How millennials perceive leisure luxury hotels in a sharing economy?

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The introduction of both the experience and sharing economies can potentially be seen to be the start of a new type of luxury accommodation, but is that really true? The generation best adapted to such changes, who are also the generation to shape the future is the millennials. However, the research literature does not seem to understand millennials' expectations of what tangible and intangible variables are to be found in luxury accommodation. This conceptual paper will attempt to fill this gap, taking a critical look at the future of the leisure luxury accommodation industry.

Keywords: experience economy, leisure travel, luxury hotels, millennials, sharing economy

Introduction

According to a recent study conducted by Adkins (2016), millennials have the lowest level of customer engagement, over gen-Xers, baby boomers, and traditionalists. Only 14% of millennials in the United States are part of a hotel loyalty programme, underscoring the reality that as this generation become mainstream travellers, the industry will have to find new ways to build relationships with these customers and offer the customised and personalised products and services they seek (Ezra, 2016).

According to the U.S. Travel Association (2016), almost 4 out of 5 (79%) domestic trips are for leisure purposes, and the total direct spending in 2015 on leisure travel totalled US$650.8 billion, compared to US$296.3 billion in business travel. Throughout the world, leisure travellers are important to the hospitality and tourism industry. A special report on big brands by Mayock (2015) in *Hotels News Now* of Smith Travel Research (STR), reported that 5% rooms globally are luxury class, out of which 44% are branded and 56% are non-branded. Additionally, 13% of global rooms are upper-upscale class, a luxury brand category based on the average daily rate (ADR), according to STR Global Chain Scales (Digital Luxury Group, 2014; Mayock, 2015).

As we are now considered to be living in the sharing and experiential economies, product alone is not enough for luxury hospitality companies. In the commercial hospitality industry, there is so much diversity and competition that customers are experiencing an overload of information and price inconsistency, which has made many of them seek hospitality products and services that offer simple options (Oates, 2017). According to Smith (2016) of the Pew Research Center, home-sharing services such as AirBnB, VRBO, and HomeAway are popular among college graduates, especially the age groups 18–29 (11%) and 30–49 (15%), a market share that includes both younger and older millennials. Furthermore, Beckwith (2016) of Slice Intelligence states that the sharing

economy concept, especially the AirBnB brand, resonates with and is driven by millennials, and is showing a revenue increase of 89% as of July 2016. Even Price Waterhouse Coopers (2015) corroborated this demographic preference, showing that this new sharing economy appeals to both older and younger millennials, reaching age groups of 18 to 24 (14%) and 25 to 34 (24%). Because the sharing economy is exposing millennials to unique luxury places, it will likely impact their future use of leisure luxury hotels, although just how much is still a question for further study.

But why millennials? According to Fry (2016) of the Pew Research Center, millennials (ages 18–34 in 2015), are the largest generation in the United States, with a 75.4 million population that surpassed the 74.9 million baby boomer population (ages 51–69 in 2015), and generation-X (ages 35–50 in 2015). Millennials are also the largest generation in the US labour force, with 53.5 million millennials in the work force in 2015, compared to gen-Xers (52.7 million) and baby boomers (44.6 million) (Fry, 2015). A study conducted by The Nielsen Company (2014) on the millennial generation found the following characteristics that differentiate them from other generations: millennials are (a) diverse, expressive, and optimistic; (b) driving a social movement back to the cities; (c) struggling, but expressing an entrepreneurial spirit; (d) deal shoppers who desire authenticity; and (e) connected and seeking a personal touch. Furthermore, millennials are divided into two groups: younger millennials (18–27 years old) and older millennials (28–36 years old) (The Nielsen Company, 2014). The seemingly contradictory finding that millennials are deal shoppers and at the same time looking for authenticity, and are connected but seeking the personal touch, is threatening traditional luxury branding practices and how they cater to the millennial leisure customers who are their future.

Millennials describing ideal luxury experiences seem to focus on the character and personality of these properties, including the architecture, design, and artwork. How do we appeal to the preferences and current trends among millennials in ways

that resonate with them in terms of uniqueness, style, and innovative personal experiences? This current study will focus on answering these questions by analysing luxury experience preferences among millennials, specifically describing the characteristics of leisure luxury as described by this segment of travellers in light of the emergence of the sharing and experiential economies.

Luxury hotels

Initial readings of the luxury phenomenon suggest that a singular definition that is accepted by all is virtually impossible. It is argued that the word *luxury* holds different meanings for everyone (Berry, 1994; Weidmann et al., 2007) – a sentiment academics thus far have agreed with (Choi, 2003; Wiedmann, Hennigs & Siebels, 2009) – brought about from differences in cultural backgrounds (Hoffmann & Coste-Marniere, 2012). Luxury is seen to be a fluid concept, with 21st century concepts of luxury driven by ideas which relate to innovation, creativity and excellence (Gardetti & Giron, 2014), fuelling society's love and need for technological advancements in our day-to-day living habits. As the times move ahead, so does luxury – suggesting that what luxury meant 50 years ago does not necessarily count as luxurious today! As one luxury becomes familiar over time, the next desired product/service will need to take its place, predicting that the luxury concept as envisioned in the present will soon be overtaken by the thoughts of the future (Gardetti & Giron, 2014).

For luxury hotel branding, again things are accelerating rapidly. The Victorian(esque) grand hotels of Europe, which traded on their royalist reputations, were operated by large multinational luxury hotel corporations, and functioned in prestigious locations such as London and Paris, and are quickly being eclipsed by more innovative and pioneering modern designs in locations such as Dubai and Singapore (Slattery, 2012). The calibre of luxury hotels is both improving and becoming more diverse, leaving the hotel industry confused about labelling that uses established national and international hotel classification systems (Slattery & Games, 2010). According to Melissen, van der Rest, Josephi and Blomme (2015), there is currently no international standardised definition or grading criteria for a luxury hotel or brand, leaving the categorisation of luxury open to individual preference and interpretation. Further descriptives, such as boutique or lifestyle hotels, have entered the industry vocabulary as a way to distinguish and categorise hotels/brands. In the past, the word boutique referred to small hotels with no more than 125 rooms but not less than 20 rooms. The industry also defined less than 25 rooms as a bed and breakfast or inn, and hotels with more than 120 rooms as a standard, full-size hotel (Ellishotel.com, 2014).

A study conducted by Jones, Day and Quadri-Felitti (2013) to define boutique and lifestyle characterised boutique hotels more fluidly as "small and stylish hotels that offer high levels of service", and described lifestyle hotels as "innovative [hotels] that offer a more personal experience than 'branded' hotels" (p. 729). In a further blurring of old industry distinctions, even branded and chain hotels are embracing the boutique and lifestyle trend (Oates, 2014; *Travel and Leisure*, n.d.). Updated definitions for boutique and lifestyle hotels in the industry would characterise the term boutique as "unique in style, design-centric, either independent or affiliated with a smaller

brand system, with 40 to 300 guestrooms", and lifestyle as "prescribed franchised products that are adapted to reflect current trends" (*Hotel News Now*, 2015). Even though these definitions are closely related within academia and industry literature, there is no clear explanation of how boutique and lifestyle fits into the definition of luxury.

Past research highlights how luxury has been seen through tangible variable measurements such as exclusivity, quality, and expense (Frank, 1999; Thomas, 2007; Bellaiche, Mei-Pochtler & Hanisch, 2010; Kapferer, 2012; Hoffmann & Coste-Maniere, 2012; Yeoman, 2014). Other studies have tried to define luxury as an absolute concept that calls to mind the images of the "ordinary [lives] of extraordinary people" (Kapferer, 2012, p. 333). Recently, Kapferer and Laurent (2016) wrote that to learn where a consumer perceives luxury, we must study each dimension or factor, since the level at which people perceive luxury varies across countries. One dimension which surrounds luxury is that of price, with society still perceiving that for anything to be luxurious, it must have an element of expense (Dubois & Paternault, 1995; Kapferer & Bastien, 2012). In a study about consumer attitudes towards discounts, Yeoman (2014) and Future Foundation (2013) proposed four groups of customers: those who are willing to pay full price most of the time (4%); those who seek deals on a continuous basis (23%); those who are full- or part-time discount hunters (70%); and those who desire to avoid paying full price (54%).

The work of Berry (1994) predicted that the luxury phenomenon would become more complex. Something is not deemed luxurious unless it is seen to be desired. Berry's thought raised interesting ideas, suggesting that luxury is not only seen to be about the tangible components, but also the intangible emotional responses which power the consumer toward purchasing such products and services.

Both tangible and intangible variables can be seen in luxury hotels, with common variables being somewhat expected. Chan and Wong (2006) suggest that prices set by a luxury hotel are pivotal in maintaining the hotel's status, with a price which is deemed too low possibly resulting in a deterioration of the hotel's status, a decrease in the supposedly high standards, and the loss of its exclusive and privileged nature. Further research conducted by Heo and Hyun (2015) shows that consumers expect more for their money in regard to quantity and quality of the tangible products, but they also expect the intangible service to reflect the prices they are being charged (Sherman, 2007). Lavish surroundings are not enough for a luxury hotel – customers now desire specific forms of service which were unheard of within luxury hotels 50 years ago (e.g. high-speed Wi-Fi). Consumer expectations, as well as the reasons for guests staying at these places, are changing the way luxury hotels are operating across the world.

The changing face of luxury hotels
Products and services are not the only things consumers' desire from luxury hotels – they are also looking for a new concept in a hotel stay. Luxury hospitality businesses are finding that today's guests are seeking more simplicity and a greater convergence of experiences integrated into their luxury experience (Oates, 2017). According to Transparency Market Research (2015), in 2014 the global luxury hotels market was nearly US$150 billion, and by 2021 it is forecast to reach US$195 billion, a situation that has created the changing consumer preference

for leisure luxury and the major driver for this growth in the market. Is the expansion of the luxury market wiping out the former selling point of rarity? Are consumers in the market actively seeking luxury brands?

In the research we have discussed thus far, it is apparent that the concept of luxury hotels is changing as time progresses. Guest's preferences are shifting as cultures become exposed to different services and technological advancements to assist with their daily living, with the luxury concept moving to embrace innovative concepts to meet consumer's daily needs (Garetti & Giron, 2012).

While studies have identified the roots of this trend in the luxury hotel industry (Chan & Wong, 2006; Sherman, 2007; Heo & Hyun, 2015), it must be considered that the samples from which these findings were taken were predominantly not from a millennial perspective, but rather focused on previous generations (gen-X and gen-Y). With consumer expectations changing, and the millennial generation having grown up within this heavily service-based experiential economy, further research is needed to look into this younger group's expectations from a luxury accommodation perspective.

Conceptual model

The first of a series of studies to examine the possible future of the leisure luxury world will explore the expectations that millennials have when it comes to experiencing a luxury hotel, looking to identify the tangible and intangible variables they expect to find in a luxury hotel, whether independent or branded.

Both tangible and intangible components have been found to be present in luxury hotels (Chan & Wong, 2006; Sherman, 2007; Heo & Hyun, 2015), while the work of Berry (1994) suggests that both can and likely do work in parallel with one another. The conceptual model in Figure 1 has been constructed to represent this relationship, illustrating the suggestion that as both work together simultaneously, the optimum luxury experience is created.

Research approach

Both qualitative and quantitative research methods will be used in the current study. The methods are descriptive and causal modelling tests. In the preliminary study, tangible and intangible components of luxury, and how these components create an optimum luxury experience, will be explored among

the millennials. The list (Table 1) of tangible and intangible hotel components was drawn from the previous studies by Chan and Wong (2006), Sherman (2007), Elgonemy (2013), and Heo and Hyun (2015). From those sources, we will derive an overall concept of optimum luxury experiences that millennials seek in the hotel industry.

In the second phase of this current study, a true-experimental, between-group and post-test only design will be used to examine the preferences, experiences, and intentions to seek an optimum luxury experience in millennials choosing between luxury hotel brands and luxury property offered through the sharing economy, such as AirBnB. The respondents will be randomly assigned to a scenario before answering a set of questions. All respondents will be assigned to a test scenario that includes a website that details information about a luxury hotel brand (or luxury property in AirBnB), and they will examine this website for at least 10 minutes. Using the components of luxury (derived from the first phase of the study) that guests seek in a luxury stay, the hotel brand or property will be examined based on the price, location, luxury amenities, architecture, design, and technology amenities. This travel scenario is designed to get the participants to think about the kind of luxury experience they are looking for online. Both groups of respondents will use the same scenario, apart from the website they will be assigned, so the same scenario will be used for both control and experimental groups. After visiting the websites, respondents will be given access to an online survey designed to measure their preferences, experiences, and intentions to make a purchase of the luxury hotel experience.

The target population for this current study includes working millennials (19–35 years old) who were attendees at a major industry conference in the United States. Millennials were chosen for this study because they are the largest population in the country and in the workforce (Fry, 2015; 2016). Moreover, millennials in the workforce (working full-time) today will very soon be the mainstream population for luxury businesses, regardless of whether those businesses are branded or offered through AirBnB. Furthermore, it is vital that researchers focus on this segment of population if they want to study social change as it develops with this demographic. A non-probability sampling procedure will be used. Based on the sample size recommendations of Hair et al. (2010), a minimum of 385 millennials is needed for the experimental study. The data collected during the first and second phases of this current
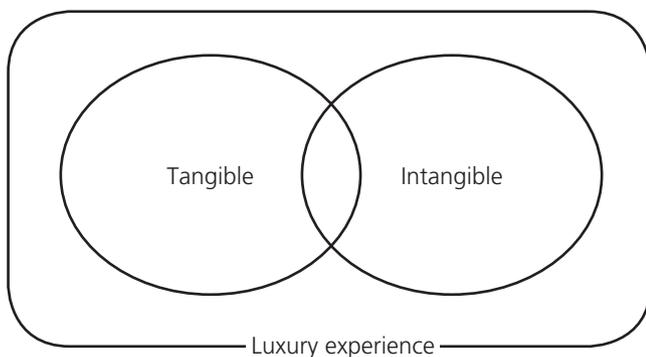
Figure 1: Constructing a luxury experience

Table 1: Tangible and intangible variables to be explored

Tangible	Intangible
Size of hotel (e.g. number of rooms)	Formality levels (e.g. white gloves, platters, etc.)
Exterior architecture (e.g. Victorian)	Special guest services (e.g. concierge, butler services)
Interior design (e.g. luxury design)	Brand name (e.g. franchise vs non-franchise)
Hotel amenities (including tech amenities) (e.g. gym, pool, HDTVs, Wi-Fi, iPads, etc.)	Trained workforce (e.g. professionalism, luxury training)
Service facilities (e.g. spa, restaurant, etc.)	Reputation (e.g. history, popularity)
Price range (e.g. US$ 100–$1 000/ night)	Guest relationships (e.g. loyalty programmes)
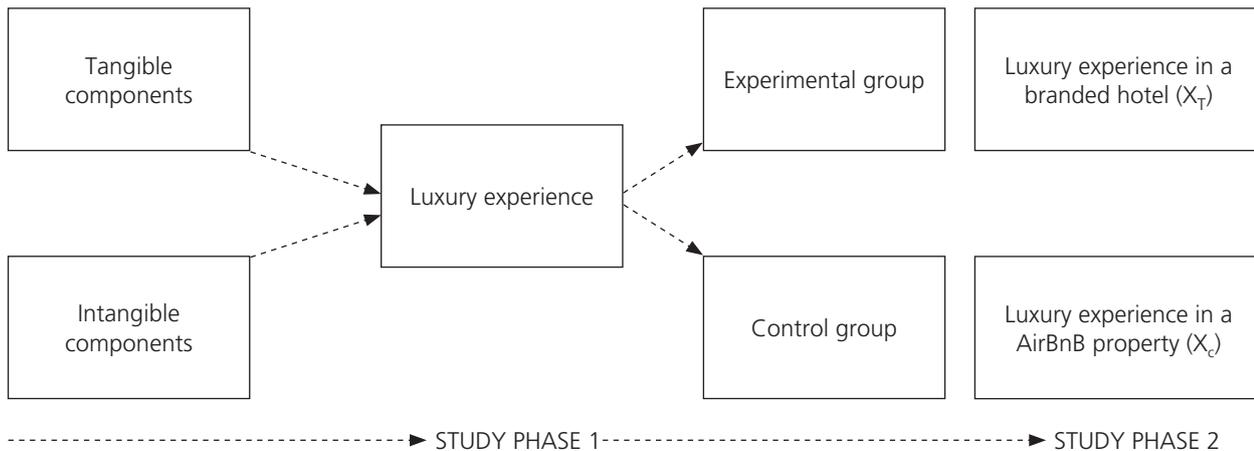
Figure 2: Proposed research design

study will be analysed using SPSS. The univariate tests and ANOVA will be used to examine the differences between millennials' preferences, experiences, and purchase intentions toward a luxury hotel brand versus a luxury property offered through AirBnB.

Discussion and future research directions

Existing public opinion and studies have said that comparing hotels to AirBnB listings is like comparing apples to oranges. For instance, Dogru, Mody and Suess (2017) found that between January 2015 and September 2016 AirBnB in the Boston market increased its supply, demand, and occupancy; however, this upward trend in the AirBnB market did not negatively influence Boston luxury hotel average daily rate (ADR) and revenue per available room (RevPAR). Most practitioners and researchers would argue that AirBnB demand and target markets are different from those of the hotel industry. So, who is using AirBnB? Most researchers would say that it is the millennials – young travellers or sometimes students who cannot afford to stay in a hotel. Nevertheless, it should be noted that this may not accurately describe all millennials, since they are the largest generation in the United States and also the largest in the country's work force (Fry, 2016). These millennials are the mainstream and future target customers for most lodging properties out there. Therefore, it is important not to review only the historical data to understand the impact, but rather the situation requires real-time data to reveal the future intentions of millennials to stay in an AirBnB listing vs a traditional hotel.

Out of the whole hotel industry, luxury is an important class that needs to be reviewed. Even though only 5% of hotel rooms are considered luxury globally (Mayock, 2015), millennials, unlike the silent generation (those born between the 1920s and 1940s) and baby boomers, do not have any personal loyalty to luxury brands and their features. For instance, hotel guests in luxury and upscale hotels have to pay for hi-speed Wi-Fi, whereas in AirBnB properties, Wi-Fi is free when it is available. By the way, Wi-Fi is the most important thing for millennials. This might be more critical for business travel, but when it comes to leisure travel, how will differences

in offerings influence the preferences of leisure luxury hotels among millennials? This study delved into these factors and how they would influence the future of leisure travel, especially in the lodging industry, considering the increase in supply and demand in AirBnB type accommodations. Does AirBnB offer unique enough experiences to customers to lure the millennial market away from the "cookie cutter" hotels? The results of this study will offer key insights regarding the millennial demographic's future intentions to stay in leisure luxury hotels vs AirBnB-type luxury properties and this phenomenon's impact on the industry.

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