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How can an industry incumbent respond strategically to challenges from digital disruptors?

The hotel business is being disrupted by new digital players, with the sharing economy start-up Airbnb taking the lead in changing the shape of the industry. Although these disruptors are challenging the conventional hospitality approach, many traditional hotel groups initially showed little reaction to the newcomers since they had little impact on bookings.

AccorHotels, Europe's leading hotel group, however, quickly realized that the new sharing economy players represented a significant threat to existing hotel chains. The group's CEO, Sébastien Bazin, a relative newcomer in the hospitality industry, set out to radically change the 50-year-old hotel chain with the aim of transforming it into an active player in the new hospitality economy.

Has AccorHotels reacted quickly enough to the industry changes and will the business transformation initiated by Sébastien Bazin be enough to compete with the new sharing economy giant Airbnb? Can a large, asset-heavy company become a dynamic and agile organization?

At a glance

- » AccorHotels quickly recognized the threat that digital disruptors, in particular Airbnb, pose to its industry and business.
- » Its biggest challenge was to transform an asset-heavy, hierarchical company into a dynamic, agile and fast-moving organization.
- » In addition to transforming its corporate culture, organizational structure, value proposition and overall business model, the group implemented an aggressive acquisition strategy.
- » AccorHotels' successful digital transformation offers lessons for incumbents competing with digital disruptors in various industries.

THE BROADER ISSUE

Few industries have been unaffected by new digital competitors – also called digital disruptors – entering their markets and challenging established players. Disruption is not limited to the technology sector: Uber, for example, has revolutionized the taxi market without owning a single taxi; Airbnb is threatening hotel chains without owning a single property; and Alibaba has become the world's most valuable retailer without owning any stock.

Industry incumbents should take the threat seriously: Digital disruptors are innovative, agile, customer-centric, and fast in execution and roll out. They go beyond being active in the digital market and use technology as an enabler to enhance the customer proposition. In doing so, these new players are able to provide a better experience for their customers, in particular millennials, the tech-savvy generation emerging as the biggest consumer segment.

Yet, more often than not, established companies are slow to recognize the threat to their business model and market position, disregarding new digital players as being too small to represent any risk. With the proliferation of digital disruptors, it will become increasingly difficult for players that don't recognize the need to respond to the changing market and

transform their business model to keep up with the new entrants and the evolution of customers' preferences.

Sébastien Bazin was appointed CEO of the AccorHotels Group with the objective of driving the company's stock price up. The start of his role at the helm coincided with a rupture in the group's strategy. Bazin strongly believed that to compete with the new hospitality players, AccorHotels had to reinvent hospitality by becoming much more technology-oriented and by focusing more on the customer.

DIGITAL TRANSFORMATION – A HOLISTIC PROCESS

AccorHotels embarked on a five-year digital transformation plan, based on three building blocks: a common mobile app for all hotels, a strong focus on the customer, and various ways to streamline the customer experience. One way of becoming more

customer-centric was to extract information from the customer database and use it to offer tailor-made services for each customer. In addition, various tools were introduced to improve the customer experience at every step to ensure a "seamless journey": one-click booking, online check-in (similar to airlines' online check-in), and paperless payment, to name just a few.

But AccorHotels' digital transformation went well beyond an IT revamp. It was about transforming the company deep down – its corporate culture as well as its organizational structure.

AccorHotels was competing with digital disruptors that were agile, innovative, fast and dynamic. It therefore had to become more daring, more flexible and faster in decision-making and execution, which would mean fundamentally changing managers' and employees' mindsets. In order to drive innovation, management had to accept the prospect of failure.



Accor is in the middle of a revolution (...). For 50 years, we have been doing things very well, but from now onwards, we are going to do things differently.

Sébastien Bazin | CEO of AccorHotels

To support the group's transformation from the inside, AccorHotels moved its international headquarters with the objective of reinventing the way its employees work together. The new building features innovative work spaces and technology that enables high connectivity everywhere.

In line with Sébastien Bazin's commitment to disrupting the group's traditional approach, challenging and reviewing codes at AccorHotels – which had not launched any new brands in 30 years – was also part of the digital plan. New flexible structures were created within the group's top-down hierarchy to foster innovation, flexibility and speed:

- A new executive position “Chief Disruption and Growth Officer” was created, for which a 42-year-old serial digital entrepreneur was hired. His responsibilities were to identify new growth opportunities and foster interactions with start-ups.
- A Shadow Executive Committee was set up, staffed by six women and six men aged between 25 and 35 years, with the objective of working as a “think tank” for innovation projects. These millennials contributed to making AccorHotels pay attention to digital natives and played a key role in AccorHotels' cultural transformation.

- The Shadow Executive Committee was complemented by an Innovation Lab, which was set up to focus on the creation of new lifestyle brands aimed at millennials.

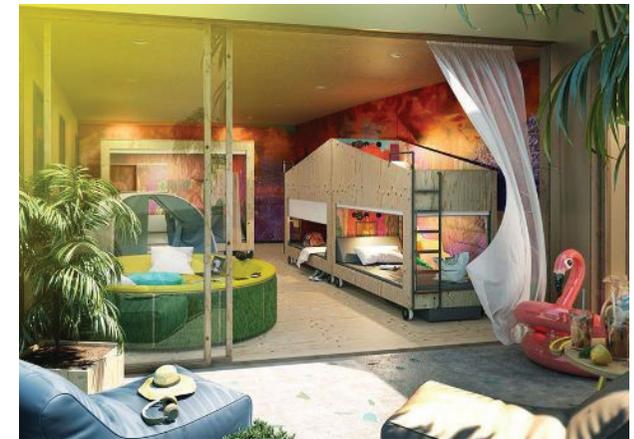
ENTERING THE DIGITAL ECONOMY THROUGH ACQUISITIONS

Applying the saying “if you can't beat them, join them,” in 2016 AccorHotels embarked on an ambitious acquisition strategy to establish a strong position in the sharing economy. It first acquired a 49% stake in Squarebreak, a digital platform specialized in upscale villas in France, Spain and Morocco, followed by a 30% stake in Oasis Collections, an American apartment rentals platform with hotel services. A few months later it purchased, for €148 million, a 100% stake in onefinestay.com, a UK-based digital platform specialized in luxury apartments. More recently, it acquired Travel Keys, a US-based elite travel broker with a luxury collection of curated villas across more than 100 destinations. To get the full potential out of these acquisitions, the group planned to unite the three home-rental brands under the Onefinestay brand by the end of 2017.

DID IT WORK?

The digital transformation of AccorHotels' is well under way: the first newly created structures are now fully in place and a host of disruptive ideas

targeting millennials are being implemented. One of them is Jo&Joe, a groundbreaking hospitality concept created by the Marketing Innovation Lab. This new lifestyle brand is described by the company as an “open house,” a unique environment that blends the best of private rental, hostel and hotel formats. The first was launched in Hossegor, France, in March 2017 and the group is aiming to open 50 Jo&Joe venues in several fashionable destinations around the world by 2020.



Jo&Joe

TAKEAWAYS

Rather than a threat, digital disruption represents a great opportunity for industry incumbents, who are forced to rethink their strengths and weaknesses, adapt, innovate, and even reinvent their business

model. When competing with digital disruptors, industry incumbents need to:

- Take digital disruptors seriously and not be complacent in order to react in a timely and adequate manner to the new competitive threat.
- Focus on the customer: Understand the motivation behind customers' preference for the digital disruptors' value proposition and adapt their own "traditional" consumer proposition.
- Build on their unique strengths by using their competitive assets, whether they are strong financial or human resources, large customer base, distribution channels, longstanding experience, or a well-established brand, to create a business model that cannot be easily copied by digital disruptors.

- Adapt to become lean, agile and fast: Learn from digital disruptors and try to get inspired by how they think and act, and infuse a flexible mindset into the organization.
- Be prepared to make mistakes: Create a culture of experimentation and not be afraid of failure.
- Embark on a holistic transformation that goes well beyond transforming the IT department; support the transformation with a cultural as well as structural transformation.
- Adopt a "If you can't beat them, join them" mindset: Acquiring a digital disruptor will give the incumbent insights into how disruptors operate and serve as a learning ground to transform its future business.

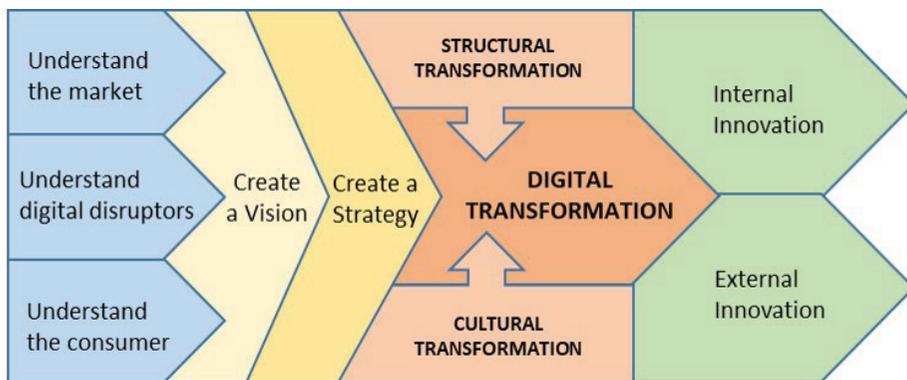


Figure 1: Incumbent's strategic response to digital disruptors

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