



Executive Insights

In a Reshuffling of Consumer Priorities, All-Inclusive Resorts Shine

From tropical escapes to historic mountain retreats, travelers who dip a toe into today's all-inclusive offerings are finding a host of sophisticated, amenity-packed getaways that let them leave their wallets in their rooms.

In this *Executive Insights*, we'll review the shifting consumer preferences behind the rising interest in all-inclusive resorts, look at what sets all-inclusives apart from other hotels and compare these destination properties with the other all-inclusive model: cruise ships. We'll finish with steps that hotels, investors and other stakeholders can take to get started on an all-inclusive hotel strategy of their own.

Hitting the easy button

The COVID-19 pandemic touched off a pair of trends driving the upswing in demand for all-inclusive resorts. "Flexcations," trips that combine work and play, gained traction as more Americans sought to take advantage of a work-from-anywhere digital environment. This kind of flexibility opens travelers up to more offbeat locales, not to mention the longer stays that all-inclusive pricing policies are designed to encourage. Studies suggest as many as eight in 10 consumers work while on vacation¹ and

50%-70% of those who went on flexcations last year (where they planned to work and travel) indicate they would do so again in the future. This may be one reason why travel search data indicates an uptick in interest in seven-night stays.

The other trend is multigenerational travel. Younger generations moved back home with their parents to wait out the pandemic and an overall rise in family togetherness began. Studies estimate that 30%-40% of leisure travel involves family units spanning multiple generations, with family quality time being a key motivator for travel this year. Amid vaccine rollouts and border reopenings, all-inclusives have beckoned with something for everyone: excursions for the adventure-minded, inspired dining for foodies and palm-shaded shores for those seeking a place to unwind.

Key business model differences

So what should hospitality operators and investors know about all-inclusive resorts? First, all-inclusive resorts are all about the bundle. Unlike traditional hotels, where guests choose their rooms based on bed type, square footage, the view and other features, the room is just one element of the all-inclusive package. Leisure programming such as spas, water sports, fitness and entertainment is usually included or semi-included (meaning some upgrades and experiences are available for an extra fee).

In a Reshuffling of Consumer Priorities, All-Inclusive Resorts Shine was written by **Dan McKone** and **Alan Lewis**, Managing Directors, **Claire Morgan**, Senior Engagement Manager, and **John Vanderslice**, Senior Advisor to L.E.K.'s Travel & Transport practice. Dan, Alan and Claire are based in Boston, and John is based in West Palm Beach, Florida.

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Successful all-inclusive resorts focus on maximizing revenue per guest, rather than revenue per room. This requires a deep understanding of their target customers' wants, needs and behaviors. Operators must determine the right price that is also profitable, based on expected usage of "unlimited" food, beverage, entertainment and other items. Bundles are carefully designed, as the resort bears more risk in an all-inclusive model than in a traditional a la carte model. This has implications for operations, revenue management and marketing.

The all-inclusive concept works best in locations where labor costs are lower (e.g., Mexico, Jamaica and the Dominican Republic). Length of stay is important — seven days is ideal, but the property should sway visitors to stay at least three or four days to maximize bookings because premium pricing is necessary for shorter stays. Transportation is also critical, with tour operators providing air travel from Canada, the EU and the U.S. playing a critical role and online travel agencies increasingly offering bundled packages.

Points of entry in an evolving market

With all that in mind, players looking to take a position in the all-inclusive market have a unique opportunity to ride a wave of growth following COVID-19 due to a confluence of several trends:

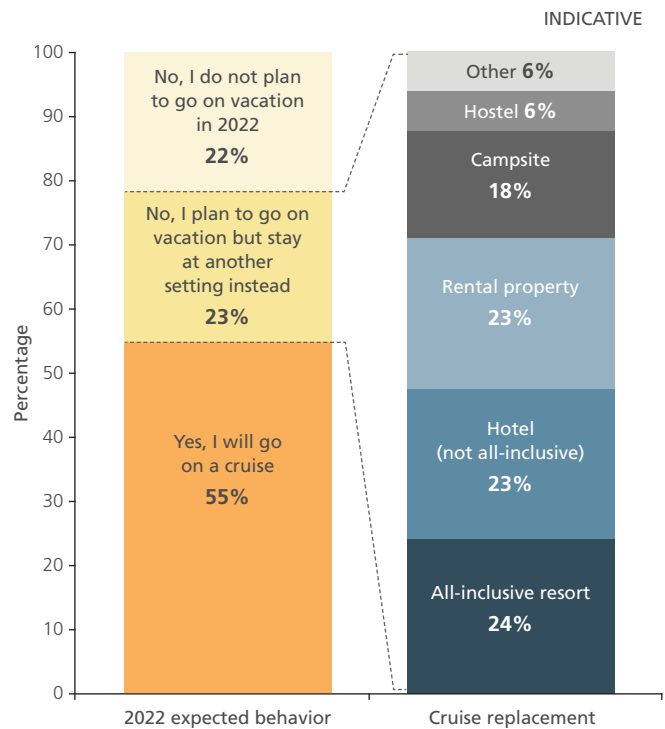
- Independent resort operators are struggling due to COVID-19, creating an opening for roll-up deals
- High-end travel agents and consortiums are looking to replace cruise bookings and have large networks that can be used
- Consumer spend on travel and willingness to splurge on unique experiences are increasing, creating opportunity in the previously underdeveloped luxury all-inclusive segment

Leading players are increasing investment in the sector. In October 2020, Club Med launched Workation — a package offering amenities for remote work and schooling — at its Sandpiper Bay resort, with plans for expansion to other locations. A couple of months later, Melia Hotels International announced its Superior All-Inclusive Group Experiences program, which offers all-inclusive experiences based on themes like local culture and wellness. And in early 2021, Marriott inked an agreement to enhance its Autograph Collection portfolio with 19 all-inclusive properties from Sunwing Travel Group's Blue Diamond Resorts. Club Med has reported a 17% increase in family bookings for the 2021-22 holiday season² compared to the 2019 holiday season.

An attractive alternative to cruises

Like all-inclusive resorts, cruises promise getaways with a minimum of hassle. But in the wake of COVID-19, some cruise-goers may opt for the land-based alternative. Consumers signaled as much in a July 2021 L.E.K. Consulting survey about vacation plans. Among those who took a cruise in 2019, about 23% told us they intended to take a different kind of vacation in 2022 (see Figure 1).

Figure 1
Expectations among 2019 cruise-goers of going on another cruise



Source: L.E.K. survey completed July 26-28, 2021; L.E.K. research and analysis

Part of this is due to lingering concerns about health and safety stemming from the negative press that hit cruise lines early in the pandemic. Staterooms are also smaller than hotel rooms and ships are less likely to have work-friendly spaces — two factors that weigh against cruises when a flexcation is on the agenda. Still, awareness of all-inclusives remains low, suggesting that replacement rates are likely to rise once cruise-goers look into other types of vacations.

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Embracing an amenity-filled destination model

The growing interest in all-inclusive resorts reflects an overall optimism about a rebound in leisure travel among a lockdown-weary population. To capitalize on this trend, hotels, investors and other industry stakeholders should consider the following seven steps:

1. Define clear operational and service offerings that are unique to an all-inclusive resort.
2. Select a brand that's consistent with the parent organization without creating confusion.
3. Build awareness early on among travel partners, including high-end agents and consortiums.
4. Ensure systems can be commercialized to serve tour operators and airline transportation.
5. Develop commercial pricing strategies that sell by bed versus by room, motivate longer stays and offer tour operators dead-net sales income.
6. Design marketing communications that sell the vacation, rather than the room.
7. Create a comprehensive plan across the organizational matrix with execution milestones and KPIs.

All-inclusive resorts are expanding beyond their legacy image. As consumers reset their priorities to focus on family and work-life balance, hotel operators are meeting the moment with tailored, upscale experiences that offer respite from the stresses of modern life. The all-inclusive model has unique attributes that require careful consideration from would-be market participants. By targeting the right opportunities while staying true to their brands, however, hotels can make winning choices in this breakout segment of the leisure travel market.

Endnotes

¹GoBankingRates.com, "Addicted To Work: 82% of Americans Admit to Working on Vacation." July 13, 2021, <https://www.gobankingrates.com/money/jobs/addicted-to-work-82-percent-americans-admit-working-on-vacation/>

²PRNewswire.com, "Club Med Ushers In 2021 by Embracing a New Era of Travel." Feb. 5, 2021, <https://www.prnewswire.com/news-releases/club-med-ushers-in-2021-by-embracing-a-new-era-of-travel-301223208.html>

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About the Authors



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