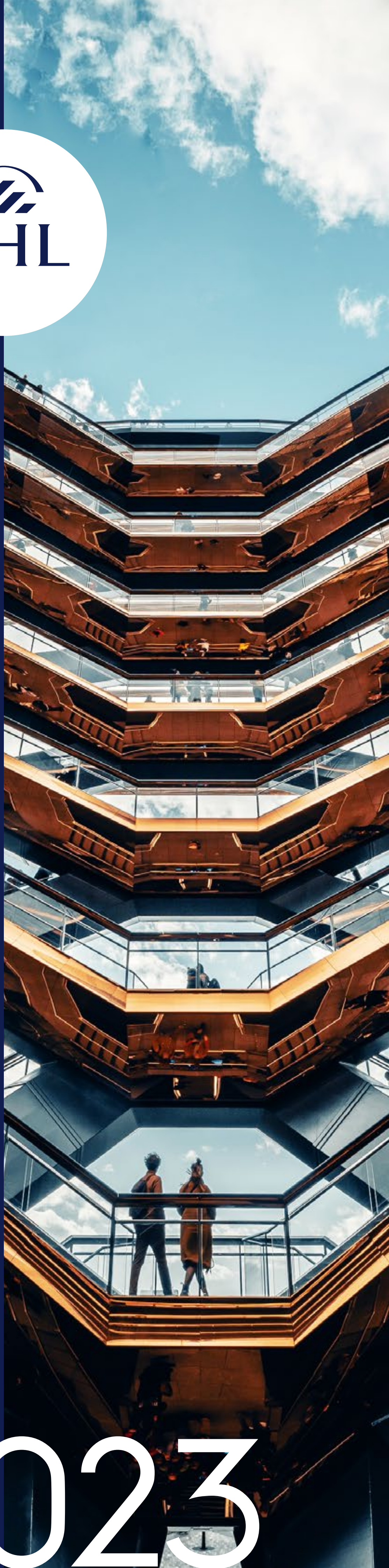
Hospitality Industry Outlook

Forward-looking research insights by EHL Faculty. How can hospitality reposition itself as attractive, tech-savvy and sustainably innovative in today's changing times?

INSIGHTS BY:

Stefano Borzillo, Carlos Martin-Rios, Sébastien Fernandez, Guy Llewellyn, Stéphanie Pougnet, Margarita Cruz, Florent Girardin, Luciano Lopez, Maggie Chen, Matthias Fuchs, René Woltering, Rémy Rein.



2023

Foreword

How can hospitality reposition itself as an attractive, tech-savvy, sustainable and innovative sector in the face of today's shifting times and changing customer needs? This is the question that keeps coming up after a few tough years where many old, 'safe' industry assumptions were turned on their head.

Thankfully, hospitality is nothing if not resilient by nature, since having to constantly adapt to past disruptions (emergence of the digital OTA giants, new consumer expectations, a global pandemic) has only helped reinforce our agility muscle. Today more than ever, we're feeling a sense of exciting potential in re-framing problems and creating new industry paradigms. The hospitality handbook is in need of a re-write: time for creativity, audacity, innovation – and data!

At EHL, our research faculty take great pride in gathering data and analyses from the field, knowing that their findings will directly impact what is being taught in the classroom. In turn, EHL graduates enter the workplace armed with the right balance of factually current theory and practice. It's a virtuous circle where industry and education work within a collaborative ecosystem, one constantly informing the other – and in turn, helping to establish a strong sense of reputation fueled by thought leadership.

Over the past year, we have all become familiar with the latest batch of external forces that have been hammering at the window of industry: a post pandemic landscape that has changed the nature and values of work, an ongoing war and the ensuing energy crisis, the positive and negative pervasiveness of digitalization, and above all, the urgent call for sustainable, regenerative practices.
But what is often missing from this list is the human element. Whether manager, employee or customer, the need for connection, validation and growth is today becoming the main prism of analysis for making sense of our future world – both personally and professionally. Upcoming generations of hospitality leaders expect a career in a sector that's attractive, purposeful and offers a good work-life balance. Hence, when addressing the current hospitality labor shortage or inventing new hotel offers based on emotionally rich experiences, it is no coincidence that the human component is at the center, driving solutions and innovation forward.

Similarly central is the theme of authenticity and its correct communication. After staff scarcity, sustainability is the no.2 main issue that hospitality needs to confront. But as our research shows, 'sustainability' is just flimsy add on if it's not underpinned by an authentic value chain and coherently transparent business model from start to finish. Whether in terms of real estate, luxury or wine production, there's a clear infrastructure to creating credible and effective sustainable practices: being boldly authentic lies at the heart of it.

This collection of EHL faculty research findings aims to share some essential red threads to help understand the opportunities and challenges at stake in today's hospitality industry. Despite the era of 'permanxiety' and polarization that we're currently living in, this is actually a very exciting time for hospitality as we grasp the impactful role that creativity, human-centricity and authenticity can bring to the sector and its stakeholders.

MARKUS VENZIN
CEO, EHL Group.

TABLE OF

CONTENTS

Solutions for the hotel industry labor shortages: Technology, flexibility, upskilling - and above all, a paradigm shift

Dr Stefano BORZILLO, Associate Professor

01

< Back to the table of contents

Accelerating pre-existing labor trends: Perceptions matter

The writing was on the wall for the industry's labor supply problem even before COVID precipitated the phenomenon. In describing the backdrop for the recent acceleration of the labor supply crisis, a 2022 study by HES-SO Wallis echoed a familiar sentiment: While hospitality's international exposure was seen favorably, respondents highlighted the industry's stressful working environment, frequent overtime and low salaries. More than 50% of respondents consider that hospitality work is "not valued in our society" and mention that working hours are "staggered and sometimes restrictive". Portrayals of the hotel industry in the news during the pandemic have also had a corrosive effect on its perception by younger generations, especially with respect to rigid and steep career progression models.

Solutions from frank conversations

In December 2021, the World Travel & Tourism Council (WTTC) published several strategic recommendations to make the industry more attractive to jobseekers, which included "facilitating labor mobility and remote working, providing safety nets, upskilling and reskilling the workforce and retaining talent, and creating and promoting education and apprenticeships."[1]

Subsequent reflections on recruiting and retaining talent by such organizations as McKinsey, and BCG have brought a needed granularity to the WTTC's broad (but sound) advice. These tend not to shy away from the thorny issue of compensation, with "wages and pay" ranked ahead of schedule flexibility, benefits, career growth and training.

In the same vein, in its "2022 Guide to Employee Engagement," Gallup highlights the attention given by employers to employee engagement through what it dubs "growth-oriented conversations," and "clear, ongoing communication."[2] The adage has it that knowledge is power; at least this type of regular and open conversation will give hotel managers a better grasp of employees' specific motivators and stressors.

Perhaps that explains why Hilton has consistently ranked among the best workplaces in the world, capturing for the second year in a row the number two spot in the ranking – the only hospitality company among the top 25. At the heart of its achievement, a remarkably high response rate (92%!) to its company team-member survey, which drives much of the internal conversation and programs around employee development and retention. As a result, Hilton devotes considerable resources to finding talent that matches the company values, and offers them growth opportunities, a wider array of upskilling and skills' portfolio expansion opportunities, along with recognitions, rewards, and a transparent career development track.

Retention strategies: Transparency, flexibility and growth

Transparency is crucial when it comes to communicating a company's strategy around talent retention and acquisition. This should be directed both internally and outwardly, as evidenced by Accor's bold decision to confront the industry's global talent shortage head-on.

The company does so by outlining short-term fixes (making compensation market-competitive, introduce more flexibility into schedules, streamline and modernize certain tasks) and long-term projects (invest in technology-enabled automation and the upskilling that goes with it, redesign the workforce to allow for flexible external gig-like engagements, bring the employee value proposition into the modern age, and invest in non-traditional recruiting pipelines).[3] To make sure employees and potential recruits are kept in the loop, Accor has launched several campaigns on social media and empowered regional divisions to focus on the programs that make the most sense for their geographies (e.g., a reimagined referral program and a refugee recruitment program in North America; Same-Day Hire Programs in the Pacific region).

While many of its digital solutions are developed in-house, Accor has increasingly relied on innovation from startups. This open-source strategy of "co-development and co-creation" with HotelTech entrepreneurs "takes the form of commercial partnerships, pilot concepts in hotels and even acquisitions of equity stakes in some startups." Among such acquisitions: Wipolo, a booking mobile app, and FastBooking, a tool for independent hotels to develop direct sales.

Thanks to considerable resources, trust in its existing and future talents, and a digital-forward reengineering of its workforce and careers, Accor, like many of its peers, is embarking on an experiment at scale. This time next year, the results should show whether this approach yields better talent acquisition and retention.

[1] Misrahi, et al. Ibid | [2] Gallup, Ibid | [3] "Tackling the Hotel Talent Shortage: Accor's Global and Local Actions" EHL Presentation (Summer 2022).

Short of acquiring startups outright, hotels also have the option of incubating internal startups to be either integrated into the fold or spun off down the road. Whether they are "in-trepreneurs" or external tech providers contracted to develop digital solutions, the mutually beneficial relationship between them and hotels will generate considerable volumes of data from the users. Which include guests, but also employees current, past and prospective.

Conclusion: the new 'Basic Versus Baller' paradigm

In TastemadeTV's short-lived Basic Versus Baller: Travel at Any Cost (2018–2019), each episode saw filmmaker brothers Alex and Marko Ayling draw lots upon arriving in a new destination. Who would receive a princely budget to stay and dine in the locale's finest establishments, and who would have to stretch a couple hundred dollars over three days, feasting on ramen in a youth hostel?

Both brothers managed to accomplish exactly what they had set out to do. One found smart solutions to explore a city's best cheap eats, free activities and sleep in budget-friendly yet safe and clean lodgings, while the other made a point to experience all the perks and services available in luxury hotels.

Likewise, the emerging hotel industry is one that takes into account the expectations of an emerging cohort of travelers who are tech-savvy, interested in sustainability and purposeful experiences, and weary of burdensome processes. Contactless self-check-in and checkout are not necessarily seen as a hotel cutting corners if instead the premium-hotel guest is greeted by name by staff upon arrival, offered a welcome drink on a sofa and a personalized tour of the property. Similarly, the short-term-stay business traveler may see those same automated transactions - albeit in a very-lightly staffed budget property - as a time-saver, and the reason why they were able to find a modern shower, a Nespresso machine and a Bluetooth speaker in an $80-a-night hotel.

In a highly differentiated luxury property, automating certain administrative processes such as reporting (which offers no discernable value added to the customer) and providing Gen Z employees with modern reservation management tools instead of slow legacy systems frees up resources to give a bespoke experience to guests. While capital-intensive in the beginning, investments in smart technology solutions eventually help reduce costs in the long run, thereby offering the possibility of reallocating spending on salaries, and making the working experience more attractive to a new generation of workers. This in turn reduces turnover.

At the other end of the spectrum, new budget hotel offerings emphasize efficiency and cost-leadership, especially with respect to staffing which represents the largest expense on any hotel's P&L. Labor management systems such as Hotel Effectiveness help allocate staff time more effectively. Simplifying the hotel's role by eliminating certain traditional F&B functions can also shape guests' expectations and reduce staffing costs. Case in point: replacing a middling hotel restaurant with a self-service market (e.g., IHG's EVEN hotels) or a co-working space (Mama Shelter hotels in Europe). This essentially reallocates value for the customer towards areas that may be of greater importance now than in previous generations.

While likely to boost the fortunes of hotels in both the premium and budget categories, these shifts in models certainly threaten the mid-section of the industry: three-star properties that cling to a more traditional, less specialized approach to hospitality, as well as independent hotels that are unable to make the needed capital investments in technology, facilities, new experiences - or new talent.

AT A GLANCE

Dr Stefano BORZILLO, Associate Professor.

Dr Stefano Borzillo specializes in Organizational Behavior. His main fields of research are group and team dynamics, communities of practice, processes of knowledge creation, and best practice transfers in organizations.

What changes at recruitment level would help move the staffing shortage along?

I quote our EHL Professor of Hotel Asset Management, Remy Rein, who advocates a more flexible working system based on a supply and demand basis. The idea is to pay staff extra when working the more unpopular shifts, e.g., Sunday evening, very early mornings or late nights, (not dissimilar how Uber operates). This should be communicated at recruitment level as an incentive when hiring.

What's the role of automation?

The role of automation and data analysis can play a major part in bringing down labor costs in the long run, despite the initial investment set-up. For the staff, it means replacing many repetitive tasks and creating more room for variety, e.g., flexible tasks that change every month, more customer interaction and a sense of empowerment in being encouraged to try out new roles.

What are the constraints to these new measures being applied?

Mindset and money. Changes require an investment upfront and not many hospitality establishments have a generous budget margin post-Covid. New IT systems have to be installed to manage the new frameworks - this means budget plus a modern mindset. A traditional SME outlet run by the same owners for decades might not be so open embracing new tools, whereas young entrepreneurs with a startup mentality tend to dive into implementing innovative methods and harnessing the role of data.

< Back to the table of contents

Solving sustainability challenges: The role of digital technologies and tech startups

Dr Carlos Martin-Rios, Associate Professor

02

< Back to the table of contents

Sustainability is slowly becoming a driving force in reshaping the business model and operations of firms. As the aspiration of sustainability implies profound, fundamental transformations of the economy and society, organizations must not just care or aspire to being sustainable but firmly activate sustainable practices for business success.

Compared to the manufacturing industries, the service sector - including tourism, hospitality, foodservice and business services - has been slower in adopting sustainability practices and transforming their core business models and innovation strategies to advance the sustainability transition. Although it is showing a growing interest in all aspects related to resource management (food, energy, water, land, materials and mobility) there is no clear direction on how to link sustainability decision making into a competitive advantage for a more robust and virtuous industry. Herein lies an important question: How will service businesses harness the transformative power of digital technologies to support the sustainable transformation of the service sector?

Adopting sustainability practices

The transformation of services toward greater sustainability requires three fundamental changes in the way service business is done.

1. Companies need to assess the principles of sustainable business models (SBM) and challenges associated with their adoption. SBM are holistic and leverage the social, financial and environmental impact of the business at multiple levels: the company itself, the local, regional and national communities of interest, the industry in which it operates and its competitors, allies, suppliers, and finally, social and institutional stakeholders. It is promising to see business models that create value for all stakeholders in the value chain without depleting the natural, economic and social capital it relies on. Businesses define their sustainability strategic priorities first, outline their innovation priorities second, and finally, set tangible and realistic performance goals.

2. Larger companies need to establish ecosystems to forge long-lasting relationships with fast-changing entrepreneurial firms. It is through collaboration with multiple partners, suppliers, vendors, joint-ventures and embryonic projects that service firms will rebalance the multi-stakeholder nature of the sustainability transition and its implications for the tourism, hospitality and restaurant industry. A long-term view helps better discern what is important from what is urgent. Such a long-term perspective draws on collaborations with universities and their incubators, small startups, to prototype, to co-create SOI, to look beyond what service meant in the 20th century and embrace what sustainable service will mean in the 21st century.

3. Innovation offers a variety of tools to trigger change. Sustainability innovations propel systemic changes at strategic, managerial and operational levels. Service firms need to bet on sustainability innovations in their transition toward new business practices. They must have an explicit strategy to make their tech experience match its consumer experience. Today a vibrant ecosystem of tech-based startups helps service companies move their sustainability strategy forward by creating synergies between the next generation of technologies (IoT, AI, advanced robotics, blockchain, 3-D printing) and the next generation of sustainable services.

Blending the strategic vision and agility of tech startups with the expertise of well-established services

In its broadest sense, the disruption of customer service is an illustrative example of how collaboration between large services and entrepreneurial ventures might drive innovation around automation and machine learning. Will the next generation of robots be used not only in car assembly lines or pharmaceutical production but also in grocery stores, hotels and restaurants? Imagine a world where routine tasks in kitchens, front-desks, supermarket stores are fully digital and robots and algorithms are capable of delivering personalized experiences.

In this scenario the sector as a whole may replace low skill positions with jobs based on technical and higher intellectual content skills. Professionalization is one of crucial factors that will determine the speed and extent of the sustainable transition. Leading services will propel our societies to a new stage where the social gap between those who enjoy purchasing services and those who provide them is less accentuated.

Short of acquiring startups outright, hotels also have the option of incubating internal startups to be either integrated into the fold or spun off down the road. Whether they are "in-trepreneurs" or external tech providers contracted to develop digital solutions, the mutually beneficial relationship between them and hotels will generate considerable volumes of data from the users. Which include guests, but also employees current, past and prospective.

Sustainability is not for solo players

In the short run, tech startups are powerful enablers in the sustainability transition of the service sector. One important lesson from current research and experience is that sustainability is not for solo players. Techstartups have a significant impact in this new landscape and might play a role in advancing SBM among service organizations.

Tech startups using digital technologies for a sustainable future can contribute to solving the most pressing environmental and social challenges the industry faces. Robots, AI and IoT platforms combine science and engineering to automate many of the tasks in the service sector. We anticipate that in the service landscape of the near future man and machine work hand in hand complementing each other's strengths.

Take the example of startups such as Kitro that uses AI to quantify food waste in professional kitchens, or innovative food packaging solution startups. Similarly, established business services working toward digitalization such as Lombard Odier (moving sustainable finance forward by accelerating the flow of private sector investment in building a net-zero world). These companies combine AI, algorithms with machine learning to deliver tailored-made solutions for their clients in the retail, hospitality and foodservice sectors.

Once a business delineates its new business strategy, it can establish partnerships with startups to leverage on synergies. Restaurants may partner with tech startups to adapt their menu to cater to customer preferences based on a sophisticated algorithm. Hotel brands and travel agencies can partner with tech giants like Amazon to suggest unique travel experiences based on past social media activity and purchase behavior. Research on IoT technology in service management is still in its infancy, yet it represents one of the most exciting and promising arenas for novel research and practice, particularly given its innovative and sustainability potential.

Addressing sustainability grand challenges is a one-way street to transforming businesses and society in unprecedented ways. But this requires adopting a long-term perspective that overcomes trade-offs between purpose and profit, and undertakes the need for financial return and social impact. The digital revolution can play a vital role in helping service sector companies to repurpose business for society, profit and the planet.

AT A GLANCE

Dr Carlos Martin-Rios, Associate Professor

Dr Carlos Martin-Rios specializes in Sustainability, Innovation Management and Leadership. He teaches courses on CSR & Sustainable Innovations, and Organizational Behavior & Leadership. His research focuses on sustainability and innovation management, and addresses how management theories can be applied to tackle grand challenges.

What is the main message urging companies to become more sustainable?

The main message is very clear and simple: 40% of businesses will go under if the 1.5 degree decrease is not met. In short, business models have to change how they function so that production, operations and delivery is optimized to suit sustainable goals. This change in operations requires specific research and insights that cannot be gathered in a solo setting. The service sector has so far made many claims about how it plans to transition to more sustainable working models, but sadly, the reality of this shift is still very much a work in progress. This is why partnerships with tech startups are so vital; to invest the process with fresh ideas based on synergies and digital research. Big hospitality professionals often have little real experience of dealing with sustainable problems, e.g., food waste – an issue that requires specific tech awareness and data analysis to be solved effectively.

Why has the service sector found it so hard to integrate sustainability?

The service sector - especially the hospitality industry - is by nature constantly tied up with being operational. Little time is available to actually step back and a) rethink how certain jobs could be done and b) harness data and AI to come up with new approaches in line with current challenges (staff shortages) and goals (sustainability). In brief, the whole concept of professionalization needs to be interpreted differently. Take, for example, hospitality staff shortages which today are worse than ever. We all want a service society but no one wants to work in it – which is then further compounded by the fact that we don't mind a machine making our coffee, but we don't want a machine to serve it to us. These attitudes do not add up. The role of tech startups could serve as a great tool for addressing these inconsistencies which are in need of a totally innovative overhaul.

AT A GLANCE

What additional shifts could the hospitality sector be making?

There are many mindset shifts that could be made that would help speed the process along:

- Work with competitors to share the solving of common problems.
- Partner with tech startups to develop radical sustainability innovations.
- Invest in research tech innovation (e.g., Google and Accor).
- Create business models based on local ecosystem partnerships.

Sustainable real estate – Increasing pressures for hotel investors

Dr René-Ojas Woltering, Assistant Professor

Rémy Rein, Senior Lecturer

03

< Back to the table of contents

What are the implications of the march towards carbon neutrality for the hospitality industry? This article explains how consumer and investor behaviors are changing and discusses the challenges and opportunities for hotel operators and investors in the coming years.

Why sustainability matters for the hospitality industry

Sustainability and ESG have emerged from niche topics to now being high on everyone's agenda. Following up on the Paris Agreement on climate change to minimize global warming, the European Union's Green Deal targets climate-neutrality for the continent long term. By 2030, the EU and the US seek to cut greenhouse gas emissions by more than 50%. The next years will be defined by the evolution of regulatory frameworks to ensure these ambitions are achieved through concrete actions.

The stakes for the hospitality industry are high. Buildings, including hotels, are the biggest source of greenhouse gases after transportation. In fact, hotel operations consume more energy than any other type of building, accounting for an estimated 1% of global carbon emissions. The long-term commitment to becoming carbon-neutral by most major hotel chains is thus an important goal, also to raise awareness for people who stay and enjoy amenities at the hotels.

However, net-zero operations are just one side of the story. Embodied carbon in the construction and renovation of buildings contributes to at least 21% of global emissions. Given the worldwide share of hotel real estate and the sector's ongoing growth, up to 10% of embodied carbon emissions may be attributable to hotels. By this estimate, hotel construction accounts for another 2% of global carbon emissions, bringing the total footprint of the hospitality industry to 3%.

The role of reporting systems

Investors and business leaders should aim to anticipate where the puck is going, not where it has been. In light of the recent developments, it is not surprising that sustainability was also the key topic during the 2022 International Hospitality Investor Forum (IHIF) in Berlin.

Hospitality businesses should institutionalize competency by creating dedicated teams within head offices to implement suitable measuring and reporting systems. A consensus that emerged from the IHIF meeting is that the key performance indicator (KPI) to monitor sustainability is a hotel's energy consumption. Reporting is not only an upcoming CSRD requirement. An objective review of the current situation is also the basis for triggering a change in the right direction.

Travelers prefer sustainable hotels – are they also willing to pay up?

71% of global travelers want to travel more sustainably, according to Booking's most recent sustainable travel report. This statistic represents a 10% increase compared to last year. Half of the respondents attribute the rising importance of sustainable travel choices to recent news about climate change. The consequences of this trend for hotel owners and operators are significant. 70% say they would be more likely to select a sustainable hotel option, whether or not they were explicitly looking for one.

But are customers also willing to pay more? The academic research indicates a change in consumer behavior. While in 2014, hotel guests required a room price discount to accept common sustainability practices by hotels, more recent studies document that customers are finally willing to pay up. Green hotels benefit from a room rate premium of 6.5% without reducing occupancy, mainly due to better indoor environmental quality.

During times of uncertainty, investors tend to become more risk-averse. Given the evolving regulatory environment, it is thus not surprising that equity investors as well as financiers tend to take the less risky route by investing in more sustainable hotels already today.

On the financing side, it became evident at the IHIF meeting that some banks have already stopped providing loans for unsustainable hotels. The hesitance to lend to unsustainable hotels is understandable, given that lenders too may soon be required to report on how sustainable their loan portfolios are. We may also see a higher demand for green bonds as a debt-financing instrument. The so-called 'green premium' for sustainable bonds leads to cheaper interest rates for the borrower.

< Back to the table of contents

On the equity investor side, we may also see a valuation premium for sustainable hotels. From a financial perspective, it seems rational to expect that sustainable hotels should trade at a price premium relative to unsustainable ones: First, sustainable hotels may achieve higher revenues if customers are willing to pay up. Second, sustainable hotels may benefit from higher cash flows through energy consumption and sustainability-related cost savings. Third, sustainable hotels may also benefit from lower interest rates on their bank loans. Consistent with these advantages, investors expect average transaction price premiums of 3-9% for hotels with the highest ESG certifications, according to a recent survey by Cushman & Wakefield. Some funds are already limiting their buying to only Breeam or Leed sustainability-certified buildings.

In the future, the green premium for sustainable hotels may increase even further. Or put differently, the discount for unsustainable hotels may become more significant. In a recent report, the Urban Land Institute warns that real estate investors in Europe risk major asset value writedowns if they fail to reduce the carbon emissions of their property portfolios. Therefore, the critical question for investors is, what is a sustainable hotel's fair price premium?

Doing well by doing good? Challenges for investors and financiers

The pressing question for hospitality investors today is how to take the sustainability momentum into account in future investment decisions. An existing green premium for sustainable hotels does not automatically have obvious investment implications. There will be a financial trade-off for investors once the green premium is priced efficiently in the hotel investment market. All else equal, higher transaction prices today lead to lower cash flow returns in the future. Thus, investors must understand what is a fair green premium to pay that still allows for sufficient investment returns.

One possible way for investors to make their existing hotel portfolios more sustainable is to invest in retrofitting existing buildings to improve their energy efficiency. Such refurbishments will require significant capital expenditures. Whether these investments pay off from a financial perspective will ultimately depend on the following three factors: 1) the green premium to be realized when the asset is sold, 2) the extent to which customers are willing to pay up for more sustainable hotel stays, and 3) the magnitude of the realizable energy savings that will affect the hotels' bottom line cash flows. It will be essential to prioritize potential actions and identify which measures will have the most significant impact.

Hotel investors may need to borrow money to finance such retrofitting initiatives. Can investors borrow money at lower interest rates if financiers can classify these loans as sustainable? Financiers themselves may issue sustainability-linked bonds as an efficient refinancing tool to provide capital for such capex programs.

Chances for opportunistic investors

The alternative for investors is to sell unsustainable assets and replace them with more sustainable ones, thus leaving the renovation part to other market participants. Here, we may see the emergence of opportunistic funds to buy unsustainable hotels at a discounted price relative to sustainable buildings. These funds could then specialize in CapEx spending programs to make the hotels more sustainable, obtain the green certification and put them back on the market. This investment strategy will require specialist asset manager know-how with a dual competency in ESG/sustainability and project management skills to achieve those goals in a timely and cost-efficient manner.

Finally, global tourism is still a growth industry, despite the Covid-19 shock. Over the following decades, the hospitality industry will continue to build out hotel supply via hotel development projects. New hotel development projects will be approached with a sustainability mindset. Yet the opportunities for redevelopment of existing buildings may be even more important from a sustainability angle. For example, we may see a surge in conversions of vacant office buildings to hotels in the next decade. Office vacancy rates are increasing dramatically due to a paradigm shift in the adoption of home office following the pandemic. These developments may allow hotel investors to gather vacant office buildings in prime locations for attractive prices and convert them to hotels. From a carbon emission viewpoint, «renovating or repurposing an already existing building will almost always be the more sustainable approach.»

The sustainability trend raises important questions for all stakeholders. This article discusses the pressing questions hotel operators, investors and financiers face. Most of the answers are still missing. The regulatory environment is evolving. Best practices are yet to be identified. However, the generally open mindset towards sustainability by most market participants will allow everyone to learn faster.

Academic institutions are increasingly integrating sustainability into their courses and programs. The emerging job profile of the sustainability consultant is on the rise. Academic research is increasingly putting the topic on the agenda to contribute to our understanding as we gather more quantifiable evidence. A close collaboration between the industry, regulators, and academia will be necessary to find the answers in due time.

AT A GLANCE

Dr René-Ojas Woltering, Assistant Professor

Dr René-Ojas Woltering teaches Real Estate Finance and Hotel Valuation at EHL. His research publications on real estate transactions and investment strategies have appeared in leading scholarly journals.

Rémy Rein, Senior Lecturer

Mr Rémy Rein specializes in Hotel & Real Estate Management. He has extensive experience in international, multi-site management and consulting within the hospitality industry.

Where is the pressure coming from for hotel investors?

We are in the early stages of an increasing gap between sustainable and unsustainable hotel real estate assets. Hotel guests desire and are willing to pay for sustainable travel options. Sustainable hotels promise cost savings through energy efficient business operations. Financiers are increasingly unwilling to provide loans for unsustainable real estate assets as they also have to demonstrate the sustainability of their loan portfolios. As a result, we observe an increasing valuation premium for sustainable hotels, whereas unsustainable hotels are at risk of becoming stranded assets.

What is the less desirable impact of the EU net zero building goal on investors?

The risk for investors today is that unsustainable properties will be devalued due to the EU's net zero goal for 2050, enhanced by the fact that bank loans are shrinking for non-green investments. Time and money are the main issues here, e.g., a portfolio of 300 buildings that rate low on the sustainability score. To meet the EU objective in 27 years' time means renovating 10 properties per year. What will happen to the properties that have not had the time or money to be renovated? What will they be worth in 2050 if the transformation hasn't been completed? Who will want to buy these unsustainable buildings?

AT A GLANCE

Is there a solution to this problem?

The sooner we get aligned on certification standards the better. (e.g., USALI is currently creating a reporting framework that integrates hotel sustainability standards for 2023). Once the framework is established, will have a clearer understanding of how much a sustainable renovation will cost and how much it will bring. Investors who can afford the capital expenditure required will then be able to reap the subsequent benefits thanks to a return based on sustainably-driven customer needs. But much of this depends on a) sustainability truly becoming a habit rather than a trend, and b) the banks making green funding as accessible as possible. To ensure the latter, government-backed funding would be extremely helpful to achieve the common goals.

Authenticity in the food and beverage industry

Dr Margarita Cruz, Assistant Professor

04

< Back to the table of contents

Over the last decade, authenticity has gained tremendous relevance among consumers and stakeholders in the food and beverage industry as well as in hospitality. Producers are emphasizing the authentic character of their offerings to a greater extent, while consumers increasingly favor authentic products and experiences.

As a result of this growing interest in authenticity, research shows that products and firms that come across as committed to authenticity receive greater benefits. For example, authentic restaurants, wineries and breweries are granted more attention and higher ratings. Consumers also tend to be more forgiving about quality pitfalls when restaurants offer authentic food and experiences.

What makes a product 'authentic'?

But what exactly is authenticity, and how can we help entrepreneurs and managers in the sector understand it better? Evidence from different segments of the F&B industry suggests that aspects such as small-scale, local production, history and tradition are important characteristics when defining authenticity.

Let's consider the American beer industry, traditionally dominated by large producers and increasing in the nineties with a great number of micro-breweries with novel and authentic offers. As a classic example of authenticity in the F&B industry, the American beer industry suggests that breweries began to be seen as authentic when their products as well as production standards became opposed to mass-production and consumption. This implies that smaller, micro-breweries offering unique beer types in small batches are likely to be perceived as authentic by consumers and experts.

Unlike the American beer industry, German breweries as well as Barolo wineries in the Piedmont region in Italy have brought other elements to the table when talking about authenticity. In these specific industries, F&B businesses are perceived as authentic when they play an important role in their respective regions and when they stick to tradition and history. For example, breweries that respect ancient recipes and traditional production processes, maintaining the use of old beer kegs and jars, and which have a beer pub on their premises are perceived as authentic.

In a similar fashion, wine houses producing Barolo wine are perceived as authentic when they respect the production traditions such as storing the wine in 'botti' - large wooden barrels - as opposed to stainless steel ones. This implies that long-standing companies with historical roots in the region where they operate are more likely to be attributed with authenticity than newcomers.

Some constraints to authenticity

While such a boom in authenticity certainly brings benefits to businesses, it has also triggered a number of constraints in terms of organizational action. For instance, if authenticity in the F&B industry is granted to companies using local produce, producing in smaller batches and respecting the history and tradition of the industry, what happens to innovating firms wishing to change the status quo in the industry?

One could expect that such innovative businesses would also be perceived as authentic because of the unique characteristics they offer. However, our recent research shows that consumers could develop a certain rigidity in regards to what is considered authentic or not, and hence, such strict expectations on authenticity can prevent organizations from introducing change.

For instance, the creation of new businesses and the introduction of new products is undermined in regions where consumers have strong expectations of the type of authenticity that should be used. While product proliferation is one of the most common strategies for fighting competition with innovation, it is a less desired option by producers when consumers favor authenticity. Therefore, although firms may benefit from having product variety including non-authentic products when facing competition, they would follow such strategy at a lower extent when authenticity is a desirable asset by consumers in the region in which they operate.

< Back to the table of contents

Similarly, evidence from the wine and champagne industry also reveals that novelty can transgress expectations on authenticity as innovative actions may lack the idiosyncratic and symbolic value consumers search for. For example, in the case of Barolo winemakers in Piedmont, community members vigorously rejected innovations made in the production and storage of wine. Similarly, Champagne houses introducing new ways of commercializing their products were perceived as less authentic by consumers and the local community. As a result, companies may be perceived as non-authentic when introducing novelty in their products and to the industry, and therefore, may experience lower ratings, higher costs, and ultimately, higher closing rates.

How to come across as authentic yet innovative?

If authenticity is both an asset but also a constraint for the F&B industry, how can firms best come across as authentic without compromising their innovative spirit? While authenticity is difficult to improvise and even harder to stage, there are multiple actions entrepreneurs and managers can undertake to increase the authentic appeal of their businesses:

- **Use tradition in your narrative**. Even for the most forward-thinking companies in the industry, tradition represents an important anchor that helps customers understand the context the firm belongs to; a type of story-telling that engages the consumer in the production journey and evolution. For instance, combining ancient recipes or ingredients with novel ones, making use of labels and product names that refer to ancient industry features and highlighting the use of traditional production methods.

- **Localness**. To be perceived as authentic, it is important for restaurants and gastronomic businesses to showcase how local they are. Being local not only means sourcing products nearby, it also reflects how involved firms are in their local context and community. For example, being able to show strong partnerships with relevant business actors in the same district where they operate, or supporting local artists by allowing them to showcase their work. In other words, empowering local communities and neighbors by employing them and offering events and products that are unique and relevant to them.

- **Remain measured**. Having the capacity to introduce diverse services and products is a useful strategy in times of competition, however, not so much when consumers look for authenticity. Being able to offer a small selection of related products enhances the chance that consumers perceive the unique and authentic value of the firm.

- **Create a strong relationship with your end-customer**. Building a strong relationship with customers is an important process for a firm wanting to be perceived as personalized and authentic. This implies being able to connect to customers' life events through products, organizing special events or incorporating customer opinion in the strategy-making of the firm.

Authenticity implications for sustainability

In terms of being local, small, traditional and with strong community ties, authenticity can also be linked to the theme of sustainability in the F&B industry. It's interesting to note, however, that consumers and producers seem to have adopted authenticity more easily in the past decade than sustainability.

Why is this the case and what can F&B managers and entrepreneurs learn from authenticity in regards to their efforts in becoming sustainable? Like authenticity, sustainability cannot be improvised or staged ad hoc. This implies that consumers are smarter than we think and can easily detect when a firm's efforts to become sustainable are inauthentic. We speak about inauthentic sustainability (i.e., greenwashing) when sustainable actions are not consistent all along the value chain but only show up at certain stages of the value creation process.

Authentic sustainability actions should go beyond pure reporting or marketing actions and should be used to uphold how sustainable actions are present along the F&B experience. For example, by using narratives that highlight how sustainability has been implemented along the entire value chain, how localness and smallness helps in reducing waste, and how creating community action with customers helps in supporting local communities too.

Authenticity constitutes an important asset for F&B businesses. While there are innovation challenges to being authentic, authenticity offers an important learning case for entrepreneurs and managers in the F&B industry to better connect with customers and deploy important implications for sustainability in their businesses.

< Back to the table of contents

AT A GLANCE

Dr Margarita Cruz, Assistant Professor

Dr Margarita Cruz specializes in Strategic Management and Entrepreneurship. Her research lies at the intersection between organizational theory and entrepreneurship, with a particular focus on the role of authenticity on entrepreneurial outcomes.

Why has authenticity become so important for a brand's identity?

Consumer trends go hand in hand with how industry has evolved. We are now seeing a return to values based on genuine, local and traditional processes after a long spell of large chain mass production. This shift is today becoming very present in F&B, hospitality services and travel experiences. Many consumers, especially the young Gen Z, are now looking for authentic meaning behind their purchases and are willing to pay the premium this requires. In the last 15 years, consumers have become increasingly aware that a less standardized product is often healthier, more attractive and unique. These preferences are based on products that involve a simpler and smaller supply chain, e.g., local produce, family businesses, items that are as close to a 'handmade' approach as possible, (this also extends to clothing, cosmetics and furniture among many other sectors).

How is the theme of authenticity related to sustainability?

The two issues are definitely co-related and share some main principles, but one is not necessarily a trigger to the other. When it comes to communicating the message, it has to be consistent, credible and clearly perceivable in both cases. You can't make up authenticity or sustainability; it has to be there at the core of the brand and its processes, not just in part.

Consumers have become more conscious of what a supply chain might involve and how, in terms of mass production, this alienates them from the originality of the product. Hence, with authenticity, there's an additional motivation: selfishness on behalf of the consumer, e.g., "I want to enjoy a product or experience that's not available to everyone." There's certainly an element of exclusivity to authenticity.

< Back to the table of contents

AT A GLANCE

What are the solutions to the constraints that authenticity often brings?

Authenticity is certainly a valuable brand asset but can be very constraining when it comes to wanting to innovate the business model base and operations. On the organizational side it can lock you in. It's often hard to deviate from the main strategy as seen with the Champagne industry. When trying to diversify production processes, some producers were hit hard from different sources: the grape growers gave them higher prices and the connoisseurs didn't approve of the 'unauthentic' changes.

The solution is to remain small when introducing new products or processes, and keep strong connections to the local customer base. Rather than go for 100% new methods, it's best to work on a small product portfolio, good lines of communication and continued use of tradition along the production chain - then gradually introduce the innovation. Make sure to carry on emphasizing the history of the company – this is especially important for F&B brands.

< Back to the table of contents

Human-Centric sustainability marketing to drive consumer demand

Dr Matthias Fuchs, Assistant Professor and Director of the Institute for Customer Experience Management

05

< Back to the table of contents

Despite sustainable goals being on everyone's lips – nowhere more so than in the hospitality sector – it's important to understand that sustainability doesn't mean the same thing to all consumers. Differing consumer definitions of sustainability make it difficult for hospitality brands to respond to this need for sustainable practices.

Indeed, we regularly observe hospitality brands communicate sustainable initiatives in ways that are too generic. They might add a sustainable label to their advertising or might communicate their "greenness" in just one or two areas of their services. These strategies are not consistent or meaningful enough to draw additional consumers to their offerings. In the worst case, these actions may even cause reduced demand or consumer backlash.

The results of a study conducted on a representative sample of more than 650 Swiss consumers provide in-depth findings to better understand these differing perceptions.

3 key steps to effective sustainable marketing

Our research finds that hospitality brands need to pay specific attention to three things when engaging in sustainable marketing:

1. First, their sustainable initiatives should be specific enough to answer the targeted needs for sustainability for a large portion of their consumers. Our research reveals that there are only two specific sustainable benefits: "connection to nature" and "connection to local region" that consumers are really looking for.

2. Second, sustainability initiatives need to be communicated in a way that drives consumer action. At the present time, very few sustainable benefits actually convince consumers to spend money.

3. Last, sustainability marketing efforts should not incense consumers, i.e., cause dislike, annoyance or criticism towards the measures – which currently, and surprisingly, is the case with more than 40% of the market!

Understanding the sustainability persona type

Reminiscent of the levels of Maslow's pyramid of needs, consumers surveyed during our study were arranged by their affinity towards sustainability practices. When tackling sustainable initiatives, businesses should fully understand (and harness) the behaviors associated towards sustainability in their market.

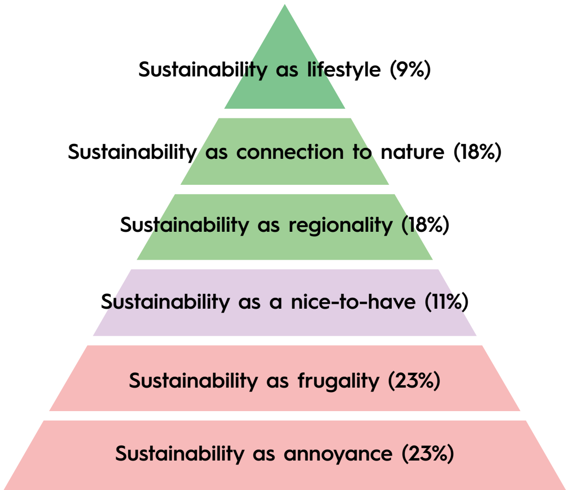


Figure 1: Consumers typologies in regards to sustainability (% of study population)

Sustainability-positive consumers

- "Sustainability as a lifestyle" (9% of the surveyed population): they believe everything needs to be sustainable and behave 'sustainably' in most areas of life. While all sustainability initiatives might appeal to this group, this group is small and might behave "too sustainable" for mainstream businesses.

- "Sustainability benefits seekers": they behave sustainably to be closer to nature (18%) or to be closer to the region they inhabit (18%). These groups think sustainability is positive, but are looking for specific definitions of sustainability. Businesses that wish to be considered by these consumers must provide offers suiting this definition of sustainability.

Sustainability-neutral or -negative consumers

- "Sustainability as nice-to-have" (9% of surveyed population): consumers who would never buy or do something for the sole reason of being sustainable. Admittedly, sustainability is not a negative for them, but nor is it the main driver to their purchase decision making process.

- "Sustainability as frugality" (23%) and "sustainability as an annoyance" (23%): the biggest groups by far are, sadly, those who think critically and negatively about sustainability.

    - Consumers in the "sustainability as frugality" group dislike sustainability because they believe it will make everything more expensive. This is by far the poorest group in the sample, and the world moving toward sustainability means that many of their previous consumption patterns might become too expensive for them (e.g., they might not be able to fly on holiday because of new CO2-taxes on flight tickets).

    - The second sustainability-negative group dislikes sustainability for more ideological reasons ("sustainability as an annoyance"). They fear that the move towards sustainability will result in removing their life's pleasures, e.g., governments forbidding the consumption of meat.

What does this mean for hospitality brands?

These findings have fundamental implications for hospitality brands that wish to position themselves on sustainability. Mainly, these brands have two strategies at their disposition. Which strategy they can or should pursue depends on the sustainable benefits they offer.

- If a hospitality brand can provide sustainable benefits in the area of «connection to nature» and/or «regionality,» it can use them in its pre-purchase marketing to attract a sizeable portion of guests wishing to behave sustainably.

- If a hospitality brand cannot communicate sustainable benefits in this area or can only communicate vague sustainable benefits, it should not try to take a sustainable positioning in its pre-purchase marketing. Such a positioning would be weak compared to the competition and would only motivate a small group of guests.. Rather, the brand should use these benefits in post-purchase communication to reassure smaller consumer groups.

For example, the successful sustainable positioning of Costa Rica tourism is because it directly builds on the clear sustainable benefit for guests' connection to nature. This is a strong positioning because this specific definition of sustainability resonates with many consumers.

In other cases, hospitality brands have realized that their sustainability offerings will not suffice for a sustainable pre-purchase positioning. However, it can still be used to reassure guests about their choices, such as the now ubiquitous example of asking consumers to reuse towels in a hotel.

Therefore, a robust and sustainable positioning can work depending on the benefits that a brand can offer and how they are communicated. In today's information-heavy ('rabbit-hole') society, hospitality brands need to be careful and selective about how their message is conveyed.

The communicated key sustainable benefits should focus on enabling the consumers' closer connections to nature or the local region. Everything else will do little to attract consumers and might even drive consumers away from your hospitality brand's offerings.

< Back to the table of contents

AT A GLANCE

Dr Matthias Fuchs, Assistant Professor and Director of the Institute for Customer Experience Management

Dr Matthias Fuchs has extensive industry experience in brand management for premium beauty. His research focuses on digital and sustainable consumption and is published in prestigious academic marketing and business journals (e.g., Journal of Marketing Research)

What are the biggest sustainable marketing pitfalls?

What we see is that for a brand to be sustainable it has to be consistent all the way through. Sustainable – but only in part - doesn't resonate with consumer perception. The three main points to consistently follow are:

- Be more specific
- Communicate well
- Avoid annoying the consumer

What factors make the biggest impact on consumer choice?

To attract a decent number (more than 10% of the market), there are two main impactful criteria: either a close connection to nature, i.e., free range eggs, or a close connection to the local region, e.g., zero kilometers. This gives a clear and meaningful message to the consumer. It is immediate, simple and easy to digest. Often, sustainable measures are too abstract and overwhelming with many definitions and options.

What should be communicated before vs. after the purchase decision?

If a hotel pursues a sustainable strategy, it has to be very selective about what is communicated before the purchase decision, since only the above 2 points really increase consumers' willingness to pay. e.g., Migros supermarket sells sustainable bananas without specifying how they are sustainable. By not delivering the information about the two key values, their success rate is not optimized.

Diversification of restaurant revenue today

Dr Guy Llewellyn, Assistant Professor

06

< Back to the table of contents

From restaurant manager to risk manager

Prior to 2020, most restaurants had a simple business plan: bring people into the outlet, sell food and beverages, manage costs, and maintain good reviews. While profit margins were meager and survival was far from guaranteed, whether from a counter, serving team or take-away window, restaurant business plans were relatively straightforward. Bar and Restaurant reported that pre-Covid, 90% of restaurants operating in America captured 90% of their revenue from this primary channel.

Post-Covid, many restaurants materially have had to change their operations to diversify revenue streams, and despite the eased restrictions, restaurateurs remain risk managers keen to maintain diversity in their revenue streams, no longer comfortable relying on 90% of the sales coming from the direct sales of food and beverage. Diversifying restaurant revenue is nothing new. The sale of branded merchandise, cookbooks, or loyalty and gift cards have been traditional ways of diversifying revenue streams. Today, however, there are other more modern ways of diversifying.

Reinventing the brick and mortar

During the pandemic, a restaurant's greatest asset, its brick-and-mortar location, often became its most significant drag; maybe it was in a business district, and everyone was working from home, or its physical space did not allow for outdoor dining or an easy takeaway window. Some restaurants expanded to reduce this risk by investing in a food truck as a mobile second location rather than another outlet.

Food trucks are great not only for festivals or pop-ups, but they face fewer dining restrictions. They do not have to be concerned about closures of in-person dining or limited table spacing from social distancing measures. They could also pivot to residential neighborhoods from business districts when workers are not in the office. Food trucks also provide a rolling billboard for marketing, help branching into catering, and can even provide a space to test new menu items. However, as restaurateurs are coming out of the pandemic, the up-font cost starting at US$50,000 could be out of reach.

Alternatively, restaurants have begun turning to a less capital-intensive way of having satellite operations by utilizing vending machines or local grocery stores and co-ops. Depending on the cuisine of the restaurants, vending machines can provide the same goods, sandwiches, wraps, salads, desserts, etc., that patrons can enjoy in the store; for example, Sprinkles Cupcakes has reported a 100% increase in revenue from selling their cupcakes through vending machines.

Vending machines are not only for quick grab-and-go food and snacks. Stellina Pizzeria, a restaurant in Virginia, USA, operates an Italian vending machine with pasta kits, cannoli kits, and jars of tiramisu that can feed a family of four. Expansion through vending machines can provide the same marketing and name recognition as a food truck, but as vending machines can cost less than US$10,000, they have a lower hurdle to entry and profitability. For restaurants better known for sauces, salsas, dips, ice-creams, and other items that can be bottled, jarred, or frozen, then working with a small local grocery store or a local co-op could both promote name recognition as well as drive revenue.

Another popular idea that emerged during the pandemic was using the restaurant's chef and staff to cater a meal at a client's home with small groups, which was ideal when restaurants faced dining restrictions and the closure of specific meal periods. However, as restaurants reopened and restrictions eased, and the staff was needed back in the shop, this activity ceased. But, having captured the learning and understanding of potential needs and costs, restaurants could consider offering catered dinner parties on slow nights or hiring a team to continue this service.

Alternative to providing a catered dinner party, restaurants offered at-home meal kits that only require the host to give the finishing touches of warming a sauce or reheating the food items before their dinner party. At-home meal kits would not require individual ingredients to be prepped for the client to cook but provide separate meal components with instructions on how to best finish the plate of food. The meal kit market was valued at US$15.21 billion in 2021 and is projected to have a compounded annual growth rate of 17.4% between 2022 and 2023, showing the potential revenue stream available to restaurateurs.

Dine and shop

One way of diversifying revenue that is becoming increasingly popular is to have a retail line business. A popular option is relocating the dry and cold storage to the front of the house and making it available for sale. While restaurants will have the same storage ratio, allowing customers to come in and buy the goods that the restaurant uses will increase revenue for those who desire the products but do not have the time to dine in. Almost all ingredients, from bottled or boxed items to fresh or frozen ingredients, could be available for sale.

The retail portion could also include small wares, cookbooks, kitchenware, and other goods produced by local merchants or related to the restaurant theme. For example, picture a health-based vegetarian restaurant with a small yoga shop. Having a retail business within a physical restaurant may also enable a space to remain open and earning even when restaurants are required to be closed.

There's a ghost in the kitchen

Ghost kitchens, i.e., establishments from which food can be ordered but there is no physical place to dine in, are solely for delivery, in-house or third-party, have become a big business. Just Wings, a ghost kitchen brand from Brinker International launched in 1,050 Chili's and Maggiano's kitchens in 2020, was on track to exceed US$150 million in revenue in the first year of operation with an exclusive delivery deal with DoorDash, showing the potential of operating multiple brands through one kitchen.

The ghost kitchen is often complementary to the restaurant's cuisine and cross-utilizes items already on the menu to ensure the culinary team is not overburdened and has the appropriate skill set to maintain the quality of both menus. For example, high-end Italian restaurants could create a ghost kitchen offering lower-priced pasta, paninis, and salads as the ingredients are cross utilized but not overlapping so as not to reduce the value of the dine-in experience.

The ghost kitchen can also be an avenue for leftover food; for example, a barbecue restaurant could have a ghost kitchen selling sandwiches or salads that could utilize the barbecued products from the previous day that did not sell. Ghost kitchens can also use the kitchen and provide products when the restaurant is closed. Restaurants could offer delivery-only menus for breakfast or lunch if the front-of-house is closed during those meal periods.

Space partnerships

Smaller operations, or operations that are looking to expand, could consider partnering with a complementary business to open a co-shared space. Having a co-shared space will reduce the overhead expenses for a single company and build a clientele for both businesses. For example, restaurants should consider partnering with stores that fix equipment, bikes, computers, etc., so customers could dine in the restaurant while waiting for their products to be repaired. Co-working spaces and areas that offer lectures and talks are great for promoting the restaurant and providing snacks and drinks that could be enjoyed in the central location. Libraries, retail shops, banks, and event spaces could have the potential as complementary businesses. Restaurateurs should seek out companies that patrons visit for thirty or more minutes, as those businesses can provide captive guests to which the restaurateurs can cater.

As hospitality reopens, restaurants have seen sales rebound from the lowest point in April 2020, in which food services and drinking places in America had monthly sales, seasonally adjusted, of US$31.11 million to 2022, having a monthly average of US$82.78 million through July. While restaurant sales are above the pre-pandemic levels in the United States, some revenue diversification measures remain. At the same time, other techniques have ended as more normal business resumes. Regardless, restaurateurs should consider investing in additional revenue streams, consider diversification whenever they look to expand, and periodically review their ability to pivot on short notice as it is a matter of when, not if, the next event occurs.

AT A GLANCE

Dr Guy Llewellyn, Assistant Professor

Dr Guy Llewellyn has spent over a decade in the Food and Beverage industry, working in stand-alone restaurants, hotel restaurants, restaurant groups and private clubs. His research interests include restaurant location decisions, linguistics in menu design, and technology innovation within the food and beverage industry.

What would you say to a young F&B entrepreneur starting out today?

Don't put all your eggs in one basket! In other words, beware of basing your business model on the old mono formula of customers dining out just to be served a nice meal. Be creative about the many different ways you can offer a service. Capitalizing on a few other angles will not only make the customer experience more varied and memorable, it will above all expand the way you generate sales and create profit.

What diversification ideas work best for a low, middle and top range restaurant?

Low end: For offerings that don't require heated food, vending machines are a relatively cheap investment and work very well in key locations. Ideal for the 'grab'n'go' clientele all around the clock.
Mid-range: Create a mini shopping outlet with your dry food stock. With produce that usually hogs much of the kitchen area, why not a) liberate some space, and b) make a revenue feature out of it? As long as the products are of high quality and the shop area is made to look as attractive as possible, customers will enjoy the additional activity that makes their dining experience even more memorable.
Fine dining: The sale of cookbooks is a safe bet, along with private kitchen experiences. Top end restaurants often produce meals that cannot be easily Googled, so a tour around the kitchen with the head chef who's ready to share a few 'trade secrets' is tantamount to an exclusive and luxury experience.

When starting out in the business, what are the main issues to focus on?

Whilst diversification of the offer is key, beware not to go overboard with all the possibilities. Stay focused on the few things you can do well. The main priorities should be your cuisine (coherent), your price points (consistent) and your main concept (clearly identifiable). In brief, stay in your lane, make it as interesting as possible and be realistic about what your customer is willing to pay for.

< Back to the table of contents

New attitudes to Circular Economy practices: Rethink and redesign

Dr Florent Girardin, Assistant Professor

Dr Luciano Lopez, Assistant Professor & Dean of EHL Campus (Singapore)

07

< Back to the table of contents

The circular economy (CE) is a systems solution framework that tackles global challenges like climate change, biodiversity loss, waste and pollution. Circular economy practices are known to be governed by the '3Rs', namely Reduce, Reuse, and Recycle, which are the major strategies used for promoting the circulation of products and materials, thereby lowering waste and pollution, and aiding to regenerate nature.

But in terms of attitude and willingness to buy in, studies show that the classic 3Rs are surprisingly not the most effective strategies for optimal results, especially in the context of hotels and guest perception of the measures.

Customer perception

Anyone visiting hotels this past decade will have seen the bathroom message asking guests to help save resources by only requesting a new towel if it is needed. Some clients may perceive this message positively as they will associate the hotel as an eco-friendly company. Some others may have a totally different perception and understand this message as a way for the hotel to reduce costs by cleaning less towels daily, to the detriment of guest comfort. Thus, depending on the client's perception, the impact on the hotel. i.e., brand perception, willingness to stay, willingness to pay (WTP) can be either good or, unexpectedly, bad.

This can happen for any circular economy practice that is primarily put in place to reduce the use of resources like water or energy without implying a change in the production process to truly commit towards a more sustainable world.

In other words, some CE practices may imply a rethinking or redesigning process from the company but some others may not. For instance, one way to reduce the use of resources is to clean the room only every other day. Another way is to train the cleaning staff to optimize the use of resources. The former practice does not imply much commitment from the hotel, on the contrary, it is a clear reduction in costs. However, the latter shows a stronger commitment from the hotel as training and supervising the cleaning staff has a cost and an impact on the overall production process. In both cases, the goal is to reduce the use of resources.

However, the client perception of those two practices can be completely different because in one case, the hotel has rethought or redesigned its processes to reduce the use of resources without impacting guests' comfort, but not in the other case.

Rethink or redesign: the key for successful CE practices

Researchers and experts have claimed that the classic CE practices consisting of reusing, reducing or recycling (the 3Rs) are less circular than **rethink** or **redesign** practices. Furthermore, the classic 3R practices, as argued above and by various other authors, may be perceived as a cost-reduction strategy instead of a commitment towards a cleaner planet.

Consequently, this difference in customers' perception may have an impact on their willingness to pay for a hotel room. Our research precisely aims at answering this question: Do CE practices with a rethink or redesign approach impact more positively on the clients' willingness to pay a premium price than the so-called classic 3R practices?
To answer this question, we have used three CE practices (carefully selected among many CE practices by conducting several preliminary studies) dealing with three different issues: water consumption, energy consumption and CO2 emissions. For each of the three practices, we have selected both a classic 3R version and a rethink or redesign version. To showcase the CE practices, we have created a fictitious hotel website and then surveyed several hundred hotel consumers to answer a set of questions based on the fictitious website page.

The results are clear: Rethink or redesign practices do impact willingness to pay positively, while the classic 3R practices have no impact. More specifically, when compared to a hotel without any CE practices, the implementation of rethink or redesign CE practices significantly increases guests' willingness to pay, whereas the implementation of classic 3R CE practices does not change guests' willingness to pay significantly more.

Attitudes towards the practice

Why such a result? Assume you have been informed that an extremely rich person has donated 1'000 USD. What is your attitude towards that person? Now assume that this same person was actually not rich at all, on the contrary, the 1'000 USD were their yearly savings. Is your attitude towards the person the same? The answer is probably no. This is because you sense a difference in the commitment that the donation represents, depending on the financial situation of the person, despite the fact that the person is the same. We believe that for hotels it is exactly the same phenomenon. When redesign or rethink practices are put in place, the attitude of the guest is affected more than with classic 3R practices. In statistical terms, we predict that attitude towards the hotel mediates the effect of CE practices on willingness to pay a price premium.

Our study results provide clear evidence that attitude mediates the relationship between the type of CE practices implemented by a hotel and guests' willingness to pay. This observation is in line with the well-established theory of planned behavior and the existing literature pointing out the fact that touristic sustainable consumption is influenced by the attitude towards a product or service.

Careful communication

But what makes a CE practice perceived as a strong commitment by the clients? That is without a doubt the million-dollar question. Our above-described results partially answer the question by distinguishing rethink or redesign practices from the 'classic' ones. Of course, the distinction between rethink or redesign practices and the classic 3Rs is not so obvious, but what is clear is that a rethink & redesign approach represents a greater commitment to sustainability since it implies a strategic and structural change in the production process.

By conducting many different studies with hotel guests, interviewing experts, academicians, and general managers, we have realized that CE practices not only have to be carefully selected to ensure a positive impact on the economic situation of the company, but they also need to be **carefully communicated**. First and foremost, as per our results shared above, practices that imply a strong commitment from the company should be communicated with a clear emphasis on authenticity and sincerity. Clients must feel the honest implication as much as possible, otherwise the CE practices can have little or no impact and risk coming across as mere greenwashing.

Does the hotel segment play a role?

Unarguably, clients of a 5-star hotel and 3-star hotel have different expectations and different profiles. How has this affected our findings? On one hand, one could argue that 5-star hotels are luxurious establishments and, even if CE practices are put in place, the WTP won't be affected. On the other hand, one could say that no matter the price of the room, a CE practice is perceived as an add-on and therefore may lead to a higher WTP. Our results support the fact that the impact on WTP is bigger and more significant for 3-star hotels. One of the possible explanations is the so-called 'sustainability liability' effect where clients perceive a circular or sustainable service as less performant.

"There is no planet B", this is a fact. Consumption habits and patterns are changing, and production processes have to adapt. Our research aims at helping hoteliers have a smoother journey towards the circular economy by better understanding which practices are the most effective. Nowadays, CE practices are a way to differentiate, and as shown, even to make more profits. In the near future, we believe that CE practices will not be used to differentiate from competitors anymore but simply to stay in the norm. The sooner the implementation, the better.

< Back to the table of contents

AT A GLANCE

Dr Florent Girardin, Assistant Professor

Dr Florent Girardin teaches courses on Hospitality Marketing and Luxury Brand Management, and his research focuses on consumers' reactions to brand and product positioning strategies.

Dr Luciano Lopez, Assistant Professor & Dean of EHL Campus (Singapore)

Dr Luciano Lopez is Assistant Professor and Dean of EHL Campus (Singapore). As an economist, Dr Lopez's research focuses on applied economics, particularly on circular economy practices in the hospitality industry.

What's the most effective way of making CE practices impactful?

What we aim to highlight in this article is that being impactful with CE practices involves showing your customer that your organization is 100% committed to not only being cost-effective with its practices, but also - and above all - sincere in its approach. Our research indicates that the rethink & redesign approach better manifests a hotel's commitment towards CE. The guests' perception of commitment being the biggest driver to their willingness to pay any type of extra premium.

Hotels must be prepared to demonstrate that, when investing in CE practices, making a profit is not their only priority. Showing commitment to damaging the environment as little as possible should be an evident primary motivation for their CE investments. The guest must be able to see this investment alongside the proof that there is a reduction in negative environmental impacts. Communication here is key.

< Back to the table of contents

AT A GLANCE

What are the constraints to implementing these new CE practices?

Constraints are mostly related to hotel ownership. A hotel General Manager will fully understand the importance that CE practices could have on the hotel's image, but they are often not the owners nor the investors. Hotels require large and long-term investments to install solar panels, smart monitors, new waste disposal systems – in brief the whole rethinking and redesigning of the hotel's CE practices. If the long-term ROI remains unclear and unconvincing, a hotel GM will have trouble securing the necessary investments. Without a change of mindset on behalf of investors, the cost to the environment will always be secondary to the cost of short-term profits.

How to instill a long-term CE vision in hotel owners and investors?

Enter the start-ups and venture capitalists who can help build a convincing bridge to the investors. CE practices cost money to set up. By funding innovative tech minds to carry out research and find solutions, venture capitalists would be investing in a promising and emerging growth market where the long-term benefits are reduction of overall hotel costs plus a loyal customer base with a clear awareness of what they are paying for. This brings us back to the importance of a clear and committed message: our research highlights that authenticity is in fact the greatest economic agent in today's times.

People analytics: Opportunities and challenges for the hospitality industry

Dr Sébastien Fernandez, Associate Professor

08

< Back to the table of contents

People analytics and decision making

Business numbers are everywhere: we use them in finance, economics, statistics and marketing. There are, however, certain domains where numbers are new to the game. When we talk about employee management, numbers are relatively unseen. For a long time, there was a belief that each human and each company was unique, and while I cannot wholly disagree, there are benefits to looking at people and organizations based on a certain number of variables. For instance, we can compare companies' profitability, turnover rate and staff engagement. Similarly, we can compare employees on several performance metrics, degree of job satisfaction and amount of pre-hire experience.

People analytics is described as using people's data to make the right decisions in a company and gain a competitive advantage. Descriptive analytics attempt to describe the present (e.g., What is the voluntary turnover rate in this company? What is the percentage of employees who are satisfied by their salary? How many employees fall in the category of being poor performers?), but they do not provide any guidance to companies about the best course of action; they just indicate a problem to be solved. On the other hand, prescriptive people analytics attempt to provide solutions to the most pressing problems a company is facing. They provide responses to questions such as: Why do employees leave our company? How can we make our employees more engaged? Who are the employees who deliver the highest value to our customers?

Saying goodbye to traditional interviewing and hiring

Most companies still rely on old-school interview methods and biographical information such as years of experience that do not always relate to the competencies required for the job. The evidence collected so far in many companies demonstrates that these information sources do not really help in identifying individuals who will succeed later on the job. On the other hand, structured interviews or cognitive ability tests are two selection techniques that predict quite well how people behave and perform at work.

Platforms such as LinkedIn and Glassdoor are current examples of centralized databases that function across borders, so that data about people and companies is easily accessible. If the popularity of these apps continues to rise, organizations will soon be able to transfer relevant employee data, such as performance metrics and the type of tasks performed. Profiles can also choose whether to include results obtained on psychometric tests measuring work interests, values, personality traits, cognitive abilities and competencies.

From great to humane places to work

The past years have demonstrated that employees have more power than ever. This new situation is due to several major disruptions; probably the most important has been the COVID-19 crisis that engendered 'the great resignation'. Employees, especially from the hospitality sector, left their companies in droves to find better jobs elsewhere.

Companies now have to be creative and cannot afford to ignore employee satisfaction or their work-life balance. Employees expect the grass to be greener somewhere else. Some experts speculate that certain companies might disappear because their employees resign en masse (e.g., Twitter). Today, and probably even more tomorrow, companies have to compete aggressively not for being 'great places to work' but for being 'humane places to work'. These workplaces could be environments that fulfil each individual's need for competence, autonomy and relatedness. In the past, it was difficult to do so because it was too challenging for companies to care about each individual; now the ease of access to people data and the automation of many tasks makes it possible for companies to devote more time to employee needs.

Facing the hospitality labor shortage

One of the current challenges the hospitality industry faces is the talent shortage. Some hotels and restaurants cannot find sufficient labor to open their establishments as they might have in pre-Covid times. Here are a few ideas on how companies can leverage the power of data to attract and retain employees:

1. By using engagement surveys, hotels can identify reasons employees are not staying in the company.

2. Analyzing employee flows on external platforms such as LinkedIn. For instance, companies can analyze former employees' career paths. Identifying that former employees are more likely to stay in the hospitality industry but go to work for competitors or transition to other industries could provide relevant insights on how to retain employees.

3. An analysis of work experience or educational backgrounds contained on résumés of former and current employees (or even from rejected candidates) might indicate potential hire sources.

4. Companies might consider analyzing unemployment rates in different countries, the number of hospitality schools, or other demographic differences that could help companies decide in which countries they could find potential hires.

In conclusion, the hospitality industry can benefit from people analytics on many levels: Identifying where to source candidates, how to select best leaders and how to retain employees. Companies can start by hiring one person that will be in charge of analyzing available data, (the job of 'Data Collector' might soon become the most important role in HR). With the right support and trust from employees and leaders, these data can then be transformed into actionable insights and effective talent decisions.

AT A GLANCE

Dr Sébastien Fernandez, Associate Professor

Dr Sébastien Fernandez specializes in Organizational Behavior and People Analytics. His research and teaching focus on talent assessment and the role of employees' personality traits, competences and values on job performance.

What might hospitality job hiring look like in 10 years' time?

Sarah, F&B manager at the Mandarin Oriental in Geneva, is informed that the senior sommelier, Riccardo, will resign at the end of October. In coordination with Stefan, the People Engagement Manager, she meets Riccardo to better understand why he has decided to leave. During the interview, they review his tasks, assessing what did and didn't work. Sarah activates the updated job offer on LinkedIn; within a few seconds, she has access to 148 candidate profiles who fit the job. She can manually analyze every profile, but she trusts the algorithm that identified Michael D with a 90% match for the job. He works as a sommelier not far from Geneva and speaks Cantonese. She sends a private message via the app to tell him about the available position. Three days later, Michael is hired.

Similarly, how might a HR department function in the future?

Former HR Business Partners and HR directors could well become People Operations Managers. Work certificates, letters of recommendation and traditional interviewing techniques belong to the past, replaced by information gathered by the Data Collection Manager. In large corporations, the People Operations function could be split into three specialized roles :

- People Acquisition Managers ensure the smooth selection, onboarding and training of new employees up to their first year on the job.

- People Engagement Managers are responsible for staff retention, employee coaching and conflict management.

- People Decisions Managers focus on helping line managers in tasks related to performance management and promotions.

< Back to the table of contents

AT A GLANCE

What are the ultimate win-wins of People Analytics?

More rational, more time-effective decision making processes. People Analytics is key to understanding important information about the work and the worker, e.g., where and why time is lost, what are the most draining duties, what do the staff love/hate doing the most, how to better match the task to the person. Value creation is enhanced thanks to fruitful discussions that then emerge from the data. The staff feel that their voice has been heard.

Keg wine: Tradition meets innovation

Dr Stéphanie Pougnet, Assistant Professor and Associate Dean of Undergraduate Programs

09

< Back to the table of contents

As more and more consumers are opting for a sustainability-oriented lifestyle, F&B industries are compelled to explore innovative ways to deliver sustainable production, distribution and consumption solutions. The wine industry is no exception. Growing concerns about the impact of global warming and environmental challenges on wine production-related activities is pushing the industry to search for alternative sustainable solutions. In line with both the International Organisation of Vine and Wine and the International Federation of Wine and Spirits which define sustainable viniculture as one with a triple economic, ecologic and social purpose, a sustainable wine industry should incorporate management of product quality, waste and carbon footprint, and human resource into all of its processes from production to distribution and consumption.

Yet, while alternative packaging solutions exist, e.g., bag-in-box, polyethylene terephthalate (PET), cans, TetraPak and keg wine, the wine industry has so far continuously relied on heavyweight glass packaging, which has a considerable carbon footprint notably due to water and energy demand (Cimini and Moresi, 2016). The question remains: how could the wine industry be more ecological for the environment, more manageable for workers and more economical for all stakeholders involved?

Enter the Swiss keg wine solution To answer this question, Marc Sarrazin, an oenologist engineer, launched Bibarium, a start-up dedicated to sustainable wine distribution in Switzerland. Industry and research partners joined him to conduct an Interreg French-Swiss research project aiming to develop a Swiss keg wine solution which nowadays benefits all stakeholders in the value chain from producers, restaurateurs and caterers to the wine consumers themselves.

The overall Swiss keg wine solution is based on the following steps: Bibarium oenologist fills kegs with wine at the wineries, delivers the kegs to the restaurateurs and caterers by plugging them to either manual or numerical wine dispensers, then once emptied, brings back and cleans the kegs, to refill them at the wineries. CGI Ecofass French keg making company created the ecological, ergonomic and economical recyclable and reusable plastic kegs for wine, including a patent. The Changins School of Viticulture and Oenology tested the suitability of the Swiss keg wine solution for the conservation and consumption of wines by chemical and sensory analysis. The nature of keg materials used was studied in different storage conditions for several months. Results confirm the capacity of the keg to protect wines against oxidation and to ensure the quality of the wine - from the conditioning step to the dispensing system.

Results also confirm that the Swiss keg wine solution preserves the quality of wine from all oenological and gustatory perspectives for at least four months once the keg is plugged to the tap dispenser at point of sales. The Institut Français de la Vigne et du Vin (IFV), conducted a Life-Cycle Assessment (LCA) followed by a counter-expertise led by a third party, to measure and grant the low carbon footprint of the Swiss keg wine solution. Six indicators were considered as relevant with results showing an environmental benefit of the Swiss keg wine solution over usual bottle packaging.

Market study results To check that the Swiss keg wine solution created meets the market demand, EHL Hospitality Business School conducted market studies on hundreds of wine consumers as well as owners and general managers of Swiss food and beverage establishments. The findings of these studies provide an insight into producer, restaurateur and consumer likeliness to adopt keg wine as an innovative sustainable alternative to traditional bottling. Insights into stakeholders' expressed attitudes and behaviors as well as habits in given contexts also inform us on their willingness-to-adopt, willingness-to-invest and willingness-to-pay for such innovative sustainable offering.

Results further show that 64% of restaurateurs and caterers are in favor of adopting the Swiss keg wine innovation for one key reason: economic savings. Thanks to Swiss keg wine, while taste and quality of wine is conserved for up to four months compared to a few days in a bottle, wine in keg is also no longer corked, spoiled or oxidized. Good quality wine is no longer spoiled or wasted because of wrong manipulation in bottling or pouring processes. Goodbye to tiring cork pulling or broken corks in the bottle neck. Additionally, there is no more sorting of waste both at the wineries and the place of consumption, as well as less deviant staff behavior, (stealing a 100 L keg of wine is unlikely). Furthermore, findings show an estimated 17% lower labor costs as well as a reduction by 20% of the cost of wine, while the storage space saved is 85%.

< Back to the table of contents

People management benefits

From a sustainable people management perspective, results of the studies conducted by EHL Hospitality Business School show that the Swiss keg wine solution increases staff and service efficiency as well as customer-centricity. The heavy wine bottle loads that staff have to carry are reduced by half thanks to wine in kegs. Wine is served at the perfect temperature thanks to the keg-to-tap dispenser system that includes coolers. While glasses of wine can be poured in less than five seconds, glasses of Spritz are poured in less than eight seconds with the perfect blend, that could even be a personalized blend in accordance to each and every consumer's taste and preferences. This translates into less customer waiting and complaints. Staff can also spend better time interacting with the customers, promoting the wine and wineries they are serving, hence enhancing the customer experience.

A safe and traceable solution

In addition, based on the findings stemming from the EHL Hospitality Business School studies, keg wine is a safe solution for producers, restaurateurs and caterers when it comes to wine distribution. Why? Because it reduces and simplifies the logistics of wine distribution from wineries to restaurants and catering points of sales, for instance by doubling the volume of wine delivered in one single trip between winery and restaurant. By reducing transportation by half, limiting delivery interaction, and by implying rigorous hygiene and safety protocols set by the Changins School of Viticulture and Oenology, for plugging and cleaning the kegs for instance, the Swiss keg wine solution means better anti-COVID protection for all stakeholders involved.

Furthermore, the Swiss keg wine solution will soon become completely traceable from production, distribution to consumption, thanks to probes and sensors that will be put on kegs and tap dispensers, and linked to a digital dashboard and a numerical platform including key-business, key-market and key-performance indicators, that would allow for digitally programmed replenishment for instance, so that all stakeholders of the keg wine value chain would access to big data. Such data-driven organization and traceability will ensure higher understanding of threats and opportunities in the wine industry.

What the customers are saying

Restaurateurs and caterers are ready for keg wine, provided that their consumers are. The market studies conducted by the EHL Hospitality Business School actually show that 96% of wine consumers are in favor of wine served on tap, namely for its sustainability. One significant result is indeed that the more they value sustainability, the more likely consumers are to favor keg wine.

Results of the market studies show that consumer self-perception of ecological consciousness positively relates to keg wine adoption. More precisely, consumer likeliness to adopt keg wine due to quality aspects correlates positively and significantly with the value they assign to sustainability characteristics. It is also observed that consumers who value sustainability are less misguided about the so-called poorer quality of keg wine in comparison to bottled wine. In addition, willingness-to-pay for wine with innovative sustainability characteristics like keg wine is higher among more senior consumers. Finally, consumer likeliness to consume keg wine to make economies correlates positively with their knowledge as wine connoisseurs.

While totally preserving the wine quality, keg wine is sustainable and also economical. In addition, the consumers' willingness to pay for a more sustainable wine accounts for 10-15% of the wine average price (Schäufele and Hamm, 2017). Such results show that researchers and industry professionals should consistently partner together to foster research and development, as well as innovation for a more sustainability-oriented future.

How can this innovation model be improved or applied to other F&B areas?

The keg wine idea is already applied to other beverages like cider and cocktails. Take the example of a Spritz cocktail: with a numerical tap dispenser, you could have your personal tailor-made blend of ingredients via a QR code.

This solution is also readily developed for big events which can benefit enormously from the use of mobile kegs (on wheels for example) when it comes to serving at festivals, weddings, street parties, etc.

Lastly, numerical apps make self-consumption easier using a DIY attitude, e.g., the Vaudoise Arena in Lausanne which hosts about 50 sporting events each year and welcomes up to 9,600 visitors for single ice hockey matches up to twice a week. Thanks to the full integration of beverages like beer, wine and mulled wine in a single automated drinks dispenser that is keg-managed and which allows for automated self-consumption, waste is reduced and monitoring of the sales and the inventory can directly be done from mobile devices.

This keg wine innovation model can be further developed through the creation of an online platform that provides an integrative dashboard for all stakeholders to work more closely together by sharing data and follow-ups with key performance indicators. The dashboard will link consumers to restaurateurs, distributors and wine makers, along the service-profit value chain.

Could it be time for the F&B sector to think about other ways that ancient formulas could be updated to meet today's sustainable needs and consumer's changing habits?

AT A GLANCE

Dr Stéphanie Pougnet, Assistant Professor and Associate Dean of Undergraduate Programs

Dr Stéphanie Pougnet has management and start-up experience in retail, energy, and food & beverage across Europe, America and Asia. Her courses range from project management to social sciences in the EHL Bachelor and Master programs. Her research focuses on innovative processes impacting employee performance, and subsequently, customer experience.

Is keg wine a reflection of changing consumer habits regarding alcohol consumption?

A lot of bottled wine is wasted because it does not keep for long once opened; sometimes we might drink more than planned just because of not wanting to waste the bottle. With growing health concerns over alcohol consumption, the message of one glass a day or just from time to time is becoming prevalent, resulting in many people preferring to consume wine by the glass rather than by the bottle. With keg wine and its own tap dispenser, customers can be served exactly needed quantities, without worrying about the bottle quickly spoiling. This solution brings utility and better value to both F&B establishments and individual consumers.

What are the main constraints to keg wine becoming widely used and accepted?

Ironically, the main constraint is a lack of knowledge and awareness. Many people think that using kegs for wine storage is a crazy new idea for the sake of innovation, whereas in reality, it's a return to an age-old tradition with updated features that make it even more in line with the sustainable 3Ps, (people, planet and profit). Here, innovation is actually serving tradition by going back to old ways whilst adjusting to a modern way of consuming, conservation and distributing.

AT A GLANCE

Kegs are known for not being suitable for wines that require a long maturation period, does this imply that keg wine is of an inferior quality?

The fact that wine is stored in bigger containers should not equate with low quality. The research done by oenologists confirms that the reusable keg created as a result of the Swiss-French research conducted, with specific patent on its technical aspects, is suitable for all good quality wines and that the bigger storage space does not cause any degradation. Admittedly, keg conditions are not suitable for long maturation, (but this is a requirement of a relatively small percentage of wines overall). As an example, Swiss Airlines Lounges and Marriott Hotels – purveyors of luxury environments – have switched to keg wine.

Additional link: Keg Wine Sust innov - Pougnet - Industry Report EHL Nov 2022

Engaging customers with themed hospitality experiences

Dr Meng-Mei Maggie Chen, Assistant Professor

10

< Back to the table of contents

Designing experiences for emotional outcomes is not a new idea, but harnessing the best in hospitality concepts for accessing those emotions has recently become a growing trend with established brands. Tesla is planning a 24-hour diner in Los Angeles with a drive-in theater. FILA and Hello Kitty are teaming up with Hyatt to open themed hotels in China. Porsche Design and Steigenberger are building 15 luxury lifestyle hotels in Germany. Ralph Lauren has opened a café in Malaysia. Elle, the fashion magazine, will open a boutique hotel in Paris and expand to 15 hotels soon. In the meantime, Bulgari and Armani are also expanding their footprint in the hotel industry.

Why are the automobile, sportswear and fashion sectors entering the hospitality industry and using it to entice new customers and create loyalty? There are several reasons, all heavily rooted in the shift in perception of what constitutes a meaningful service-based purchase.

Why choose the hospitality industry?

The hospitality industry's DNA is rooted in hosting, entertaining and, quintessentially, an exchange based on human interaction. From hosting foreign pilgrims and travelers to entertaining royalty and nobles, the notion of hospitality signifies safety, relaxation, comfort, courtesy and entertainment.

Built on these positive themes, companies across the board are choosing to use hospitality spaces to showcase their brand promise, brand personality and tone of voice. At its most basic level, this is done via design, decoration and, above all, the exchange between employees and customers. In this context, a consumer product company can creatively express its brand by using music, smell, light, color, flavors and furniture textures in a convivial environment – in brief, the experiential and sensorial setting that hospitality has been using for centuries.

Today more than ever, the hospitality industry is providing the ideal stage for companies to conduct their sensory marketing as a holistic experience that can cut through the noise between brand and its target customers. This stage appeals to existing customers while enticing new ones, and is based on the creation of emotional connections.

What is sensory marketing?

Sensory marketing is "marketing that engages the consumers' senses and affects their perception, judgment, and behavior". The ubiquitous marketing communication approach tends to overload consumers with information, consequently turning off their attention. However, sensory marketing offers more options to work with beyond the visuals, leveraging senses such as hearing, touch, smell and taste, and hence, can escape the conscious effort of turning them off.

For example, travelers can quickly identify Bombay Sapphire at duty-free shops because of its unique blue bottle. People recognize the Netflix jingle even if they do not have a Netflix subscription. Tourists to Japan will not forget the warmth of a Japanese toilet seat. The smell of Ivory soap or Johnson's baby shampoo evokes childhood memories and triggers Proustian emotions in many people.

In The Experience Economy, authors Pine II and Gilmore suggest that companies must first select a theme to stage an experience, then harmonize impressions with positive cues - while, at the same time, eliminate negative ones. Lastly, but most importantly, they should engage the five senses of customers. The companies mentioned in the introduction above have strong brand personalities and well-developed brand narratives, enabling them to conduct storytelling with themed hospitality operations. The brand narratives and stories provide the framework to coordinate different sensory marketing tactics.

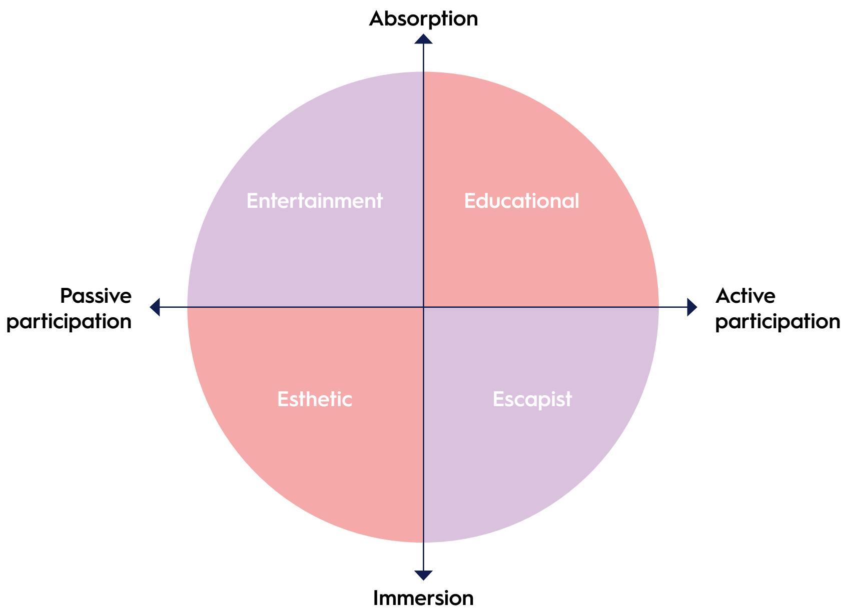
> *"... experiences are a distinct economic offering, as different from services as services are from goods. Today we can identify and describe this fourth economic offering because consumers unquestionably desire experiences, and more and more businesses are responding by explicitly designing and promoting them. As services, like goods before them, increasingly become commoditized - experiences have emerged as the next step in what we call the 'progression of economic value'. From now on, leading-edge companies - whether they sell to consumers or businesses - will find that the next competitive battleground lies in staging experiences."*

How to create themed experiences?

Not all companies can afford to open their branded hotels or restaurants. However, that does not mean small companies cannot engage their customers with themed experiences. To start with, companies must understand their target customers' needs, wants and values. As goods and services have become commodities, companies should aim to inspire their customers with core values or purposes. Halloween decorations are an option while raising funds for the elderly is another. The decision depends on the target customers and brand narrative. No matter which theme the company selects, it should avoid focusing on selling but rather staging the experience to engage the participants.

In The Experience Economy, the authors encourage companies to play with guest participation (active vs. passive) and connection (absorption vs. immersion) and create a space among the four realms of an experience (entertainment, educational, escapist and esthetics). Experiences can be a mix of entertainment and education, offering participants to act (escapist) or appreciate (esthetics).

The Four Realms of an Experience



Once companies have identified the theme, they can make an inventory of the existing sensory marketing assets, such as logos, colors and slogans. They can then explore opportunities using other senses: olfactory, tactile, auditory and gustatory, to enrich the storytelling and strengthen brand associations.

Companies should also incorporate opportunities to create human interactions between customers and employees. For example, the first respondents to the themed experience are probably loyal customers who know and love the brand.

Companies can purposely create human interaction by playing with the physical design layout, scheduling short discussions about the brand history or future development, and facilitating conversations among these like-minded participants. These activities will create emotions, memories and stronger brand loyalty. Furthermore, companies can expect some people to be more interested in experiences than the brands. Nevertheless, a successful themed experience may communicate the brand promise more effectively and convert these people into new customers.

AT A GLANCE

Dr Meng-Mei Maggie Chen, Assistant Professor

Dr Meng-Mei Maggie Chen specializes in marketing for the hospitality and tourism industry. Her research includes distribution channel marketing, customer decision-making process, niche marketing and human interaction.

Emotion vs. ownership: Why the shift?

In today's highly digitalized, post-Covid society, consumer values have shifted and many people prefer to buy experiences rather than products. At the root of this shift is the simple human condition: people are increasingly suffering from detachment and loneliness. A deeper sense of meaning and satisfaction is attached to an experience compared to the traditional value of owning something. A memorable experience comes with a greater emotional engagement, which consequently creates customer loyalty. Companies should be looking to create themes to further engage with their customers. No matter the brand, expanding the existing customer base to become more of a 'community base' results in many benefits: a diversified offer and a more rewarding customer journey.

How can this benefit SMEs?

There are many niche opportunities for all types of businesses – big and small - to help people reconnect to real life and real human interaction by weaving the experiential into the offer. In brief, creating a counter balance to the loneliness of too much working from home, Covid isolation and the onslaught of social media. Take the example of WASBAR, a convivial laundromat in the Netherlands, where a usually tedious location for washing clothes is transformed into a place for sharing food, meeting people and hosting parties. Use your business space for creating an environment that weaves human interaction into the service offer.

AT A GLANCE

How can the role of human interaction be harnessed more?

Commodities cost money to make. Human experience and human interaction are local, free and easy to set up. A way for brands to increase their customer awareness and loyalty is to create experiences for like-minded people, i.e., groups, communities and activities based on what the brand represents, (e.g., events organized by the Patagonia clothing brand). Think about what kind of person your brand attracts: What are their hobbies, age groups, what are the stages of life they are going through? Could employees take on a host, entertainer, expert, actor role? We are familiar with hotel honeymoon packages, but what about a divorce packages where the expression of a more difficult life chapter could also be marked as an 'occasion'? Expanding on the possibilities of the human experience is where innovation lies.

Learn more about EHL

The World's Leading Hospitality University

For over 125 years, EHL has pioneered the methods of Swiss hospitality education and set the standards of excellence in this field. Today, we combine the Swiss values of academic rigor and industry practice with creativity and innovation for modern hospitality management degrees that prepare graduates to lead the future of the industry and the world.

Master's Degrees in Hospitality

Designed with leading industry partners, our master's programs develop strong professional expertise and interdisciplinary skills that are both in-demand and future-proof.

MBAs in Hospitality

Created in partnership with leading hospitality organizations and learning centers, our MBA degree programs are designed to update and refine your knowledge of service industry business excellence and develop in-demand leadership skills.

Short courses and online certificates

Designed for hospitality professionals, our short courses and online certificates are designed to build and strengthen in-demand skills to perform in today's hospitality industry.

Collaborate with our researchers

Opportunities for collaborative research range from dedicated applied research projects by selected faculty members to sponsorship of a long-term research institute at EHL. The institutes provide EHL partners with dedicated multi-disciplinary teams of faculty and staff to deliver the solutions in a collaborative manner.

< Back to the table of contents

EHL