

A man wearing a white hat, sunglasses, a white t-shirt, and a brown backpack is walking away from the camera down a hallway. The hallway has a colorful, geometric tile floor in shades of green, blue, and white. The walls are white with decorative blue and orange lattice work. The ceiling is also decorated with a colorful geometric pattern. The overall atmosphere is bright and modern.

WINNING THE ENGAGEMENT WAR: CREATING THE HOTEL OF THE FUTURE WITH ANCILLARIES

Presented by

Skift. + **iSeatz**

EXECUTIVE SUMMARY

Hotel ancillaries, often known to travelers and travel businesses as the extra items — like rental cars, hotel room upgrades, spa visits, food delivery, and tours — that are bundled along with their rooms, already play an essential role in the sector's merchandising, marketing, and revenue considerations. But even though ancillaries have always been an effective strategy to boost sales, they are no longer seen by hotel executives as a mere supplement to other travel products. Today, they are increasingly the main event.

Following the lead of the airline industry, which in 2017 earned an estimated \$82 billion worldwide from sales of ancillary products, hotel executives are realizing that they are no longer simply selling access to just rooms and beds. Instead, they are now travel gatekeepers and tastemakers, selling access to a universe of related experiences connected to dining, entertainment, spas, tours and activities, retail, local services, and more. Taking this more expansive view of hospitality offers hotel businesses a variety of business benefits, including increased revenue, a more detailed understanding of the wants and needs of their customers, and an ability to drive more repeat business and create loyal customers.

But in order to capitalize on this vision, hotels will need adjust their current ancillary approach. This will involve a renewed focus on better personalizing the types of ancillary offers they promote to customers, using what they know about guests to deliver more meaningful bundles of products that align with customer needs. It also means they will need to think differently about the hotel's overall role in the trip planning process. In addition, hotels must extend the concept of the "concierge recommendation" into the digital realm, helping travelers not just while they're on property, but throughout the entire customer journey. Last but not least, this new approach to ancillaries will necessitate a new approach to loyalty, allowing travelers new opportunities to earn and redeem their points in new ways that help drive true customer satisfaction instead of just accumulating points.

How will hotels achieve this new vision for the future of ancillaries? What consumer trends confirm the potential of this new strategy? And what hotel brands are already finding success with this new approach? Skift and iSeatz will explore all of these questions plus much more, in "Winning the Engagement War: Creating the Hotel of the Future With Ancillaries."

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ABOUT SKIFT

Skift is a travel intelligence company that offers news, data, and services to professionals in travel and professional travelers, to help them make smart decisions about travel.

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EXECUTIVE LETTER

The Loyalty Arms Race

The travel life cycle is now undergoing a phase of rapid evolution. The rise of OTAs and alternative lodging sites like Airbnb means a much more competitive landscape for both hotel bookings and customer loyalty.

Now the hotel industry is in a proverbial arms race to ramp up their ancillary offerings through their loyalty programs. Hyatt recently announced launching Hyatt Find and their loyalty partnership with Small Luxury Hotels of the World. Accor and Marriott both integrating alternative lodging into their loyalty with acquisitions of OneFineStay and Tribute Collection respectively. Other companies in the travelsphere are experimenting with gamification and alternative currencies to attract younger consumers.

Although loyalty programs are becoming more robust in terms of offerings, many hotels are still struggling with merchandising these initiatives. Additionally, ancillaries are commonly managed through a patchwork of disparate systems.

Founded in 1999, iSeatz is a leading provider of ancillary product booking engines for premier hotels, airlines and financial institutions. Our history of solving technological problems and generating new revenue streams for the travel industry makes us uniquely positioned to introduce a new product to revolutionize ancillary revenue management.

Our OneView Ancillary Management System™ seamlessly integrates both on-property and chosen third-party ancillary products into a single, easily managed system while allowing guests to purchase travel extras anytime during the hotel booking process. iSeatz also leverages our known best practices to assist hotel companies in merchandising strategies including placement suggestions in known high-converting areas. More information on our patent pending Ancillary Management System (AMS) can be found at www.AncillaryManagementSystem.com.

As a travel technology partner, iSeatz knows what travelers want. We help our partners build the technology to deliver it, and we create beautiful front-end experiences that enable travelers to get started on their remarkable journeys.



Kenneth Purcell,
Founder & CEO
iSeatz

A handwritten signature in blue ink, appearing to read 'K Purcell'.

Kenneth Purcell
Founder & CEO
iSeatz

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INTRODUCTION: THE HOTEL INDUSTRY'S ANCILLARY REVOLUTION



Ancillaries, often known to travelers and travel businesses as the extra items — like checked baggage, rental cars, hotel room upgrades, room service, and local experiences — that are bundled along with their plane tickets or hotel rooms play an essential role in travel industry merchandising, marketing, and revenue considerations. Although ancillaries have always been an effective strategy to boost sales, they are no longer seen by travel businesses as a mere supplement to other travel products. Today, they are increasingly the main event.

Driven by forces like evolving personalization technology, smarter approaches to e-commerce merchandising and bundling, the expanding categories of products and services that fall into the bucket of “travel,” and changing industry attitudes toward loyalty programs, today’s travel businesses are fundamentally rethinking the role of ancillary products in their overall business strategy. The ultimate example of this shift comes from the airline industry, which in 2017 earned an estimated \$82 billion worldwide from sales of ancillary products. Another example is Airbnb, the apartment-sharing giant, which in 2017 expanded into the tours and activities business and now expects the venture to generate 1 million bookings in its first year of operations.

But the biggest ancillary opportunity of all may be in the hotel industry. Due to larger shifts in consumer habits, hotel executives are realizing that they are no longer simply selling access to rooms and beds. Instead, they are gatekeepers and tastemakers connecting travelers to a universe of related experiences in dining, entertainment, spas, tours and activities, retail, local services, and more.

This new way of thinking about ancillaries is no accident. It's part of a growing trend, one that Skift summarized in its 2018 Megatrend, "Travel Brands Want to be Experience Platforms." As noted by Skift hospitality editor Deanna Ting, "While it's still very true that, fundamentally, hotel companies run hotels and airline companies run airlines, it's also become increasingly clear that more travel brands want to expand beyond what they're known for doing in travel and into new segments of travelers' experiences."

Taking this more expansive view of hospitality offers hotel businesses a variety of business benefits. This includes an opportunity for increased revenue, a more detailed understanding of the wants and needs of their customers, and an ability to drive more repeat business and create loyal customers. And thanks to their access to in-house concierges and their growing reputations as local hubs where travelers and locals alike come to sleep, shop, eat, work, socialize, and more, hotels are better positioned than any other travel business to deliver on this vision for customers. "We believe the most important element of your trip is where you stay," confirmed Christian Hempell, senior vice president of global loyalty and partnerships, at IHG. "That gives us permission to offer other things to you that some providers can't."

“
Guests don't have those barriers in their mind, they're just living their lives. Whether they want to go on a cooking tour or have a massage in their room, or go to a nightclub, or listen to music... they're not thinking about 'I want to go to this hotel to do that,' 'I need to go somewhere else to do this,' they don't care who's running it. They care about the lifestyle that they're living and what they're doing.

- Amar Lalvani, CEO and Managing Partner, Standard Hotels

”

Today, this realization is gaining ground with other hotel executives as well. All that's required is a new mindset about the value hotels can deliver to guests, moving away from simply being a place to stay to a provider of travel experiences. "What needs to happen is [for hotel executives] to realize that guests don't have those barriers in their mind, they're just living their lives," said Amar Lalvani, CEO and managing partner for Standard International, in a 2017 interview with Skift. "Whether they want to go on a cooking tour, or have a massage in their room, or go to a nightclub, or listen to music – whatever those things are – that's what they're thinking about. They're not thinking about 'I want to go to this hotel to do that,' 'I need to go somewhere else to do this.' They don't care who's running it. They care about the lifestyle that they're living and what they're doing."

But in order to seize the opportunity offered by this new ancillary approach, hotels face a number of challenges. First and foremost, they will need to apply what they already know from the realms of hospitality and the concierge to the realm of e-commerce, convincing online consumers that they are a trusted source that can fulfill these needs.

That means building a new strategy for digital merchandising, using what they know about guest habits to better personalize the ancillaries and bundled offers they present to travel buyers. “The hotel industry needs to reinvent its digital and booking path to be more like Amazon—offering a basket of products for travelers to pick from, including activities, tours, dining experiences, and more,” said Antoine DuBois, senior vice president of global strategy at Accor Hotels.

Hotels will also have to overhaul the programs they use to generate and reward customer loyalty. The truth is that for a growing number of hotel guests, the current “points for rooms” reward system may encourage more spending while simultaneously failing to inspire genuine loyalty or brand affinity. That’s because many hotel rewards programs don’t offer opportunities to earn and redeem rewards for products and services that guests already associate with their travel lifestyles and the hotel experience. Instead, these programs will need to embrace a new type of “point liquidity,” allowing rewards to be used for more types of redemptions at a wider range of prices.

What steps are today’s hotels taking to rethink the role that ancillaries play in their e-commerce merchandising, marketing, and revenue strategies? And how do these changes translate into increased levels of customer satisfaction, brand loyalty, repeat business, and revenue? Most importantly, what hotel brands are thinking differently about merchandising and sales of ancillary products and services at their properties? We’ll investigate each of these questions and more in Skift and iSeatz’s trend report, “Winning the Engagement War: Creating the Hotel of the Future With Ancillaries.”



SIDEBAR: What Is a “Hotel Ancillary”?

The word “ancillary” has a variety of meanings for different sectors of the travel industry. In fact, the dictionary defines an ancillary in broad terms, describing it as “...something that functions in a supplementary or supporting role.” For the purpose of this report, a hotel ancillary refers to a supplemental product or services that a hospitality brand might sell in addition to its “core” hotel experience, which is staying in a room. There are several categories of ancillary products and services that fall under this definition:

Food	Food delivery, room service, on-site restaurants, restaurant reservations
Beverage	The hotel bar or minibar
Entertainment	Tickets to events including live sports, concerts, and theater
Tours and activities	Guided tours, day trips, and tickets to local attractions
Upgrades	Upgraded hotel rooms or access to special VIP lounges
Retail	Purchases made from on-site retail establishments like a gift shop
On-site services	Access to the hotel spa, golf, or fitness service

Which of these ancillaries is most popular with travelers? According to recent Skift research, food is currently the most popular category of hotel ancillary among consumers. When asked about hotel ancillaries they had purchased in the last 12 months, nearly 20 percent of respondents in a 2018 survey mentioned food. On-site services and upgrades were next, mentioned by 12 percent of respondents. In third place were entertainment ancillaries, mentioned by 9 percent of guests.

These findings align with 2017 research into hotel ancillaries published by iSeatz in partnership with Phocuswright. When asked what supplemental travel products they would be willing to purchase or book from their hotels, travelers listed “dining at the hotel” as number one. “Early check-in/late checkout” was the second most popular, while “museum and attraction tickets” was third. “Sightseeing or other tours” (fourth) and “room upgrades” rounded out the top five.

UNDERSTANDING THE CONSUMER HABITS DRIVING THE HOTEL ANCILLARY OPPORTUNITY



In order to make sense of the emerging opportunity related to the merchandising, marketing, and sale of hotel ancillaries, it's important to start by understanding the consumer trends that justify this new approach.

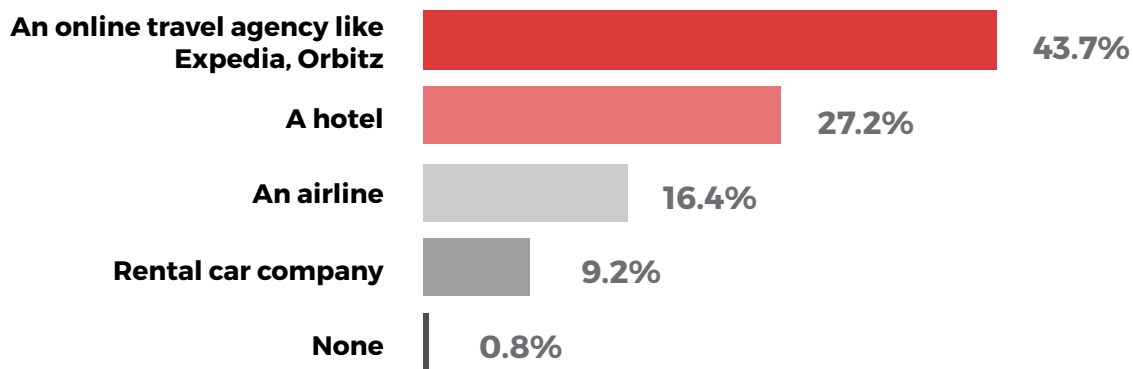
The prevailing purpose of ancillaries used by most hotels today is based on incremental sales: ancillaries help boost revenue by selling an extra product or service. However, in the emerging model, ancillaries will play a much more central role in the entire process of hotel and customer engagement.

They create new opportunities to engage consumers not just at the moment of the sale but throughout the entire customer journey. They also enable hotels to make bundled offers for rooms and other services more relevant to travelers' unique needs, and provide a method to generate stronger loyalty. They even open up new opportunities to sell to local residents in cities where hotels operate. Why is this all possible? It's because of the four changes explained below.

1. A Growing Demand for More Personalized, and Convenient, Buying Experiences

The first lesson related to ancillaries is that travelers tend to value convenience and personalized knowledge when making purchases. It's probably no surprise to hear that 86 percent of consumers in a recent study by Think with Google said that personalization plays an important role in their purchase decisions. Even better, the same study found that 62 percent of consumers have either chosen, recommended, or paid more for brands that provided a personalized shopping and buying experience.

If you were offered a complete package for a hotel room + tour + rental car from the travel providers listed below, who would you be most likely to buy it from?

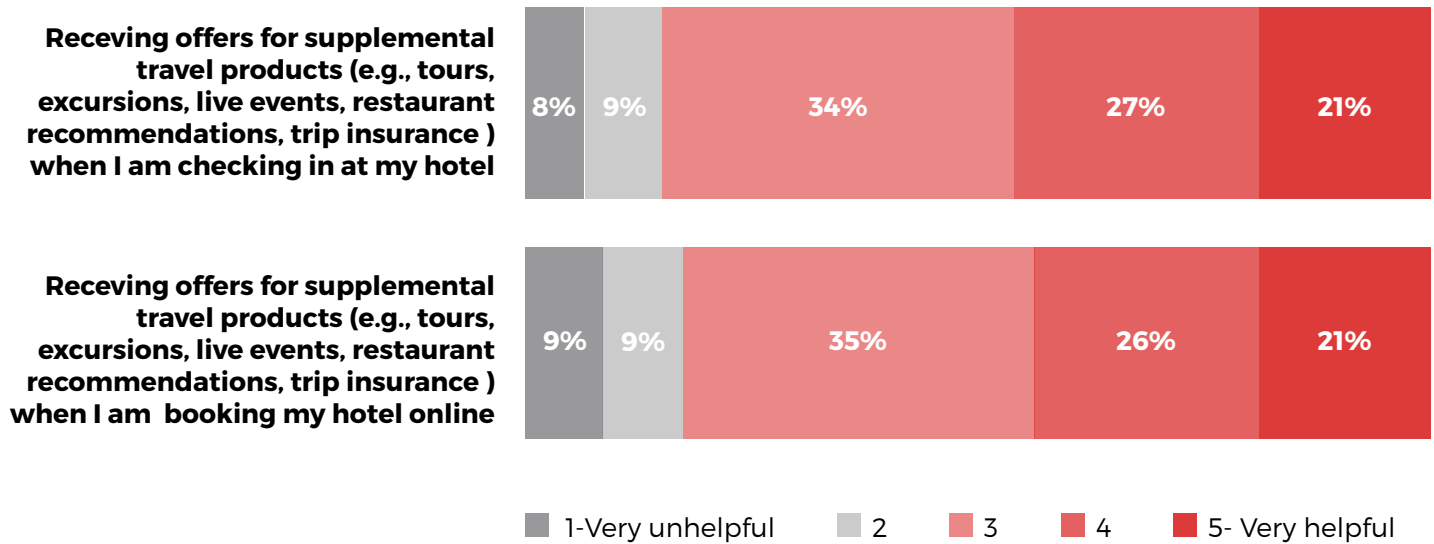


This also means that the reverse is true: if a hotel offers an ancillary or trip package that is irrelevant or mismatched with traveler needs, they're likely to make their purchase elsewhere. In fact, according to research conducted by Skift, hotels have at times struggled in the past to convince consumers that they are a trusted resource for booking a trip. Instead it's organizations like the online travel agencies that are most top of mind in today's online booking and engagement battle.

Just consider the scenario in the chart above, where consumers were asked where they would be most likely to buy a package of travel products. More than 43 percent of respondents listed an online travel agency (OTA) as their preferred provider, with hotels the second most preferred option at just over 27 percent. It's likely that some of the preference for OTAs is due to their frequent advertising campaigns and strong brand awareness. But that being said, consumers' preference for OTAs may be related to their ability to better personalize and package travel offers and product bundles in a way that simplifies the purchase process.

Closely related to personalization is the notion of convenience. Travelers expect the businesses where they shop to make purchases as convenient and seamless as possible. This includes the recommendation of supplemental offers during their purchase process. According to 2017 research completed by iSeatz and Phocuswright, travel buyers already view personalization as a helpful factor when completing hotel-related purchasing experiences. When asked about the helpfulness of receiving an offer for supplemental travel products based on the time of their purchase (for example, when checking in or booking online), close to half (48 percent) of travelers rated such recommendations as either a 4 or a 5 on a scale from 1 (very unhelpful) to 5 (very helpful).

Traveler opinions on receiving supplemental travel product offers



Source: "Hotel Ancillaries: An Unexplored Opportunity," Phocuswright 2017

2. Shifting Attitudes Towards Hotel Loyalty

The second change impacting hotel ancillaries is an evolving traveler mindset related to industry loyalty programs. There's no question that loyalty programs have become massively popular among businesses of all types, whether that's hotels, credit card companies, or airlines. In fact, as noted in research by Colloquy, U.S. consumers currently hold 3.8 billion memberships in loyalty programs.

But the popularity of loyalty programs is also turning them victims of their own success. There are still too many consumers who are either disengaged from, or simply not participating in, hotel loyalty programs. According to Skift research, more than 45 percent of consumers in a 2018 survey who were asked if they belonged to one said no.

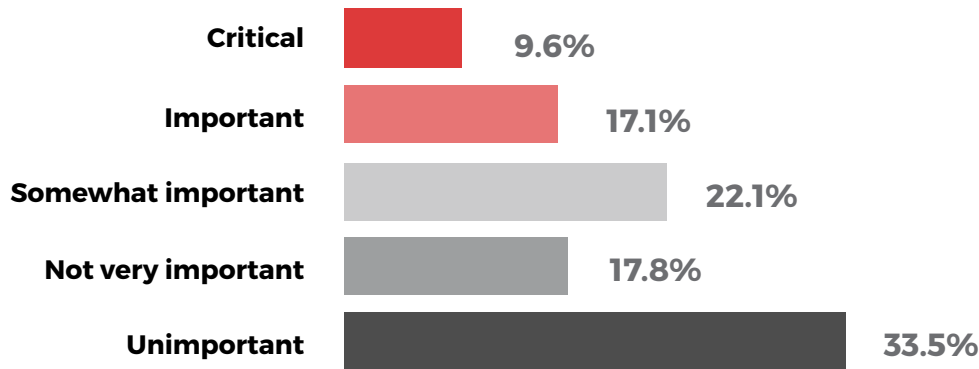
Do you belong to a hotel loyalty/rewards program?



While this insight may seem like a problem, it is also an opportunity as hotel loyalty takes on more of a lifestyle dimension. Instead of seeking out programs built only on points, travelers are increasingly looking to associate with brands that can help them facilitate access to the lifestyles they want to lead. Hotel executives tend to agree. "The opportunity for us is to expand the travel experience for our members," said David Flueck, Marriott's senior vice president of loyalty, in a 2018 interview with the South China Morning Post. "They've come to rely on Marriott for incredible brands and hotels; now we can deliver more to them."

Ancillary products have an important role in the creation of this lifestyle element for hotels: they can be easily integrated into loyalty programs, helping them to deliver access to a broader range of travel experiences not typically associated with hospitality. This bears out again in Skift's research, which found that more than a quarter of consumers considered it either "critical" or "important" that loyalty programs offer the option to redeem points to book hotel ancillary products not only for rooms but for extras like food, tours, concert tickets, car rentals, and more.

How Important is it to you that hotel loyalty programs offer you the option to redeem points for ancillary products like food, local experiences, car rentals, upgrades, event tickets, etc.?



Hotels therefore have an opportunity to integrate ancillaries into existing loyalty schemes, allowing them to better serve consumers' changing travel lifestyles while also providing more flexibility in terms of how they choose to earn and redeem their points. In addition, the 45 percent of travelers not currently connected to a hotel loyalty program (mentioned above) might even be inspired to participate in loyalty programs if presented with a wider variety of redemption opportunities that better satisfy their needs.

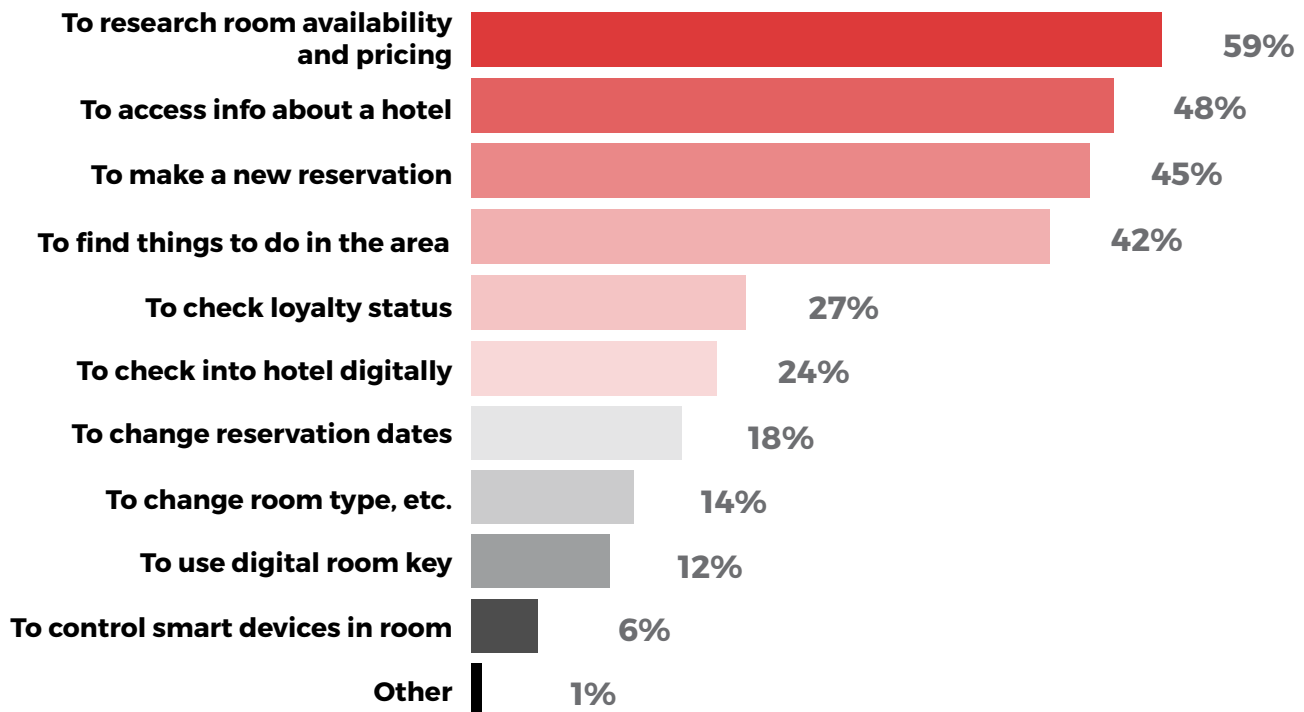
3. The Evolving Nature of Trip Planning

The third change impacting hotel ancillary strategy is linked to when, why, and from whom consumers purchase these supplementary items during their trip planning process.

Hotels already seem to be well positioned to play a key role in the trip planning process for travelers. After all, the on-site concierge has been helping to deliver customized recommendations to guests for decades. But today's traveler isn't necessarily visiting the concierge desk as often as in the past. "Our data is showing us is that somewhere between 25 percent and 28 percent of travelers still go to the hotel concierge for recommendations," said Kenneth Purcell, founder and CEO of iSeatz.

Instead, many consumers increasingly rely on digital resources and mobile devices to find local food and itinerary recommendations. According to Skift's 2018 "U.S. Traveler In-Destination Mobile Usage Survey," 76 percent of leisure travelers used their mobile phones for hotel-related purposes. In addition, 42 percent of respondents said they used their device to "find things to do in the area." This suggests that hotels have an opportunity to claim much bigger ownership over this process, aligning their expertise and trusted customer relationship with today's evolving digital research and purchase process.

How have used your mobile phone to interact with a hotel? (select all that apply)

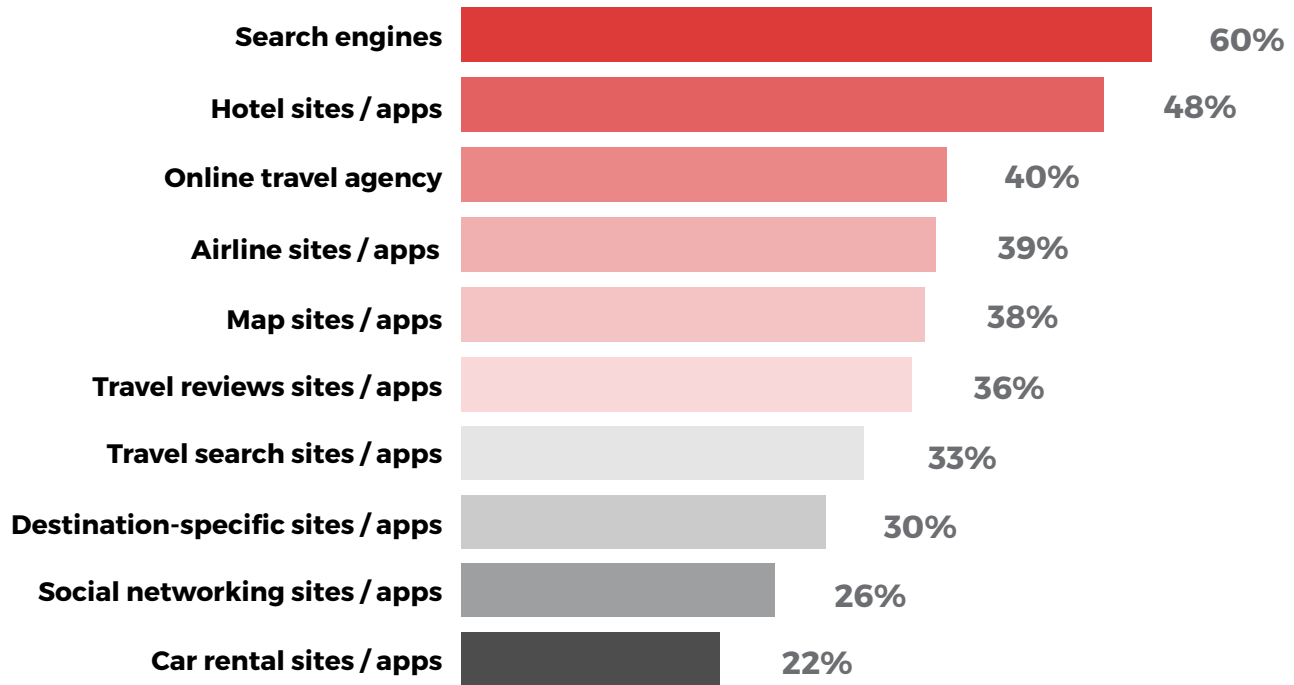


Another related aspect of consumer trip planning habits has to do with the timing of when consumers purchase various items connected to their trip. The common wisdom suggests that travelers typically buy their big ticket items, such as airfare or their hotel room, first. They then wait until the time of travel or until they've arrived in destination to buy ancillary products like a tour or spa visit, or to make a restaurant reservation. This assumption has had considerable influence over the corresponding decisions for when and how hotel brands choose to engage potential customers: for example, why promote an upcoming concert to travelers when they haven't even booked their room yet?

Yet today's purchase and trip planning process isn't as straightforward as it might appear. The truth is that travelers often make travel purchases out of sync with this buying sequence, offering an opportunity for hotel ancillary products to play a much greater role in hotel marketing efforts, and for those ancillaries to influence purchase decisions much earlier in the buying process.

Consider a 2014 study of the consumer path to purchase completed by Google, which notes that hotels have a growing opportunity to assist travelers throughout their trip planning process. When leisure travelers in the study were asked for their top ten online sources used in trip planning, hotel websites/apps were the second most popular option, mentioned by nearly half of respondents. This insight was further backed up in a 2016 article by eMarketer, which noted that hotel websites were the second most popular resource for trip research after search engines.

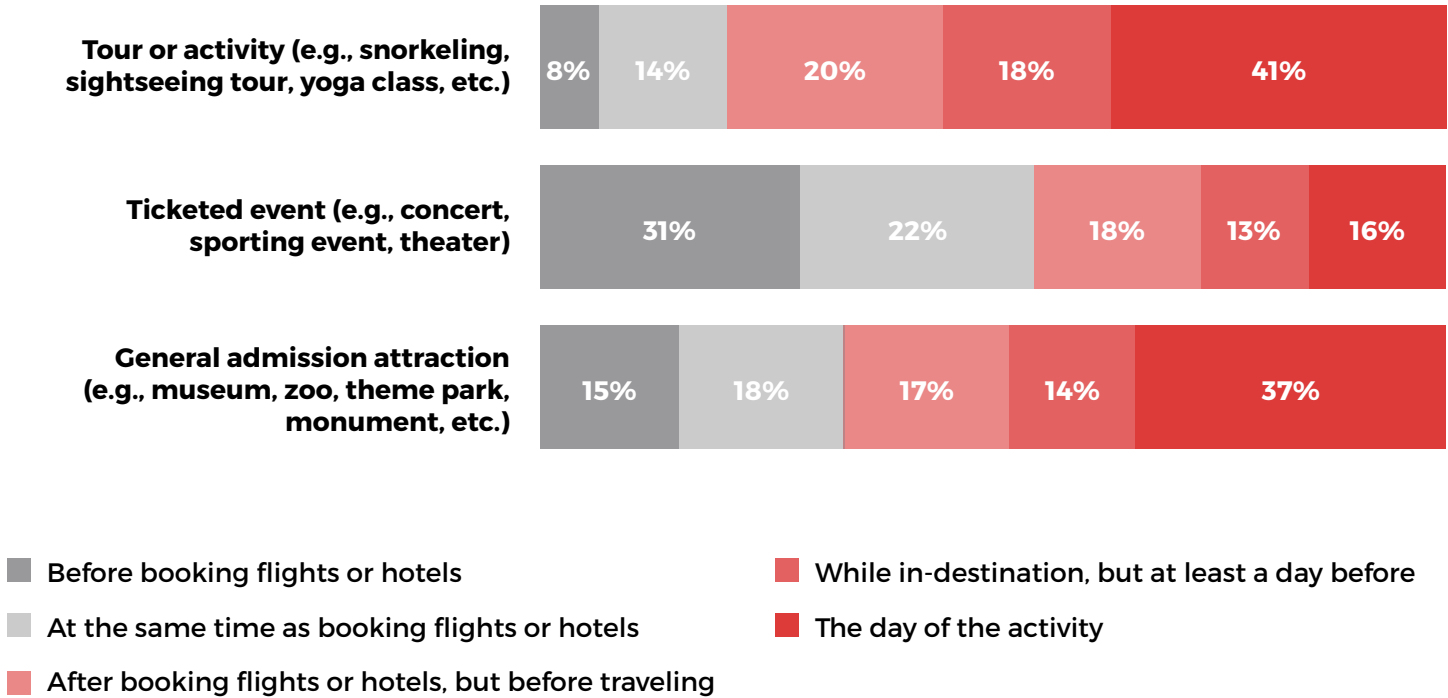
Top 10 online sources used in travel planning



Source: "The Traveler's Road to Decision," Think with Google

In addition, some categories of ancillary products are purchased by travelers before they even make their travel plans. This is particularly true for entertainment-related transactions, including concerts, sporting events, and theater, where consumers will plan a trip around the experience. According to 2017 research by iSeatz and Phocuswright, more than half of such ticketed events were either purchased before or at the same time as flights and hotels.

Last trip in-Destination activities Booking Window



Source: "Hotel Ancillaries: An Unexplored Opportunity," Phocuswright 2017

This suggests that hotels have a big opportunity to actively market ancillary products like event tickets to travelers earlier in the travel purchase process, engaging consumers before they even finalize their hotel plans. Industry executives increasingly agree with this assessment. "I think a lot of people will travel specifically for an event [like seeing] a Beyoncé concert," said Accor's Dubois. "They will travel to Paris just to do that, and then maybe [it's] the first thing they buy before they think of their hotel."

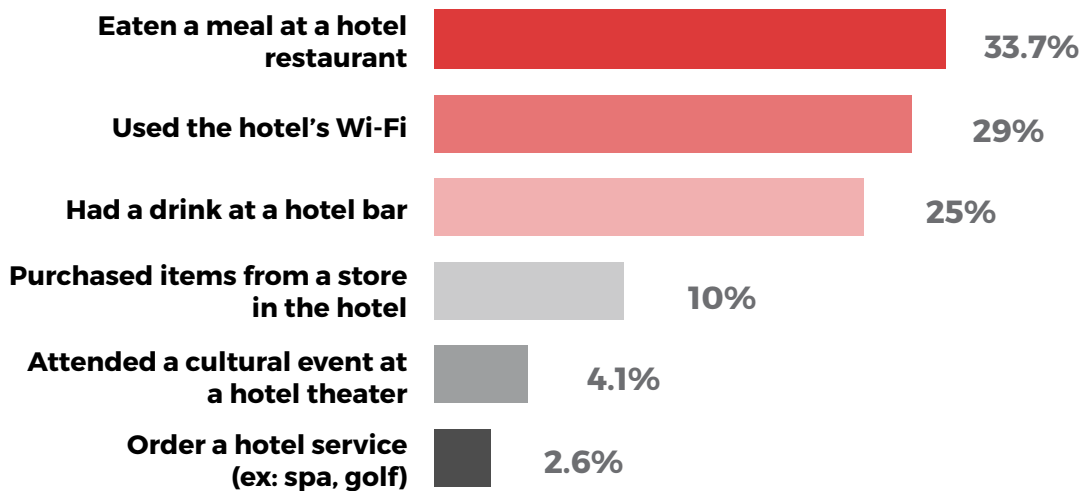
4. A Desire for Hotels to Serve as Community Hubs

The fourth change impacting hotel ancillary strategy is about the consumer segments hotels consider to be their "core" customer. Based on a mounting array of evidence, hotels need to expand their marketing of ancillaries to include local residents and travelers alike.

Thanks to the success of increasingly popular boutique chains like the ACE and Standard Hotels Group, more hotel brands big and small are catering to a growing desire among local residents to eat, socialize, shop, and even work out of hotels. "The hotels that are most interesting to me are part of a neighborhood or part of a community," said Liz Lambert, founder of Bunkhouse Hotel group, in a 2018 interview. "My granddad, who was a rancher, didn't have an office. So he would go to the local hotel and sit in the lobby and do business deals and get his boots shined, get his hair cut. You could do that in the lobby of a hotel. It was a place where people met, whether you were from out of town or you were a local."

This trend aligns with Skift’s consumer research into ancillary habits. When asked about items and services they had used at a hotel as a “non-guest,” more than a third said they had eaten at a hotel restaurant. In addition, another 29 percent said they had used the hotel’s Wi-Fi, a quarter said they had had drinks at a hotel bar, and more than 10 percent had purchased items from a retail store located in the hotel.

Have you purchase/used any of the following hotel services in the past 12 months as a NON GUEST (not staying at the hotel) ?



Even more interesting, emerging trends in today’s corporate culture suggest a growing opportunity for hotels to fill a void created by shifts in office culture. A growing share of today’s workforce is remote. CNN reported in 2017 that the global “mobile” workforce will grow to 1.87 billion individuals by 2022, emphasizing the need for coworking and so-called “co-living” arrangements and related services.

Hoteliers seem to be taking notice of the shift. Some hotel brands, like the U.K.-based Ennismore, are even building out co-working space within their hotel properties. “We’ve got a bunch of office spaces to move into with our developments,” said Ennismore founder Sharan Pasricha in a 2018 conversation with Skift. “In Chicago and potentially San Francisco, and in London, we’ve got office space with our hotels, so we’re actively considering exploring, possibly, our own co-working brand.” Hotel brands need not set up mini-offices on their properties to take advantage of this consumer shift. Instead, as this new category of itinerant employee continues to grow, there’s now a growing opportunity to sell ancillaries related to productivity (Wi-Fi access, lunch reservations, or on-demand meeting space, for instance) to remote workers and local entrepreneurs.

All of this indicates that hotels should start thinking about distributing and merchandising ancillaries in such a way that they appeal not just to travelers but to city residents and workers as well.

HOTELS DESIGN A NEW APPROACH FOR ANCILLARIES



By now, it's clear that emerging industry trends and shifting consumer habits provide an opening for hotels to reimagine the role of ancillaries in their business strategy. But even though many hotels recognize these shifts, a variety of obstacles still stand in the way of their implementation.

Among the problems facing hotels are aging and often siloed technology systems, which make it difficult to determine how customer data can be used to inform personalization efforts. These technology issues also impact the hotel's booking tools, which sometimes struggle to compete with sophisticated search options offered by online travel agencies and metasearch websites.

In addition, there is the complicated nature of today's digital distribution environment, which makes it hard for a hotel to easily and consistently offer ancillary products pulled from a proliferating range of first- and third-party sources. And as consumer preferences related to loyalty evolve, hotels are scrambling to offer more flexible methods of earning and redeeming points related to ancillaries.

Those familiar with the hotel sector agree that these challenges have resulted in the industry lagging behind more nimble, ancillary-focused travel merchandisers like airlines. “If you look at the way that hotels are using their digital assets to merchandise ancillary products in comparison to the way airlines are doing it, it’s night and day different,” confirmed iSeatz’s Purcell.

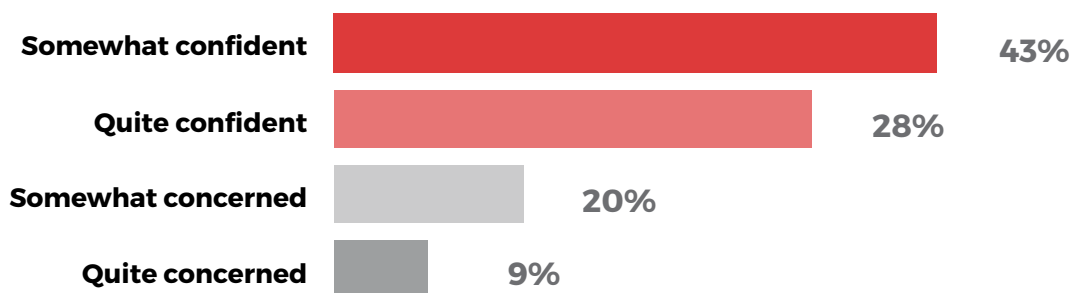
Below, we investigate the most essential changes hotels will need to make in order to embrace tomorrow’s ancillary opportunity.

Creating a Personalization Strategy with Ancillaries at the Center

Earlier in this report, we reviewed consumer research that suggests shoppers are much more likely to purchase a travel offer that is personalized for their unique needs than one that is generic. But even though many in the hotel industry recognize this fact, implementing a personalization strategy that integrates ancillaries, and doing so at scale across multiple hotel brands, remains a complicated challenge.

Research from Skift’s 2018 Digital Transformation report confirms that travel industry efforts to utilize personalization remain a work in progress. When executives were asked about their level of confidence in their ability to deliver personalized experiences for customers, 43 percent said they were only “somewhat confident,” while another 29 percent said they were either “somewhat” or “quite” concerned.

How confident do you feel about the following statement? My organization can effectively deliver personalized experiences and messaging for our customers.



Source: Skift’s 2018 Digital Transformation Survey

As personalization becomes more important to the hotel merchandising experience, many hotel executives rightly wonder if they have the proper tools in place to compete with savvy e-commerce competitors like the OTAs or Amazon. “The idea of personalization is here, and we need to build the right tools,” said Accor’s Dubois. Yet much of the personalization occurring today focuses on marketing and customer communications rather than the merchandising of ancillaries. “It’s mainly used for recommendations, internal newsletters, [and] emailing, rather than having a strong [e-commerce offer],” said Dubois.

How then will hotels reconcile the need for personalization with their existing technology systems? One of the easiest solutions to this problem is to utilize data from loyalty programs. In fact, hotels already have a strong understanding of their customers based on existing traveler loyalty data. According to other industry observers, this loyalty data is the first place hotels should look to customize what ancillaries they offer to customers. “Ancillary products should be customized based on your members’ pre-designated preferences,” confirmed iSeatz’s Purcell. “It is another enabler to gain more share of the customer’s wallet, if you’re able to offer the customer an opportunity to pre-designate what kind of additional products they want to see from your site.”

Moving beyond the logged-in data shared by loyalty members, there are other contextual clues hotels can use to better personalize the offers they make to consumers based on their online behavior. “If you don’t have a logged-in customer, then you have to make some educated guesses,” said Purcell. “You can do that by length-of-stay, type of travel, number of guests in the party, rate or rate class, or the product that they’re booking. On the hotel website or app, this includes the following data:

Site history	Have they previously used the hotel website or mobile app?
Location	What city or country is the customer in at the time of their search?
Search preferences	What hotel destinations are they searching for? What types of hotel brands or properties are they picking?
Time of search	How soon before the stay is the site visitor completing the search? Is it pre-trip? During the trip?
Number of guests in the booking	The addition of more than one guest to a hotel booking is a likely sign the travelers are a part of a couple or a family.
Abandoned shopping carts	Adding an item to a shopping cart, even if a purchase is not completed, can offer hints as to what a consumer might buy in the future.

Each of these behaviors begins to form a “breadcrumb trail” of information, which, when hotels combine these insights with other data from CRM platforms and loyalty programs, can inform the creation of more relevant offers bundled with ancillary products.

Hotel executives who spoke with Skift confirm that they are using a similar process as they start to improve personalization in their ancillary bundling strategies. “We’re spending more time understanding how we can provide you with a custom offer based on your preferences and your location and where you are in the trip,” said IHG’s Hempell. “Are you at check-in, are you in the middle of your trip, are you at checkout? We’re working on functionality that can enable those kinds of customized offers.”

He also notes that IHG customizes ancillary offers depending on the brand of hotel where the guest is staying. “Some brands will have an offer that’s relevant for them but may not be for another one. For instance, Holiday Inn Express might have an offer that may not be appropriate for InterContinental guests and vice versa.”

RETHINKING ANCILLARY OPPORTUNITIES IN LOYALTY PROGRAMS



More hotel chains like Hyatt, are rebuilding their loyalty programs to address changing consumer habits. As part of this process, many are putting a renewed focus on the integration of ancillary products into the earning and redemption process.

Another challenge facing hotels as they seek to reimagine their ancillary offerings is related to loyalty programs. Loyalty programs have long been an essential component of hotels' marketing and guest interaction strategies. And, as was mentioned in the previous section, hotels have an opportunity to use data from such programs to drive personalization efforts related to merchandising. But in order to meet shifting customer desires, hotels are realizing these programs must evolve to satisfy broader changes in today's e-commerce environment.

The biggest change for many hotels is moving from loyalty programs that are strictly transactional to a model driven by relationships built on an ongoing basis with consumers. "We've recognized that if you conceive of loyalty through the lens of a transactional interaction, then you're destined to a commoditized future," said Mark Hoplamazian, president and CEO of Hyatt, in a 2016 interview. "If all it is is an organized discounting system, there's no emotional-based relationship that you can develop out of that. That's just price."

Instead, Hoplamazian says Hyatt is rethinking its loyalty offerings to find more meaningful ways of connecting with consumers. “Increasingly, we are rethinking loyalty in a very, very broad way. Not just the program, but also what it means to actually extend the sense of our brand and our purpose to those interactions with our guests, and having that be the center of our focus and attention.”

One need only look at recent hotel industry announcements to understand just how quickly this mantra is weaving its way into the sector’s loyalty strategies. Hyatt redesigned its loyalty program in 2016, while Hilton announced its own loyalty revamp in 2017. Meanwhile, Marriott and Starwood will complete their much-anticipated loyalty program merger in August 2018. Each of these efforts is helping to diversify and refresh each brand’s loyalty offerings, providing opportunities to engage consumers while simultaneously creating new methods of earning and redeeming points.

As this process moves forward, hospitality brands also have the chance to better align opportunities to earn and redeem loyalty rewards with consumption of hotel-related ancillaries. As a number of hotel executives now believe, taking this step will make it possible to use loyalty programs to become the “travel gatekeepers” described at the outset of this report. “The more that we can serve needs in one stop for our customers, the more we think we are building a loyalty proposition that is harder to unwind,” noted IHG’s Hempell.

How will this happen? One of the best strategies is offering loyalty members with elite status access to special ancillary perks. “Other companies that I’m aware of are offering free experiences or bundled ancillaries to their customers if you’re traveling and you have a certain loyalty status,” confirmed iSeatz’s Purcell. “You may get a free activity, or you may get a free experience of a certain value in a market if you’re a super high-ranked status member.”

“

The more that we can serve needs in one stop for our customers, the more we think we are building a loyalty proposition that is harder to unwind.

- Christian Hempell, SVP, Global Loyalty & Partnerships, IHG

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Another option is “...using loyalty status to target certain segments of their loyal guests to offer discounted or increased point earning opportunities for specific activities that are highly relevant to that targeted user group,” said Purcell. “We can take the data, we can integrate with a loyalty program, and then provide them with recommended top things to do and recommended earning values for those things, or discounts for those things, to try to move the needle.”

Some hotel brands like IHG are already implementing this type of loyalty-ancillary integration. “We do run different [ancillary] offers based on your status,” confirmed IHG’s Hempell. “Even more importantly, IHG believes these integrations need to be convenient and seamless for guests, otherwise they can easily become a missed opportunity. “When we put some of our ancillary products like a Hertz rental car or an OpenTable booking or GrubHub and the ability to order food delivery, all of those things need to be done in as seamless a way as possible while still delivering on a loyalty experience,” he said. “We’ve created a way to earn points on those other activities that the customer would likely do anyway, but now they can do them through our mobile app or our website or our platform.”

CASE STUDIES: HOW HOTELS ARE BUILDING THE ANCILLARY MODEL OF THE FUTURE

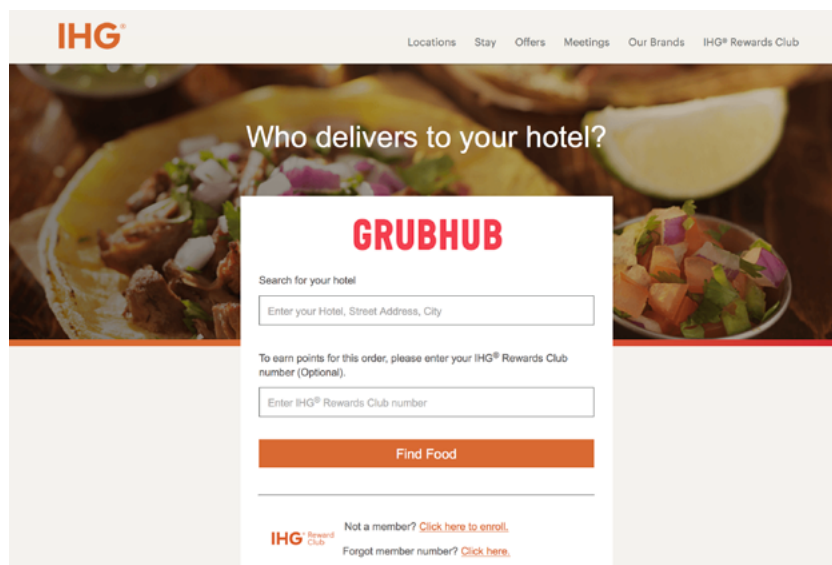


Hotels clearly have an opportunity to reimagine their strategy of selling, marketing, and merchandising ancillaries as part of the hotel experience. But how are hospitality brands making this new vision of ancillaries a reality? Below is a collection of hospitality best practices that demonstrate some potential solutions.

Using Ancillaries to Inspire Hotel Loyalty

It's clear that travelers are looking for a wider range and more flexible options related to hotel loyalty programs. But how are hotels helping to meet this demand? There are a number of recent examples of loyalty schemes that are using ancillary purchases to help rethink the programs' earning and redemption process.

IHG is one hotel brand that is trying to better integrate trip planning and ancillary purchase recommendations into travelers' hotel research and purchase process. The company's IHG Trip Extras portal offers visitors itinerary suggestions for popular destinations, alongside opportunities to book ancillary products like tours and car rentals right from the site. Further adding to the company's integration of ancillary and loyalty offerings was the 2017 announcement that IHG Reward Club members could earn program points for booking restaurants via reservation service OpenTable, or when ordering food via digital food service GrubHub.



IHG announced in 2017 that guests could order food from GrubHub delivery partners from the brand's website. It's one of a number of strategies the chain is using to integrate ancillary services more deeply into its e-commerce strategy and loyalty offerings.

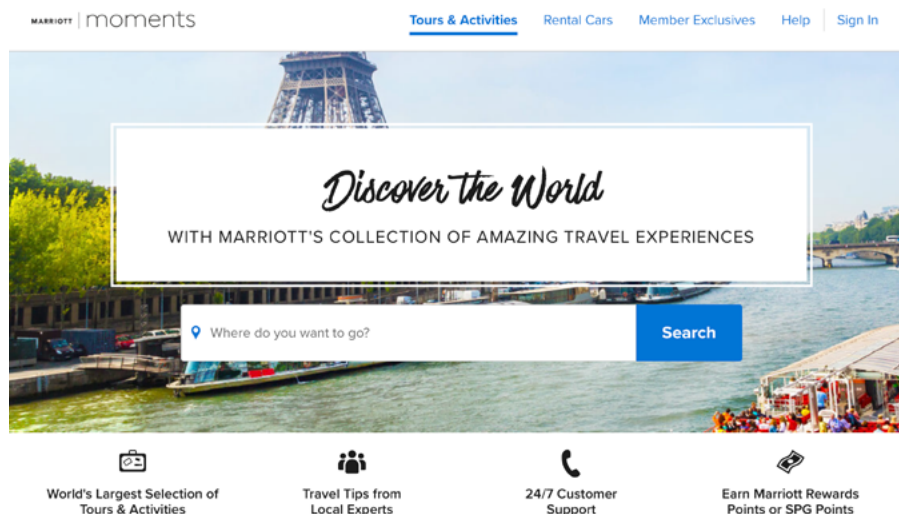
As IHG executives explain, the new loyalty integration with ancillary food activity was launched as a response to customer needs. "The benefits that we offer IHG Rewards Club members are based on extensive research into what they want from a loyalty program," said Liz Crisafi, IHG's head of loyalty, partnerships, and portfolio marketing for the Americas, in a 2017 interview with Skift. "Members have told us they would like more ways to earn points while dining. These collaborations allow us to provide benefits that enhance the food and beverage experience for our members, whether ordering delivery to their hotel room or dining on or off property."

IHG has taken additional steps to try and incentivize participation in the OpenTable program by tying it into the company's loyalty offering. "The amount of points that we give you can be based on a number of factors," said IHG's Hempell. One component of that decision is based on a customer's current status level with IHG Rewards Club. Another strategy is to incentivize IHG Rewards Club participants to eat at company-owned restaurants. "We offer you more points if you book the restaurant in the IHG hotel than if you go to the one across the street. Because we want to offer the customer choice, but we also like to have customers eat in our own restaurants rather than sending them somewhere else."

To further extend the value of its loyalty offering, IHG also offers a special auction-based portal where loyalty members can bid on VIP-style ancillary experiences like concerts. "Customers are able to bid points to be able to have a once-in-a-lifetime type experience," said Hempell. "Those tend to be music or concert related or something else that you know sometimes money can't buy, but points can."

Most importantly, IHG's strategy of integrating ancillaries into its loyalty offering has resulted in higher program engagement and deeper relationships with customers. By offering more ways to earn, customers are more likely to think of the IHG brand the next time they prepare to make a travel purchase. "We have seen a relationship between engagement [and loyalty], which makes sense," said Hempell. "The more people earn, the more engaged they are with the program."

Turning Hotels Into a Personalized Trip Planning Resource



The Marriott Moments website

Consumer research suggests that travelers are open to receiving trip planning ideas and inspiration from a hotel. Yet many hotels still struggle with technology issues related to booking tools and the integration of such ancillary products into their own e-commerce strategies. What are today's hospitality brands doing to address this reality? As it turns out, a number of hotel chains are now utilizing their own tour and activity marketplaces to boost engagement with travelers during the trip planning process, merchandise ancillary offers, and encourage consumers to take action.

In addition to IHC's Trip Extras platform, mentioned above, another example of a hotel trip planning marketplace is Marriott's Moments website. In 2017, the hospitality giant made its first investment in a tours and activities metasearch site, a move that suggested the company's executives wanted to more closely align the hotel brand with the distribution of third-party ancillary services. Marriott has since transformed that site into the Marriott Moments platform, which launched in 2018. The portal offers a wide variety of tour and activity offers tailored to different types of travelers, along with expert recommendations provided by influencers ranging from celebrity chef Eric Ripert to professional skier Gus Kenworthy.

According to Marriott executives, the Moments platform is part of a company strategy to engage potential customers not just when they're booking a hotel, but throughout the trip planning process. "We launched this Moments platform with 110,000 experiences on it, not just to provide you with a hotel stay but also to provide an experience within the community you are traveling in," said Tina Edmundson, global brand officer and luxury brand portfolio leader for Marriott, in a 2018 interview with Skift. "We want to be this place where you come for any of your travel needs."

Best of all, the platform is directly linked with Marriott's loyalty offering. Customers who use the platform more frequently can earn loyalty points through either Marriott or Starpoints for their purchases. In addition, many of the experiences offered on the Moments website are exclusively available to loyalty members, delivering added value to the company's most coveted guests.

As an added perk, Marriott says that the platform uses visitor information to better personalize tour recommendations as guests use it more frequently. "Over time, the more our users shop and book through the site, the more personalized the recommendations will become," said Stephanie Linnartz, Marriott's global chief commercial officer, in the Skift article about Marriott Moments.



Using Ancillaries to Appeal to Both Locals and Guests



A screenshot from Accor's AccorLocal mobile app.

Hotels have traditionally focused their marketing energy promoting ancillary offers to travelers staying at their properties. But based on evolving consumer habits, there are now signs that they can expand the focus of those efforts to include local residents as well.

This approach is currently being tested by Accor Hotels. The European-based hotel group is making a new play to use ancillary offers to increase daily engagement with potential customers via its AccorLocal app, which launched at the end of 2017. As executives from the company explain, the old hotel model focuses on the handful of occasions during the year when hotels might interact with a guest. "The issue we have today with our customers is that we only see them a couple times a year at most," said AccorLocal CEO Scott Gordon in 2017 interview with Skift.

AccorLocal, however, is designed to use ancillary sales as a tool build an ongoing relationship with potential guests. Instead of offering the traditional hotel amenities to travelers, Accor is creating a digital supply chain that allows residents living near its hotel properties to request a wide range of services, including on-demand breakfast, dry cleaning, yoga classes, package mailboxes, and flower delivery.

While the program is still in its early days, executives from Accor believe it will help the company long-term to engage potential customers on a more regular and ongoing basis. "It's changing our interactions with our guests from an occasional interaction to a daily or weekly interaction," confirmed Gordon.

CONCLUSION



Today's hotel executives have come to an important realization. They are no longer merchants selling access to rooms with beds in them. In fact, thanks to the growing importance of ancillary products, hospitality brands are evolving to become trip planning tastemakers to a range of dining, local entertainment, spas, tours and activities, retail, local services, and more.

But in order for hotel brands to seize this opportunity, they will need to shift their approach to marketing and merchandising. The first step will involve a re-examination of the hotel's role in travelers' trip planning processes and, more broadly, consumers' daily lives, promoting hotel products and services throughout the entire customer journey. In addition, hotels will need to get better at using what they already know about their customers to personalize the bundles of products and services they offer to guests. There's also an opportunity to evolve hotel loyalty programs, integrating ancillary products as tools to build deeper relationships with guests and offer more seamless, flexible rewards.

Building this new model will not be without its challenges. But as a wide variety of hotel companies are now realizing, ancillaries have the potential to unlock unprecedented levels of business opportunity by increasing levels of customer satisfaction, while boosting brand loyalty, repeat business, and revenue. Hotel ancillaries have arrived: it's time that those in the industry give these powerful products the central role in marketing, merchandising, and ecommerce that they deserve.

KEY TAKEAWAYS

- **Hotels are no longer just hotels** - consumers no longer think of travel brands only in terms of a single product or service. Hotels have an opportunity to rebrand themselves as much more than purveyors of hotel rooms and beds. Instead, they can use sales of ancillaries to become merchants providing access to a curated collection of entertainment, travel, food, and retail experiences.
- **Ancillaries help hotels play a greater role in trip planning** - ancillaries have traditionally been regarded as something travelers buy during their trip after they've already booked their hotel. But increasing evidence suggests some types of ancillary products (like concert tickets) are booked well in advance of travel, suggesting new opportunities for merchandising and marketing.
- **Personalization is the linchpin of ancillary offers** - hotels need to use what they already know about traveler habits to optimize when, where and how they make such offers to guests. This customization will help ensure such offers are relevant to each consumer's unique wants and needs.
- **Loyalty is evolving** - consumers' attitudes toward loyalty are evolving. As a result it's no longer enough for hotels to only think about loyalty as points that consumers earn for free nights. While these types of rewards still have value, hotels should consider new opportunities to integrate ancillary products and services into their loyalty platform, providing customers with new methods to interact with the brand as well as new methods to earn and redeem.
- **Appeal to locals as well as travelers** - ancillaries don't have to be sold only to travelers. As more locals eat, shop, and socialize at hotels in urban areas, hotels have an opportunity to use sales of ancillaries to engage consumers on a more frequent basis while simultaneously boosting incremental revenue.

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ABOUT ISEATZ

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