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Traveling with Millennials

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Traveling with Millennials

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AT A GLANCE

Although the Millennial generation isn't the core customer group of airlines, hotels, and travel companies today, it will be in five to ten years, when Millennials enter their peak earning, spending, and traveling years.

Millennial Business Travelers

Our survey revealed that although Millennials travel less for business overall, they spend about the same amount as non-Millennial business fliers on total business flights per year. And Millennial spending will grow sharply in the next several years, reaching nearly 50 percent of total spending on business flights by 2020 or so.

Millennial Leisure Travelers

Millennials often travel with spouses and—if they have them—children, and they are also more likely than non-Millennials to travel for leisure in organized groups, with extended family, or with adult friends. These behaviors have implications for airlines, hotels, and cruise lines.

A Continuum of Strategic Choices

An effective Millennial strategy must address a full spectrum of considerations along a continuum of time, effort, and risk. Companies should try to coordinate and align their goals, strategies, tactics, budgets, and governance across the enterprise.

Millennials in the U.S. value diversity, embrace a global perspective, and are open to new experiences. These characteristics—which suggest a generation of natural travelers—are good news for the travel industry. At this stage in their lives, however, many of today's 16- to 34-year-olds have limited discretionary income and choose to dine out, shop for apparel, or save for big-ticket items such as education, a home, or a car instead of spending their money on travel. Millennials also seem to be more affected by adverse economic conditions than non-Millennials. As a result, most Millennials can't afford extensive leisure travel, and few are fully active business travelers—yet. We estimate that they currently account for about one-third of total U.S. spending on business flights.

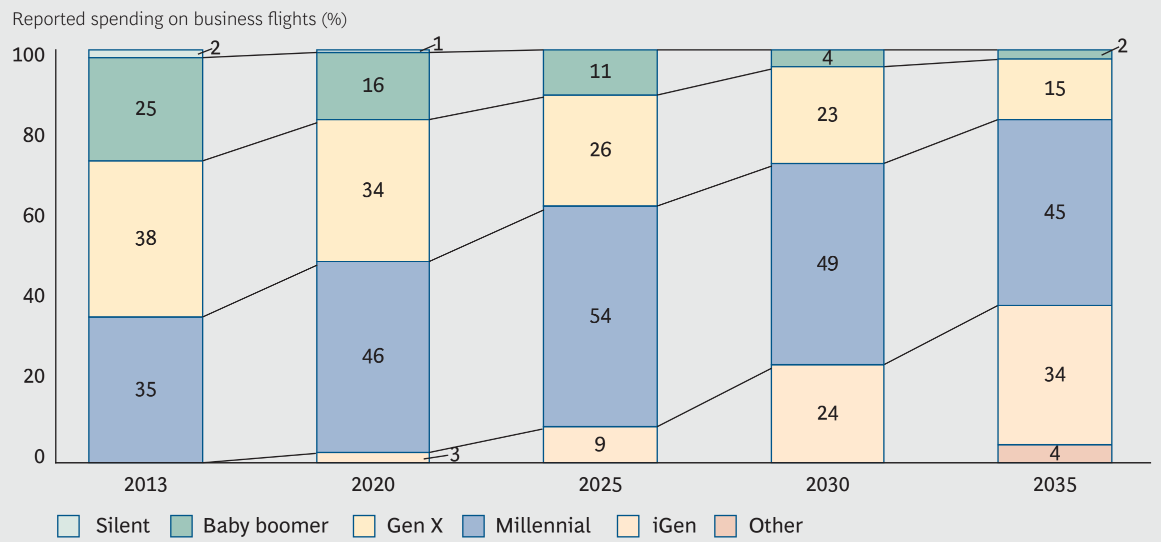
Although members of the Millennial generation are not yet the core customers of airlines, hotels, and travel companies, they will be in five to ten years, when they enter their peak earning, spending, and traveling years. In fact, their spending on business flights is projected to grow sharply in the next several years, reaching nearly 50 percent of the total by 2020 or so and remaining strong for the 15 years after that. By comparison, as the baby boomers age, their spending will likely drop to only about 16 percent of total reported spending on business flights by 2020 and to 11 percent by 2025. (See Exhibit 1.)

Millennials are already engaging with brands, forming perceptions, and developing travel habits and preferences. These nascent tendencies will solidify as members of this generation age. Airlines, hotels, and destinations that don't reach out to Millennials now, seeking to understand and address their unique needs, may miss the boat entirely.

A clear opportunity exists to shape this generation's travel-brand preferences.

Forward-looking companies in the travel and tourism industry are already thinking about how to earn the business and loyalty of U.S. Millennials and how to capitalize on the strong influence that they report having on family, friends, classmates, coworkers, and—thanks to social media—even complete strangers. It is interesting to note that younger Millennials (ages 18 to 24) are three times more likely to report strong brand loyalty than their non-Millennial counterparts, and the vast majority of Millennials report taking action on behalf of brands and sharing brand preferences in their social groups. This loyalty does not yet appear to extend to airlines. In fact, younger Millennials are four times more likely than non-Millennials to strongly *disagree* when asked whether they are loyal to one or more of the airlines. And travel companies should take note: far more Millennials than non-Millennials believe that booking travel is burdensome. A clear opportunity exists to shape this generation's travel-brand preferences.

EXHIBIT 1 | Millennial Spending on Business Flights Will Grow Sharply



Source: BCG research; definitions of U.S. generations; BCG analysis.
Note: Data reflect business fliers' reported spending on business flights.

But many companies in the travel and tourism industry—hotels and airlines especially—face a particular challenge. Given their capital intensity, long-term planning horizons, and lengthy development cycles, they do not have the luxury of waiting to start creating a Millennial strategy.

In addition to focusing on long-term planning and development, an effective strategy must consider how branding and marketing, loyalty programs, distribution channels, and amenities must change to meet the needs and preferences of Millennials. For example, Millennials are more likely to book both leisure and business travel with the help of aggregators such as Kayak and Travelzoo or through online travel agencies (OTAs) such as Expedia and Priceline and to use a mobile device for making travel arrangements. Also, Millennials report less overall fatigue and frustration with airports and the flying experience in general than non-Millennials. Perhaps because they are at an earlier stage of life, Millennials haven't had enough exposure to be truly discriminating. Because of factors such as these—as well as the cross-functional nature of any effective targeted strategy—travel and tourism companies will face a range of challenges as they develop and execute their plans and tactics. But waiting is not an option. Although most Millennials are just now beginning to develop their travel preferences, the window of opportunity to win their business—and their mind share—is limited. Forward-looking companies are taking action now.

The Boston Consulting Group joined forces with Service Management Group (SMG) and Barkley to survey the brand preferences and buying habits of 4,000 Millennials (ages 16 to 34) and 1,000 non-Millennials (ages 35 to 74) in the U.S. This survey included questions about preferences related to business and leisure travel. Separately, BCG conducted two additional studies. The first surveyed 3,770 U.S. air travelers—including 430 Millennials—about their travel habits and preferences, dividing travelers into business and leisure segments. The second study focused on the online behaviors and preferences of 570 Millennial and 1,010 non-Millennial travelers. Our research showed that travelers are by no means a wholly homogeneous group, and we identified a number of distinct segments, including Millennial business travelers and leisure travelers. (See Exhibit 2.)

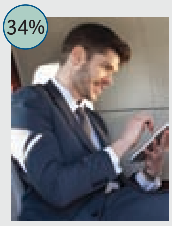
In this report, the third publication in our series on Millennial consumers, we present our findings from all three surveys of this generation and its approach to business and leisure travel. We focus on trips that involve flying, since these tend to involve greater distances than road trips, lengthier stays, and higher per-trip spending. The insights the surveys revealed have implications for all companies in the

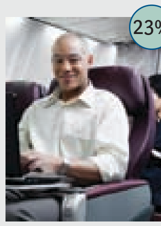
Exhibit 2 | U.S. Business Fliers Are Not a Homogeneous Group

Sky warrior (**MECE**) 34%

"I'm a loyalty program member, and I want to travel abroad. I'll pay for extra legroom."

- 26% of travelers, 34% of total spending
- 30% more spent per ticket
- 5.6 business trips per year
- Most international business trips





23% **Self-employed pathfinder** (**MECE**)

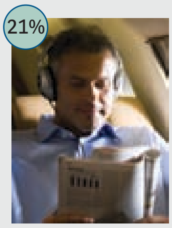
"I want a productive flight and a dedicated agent on the phone. Most other things don't matter."

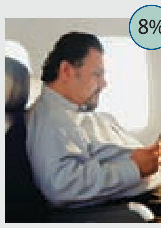
- 22% of travelers, 23% of spending
- 5.5 business trips per year
- 4.5 leisure trips per year
- More international business trips

Average business joe (**MECE**) 21%

"I'm looking for lower fares. I use airline lounges."

- 22% of travelers, 21% of spending
- ~10% less spent per ticket
- 5.1 business trips per year





8% **Rising global go-getter** (**MECE**)

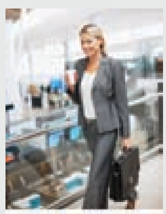
"I love elite status, airline lounges, and traveling abroad."

- 9% of travelers, 8% of spending
- 5.1 business trips per year
- 4.6 leisure trips per year
- 20% less spent per leisure ticket
- More international business trips

Cost-cautious planner (**MECE**) 14%

"I want low fares and low baggage and change fees. Elite status doesn't mean much to me."

- 22% of travelers, 14% of spending
- 15% to 20% less spent per ticket
- 4.0 business trips per year
- 3.7 leisure trips per year



The businesswoman (**overlay**)

"I want to pick my seat and to have fewer luggage problems. I need issues to be resolved quickly and fairly."

- 42% of travelers, 33% of spending
- 4.3 business trips per year
- 11% to 13% less spending per ticket
- Fewer international trips

Millennial employee (**overlay**)

18- to 34-year-olds use more OTA booking

"I want a comfortable, connected, and entertaining flight. I'd rather book online. And I'll tell others about a bad flight."

- 35% of travelers, 35% of spending
- 4.9 business trips per year—slightly less than business average
- Second-highest number of international trips
- 13% more spent per ticket
- 4.6 leisure trips per year
- Skewed toward females; more racially and ethnically diverse, particularly Asian Americans and acculturated Hispanics
- Accustomed to booking closer to trip and to making more frequent ticket changes
- Older Millennials (ages 25 to 34) account for 83% of segment and more than 90% of current spending

Source: BCG analysis.
Note: OTA = online travel agency; MECE = mutually exclusive and collectively exhaustive segmentation; *overlay* refers to segments that are not MECE.

travel and tourism industry, as well as all aspects of their operations: marketing, distribution, customer service, and capital planning.

Like the two earlier publications, this report aims to distinguish between behaviors, attitudes, beliefs, and habits that are generation specific and will persist and those that are age specific and will conform to historical norms as the generation ages. These insights will be critical for airlines and other companies in the travel and tourism industry, whose key challenge is to determine how and when to introduce their brands and services in ways that will help shape the emerging preferences of the Millennials—and lead to a higher share of wallet.

Millennial Business Travelers

Millennials who fly for business report significantly more generational diversity than non-Millennial business travelers: Millennial business fliers include 60 percent more Hispanics than, twice as many Asian Americans as, and 40 percent more women than non-Millennial business fliers. Millennials and non-Millennials are at different stages of their professional careers, and their business travel reflects this. Most Millennials are building their careers, whereas non-Millennials are at their professional peak or slowing down in anticipation of retirement. It's not surprising, then, that Millennials fly more for conferences, training, recruiting, and other one-off reasons related to career development, while non-Millennials travel more to visit clients, work at client sites, or develop client relationships.

Millennial business fliers are 60 percent more likely to upgrade for extra legroom and are far more open to paying more for roomier seats, more headroom, and in-flight entertainment.

Among non-Millennials, 45 percent report taking four or more business flights annually, compared with only 28 percent of Millennials. A small subgroup of Millennials fly internationally for business more than three times per year. Although Millennials travel less for business overall, they report spending about the same amount on total business flights per year as non-Millennial business fliers. That's because they do more international travel, buy more refundable nonupgradable tickets, book their tickets later, and tend to make more itinerary changes per business trip than non-Millennials. Millennial business fliers are 60 percent more likely to upgrade for extra legroom and are far more open to paying more for roomier seats, more headroom, and in-flight entertainment, and to buying frequent-flier points or miles than non-Millennials. As a result, Millennials report paying on average 13 percent more per airline ticket than the average non-Millennial business flier.

Millennial business fliers want different things from loyalty programs than do non-Millennials or Millennials who fly primarily for leisure. And the difference has clear implications for the strategies and tactics of airline loyalty programs. Millennials report more dissatisfaction with frequent-flier benefits such as miles, elite status, and rewards—and, especially, with how quickly points or miles expire: Millennials would rather use loyalty programs to earn free or discounted travel than to improve the travel experience with upgrades. Thus, while not the payment method of choice, cashing in miles or points on airline tickets is much more prevalent among Millennials than non-Millennials. Millennials also report greater willingness to switch from one airline program to another if they can get the same elite status, if they perceive the other frequent-flier program as more valuable, or if they think the other airline has a superior network of global partners. That said, because of their age and life stage, Millennials are far less likely than non-Millennials to use airline loyalty programs or credit cards today.

Our research revealed differences between the airlines that Millennials prefer and the frequency with which they actually book flights with them. For instance, Millennials tell us they prefer JetBlue Airways far more than they actually fly it, partially due to the availability of flights and destinations. The same holds true for Southwest Airlines for business flights, but to a lesser extent. Millennials traveling for business report using more airport amenities than non-Millennials—particularly Internet connections, charging stations, food and retail stores, and in-airport services such as ATMs. They also tend to make less use of newsstands. Onboard, they are four times more likely to pay for Wi-Fi, twice as likely to watch downloads on their mobile devices, and 60 percent more likely to watch in-flight entertainment.

Millennial business travelers are more apt to add on one more leisure trip per year than the average business traveler who also flies for leisure—a behavioral aspect of this group that could hold cross-promotional, loyalty reward, and comarketing potential for travel and tourism companies. And Millennials express more interest in traveling internationally—trips that are important to airlines from a profitability standpoint. Millennial business travelers are also more interested in group discounts (presumably for leisure travel), discounted leisure travel, airline packages, and low-cost carriers than are non-Millennials. This is not surprising, given Millennials' age and financial constraints.

Millennials are more likely than non-Millennials to travel for leisure in organized groups, with extended family, or with adult friends.

Airlines struggle today to consistently recognize loyal, highly profitable business travelers who are traveling for leisure in the main cabin—either alone or with their families—and to provide them with a meaningfully differentiated experience.

Millennial Leisure Travelers

With regard to leisure travel, many of the differences between Millennials and non-Millennials reflect life stage factors such as their discretionary income, their marital status, whether there are children in the household, how demanding their jobs are, and how much vacation time they have. Half of the Millennials we surveyed report taking four or more overnight leisure trips per year compared with more than 75 percent of non-Millennials. It's not surprising that the frequency of leisure travel increases with household income. High-income Millennials travel for leisure as much as non-Millennials, and much more than low-income Millennials. Those who report the most frequent business travel also report the most leisure travel, and this is especially true of Millennials and businessmen. Millennial women say that they take more leisure trips each year than do men who travel primarily for leisure, and Hispanic Millennials report the least amount of leisure air travel on average. Men of both generations report traveling alone for leisure more than do women.

While they often travel with their spouses and—if they have them—children, Millennials are also more likely than non-Millennials to travel for leisure in organized groups, with extended family, or with adult friends. These behaviors are in keeping with this generation's social nature, which shows up in other activities such as dining out and shopping. Given this tendency, we expect travel and tourism companies to see a greater opportunity in coming years to provide group promotions and services that allow for reserving blocks of seats or rooms or sharing and building itineraries through company websites, OTAs, and social media. Hotel companies have begun to develop more robust capabilities for small-event planning, but those capabilities are often buried on their websites. We expect that the use of such tools will increase and that other travel providers will begin building these capabilities.

For both generations, visiting family and friends is the most popular reason for leisure travel, but it is more popular among Millennials. This intensity appears to be generational rather than simply related to life stage. Outdoor adventures, shopping, and special events such as weddings, entertainment, and food and wine festivals are key reasons for Millennials' leisure travel, and the presence of children in the household doesn't change this. Millennials are also almost twice as likely as non-Millennials to travel for a hobby. And they travel more for personal interest, food and wine, entertainment, outdoor activity, and shopping than do non-Millennial leisure travelers. Male Millennials travel more for gambling and personal hobbies; female Millennials travel more for special occasions, to visit family and friends, and for cultural enrichment and sightseeing. For Millennials and non-Millennials alike, "relaxation and rejuvenation" is the second-most commonly cited reason for travel.

All of these generational habits and preferences have implications for travel promotions, packages, rewards, and OTA inventory.

Members of all generations tell us that they respond to economic pressures by taking fewer trips, but Millennials—who book further in advance, book fewer (but longer) trips, and seek out good deals more than do non-Millennials—also tend to see booking as more of a game and respond opportunistically to low prices and interesting packages. On the other hand, non-Millennials say that they would drive instead of fly, stay with family or friends, vacation closer to home, or choose less expensive flights and hotels to save money. All of these generational habits and preferences have implications for travel promotions, packages, rewards, and OTA inventory.

We also looked at the travel attitudes and behaviors of younger Millennials (ages 18 to 24), who—given their tendency to be unmarried, childless, and not yet professionally established—usually have more leisure-travel flexibility. Younger Millennial leisure travelers book further in advance than Millennial business travelers and non-Millennial leisure travelers, and they tend to pay with standard credit cards. Unlike older Millennials (ages 25 to 34) and non-Millennials, far fewer younger Millennials are currently members of airline rewards programs. Younger Millennials who travel primarily for leisure fly less frequently, so they prefer getting discounts to apply to *planned* travel more than getting miles or reward benefits when they fly. And, like Millennial business travelers, they favor low-cost carriers.

As we found with Millennial business fliers, our research revealed differences between the airlines that younger Millennials tell us they prefer and the frequency with which they actually book flights on those airlines. Southwest (although it is even more preferred by non-Millennial leisure fliers) and Delta Air Lines appear to be the choice of younger Millennials who travel primarily for leisure. They use fewer airport amenities than non-Millennial leisure travelers and Millennials flying for business, largely focusing on free services, fast food, nonalcoholic beverages, and technology services such as Wi-Fi and charging stations.

These younger Millennials value in-flight entertainment but are less engaged by printed material in general and airline magazines in particular. By comparison, owing to their stage of life, they are less bothered by the time and hassle of check-in, security, boarding, and luggage retrieval, and they are less concerned about service issues in general.

Generational Needs and Preferences

Our survey also revealed generational differences that we believe will continue to characterize members of this generation as they age. Forward-looking companies will consider these factors as they develop strategies that target the Millennials.

Millennials are more likely to book business and leisure travel through OTAs or with the help of aggregators—a preference reported among all members of this generation, regardless of income, gender, household composition, or race—and to use a mobile device for making travel arrangements. Far more Millennials than non-Millennials (75 percent versus 47 percent) report having travel apps on their smartphones, and they are more likely to use Amazon.com, Google Maps, Yelp, Hotels.com, Expedia, Kayak, Orbitz, and the travel apps of traditional carriers such as Delta and American Airlines. The exceptions are hotel websites and Southwest.com, which Millennials and non-Millennials use about equally. Millennials are twice as likely as non-Millennials to use their mobile phones to show travel pictures to friends, share travel photos on social media, blog or recount travel experiences online, and post travel reviews. Millennial females, in particular, are the most active travel sharers: far more of them upload photos to social networks than Millennial males (42 percent versus 25 percent). These generational tendencies have implications for digital strategies (think, for example, of how bandwidth issues at sea could affect the experience onboard a cruise ship), marketers, customer service organizations, and advocacy and social-media strategy and tactics.

Far more Millennials than non-Millennials (75 percent versus 47 percent) report having travel apps on their smartphones.

Millennials also report doing more travel research and comparisons over the Internet and making greater use of search engines for travel purposes. They're far more likely than their non-Millennial counterparts to upload travel information. Overall, Millennials report much more reliance than non-Millennials on user reviews, experiences, and online content when they make travel arrangements. Millennials are more likely to use review sites such as Yelp, Google Places (also known as Google+ Local), Yahoo! Local, and BBB.org. In addition, they tell us that they're more likely to broadcast negative experiences than positive ones, unlike the average non-Millennial leisure traveler who tends to post more balanced views and is more apt to tell others about a great flight experience.

All travelers are hesitant to divulge sensitive personal data and information about their children, spouses, and social networks. Generally speaking, however, Millennials are less cautious than non-Millennials about sharing personal information online, such as brand preferences, where they live, household composition, loyalty status and numbers, age and general personal information, frequent destinations, preferred airports, and personal hobbies.

Although the Millennial generation is more likely overall to integrate social or environmental causes into purchasing decisions, this inclination doesn't appear to extend to travel, most likely because of the price point. Millennials are less willing to pay more for travel that supports a cause. This implies that when airlines and other travel and tourism companies support causes, they should do so altruistically, with no expectation of brand enhancement or other benefits.

Far more Millennials than non-Millennials report a desire to visit every continent (70 percent versus 48 percent) and to travel abroad as much as possible (75 percent versus 52 percent). Although younger Millennials (ages 18 to 24) report a greater interest in international travel than non-Millennials, the two groups report taking a similar number of international trips, despite differences in discretionary income. Interest in international travel increases slightly as household income rises, and it decreases slightly in households with children, reflecting a minor life-stage effect. Overall, however, Millennials are more diverse as a group than non-Millennials and more interested in international travel and global cultural experiences. Given the popularity of gaming among Millennials and their desire to achieve and share achievement badges, travel companies could look at building promotions or loyalty rewards around this game-playing predisposition—especially for more profitable international flights.

An effective Millennial strategy must address the full spectrum of considerations along a continuum of time, effort, and risk.

A Continuum of Strategic Choices

With the possible exception of their attention to marketing, most companies in the travel and tourism industry don't yet appear to be acting aggressively on the various aspects of their businesses that must evolve in order to meet Millennial needs. This is most likely because they don't yet view the members of this generation as being their core customers and a key source of revenue. This delay in acting means that most industry players will get a late start and will find themselves at a strategic disadvantage compared with their earlier-moving peers.

An effective Millennial strategy must address the full spectrum of considerations along a continuum of time, effort, and risk. At one end of the spectrum are the near-term marketing, branding, and communication tactics that will begin to engage the members of this generation, shaping their perceptions and preferences. To succeed, companies should segment their customers to identify those most engaged in business and leisure travel; the segments that are the most profitable; each segment's unique behaviors, needs, frustrations, and preferences; and the return on investment from meeting each segment's needs. Armed with these insights, companies can determine how well positioned their brands are for the targeted segments and—at a minimum—adjust their messaging, communications frequency, and media mix accordingly.

New capabilities such as advocacy marketing, microtargeting, trend monitoring, and digital, mobile, and social-media marketing will also be critical. Millennials report that their purchase decisions are affected by family, friends, and other outside influencers, so these new marketing channels will play an important role. Just as important in reaching Millennials is the use of language, visuals, endorsers, messages, entertainment, tone, and humor that resonate with members of this generation.

Moving along the continuum, companies must develop distribution strategies and tactics that align with Millennials' habits and preferences. This will require using a mix of channels, including corporate websites, OTAs, and aggregators, as well as rethinking loyalty programs and partnerships. For instance, insights such as that Millennials are relatively more concerned with getting reward miles or points than non-Millennials can inform loyalty programs. With the ability to recognize profitable Millennial segments online, capture their information, and offer relevant packages, promotions, and rewards, companies can draw in members of this generation. The right marketing or branding partnerships can also be effective. Our research shows that certain athletic, technology, apparel, and luxury brands resonate particularly well with Millennials.

Because Millennials' service preferences differ from those of non-Millennials, companies in the travel and tourism industry must design guest experiences with Millennials in mind. Airlines and airports, for instance, must rethink their food and beverage offerings, in-flight entertainment, check-in processes, flight status updates, airport amenities, and all other aspects of the traveler experience. Case in point: our research shows that Millennials favor organic and exotic foods, prefer touchscreen technology, and need charging stations for their many electronic devices. And because Millennials more than non-Millennials look online for reviews and opinions—and are more likely to broadcast their own negative experiences—the 24-7 ability to resolve conflicts online and social-media listening capabilities are crucial.

Companies must develop distribution strategies and tactics that align with Millennials' habits and preferences.

Finally, at the far end of the continuum are longer-term, more capital-intensive projects. For instance, an airline may have to consider aircraft design, product development, and retrofit decisions—along with the requisite business cases and capital hurdles—as well as Millennial preferences related to such concerns as seat size, decor, legroom and headroom, lighting, air quality, Internet connectivity, and charging stations.

Marketing and communications initiatives are relatively low-cost, low-risk efforts that can start immediately using current budgets. But product development projects—with their long lead-times and high capital costs—are far riskier and demand more of a financial commitment. Still, managed correctly, these higher-risk activities should also deliver significant rewards.

Since many of the efforts along the continuum are cross functional, travel companies will be more successful if they coordinate and align their goals, strategies, tactics, budgets, and governance across the enterprise. To this end, companies must determine the most effective mix of centralized and decentralized management. (See Exhibit 3.) Because of the organizational and operational implications of these decisions, companies must understand where they are on that continuum with regard to their Millennial strategies—and where they need to be. Given the size and certainty of the Millennial opportunity, the speed of its approach, and its lengthy duration, these are critical decisions for companies to make—sooner rather than later.

EXHIBIT 3 | Companies Must Determine the Best Mix of Centralized and Decentralized Management

	1 Functions develop and deploy function-specific segmentations	2 Center coordinates customer-facing functions only	3 Center coordinates product and marketing departments	4 Center manages and monitors the entire organization
Rationale	• Most functional ownership • Lowest spending outside budget but not least costly • Potentially fastest	• Shorter timeline • Minimal risk • Capital constrained • Already undergoing another transformation or major change	• Closing window to capture segments • Less risk than full transformation • Greater integration • Capital prioritization	• Multiyear commitment • Longer-term objective and timeline • Capability building to hedge unknowns • Most integrated
Potential outcome	• Segmentation varies • Innovations and investments are at cross-purposes • Customers are confused • Effectiveness and return are not optimal	• Product or experience doesn't match brand promise • Traveler is eventually disappointed, and equity, preference, and permission are eroded	• May achieve impact faster • Doesn't fully build capabilities • Consumes considerable time and attention	• Has the most impact if executed well • There is sustainable advantage • Is risky if not actively governed and managed • Involves greatest commitment and degree of change
	Not a recommended approach			

Shorter (within 18 months) — Longest (multiyear)

Least integrated
Budget funded
Not centrally coordinated
Functional

Most cross-functionally integrated
Capital and incremental budget
Fully centrally managed
Cross-functional program

Source: BCG case experience.

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