OF HOSPITALITY

Change creates opportunities

There are no recognized research methods that could predict the future adequately. Trend research is therefore a procedure that is not science-based, but practice-oriented and focused on decision makers.

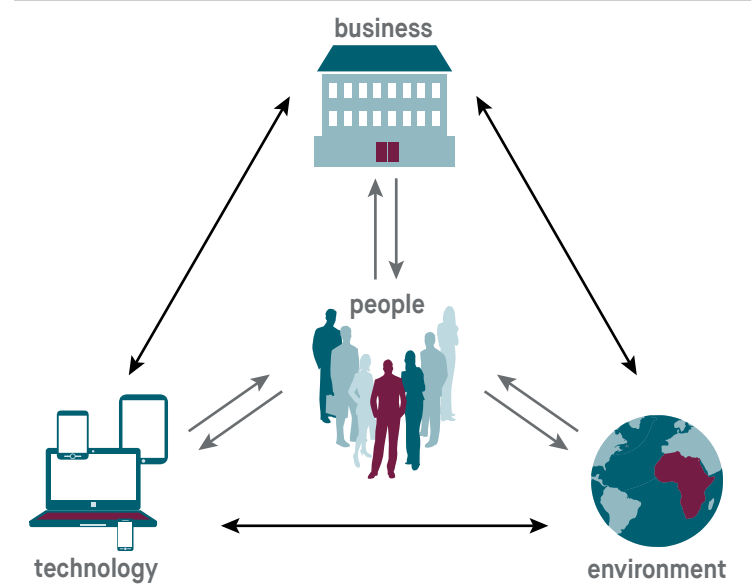
This report is based on the relevant literature and scientific contributions in «trend and future» studies, and it combines these findings with the results of the qualitative analysis of interviews and more than twenty workshops. Forty hospitality industry leaders from fifteen countries have given us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

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

These four dimensions and their mid- to long-term impact were studied in detail. Lausanne Report describes the future environment of the hospitality industry holistically and explains the interaction between the various global drivers of change that are affecting the evolution of hospitality. Some of these trends and relationships will lead to profound changes. The industry has no choice but to embrace them.

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

P-BTE MODEL



#1 SHIFT OF MARKET POWER

Consolidation vs fragmentation

Will globalization fragment or consolidate the hospitality industry?

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

#2 VULNERABILITY ON THE RISE

Fragility vs resilience

Is hospitality becoming more fragile or more resilient?

Threats resulting from climate change, safety and security issues, wild card events (e.g. SARS, Zika, terrorist attacks, etc.) as well as unprecedented migration streams are today's and tomorrow's game changers. The main challenges for the hospitality industry are the lack of predictability and the magnitude of such events – and how fast the industry can react and adapt to crises. The hotel industry's ability to deal with this new type of fragility will be key to its success.

#3 IN SEARCH OF A SENSE OF BELONGING

Communities vs individuals

Will communities or individuals determine the future?

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

#4 THE EMOTIONAL EXPERIENCE

High tech vs high touch

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

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

#5 SMART HOTELS DEPEND ON SMART DESTINATIONS

Autonomous vs connected

Will smart hotels be autonomous or connected?

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

#6 THE SCOPE OF KNOWLEDGE

Empathy vs efficiency

Must future talents be empathic or efficient?

Future hospitality managers will be stage directors who create memorable experiences and magic moments for their guests. At the same time, they must meet efficiency and profitability requirements and therefore find the best processes, technologies and methods to run their business. Last but not least, they must empower their staff and motivate all stakeholders. ■

How to read this report

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

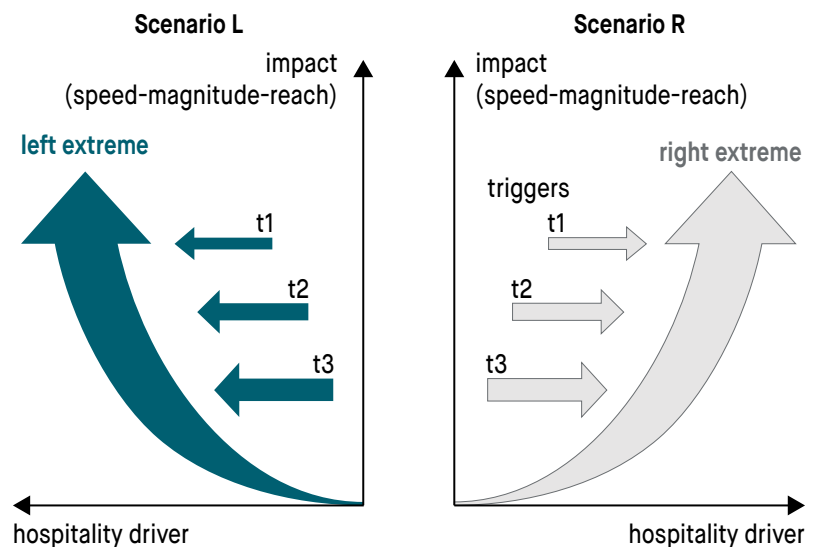
Under normal conditions (no disruptions or black swan events), many characteristics of both extreme scenarios are valid and co-existing. This situation is represented by the «smiley model» (see figure «the smiley model»), which merges the two perspectives.

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

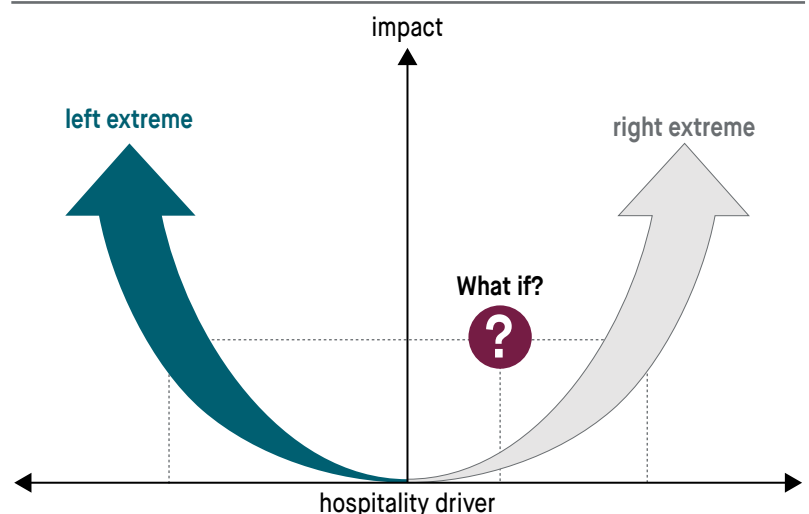
What is each hospitality manager's position between these two extremes? The answer to this question defines the mix of constraints and opportunities hospitality managers have to take into consideration to evaluate the best possible strategy for the future – a strategy that leads to decisions that have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

Each thesis in this report is built around a specific driver of change; in thesis #1, for instance, this driver of change is «market power». Then, we define the rationales for the two contrasting scenarios and explain their respective consequences; thesis #1, for example, looks at «fragmentation and consolidation». The connecting elements that allow for a co-existence of both extremes are subsequently analyzed; as an example, thesis #1 discusses «fragmentation and consolidation go hand in hand». Eventually, we question both scenarios in «what if» cases directing future scenarios in an entirely different direction. As a sort of a takeaway, «food for thought» summarizes actionable opportunities and concludes our journey. ■

STATE OF THE ENVIRONMENT



THE SMILEY MODEL



Is hospitality becoming more fragile or more resilient?





thesis #2

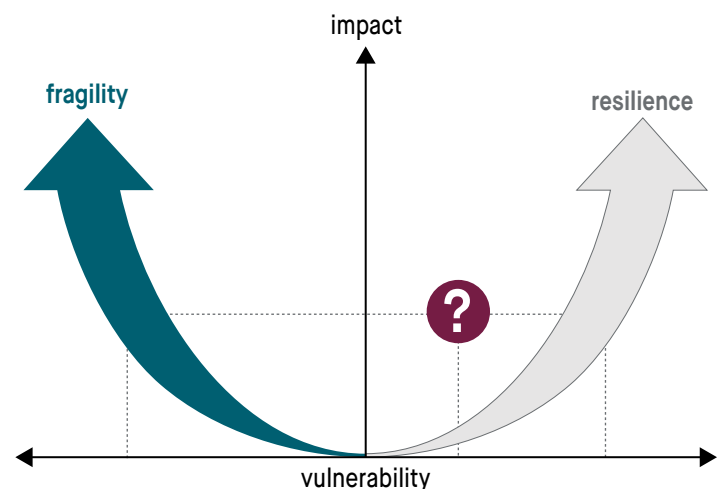
VULNERABILITY ON THE RISE

fragility vs resilience

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EXTREMES



WHAT EXPERTS SAY

«Guests come to us to relax, for a good night's sleep, a meeting or a good meal – knowing they are safe at the same time.»

Sven Boinet
Deputy CEO AccorHotels

«If you do not diversify, the first crisis to hit will put you out of business. The more diversified your business is, the better.»

Bruno H. Schöpfer
Managing Director
Katara Hospitality Switzerland

«We spend a lot on training for crisis management plans. We do dry runs; preparing for the worst, while hoping for the best.»

Peter Borer
COO and Executive Director
The Hongkong and Shanghai Hotels

FACTS AND FIGURES

CO2 EMISSIONS IN TOURISM, TRANSPORTATION, ACCOMODATION

Tourism is responsible for **5%** of global CO2 emissions

Transportation: **75%** of all emissions

Accommodation: **20%** of emissions come from tourism

HAZARDS THAT HAVE AFFECTED HOSPITALITY

- 9/11
- Asian flu in 1997, 1999, 2001
- SARS in 2002-2003
- Iraqi war in 2003
- Tsunami in 2004
- Hurricane Katrina in 2005
- Amman bombing in 2005
- London bombing in 2005
- Arab Spring revolution in 2010
- Europe terrorist attacks in 2016

Source: UNWTO

IS HOSPITALITY BECOMING MORE FRAGILE OR MORE RESILIENT?

The hospitality industry's vulnerability to a variety of events could increase, which might transform hospitality into a fragile business. Among the most dangerous threats to the sector are environmental changes and catastrophes.

Our P-BTE model (people, business, technology, environment) identifies the major drivers of change and causes of vulnerability: economic fragility, globalization, societal changes, migration, safety and security hazards, climate change and scarcity of resources. Depending on how the hospitality sector is handling the challenges, vulnerability can lead to a more fragile or a more resilient landscape.

Threats from climate change, safety and security issues, wild card events (e.g. SARS) as well as unprecedented migration streams are today's and tomorrow's game changers. One of the main challenges to the hospitality industry is the magnitude of such events, their unpredictability – and ultimately, how fast it can react and adapt to such crises. The industry's ability to deal with this new type of fragility will be key to its survival.

The impact of such harmful events ranges from local to global, their speed can be slow or fast, and the magnitude of their consequences can be temporary or lasting – but the exposure to wild card events today has taken on a whole new dimension.

Crises generally share the elements of surprise, urgency and danger. The hospitality industry has managed to brace itself against some events, especially if they have occurred before. Fire, for instance, can be contained in most cases thanks to regular drills.

The travel and tourism industry is exposed to a multitude of internal and external threats:

- External threats are recessions, financial crises, currency fluctuations, taxation, regulations, terrorism, vandalism, revolutions, scarcity of resources, climate change, cyber security, etc.
- Internal threats are rising costs, falling revenues, unprofitability, qualification gaps, lack of management capacities, technology shortcomings, etc.

In this context, two potential scenarios are thinkable:

- **Scenario A** increasing fragility of the hospitality industry, or
- **Scenario B** the industry manages to become more resilient ■

« **The hospitality industry's ability to deal with this new type of fragility will be key to its survival.** »

SCENARIO A

FRAGILE HOSPITALITY

External causes of fragility

Knock-on effects

Hazardous events often produce knock-on effects. Climate change, for instance, has an adverse impact on several other areas. Food prices have increased since 2007, as weather extremes impaired core production systems. Climate change also causes health problems due to food shortage, polluted water, sanitation issues and living conditions, which in turn may result in higher infant mortality.

Ultimately, climate change triggers conflicts, humanitarian crises and refugee streams that go mostly hand in hand with political instability and social tensions based on rising poverty.

It takes time to recover and build up resilience after periods of disruption. The financial crisis that started in 2007/08 caused the largest financial upheaval since the Great Depression in the 1930s. The hospitality industry took almost three years to get back on track. ■

Internal causes of fragility

Increased exposure

Risk is often seen as a local challenge and not a global one. Although the magnitude of terror attacks has risen, opinions prevail that local governments have to deal with it, arguing that hotels have already invested more in safety and security than the regulators are requesting. The hospitality industry has turned a blind eye to the evident increase in and exposure to risks globally.

work, however, is different: evaluating and predicting future risks relies on data. The more data is collected and analyzed, the better hospitality will be able to handle the future.

In many cases, hotel operators do not understand the need for non-profit oriented investments in safety and security equipment. «Crises have to be managed when they appear, one has to live with it, and everyone will suffer», they argue. However, the fact that not enough is invested in a resilient infrastructure is owed to a lack of resources as well.

A lack of resources

Most hotel operators differentiate between safety and security solutions and risk management. Regarding safety and security, there are clear brand standards that have to be met. Such operational standards include training, fire drills, emergency procedures, etc. The risk management frame-

Short-term profitability

«CEOs are as good as their quarterly results» reflects the industry's rather short-term oriented approach. Operators certainly have reserves for unforeseen incidences, but they are equivalent to insurance policies and not a strategic approach towards resilience. ■

Vulnerability affects market valuation

The results of banking stress tests have an influence on the market valuation of the respective banks.^[12] In the same way, hotel stress tests will have an impact on the market valuation and brand value of hotels. Vulnerability assessments will find their way into all aspects of strategic planning and hotel operations.

Such assessments will not simply evaluate a company's exposure and vulnerability to threats but also its capacity to deal with crises. The degree of vulnerability will influence decisions with respect to location, business risk, type of contract, valuation of assets and types of investors. It will equally define competitive advantages and customer attractiveness.

The sooner the hospitality market creates comprehensive frameworks and risk standards, the more attractive

the industry can remain for both investors and customers. Risk awareness and risk management will lead to the simulation of possible events to establish stress tests. Vulnerability indexes will indicate to what degree the company can protect its values and assets. This will also allow for predictions of a hotel's financial survival in the long run.

Brands could profit significantly from vulnerability assessments and stress tests, as certified «resilience factors» will strengthen customer retention and competitiveness on a global scale. ■



SCENARIO B

CREATING RESILIENCE

Rationales for more resilience

Assessing the risks

Risk is a product of hazard, exposure and vulnerability – and the vulnerability of the hospitality industry has two dimensions: direct damages and indirect damages. Direct losses are mainly caused by the partial or total damage of buildings, infrastructure, food and beverage production equipment and services. Indirect losses include competitive disadvantages over non-affected competitors and an overall damage to the company's reputation.

Indirect losses can be three to ten times higher than direct losses. Therefore, in order to analyze risks, it is essential to pay particular attention to the quantification of the vulnerability to indirect disaster losses. Such quantification can be represented by a vulnerability index. Decision makers can use the results of the vulnerability assessment to develop emergency plans, recovery measures and vulnerability reduction strategies.

Prevention is better than cure

In the event of immediate emergencies such as terror attacks, arson, data and identity theft, technological black-outs, etc., the Internet of Things (IoT) and IT systems in general are key to controlling all relevant infrastructural components. Hotel properties can be disconnected from public infrastructure and operate autonomously thus preventing further intrusion and damage. Big data will be crucial in determining the hotel industry's exposure to threats, for instance in the form of pandemics or regional terrorist risks. A data exchange between the public and the private sector will be necessary, and the appropriate infrastructure must be provided. Scenario planning and flexible business structures will help to survive crises that stem from financial or currency turbulences.

Recover your losses

Different types of disasters entail different procedures to protect assets and to shorten the recovery time. The creation of appropriate processes and their execution and control requires technology, training and know-how. In hospitality, these skills are poorly developed compared to other industries.

Recovery starts with physical assets such as hotel buildings, and then moves on to regional or even global market shares that might have been lost in the wake of crises and disruptions. Business intelligence and simulations are key components in achieving a higher degree of resilience. The setup of such a radar system requires strategic investments. ■

did you know?

A vulnerability index measures the exposure of a population to a particular type of hazard.^[13] Typically, the index is a composite of multiple quantitative indicators that by means of a formula delivers a single numerical result. With the help of such an index, various factors and issues can be combined into a standardized value that enables comparisons.

FROM FRAGILE TO RESILIENT HOSPITALITY

Measures such as security planning, vulnerability assessments, stress tests and security infrastructure can significantly strengthen resilience. Nobody wants hotels to look like fortresses, least of all their guests. But there are several security measures that are not intrusive. Guests in fact do demand active security precautions, for example electronic room and elevator cards, room safes, window locks, alarm controls, parking gates and more, and they are highly aware of whether or not security measures for passive monitoring are in place (i.e. fire detectors, sprinkler systems, motion sensors and cameras). Guests also expect hotel management to be more than up-to-date when it comes to security, and they demand state-of-the-art security measures and safety precautions.

Hotels that increase their resilience to adverse events will be in a more favorable position than hotels that neglect to do so. However, even the strongest resilience to disruptive trends and events is no guarantee for success. Should there be a surge in terrorist attacks, for example, or an increase in environmental pollution or destruction, guests might refrain from traveling regardless of all the top security a hotel has in place. ■

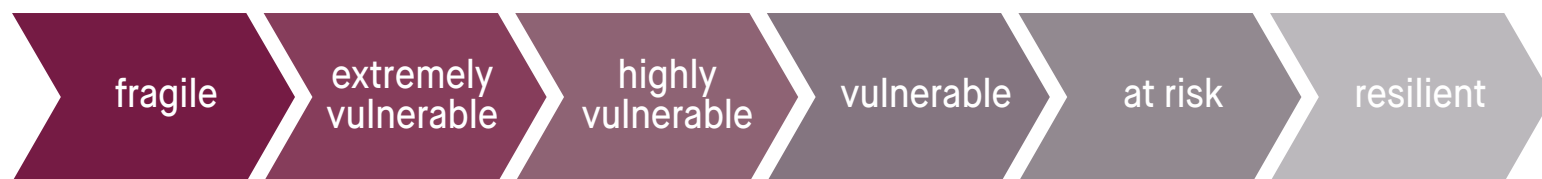
WHAT IF – INCREASING EXPOSURE WERE TO DRIVE THE HOSPITALITY MARKET INTO HYBRID OPERATIONS?

Higher vulnerability as a result of events with short-term and long-term impact will make traditional hotel operations increasingly fragile.

Resort hotel destinations tend to be more exposed and vulnerable to environmental hazards (e.g. tsunamis, environmental destruction or infrastructure dependencies). City hotels will also have to address environmental concerns as they depend on municipal infrastructure such as energy and water and they are affected by urban pollution. Hotels located at airports, main train stations or large public places will have an

above average vulnerability index. This is due to collateral exposure, meaning they are either direct or indirect targets for terrorist attacks.

The hospitality industry will react by focusing on operational models that are potentially less exposed to hazardous events. There will be a strategic move into adjacent operations such as senior residences, hybrid healthcare, rehabilitation facilities, catering, protected vacation clubs and cruises. The development of peer-to-peer markets has to be monitored as these markets still lack safety and security guidelines. ■



FOOD FOR THOUGHT

Vulnerability index

Vulnerability assessments require a theoretical «vulnerability indicator» framework.^[14] Compare the following suggestions for such a framework:

- select the right factors for the indicator (direct and indirect hazards)
- gather the right data to feed the indicator (selective big data)
- standardize data input (automatization of data input)
- weighting and aggregation of data (data processing)
- sensitivity and plausibility data analysis (evaluation of data)
- visualize and monitor data (presentation of data)
- simulate scenarios (business intelligence)

The vulnerability ranking ranges from fragile to resilient: fragile ➤ extremely vulnerable ➤ highly vulnerable ➤ vulnerable ➤ at risk ➤ resilient

A vulnerability index will influence all types of strategic business decisions in a bid to achieve resilience, for instance choice of destinations, portfolio of brands, technology planning, safety and security standards, operational processes, staff training, etc. ■

Perception and reliability

When it comes to terrorist attacks, the majority of international travelers do not differentiate between European countries. They perceive Europe as one to be insecure. International hotel chains headquartered in the USA have the advantage that American travelers trust them to provide a secure and safe environment.

For non-international hotel chains and independent hotel operators it is therefore especially important to be perceived as being secure. Individual hotels that collaborate with regional or national tourism organizations must therefore present superior safety concepts.

Security certificates issued by internationally recognized bodies will become an industry standard. They will be an important marketing tool for digital media channels, comparable to the «green» certificates used by TripAdvisor^[15].

An unwritten rule in the hospitality industry says that «three major security incidents put a hotel out of business, as it cannot ever restore its reputation». Comprehensive digital transparency will amplify this effect. ■

conclusion IMPACT

A world of opportunities

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

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

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

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

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

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

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

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