Travel & Retail: Exploiting Inherent Synergies to Collectively Boost Performance

Digital renewal provides the travel and retail sectors with a unique ability to collaborate to build more personal and immersive experiences that enhance loyalty at reduced cost.
EXECUTIVE SUMMARY

The collaborative opportunities have always been so close.

After all, the travel and hospitality sector circles the globe, with customer touchpoints at every airline, airport, hotel and restaurant. Meanwhile, retailers fulfill consumers’ material needs and desires daily.

Somehow the two industries are so close - and yet still so far.

Despite their natural synergies, partnership opportunities between travel and retail have largely been limited to loyalty rewards and affinity credit cards.

Digital changes all that. It brings the two sectors even closer, with potential benefits that prove the whole is greater than the sum of its parts. Digital opens new areas of collaboration that build on three cross-sector mega-trends:

• Hyper-personalization and lifetime brand loyalty.
• Immersive shopping experiences.
• Mobile devices and wearable technologies that improve the customer experience.
The common denominator among the trends? Customer experiences and automation. This white paper offers five lessons that retailers and travel providers can learn from one another to deliver unique customer experiences:

1. Crossover works. Collaborative commerce is critical.
2. Revisit loyalty.
3. When it comes to digital, don’t forget your staff.
4. Focus on customer desires - not just needs - and apply design thinking.
5. Be agile enough to pivot quickly.

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DIGITAL THAT MATTERS BEGINS WITH THE CUSTOMER

You’ve heard it before, but it remains true: The key competitive battleground is customer experience (CX) – specifically, the ability to influence and improve it.

In the travel industry, that kind of relentless customer focus is starting to take root. Given their proximity to consumer touchpoints, travel businesses are starting to see themselves as more than purveyors of airline seats or hotel rooms. They’re pursuing new avenues to transform into multidimensional retailers, selling products beyond their core business.

For some, it’s a small step. Lufthansa partners with Nespresso to sell premium coffee at its terminal gates. For others, improving CX is a much more expansive undertaking on the road to ancillary revenues. The Emirates Group is a leading example. The UAE-based company has diversified to provide an array of retail offerings that range from operating franchises such as Costa Coffee in the UAE to a fine wine and spirits store, Le Clos, at Dubai International Airport.²

Are such ambitious cross-sector ventures just the beginning? We think so. So are partnerships that aren’t directly interwoven but run on parallel tracks, such as Marks and Spencer catering British Airways’ on-board food.³

We see an abundance of new technologies reenergizing travel’s focus on retail. Mobile, cloud computing and artificial intelligence (AI) bring products to market in more meaningful ways. How? Mobile-centric strategies let companies push distribution to on-the-go travelers. Tech wearables further boost opportunities to connect. Personalization gets real.

Incremental revenue is one benefit of a proactive, retail-based approach to customer engagement. Among airlines, ancillary revenue was projected at $67.4 billion in 2016, or 9.1% of total global revenues for the 178 airlines covered.⁴

Another benefit is customer loyalty: Travelers who feel understood and valued are more likely to be receptive to up-selling and cross-selling – and more loyal to brands.

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HIGHLIGHTING THE SYNERGIES

We see the synergies between travel and retail resting on three cross-sector mega-trends:

- Hyper-personalization and lifetime brand loyalty.
- Immersive shopping experiences.
- Use of mobile and wearable technologies to improve the customer experience.

The three trends are built on advances in data analytics and digital content platforms. Within both the travel and retail sectors, companies are at different levels of maturity across the trends. The common denominator among them? The drive for unique CX that creates competitive differentiation.

The benefits of synergy are two-way. Each sector can learn—and profit—from the other. From retail’s volume of repeat purchases and growing insight into consumer needs, travel and hospitality can learn to use data more effectively to shape unique CX. From the travel and hospitality’s network of global touchpoints, retail can learn about scale.

What Retail Brings to the CX Table

For its part, retail has had a head start in digital. Squeezed by online pure plays, the industry was “Amazoned”: To keep pace, smart retailers upped their game, carving out strategies that rethink CX. They dovetailed in-store and online shopping, reexamined the role of store associates and launched new services. Luxury retailer Burberry has led the way.6 Supermarket chain Sainsbury has also found a winning strategy with its Argos venture.6

Retail’s push to improve CX has driven its adoption of technologies that were once little more than buzzwords:

- **Exploration of IoT and Intelligent spaces:** The Internet of Things (IoT) is upending CX and interaction with retail brands. Purchasing through mobile devices has gone mainstream. Voice channels are gaining traction. Retailers are exploring how to leverage smartphones and wearable devices to activate dynamic digital signage and location-based offers. Some of the most innovative advances are the result of smartphones equipped with augmented and virtual reality (AR/VR). For consumers, AR closes the “imagination gap”: one-third say they’re more likely to purchase big-ticket items if they can first visualize them through AR.7 For more on AR, read our report, “Augmenting the
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Reality of Everything.”) Already, retailers and consumer-goods companies are launching immersive shopping experiences. Augmenting apparel’s journey from origin to purchase is likely to be a new battleground for fashion retailers, with AR becoming a potential point of differentiation thanks to platforms from Apple, Google and Facebook.

- **Pushing boundaries: chatbots, cognitive computing and conversational AI:** As voice-activated personal assistants transition to shopping platforms, retailers are also becoming adept at applying AI to personalized services. London start-up Thread uses algorithms and virtual stylists to create in-home personal-shopper experiences. In the U.S., Stitch Fix’s curated clothing service analyzes customers’ body shapes and Pinterest pages. It also encourages customers to share personal details in exchange for a more customized experience – resulting in a wealth of data for Stitch Fix to analyze. U.S. cosmetics company Estee Lauder’s voice-activated app runs on Google Home devices. The company says it envisions the app, called Nighttime Expert, to expand its omnichannel efforts to provide in-home, in-the-moment experiences.

- **Bring on the data: predictive analysis and data sciences:** To improve profit margins and their CX, retailers are increasingly turning to the data-driven science of predictive analysis. Data mining provides a clearer picture of customers and their spending power to enable smarter, more relevant promotions. At the heart of data science? The collection and secure sharing of personal data. New business models pioneered by start-ups such as Handshake and ctrl Q empower consumers with control over how their data is used and what they get in return. While local privacy regulations govern the new data businesses, customers are seemingly happy to swap their personal data for more relevant offers. It remains to be seen how the new European General Data Protection Regulation (GDPR) will affect companies’ ability to hyper-personalize through clever profiling.

- **Reinventing omnichannel:** Squeezed by customer expectations and the rise of progressive digital retailers, established brick-and-mortar merchants are searching for new ways to provide seamless omnichannel experiences. They face conflicting technology priorities, however. Choosing areas of focus remains challenging, as their choices and investments determine whether they remain relevant.

- **Putting robotics and automation to work:** Retail margins are under pressure following a period of global political uncertainty and the growth of low-overhead online start-ups. Robotics and automation make for an intriguing future. The first cashier-less Amazon Go store opened in Seattle, WA, in January 2018. In the home-improvement sector, Lowe’s LoweBot helps customers find goods and also answers customer-service questions. As automation impacts the retail process from inventory to last-mile delivery and in-store replenishment, the challenge for retailers is to deliver it with a focus on improved, not diminished, experience: Self-service checkout has been known to be frustrating for consumers when it reduces rather than enhances convenience.
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Digital Initiatives in Travel

Digital’s potential for enabling the travel CX requires a mobile-first, omnichannel strategy that lets travel brands be everywhere their customers are: offline, online and on the road.

Key digital initiatives shaping the travel CX include:

• **The drive for ancillary revenue:** Many travel businesses struggle to maintain healthy profit margins amid high operating costs and price transparency. The result? A focus on ancillary revenue, with travel players adopting retail best practices and learning to excel at merchandising. The hotel and destination management sectors have been less successful in selling ancillary services due to fragmented IT systems and lack of industry standards. Until recently, few hotel websites offered flights, transfers or tours. But change is happening. Spanish newcomer Travel Compositor allows hotel groups to dynamically package their services. Norwegian Cruise Line markets a variety of products and services to passengers before they embark, from spa appointments to diapers.

• **Rethinking loyalty and CRM:** With frequent blackout dates and almost unattainable status levels, airline and hotel loyalty programs often fall flat. In the airline sector, 9.7 trillion unused journey miles sit idle as balance-sheet liabilities. Travelers want flexibility. In addition to traditional airline and hotel awards, many favor instant redemptions and perks that suit their lifestyle. Seven out of 10 respondents want to redeem points in retail outlets, according to a recent survey by Collinson Latitude. A growing number of travel companies are implementing CRM technologies to provide greater customer segmentation, personalization and relevant rewards and offers. They’re also integrating CRM and other transactional data sources to create a higher order of customer intelligence.

• **Preparing for the payment evolution – via blockchain?:** Blockchain has the potential to break through the tedious multistep, multiparty payment process with a more robust, secure, real-time structure. (See Figure 1).

What’s blockchain’s advantage? It creates proof of ownership using unique digital signatures that rely on public and private encryption keys. With its built-in trust, blockchain can enable interoperability among travel companies’ programs and partners. (For more insight, please visit the blockchain section of our website.)
But blockchain is a long way from mainstream status. Although it’s emerging from the rise of cryptocurrencies, blockchain’s widespread adoption in the travel sector remains to be seen. Blockchain involves behavioral change and collaboration across multiple parties as well as the headache of integration and transition from legacy systems. Moreover, concerns persist regarding security and ownership of private data. (To see how blockchain thinking could apply in the travel and hospitality sector, read “Retail: Opening the Doors to Blockchain.”) Passage of data-security and payment regulations, however, is giving blockchain a boost: In Europe, the new processes and legacy-systems bypass of the Payment Services Directive 2 (PSD2) have provided unexpected motivation for blockchain development. (For more insight, read “Blockchain in Europe: Closing the Strategy Gap.”)

- **Getting personal: AI, predictive analytics – and coffee**: In a burst of experimentation, airlines, hotels and cruise lines are engaging travelers through proactive, intelligent robotic live chat that relies on web analytics and machine learning algorithms. Through Facebook Messenger, Dutch airline Transavia creates flowing conversations that guide customers through ticket selection and purchase. (Learn more by reading our case study.) Online travel agency Fareboom finds cheap flights by predicting future price movements based on factors such as seasonal trends and demand growth. Sometimes the technology payoff is a cup of coffee when you need it most: Air New Zealand passengers can order barista-made coffee via a smartphone app as they enter select airline lounges.

- **CX starts in the home office: driving organizational alignment**: Travel businesses are preparing their organizations to fully embrace digital. Central to the change? An organization that’s aligned and focused. International Airlines Group (IAG) established a digital team and tasked it with identifying innovations and forwarding ideas to the board of directors. Emirates Airlines recently recruited its first-ever chief transformation officer. In late 2017, Ryanair opened its third digital and IT innovation hub. Digital investment is also a priority for Marriott International, which operates its own studio to develop digital products for long-term brand equity. Out at sea, MSC Cruises pairs a sensor-packed wristband for passengers with a dedicated app accessible on smartphones and an in-cabin TV app.

**LESSONS LEARNED**

Here are five lessons travel and retail can put to use to deliver unique CX:

1. Crossover works. Collaborative commerce is critical.

Amazon is the master of multiple market penetration: From its acquisition of Whole Foods to its supply-chain investment in branded cargo aircraft and delivery cars, the giant e-tailer has elevated crossover to new levels. And while famed for its low profit margins, Amazon’s investments in new services and entry into new industries have reaped shareholders rewards over the past decade, including a blowout first quarter for 2018.

How can retail and travel providers similarly find competitive advantage?

Stepped-up sharing, for one thing. New technologies enhance the organization’s ability to understand and segment more lifecycles. From what we see, retailers are getting pretty good at tracking lifecycle changes. Travel companies, in our experience ... not so much.
In a burst of experimentation, airlines, hotels and cruise lines are engaging travelers through proactive, intelligent robotic live chat that relies on web analytics and machine learning algorithms.
Sometimes logical, relevant matching is overlooked in favor of complexity. The family that just booked a luxury cruise will likely need tuxedoes and high-end dresses before they sail out of port. Travelers who’ve been away from home for two weeks will need a delivery of groceries. Choosing the right affiliate partner will be key.

Where are the most strategic points of intersection? While companies need to dig deeper in collaborative sharing and fulfillment, we believe simplicity is the best starting point. Sometimes logical, relevant matching is overlooked in favor of complexity. The family that just booked a luxury cruise will likely need tuxedoes and high-end dresses before they sail out of port. Travelers who’ve been away from home for two weeks will need a delivery of groceries. Choosing the right affiliate partner will be key. Which travel providers and segments will generate real revenue for retailers, and vice versa?

Crossover also counts when it comes to innovation. Not every company has the financial wherewithal to make the needed investments independently. If you have great partners, you can share. What opportunities exist to share innovation budgets? Perhaps you can jointly sponsor research on drone deliveries. Maybe collaboration can extend to click-and-collect purchases on the airplane seat back.

Open application program interfaces (APIs) create the extended ecosystem to support collaborative commerce. AR and voice APIs are the next wave of opportunity: Imagine the hotel guest who arrives, discovers he’s forgotten his favorite panama hat, and asks the room’s voice assistant where he can go to buy one. Voice is the new search. Together with AR, it represents the new line in the sand. You want to be there first.

Revisit loyalty.

Commoditization and transparency is upending long-held concepts of loyalty. Is your current system still relevant? If yes, for how long?

In today’s marketplace, no convention can be left unexamined, even the hospitality industry’s time-honored tradition of blackout dates. They produce balance-sheet headaches and garner
A fusion of new algorithms, machine learning and digital platforms is radically changing what human talent looks like, where to find it and how it’s put to work.

plenty of bad press. And you can bet that somewhere a smart, disruptive business model is being developed that will render traditional travel loyalty programs obsolete.

Avoid obsolescence by reviewing why your company rewards loyalty. What simple connections can your company make with retail or travel partners? How might your organization extend collaborative commerce to loyalty and achieve greater returns? Airlines have deployed branded credit cards, but have they really mined the data sets to continue to develop meaningful and timely offers? What will add the wow factor and true levels of appreciation to retain the wallet share of the regular spenders?

3 When it comes to digital, don’t forget your staff.

With retailers and travel providers collectively plowing billions of dollars into CX, customers are often more digitally enabled than retail and travel staffs. At some brands, customers can connect and communicate better and faster than their own staff. Lifetime customer value, purchasing patterns and next-best or likely actions are still elusive data sets for many frontline staff in retail and travel.

Automation can play a big role in helping retailers and travel providers close the gap. A fusion of new algorithms, machine learning and digital platforms is radically changing what human talent looks like, where to find it and how it’s put to work. Many companies are starting to junk outdated, rigid organizational models in favor of smaller, nimble talent clusters that serve particular markets or niches. (For more information, read the report, “Space Matters: Shaping the Workplace to Get the Right Work Done.”)

Indeed, undertaking the work ahead requires cross-functional alignment and collaboration. True value will be achieved if data scientists work with robot designers, omnichannel promoters and lifetime data trust officers - new roles, and also examples of new ways of working. If your organization cannot align itself with digital change, it’s unlikely it can team with others to create differentiated customer value. (For more information, read “21 Jobs of the Future: A Guide to Getting and Staying Employed Over the Next 10 Years.”)

4 Focus on customer desires - not just needs - and apply design thinking.

Retailers have become adept at addressing customer desires along the entire value chain, from production and merchandising to customer service and logistics. Travel typically emphasizes subsets of needs, with companies focusing on point-to-point travel or accommodation.

By applying design thinking to their respective broad strokes and fine detail, retail and travel can partner on creating points of differentiation and customer value all along the travel experience.
Design thinking is a set of principles that lets organizations tackle the complexity of new value propositions: empathy with users, physical and emotional experiences, and customer-centric design. It engenders discipline for prototyping as well as tolerance for failure. Design thinking also helps develop responsive, flexible organizational cultures.

The focus on consumer desires is a big shift for travel. Yet it’s a natural extension. Nearly all travelers have a retail component, from forgotten toothpaste to souvenir sweatshirts to services. Digital makes new partnerships possible along the airline and airport value chain. It fosters the integration needed for concierge-type services such as duty-free preordering and home delivery; door-to-door baggage delivery; and brands and packaging unique to the airport channel.

Large supermarket chains have become expert at taking the long view, mining lifestyle moments and positioning offers and incentives accordingly. So far, few travel brands have taken a similarly broad perspective of managing customers’ “travel careers” by anticipating key moments.

But new technologies are providing first steps. Predictive analysis and AI are beginning to identify event-based travel (such as festivals or sports events) and enable offers of discount packages or relevant merchandise. The hospitality sector is improving CX through digital strategies that incorporate voice activation and smartphone-based controls.

Be agile enough to pivot quickly.

Speed of response is vital in the travel market, where dramatic fluctuations can quickly change customer value. Terrorist attacks and political instability have damaged perceptions for destinations such as Egypt and Turkey, among others. Last year’s hurricane season hit Caribbean tourism economies hard.

How can airlines, hotels and tour operators spring into action to provide travel alternatives? Can they do so with established commitments such as flight routes and fixed investments?

The solution is to be quick to recognize change - and to act. Seasonal switchovers are built into retail businesses. Stock in the travel sector also expires, yet often unpredictably. Listening to social networks can help travel companies monitor customer tastes and identify changes in travel trends and brand opinions so their CX stays current. Through social media analytics - which capture emotions as well as potential needs, wants and desires - automated platforms can enable the design and implementation of up-to-the-minute travel promotions that let companies pivot quickly.
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• “Hospitality in the Digital Era”
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FOOTNOTES

1 www.airlinetrends.com/2017/02/12/lufthansa-nespresso-quality-coffee-at-the-gate-for-fee/.
15 www.fareboom.com/.
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For more information on crossover between retail and travel, read about Cognizant’s prototypes of immersive retail spaces in airport lounges using our RetailMate solution.

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