



Phocuswright White Paper

Hotel Ancillaries: An Unexplored Opportunity

June 2017

In cooperation with

iSeatz
powering devotion

Written and researched by
Peter O'Connor & Mark Blutstein

Phocuswright 

An Introduction from iSeatz



Founded in 1999, iSeatz is a leading provider of ancillary product booking engines for the premier brands in the travel industry. Our first project was to enable hotel concierges to help their guests find and reserve seats at the great culinary establishments in our hometown of New Orleans. As we spoke at length with hoteliers about their technology limitations and witnessed the growth of online purchase confidence, we set out to expand our technology offering to go beyond restaurant reservations and to include access to local activities, live event tickets, air, car rental companies and trip insurance. The travel industry responded positively and, for over 15 years, premier travel brands have chosen iSeatz for our beautifully designed and highly engaging user interfaces, reliable on-time and in-budget delivery, and deep travel industry expertise.

The travel life cycle is now undergoing a phase of rapid evolution. Travel brands are looking to differentiate and decommo-ditize at every point. The travel journey includes platforms and devices from beginning to end, and consumers expect intuitive, uncluttered digital experiences. As a travel technology partner, iSeatz knows what travelers want. We help our partners build the technology to deliver it, and we create beautiful front-end experiences that enable travelers to get started on their remarkable journeys. Our goals are to help automate and simplify the search, booking and management of myriad travel and related goods and services; to suggest innovative paths to purchase; to capture responses; and to optimize users' experiences.

iSeatz partnered with Phocuswright to conduct this research with the objective of level-setting the state of play in the consumer hotel reservation experience. We wanted to determine if cross-selling is welcome, learn which products are truly seen as complementary to travel, and discover at what point prospective travelers want to purchase complementary travel products that enhance their trip.

Enjoy the results of the research.

Kenneth Purcell,
Founder / CEO
iSeatz Inc.

About Phocuswright

Phocuswright is the travel industry research authority on how travelers, suppliers and intermediaries connect. Independent, rigorous and unbiased, Phocuswright fosters smart strategic planning, tactical decision-making and organizational effectiveness.

Phocuswright delivers qualitative and quantitative research on the evolving dynamics that influence travel, tourism and hospitality distribution. Our marketplace intelligence is the industry standard for segmentation, sizing, forecasting, trends, analysis and consumer travel planning behavior. Every day around the world, senior executives, marketers, strategists and research professionals from all segments of the industry value chain use Phocuswright research for competitive advantage.

To complement its primary research in North and Latin America, Europe and Asia, Phocuswright produces several high-profile conferences in the United States, Europe and Asia Pacific, and partners with conferences in China, Singapore and the United Arab Emirates. Industry leaders and company analysts bring this intelligence to life by debating issues, sharing ideas and defining the ever-evolving reality of travel commerce.

The company is headquartered in the United States with Asia Pacific operations based in India and local analysts on five continents.

Phocuswright is a wholly owned subsidiary of Northstar Travel Media, LLC.

www.phocuswright.com

Contents

Table of Contents

Overview	5
Research Methodology	6
The Consumer Perspective	6
The Hotelier Perspective	10
Key Challenges	12
So Where Do We Go From Here?	13
About iSeatz	15

Table of Charts

Figure 1 Supplemental Travel Products Willing To Purchase or Book From Their Hotels	7
Figure 2 Last Trip In-Destination Activities	7
Figure 3 Last Trip In-Destination Activities Booking Window	8
Figure 4 Last Trip In-Destination Activities Booking Window	9
Figure 5 Traveler Opinions on Receiving Supplemental Travel Product Offers	9
Figure 6 Preference on Where to Receive Offers For Additional Travel Service	10

Hotel Ancillaries: An Unexplored Opportunity

Written and researched by Peter O'Connor & Mark Blutstein

Overview

With both RevPAR and occupancy growth slowing modestly from 10% to 8% in the otherwise robust U.S. hospitality sector, hotels are increasingly turning toward the sale of ancillary goods and services to help drive additional revenue. For hotels, the phrase 'ancillaries' typically refers to optional guest add-on products and services outside of the core accommodation product. These may take the form of in-hotel ancillaries, such as room upgrades, food and beverage services, additional in-room amenities or spa/wellness/entertainment products offered by the property itself. Alternatively, ancillaries may also include in-destination ancillaries such as sightseeing tours, car rental, transfers or event tickets, typically provided by third parties.

The travel industry has witnessed the success of the major airlines in growing ancillary offerings to contribute 10% of gross revenue by monetizing components of their product offerings through decoupling or bundling. It is logical that hotels should follow suit and attempt to increase revenue by offering a more comprehensive range of products and services to customers during the accommodation booking process; prior to arrival; and during their on-property stay. Doing so would have two results: It would provide increased flexibility and better service to the guest, as well as generate additional revenue and an increased share of customer wallet for the hotel.

Airlines amassed an additional \$25 billion in revenue from selling add-ons in 2015, according to IdeaWorksCompany estimates. Hotels, on the other hand, have not been nearly as aggressive in exploiting the ancillary opportunity. Through their online and mobile presences, most hotels have focused primarily on selling just rooms. However, there is increasing evidence in the marketplace that this is beginning to change, and that hotels are starting to propose a more sophisticated product offering to their customers through online channels. Web booking engines, both chain and third-party, have begun to incorporate a broader range of products to both enhance customer service as well as capture a larger share of the customer wallet through upselling and cross-selling. This change is being led by the major chains, with Marriott's Virtual Concierge in particular demonstrating thought leadership as to the direction that non-accommodation digital services could take for the hotel industry. While many hotels are experimenting, smaller chains and independents have been slower to react, with perhaps the best assessment of many efforts to date being "unimaginative."

To develop a more comprehensive picture of the hotel ancillary market, Phocuswright and iSeatz embarked on a multi-part research effort combining both the consumer

(guest) and supplier (hotel) point of view. The objectives were to: 1) develop a comprehensive picture of the state of play with regard to the sale of ancillary goods and services by hotels, and 2) understand current ancillary strategies and offerings, as well as hotels' plans for the future. This resulting white paper examines both demand for and supply of ancillary goods and services in the U.S. hotel sector.

Research Methodology

This research study was approached from two complementary angles, in collaboration with iSeatz. Initially, to understand the demand side, Phocuswright fielded an online consumer survey between March 8 and March 15, 2017 through Lightspeed, targeting the general U.S. adult population that has Internet access and travels for leisure. To qualify for participation in the study, respondents had to indicate that they had taken at least one leisure trip at least 75 miles from home in the past 12 months that included paid lodging and/or air travel. An additional screener required consumers to have played an active role in planning their leisure trips. Phocuswright received 1,724 qualified responses, and the weighted respondent pool can be projected with confidence to the U.S. adult population with Internet access.

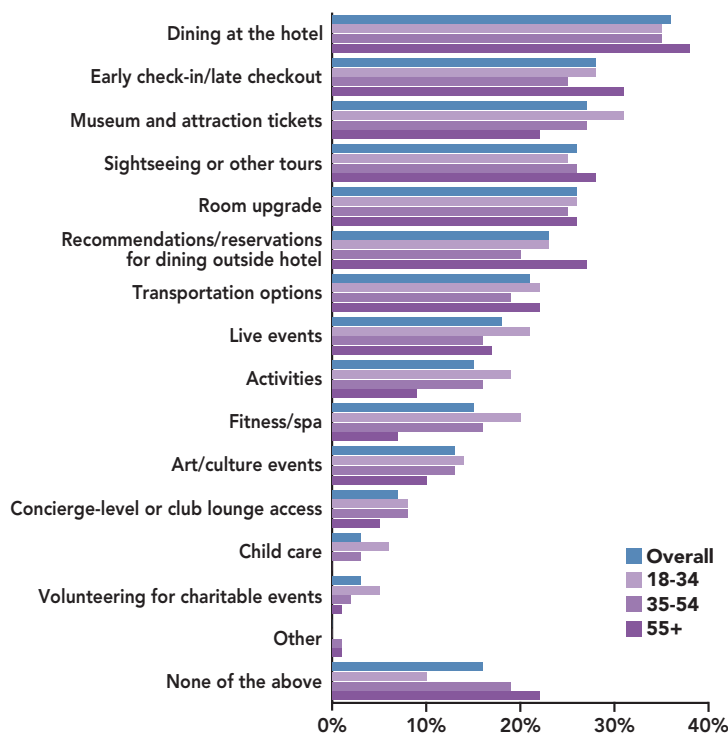
To understand the supply side of the issue, Phocuswright conducted a series of in-depth, 30- to 40-minute telephone interviews with key personnel within U.S. hotels. Respondents comprised representatives of both chains and independent properties, and included a mix of e-commerce, sales & marketing and operations functions.

The Consumer Perspective

A substantial potential market currently exists for both in-hotel and especially for in-destination ancillary products and services. Two types of on-property offerings – dining at the hotel and early check-in/late checkout – are the most popular services that consumers would be willing to pre-book from hotels (see Figure 1). However, guests are also open to purchasing a diverse range of alternative, externally provided products and services, including museum/attraction tickets, sightseeing or other tours, event tickets and transportation. It is interesting to note that in each case it is younger travelers, aged 18 to 34, who are more willing to pre-book in-destination services from the hotel. The situation is inversed for in-hotel ancillaries, where older consumers, aged 55 and up, express a stronger preference to pre-book such activities as dining and early check-in/late checkout.

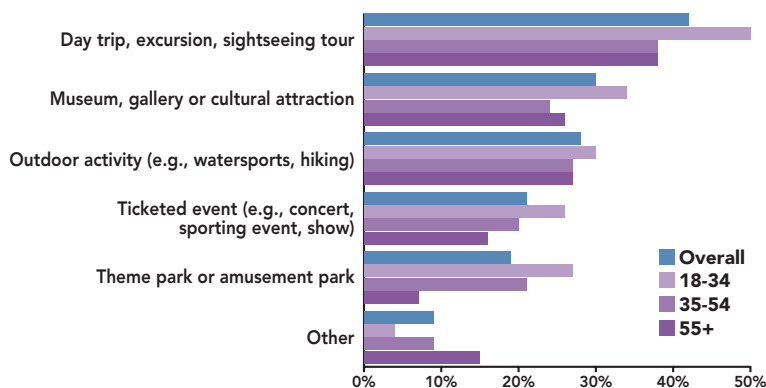
Facilitating the pre-booking of in-destination ancillary products and services clearly represents an interesting opportunity for U.S. hotels. Eighty-one percent of respondents indicated that they had participated in a bookable in-destination activity during their last trip. The most popular of these activities were day trips, excursions and sightseeing tours (42%); visiting museums, galleries or cultural attractions (30%); and outdoor activities (28%) (see Figure 2). Those aged 18-34 represent the greatest potential for the sale of in-destination ancillary products, as they are the heaviest consumers of these products across all segments. This is particularly the case for day trips/excursions as

FIGURE 1: Supplemental Travel Products Willing To Purchase or Book From Their Hotels



Question: Which of the following supplemental travel products and services are you likely to consider purchasing from a hotel?
Select up to 4 options.
Base: U.S. travelers (N=1,724)
Source: Phocuswright's U.S. Consumer Travel Report Ninth Edition
© 2017 Phocuswright Inc. All Rights Reserved.

FIGURE 2: Last Trip In-Destination Activities

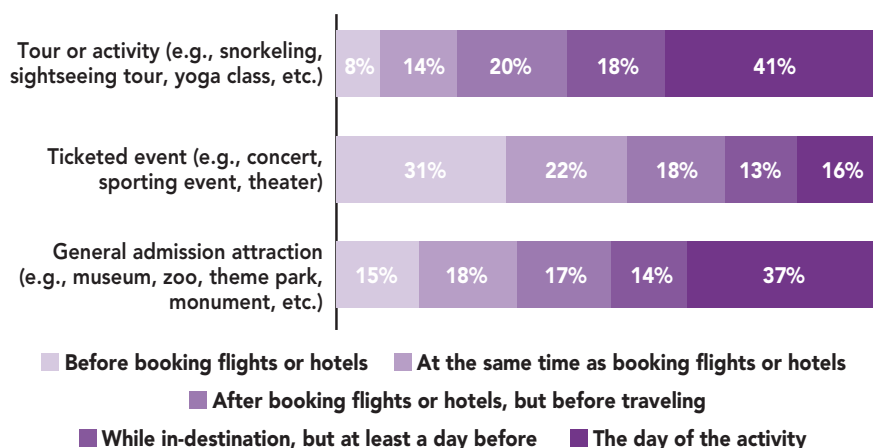


Question: What types of activities did you do in while in-destination during this trip? Select all that apply.
Base: U.S. travelers (N=1,724)
Source: Phocuswright's U.S. Consumer Travel Report Ninth Edition
© 2017 Phocuswright Inc. All Rights Reserved.

well as theme or amusement park admission, where younger consumers are far more likely to engage in such activities than the general population.

The stage at which these in-destination activities are booked varies significantly (see Figure 3). For both tours/activities (e.g., snorkeling, sightseeing tour, yoga class, etc.) and general admission (e.g., museum, zoo, theme park, monument, etc.), the majority of such activities tend to be booked while the consumer is within the destination and, for the most part, on the day of the activity itself. In contrast, ticketed events such as concerts, sporting events and theater tend to be booked prior to traveling; just over one third booked the day before or the day of the event, and nearly one third secured

FIGURE 3: Last Trip In-Destination Activities Booking Window



Question: When did you purchase your destination activities (e.g., tours, excursions, live ticketed events) for this trip? Choose one for each of the following in-destination activities.

Source: Phocuswright's U.S. Consumer Travel Report Ninth Edition
 © 2017 Phocuswright Inc. All Rights Reserved.

tickets before booking the flight or hotel. Such a pattern makes sense, since in many cases the event in question may be the motivation for the trip, making the pre-booking of event tickets essential.

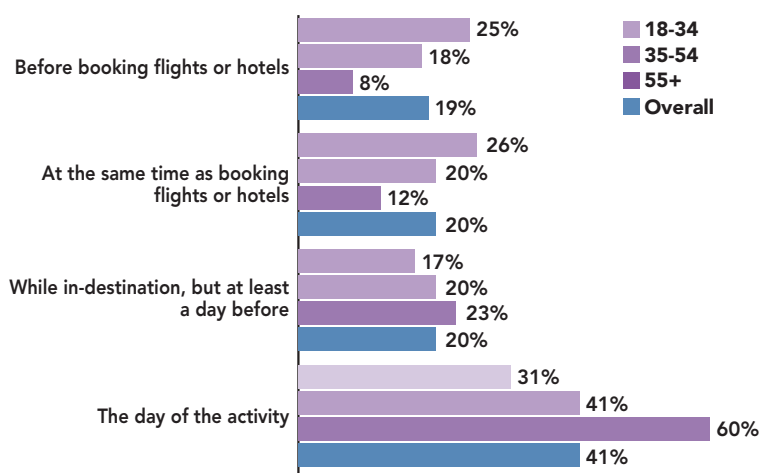
Significant differences in booking patterns can also be observed across age groups. Irrespective of the category, pre-booking activity decreases with age. In all cases, those aged 18-34, followed by those aged 35-54, were far more likely to pre-book their in-destination activities (see Figure 4). Older consumers showed a marked resistance to pre-booking, and for the most part made their bookings only once they had arrived in the destination, and usually on the day of the activity itself.

Given the tendency to book activities later in the trip process, it is not surprising that consumers are also open to receiving offers for supplemental travel products during their interactions with the hotel (see Figure 5). For both in-destination and in-hotel ancillary goods and services, near half of consumers stated that it was helpful to receive offers from the hotel for supplemental travel products during the online booking process (47%), as well as during hotel check-in (48%). Younger consumers in particular were

more open toward receiving offers of this type, with nearly a third of both 18-24 and 25-34-year-olds rating such offers as very helpful.

Consumers in general prefer to receive ancillary offers during the online booking process. Nearly one third (31%) of consumers noted that they preferred to receive ancillary offers

FIGURE 4: Last Trip In-Destination Activities Booking Window



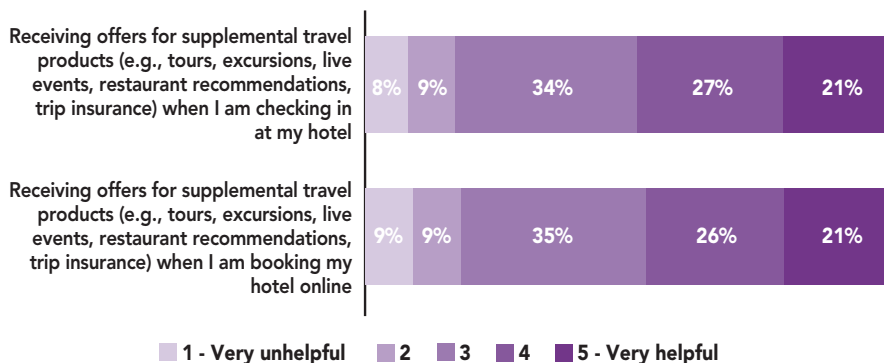
Question: When did you purchase your destination activities (e.g., tours, excursions, live ticketed events) for this trip? Choose one for each of the following in-destination activities.

Base: In-destination bookers (N=1,287); Tour or activity bookers (N=912); Ticket event bookers (N=366); General admission attraction bookers (N=727)

Source: Phocuswright's U.S. Consumer Travel Report Ninth Edition

© 2017 Phocuswright Inc. All Rights Reserved.

FIGURE 5: Traveler Opinions on Receiving Supplemental Travel Product Offers



Question: Rate the following statements on a scale of 1 to 5, where 1 is very unhelpful and 5 is very helpful, on how it would affect your trip planning.

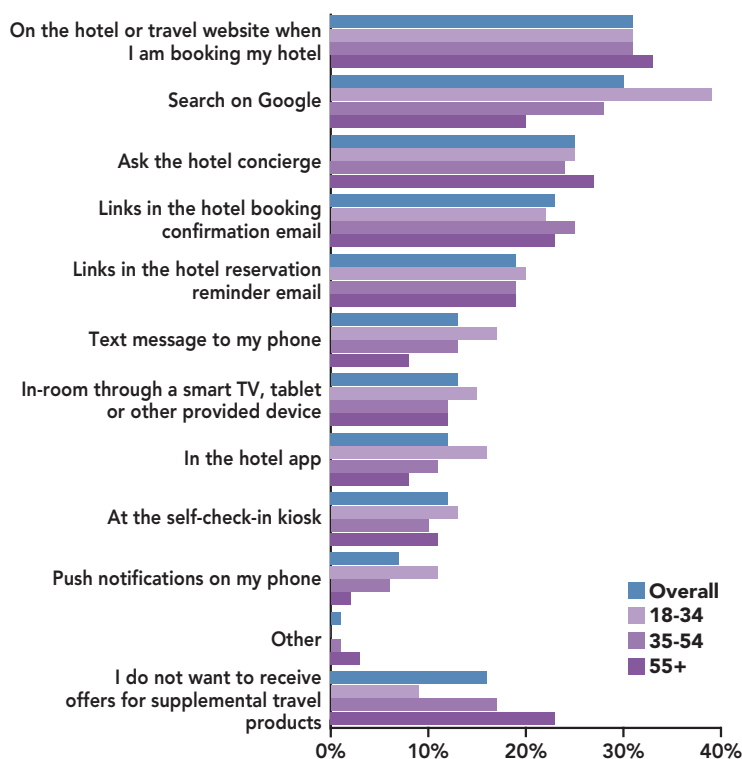
Base: U.S. travelers (N=1,724)

Source: Phocuswright's U.S. Consumer Travel Report Ninth Edition

© 2017 Phocuswright Inc. All Rights Reserved.

on the hotel or travel website during the primary booking process (see Figure 6). A substantial number were also open to receiving such offers in the hotel booking confirmation email (23%) or in a pre-arrival email from the hotel (19%). Despite the prominence of mobile devices, and perhaps because of their intrusiveness, fewer consumers expressed a desire to receive such offers through their mobile phone, irrespective of whether it was delivered as a text message (13%), within the hotel app (12%) or as a push notification

FIGURE 6: Preference on Where to Receive Offers For Additional Travel Services



Question: How would you prefer to receive offers for additional travel services or experiences for your trip (e.g., tours, excursions, live events, restaurant recommendations, etc.)? Select up to 3 options.

Base: U.S. travelers (N=1,724)

Source: Phocuswright's U.S. Consumer Travel Report Ninth Edition

© 2017 Phocuswright Inc. All Rights Reserved.

(7%). And while in the destination, most consumers preferred to use the traditional concierge service to make bookings (25%), with fewer expressing a preference for automated options such as self-service kiosks (12%) or in-room technology such as smart TVs, tablets or other provided devices (13%).

The Hotelier Perspective

Given consumer enthusiasm for pre-booking ancillary products and services, one might expect hotels to be eager to offer them, both to better serve their customers and to leverage the opportunity to generate additional revenue. However, hoteliers agree that

the opportunity is much more complex than simply adding new product to existing inventory. There are several significant challenges that limit the ability of hotels to fully exploit the ancillaries opportunity.

Nearly all hotels interviewed allow some ancillary products and services to be pre-booked. However, there is considerable variation in both the range and types of ancillary services offered, as well as in the level of automation of the booking process. In general – and in contrast to what seems to be of most interest to consumers – most hotels focused on facilitating the pre-booking of relatively basic internally provided add-ons, such as upgrades, early check-in/late checkout, spa treatments, flowers, champagne, chocolates or other in-room amenities. There was less of a focus among hotels on externally provided in-destination services, such as excursions, show or attraction tickets, and activities. The sole exception to this pattern was transportation, particularly in the form of airport pickup, which was facilitated by the majority of respondents. Internal ancillaries were also promoted heavily in pre-arrival merchandising, particularly by trying to upsell and cross-sell upgrades and other in-hotel ancillaries through confirmation and pre-arrival emails and text messages.

Hoteliers offered a variety of explanations for their overwhelming focus on in-hotel ancillaries. Several pointed out that few guests want to organize their trip at a very high level of detail prior to arrival, and therefore that the investment needed to provide extensive pre-booking facilities for external ancillaries would not be economically viable. Many also commented on the complexity of automating the reservation of such services (see below), and stressed the lack of both time and appropriate in-house processes to deal with more complex bookings. Even when hotels included online booking facilities for ancillaries on their websites or through their call centers, the vast majority of properties interviewed had not automated the booking process end-to-end.

In most cases, reservations (or requests, to be more technically correct, since few hotels have the capability to electronically access live inventory) for add-on services made during the online booking process must be handled manually at the hotel property. While some hotels have integrated such requests into their PMS (typically through the creation of an ad hoc package) or other guest service-focused systems, in most cases at least some manual processing is needed to organize and ensure service delivery. Product complexity also plays a major part in deciding whether automated pre-reservations are allowed. Spa treatments, for example, are typically a major source of revenue for many resort properties. But allowing self-reservations for anything but the most basic spa treatments is difficult, since treatments must often follow a particular sequence or timing – nuances that require the advice of a qualified therapist.

When pre-booking of ancillary products and services is enabled, guests can generally make use of multiple channels. As noted, when online channels are used, the “booking” generally takes the form of a request which is subsequently reconfirmed by the hotel property. In certain cases (e.g., reserving a cabana, fitness class or tickets for an internal show), access to live inventory is needed. In these situations, most hotels push customers toward the voice channel, through call centers or at the property itself, where hotel personnel can access the appropriate reservation systems and provide immediate confirmation. Despite the popularity of mobile devices and the widespread

availability of hotel apps, the use of apps with pre-booking capabilities was less than anticipated, and far more limited in functionality. For the most part, hotel apps tend to be information-only, and none of the hotels interviewed currently include ancillary pre-booking facilities on their app booking engine. However, practically all mentioned that they are currently exploring the possibility and experimenting with how they might deliver such functionality in the near future.

Once the guest arrives at the property, the booking pattern changes significantly. Despite acknowledging its potential, few properties provide any method of reserving ancillary services apart from physically contacting the hotel front desk (for internal services), the concierge (for external reservations) or the provider (in the case of third-party services such as spa or retail units). Where ancillaries are promoted – on in-room printed collateral, Wi-Fi splash screens or internal television channels, for example – customers are typically driven toward on-property voice channels. Most commonly, these are either the front desk or the concierge (if there is one present on the property), who can check availability and make the reservation.

And at all stages, from the check-in process to in-stay guest interactions, most properties focused exclusively on upselling/cross-selling internal ancillaries such as upgrades, late checkouts and food & beverage options, despite acknowledging guest demand for in-destination ancillaries. So, while many guests wish to book a wide range of in-destination products and services while on-property, most hotels are currently doing little to capture this revenue for themselves.

In part, this may be because hotels, in contrast to airlines, see the sale of ancillary services as a customer service issue rather than a potential source of revenue. With larger properties in particular, many in-hotel services are actually outsourced, with service providers such as spas paying a fixed annual rental along with a small percentage of revenue generated. Therefore, driving additional business to such partners often results in very marginal revenue gains for the hotel. Similarly, few hotels have processes in place that allow commissions for services booked from third parties (such as event or attraction tickets) to be systematically collected. In any case, such commissions are typically low, and represent a small percentage of a relatively small monetary amount.

Even fewer hotels allow third-party products to be charged to the guest folio, with transportation again being the exception. And lastly, for in-hotel add-ons such as champagne and chocolates in the room on arrival, margins are comparatively small, and the operational cost of consistently delivering the requested services is seen as high. The result is that many properties see selling internal ancillaries as being a cost rather than a revenue generator. Several respondents stated that if such services were not expected by the guest in properties of their type (luxury, typically), they would be happy to discontinue providing many of them.

Key Challenges

Hoteliers are not blind toward the needs and behavior of their customers. All acknowledge that a market clearly exists for the sale of in-hotel and in-destination ancillary goods and services, at all stages of the travel process. So why do hotels, for the most part, fail to exploit this potential? Based on the research, two issues consis-

tently emerged: 1) the lack of an appropriate technological infrastructure to support the sale of ancillaries, and 2) operational challenges associated with the consistent delivery of quality service with an expanded product scope.

The biggest barrier to selling hotel ancillaries was clearly associated with a perception that appropriate technology-based systems were not available to help automate and simplify the sale and consistent delivery of ancillary good and services. Despite the availability of multiple products, the feeling among hotel executives interviewed was that no systems exist that are able to integrate with their (often legacy) property, revenue management or other on-property systems, and thus reduce the costly manual processing currently required to facilitate such sales.

This sentiment may be linked to the operational structure of the U.S. hotel sector, where three different parties – a brand, a management company and the hotel's real estate owner – cooperate to actively run a property. In general, technology-based systems are provided by the hotel brand which, being compensated with a percentage of room revenue, currently has little interest in integrating (particularly in-hotel) ancillary products and services into their booking engines. While some of the major brands are experimenting with selling in-destination ancillaries – usually at the end of the online booking process, or between booking and arrival – in such cases the resulting revenue flows to the brand itself rather than to the hotel property. And these efforts are being limited by the low level of automation present in many of the suppliers of in-destination ancillaries, whose mom-and-pop style of operation is often what makes them attractive to leisure customers.

The second major challenge is organizational. Many hotels struggle to attract and retain quality staff at the property level, and thus have been forced to simplify their service delivery as much as possible to ensure quality and consistency. Many struggle to deliver the limited range of ancillary services currently being sold. This is a major challenge, particularly at the upper end of the market, where guest expectations regarding ancillaries are strongly linked to brand image. Selling additional ancillary services – whether internal or external – would greatly increase operational complexity, particularly if the sales and delivery are not supported by appropriate technology.

Hoteliers expressed a general sentiment that most ancillaries are comparatively low margin, with certain exceptions such as for room upgrades. Hence, few hotels are willing to invest the time necessary to develop the processes needed to fully exploit the potential of ancillary sales, or to train their staff to systematically offer them to customers. Many of those interviewed also commented on the difficulty of familiarizing staff with specific ancillaries, which is necessary to turn them into effective salespeople for the product or service. They also mentioned issues related to motivating team members to upsell/cross-sell ancillary services, since in most cases they have little incentive for successfully doing so.

So Where Do We Go From Here?

While all acknowledge its potential, selling ancillary goods and services is clearly a quandary for most hotels. On the one hand, they are faced with increasingly sophisticated guests, particularly millennials, whose needs, demands and behavior are

different from those of previous generations. Armed with their mobile devices, this important customer segment is constantly connected, uses technology as an enabler, and is willing to pre-book appropriate add-ons. In many cases, they are already doing so through third parties. Not meeting such customer expectations could result in low customer satisfaction, or even defection to competing brands or properties. Still, many hotels are struggling – both technologically and organisationally – to service just their existing, limited portfolio of products and services.

Clearly this inability to adequately service guest demand represents a lost opportunity for hotels. In addition to the missed revenue opportunity, it makes it more challenging for hotels to effectively differentiate themselves and compete with other properties as well as online travel agencies (OTAs). OTAs typically feature a wide range of in-destination ancillary products and services, usually delivered through non-exclusive virtual partnerships with third parties (which hotels could also potentially exploit). However, few OTAs can access the extensive range of in-hotel ancillary goods and services that could potentially be sold directly. And if consumers are trained to understand that they may be able to book a richer experience through the hotel website or smartphone app, this would motivate them to book directly. It would also help to better differentiate between booking channels on an issue other than price, and possibly reduce the hotel segment's ever growing dependence on the OTAs.

Most of the hotels interviewed were considering how they could better exploit the potential of ancillaries, both during the initial booking process and during the stay. In terms of integrating a broader range of products and services into the accommodation booking process, a timeframe of 12 to 18 months was commonly cited. Several of the larger resort-oriented chains claimed to be actively experimenting with such functionality, with varying degrees of success; integrating disparate systems was the most frequently cited challenge.

Many hotels are also experimenting with enhancing the functionality of their existing property-level apps to enable more active promotion and sale of ancillaries. Here the challenges are subtler, and focused more on a fear of adverse consumer reaction rather than on the technological challenges of making it happen. Such fears were considerably stronger in more upmarket, leisure-oriented properties, where mindfulness was key and any form of push marketing might be perceived as intrusive. As a result, many of these facilities prefer to provide passive services (e.g., facilitating the ordering of food or other in-hotel ancillaries) rather than focusing on generating incremental sales. Most of those interviewed felt that there was significant potential to further expand such services by using personalization based on the hotel's in-depth knowledge of the customer. Still, many were apprehensive about challenges such as further systems integration and overcoming guests' privacy concerns.

Overall, progress is slow but sure. Despite the challenges, hotels clearly see the potential of being able to better serve their customers by expanding the portfolio of ancillary goods and services they offer. Both technological and organizational barriers will ultimately be overcome. This will enable hotels to more effectively tap this highly interesting potential market and generate valuable additional revenue. It may perhaps even reverse consumer perceptions that all booking channels are the same, by

providing a complete, robust product selection through direct channels. With such clear advantages, attacking the ancillary revenue issue should clearly be a priority to ensure success in the future.

About iSeatz

Founded in 1999 and based in New Orleans, iSeatz is a leading digital commerce experience and ancillary merchandising technology company for travel, financial services and entertainment brands. Focused on customization and backed by proven deliverability, reliable advanced analytics and travel lifecycle expertise, iSeatz sets the bar for a superb travel journey from the very first search. The award-winning iSeatz OneView platform meets brands' exact requirements for delivering a highly personalized and engaging commerce experience that drives conversions, customer satisfaction and advocacy. iSeatz custom digital experiences allow prospective travelers to search, discover and book a spectrum of travel-related products. iSeatz travel technology solutions connect people to unique travel journeys, generating over \$2.5 billion in annual sales for our partners each year from more than three million annual bookings. The iSeatz partner portfolio includes brands such as American Express, Air Canada, Amtrak, Expedia, IHG and Marriott.

Please contact us to learn how iSeatz can help your brand stand out while maximizing revenue and boosting customer satisfaction. Learn more at iSeatz.com.

Phocuswright Inc.
116 West 32nd Street, 14th Floor
New York, NY 10001 USA

PO Box 760
Sherman, CT 06784 USA

+1 860 350-4084
+1 860 354-3112 fax
www.phocuswright.com

Phocuswright 