

Report

Directive on digital transformation: hospitality

1st Edition

HOSPA

Hospitality Finance, Revenue and IT Professionals

Atos



Introduction

On 5 October 2017, Atos and HOSPA invited senior decision-makers from across the UK Hospitality industry for a roundtable event at Atos' Business Technology and Innovation Centre in London.

Hosts Mukesh Parekh (VP Manufacturing and Retail, Atos) and Jane Pendlebury (CEO, HOSPA) were joined by high-profile figures from hospitality organisations, industry bodies and technology partners to debate the impact of digital solutions and technologies on the sector.

Facilitated discussions: digital business transformation; innovation for operational excellence; data security; and improving customer and staff experience.

This Directive on Digital Transformation for Hospitality report presents an overview of these year's discussions and provides key directives for consideration as you navigate your own journey through digital transformation.

Digital business transformation

While hospitality may traditionally have been seen as one of the slower industries to embrace digital transformation, today's digital-savvy customers want choice together with fast, easy, omni-channel services. So how far is digital driving real innovation?

We asked attendees:

Is the hospitality industry guilty of using digital to merely replicate existing ways of doing business rather than taking full advantage of new technologies? Who is leading the pack in doing things differently, and who is lagging?

'Head office often doesn't realise what is actually needed on the ground.'

'There's a lot of following as opposed to leading.'

'We need to consider the long-term when investing in technology.'

'There needs to be more willingness to take the risk.'

There was general agreement that digital is not yet being fully exploited by the industry. Key reasons include fragmentation within and between organisations, with difficulties finding the finances to deliver change.



A mixed picture

While some brands are starting to integrate and exploit new technologies, the discussions revealed a very mixed picture. Some attendees perceived more innovation in the big chains than within independent businesses; others affirmed that the big brands are lagging.

Clearly, there is a spectrum ranging from large, franchised chains through to small individual businesses. The successful innovators are those who have the means to invest in new ways of working while not being too fragmented or too sprawling to successfully implement coordinated programmes of change.

Keeping up with the sheer pace of technological progress is seen as a major challenge for businesses already under pressure. As one attendee put it, 'the industry is behind the times, often due to lack of education [about technology] and lack of cash'.

Changing the operating model

Few disagreed that technology has the potential to improve efficiency and effectiveness: 'we have the ability to speed and ease processes in almost all areas'. However, a lack of financing was widely considered to have been a major barrier to change, with an agreement that businesses have tended to take a short-term or fragmented outlook.

One conversation explored the success of smaller, independent hotels in reinventing their operating models. One characteristic of these success stories is that their KPIs tend to be set around customer experience and service rather than, for example, traditional room occupancy measures.

With food and beverage now being major sources of profitable revenue for many businesses, there are real opportunities to change and expand the operating model, improve upselling and selling, and implement KPIs that are aligned with this new thinking.

There was some discussion around the need to be ready to take calculated risks, consider the long term when investing in technology, and build a business case for change - but not necessarily using existing metrics or operating models.

Areas of core focus were also discussed, with one attendee saying, 'it's important to nail the basics before we go for the advanced' and another pointing out that 'we often think we how can deliver externally rather than improve internally'.

Digital mindset

Digital disrupters have certainly made their mark. Yet this has not created the impetus for transformation and the industry has, so far, been relatively conservative in its response to digital. But some attendees saw reason for optimism, with a greater focus now on hiring in the right people and skills.

Developing a 'digital mindset' was seen as important, with a recognition that changes are needed in the way businesses evaluate and procure technology. One attendee said that businesses need to educate themselves more on what's available from digital and rid themselves of the old fear that automation is just about cutting jobs.

There were debates about the impact of new disruptors in potentially pushing down room rates and margins. Every group talked about doing more to co-ordinate change, with 'time to come together and talk as a group'. As 'nobody wants to take the jump', there was discussion about the need to sustain leadership of technology, 'with a centralised group of businesses' and 'someone to lead the sector'.

Human touch

There was broad agreement that to deliver the experiences that UK customers want, business transformation is about people as much as technology: 'we can make the experience more personalised using technology, but at the same time, people do want to see people'.

It's certainly true that hospitality is an industry built around 'the human touch' - but this must not be a reason to stagnate. Customers are ready for digital if they can see benefits for them in terms of speed, ease and costs. Amazon's 'Alexa' in hotel rooms, for example, was discussed as one way to heighten experience and align with what customers might be accustomed to outside the hotel.

Ultimately, this is about understanding what customers you have and what they each want - and using a combination of people and technology to meet their individual needs.

In conclusion

While there are no absolutes in terms of optimum conditions for successful innovation, all businesses need to be ready to take a fresh look at value and service to the customer. Digital disruptors have had a direct impact on traditional players, and if businesses stay tied to old-style operating models, digital innovation will be inhibited. Investors need to be persuaded to look longer term at how to drive value and revenue in new ways through digital innovation. At the same time, businesses need to achieve the right balance of people and technology in their customers' experiences. The inevitable advance of digital will have a fundamental impact on the whole industry. There are opportunities and questions for how the hospitality sector can find ways to collaborate and co-ordinate its response as the digital shockwaves continue.

Innovation for operational excellence

Traditionally, innovation (associated with creativity, change and disruption) may seem a polar opposite to operational excellence (characterised by stability, predictability and process). Yet in a dynamic, data-driven environment, the two must go hand in hand.

We asked attendees:

How can forward-thinking businesses have the best of both worlds? How can traditionally risk-averse organisations become more innovative?

‘We need to find new ways of understanding guests and getting preferences and data.’

‘Innovation is hard to get across all aspects of hotels.’

‘Everyone [must be] empowered to put forward innovation, from the shop floor up to management.’

‘Innovation should make your life easier.’

While there was some agreement that ‘innovation’ and ‘operational excellence’ may have worked against each other in the past, there was consensus that both are essential given current market conditions and customer expectations.

Does size matter?

There were differing views about the extent to which the size of a business impacts its ability to innovate. What is certain is that when it comes to innovation, there is no one-size-fits-all.

Some attendees thought that scale makes change harder to implement. Certainly, across the bigger brands - especially in the case of franchises - it might be difficult to orchestrate innovations in a coherent way. What's more, inconsistent customer experiences between different establishments can seriously impact the value of a brand.

Some attendees thought that independent businesses can leverage bigger and more profitable benefits from smaller innovations. It is also true that bigger organisations may suffer more inertia. Yet the payback for large businesses (say, a saving of 5%) can be significant.

Perhaps the size of a business is not what matters. The sheer scale and availability of choice created by aggregators mean that businesses are no longer competing directly just with their peers. Given the contrasts between, say, a large hotel and an Airbnb apartment, there will be some innovations (such as ordering drinks on an iPad) that will only ever apply to particular types of setting. However, there will be many others (such as digital door keys) that can be virtually the same.

A two-speed world

As digital systems and customer experiences are introduced, this creates a two-speed environment; in other words, businesses find themselves needing to support the digital solution (such as automated booking and payment kiosks) while also offering an alternative for customers who prefer human contact, or if the digital solution malfunctions. The question for businesses, therefore, is how to encourage all customers to make the shift to digital.

Regulations may be a constraint; for example, if a digital-savvy customer books their room online, could they then download a secure smart key without the need to check in? While there may be a legal requirement to see physical identification and a credit card (especially for overseas visitors), this is an area that the industry could explore.

Clearly, there are challenges associated with maintaining a legacy environment, including serious limits on the inter-operability and agility that are the pre-requisites for co-ordinated and sustained innovation. New start-ups that are able and willing to integrate with other players will fare better. For established businesses, the move to cloud (for reasons of cost and flexibility) may be a platform for driving more innovation.

Operational excellence versus innovation

There was some agreement that silos, created through the drive for operational excellence, have become a barrier for innovation. Delivering separately optimised, highly focused experiences in the bar, in the restaurant, in the spa, and so on, might make it harder to join up and integrate innovation across the board.

Some attendees talked about the need for managers to engage everyone in change. Customer-facing staff are a rich source of insight into what customers really think and want.

There was some discussion about industry leaders and followers. If a major brand invests in introducing an innovation, smaller brands can follow. But in these cases, which brand has benefitted the most? The challenge - especially for larger enterprises - is where to invest in being bleeding-edge and where to take the lead from others.

A question of loyalty

One point of agreement was about the need to understand guests better. Loyalty programmes were discussed, with 'frequent guest systems' to yield much more customer data. But in a world of online aggregators and digital marketing, what does loyalty now mean? Does it need to be redefined, and do hospitality businesses need to find new ways of getting wallet-share through social media?

A few discussions focused on the need for businesses to share data an insight (possibly with Blockchain to control data rights and minimise risk). Today, the bigger players may not be inclined to share customer preferences with rivals because they see it as valuable competitive intelligence. The answer may lie in finding ways to monetise the sharing of customer data to facilitate faster, better innovation. This points to the need to understand the objectives and priorities of different stakeholders (owners, managers, franchises) to drive forward coherent, sustainable change.

In conclusion

Until now, a focus on efficiency more than effectiveness has been a barrier to innovation. This needs to change, with the urgent need for business to remove the shackles of legacy systems and fragmentation. Traditional concepts of customer loyalty also need to evolve. Businesses have to understand customer preferences more accurately to gain market share in a digitally disaggregated market. Monetising the sharing of data may be one answer. In fact, more collaborating will be needed at all levels, both within businesses (to fund and orchestrate innovation) and between operators. By pooling resources and ideas, established businesses may be better equipped to compete with newer market entrants who have digital at their core.

Data and security

Today, no business can afford to under-estimate the value of its data or the impact of a large or public data breach. For the hospitality industry, which holds large volumes of personal data in a variety of legacy systems, there are major integration and data protection challenges.

We asked attendees:

Today's big data and analytics platforms can now infer customers' preferences so accurately from the data they release into the public domain that asking for sensitive data isn't really necessary. So, is there such a thing as data privacy anymore?

'With data in six or seven different pots, how do we put it all together?'

'We need to make it affordable to get insight from data.'

'We want visibility of customers to be able to understand their routines.'

Attendees tended to agree that the concept of 'data privacy' is open to interpretation, especially across such a diverse industry. The storage of increasing volumes of data, together with requirements to comply with new data protection laws, means that data security is now a key management challenge. Yet much of the discussion was about the value of data to drive business improvement.

Fragmentation and duplication

To even consider a question about data, there was broad consensus that the current fragmentation of data within and between businesses is becoming more of a problem. With data held on different systems and by different functions, there are duplications, gaps, multiple formats and inconsistencies that make it hard to find 'clean' customer data.

One attendee said that Property Management Systems, in particular, need an overhaul to ensure that information security is built in. Many agreed that more needs to be done using intelligent technologies for customer profiling and tracking of customer routines, trends and choices. Yet privacy issues seem unclear: 'There are lots of different 'pots' of data that are never put together; but if they were joined up, would there be too much personal information on show?'

The right to be forgotten, enhanced by GDPR, also places a significant challenge on the industry and its multiple silos of data; the data-cleansing effort will be significant and multi-faceted, and will require integration across multiple systems or significant low-value-adding manual intervention.

The value-adds

Conversations quickly turned to the untapped potential of using data to reach existing and new customers. Integrating data into processes and finding the time and the right member of staff to upsell is critical. 'The aim is to upsell and for the client to be happy with that.'

People talked about the desire for more visibility of customer preferences, routines and trends, both to personalise services for individual customers (for example, 'if they usually book a taxi after dinner, could we pre-offer this to them? How can we capture diners' allergy information or wine preferences?') and to drive service improvements (if there's an issue with a room, can we tackle it proactively by analysing customer complaints?').

Yet while there might be a desire and a need to digitalise customer preference data, how can this be done cost-efficiently? 'Maybe the first step is to create a client profile to create big data - albeit with the necessary transparency. The retail sector is already ahead of the game on this.'

One attendee asked, 'do we need to look more at what our data is worth?'. There were observations that the aviation industry is few stages ahead of hospitality in this, partly due to the maturity of its online booking systems. Yet this is also a deeper, industry-wide recognition of the value of data from which the hospitality industry could learn (with innovation, for example, to leverage data for generating revenue from passengers at airports).

Setting new standards

The introduction of the General Data Protection Regulation (GDPR) was the focus of some discussion. 'People are finally realising that GDPR is serious - and could become very expensive if things go wrong.' A number of attendees agreed that it's hard to know where to start and where to prioritise. 'We need a GDPR for dummies so that people understand the basics of it.'

Some attendees talked about the need for greater staff awareness and training. There was also discussion about the need for common industry standards, especially because hospitality processes often change and are open to interpretation. For example, 'when people make a reservation, should they give their credit-card details over the phone?'. In the retail industry, work is being done on data standards and there are opportunities for hospitality to do the same.

Loyalty..or personalisation?

There was broad agreement that loyalty programmes are a way forward - but that the cost-benefit case needs to be carefully designed to avoid spiralling costs. A range of examples were discussed to explore the balance between cost, value to the business and pay-off for the customer, either through discounting and special offers (Cineworld and Pizza Hut) or through extra convenience (EasyJet).

Loyalty cards, however, tend to offer the same for all customers. While categorising people may not seem out of date, big data technologies can help shape more personalised services based on customers' broader interests and behaviours. And in the digital world of intelligent systems and big data, is it too intrusive routinely to ask customers lots of questions?

In conclusion

As the regulatory landscape evolves, particularly around GDPR, ensuring effective and compliant data protection and data retention will be a foundation for leveraging data to better meet customer needs and drive further revenue opportunities. Complying with GDPR is not a reason to keep data siloed. Other industries, particularly retail and aviation, have blazed a trail that could inform hospitality. Finding ways to collaborate at a broader level is now critical, to set industry standards and to deliver winning customer experiences.

Improving customer and staff experience

With the range of consumer choice and the power of social media, creating a stand-out customer experience is more important than ever. Today's customers want authenticity of experience together with consistency, convenience and personalisation. It's a complex mix.

We asked attendees:

Having a complete view of the customer, their history and their real-time experience is more than a technology challenge, it is also an organisational one. How ready are you for it?

'We used to be at the forefront, but now people come to hotels and experience less technology than at home.'

'If you introduce [digital] service half-heartedly, there will be a low uptake.'

'A Customer Relationship Management system may not bring what we want; is it actually what is needed?'

Technology is now available that to enable businesses to understand the customer, their needs and preferences, and to provide the hospitality community with the tools to meet - and exceed - their customers' needs. The discussions, however, centred on the following questions.

- In a complex operating model, where do we start on the journey to differentiating our brand by improving customer experience? Where do we invest?
- Are there issues with the owner/operator model which constrain the hotel experience?
- Given the existing silos within and between businesses, should we collaborate or co-operate to gain the maximum mutual benefit and delight our customers?



Where do we start?

Many attendees talked about the difficulties of knowing where best to invest, especially given the pace of technological change and the variety of service providers.

If there's no customer experience leadership represented at board level, there tends to be a lack of clarity around what businesses need to pursue to improve customer experience.

Boards face a plethora of tactical initiatives all intended to improve customer experience - but which ones should be approved, which ones will provide the greatest impact on customer experience, which will provide brand differentiation, which are important to the right customer segments, and which will provide the greatest return on investment?

Many of the customer improvements discussed were based on in-hotel experience. However, is this the only impact that the hospitality industry could have on its customers? Customer experience begins from the moment a customer begins to consider a journey and extends beyond the moment they leave the venue.

Leading across silos

In the discussions, there was also evidence of silos within organisations. Reflections included the following:

- We need to move away from today's silos towards being able to use an informed view of the customer and shared numbers.
- We want to spend 10% of the time producing information and 90% using it.
- Change is led largely by operations; we need to have people who don't shoot down the ideas.
- Are barriers put up by managers? It could be their own personal preferences trickled down the rest of their staff; it depends on culture within hotels.
- Siloed systems within hotels are perhaps a reflection of the culture.
- People within the organisation often compete with each other.

Mutual benefits

Much of the discussions centred on the investment constraints that exist where the 'asset' owner is separate from the 'brand' or the 'operator'. Whilst this structural issue is not something that can or should be changed, there does need to be a mutual benefit for both the owner and operator to invest in customer experience, and there needs to be a creative approach to dealing with it - especially as part of the customer experience happens outside the hotel. Failure to address these challenges could, in future, threaten the very existence of some businesses involved. In fact, the enterprises who own and operate their network of hotels have been recognised in recent surveys as providing the best customer experience.

A twin-track approach

Some of the discussions explored the role of digital in delivering a customer experience that surprises and delights. There was broad consensus that while digital is no doubt the future, digital needs to add value to the customer, otherwise they're unlikely to embrace it (such as using iPads for room service instead of the phone).

In addition, different guests can want different experiences depending on their expectations, preferences, or even mood. One attendee was concerned that - 'customers may think "this hotel is cutting costs" if they primarily encounter machines'. There was discussion about what one attendee described as a 'twin-track' approach in which customers can choose to engage or not to engage with technologies and people.

As a starting point, mapping the end-to-end customer experience, understanding actual pain points that are important to each customer segment, and benchmarking against best-in-class and best-in-peer group will highlight some of these choices.

In conclusion

It is clear that there are structural issues within the industry that constrain innovation around customer experience. However, many attendees agreed that ultimately it is more beneficial to collaborate than compete. Strong leadership is also essential. Without a visible and empowered advocate for experience as a counterpoint to the more traditional authority of the balance sheet, the need for journey towards better experiences may be hampered. There is no doubt that the relatively complex structure of some hotel businesses are a constraint. However, there are established methods to address this complexity and generate new customer experience and digital opportunities. Mapping customer journeys, not just within the confines of the hotel but more broadly, is the place to start. This will highlight opportunities for planned investment to deliver great customer experience and optimise return on investment.

Key directives

Based on the discussions at the roundtable event, here are three key areas in which hospitality industry leaders and influencers could focus their attention in driving forward digital transformation.

Address fragmentation

With such a wide range of players, the hospitality industry is inevitably fragmented, from the lowest levels within hotels right up to corporate operators and investors. While digital disruptors have clear, transparent strategies and relatively straightforward ownership structures, traditional hospitality companies face the much greater challenges of legacy. Perhaps some hospitality owners and operators have been so focused on safeguarding their own competitive edge that they have allowed the disruptors to seize control of large parts of the market.

To address the issue of fragmentation at an industry level, there may be a role for an independent body (possibly working with an educational establishment) to lead the sector, set a digital vision, foster a culture of innovation, share best practice and set standards. Strong digital leadership is needed, with closer partnerships with digital market leaders and more structured ways of staying informed about rapid technological change and strategies for digital transformation.

At an individual company or hotel level, businesses need actively to find ways to overcome silos, share experience and engage staff in exploring opportunities as well as shaping and implementing change. Implementing common IT infrastructures will help; for example, Enterprise Resource Planning systems in hotels would enable all parties to work together on common information made available to all stakeholders.

Focus on customer experience

Becoming truly customer-focused is one of the most significant challenges and vital differentiators for any hospitality business. While the industry trades on offering great customer service, this does not, necessarily, equate to customer focus. Take hotel check-outs for example: while hotels might offer frictionless check-out processes, these may nevertheless be at times that do not best suit the guests.

Achieving the right balance between customer needs and a profitable way of operating is key to any successful customer-focused business. To compete in a digitalised market, businesses need to think carefully about which pain-points they're addressing. Joining forces (both within the business and with other businesses) to map customers' journeys from start to finish will identify all the touchpoints and potential opportunities (while also addressing the problems of fragmentation).

Returns on investment need to be measured using KPIs that are aligned with customer experience, such as introducing digital to increase interaction while removing friction, and automating back-office tasks to release more customer-facing time. To drive the right changes in processes and behaviours, customer experience needs to be championed at senior levels. Building in the emotional intelligence to judge when a customer wants human interaction is critical. While there's still plenty of room for human interactions, businesses can consider augmenting them through digital - both to improve customer experience and to gather data for better targeted and more engaging personalisation.

Build the case

While the benefits of digital transformation may be clear, to fund it requires businesses to identify value, risks and reward - and potentially how to share these across a currently-fragmented industry. Perhaps the hospitality industry needs a 'digital transformation levy' to finance and advance real change.

With technologies moving so fast and businesses already under pressure, knowing how and where to invest in digital change can be daunting. Major long-term technology implementation projects are rarely the way forward. Instead, businesses can start with small yet important business problems and customer pain-points and choose a solution that will deliver early returns that can be invested to drive further innovation. With the right KPIs in place, the business case for change will be straightforward.

While the new General Data Protection Regulation clearly presents major challenges, it is also a key opportunity. For owners, operators and third parties, the reputational and financial risks of non-compliance with GDPR might just stop the arguments about who bears the costs of change and redirect energy into finding solutions, with a positive impact on digital transformation. For example, a thorough review by all parties of all retained data and what it is used for will give clear insight into that data's value. This could be a tipping point: from collaborating on GDPR, new ways of working together may emerge which could be a lever for collaboration on wider digital transformation.





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Hospitality Finance, Revenue and IT Professionals

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We offer a wide and growing range of opportunities for members, from meetings addressing specific topics to webinars; from extensive professional resources to the latest industry data through HOSPA's monthly magazine The Overview.

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