

WORLD IN MOTION

How to ride the growth tailwinds while navigating the inflation headwinds in travel, hospitality and leisure during 2022



INTRODUCTION

The travel, hospitality and leisure industry has cause for optimism in 2022, as attempts are made to accelerate away from the worst of the pandemic. However, the impact of the past two years has taken many businesses in the sector to the brink, with many more lost for good.

The flatlining of demand, waves of cancellations, staffing challenges and fluctuating restrictions on trading have all been perpetuated by the pandemic, but a number of disruptive forces now face operators now shifting focus to growth rather than survival. Supply chain challenges – further exacerbated by the unfolding crisis in Ukraine – and inflationary pressures continue to bite hard, while the unwinding of government support, which kept so many businesses afloat in 2020 and 2021, will also be cause for concern.

It is clear that the hospitality landscape has changed immeasurably. Consumers have become even more discerning – and demanding – when it comes to provenance, convenience and cost, while investors are also sharpening their focus upon all matters ESG when considering acquisition targets. In a market where M&A has been suppressed for some time, an expected uptick in activity means that any businesses coming to market will need to stand out from the pack, with the highest quality operational performance to maximise value this year.

Here, we assess five critical areas that operators should have front of mind to drive growth and ensure shareholder value can be recaptured and grown sustainably.



AT A GLANCE



THE SEARCH FOR GROWTH

- Be clear on where you want to get to, and the investment required to get there.
- Maintain focus on ROI to establish “quick wins”.
- Understand the M&A landscape to identify opportunities early.
- Creative solutions to deal structuring can be “win-win”.



DIGITAL TRANSFORMATION

- Establish the foundation for your services ecosystem with a flexible digital travel platform.
- Review the digital ecosystem readiness of your core travel platform to identify transformation needs.
- Strengthen your customer loyalty with a seamless user experience across your service portfolio.
- Develop best-in-class digital product capabilities to differentiate yourself.



SOURCING AND PROCUREMENT

- Redefine the category management strategy.
- Define an ad-hoc strategy for labour management.
- Enhance agreements with key strategic suppliers.
- Establish a preferred supplier list (PSL).



PRICING

- Ensure a clear understanding of current profit, and the drivers of cost for you and your competitors.
- Understand customers' perceptions of your current pricing and their willingness to pay any more for your products/services.
- Develop options for pricing that take into account input cost increases, different customer segments, and different sales channels.
- Develop a comprehensive implementation strategy that minimises risk and maximises outcomes.



RESTRUCTURING AND CASH MANAGEMENT

- Drive a cash culture across the organisation.
- Consider strategies to address onerous liabilities and reduce contractual obligations.
- Flexible forecasting is critical in a changing environment.
- Ensure early engagement with key decision-makers.

THE SEARCH FOR GROWTH

HOW TO TRANSITION FROM CASH MANAGEMENT AND SELF-PRESERVATION TOWARDS A SEARCH FOR ORGANIC AND INORGANIC GROWTH, AS THE TRAVEL, HOSPITALITY AND LEISURE MARKETS TRANSITION INTO THE RECOVERY:

1

BE CLEAR ON WHERE YOU WANT TO GET TO, AND THE INVESTMENT REQUIRED TO GET THERE

There may be multiple opportunities (both organic and inorganic) to return a business to growth. Taking stakeholders on the aspirational journey is critical and will be more productive if the financial ask is clearly demonstrated with concrete examples to set expectations.

2

MAINTAIN FOCUS ON ROI TO ESTABLISH 'QUICK WINS'

Often relatively small investments to refresh the look and feel or customer experience (such as big screen TVs for sport, additional covers or refurbishing seating areas) have been overlooked during the pandemic and can deliver a substantial return for relatively modest outlay. Strong returns from initial investments will also provide confidence to sponsors for future plans.

4

CREATIVE SOLUTIONS TO DEAL STRUCTURING CAN BE 'WIN WIN':

Owner-operators may be averse to selling their businesses in the current climate for fear of leaving cash on the table as financial performance is still below historical levels. Joint venture or shared upside deal structures can make a deal work for all parties and also secure their motivation and involvement in driving future performance.

3

UNDERSTAND THE M&A LANDSCAPE TO IDENTIFY OPPORTUNITIES EARLY

In today's market, acquisition opportunities can require you to move quickly to secure a deal. By remaining plugged into market activity and ensuring you have a view of key targets in advance, you can be primed to move at pace if businesses that are on your 'hit-list' become available.



“Taking stakeholders on the aspirational journey is critical and will be more productive if the financial ask is clearly demonstrated with concrete examples to set expectations.”

DIGITAL TRANSFORMATION

HOW TO ENSURE OPERATIONS, CUSTOMER AND EMPLOYEE INTERACTIONS ARE SUFFICIENTLY AGILE, SO TRAVEL AND HOSPITALITY COMPANIES CAN CAPITALISE ON RAPIDLY SHIFTING CONSUMER BEHAVIOURS POST-PANDEMIC:

1

ESTABLISH THE FOUNDATION FOR YOUR SERVICES ECOSYSTEM WITH A FLEXIBLE DIGITAL TRAVEL PLATFORM

With digitisation, hospitality companies need to further embrace the idea of growing by building a seamless ecosystem of value-adding travel and hospitality services. An open, future-proof Digital Travel Platform will be at the heart of implementing this idea.

2

REVIEW THE DIGITAL ECOSYSTEM READINESS OF YOUR CORE TRAVEL PLATFORM TO IDENTIFY TRANSFORMATION NEEDS

Reviewing the digital capabilities of your existing Travel IT landscape against the requirements of a next-gen, digital-driven travel business model is key to establishing a sound tech foundation for your growing digital travel platform.

3

STRENGTHEN YOUR CUSTOMER LOYALTY WITH A SEAMLESS USER EXPERIENCE ACROSS YOUR SERVICE PORTFOLIO

Next-gen travel companies need to offer a seamless digital customer experience across the complete service ecosystem (internal and external). A digital user account and management architecture, enabling central management of user preferences, loyalty services and seamless payment will be key to enabling this.

4

DEVELOP BEST-IN-CLASS DIGITAL PRODUCT CAPABILITIES TO DIFFERENTIATE YOURSELF

Successful travel services rely on effective integration and implementation of best-practice digital product capabilities such as customer-centric UX, seamless integration of services and new technology (e.g NFTs). Best-in-class internal digital product capabilities need to be seamlessly integrated with core travel product development organisations.



“Successful travel services rely on effective integration and implementation of best-practice digital product capabilities.”

SOURCING AND PROCUREMENT

HOW TO BUILD A POST-PANDEMIC SOURCING STRATEGY TO HELP MITIGATE THE DISRUPTION FACED FROM UNRELIABLE SUPPLY CHAINS AND INPUT COST PRESSURES IN HOSPITALITY, WHILE GIVING FLEXIBILITY AND AGILITY FOR TRAVEL COMPANIES:

1

REDEFINE THE CATEGORY MANAGEMENT STRATEGY

Be proactive in reviewing and, if needed, amending your category management strategy, by acting on:

- **Contractual coverage:** Define the right balance between contract supply and spot buying, considering new market trends and potential disruptions. Over-commitments in hotel contracting for example would leave tour operators highly exposed to shifts in demand due to travel restrictions or consumer preferences.
- **Supply base:** Check suppliers and run market research to define whether to add new suppliers and/or launch new RFPs.

2

DEFINE AN AD-HOC STRATEGY FOR LABOUR MANAGEMENT

Define a specific strategy for labour management to mitigate the current labour shortage affecting the sector. Two levers to consider are:

- **Insourcing external labour:** Offer permanent positions to contractors/agency personnel, with interesting training and career progression opportunities.
- **Define key partners (agencies):** For temporary labour, consider signing exclusive agreements with staffing agencies to obtain priority over competitors.

3

ENHANCE AGREEMENTS WITH KEY STRATEGIC SUPPLIERS

Review key contractual agreements and ensure they are fit for the new market environment, including features such as:

- **Minimum availability of supply:** Define your minimum quantity requirements (weekly, monthly,...) and set the minimum supply you wish to have in the contract, so that you are legally covered from market shortages.
- **Price mechanism:** agree a pricing formula that fairly regulates price adjustments to protect both parties from market volatility.
- **SLAs:** include Service Level Agreements with penalties to incentivise supplier compliance and avoid business disruption.

4

ESTABLISH A PREFERRED SUPPLIER LIST (PSL)

Consider establishing PSLs across multiple categories in order to have supplier alternatives ready to use in case of supply disruptions or failures.

“Define key partners (agencies) to recruit temporary labour, potentially signing exclusivity agreements to obtain priority over competitors.”

PRICING

HOW TO USE AN INSIGHTS-DRIVEN PRICING STRATEGY TO MITIGATE THE EFFECTS OF AN UNPRECEDENTED INFLATIONARY ENVIRONMENT:

1

ENSURE A CLEAR UNDERSTANDING OF CURRENT PROFIT, AND THE DRIVERS OF COST FOR YOU AND YOUR COMPETITORS

Having a clear understanding of revenue and all costs down to EBIT(DA) level is critical for understanding how each of the different cost drivers will impact future performance. These may be raw materials, labour, energy, distribution and/or support costs.

Understanding which levers can be addressed, and how (e.g., sourcing, labour optimisation, and SG&A cost reduction), will be critical, in addition to calculating the role that price increases will likely play in helping to fully mitigate the impacts of inflation.

2

UNDERSTAND CUSTOMERS' PERCEPTIONS OF YOUR CURRENT PRICING AND THEIR WILLINGNESS TO PAY ANY MORE FOR YOUR PRODUCTS/SERVICES

In a highly competitive environment, with many operators, how do your customers perceive your current prices, the quality of your products and services, and the value for money they receive?

How understanding would your customers be of price increases on discretionary purchases, such as meals out, days out and holidays, in the current inflationary environment. Just as important, how much more would they be willing to pay for these?

Knowing the answers to these critical questions is key to formulating a successful pricing strategy that balances the need to recover input cost increases, with what customers are able/willing to pay. Ask customers these questions directly to help inform your pricing strategy.

3

DEVELOP OPTIONS FOR PRICING THAT TAKE INTO ACCOUNT INPUT COST INCREASES, DIFFERENT CUSTOMER SEGMENTS, AND DIFFERENT SALES CHANNELS

It's unlikely that a "one-price-fits-all" strategy will work to optimise cost recovery and minimise customer attrition. Different products, customer segments and channels are likely to have different price elasticities. As a result, price changes will need to account for the price sensitivity in each of these variables, the competitive intensity across the store estate or geographic markets, and the level of customer convenience and the cost to serve associated with the different channels.

Model different price change options across menu items, ticket prices and ancillaries to understand the financial outcomes of different strategies. Variables include the timing, value and number of price increases over a relevant period of time.

4

DEVELOP A COMPREHENSIVE IMPLEMENTATION STRATEGY THAT MINIMISES RISK AND MAXIMISES OUTCOMES

Implementing "big bang" price increases without testing these with customers first rarely works out well.

Define a sample set to test from each customer segment, service cluster (i.e. restaurant stores, hotels, or markets) and sales channel e.g., in-store, online booking, Delivery). Test the proposed price changes with this small sample of customers first to gauge their reaction. Once test results are clear, introduce price changes using a logical rollout plan that lets you constantly monitor and react to any unexpected, adverse responses from customers.



"It's unlikely that a "one-price-fits-all" strategy will work to optimise cost recovery and minimise customer attrition."

RESTRUCTURING AND CASH MANAGEMENT

HOW TO NAVIGATE CASH CRUNCH POINTS AND HAVE THE MOST EFFECTIVE CONVERSATIONS WITH LENDERS AND SPONSORS, AS GOVERNMENT ASSISTANCE COMES TO AN END AND COMPANIES ADJUST TO 'NEW NORMAL' OPERATIONS:

1

DRIVE A CASH CULTURE ACROSS THE ORGANISATION EMBEDDING CASH AS A CENTRAL PILLAR OF MANAGEMENT INFORMATION

Ensure the tone from the top and strategies support a cash culture alongside the top line/profitability agenda, effectively filtering this down through the organisation to a behavioural level. Ensuring cash is a central pillar of MI will drive effective decision making, identify pinch points and (if appropriate) runways to develop plans.

2

CONSIDER STRATEGIES TO ADDRESS ONEROUS LIABILITIES AND REDUCE CONTRACTUAL OBLIGATIONS

Consider the strategic use of restructuring tools to address onerous liabilities (for example extensive lease obligations or unprofitable contracts) and set the business up for long-term success.

3

FLEXIBLE FORECASTING IS CRITICAL IN A CHANGING ENVIRONMENT

Operators need to develop robust and flexible forecast methodologies and tools, alongside input from across the business to respond to changing regulatory and operating environment. Successful operators need regular 'horizon scanning' and scenario planning to anticipate future challenges, particularly given changing travel restrictions and lockdowns.

4

ENSURE EARLY ENGAGEMENT WITH KEY DECISION-MAKERS

Regular open dialogue with key financial stakeholders helps to build confidence in a management team. If problems are forecast (covenants/liquidity/refinancing), early engagement is critical to allow time for discussion, supported with a well-developed strategy that is backed up with robust/clear financial information and business plans.



“Regular open dialogue with key financial stakeholders helps to build confidence in a management team.”

FOR MORE INFORMATION CONTACT:

Beatrix Morath
Managing Director
+41 79 286 93 14
bmorath@alixpartners.com

Steve Braude
Director
+44 7825 755 017
sbraude@alixpartners.com

Graeme Smith
Managing Director
+44 7932 158 222
gsmith@alixpartners.com

Craig Rachel
Director
+44 7919 128 328
crachel@alixpartners.com

ABOUT US

For more than 40 years, AlixPartners has helped businesses around the world respond quickly and decisively to their most critical challenges – circumstances as diverse as urgent performance improvement, accelerated transformation, complex restructuring and risk mitigation.

These are the moments when everything is on the line – a sudden shift in the market, an unexpected performance decline, a time-sensitive deal, a fork-in-the-road decision. But it's not what we do that makes a difference, it's how we do it.

Tackling situations when time is of the essence is part of our DNA – so we adopt an action-oriented approach at all times. We work in small, highly qualified teams with specific industry and functional expertise, and we operate at pace, moving quickly from analysis to implementation. We stand shoulder to shoulder with our clients until the job is done, and only measure our success in terms of the results we deliver.

Our approach enables us to help our clients confront and overcome truly future-defining challenges. We partner with you to make the right decisions and take the right actions. And we are right by your side. When it really matters.

The opinions expressed are those of the author(s) and do not necessarily reflect the views of AlixPartners, LLP, its affiliates, or any of its or their respective professionals or clients. This article World in Motion – How to ride the growth tailwinds while navigating the inflation headwinds in travel, hospitality and leisure during 2022 ("Article") was prepared by AlixPartners, LLP ("AlixPartners") for general information and distribution on a strictly confidential and non-reliance basis. No one in possession of this Article may rely on any portion of this Article. This Article may be based, in whole or in part, on projections or forecasts of future events. A forecast, by its nature, is speculative and includes estimates and assumptions which may prove to be wrong. Actual results may, and frequently do, differ from those projected or forecast. The information in this Article reflects conditions and our views as of this date, all of which are subject to change. We undertake no obligation to update or provide any revisions to the Article. This Article is the property of AlixPartners, and neither the Article nor any of its contents may be copied, used, or distributed to any third party without the prior written consent of AlixPartners.