



Selective Indulgence: The Changing Market for Premium Travel

Not long ago “traveling in style” simply meant first-class transportation, plush accommodations and dining nightly at five-star restaurants. It was an aspiration that few could ever hope to achieve. But according to the *L.E.K. 2017 Luxury Travel Study* — a survey of nearly 2,000 U.S. travelers — that has begun to change.

Across-the-board pampering is no longer everyone’s ideal, and “luxury” now has different definitions for different people. But one thing seems clear: People are willing to spend generously on those aspects of luxury travel that matter to them the most.

The fragmented luxury traveler

As the definition of luxury continues to evolve, today’s “luxury traveler” is just as likely to be a Millennial in search of an eco-vacation who is willing to sleep in a bunk bed, as it is to be a wealthy globetrotter seeking comprehensive amenities and services. Our study demonstrates that a far broader range of people are eager to make trade-offs to fund luxury, splurging on some items while scaling back on others.

Our survey identified seven different traveler segments but largely focused on three broad groups (see Figure 1):

- **Elite:** High on the “indulgence spectrum”; tend to require luxury across their entire travel experience
- **Aspirational:** Willing to indulge in high-end experiences in specific situations
- **Prudent:** More likely to be budget stretchers; nevertheless, will partake in limited luxury travel from time to time

About the Survey

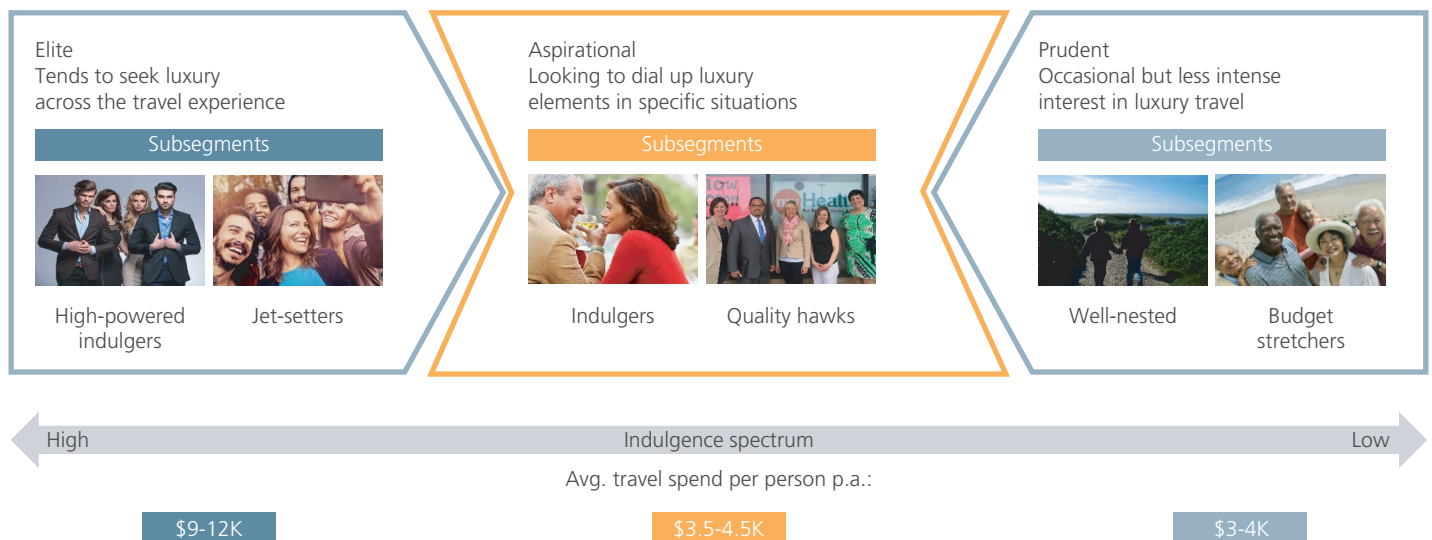
- 1,972 U.S. travelers (age 18+) surveyed in Q1 2017
- Online format
- All completed travel that included an overnight stay within the past 12 months
- A broader population sample was used to go beyond “classic” affluent population and reach the emerging “modern” luxury traveler

Each of these groups views luxury through a different lens, and each has a different set of priorities, opening up a range of market segmentation opportunities.

Survey insights: A kaleidoscope of opportunities

Evolving perceptions of what luxury travel represents has significant implications for industry suppliers. The following are

Figure 1
Luxury encompasses three addressable consumer segments



Source: L.E.K. survey and needs-based cluster analysis

some key insights from our research and what they might mean for traditional luxury travel companies, as well as for mid-to-upscale players who are eying a broadening market.

Modern luxury travel is now the leading channel for discretionary spending. Across all luxury categories, travel is now the top outlet for indulgence. Nearly half (49%) of U.S. travelers indicate that they are likely to splurge on travel, followed by dining out (43%) and food and wine at home (36%). By comparison, traditional luxury categories like apparel and accessories (30%) and jewelry (20%) trail travel by a considerable margin. Interestingly, this trend appears to be growing. Younger generations embrace the concept of the “travel splurge” more than the cohorts that preceded them, with nearly two-thirds of Millennials admitting to indulging in luxury travel in some form. Given that the appetite to splurge is inversely correlated with the financial wherewithal that comes with age, younger groups, in particular, are learning to be selective in their approach to luxury travel.

The definition of luxury increasingly revolves around experiences. Across the travel spectrum, luxury has traditionally been defined by “quality of product.” Ratings from third parties ruled the day, with Michelin, Zagat and Conde Nast setting the tone for what should be viewed as rarified and special. While physical product characteristics are, and will always remain, critical, many of the defining characteristics of luxury now center on “quality of experience.”

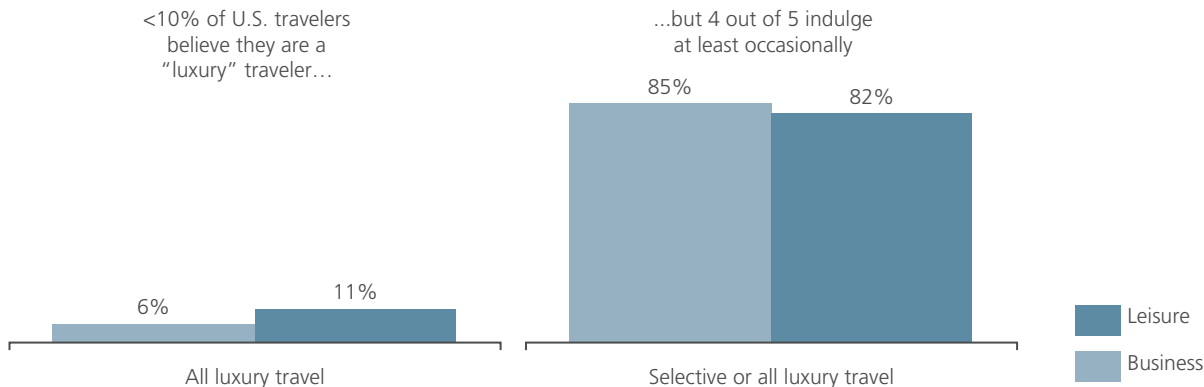
Luxury travel is increasingly accessible. More and more people are gaining access to at least some elements of luxury travel. For example, while fewer than 10% of survey respondents consider themselves luxury travelers, nearly 85% say they indulge in travel luxuries at least once in a while (see Figure 2). When looked at this way, the premium travel market has broadened significantly, but it is due to the fact that a much wider variety of people are spending selectively.

Choice powers personalized luxury. To access this much larger market, providers must develop ways for more mainstream clientele to “toggle” into luxury elements. Critical attributes can theoretically be calibrated to the “Goldilocks” (or “just right”) level of luxury for the individual. In practice, we are observing more “Uber when you need it” in place of a town car for the day. For suppliers, it means embracing the “age of the upgrade,” overlaying better/best options on top of modest bases (e.g., opportunities to trade up to extended legroom, a suite or white glove service). Our research revealed significant increases in willingness to spend more on selective calibration. The more experiential the element (for example, dining or activities), the greater the change in mentality compared with even five years ago.

The signaling power of brands has not diminished. A number of recent studies have cited the declining influence of brands, particularly with Millennials. However, our survey suggests the opposite is true in the luxury travel space; rather, brand recognition remains a significant factor in luxury travel

Figure 2
Luxury travel has become a more inclusive aspiration

Consumer self-reported propensity for luxury travel



Source: L.E.K. survey and analysis

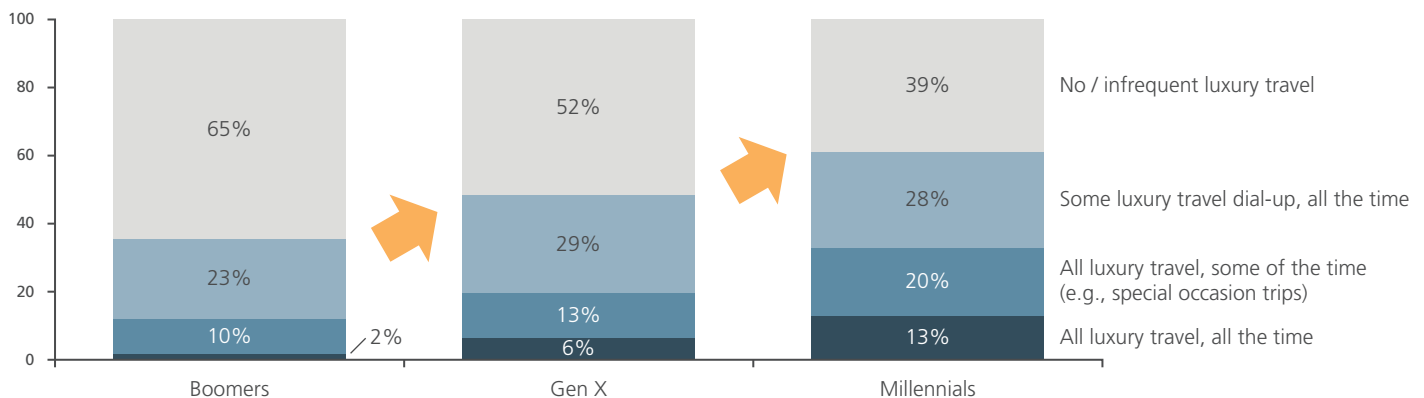
purchase decisions, and its influence is growing, especially among Millennials. The increasing importance of brands is greatest among the Elite traveler segment. Therefore, while there is an opportunity for unique experiential offerings to challenge established luxury brands, upstarts will have their work cut out for them.

Brands must offer convenience without compromising exclusivity. Given these findings on brand importance, what is it that today's travel brands should actually be communicating? In the past, opulence, quality and pleasure were typically emphasized.

However, the modern luxury travel brand must also demonstrate two essential characteristics (which are sometimes at odds). The first is convenience. Technology has conditioned people to expect removal of life's frictions, and luxury embodies what people expect in a seamless or effortless experience. Lack of free time in today's society only amplifies this need. The second essential characteristic is exclusivity. Greater investment in luxury travel comes with a commensurate expectation of rarity. Instead of collecting objects, the affluent (and those who aspire to affluence) are collecting

Figure 3
Millennials are increasingly the drivers behind luxury demand

Propensity for luxury travel by traveler, across generations



Source: L.E.K. survey and analysis

Executive Insights

experiences. And to the extent luxury travel becomes a life-affirming action, people want to see that their investment in it distinguishes them. Their experience should be the envy of others.

A younger muse is inspiring luxury innovation. Millennials are increasingly the drivers of demand for luxury travel (see Figure 3). More than three in five Millennials surveyed (61%) said they either choose full or selective luxury travel, compared with 48% of Gen Xers and 35% of Baby Boomers. Inspired by Millennials' interpretation of luxury, brands ranging from traditional players like the Four Seasons to relatively new entrants like Airbnb are experimenting with offerings that cater to younger travelers who are seeking "the right experience." However, many older consumers are also developing more adventurous palettes, influenced by the tastes and preferences of younger cohorts. While hipsters may have prompted the trends toward artisanal cocktails and curated travel immersion activities, Baby Boomers are discovering, and paying for, these innovations as well.

Millennials amp social currency with "prestige moments." For members of the selfie generation, the ability to capture "in

the moment" prestige experiences and share them with their social network is extremely important, and key to building a personal brand. Perhaps nothing is as powerful as travel in communicating that you are connected, worldly and exciting. Suppliers in the industry should embrace this mindset by offering experiences that help enable and activate it. If an agency, a hotel brand or a tour operator can help plunge guests into what is perceived to be an authentic moment, it will clearly be valued.

Modern premium travel — a sector up for grabs

Overall, our findings suggest we are in a period of flux for premium travel. Evolving perceptions of what luxury means are unlocking tremendous opportunities for brands not traditionally associated with across-the-board luxury, creating the potential for disruption of established luxury travel brands. Players lower on the brand scale will need to identify luxury elements in their offerings that can be made available to people who are willing to splurge selectively. At the same time, brands matter. Traditional luxury players that are able to update their offerings and create a diversity of choice, and thus attract a broader range of customers, could well continue to dominate.

About the Authors



Dan McKone is a Managing Director and Partner, and a member of L.E.K.'s Global Leadership Team. Dan is a leader in our Travel & Transport practice, co-leads Edge Strategy® services at

L.E.K. and is the co-author of *Edge Strategy: A New Mindset for Profitable Growth*, a book published by Harvard Business Review Press. He also leads the firm's Customer Experience and Loyalty service line.



Alan Lewis is a Managing Director and Partner in L.E.K. Consulting's Boston office. He is a leader in our Travel & Transport practice and is the co-author of *Edge Strategy: A New Mindset for*

Profitable Growth published by Harvard Business Press. Alan was selected as a Top 25 Consultant by *Consulting* magazine in 2016. He has worked extensively with airlines and travel companies around the world on finding new sources of revenue, improving loyalty and customer experience, entering new markets, and assessing and implementing mergers and joint ventures.



Nick Smith-George, an Engagement Manager in L.E.K.'s Boston office, is focused on the Consumer and Travel and Hospitality practices. He joined L.E.K. in 2013 and has substantial

experience advising leading clients in airline, hotel and resort, and other travel-focused sectors, both in the U.S. and globally. His focus includes growth strategies such as product development, loyalty cultivation, and M&A / partnerships.

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