McKinsey & Company

The Next Normal

The future of hotels: Customized experiences, sustainable practices

July 2023

When you walk into your hotel, the staff will greet you by name, know your travel preferences, and anticipate your needs. Almost every aspect of your stay will be personalized to your tastes, and you can reconfigure your room at any time to make it suitable for work, exercise, socializing, or sleep. For all leading hotel brands, the well-being of both guests and employees—and the health of the planet—will be top priorities. Welcome to the hospitality industry's next normal.

In this edition

2 The hotel of the future

In the 2030s, the best hotels will offer highly personalized guest experiences, sustainable travel options, and attractive employee opportunities.

4 Hotels in the 2030s: Perspectives from Accor's C-suite

Three hospitality executives envision a future in which hotels are sustainable, tech-enabled hubs for travelers and locals alike.

8 Bringing fintech to travel booking

Hopper has acquired 100 million mobile users by offering consumer-friendly financial products and a gamified app experience, according to cofounder Frederic Lalonde.

12 Sonder's Francis Davidson on the future of hospitality

The inaugural installment of the *Travel Disruptors* series spotlights an accommodations company that wants to use design and technology to build a better-traveled world open to all.

17 Charting the future

Hotels in virtual worlds?

18 Related reading

Margaux Constantin

Vik Krishnan

Matteo Pacca

Steve Saxon

Caroline Tufft

The hotel of the future

In the 2030s, the best hotels will offer highly personalized guest experiences, sustainable travel options, and attractive employee opportunities.

How will hotel operators use new technologies, respond to travelers' changing needs and preferences, and become more sustainable? Five leaders of McKinsey's Travel, Logistics & Infrastructure Practice envision what the hotel experience might be like in the 2030s. The following transcript has been edited for clarity.

Convenience and customization

Caroline Tufft: The big change that I anticipate, more than anything, in hotels in the future is that every single pain point will be removed. There will be no check-in line. There will be much better, more flexible options—you won't have to wait until 4:00 p.m. to check in.

Vik Krishnan: As you walk in, the hotel knows why you're there. It assigns you your room through your phone, so you don't have to stop by a front desk.

Matteo Pacca: If you think about it, we use data in hospitality very, very little. We can customize emails, we can customize promotions—but the customization of experience, for now, is a rarity. I believe we're going to see much more of that going forward: the intensity of the light in your room, the coffee you will find there, the installations in the bathroom, the shower, and so on.

Steve Saxon: The biggest growth in travel is going to come from developing markets, which have not been hotels' core markets to date. Most of those travelers are not going to speak English. Every hotel should have a mobile app that can automatically translate a wide range of languages.

What future travelers will want

Margaux Constantin: How hotels think about programming will be quite critical. What is appealing to the younger generation is this notion of a unique experience that is not replicable and that is one moment in time. For example, there might be a hotel that's hosting a yoga retreat with some famous teacher, and it's only for one week—and so you want to go there.

Vik Krishnan: The reality is that younger generations actually want differences. They want their hotels to reflect the environment and the location in which they're physically situated, as opposed to having a sense of sameness. So, how can hotels integrate local elements? I think that is going to become pretty important as well.

Caroline Tufft: I think hotels have emphasized spas and other well-being experiences, and I can see there being scope for even more of that thinking: everything from how they evolve their menus to how they think about the use of light and technology in the room.

Matteo Pacca: We talk a lot about virtual reality, 3-D glasses, and other technologies. I think we'll see opportunities to test your room before you get there, in ways that are much more immersive than they are today.

Steve Saxon: The room itself can have automation. The furniture shifts around and can be converted to a variety of uses. In the day, it can be for meetings. It can be for parties. Then, at night, the room can transform into a great place to sleep.

The sustainability imperative

Vik Krishnan: We expect the imperative around sustainability to only increase in the hotel of the future.

Matteo Pacca: Guests—whether they're business guests or leisure guests—will look for guarantees that they are in places that respect the environment. And they will be more demanding, even before regulation steps in. The demand for sustainability will cover everything: the materials from which hotels are built, the way the food is processed and served, and so on. Sustainability will be a big segmentation factor for winners and losers.

Steve Saxon: Sustainability should be absolutely top priority. Hotel rooms will have sensors to know: Is there a person in the room? And if so, what is the person doing? Therefore, what does that mean we need to do in terms of temperature control? Because the largest source of energy usage in a hotel is the HVAC systems.

Talent matters

Vik Krishnan: The hotel of the future is going to have to be a responsible employer. Many hotel jobs are very, very hard. They're not hyper-desirable.

Margaux Constantin: There's a big thing with Gen Z around exploration of alter egos—it's the fundamental belief that "I'm more than just one person." The younger generation of employees ideally would be, for example, a concierge on Monday. They would be a waiter on Tuesday. On Wednesday, they would be working from home, managing the social media community of the hotel. On Thursday, they would be back doing concierge work. Then they wouldn't mind doing Friday evening room service.

Matteo Pacca: Hospitality is about experience. Most of the experience is actually delivered by people—and people can only deliver a fantastic experience if they're happy, relaxed, well paid, and well trained. So, winning will also be about the capability of attracting and retaining the best talent to give the best experience to guests.

Margaux Constantin is a partner in McKinsey's Dubai office, **Vik Krishnan** is a partner in the Bay Area office, **Matteo Pacca** is a senior partner in the Paris office, **Steve Saxon** is a partner in the Shenzhen office, and **Caroline Tufft** is a senior partner in the London office.

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July 2023 | Interview

Hotels in the 2030s: Perspectives from Accor's C-suite

Three hospitality executives envision a future in which hotels are sustainable, tech-enabled hubs for travelers and locals alike.

Alix Boulnois

Damien Perrot

Alexander Schellenberger

As one of the largest hospitality companies in the world—and the largest in Europe—Accor is both an observer and a key player in the evolution of travel. Its expanding portfolio of more than 40 brands now encompasses over 5,400 hotels in 110 countries, with a workforce of more than 290,000 people. The company says it seeks to "reimagine hospitality" as it anticipates and caters to travelers' changing needs and expectations.

In June, McKinsey's Aurélia Bettati explored the future of hospitality and travel in interviews with three Accor executives—chief digital officer Alix Boulnois and, from the company's premium, midscale, and economy brands division, chief marketing officer Alex Schellenberger and chief design, technical services, and innovation officer Damien Perrot—at Accor's headquarters near Paris. An edited version of their conversation follows.

McKinsey: People's travel habits changed a lot during and immediately after the pandemic. How do you think travel—and hotel stays in particular—will change in the coming years? Paint a picture of the hotel guest experience in the 2030s.

Alix Boulnois: When I think about the hotel experience in the 2030s, I think of augmented hospitality, which is this idea we have at Accor that the hotel is more than just a place to stay. It's not just a travel destination; it's a location people can enjoy even if they live in the neighborhood. You can eat at the hotel, go to the spa, or enjoy the gym. In the future, a ton of other services could be offered at the hotel, like your bank, your mail, your laundry, and so on.

Damien Perrot: The hybrid model—where the hotel becomes a place dedicated not only to travelers but to locals as well—is an important and growing trend in the hospitality sector. In fact, I'll make a provocative prediction: in the 2030s, many people will choose to live in hotels instead of in apartments.

Just to give you an example: today, you may have a dining room in your apartment, and you invite people to come and share a meal there perhaps once a week or once a month. Do you need those dining-room square meters every day? No. So you don't need such a big apartment; you can live in a smaller place so long as you are able to get certain services when you need them. And a hotel can definitely meet those needs.

The rise of the 'bleisure' traveler

McKinsey: That's a fascinating prediction—and one that Accor clearly believes in, given the company's recent investments in branded residences. What about business travel? What trends are you seeing among business travelers?

Alex Schellenberger: Business travel is rebounding. We're almost, but not quite, at prepandemic levels. But we also see that the nature of business travel is changing. This trend of what we call "bleisure"—mixing business with leisure—will probably continue for the next few years. Looking ahead to the 2030s, it's likely that all these different elements of life—business, private life, play, going to restaurants, meeting friends—are going to intertwine.

That means hotels will need to provide multipurpose rooms and spaces where people can work, eat, and socially connect throughout the day. Now that many people can work from anywhere, hotel rooms need to be able to transform in a couple of minutes, so that you can potentially have a small in-person meeting with some of your colleagues or, at the very least, you can have a proper, professional video call.

Damien Perrot: Thanks to remote working, many people can now visit a place and stay there for a longer time. People would like to reduce their carbon footprint, but they still want to discover the world. So, for example, instead of going to Indonesia three times during your life, you might decide to go only once and stay there for one or two months. Instead of just seeing the architecture or visiting all the tourist attractions, you can take the time to live in and experience the country. So the hotel—whether it's a city hotel or a resort—needs to be a place where you can work in very good conditions. Today, the extended-stay business in the hospitality sector is booming. This trend will accelerate. We plan to make our extended-stay network three times bigger in the next three years.

Alex Schellenberger: Another trend we've seen arising since the pandemic is a strong focus on mental health and well-being. As a hotel company, we have a responsibility to help our guests recharge, sleep better, and feel restored when they stay with us. In the past, you might have felt more tired returning from a business trip. Now, it's up to us to give you the opposite experience.

For example, one of our brands, Novotel, which caters to this bleisure segment, is partnering with the meditation app Calm. If you're staying at one of our Novotels, you'll be able to use the Calm app and, hopefully, get to a better mental state.

Sustainable travel choices

McKinsey: Damien, you mentioned that people are more concerned about their carbon footprint. What role will sustainability considerations play in future hotel design?

Damien Perrot: Sustainability is the starting point of everything we do concerning design. When we talk about sustainability, we are talking about not just reducing the carbon footprint and energy consumption but also improving the quality of work for the employees—so ergonomics is also very important to integrate into design. Sometimes, design becomes a word that just means, "It looks nice." But it's much more than that: design is a tool which, when used properly, can make a property very efficient in terms of guest experience, employee experience, and sustainability.

Alix Boulnois: I believe our hotels will have evolved in the 2030s, with sustainability at the heart of this change. We can imagine some hotels whose energy is powered in a different way, hotels that may choose not to have a spa, or where traditional comforts are transformed with the good of the planet in mind. This is already happening, and I think it's just going to accelerate.

Damien Perrot: Indeed, in the 2030s, the design and architecture of hotels will be completely different. Biophilic design, which increases connectivity to the natural environment, will completely shape the future of hospitality. A range of technologies, many of which already exist today, will be integrated into hotels to make them more self-sufficient.

For example, hotel facades will be inspired by nature. Using plants that are integrated into the facade, we will be able to retain the rain needed to maintain this vegetation. The glass used in the hotel's exterior will capture solar energy. Hotel rooms will get direct light from outside; hotel corridors and hallways will be more like promenades or terraces. A hotel will be like a landmark in a city—you might not even be able to identify it as a building at all.

Alex Schellenberger: It's no secret that the tourism and hotel industry is responsible for a big chunk of carbon emissions, so we have a big responsibility to lead in this sector. As of the end of 2022, 84 percent of our hotels had removed 46 different single-use plastic items, and we're continuing on our journey to achieve a full 100 percent.

We've just announced partnerships with Green Globe and Green Key, which provide eco-certifications of hotel operations. Our recent research revealed that 65 percent of travelers would opt in if presented with more sustainable travel choices. And we want to incentivize people to make more sustainable travel choices—so when people search for hotels on our booking platform, they'll be able to see sustainability certifications and labels, and the eco-certified hotels will appear as the first options.

We also offer, through our loyalty program, an option for people to donate their loyalty points to support sustainable causes. And, of course, we offer our guests the choice to forgo the daily change of bedding and towels. All of these little choices actually do help.

The technology of tomorrow

McKinsey: Another game changer across all industries is data and digital technology. How might the hotels of the future use technology to improve operations or guest experiences?

Alix Boulnois: Think about micropersonalization. You can imagine a world in which every single touchpoint with a guest is unique. On our digital channels, we'll be able to recognize the guest, know their history and their background, and contextualize what we show them.

But it doesn't stop at our digital channels. When the guest arrives at the hotel, we'll also use technology to provide hotel staff with information so that they can serve the guest in a personalized fashion. They need to be able to say, "Hello, Mr. X, we know you're traveling with your kids—and we know you love chocolate, so we've left some chocolate in your room," and so on. One thing that will be really cool is that we'll allow each guest to personalize many details of their stay: the temperature in the room, the scent, the layout, what side of the building the room is on. Technology will help make sure that we provide consistency across the entire customer journey and that we offer something distinctive for every single guest.

Damien Perrot: You will be able to book your room directly from the app, which will be personalized so that it can propose the best hotel and the best room for you depending on your preferences and the reason for your stay. You can also decide to go straight to the room with your mobile app, so the reception and transactional process will disappear if you prefer. That will free up the hotel staff to dedicate their time to helping guests in more active, less transactional ways.

Alix Boulnois: I also believe AI and, more specifically, generative AI will change the distribution of hotels in the future. Today, there is a lot of intermediation when it comes to booking hotels. The process is actually fairly traditional: people visit a website, they start a search, and they get a range of hotels to choose from. And everyone sees the same price at any given point in time.

In the future, some of this intermediation might disappear. You can imagine something way more fluid, where customers interact directly with the hotels through a generative-AI-powered marketplace, where they can see offers from the hotels and potentially trade with other customers. For instance, if you can no longer travel on the specific dates that you booked, you can resell your room to another customer. AI will show exactly the right hotel at the right price to every customer—so customer A and customer B won't see the same offers.

You could also imagine that when you're booking a trip, you see more than just the hotel and transportation options. In the future, you'll most probably be able to book experiences, restaurants, and activities in the area.

McKinsey: What about extended reality (XR), like augmented and virtual reality? In what ways do you see the hospitality industry using XR technologies?

Alix Boulnois: We're already seeing some usage of augmented reality and the metaverse to allow people to project themselves to a different location and explore new places virtually—but we don't see it replacing travel entirely. The technology is still very nascent: the helmets are still heavy, the goggles usually give you a headache after 30 minutes, the entry cost for a customer is still prohibitive. So augmented reality is not necessarily something that we're pushing in the near future. We are, however, exploring NFTs [nonfungible tokens]—we believe there's potential for us to use them to provide unique experiences and allow customers to auction them off or exchange them with one another.

Our role is to provide unique moments to our guests, and technology is super important to our ecosystem. At Accor, we are actively looking at many new technologies, especially AI—and, more specifically, generative AI—which we truly believe will shape the future of hospitality.

Alex Schellenberger: I agree. AI's impact is going to be huge, and that's true in marketing as well. It is certainly going to help us be more predictive. Based on the previous booking history of our guests, we'll be able to determine what they will like in the future, so we can make better suggestions to them about hotel brands, destinations, and guest experiences. We might soon be able to use AI to determine what our next marketing campaign should be.

But as a marketeer, I believe we need to keep the creativity, and AI will never be able to replace that. Marketeers must continue to be the voice of the guest and fly the flag for our customers. We need to continue to be the creative force that drives commerciality, because humans—not AI—will be the ones who can build strong and resilient brands over time.

Alix Boulnois is chief digital officer at Accor Group, where **Damien Perrot** is chief design, technical services, and innovation officer for premium, midscale, and economy brands, and where **Alex Schellenberger** is chief marketing officer for premium, midscale, and economy brands. **Aurélia Bettati** is a partner in McKinsey's Paris office.

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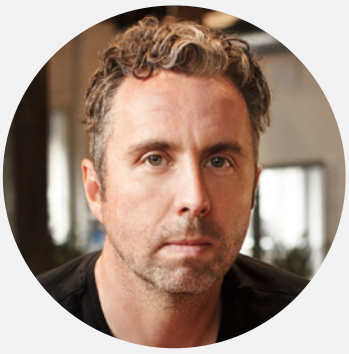
For more from Accor, see the videos accompanying this article on McKinsey.com.



Frederic Lalonde

June 2023 | Interview

Bringing fintech to travel booking

Hopper has acquired 100 million mobile users by offering consumer-friendly financial products and a gamified app experience, according to cofounder Frederic Lalonde.

The travel app Hopper launched in 2015, with the bulk of its initial revenue coming from airline ticket sales. A few years later, the company ramped up a travel fintech business—selling consumers algorithmically enabled financial products such as price-freezing capabilities and cancellation insurance. It has since expanded those offerings and made them available to other travel companies as a B2B service.

"When we started Hopper, we thought it would be very cool if we could become a billion-dollar company," recalls cofounder and CEO Frederic Lalonde. "Today, we're well above that." Lalonde says Hopper, which was launched in Montréal but has been fully remote since 2020, employs more than 1,500 people and has raised more than $750 million in private capital.

In this installment of *Travel Disruptors*, Lalonde spoke with McKinsey's Jean-Philippe De Montigny about consumer psychology, the power of gamification and social commerce, and the trade-offs involved in targeting younger travelers. The following is an edited transcript of their conversation.

McKinsey: Hopper began building a proprietary suite of travel fintech products in 2019. Can you share with us what initially triggered that strategy?

Frederic Lalonde: We launched travel fintech products out of necessity. In 2019, we were still a travel app with a focus on forecasting airfares. We were trying to cater to a younger generation. And we were having trouble making money. We had almost 20 million users, but we needed to find ways to increase the profitability of the company.

A lot of our competitors were relying on marking up baggage fees, or charging users for canceled trips. We saw a path forward that could benefit both consumers and airlines while also allowing Hopper to grow. What we did was take our expertise around forecasting airfares and use it to create a suite of financial and protection products—things like freezing ticket prices or creating refundability even when the ticket being bought wasn't refundable.

We made this move because we needed money. But it soon became a core part of our value proposition. And a lot of our customers now come to us, and come back, because of these financial products that we offer.

McKinsey: Can you tell us why these financial products appeal to consumers?

Frederic Lalonde: The consumer psychology around these products is fascinating. From our standpoint, all we're doing is taking a bet. We use an algorithm to determine, for instance, at what level we can freeze a ticket price. If some frozen prices go up, which means we lose those bets and the consumers benefit, it's OK because we've calculated our overall win/loss ratio.

But the consumers don't see it that way. They don't think they're making a bet against the house, like they would in a casino. They are just trying to remove a component of anxiety. We've found that understanding that psychological need is the key to selling these products. So rather than explaining the bet to them, we just fit it into their natural shopping flow. We portray it as paying a higher price to maintain flexibility and reduce anxiety.

McKinsey: What makes Hopper's financial products unique?

Frederic Lalonde: There are other companies that have dabbled in this. Airlines, for example, allow you to lock in fares for a few hours or a few days. Some other travel portals allow refundability.

But we offer our core fintech products—things like canceling for any reason—on both hotels and flights, and we allow customers to freeze prices on cars, hotels, and flights. The generalization of these offerings to every part of the travel wallet is something that nobody else has really done.

The second thing that makes this unique is the sheer scale. Almost half of our customers attach a financial product to a transaction. On average, they buy one-and-a-half financial products. So there's a core popularity there. It's part of what our customers expect from us.

The third element is our ability to price it. Launching a product that freezes a price is relatively easy to do if you're willing to lose millions of dollars a day. What's difficult is to do it profitably, and at a price that the consumer will actually agree to pay. We can do that because we have a massive data store that we use for our predictive pricing.

McKinsey: Hopper is also known for incorporating social commerce and gamification into its travel app. Can you share a few of the strategies you employ?

Frederic Lalonde: Because we are app first, we take a lot of our inspiration from the East. Companies like Meituan and Alibaba have developed a commerce model that's based on a mix of social products, financial services, and social commerce.

> ‘We engineer our fintech products to help younger customers get access to the same travel experiences that their parents might have.’

The foundational principle of social commerce is that you reward your customers for engagement. If they are actively promoting your brand, promoting a sale that you might have, playing a game, or just scrolling through your app, you lower the price of their commerce. This social-commerce approach has been a driver of Hopper's growth as a brand since the pandemic ended.

One simple example of social commerce is a streak. If you've never used our app before, we give you $20 in credit just for showing up. That creates a reason to book on Hopper instead of going back to whichever website you were previously using. And if you keep checking in every day, we will let you earn more each time just for engaging.

We've seen enormous numbers with this. About 700,000 people have claimed a streak to earn between $10 and $20 in credit. And they're ten times more likely to book [a trip] if they start this process. We find it's better for us to just give that money directly to the customers to activate them.

The younger, mobile-first demographic that we target allows us to pursue strategies like these. On mobile, there are many micromoments when you have downtime—perhaps you're waiting for your coffee or something—and we give you a reason to engage during those moments. This type of engagement model is very common in places like China and Southeast Asia, but it's much less common in the West. And it's becoming a unique value proposition for Hopper.

McKinsey: Are there trade-offs involved in pursuing younger customers who might not have as much discretionary income as an older traveler?

Frederic Lalonde: Hopper definitely targets a younger audience. About 70 percent of our customers are either in Gen Z or in the younger tranche of millennials. This does create trade-offs, because travel often costs a lot of money—it's not like buying a pair of shoes or some double-A batteries. We engineer our fintech products to help younger customers get access to the same travel experiences that their parents might have.

There are various age-related issues we deal with. For instance, if you're under 25, there's usually a fee that car rental companies will charge. We've negotiated with a lot of our car rental partners to waive that young-driver fee. We can do that because we aggregate a large enough customer base.

And what happens when those customers get older? They start buying more expensive tickets and hotel rooms. At that point, we hope, they'll already have adopted us as their core travel brand.

McKinsey: Hopper Cloud offers Hopper's fintech products to other travel companies. What was the reasoning behind moving into B2B?

Frederic Lalonde: We saw that the financial products we offer on Hopper were not only generating income for us but also unlocking new customer spend. In North America, when a customer comes to Hopper to make travel purchases, they spend, on average, an extra $40 per booking. They do this because they want flexibility, protection, and optionality.

We realized that if we were able to offer our financial products to other companies—whether it's an airline, a hotel, or even a competitor—it could generate another $400 billion to $600 billion of currently unrealized travel spend. That's new money coming into the ecosystem.

So in 2021 we launched Hopper Cloud, which we dub "risk as a service." It offers our financial products to partners, and it provides the end user with flexibility and refundability. I sometimes jokingly say that we're monetizing anxiety.

A slew of companies have come to us for Hopper Cloud because getting new customer spend at a high net promoter score means higher loyalty, higher conversion, and also new revenue. And today, with corporate travel still depressed, almost everybody is looking for new revenue sources. Hopper Cloud was a zero-dollar business two years ago, but it now provides 50 percent of our global revenue. Its growth rate is in the high triple digits.

McKinsey: What's been the biggest lesson you've learned in your journey at Hopper?

Frederic Lalonde: There's a cheesy quote that gets used in boardrooms: "Skate to where the puck is going." Hopper started succeeding as a company when we began to build for the future, not for the current state of things.

The best example I can give you is that in 2015, we launched as a mobile-only app when the vast majority of travel commerce in North America took place on desktops. It seemed to make no sense to put all our resources into mobile, which was still a minor channel. But I'd worked in India, where cheap mobile phones had hit the market, and I'd seen that within a few quarters the mobile share of Indian travel commerce grew dramatically.

You don't need to be 100 years ahead of your time to create an advantage. You just need to be ahead enough to understand where the next generation is going. Today, we have 100 million mobile users because of the decisions we made in 2015.

Frederic Lalonde is the cofounder and CEO of Hopper. **Jean-Philippe De Montigny** is a partner in McKinsey's Montréal office.

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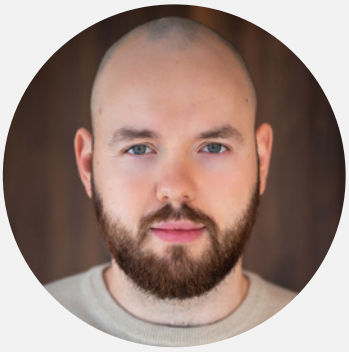
For more from Frederic Lalonde, see the videos accompanying this article on McKinsey.com.



Francis Davidson

January 2023 | Interview

Sonder's Francis Davidson on the future of hospitality

The inaugural installment of the *Travel Disruptors* series spotlights an accommodations company that wants to use design and technology to build a better-traveled world open to all.

Francis Davidson, Sonder's cofounder and CEO, never thought he'd start a company. "I didn't know I had the entrepreneurial gene in me," he says. But subletting his student apartment one summer while attending Montreal's McGill University eventually led him to manage a portfolio of short-term rental spaces—often handling booking, guest services, and housekeeping himself. In 2014, with his accommodations holdings rapidly expanding, Davidson incorporated the business.

Sonder (rhymes with "wander") attempts to combine the reliability and sheen of a luxe international hotel with a tech-forward vibe. The company has so far focused on urban markets, but Davidson harbors grand ambitions. "We hope to make a dent in resorts, vacation destinations, and every other kind of accommodation," he says. "The opportunity is to revolutionize hospitality, full stop." Sonder went public on Nasdaq in early 2022 and now does business in more than 40 cities in ten countries.

In this installment of *Travel Disruptors*, Davidson spoke with McKinsey's Ryan Mann about learning from legendary hoteliers, using technology to transform the guest experience, and creating brands that draw on travel's narrative power. Their conversation has been edited for length and clarity.

McKinsey: What's the difference between what Sonder provides and what you'd see from a traditional hotel chain or a short-term rental company?

Francis Davidson: Design is one differentiator. The main difference from a big-box, chain hotel room is that Sonder makes you feel like you're in a boutique accommodation. We've taken great inspiration from some of the best boutique hotels and most beautiful, well-architected buildings. You'll see beautiful art on the walls, sculptural furniture, and interesting colors and patterns. Our locations also have a sense of place, speaking to the design and architecture typical of their city or country.

The difference from a short-term rental—a mom-and-pop–run accommodation—is that we offer standards of consistency and quality that you typically don't get within that category. So you'll see crisp white linen, stacked towels, and great soaps and shampoos.

Tech is another area that differentiates us. Interactions with our guests have been modernized. We have a guest app that allows you to get service at your fingertips 24/7. You can request an early check-in or late check-out on the app. You can call an Uber from the app when you're at the airport and the app will automatically load your Sonder destination. There are a variety of integrations that make our service seamless, high quality, and consistent.

We power the business using tech to elevate the hospitality experience while also putting that experience within reach of the majority of consumers. We've leveraged technology in ways that let us offer our experiences at really affordable price points. When you bring these things together—a boutique accommodation, elevated design, standards of quality and consistency, all at a price point that's affordable—it makes for a compelling value proposition for the guest.

McKinsey: When you think about potential new properties, how do you identify them? What are you looking for in terms of location, style, and lease terms?

Francis Davidson: The ambition of Sonder is to become the leading hospitality company globally. But there are key questions as we expand. What is the right sequencing? Which markets should we launch in first? Which kinds of properties should we look for that will allow us to scale as efficiently as possible?

Typically, we launch in markets that are near each other, because the vast majority of travel isn't over long distances. People tend to travel more regionally than they do far away. This expansion pattern also means we have operations that we can leverage nearby. Operating efficiency is really important in delivering our mission.

When it comes to specific assets, we think a lot about design and architecture. All our decisions pass through an internal review committee made up of various functions across the company. Another important part of the criteria is our economic threshold. As a business, we are very much focused on capital efficiency, and we have certain hurdles when it comes to payback periods, margins, and the lifetime value of a deal. We have robust underwriting, with hurdles that we must clear in order to move forward with an asset.

When a deal has compelling unit economics, with a guest experience that aligns with our brand, in a market that makes logical sense given our existing map, then we get really excited about that growth opportunity.

McKinsey: Sonder is a tech-led hospitality company. How is technology shaping next-generation hospitality experiences for travelers?

Francis Davidson: When it comes to technology that modernizes the way a hotel is operated, there's immense white space. The way hotels have operated for the last 40 years hasn't changed a ton.

For example, property management systems today are still, by and large, on-premises pieces of software. There hasn't been a shift to the cloud. There are a lot of things that are still done manually by hospitality workers—whether it's check-in or handling guest requests—that could be streamlined and automated for the benefit of the guests. You shouldn't need a labor-intensive process just to get someone through the door or to answer a basic request. In the traditional

hospitality world, either you do things face-to-face by going down to the front desk or you pick up a physical phone in the room and push something on that keypad that will connect you to a live agent. We've tried to transpose these interactions to the modern era by automating them and handling them through text messaging on our app. You should be able to use your own phone to unlock your door and to send requests. Standing in a check-in line and picking up the room phone to order room service feel like dated parts of the hospitality experience. You would expect it to be far more modern by now.

This is something that's especially important to the customer base we focus on—primarily millennials and Gen Z, who are going to be the majority of travelers shortly. We build our guest experience for this digitally native generation that much prefers the frictionless experience you get by having instantaneous, tech-driven service and design-forward spaces.

McKinsey: Are you seeing more growth and interest recently from business travelers or from leisure travelers?

Francis Davidson: Sonder's customer base has historically been focused on leisure. But in 2021, we launched our business travel program, and we've seen really strong growth so far. With economic uncertainty, most businesses are thinking, "Is there a way I could be more efficient on my travel dollar spend?" One segment that works well for us on the business travel side is extended trips. Think about a film crew on a long shoot, for example. It can be challenging to stay in a hotel room. Our apartment-style product fits particularly well: you have a washer and dryer and a kitchen, so you can do your own laundry and cook your own meals.

McKinsey: How do you address the typically lower-margin, higher-cost structure of hospitality?

Francis Davidson: One element that helps us be substantially more efficient is the physical footprint of our buildings. Often, hotels have lobbies that are way too large, which means there's too much space that's used unproductively. We tend to have much smaller lobbies at Sonder.

We also use self-serve approaches to operate more efficiently and then pass those savings on to guests. For instance, when guests arrive early or want to check out late, they need a place to store their luggage. Instead of doing that with a front-desk agent, we have well-designed luggage lockers. There's another self-serve space where you can find extra towels and toilet paper. All of this is presented to the guest through our digital channels so that we point our guests toward these self-serve pieces of infrastructure that exist within our buildings.

We also outsource to high-quality food and beverage operators. We know that running a good restaurant is challenging. Most midscale and even upscale hotels struggle to do that well. What we do instead is find local food and beverage operators and then integrate with them to make sure that they can provide their experience to our guests in a seamless fashion, without us having to take on that operational burden.

McKinsey: Design is a critical component for Sonder. How do you think about the role of design in travel? How do you use it to differentiate your brand?

Francis Davidson: Design is incredibly important for the hospitality business. There's been a generational shift, maybe because of the rise of Instagram, and we see that design is now one of the major drivers of decision making for next-generation travelers. There's a sense of pride that they get when they stay at a really well-designed place. They're going to take a photo. Maybe they're going to post it online.

‘The pandemic has accelerated the adoption of new guest-facing technology by, probably, a decade in the course of a couple of years.’

One of my favorite books, Alain de Botton’s *The Architecture of Happiness*,[1] goes into great detail about how well-architected buildings could lead to a more fulfilled life. We’ve tried to take lessons from various architects, industrial designers, and artists so that we can bring their ideas to hospitality outlets that democratize access and are available to the many. This follows the trend set by the midcentury modern movement, when designers such as Charles and Ray Eames were saying that design should be within reach for all.

McKinsey: At McKinsey, we talk a lot about how, over the past couple of years, travel was taken away from people—and that made them appreciate it even more. How do you think the pandemic has changed hospitality?

Francis Davidson: The pandemic has accelerated the adoption of new guest-facing technology by, probably, a decade in the course of a couple of years. Things like contactless check-in, mobile keys, and housekeeping that’s by request only—these have come about much more rapidly as a result of the pandemic. Those things are also aligned with our general approach. We think that this was the inevitable path that hospitality was headed toward; it’s just been accelerated.

McKinsey: What’s your vision of what the future of travel will look like? What are future travelers going to want from their hospitality experiences?

Francis Davidson: I think what you’re going to see is extremely aspirational hospitality being available to the many. There’s no reason why a beautiful space should cost four or five times more than a humdrum space. With the help of technology, there’s no reason why service shouldn’t be instantaneous, 24/7, and just as good as service at the best five-star hotels—but at a three-star price point. I think what we’re going to see is an upleveling of the quality of the customer’s experience as the industry gets much more efficient.

I also think we’re going to see the rise of very powerful consumer travel brands. The opportunity for storytelling in travel is enormous. Almost everyone, when they take time off, the first thing they think about is “Where can I go? How can I travel and explore the world?” It’s something that pretty much everyone loves to do. But the most powerful brands that exist in the world today are brands that sell things that don’t have anywhere close to the strong narrative power that travel has. I’m hoping that over the next couple of decades, we’re going to see the emergence of many superbrands within travel.

McKinsey: What’s been your most unexpected lesson so far?

Francis Davidson: Initially, we were going to do everything our way and start from scratch. Then we realized that, in many instances, we were trying to reinvent the wheel. We could do a better

[1] New York, NY: Vintage Books, 2008.

service to the future of hospitality by adopting existing best practices when a system has been optimized, so that we can concentrate on things that we actually want to change.

I read the biography of Kemmons Wilson, the founder of Holiday Inn. There are immense lessons to be learned from it. He built an amazing all-American company that then became an international success. There are other examples of people—Conrad Hilton, the Marriott family—who have done extraordinary things in the world of hospitality that we ought to study and understand. It's about being humble and finding a delicate balance between respecting the status quo and, at the same time, wanting to improve and disrupt it.

McKinsey: What are your favorite moments on the job?

Francis Davidson: My favorite moments are the times when we've faced an immense crisis and managed to pull the team together and get through it. Sonder shouldn't really be around now after the pandemic. We're a hypergrowth company that is dependent on travel demand, which completely evaporated overnight. That was really hard, and not all companies in the space made it. We found a way to keep our properties occupied by pivoting to extended stays of 14 days or more, which provided the vast majority of our revenue within a few weeks. It was an extremely intense project that we pulled off—landing pages, marketing, pricing models, sales, new distribution channels. All of that happened within a matter of days. We managed to launch this in March of 2020, within the first few weeks of the pandemic. It saved the business.

I think very few people realize the upside of a crisis when it's happening, because it's so scary. It could be demotivating in that moment. But when it works out, and you look at it from the other side, it generates immense pride.

Francis Davidson is the cofounder and CEO of Sonder. **Ryan Mann** is a partner in McKinsey's Chicago office.

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For more from Francis Davidson, see the videos accompanying this article on McKinsey.com.

Hotels in virtual worlds?

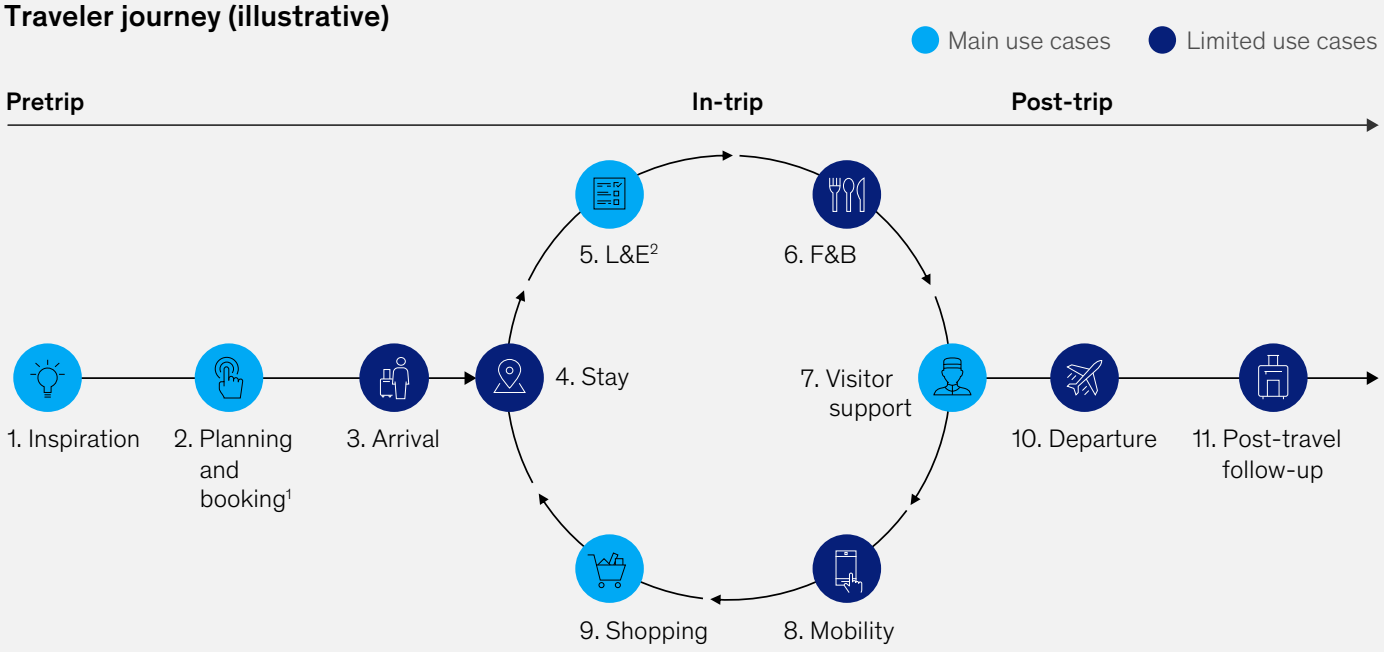
Virtual, immersive user experiences powered by extended reality (XR) could transform travel—but some traveler touchpoints are more ripe for disruption than others. The most promising use cases are focused on specific steps in the traveler journey.

There is currently limited interest in virtual hotel accommodations. While people may wish to explore virtual stays—a few hotel developers, for example, have built hotels on metaverse platforms—these will not yet replace actual stays. Nonetheless, hotel brands would do well to consider these complex opportunities and figure out what best drives traction in the new XR universe.

Read the full article: "Tourism in the metaverse: Can travel go virtual?," May 2023.

The main use cases for tourism in the metaverse lie in pretrip and in-trip steps of the traveler journey.

Traveler journey (illustrative)



[1]Including events booking, food and beverage (F&B) booking, etc.
[2]Leisure and entertainment.

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