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EMBARK PODCAST #6 PRODUCT INNOVATION

VIDEO TRANSCRIPT

Jonathan Sullivan: Hello everyone. And welcome back to our Embark podcast about travel, trust, and technology. What is it that's changing our future in the travel industry? Today, I, Jonathan Sullivan am joined by Pat Connolly out of our New York office, to talk through a couple of issues in the travel business: about how they can in a creatively pragmatic way, reinvent themselves on the back of what is what I believe an existential crisis for the industry. And Pat's one of our Accenture leaders. He has a long history in the digital end of our business has worked across travel and retail. And in our conversations in the past, I've always been amazed by the wisdom from outside travel, he can bring to travel and the wisdom from travel he takes to some of our other clients. So welcome aboard Pat, really looking forward to this.

Padraig Connolly: Thanks Jonathan, for having me.

Jonathan Sullivan: So just setting the stage for this: the world has recovered. Almost every industry is in one form or another back to growth. Even retail, over the course of the summer has really recovered from where it was before. And we're starting to see supply shortage just everywhere. The cargo industry is as hot as it's ever been. Here in the UK this week, we have a shortage of fuel truck drivers and people are queuing up at gas stations, because we're all back to work. We all want to work. And travel companies are looking around. They're not yet quite back. How do we think they should cope in this world where everybody else is growing, where business travel isn't quite there yet and where they need to rebuild and actually reinvigorate the business for their own staff and for their customers? What do you think they should do to stay relevant?

Padraig Connolly: I think it's a great question, right? I think there's been really extensive kind of commentary out there. Predictions on the future or recovery of business travel. And I think, some folks think it's going to recover largely others think it's not.

I do think that there's a number of different factors that are going to play significantly into this at the least of which is both sustainability as well as frankly, the economic profile of the companies that had historically invested heavily in business travel. So even if you put the employee experience element of it aside and, and say that business travel will be some way shape or former reality of our future.

I think that the sustainability element that organizations are increasingly being held to in reducing their carbon footprint along with the reality of the fact that, cutting business travel costs that significantly improved the margin profile of a lot of businesses during the pandemic in a way that shareholders may or may not be willing to, to accept kind of a back to normal in the future. So I think there's a number of factors that are really driving what the future of business travel looks like. And so I think a lot of organizations that we see in travel and outside of travel have started thinking about, optionality, right?

Hey, if things returned to the way they work great, but what if they don't and what does our business look like if it doesn't, right? And I think, one of the factors that is really playing out, is organizations that have historically been heavily reliant on a single kind of consumer pattern, um, in this case business travel. And in effectively thinking about how they start to find growth or find value, outside of that kind of very predictable historical pattern.

And I think one of the things that's interesting about what happened during the pandemic was that it wasn't an economic event, right? It wasn't like the mortgage crisis in the US a decade or so ago, it wasn't the housing crisis or anything that's happened historically globally, as a single economic event, it was really kind of an environmental event.

Um, so the idea of value or kind of a contraction of the economy, actually, wasn't what precipitated a lot

of the business challenges. Because the value of the company didn't necessarily construct. There wasn't an overvaluation of different kinds of assets. And so there was an opportunity to basically capture the same amount of value as it shifted in terms of people's behaviors. So what happened in retail obviously is, people didn't need to stop buying the things they were buying before. Right? If you think about the grocery store profile or the retail health profile et cetera. People still needed to buy all of the things that they've historically bought. The challenge was they needed to go buy those things in different ways than they do today. And the organizations that were set up to respond to that…the organizations that had invested before the pandemic in things like omni-channel offerings and things like better customer experience, the foundational elements to creating a business that can operate seamlessly between digital and physical, were the ones who effectively thrived and took a larger share of that market through the pandemic, and are now more well-positioned coming out of the pandemic to take a larger share of that. And I think in travel, you're seeing much of the same things. There are certain patterns like business travel that may never recover to the state they did previously, but it's really how these organizations reposition themselves to take advantage of what the future of travel looks like coming out of this.

And I think that's as much creating new ways to transact, new ways to interact with some of these global travel brands, as it is really building an organizational foundation that drives more adaptability both now and in the future to respond to not just economic events, but really environmental impacts that are actually going to start to shift and change the profile of the business and the way that business operates today.

So I think there's a lot of soul searching travel companies have to do not just about the current recovery and what things look like in 3, 6, 12 months, but also how they organize themselves to be more resilient in the future.

Jonathan Sullivan: Yeah. There's a lot to unpack in what you just said. And let's take that bit by bit. So, the retail companies that managed to not just survive, but come out of this pandemic stronger than before, they're the ones who could cross that digital,

physical boundary and serve their customers, provide their services in a different way. And I think for a long time, travel companies have the digital boundary is just around. How do I collect money for my customers? How do I get them to buy? And a little bit around how do I operate some of my internal machinery?

Whether that's my hotel back office or my airline operations center…there hasn't been that idea of merging the physical and digital together to break through some of the constraints that have limited travel. So, if you were to think through that constraint paradigm that, big retailers have managed to step through, where square footage, and number of employees is really what drives sale. But now it's design, and central inventories and supply chains that can help drive traditional retailers to do things far more far better. The idea of same sort of sales actually as a kind of a metric from a past. How do we start to get travel companies to think through that pragmatically for their business? When it is really about physically moving people from one place to another.

Padraig Connolly: Yes. I think it's a very interesting topic. Right. And I think one that…there are some lessons learned from other industries. I think obviously travel is an interesting industry because it's, it's both heavily reliant on a very kind of customer-centric way of operating and working. But it's also, especially in the airline space, like largely logistical and operational business, right? The idea of effectively moving thousands of planes from one point to another, with as close to a hundred percent on time as possible is as much a logistics business as anything. And, I think a lot of times to your point, these organizations get so overly focused on the operational or logistical side of the business that sometimes they lose out because the customer experience becomes a by-product of that. And I think what you're starting to see in retail are some similar things.

I think, retail had historically been similar in terms of a focus on supply chain and focus on, vendor relationships in terms of store format, merchandising, assortment, all, all kind of the classic mechanisms to be able to take inventory in, assort it or merchandise it appropriately for the customer, and then sell as much as you can in a given kind of

trip.

I think the retailers...digital, in that case was really just a channel, right? I think, digital represented a new front door into the store digitally, or it represented, a better way to market to new customers. But I think what you started to see in retail, and I think increasingly you're seeing bear out in some of the more successful travel players is not just digital as a channel. Bbut really digital as kind of a way of working. Right? How are you using digital to more effectively use your frontline employees as an example. Whether it's the folks who check you in at a hotel or at the gate at an airport or whatever the case may be. Digital as a way to take those employees and makes them more powerful and more effective at that job.

Digital as a way to more effectively connect the experience, regardless of what channel that you're interacting with. Digital as a way to connect across disparate experiences. Where we've done work both with retailers and with travel companies around...you have this base of loyalty to a brand of loyalty as a currency.

How do you actually start to take that and extend it beyond the hotel room or extended beyond the individual store you're shopping to actually have that currency in that loyalty brands to transcend other categories. To do that, there's a massive amount of foundation you need to be able to operationalize that. So I think investing more in operationalizing digital as a way of working as a way of doing business as a way of interacting with consumers, as opposed to digital just as a channel strategy. I think is an important step forward for a lot of us in travel.

Jonathan Sullivan: Yeah. As you say that, I'm thinking through some of the work that I've been doing over the last 18 months. And one of the examples we did was it was around, onboard retail on an airline. And how do we break the physical constraint, and you can really only sell what you put on the aircraft. How do we break the physical constraint? You can really only merchandise what you can print on a card that sits in the seat back pocket and actually expand out inventory, but also expand out that interaction with the customer so that it isn't: I collect what I can collect when I sell the ticket. And then I collect what

little I can collect when the customer's hungry and I've got them trapped in...in my tube, but more around: how do I, how do I use my ability to connect to the customer before, during, and then even after the flight to sell them what they really want at the time?

And people aren't going to order food five hours before a flight, unless they're super anxious about flying. Nobody likes to order a meal five hours before they do, and they're not going to want to shop for goods that they could get on the airplane four or five hours before flight. Because we don't do that. We tend to like to live in the moment. And it was a lot of hard thinking on our side: how do you break those constraints in such a way that you could deliver that experience? And if you think it through, you're no longer constrained just by the space you have in the catering cards.

And let's be frank: Onboard retail was about the world's worst car boot sale. As we say in the UK, it is a tiny little retail shop that never changes that never rotates. It gets updated twice a year and we imagined a new way of doing it. And then we started to work with some really big and good partners to say: how do we put this together?

And so in this case, we were working with Microsoft. Another specialist technology vendor who knew how to do inside the aircraft connectivity, and then some payments providers to say: how do we put this all together? And then some supply chain specialists to say: how would we deliver this?

And then started to work through with the airport folks. So how do we get products to people when they order on an aircraft and it's not there, so they don't have to wait when they arrive. Before we knew it, all of a sudden, we had kind of a new business. You could easily look at it and go, geez, that's 10, 15, 20 times better than what we had before, because we thought digital isn't just about selling, but about breaking those constraints so that we can extend and bend the experience.

There's gotta be more we can do across all the travel with that paradigm without thinking it's creative, it's pragmatic. It's not expensive to implement. But it takes the power of what's being developed in other

industries and brings it right back into travel.

Padraig Connolly: Yeah. A couple of reactions to what you just said, which I think is spot on. First of all, that kind of philosophy of creative pragmatism I love. Because I think there's a lot that's happening in travel right now. That's, purely blue sky thinking may not be the best way to tackle. Where growth comes from or recovery comes from, but it does have to be rethinking some of the problems that you're solving, not just solving them in the same way that you did before.

So I think that philosophy of creative pragmatism is very kind of tone setting for the industry right now. I also think your point around, kind of retail in the tube... it's interesting. Because there's very few retailers who have to think about inventory constraints as a function of fuel price, right? I mean, they're balancing the idea of their kind of their real estate costs in some respects are a function of how heavy their inventory is. So, I think that's always been an interesting trade off as well as it's not just about what you're carrying in the tube, but it's about the trade-offs you're making with the rest of kind of the revenue per available seat mile or how much you're making off of each seatbelt.

So I think all that's interesting. I think one of the framing mechanisms a lot of travel companies need to start doing is moving away from again, kind of solving problems the way they historically solve them.

How much can we fit on the car? How much can the flight bear while maintaining fuel cost? How do we move stuff up and down the aisle in an appropriate way and in kind of the classic constraints of what you're able to kind of merchandise or sell on a flight. And we've talked with a lot of our clients at Accenture around this idea of moving from total addressable market to total addressable need or total addressable problem. And what we mean by that is to, to stop thinking strictly about the constraints of the way that you would sell things on a flight today.

And as you pointed out earlier, think about: how are you solving for a need that I may have around a satisfying meal before, during or after a flight. Or

getting to where I need to get to once the flight lands. Or figuring out how I use time and flight in the most optimal way possible, whether that's inclusive of retailer or what...But you're thinking about the needs that I have as a traveling consumer.

And you're thinking about how to operationalize the business in a way that's going to actually drive the most value out of me as an individual. We talked a lot to travel companies in particular about this. Of shifting from a mindset of like rev par or to a mindset of like average revenue per user, right. Which is a metric that marketplace companies use, or platform businesses use, right? The Facebooks of the world, the Amazons of the world, even the Airbnbs of the world, look at, you know, how much, how profitable is each consumer or user that I have. And I think that mindset shift helps organizations start to think about how do we structure ourselves?

Whether it's the logistics or thinking differently about supply chain or what technology partners that we're using really? How do we operationalize ourselves or structure ourselves to take advantage of serving a customer in a unique way. That's actually going to make us the most revenue, or the highest kind of margin expansion off of a given consumer interaction. So, I think that shift in philosophy helps organizations start to structure themselves around what's the revenue and profit associated with a given kind of need state. And how do we serve that in a unique way, as opposed to the classic mechanism of: Hey, we have a tube and a cart in, how do we kind of use that in the most often way?

Jonathan Sullivan: As you say that, I start to think about all of the orchestration problems that you'd have and in hospitality or in an aviation to consistently deliver a service that is ever more complicated over time. And when I talk about this with other people, sometimes I wonder if the aviation industry has managed to suffer through so much pain for so long with the constraints that it's put on itself, around what they know about passengers and the various shortcomings of the integrations they have at different spots that they no longer dare to dream about: well, why shouldn't I do it another way. We're always going to have the central ordering structures within the business.

That's important for revenue with so much else can be driven around and through cloud orchestration. And I don't yet see many travel companies jumping to that, right. When they actually need it.

Padraig Connolly: Yeah, I think there's two interesting things about what you just pointed out. But the first was the idea that these organizations, especially airlines have failed to dare, to dream or fail, to evolve in a material way. Because they haven't had to, or regulation has put them in a position where they couldn't really evolve in a way that is consistent with other businesses or industries that are maybe a little less regulated. I think that one thing I've always been fascinated by is some of the more interesting revenue growth and business growth for the travel industry has come as a function of historical precedents that have been set around kind of negatively impacting the customer experience. So what I mean by that is if you look at, timelines like post 9/11, where increased security measures came into place. Your ability to carry certain things on board were restricted. The sequence in which you boarded the flight was restricted. How quickly you make it through security is restricted.

All of those things effectively, there were new regulations put on people. And that experience actually was deteriorated quite significantly. And you see a significant part of airline revenue streams now are kind of what their margin profile looks like. Are these quote ancillary services that they're monetizing better, really just the re-introduction of things that existed previously in the travel industry that they're just bringing back and now they're monetizing, right? Your ability to fast forward to where you board the airplane. And your ability to carry a particular bag on a plane in the overhead, effectively have a bag right along that's overweight or anything like that.

Right. They they've actually gotten back to what I would call a parody customer experience, but they've monetized it along the way. Even Delta airlines, who's introduced a subscription model as a new revenue stream around the idea of saying: well, I want access to certain things that you might have as a more frequent flyer, that I don't have today. So their ability to actually monetize things that are not necessarily or new opportunities to improve the

customer experience, but monetize the gap that was created as a function of disruptions in the industry historically has been interesting. But I think they're going to have to go beyond that.

I think they're going to have to go into places that they haven't necessarily historically stretched to continue to try the type of growth, both short term, more pragmatic growth and long-term growth that I think shareholders are expecting. I think they're going to have to start to evolve a bit more in that respect.

And I think to your point around what role things like technology and cloud play in that, if you think about the way several of the hospitality companies, the Marriotts of the world as an example, where decades ago, they made a decision to move from an asset heavy model to an asset light model. Where they effectively divested of all of the, the actual real estate they owned. Right. And they effectively created a model where they're delivering the customer to those real estate owners. So that model was widely celebrated and obviously is helping them in many respects right now because they don't have the drag of the, of the real estate ownership on their books.

But I think the same opportunity exists today. The future of kind of an asset light model, what you see with companies like a lot of these platform businesses, like the Airbnbs and Amazons of the world. Because their version of asset-light isn't necessarily real estate, but it's technology, right?

So their ability to, to build quickly, off of existing services that that already exist in from cloud service providers, um, the Microsofts, the Amazons, the Googles of the world have allowed them to actually not over invest in technology, not structure themselves in a way that inherently slows them down because they have legacy technology that they're reliant on and invested heavily in.

It actually allows them to move much quicker and actually adapt to those shifting consumer needs because they're not overly reliant on kind of legacy technology. So, I think that idea of leveraging cloud services, as opposed to historical kind of enterprise technology architectures as the new asset light

model, I think is an interesting evolution of the travel industry.

Jonathan Sullivan: It's a, it's an interesting way to think about IP ownership, right? These, those companies, they may not own the full stack of IP, but they own the orchestration internally, at least as a trade secret on how to put it together, and keep making it better. And they own all their own customer data where they control it. I'm not sure who owns any real customer data, these days of the customer themselves. And that mentality, I don't yet see across travel companies in general. I see the mentality of: I don't really want to be signed up with these big guys, because I'm worried that they will take sort of position advantage against me in a future negotiation.

And so much of travel is about delivering it at low cost. And I get worried about that, or: I think I'll continue to work with a bunch of small, very, very small partners and perhaps one of them will do something great. And then I can get a little bit of interest out of that. And that can make me maybe unique without thinking about: I've got all these small partners, I've got to keep it orchestrated and maintained over the long-term to deliver consistent customer experience.

It's a different kind of IP that those platforms have created. And it's just the right kind of IP. It's far less capital invested to drive their business. And maybe you could do that in travel companies by... not aviation, so a special case, you'll never separate that aircraft, and the scheduling and the operating from the marketing, they're there too entangled.

But we perhaps can build products across the customer domain and across the employee domains. So, they may operate as more like an asset light and a asset heavy version of the same company. And through that orchestration deliver a better experience. Perhaps I'm just step way off the deep end and sort of theory, but maybe we could make this real.

Padraig Connolly: Look, I think you're hitting the nail on the head, right? I mean, I think if you look at some other, we'll call them more modern, not necessarily more successful, but more modern businesses like an

Uber: you know, Uber made a decision that as you pointed out, there is, there is IP that they need to own.

That's going to differentiate them against the Lyfts of the world, but even other areas that they're moving into around logistics, around delivery, et cetera. So they decided: well, what's going to be our IP that's going to differentiate us? What consumer data do we need to own? That's going to be our differentiated IP.

That's going to allow us to grow our core business and then move into some other adjacencies where we want to compete with the UPS's of the world. The FedEx is the world, the Amazon's of the world. But they did that in a way that, to your point, they made strategic decisions around what do we need to own and what do we not need to own?

And I think their approach was: certain cloud services or cloud service providers are, are almost commodified in the sense that they don't want to be overly reliant on a single cloud service provider because they always want optionality and no shareholder is going to be super interested in being so overly reliant on a third-party provider that you could completely shake the business by increasing rates or.

Or having too much leverage, but they've made decisions along the way to say, there are things we need to own, and there are things we don't need to own. And those things we don't need to own instead of us building for the sake of building and decreasing leverage of other parties, we're just going to make strategic decisions that's going to allow us to move, move quicker. So, I think that point around really thinking through like both now and in the future, what do these travel companies need to own to make them differentiated, to create shareholder value versus what don't they need to own. And I think making those strategic decisions as they go forward is going to allow them to move more quickly.

It's going to allow them to be, as we talked about in the beginning of this conversation, a more resilient business, a business that can actually adapt and react to the circumstances that we've just been through

over the last 18 months, puts them in a position for longer-term success. I was talking to somebody at the beginning of the pandemic and one of our hospitality clients, and we had been in a let's say month and a half, two month long discussion around how to roll out a new feature on one of their digital channels, effectively let somebody know if a hotel was, was even open, right? You could book hotels that weren't open.

And it took like two months to figure out how to roll that feature out. And while we were talking about it, I did Uber eats delivery to my house and I noticed that there was a new feature. Well, that Uber eats that basically allowed me to say: Hey, instead of having the driver ring my doorbell and come into my house, which I probably don't want them in here, given current circumstances, you know, that there was an option to say: Hey, leave this on the front door and take a picture of that. I know it's there. They rolled that feature out. And that's like the agility of the business that they can work with because of some of the things that they decided, here's what we need to own. It, here's what we need not to own. So ,I think that agility in the business and what it means to leverage third-party technology companies for existing provision services versus figuring out: what do we want to own and how do we want to differentiate?

Jonathan Sullivan: Okay. Well, let's close by bringing it right back to that creative pragmatism. What's your advice to a leader of a team or a group or a department or a CEO of one of these companies to get started on changing that mindset?

Padraig Connolly: What I would say is there's probably three things, right? The first is reorient yourself around what problems you're trying to solve. Which is different from: how do we get through a downturn in recover to be the exact same business we were before? I think a lot of businesses, as challenging as this last 18 months and probably the next several months will be, it's an opportunity to emerge as a fundamentally different business, that's more fit for purpose for these types of circumstances. So, the first I would say is: well, what problems are we trying to solve as a business? And it may not just be to get back to where we were before.

The second is to then think about: well, how do I organize myself to solve those problems? Because we've seen a lot of instances where organizational structure, incentive structures, KPIs, um, operating models are all things that get in the way of evolving the business to be more fit for purpose, for what needs are solving in the future. And then think about: what do we need to create? Everything from thinking differently about more traditional kind of operational logistically based businesses to the hospitality companies that are asset, like what do we need to create as you point pointed out to differentiate in a more resilient way in the future. Is it about ecosystem plays where we want to be...we want to create seamless experiences across travel. That's going to leverage the assets we have across technology, data brand, et cetera. Is it about kind of going deep in a niche, really owning a part of that travel experience, but what do we need to effectively create?

Whether it's customer experiences, whether it's a more modern technology architecture, whether it's thinking about employees in a different way and empowering them in a different way. What are the things that we need to create to take ownership of those experiences that's going to effectively help drive the business in the future.

So, I think so many companies and travel are struggling with the fact that they're trying to get their head above water. Many of them have had to do some significant restructuring from an employee standpoint. And I think, as a result of that, have a hard time pulling back and saying, well, this is more than just about how do we get through this?

This is about how do we emerge differently. And so building the space to think about that and think about how they may emerge as a materially different business, that's more resilient in the future. I think in going through those steps to get there is an important part for every travel company and frankly, every company outside of travel as well as, as we think about what the future looks like.

Jonathan Sullivan: Great, great. Can't wait to actually meet you in person. One of these days when I get back in New York,

Padraig Connolly: Looking forward to it, my friend,

Jonathan Sullivan: Thank you very much for spending the time with us today. And, you know, as always every time I talk to you, I get smarter, um, feel more hopeful about the future of what could come.

Padraig Connolly: Yeah. It's been a pleasure. It's an exciting time.

Jonathan Sullivan: Thank you all for joining us. Tune in again next time. When we talk about travel tech and trust.