The Promise of Travel in the Age of AI

Skift RESEARCH + McKinsey & Company

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Executive summary

Every generation has its own "golden age" of travel that is often defined by the widespread adoption of new technology—from the jet engine of the 1950s that drastically reduced travel times to the dot-com period of the 1990s that allowed customers to build their dream itineraries online. Now, a new era of digitally enabled travel is upon us, with advances in artificial intelligence (AI), including generative AI (GenAI), and machine learning (ML) transforming the experience. Applications span travel organizations and use cases from AI-enabled trip planning, to individually tailored communication during disruptions, to live simulation models and virtual reality (VR) training to improve frontline decision making.

Technology has influenced the way consumers experience travel, too. According to Skift Research, people have increased time spent on digital devices by 70 percent since 2013.[1] This trend accelerated during the COVID-19 pandemic, when online interactions frequently replaced in-person contact and consumers became more accustomed to using digital tools. However, traditional travel is unique in that it can only happen in person, making it an inherently human-centric experience. The industry currently has an opportunity—and perhaps even a duty—to define what this looks like in the digital age.

While most travel companies aim to provide exceptional service and deliver the perfect trip, the average traveler's experience is often far different. Operators inconsistently deliver on baseline expectations of timing and quality (e.g., itinerary changes, delays, and cancellations), which too often cause customers stress and anxiety. Despite this, people still aspire to travel. Through both established and new technologies, companies have an opportunity to keep this aspiration alive by closing the persistent gap between the promise and reality of travel.

Embracing this opportunity and adopting new technologies may require investment. Larger companies may have more resources to invest in new technologies and develop in-house capabilities, but a robust ecosystem of service providers has emerged that makes new technologies accessible to companies of all sizes. According to McKinsey Digital estimates, by holistically addressing digital and analytics, including AI, throughout the organization, companies across industries see a 15 to 25 percent potential EBIT improvement. This is an opportune time

1 Based on data from U.S. Census Bureau and Statista. See *State of travel 2023*, Skift Research, July 21, 2023.

for businesses across the travel industry to start setting the pace for value creation by rethinking how they interact with customers, develop and deliver products and services, and manage people and operations.

This report is intended to inspire travel companies to reimagine their businesses, raise the industry's aspirations, and unlock long-term stability and growth—all necessary to keep the magic of travel alive. It is not a step-by-step guide to digital transformation. It offers use cases and success stories that detail how technologies are being used, and presents examples and insights drawn from interviews with executives at 17 companies across five types of travel businesses.

Know your customers like you know your friends

As customers turn to digital technology for inspiration on where and how to travel, they leave behind a trail of data for companies to capture. Not only can this data be difficult to process, but internal data may not necessarily paint the full picture. To complete their understanding, companies may turn to third-party sources. Robust marketing technologies can then help distinguish the "signal" from the "noise" in the data to better predict customer behavior.

Having gained a clear and comprehensive understanding, companies can create customer segments to guide how they interact with and serve different customers. Depending on the data available and the analytical capabilities at hand, segmentation can range from grouping customers into segments based on a single macro characteristic (e.g., business versus leisure) to individual "segments of one," known as hyper-segmentation.

Drilling down to segments of one can enable hyper-personalization, which is broadly defined as the ability to uniquely tailor touchpoints to an individual customer's needs, preferences, and behaviors. At its core, hyper-personalization is not only about increasing conversion rates, but about providing the customer with an end-to-end experience adapted to their specific context. Considering the level of personalization that is becoming the norm in many aspects of daily life, companies are adopting an ongoing test-and-learn approach to ensure their offers and actions resonate with customers' rising expectations.

If operations go wrong, hyper-personalization reassures customers that they are at the forefront of the company's mind and instills confidence that a thoughtful recovery plan is in place (e.g., sharing real-time status updates in moments of disruption with tailored solutions or even proactive compensation).

Design your products to surprise and delight

Recent advances are pushing the boundaries of what technology can accomplish. While the pace of adoption may feel unsettling, it provides an impetus for travel companies to reimagine their service design and delivery using AI and digitization—minimizing traveler friction and delivering on their promises.

Historically, capabilities such as language, creativity, and aesthetic judgment—once considered uniquely human—could not be scaled through technology. AI, particularly GenAI, offers a new way to deliver these capabilities. For example, online travel agencies have started to integrate GenAI into mobile apps to make the discovery and booking processes easier and provide customers with personalized recommendations.

However, AI remains only part of the answer. Across travel sectors, digitization continues to help companies deliver against commitments made to customers. Hotels, for instance, use digitization to speed up routine processes like check-in, while freeing up staff to provide better face-to-face interactions. Many of these assets and tools rely on common, existing systems and capabilities making them widely attainable. Using a combination of AI and digitization, travel companies can provide a delightful and frictionless end-to-end travel experience for their customers .

Empower your workforce to follow through on promises made

An engaged and productive workforce allows the delivery of experiences and products that satisfy customers. Two areas stand out as opportunities to improve operational performance and increase workforce satisfaction through technology: augmenting frontline capacity and upskilling existing talent.

Often, technology and automation are perceived as negative forces that eliminate jobs. However, as the travel industry is

facing an ongoing labor shortage, a reframing is necessary. New tools and technologies are not meant to replace the human touch, but to enhance and scale it—allowing staff to focus on tasks and decisions that require their thought and intervention.

In the travel industry today, complex decisions still rely on human expertise and intuition; where automation is used, the technology is often outdated (including greenscreens or rudimentary interfaces). This approach leads to inconsistent "best-guess" decisions that perpetuate a reliance on specialized knowledge. Given the steep learning curve involved in developing this expertise, new frontline staff can struggle to catch up.

Instead, advanced simulation modeling and new decision-making tools such as digital twins, connected to real-time data sources, allow companies to conduct rapid "what-if" analyses and provide live guidance and feedback to the frontline. Technology can also make it easier to bring new hires up to speed while upskilling the existing workforce. For instance, virtual reality (VR) and augmented reality (AR) are used to simulate multiple realistic scenarios, quickly preparing frontline employees to hit the ground running, and provide personalized coaching based on performance.

Travel is ripe for innovation

We believe this is a moment of optimism for the industry. Between reclaiming its historical share of GDP, benefitting from the ongoing corporate travel recovery, and catering to consumer demand for unique experiences, the stage is set for travel's accelerated growth. Looking ahead, travel is forecasted to grow an average of 5.8 percent a year up to 2032—more than double the expected growth rate of the overall economy (at 2.7 percent a year).[2]

This does not mean that travel companies can simply sit back and reap the benefits. Companies that choose not to use existing and new technologies to reset how they interact with customers, deliver products and services, and empower their workforce could watch the industry move without them—no matter if they are a travel supplier, a distributor, a large global brand, or a growing startup. Fortunately, there are a growing number of avenues—build, buy, or partner—to help companies get started. The only wrong move is no move.

2 "Travel & Tourism sector expected to create nearly 126 million new jobs within the next decade," World Travel & Tourism Council, April 21, 2023.

Introduction

This report is intended to inspire travel companies to reimagine their businesses, unlock long-term stability and growth, and raise the industry's aspirations—it is not a step-by-step guide to digital transformation. It offers use cases and success stories that detail how technologies are being used, drawing from interviews with executives at 17 companies across five types of travel businesses.

Every generation has its own "golden age" of travel. Travel meant something different to your parents and grandparents than it does to you—and it will mean something different to the next generation, too. In the 1950s, jet engines launched travelers into a world where the journey from New York to London lasted less than a day. In the 1970s, airline deregulation brought travel to the masses, with new routes serving all corners of the world. And in the 1990s, the dot-com era empowered customers to craft their dream itineraries online.

What will define the next age of travel? Digital technology, machine learning (ML), and artificial intelligence (AI), including generative AI (GenAI), are equipping the industry to reimagine what it means to plan, book, and experience travel. This surge of innovation sets the stage for companies to rethink how they interact with customers, develop and deliver products and services, and manage people and operations.

Bridging the gap between promises made and promises kept. The ultimate goal of travel companies is to provide exceptional service and deliver the customer's dream of a perfect trip. However, the customer experience is often very different—instead of ease, excitement, and delight, travel frequently induces stress and anxiety.

Too many operators fall short of meeting baseline expectations of timing and quality: flight delays and cancellations, hotel check-in delays, lost luggage—the list goes on. Negative headlines reflect how deeply these disappointments are felt. In the first half of 2023, nearly 80 percent of American travelers

EXHIBIT 1 — CONSUMERS WANT TO SPLURGE ON TRAVEL

Categories where consumers intend to treat themselves in the next three months, percent of respondents

Source: McKinsey ConsumerWise Global Sentiment Data, August 2023, n = 4,000

experienced at least one travel-related problem.[3] In another 2023 survey, fewer than half of US travelers said that their last international leisure trip lived up to expectations.[4]

Digitally enabled travel gives companies the opportunity to close the persistent gap between promise and reality. Using established and new technologies, companies can raise the bar for the entire industry and reset how customers think and feel about travel.

Digital-first is not a fad. According to Skift Research, people have increased time spent on digital devices by 70 percent since 2013.[5] This trend accelerated during the COVID-19 pandemic, when online interactions frequently replaced in-person contact and consumers became more accustomed to using digital tools.

However, traditional travel is unique in that it can only happen in person, making it an inherently human-centric experience. The industry currently has an opportunity—and perhaps even a duty—to define what this looks like in the digital age.

The easing of pandemic-related travel restrictions established 2021 as the year of "revenge travel." Leisure travelers were eager to get back to the sky, water, and road—so much so, they were often willing to overlook customer-service issues and inconveniences.[6] But that window of acceptance has passed; customers have a new set of expectations and tolerance is wearing thin. The days of travelers excusing delays, standing in endless queues, and waiting on hold for agents are numbered.

The travel industry can inspire and aspire. Despite these frustrations, the desire to travel remains. According to McKinsey's ConsumerWise Sentiment Survey, over 30 percent intend to "splurge" on expenses in the coming year with travel behind only restaurants and groceries for home (Exhibit 1).[7]

To maintain this favored position among consumers, and keep the desire to travel alive, travel companies can focus on delivering exceptional customer experiences. However, many companies face the challenge of aging legacy systems

3 Lane Gillespie, "Survey: 77% of travelers plagued by travel problems amid booming season; more than half saw higher prices," Bankrate, July 10, 2023.

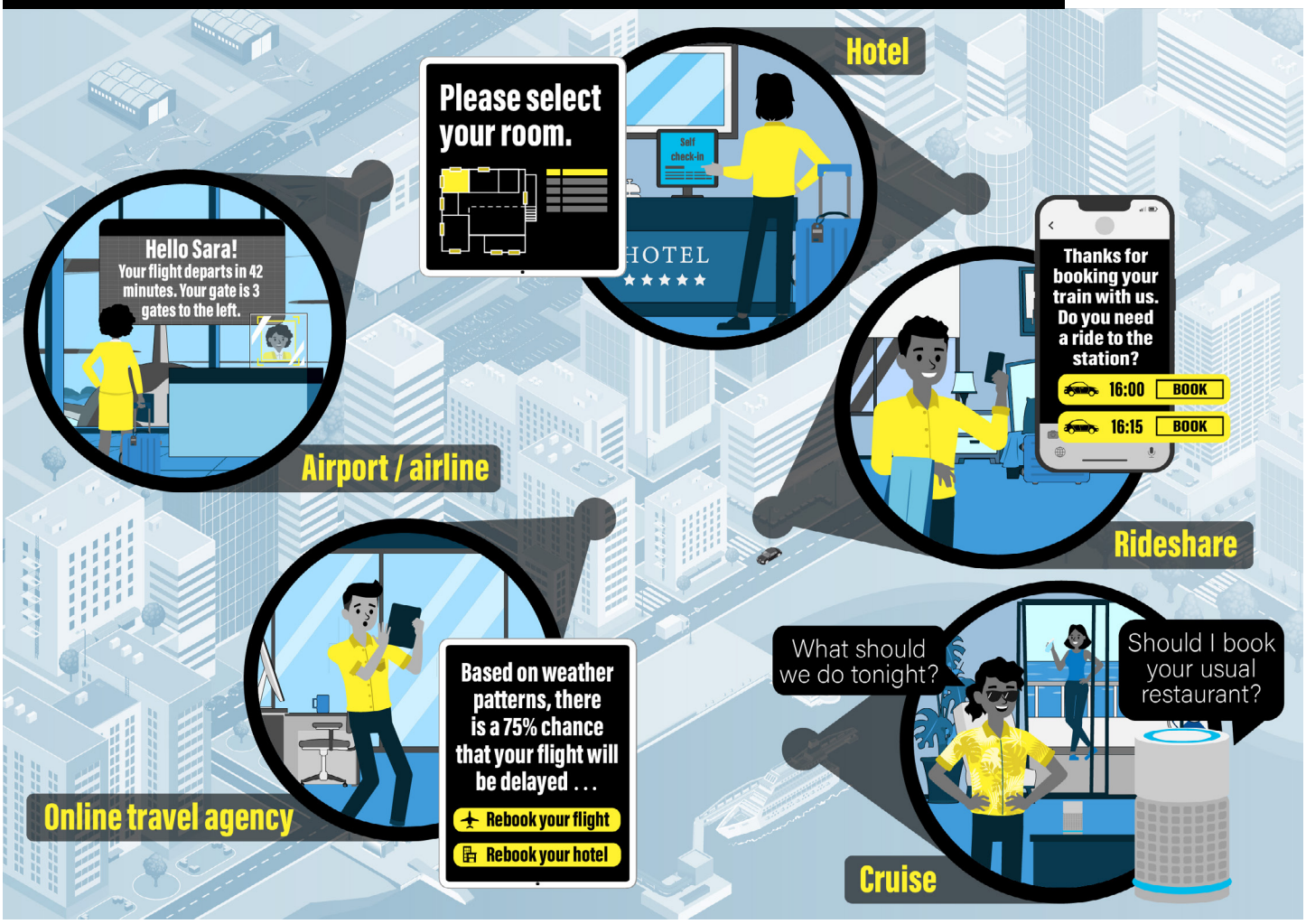
4 Marie Haaland, "When a trip doesn't go as planned, most people stay calm and flexible, survey finds," SWNS Digital, April 13, 2023.

5 Based on data from U.S. Census Bureau and Statista. See *State of travel 2023*, Skift Research, July 21, 2023.

6 *Rebooting the customer experience to bring back the magic of travel*, a joint report from McKinsey and Skift Research, September 2021.

7 McKinsey ConsumerWise Global Sentiment Data, August 2023, n=4,000.

EXHIBIT 2 — THE INDUSTRY HAS AN OPPORTUNITY TO REIMAGINE THE FUTURE: DIGITALLY ENABLED TRAVEL



to overcome, and AI and other new technologies are often viewed as abstract and challenging to implement. Not only does this hinder progress but workarounds and superficial fixes are often prioritized in IT budgets. The result is a mountain of work for small, marginal improvements that are hardly felt by consumers and employees.

This stands in contrast to the travel sector's strong track record of innovation. After all, this is the industry that pioneered modern revenue management, network-optimization tools, simulation training, and global distribution systems. Fortunately, the industry can turn to its innovative history to find the inspiration to "pick the baton back up" and lead on embracing a digitally enabled future (Exhibit 2).

Advanced technology is for everyone, big and small. Larger companies may have more resources to invest in technology and develop in-house digital tools and capabilities. However,

> ***15–25% potential EBIT improvement*** *for companies across industries from holistically addressing digital and analytics, including AI, across functions, according to McKinsey Digital estimates*

a robust ecosystem of products and services has emerged that makes new technologies accessible to companies of all sizes. Travel companies can pursue a combination of build, buy, and partner strategies to develop their digital and analytics capabilities, setting them on a course for profitable growth. According to McKinsey Digital estimates, by holistically addressing digital and analytics, including AI, throughout the organization, companies across industries see a potential 15 to 25 percent EBIT improvement. This is an opportune time for

the travel industry to embrace technology and start setting the pace for value creation.

Historically, travel startups have been underfunded relative to the industry's size. Now venture investment in the sector is rising. In fact, in 2021, investment set an all-time high of almost $11 billion—indicating that investor appetite has not only returned to pre-COVID-19 levels, but rather surpassed it.[8] This investment offers an opportunity for travel companies big and small to innovate their technology and win back the magic of travel.

Chapter One explores how companies apply advanced data science to better understand and serve customers. Chapter Two delves into how digital and analytics tools can improve products and services, while Chapter Three examines how new technologies augment workforce capabilities and unlock operational capacity.

8 Giuseppe Genovese, Evgeni Kochman, Vik Krishnan, and Nina Wittkamp, "Travel startups: Disruption from within?", McKinsey, March 2023.

Chapter 1. Know your customers like you know your friends

Travelers are increasingly turning to digital technology—social media, web searches, reviews, online travel agencies (OTAs) and more—for inspiration and information. This engagement creates a vast amount of data for travel companies to capture and analyze for rich and precise customer insights.

This granular data allows for extensive personalization—from discovery and planning, to custom offers, to anticipating the customers' requests while on their trips. Even when things do not go as planned, personalization reassures customers that the operator is alert to their needs and that a thoughtful recovery plan is in place.

Digital is everywhere—and it's changing travel

Personalized, digital-first experiences are now the norm. Since the start of the COVID-19 pandemic, digital technology has become increasingly ingrained in consumers' daily lives. This has influenced consumer perspectives on where and how to travel, particularly with the rise of hybrid work.

First-generation OTAs defined the past decade of travel marketing. While these OTAs created new opportunities to discover hidden gems, initial success often depended on customers entering the right combination of keywords. Today's landscape looks entirely different, with travel companies, search engines, AI-powered chatbots, and social media apps able to predict what consumers will like and deliver targeted suggestions. And this content is influential—three-quarters of travelers agree that they've been "inspired to travel to a specific destination by social media," while 48 percent want to travel to destinations that will allow them to "show off on social media."[9]

Technology has also created new ways to access travel. Hybrid work environments empower travelers to book blended trips that combine business and leisure. Nine in ten people would like to add leisure time to their next business trip.[10] Indeed, Marriott noted in its February 2023 earnings report that average business trip length of stay is up 20 percent from 2019.[11]

9 *2023 Global travel trends report*, American Express Travel, March 2023.

10 Libby Zay, "How bleisure is changing the travel industry," Navan, February 14, 2023.

11 "Fourth Quarter 2022 Earnings Conference Call Transcript," Marriott International, February 14, 2023.

Don't get lost in the noise

Over the past two decades, the variety and volume of customer data that travel companies can capture has increased dramatically; new tools and technologies such as AI-powered assistants are only accelerating this trend. Companies can aggregate internally captured data with data from third-party sources to create a full picture of the customer—combining and distilling commercial, operational, financial, and behavioral inputs (Exhibit 3).

> *'With AI, consumers are typing in a lot more information about themselves. Now you have a lot more data—very rich information about the consumer—than you did before.'*
>
> *—Rob Francis, Chief Technology Officer, Booking Holdings*

While this is critical to understanding customer behavior, the sheer amount of information generated can be challenging to process. The industry is reckoning with an important fact: some data points are more useful than others. For example, hotel brands collect important feedback on everything from booking-system failures to long check-in queues to subpar room cleanliness. They also capture less vital information such as browsing data collected when customers "window shop" for the presidential suite, or complaints customers have made about the weather.

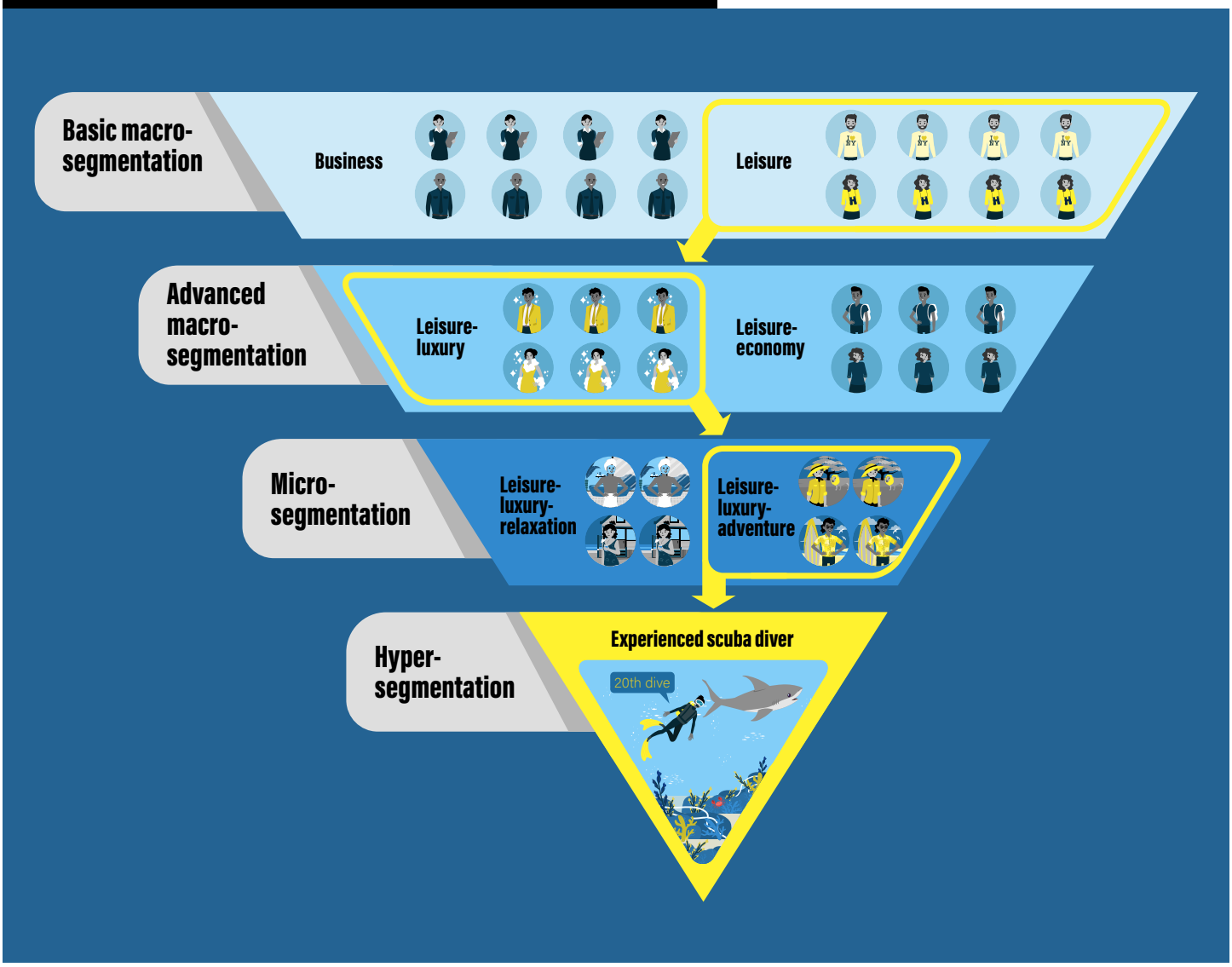
This poses an interesting challenge: how to distinguish the signal from the noise? Marketing technology (MarTech) isolates customer buying factors that are within companies' control and determines which data is indicative of customer behavior through sentiment analyses and ML-powered decision engines.

EXHIBIT 3 — DATA FROM INTERNAL AND EXTERNAL SOURCES COMPLETES THE CUSTOMER PICTURE

Drill down to "segments of one"

MarTech stacks allow companies to analyze these troves of data and create customer segments. Segmentation, or the act of grouping "like" customers together, guides how companies interact with and serve different customers. Depending on the data available and the analytics capabilities at hand, segmentation ranges from macro (grouped on one macro characteristic like business versus leisure) to hyper (individual "segments of one"). At the broadest level, macro-segmentation groups customers according to a handful of high-level descriptive statistics (for example, average spending power or travel frequency). Macro-segmentation doesn't require advanced analytics and can be managed using basic dashboard tools. Many companies rely on this approach. However, its broad strokes often miss meaningful patterns and difficult-to-detect relationships, resulting in confirmation bias, causation-correlation confusion, and a disconnect between behavior and value creation.

EXHIBIT 4 — HYPER-SEGMENTATION DRILLS DOWN TO A "SEGMENT OF ONE"



Companies with a strong data and MarTech foundation are able to venture down the segmentation pyramid, implementing more granular and powerful approaches as they go. Advanced macro-segmentation groups customers more precisely using AI and ML models, while micro-segmentation breaks things down further into even more granular clusters.

At the far end of the scale, hyper-segmentation takes into account multiple characteristics about an individual, creating a comprehensive view of a "segment of one." From this level of detail, companies have the ability to re-aggregate customer groups based on any variable (and so move back up the segmentation pyramid) giving them the flexibility to deploy different segmentations strategically (Exhibit 4).

'When we run our ad campaigns, we have multiple versions that speak to different demographics of guests. For our Gen Z audience, we have launched more partnerships with festivals like Lollapalooza in Chicago and Berlin and Wilderness Festival in the UK, which they love. It's about knowing them as a cohort and winning their hearts and minds.'

—Claire Bennett, Global Chief Customer Officer, IHG Hotels & Resorts

Personalized travel from start to finish

Once travel companies have collected relevant data, created customer segments, and identified value drivers using their MarTech stacks, they can take action. This involves deciding how and when to personalize customers' experiences.

Hyper-segmentation enables hyper-personalization: the ability to tailor the traveler's journey to their needs, preferences, and behaviors. This can take many shapes: personalized offers based on their last trip, optimized room type based on prior hotel feedback and other data, or tailored recourse for any disruptions.

> *'It comes down to whether I can create curated trip packages for you, based on what we know about you or the preferences that you indicate, and then pull this content together and share it with you in a timely manner. Knowing your preferences, can I send you proactive notifications and draw you in?'*
>
> *—Rajesh Naidu, SVP & Chief Architect, Expedia*

Hyper-personalization is not just about increasing conversion rates. It's about providing the customer with a thoughtfully designed experience that accounts for their circumstances and adapts in real time (Exhibit 5).

Accor, for example, is investing heavily in this space. Using an AI-powered customer-relationship management (CRM) suite, Accor draws on internal customer data to personalize the communication that goes out to each guest. Alix Boulnois, Chief Digital Officer, says, "We have more than 400 attributes in the system that enable us to do a much deeper segmentation." She confirms that the company is seeing "massive uplift" and notes that "the revenues from our emails have been multiplied by three, just through this change."

Hyper-personalization, though, is not always the right solution. Different situations call for different levels of personalization depending on capabilities, context, cost, and potential benefit.

EXHIBIT 5 — HYPER-PERSONALIZATION HAS USE CASES THROUGHOUT THE TRAVEL JOURNEY

For example, companies may not have the required data, or the customer may exhibit new behavior. As Accor's Boulnois says, "the same customer can have different needs depending on why they're traveling, who they're traveling with, and so on. The recommendation per customer is not static."

JetBlue Travel Products calls this "contextual personalization." If, for example, a customer who regularly flies from Fort Lauderdale to New York for business rebooks that route, JetBlue will hyper-personalize the experience. However, if the same

customer suddenly books a first-time trip to Salt Lake City in winter, the company will look at similar travelers (same demographic, destination, time of travel) when determining how to proceed. Andres Barry, President of JetBlue Travel Products, says the aim is to balance "not just knowing you as an individual, but knowing what people who look and act like you do in the same situation."

> *'Depending on my trip context, I can perceive a hotel experience differently. For some trips, the hotel might be just a commodity; but if I'm coming for an annual vacation, then a hotel is one of my biggest touchpoints. Understanding real-time booking behaviors is key to making sense of trip context and gaining a competitive edge.'*
> *—Markus Mueller, Founder and Managing Director, GauVendi*

The power of personalization extends beyond planning and booking. It provides an opportunity to deepen connections with customers throughout the travel journey, starting with timely, clear, and accurate communication via the customer's preferred channel. This is especially true during delays and disruptions when thoughtful, personalized recovery plans have the potential to build lasting customer trust. The beauty of data-driven personalization lies in its ability to develop an ongoing conversation with customers by delivering the right message at the right time.

> *'We should stop calling ourselves airlines and call ourselves disruption-management businesses. I think the best airline in the world is going to be the one that manages disruption on behalf of its customers most seamlessly.'*
> *—Nikhil Ravishankar, Chief Digital Officer, Air New Zealand*

AI IN ACTION

Navan puts AI into action to drive hyper-personalization

Navan is a corporate travel and expense-management solution that uses data to segment its customers and personalize their experience. According to Ilan Twig, CTO and co-founder, in a typical flight or hotel search a customer might see over 500 travel options, "but you really don't need 500. You need ten."

Navan seeks to reduce the number of results presented and make selection more efficient. Two customers who search for identical itineraries will receive highly personalized search results based on their profiles. Twig says that in around 40 percent of cases, the customer books the top result.

Twig believes that the next frontier of personalization is related to long-term memory: if a customer has previously interacted with Navan's virtual travel agent, Ava, that conversation will be "remembered" when they plan their next vacation, even if months or years have passed. Ava might ask, "Should I take your husband and two children into account for this trip?" and will know that the kids are now five and nine years old.

Navan also aims to make complex, multi-city bookings seamless in the near future. Right now, according to Twig, "when it comes to multi-city, oftentimes it ends up with an agent. That's the reality." Twig believes that personalization, AI, and data-mining can circumvent that need.

But there's a big difference between a conversation and a sales pitch. If companies only use personalization for marketing and transactional notifications, they miss an opportunity to build customer goodwill and run the risk of being ignored. Hopper, a mobile-only OTA, deploys targeted communication that is the opposite of transactional. The company alerts customers to the best time to book a flight or hotel—with 60 percent of its price alerts advising travelers to wait and buy later. Telling customers not to buy may be an unusual sales strategy, but these data-driven, personalized messages aim to build trust and keep Hopper top-of-mind for when customers do book their trip.

Don't assume! Use data to test and learn what customers want

Customer behavior is ever changing, and today's strategies won't stay fresh for long and require frequent pulse checks, iteration, and adjustment. Feedback, A/B testing, and time to action are critical. While many companies use these testing methodologies, only a few embed a continuous test-and-learn approach into all aspects of their organizations—maximizing opportunities to gain knowledge and act on their findings.

Hopper, for example, developed airline fintech products that allow customers to cancel a flight for any reason. When expanding into the hotel segment, the company assumed it would establish a similar product offering cancelation prior to check-in. However, through customer testing and feedback, Hopper found that guests also wanted the flexibility to cancel at or after check-in—a small but important variation. When the customer cancels, Hopper pays the customer a refund for the price of the hotel, but also makes sure that the hotel receives payment as well. Through A/B testing, Hopper has identified an alternative approach to keep both customers and suppliers satisfied.

New technology and advanced analytics enable companies to sift through an abundance of data to build a granular understanding of their customers and craft bespoke experiences that satisfy evolving expectations. Chapter Two explores how some companies are using AI and digitization to reimagine the design and delivery of travel products to create a frictionless end-to-end experience.

AI IN ACTION

Misapplied Sciences offers hyper-personalization to Delta flyers with Parallel Reality™ Technology

Luggage in one hand, coffee in the other, anxiously monitoring a list of 100 flights while navigating a busy airport before the gates close—this is the experience Misapplied Sciences is looking to improve with its Parallel Reality technology. By personalizing information on airport displays that is typically generalized for tens of thousands of passengers, the company aims to make the journey seamless. The Parallel Reality display shows personalized content, including departure information, loyalty status, and distance to gate, to up to 100 viewers simultaneously.

In partnership with Delta Air Lines, Misapplied Sciences debuted Parallel Reality at Detroit Metropolitan Wayne County Airport in summer 2022. To date, hundreds of thousands of passengers have opted in to use it. Unlike typical first adopters, these early users are not particularly tech-savvy: they range from curious children to wary seniors as well as frequent flyers. Albert Ng, co-founder and CEO of Misapplied Sciences, shared that 89 percent of passengers "smiled when they went through the Parallel Reality experience."

The company's vision is not just a single display—but rather "curb-to-gate personalization." This will include greeting and updating passengers with tailored signage in their preferred language. From lounge recommendations to rideshare pickup directions, Parallel Reality has potential to improve the full airport experience.

Ng believes this is just the beginning—this technology can be extended to other travel sectors including alternative transportation hubs, rideshare, and hotels.

Chapter 2. Design your products to surprise and delight

Recent advances are pushing the boundaries of what technology can accomplish. Nothing illustrates this better than the meteoric rise of AI platforms like ChatGPT—which garnered one million users in only five days.[12]

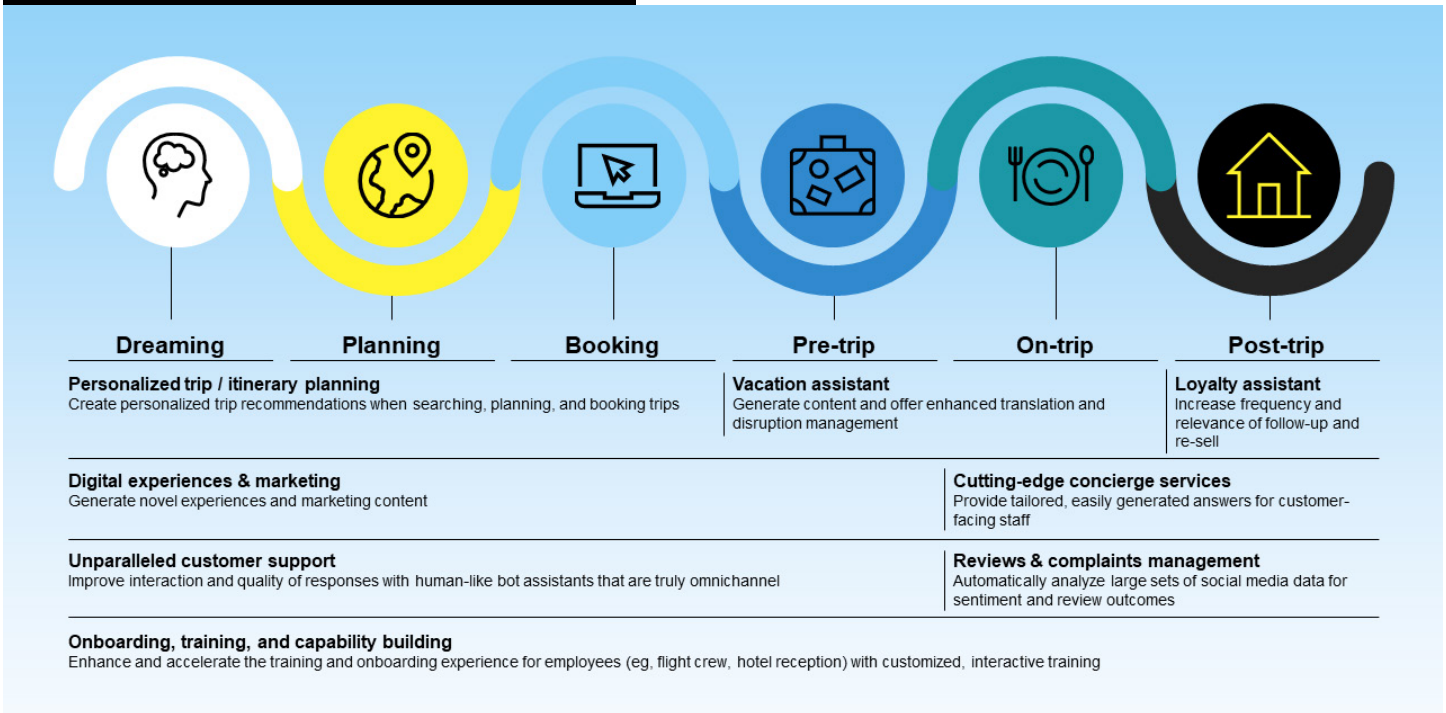
While the pace of adoption may be unsettling to some, it's prompting travel companies to reimagine service design and delivery. Unlike other consumer-facing industries where interactions end at the point of sale, travel encompasses customer experiences before, during, and after booking. This presents both a challenge and an opportunity. The challenge: there are many points at which travel companies can fall short of delivering the basics, causing a buildup of customer anxiety. The opportunity: new technologies like GenAI and digitization can minimize friction and help travel companies deliver on their promises.

Consider the following scenario: a family of four looking to book a summer vacation logs into their favorite OTA. A GenAI-enabled assistant recommends personalized itineraries based on the family's travel history, preferences, budget constraints, and dates. After the family chooses an itinerary, the digital assistant recommends a custom add-on package which includes a stroller, SUV rental, and a reservation at the airport playground.

The family checks in via the airline's mobile app and travels to the airport. They drop off their luggage at a self-service kiosk and proceed to security at a prereserved time. They quickly clear security using biometric recognition and receive a push notification recommending a family-friendly lounge based on their departure gate and lounge capacity. After receiving a

12 Steve Mollman, "ChatGPT gained 1 million users in under a week. Here's why the AI chatbot is primed to disrupt search as we know it," Yahoo News, December 9, 2022.

EXHIBIT 6 — GENAI ENABLES NEXT-GENERATION TRAVEL



boarding notification, the family follows personalized digital signage to the gate. While boarding, they receive a notification that their bags have been loaded and will be on carousel three approximately ten minutes after landing.

On the flight, the kids enjoy recommended shows based on their streaming history while the parents are offered their usual in-flight beverage. Even though the flight lands early, the strollers are waiting for them at the gate and the luggage is at the carousel. The car-rental company has automatically adjusted their reservation, so the family can make their way to the hotel immediately. They check in on the app and go straight to their room using a digital key. In all, their experience has been seamless and tailored across planning, booking, and day-of experiences, enabled by new technology.

> *'I think we're at the very beginning of the hockey stick. Economically, we are at the start of what is potentially the biggest technology disruption that humanity has ever seen.'*
>
> *—Luca Zambello, Chief Executive Officer, Jurny*

Scaling new heights with AI

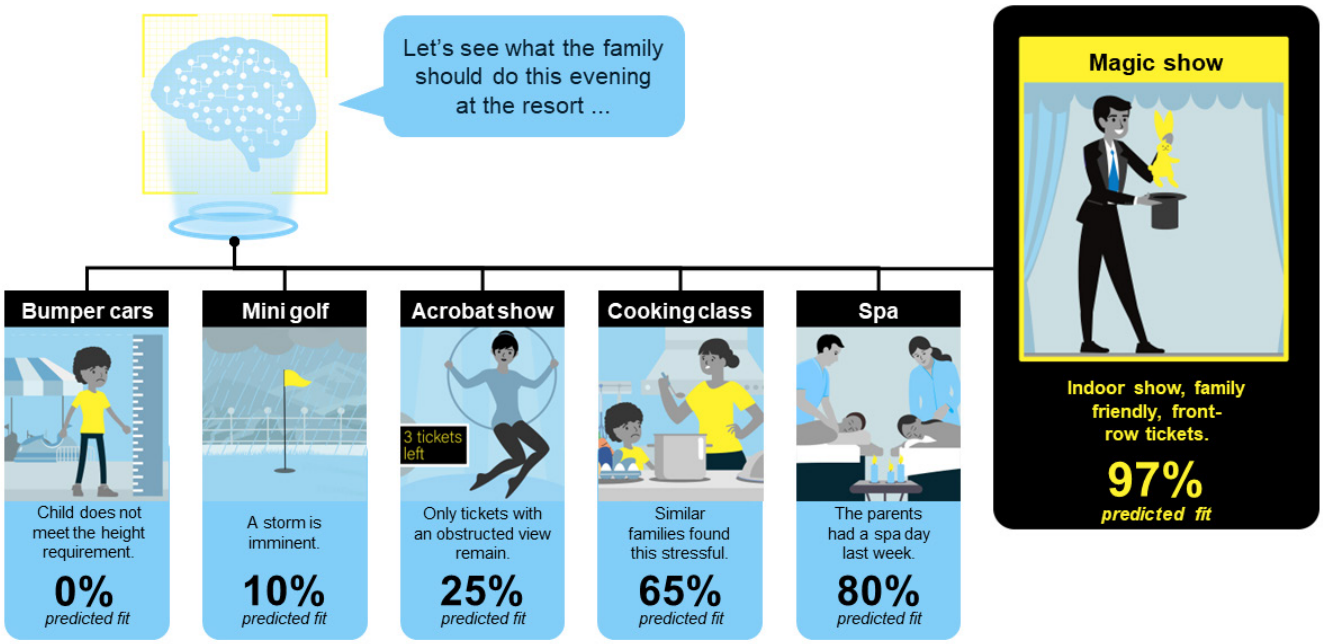
In the past, capabilities such as creativity and aesthetic judgment were considered uniquely human and impossible to automate. But AI, in particular GenAI, offers new ways to augment and scale these human powers, with enormous potential benefits: according to McKinsey research, generative AI has the potential to unlock between $2 trillion and $4 trillion in annual value across industries.[13] In the travel context, these tools are capable of generating novel, creative solutions that meet and exceed customer expectations throughout the customer journey (Exhibit 6).[14]

> ***$2–4 trillion** annual potential value unlocked by generative AI across industries, according to McKinsey research*

During travelers' "dreaming" and planning phases, companies use AI to deliver tailored bundles via customers' preferred

13 "The economic potential of generative AI", McKinsey, June 14, 2023.
14 Seth Borko, "Generative AI's impact on travel", Skift Research, April 12, 2023.

EXHIBIT 7 — PLAN YOUR EVENING WITH A VIRTUAL CONCIERGE



channels, ensuring they fall within budget, are truly customized, and are new to market.

OTAs are leading the charge on this. One of the first OTAs to integrate advanced AI into its mobile app was Trip.com with TripGenie, a chatbot that helps customers plan their trips.[15] Schubert Lou, COO of Trip.com, explains that the application was developed to meet customer demand for more "complex and context-rich" information. Lou highlights three key components of TripGenie: its language-processing ability, the accuracy of the information it provides, and its user interface. With TripGenie, Trip.com hopes to infuse its industry knowledge into the chatbot's answers to enrich the customer's experience. Lou also suggests future interfaces will allow customers to interact with webpages, view images, navigate to other pages, and make bookings quickly.

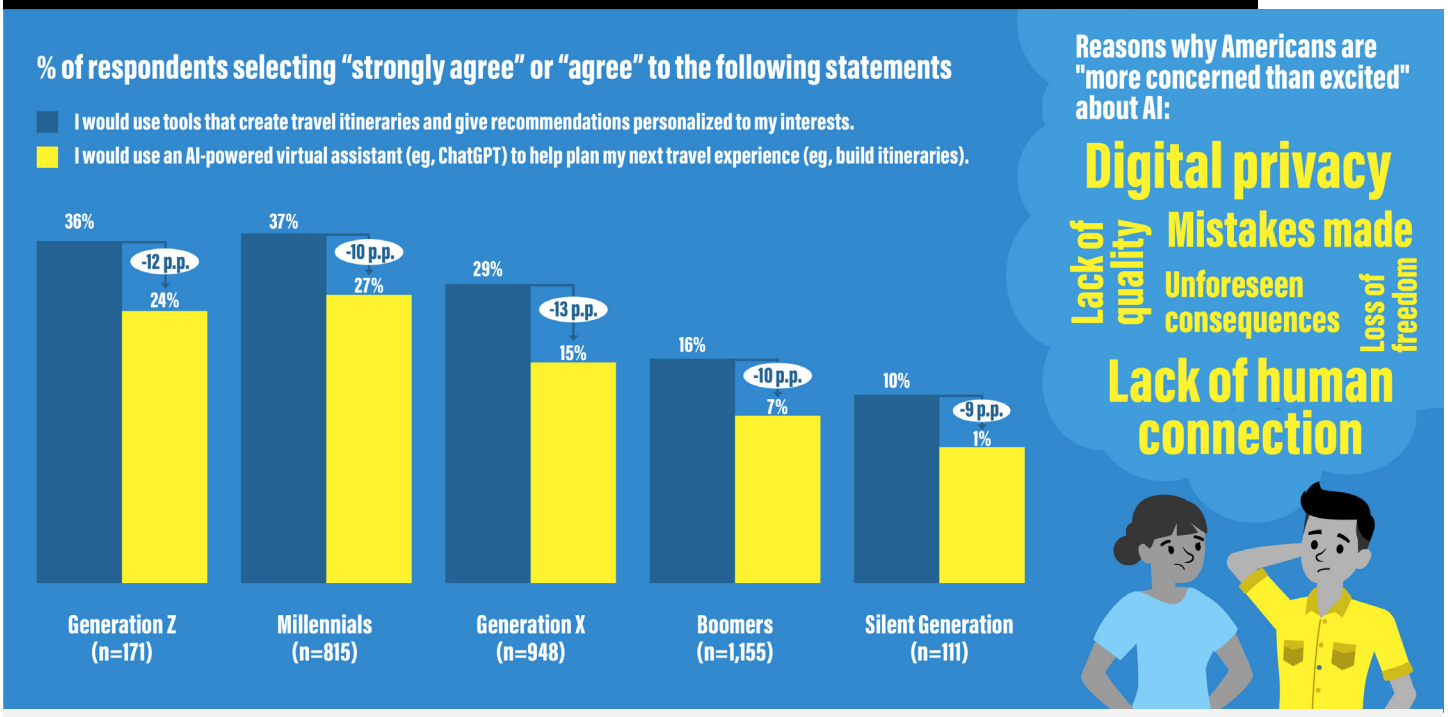
Similarly, Expedia integrated ChatGPT into its mobile app with the goal of easing the travel planning process and narrowing the breadth of options. Customers can start a conversation in the app and get advice on destinations and activities, including photos and reviews of hotels to make the experience more engaging. Hotel and activity recommendations from the conversation are also saved to a new "trip," which customers can access at any time. According to Rajesh Naidu, Expedia SVP and Chief Architect, "We've spent the last two years re-architecting our entire platform to take advantage of technologies like this [GenAI], to be able to jump fast and quickly onboard these capabilities."

AI expedites processes that consume human time and require extensive expertise, and can scale up human capabilities like product knowledge. Plum Guide, a service that curates and lists vacation rental homes, provides a prime example. The company's AI uses pattern recognition to assess rental homes in a way that emulates the decision making of its interior design professionals looking for a specific aesthetic. Essentially, Plum Guide has used AI to bottle its creative taste to provide a boutique product with minimal need for human review. This does not replace interior designers but helps them assess hundreds of homes rapidly while enhancing customer experience and options provided. Additionally, Plum Guide uses GenAI based on ChatGPT to generate listing descriptions in a consistent, brand-appropriate tone. "We'd never be able to do anything like this without the ChatGPT framework," says CEO Doron Meyassed.

AI also allows companies to enhance experiences for travelers who are already on their trips. Six Flags recently announced a

15 Justin Dawes, "Why Trip.com thought it needed a Generative AI chatbot," Skift, March 3, 2023.

EXHIBIT 8 — CONSUMERS WANT THE CONVENIENCE OF AI BUT ARE LESS WILLING TO USE TOOLS LABELED AS SUCH



Source: Monica Anderson et al., AI and human enhancement: Americans' openness is tempered by a range of concerns, Pew Research Center, March 17, 2022; McKinsey Travel Loyalty Survey, July 2023, n = 3,200

partnership with Google Cloud to integrate GenAI chatbots into its mobile app and website. These chatbots offer personalized guidance and recommendations to visitors before and during their visits to the park. Omar Jacques Omran, Six Flags' Chief Digital Officer, believes this "signifies a monumental leap in our strategic direction, ushering in a new era of technological empowerment for Six Flags."[16] Chatbots, specifically, present significant potential for all travel companies.

During the journey, future generations of chatbots can serve as virtual concierges that provide personalized recommendations based on real-time availability, constraints, and context (Exhibit 7). Cruises, resorts, and theme parks can use their amenity capacity and foot traffic data to inform these recommendations—balancing the need to maximize sales, optimize asset usage, and deliver customer satisfaction. In fact, Skift Research estimates that AI-powered chatbots represent an addressable travel market of more than $1.8 billion.[17]

> ***$1.8+ billion*** *estimated addressable market for AI-powered chatbots in travel industry, according to Skift Research*

As technology matures, use cases for GenAI in travel will likely increase. In McKinsey's experience, GenAI has the ability to show real impact within three or four weeks as part of experimentation—unlike any other IT seen before. The innovation that GenAI enables, from content generation to virtual assistants, has the potential to elevate travel experiences dramatically.

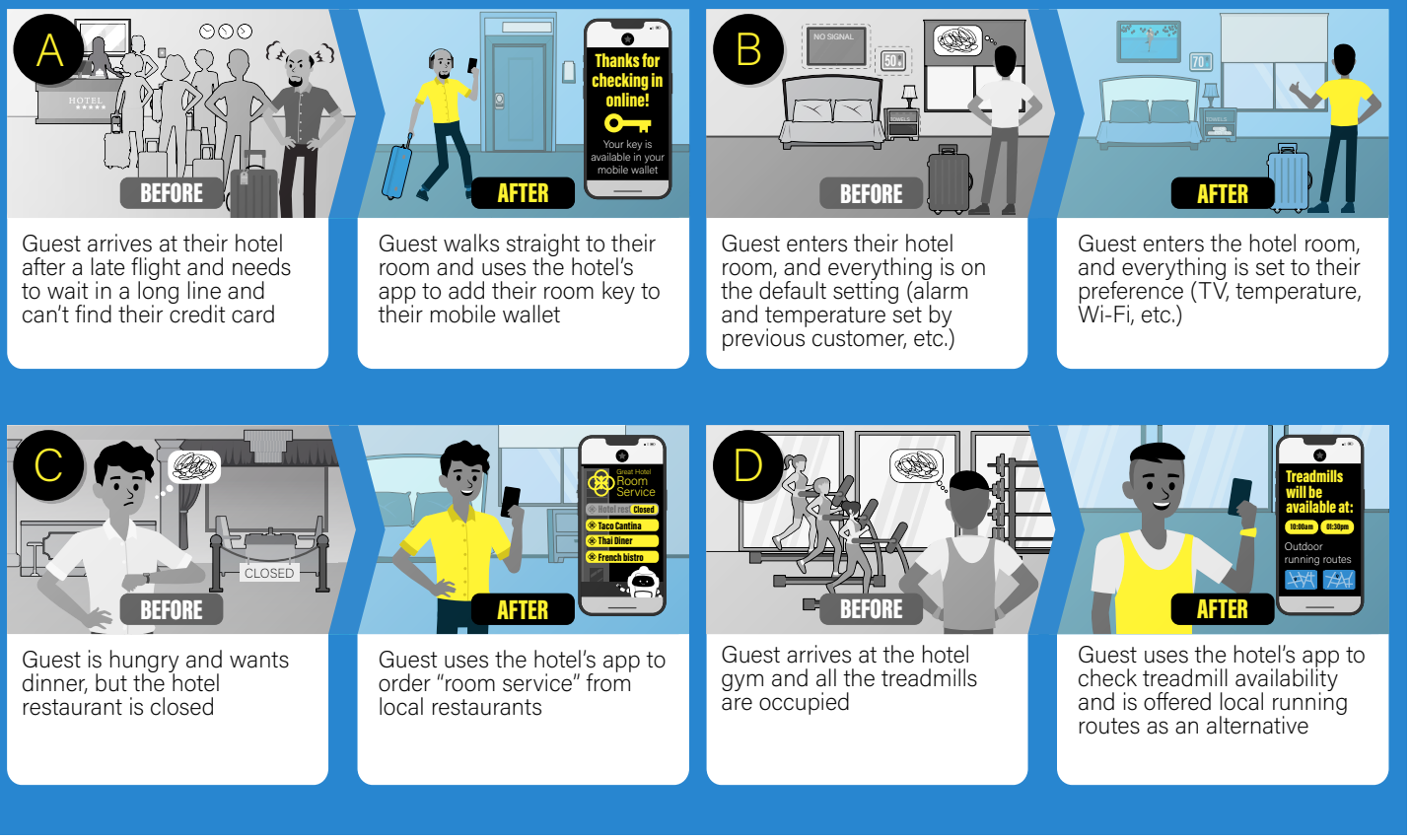
However, with these abundant opportunities come multiple risks and considerations, including intellectual property violations, privacy breaches, and social and environmental impact; these require skillful navigation.[18] Companies may also need to be cognizant of customer concerns. Despite evidence that users are beginning to expect the level of service and personalization that AI provides, they may still be hesitant to engage with it: a recent McKinsey survey revealed that, across generations, respondents were consistently more willing to use a tool offering

16 "Six Flags to accelerate digital transformation in amusement park industry and launch a cutting edge virtual assistant powered by Google Cloud's generative AI," Six Flags press release, August 29, 2023.

17 Seth Borko, "Generative AI's impact on travel", Skift Research, April 12, 2023.

18 "What every CEO should know about generative AI," McKinsey, May 12, 2023.

EXHIBIT 9 — DELIVER ON THE BASICS WITH DIGITIZATION



"personalized travel itineraries" than one labeled "AI-powered virtual assistant."[19] And a 2021 Pew Research Center survey noted American respondents' worries about digital privacy, lack of human connection, and AI's potential to make mistakes (Exhibit 8).[20]

Don't forget about digital

AI is only part of the answer. Across the travel industry, digital innovation continues to help companies deliver on commitments made to customers. Many of these assets and tools rely on common, existing systems and capabilities making them more widely attainable.

A 2022 survey by Hospitality Technology revealed that 73 percent of travelers are "likely or very likely" to return to a hotel that meets their technology expectations.[21] Skift Research has identified several such offerings: guest apps and in-room tech, guest messaging, digital check-ins and kiosks, and keyless entry. Several simple tools can boost guest satisfaction and reduce friction during the trip (Exhibit 9). The magnitude of these individual tools is amplified when seamlessly integrated together, making it easier for customers to use digital applications throughout their hotel stay.

In a growing number of instances, travel companies have chosen to partner with a third party as a means to minimize friction and deliver seamless experiences across the travel ecosystem. For instance, Lyft partnered with Delta to send push notifications to customers based on their airline flight

19 McKinsey Travel Loyalty Survey, July 2023, n=3,200.

20 Monica Anderson et al., "AI and human enhancement: Americans' openness is tempered by a range of concerns", Pew Research Center, March 17, 2022.

21 Daniel J. Connolly, Jungsun Kim, and Robert Firpo-Cappiello, "2022 Customer engagement study: Embracing digital transformation," Hospitality Technology, August 1, 2022.

information to ensure timely rides to and from the airport. According to Zach Greenberger, Lyft's Head of Strategic Business Development and Global Supply Management, the app's latest features were built to meet travelers' desire for reliable, on-time, and coordinated travel experiences.[22]

Providing delightful travel experiences through technology will be a hallmark of next-gen travel. The final chapter explores how companies can empower their workforces to follow through on the customer promise using digital and analytics for more efficient decision making and training—improving the workforce's performance and job satisfaction.

22 "Lyft and Delta expand partnership to provide smoother experience for travelers with in-app flight status and additional reminders," Lyft, December 15, 2021.

> *'When we think about digital solutions, they are always there to cater to, equip, and accommodate the human connection.'*
>
> *—Casper Overbeek, Head of CX and Digital, citizenM*

Impact story: How technology enabled a better human experience at citizenM

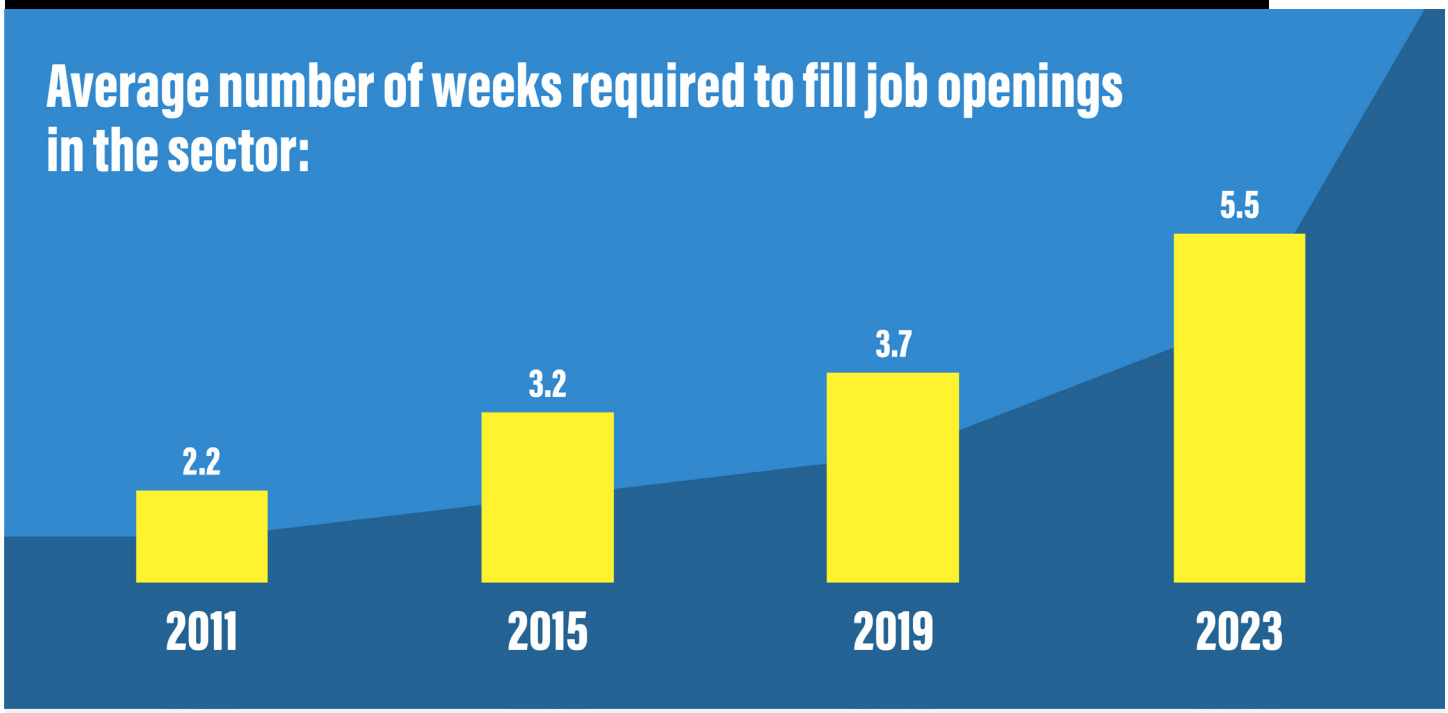
citizenM is a global hotel chain and lifestyle brand based in the Netherlands, with 31 hotels in 18 cities. One of the company's defining characteristics is a highly digitized customer experience, powered by their mobile app. While one might expect that a more digitized experience results in less human connection, Head of Customer Experience, Casper Overbeek, insists that citizenM is a "human-first hotel." He explains that digital in itself is not a goal—it is a means to achieve something.

citizenM's digital experience removes many traditional points of friction for hotel guests. Rather than waiting in line for a front-desk representative, customers visit a self-service kiosk where they can check in, scan their passport, and select their room. Overbeek stresses that this process allows the hotel ambassadors (their frontline workers) to engage more positively with hotel guests. Instead of looking down at a computer screen to complete the check-in process, ambassadors can ask about the guest's day, help with luggage, or chat about an upcoming basketball game, connecting more with the guest during check-in.

The digital experience continues when the guest approaches their room. A physical hotel key will be replaced by the citizenM app, allowing the guest to unlock the door with just their phone. Once inside, the temperature, lighting, media, and more, can be adjusted from the app to make the stay as comfortable as possible. The guest can even order food and drink from the app, or scan artwork on the walls to learn more about the artist.

These digital experiences allow for "affordable luxury," where, according to Overbeek, one can enjoy "a four-star experience at a three-star price." Each hotel is run efficiently with a small team—all of whom can spend time on what matters most to their customers because the technology handles tasks that do not require a human touch.

EXHIBIT 10 — IT'S TAKING LONGER FOR FOOD-SERVICE AND ACCOMMODATION EMPLOYERS TO FIND SUITABLE STAFF



Source: Skift Research analysis of data from U.S. Bureau of Labor Statistics, data as of May 2023. See *State of travel 2023*, Skift Research, July 21, 2023

Chapter 3. Empower your workforce to follow through on promises made

An engaged and productive workforce is essential to deliver experiences and products that satisfy customers—and one of the greatest obstacles that travel companies face is attracting, training, and retaining top talent. During the first year of the COVID-19 pandemic, the global industry lost 62 million jobs; the travel labor market has yet to fully recover.[23]

Skift Research has found US accommodation providers employ 12 percent fewer workers than they did before the pandemic, and finding suitable staff takes longer. Hospitality positions now take, on average, five to six weeks to fill compared to three to four weeks prepandemic (Exhibit 10).[24] In recent years, employee turnover has increased drastically: 93 percent of existing staff were separated (quits, layoffs, and retirements) in the US food-service and accommodations industries in 2022, compared to 80 percent in 2019.[25] Currently, 7 percent of US travel and tourism jobs are vacant, jumping to 11 percent in the European Union.

These structural labor hurdles, compounded by high turnover, may persist for the foreseeable future. However, the industry can help increase workforce capacity by equipping its frontline workforce with the right tools at the right time. In fact, McKinsey Global Institute estimates that up to 30 percent of hours worked by people today could be automated by 2030, largely accelerated by GenAI.[26] This can free up employees to focus on the things they enjoy most and that make the travel industry tick: high-value personal interactions with customers. Serving as true brand ambassadors, employees can follow through on promises made to customers and, in turn, positively impact the bottom line.

23 *Global economic impact and trends 2021*, World Travel & Tourism Council, June 2021.

24 Based on data from U.S. Bureau of Labor Statistics. See *State of travel 2023*, Skift Research, July 21, 2023.

25 Ibid.

26 *Generative AI and the future of work in America*, McKinsey Global Institute, July 26, 2023.

> *Boosted by GenAI, **30 percent** of hours worked today could be automated by 2030, according to McKinsey Global Institute*

Two promising opportunities to improve workforce and operational performance through technology stand out across the travel industry: augmenting frontline capacity and upskilling talent.

> *'We select our students because we believe they have the hospitality gene, the gene of service. It's this gene that motivates our graduates to work with people every day. Our graduates understand the value of technological innovation and automation, but technology often isn't a passion for them. Rather, our graduates value technology that frees up their time to do what they love—engage with guests and serve at the highest level.'*
>
> *—Harsha L'Acqua, CEO, Saira Hospitality*

Make superheroes of the frontline

Often, technology and automation are perceived as negative forces that eliminate jobs. However, in an industry facing a persistent labor shortage, a reframing is necessary. New tools and technologies are not meant to replace the human touch, but to enhance and scale it, allowing workers to focus on tasks and decisions that require their thought and intervention. Not only can technology augment frontline capacity, it can also improve workforce satisfaction and operational performance. Today, complex decisions involving a large number of variables rely on expertise and "art" rather than automation and "science" and are often made using outdated technology (such as greenscreen or rudimentary interfaces). This not only leads to a best-guess approach, risking negative outcomes, but also perpetuates a reliance on specialized knowledge. With all the nuances to

consider when making decisions, such a steep learning curve can be discouraging and distracting for the frontline.

Choices made around demand, labor, and asset allocation often involve traditional forecasting models that rely on limited historical variables to account for market shifts. While these models served the industry well for decades, in today's rapidly changing and increasingly interconnected environment they may no longer be up to the task. Travel companies developing new tools for the frontline are using sophisticated models backed by AI and ML—specifically simulation models—to process a multitude of complex inputs.

To understand how simulation models work it's helpful to imagine a chess engine, which analyzes the state of a chess game and suggests the next best moves. However, unlike chess engines, which analyze a finite number of possible moves over 64 squares, simulation models have the power to reflect the real world, where an infinite number of players, pieces, and boards are in play. Instead of outlining one future scenario, simulation models can run an infinite number of permutations and assign probabilities to different outcomes, helping travel companies plan and employees make decisions. One specific application of simulation modeling is the use of a digital twin. This is a virtual replica of the physical world—a product, machine, or process that is connected to real-time data sources and can simulate multiple outcomes. Digital twins conduct rapid "what-if" analyses that companies and employees can use to help guide "day-of" decision making.[27]

> *'Assume a hypothetical scenario where you have 100 percent predictability and 100 percent stability—then your plan is always the same as what actually happens in practice. If we have real-time accurate data on what's happening right now, we can create much better predictions.'*
>
> *—Christiaan Hen, Chief Customer Officer, Assaia*

27 "What is digital twin technology?" McKinsey, July 12, 2023.

AI IN ACTION

Assaia provides the right information at the right time to the frontline

Founded in 2018, Assaia sells AI technology to aid day-of operations for airlines and airports with real-time visibility and historical operational data. According to Chief Customer Officer Christiaan Hen, Assaia's long-term goal is to eliminate human-caused delays from the aviation ecosystem.

Many daily operational challenges result from missing, false, or delayed information. Assaia aims to share the right information at the right time with frontline workers, "equipping the people with the right tools to do their job in a better way," according to Hen.

The software analyzes video streams to provide real-time data about what is happening on the airport apron. Using Assaia's reports, dashboards, and insights (such as ML-powered predictions of flight departure times), airline staff can respond much faster.

For example, it may take a flight crew up to 15 minutes to notice that a catering truck has not arrived on schedule; only then would they notify the turnaround coordinator. With Assaia's technology, the coordinator would receive an immediate notification, allowing them to resolve the problem right away.

This technology can reduce ground delays by four to five minutes on average, according to Hen, saving airlines around $400 to $500 per flight by FAA estimates. Reducing delays also helps airports improve gate capacity by maximizing gate utilization—preferable to the costly, slow, and difficult process of constructing additional gates.

EXHIBIT 11 — A DIGITAL TWIN CAN PROVIDE DECISION COACHING

An airline crew scheduler could use a digital twin to assess the likelihood of a crew not completing a trip, conduct what-if simulations, decide what actions to take, and receive live feedback from an AI coach. For example, a delay in one flight might place another at risk for completion. The crew scheduler can choose to swap crew, use reserve crew, or hold crew. Based on the simulations, the tool might recommend flying the reserve crew to a new location to complete the last leg of the delayed flight. Schedulers can also monitor their ongoing performance based on a dynamic scorecard and use the AI coach for additional training.

The cruise sector, for example, could benefit from digital twins. Customers book well in advance for a specific itinerary, including ports of call and activities. However, many situations (such as storms or unexpected port delays) can arise and force a cruise to deviate from this itinerary. A preplanned diversion may turn out to be suboptimal in shifting conditions. Instead, ships could use on-deck digital twins to process real-time data and quickly generate next-best itinerary options, minimizing passenger disruption and frustration.

Digital twins can also reduce the decision fatigue and information overload that staff often experience. For instance, to maintain operations in inclement weather, an airline's crew scheduler may have to make tens of thousands of decisions over an eight-hour shift. Often these decisions are too complex to be made without automated assistance. With a digital twin, the bulk of rerouting can rapidly be optimized, leaving the crew scheduler free to focus on high-impact decisions that may involve new or unexpected variables (Exhibit 11).

Technology—the new coach on staff

As noted, the travel labor market is extremely tight. As companies look to fill widespread vacancies, they need to filter through a high number of applications. AI- and ML-enabled models help to do this quickly while eliminating human bias from the recruitment process.[28]

However, finding the right people is only part of the challenge. The next step is bringing new hires up to speed while continuously upskilling the existing workforce. Technology is making this easier: industry leaders are using virtual reality (VR) and augmented reality (AR) to scale training. This technology simulates lifelike scenarios based on historical examples to introduce frontline employees to multiple situations in a matter of hours, equipping them with the confidence and skills to hit the ground running.

28 Patrick Coffee, "AI set to upend the talent search at ad agencies and brands," Wall Street Journal, August 8, 2023.

> *'We must help our people—our frontline employees, our customer-service agents, our dispatchers—to make more decisions faster, hopefully eliminating the need to make the most mundane decisions, so they can reserve their expertise for solving really complicated problems.'*
>
> *—Jason Birnbaum, Chief Information Officer, United Airlines*

In the face of high staff turnover, MGM Resorts partnered with Strivr, a VR-based company, to train new frontline casino workers via VR headsets.[29] According to Strivr, companies have reported a 96 percent reduction in training time and a 10 percent increase in customer satisfaction after running this immersive learning program.[30]

AI coaching systems can supplement VR-based learning by customizing training and performance management to individual employee needs. AI coaches use performance data from multiple sources to build a picture of an employee's strengths and weaknesses and deliver personalized training recommendations at a tailored cadence, allowing for continuous improvement and ultimately higher job satisfaction.[31]

Take a hotel-reservations call-center supervisor, who can only oversee one employee at a time; often, employee performance must be measured by listening to multiple customer-service calls. An AI program can listen to all these calls at once, simultaneously evaluating employee decisions, communication, and customer satisfaction. The program can then synthesize the information, score the interactions (for example, for empathy displayed and problem resolution), and deliver recommendations to the supervisor.[32]

Advanced technology improves decision making and accelerates frontline upskilling, allowing for greater job satisfaction and a renewed emphasis on the essence of travel—human relationships. The concluding chapter of this report includes a checklist that will help you evaluate your company's ability to use digital technology to understand your customers, design and deliver products, and empower your workforce.

29 Grace Dean, "MGM Resorts is letting job seekers try out roles using virtual reality as it looks to reduce employee churn," Business Insider, December 12, 2021; Phil Albinus, "Rising Star goes all in on VR talent marketplace for MGM Resorts," Human Resource Executive, June 14, 2022.

30 Strivr, "Nine VR training benefits your organization can take advantage of," blog entry by Strivr.

31 Jorge Amar, Shreya Majumder, Zachary Surak, and Nicolai von Bismarck, "How AI-driven nudges can transform an operation's performance," McKinsey, February 11, 2022.

32 Ibid.

Conclusion

We believe this is a moment of optimism for the industry. If the last three years have taught us anything, it's that people want to travel: even when the macroeconomic outlook softened, airline and accommodation bookings remained among the last discretionary expenses that customers were willing to cut.[33]

The historical share of travel as a percentage of GDP, along with continued corporate-travel recovery and an increased consumer propensity for unique experiences, sets the stage for accelerated growth. Looking ahead, travel is predicted to grow an average of 5.8 percent a year up to 2032—more than double the expected growth rate of the overall economy (at 2.7 percent a year).[34]

This does not mean that travel companies can simply sit back and reap the benefits. The need remains to improve the travel experience for customers and employees. Whether you're a travel supplier, a distributor, a large global brand, or a growing startup, it is critical to ensure that your customers' travel experiences are seamless and personalized.

Powerful new technology can help you achieve this. Digital and analytics tools aid travel companies to alleviate pain points and empower their workforces to close the gap between promises made and promises kept. The sector is ripe for innovation, and there are a growing number of avenues and industry partners to get you started. The only wrong move is no move.

Whether this is your first step or you are well into your new-technology journey—everyone can take action today. Use the checklist that follows to evaluate your readiness to participate in the next golden age of travel.

33 Based on data from U.S. Travel Tracker, Q1 2023, May 2023. See *State of travel 2023*, Skift Research, July 21, 2023.

34 "Travel & Tourism sector expected to create nearly 126 million new jobs within the next decade," World Travel & Tourism Council, April 21, 2023.

Checklist for the age of AI

Some travel companies are already successfully deploying digital technology, AI, and ML to reshape how they interact with customers, develop and deliver products and services, and manage people and operations. They've taken the following actions—are you on track?

General considerations

	Not planned	Planned	Done
Created a digital wish list—as if the company had infinite time and resources	☐	☐	☐
Prioritized wish list based on potential short- and long-term benefits as well as the company's strategic vision and available resources	☐	☐	☐
Assessed the skills and talent necessary to execute against the prioritized wish list	☐	☐	☐
Built the right team and identified roadmap to fill remaining gaps	☐	☐	☐

Know your customers like you know your friends

Inventoried existing internal customer data	☐	☐	☐
Determined which data variables drive customer behavior and predict customer buying decisions	☐	☐	☐
Identified relevant third-party data and integrated with internal data to build a complete customer picture	☐	☐	☐
Considered using a robust MarTech stack to continuously learn and evolve with customers	☐	☐	☐
Defined a dynamic segmentation and personalization approach based on customer personas	☐	☐	☐
Adopted test-and-learn mindset to continually implement and refine	☐	☐	☐

Design your products to surprise and delight

Mapped the end-to-end customer journey and identified pain points	☐	☐	☐
Used analytics to determine which pain points impact customers the most	☐	☐	☐
Considered new technology (like AI) to enhance and reimagine the customer journey	☐	☐	☐
Brainstormed improvements to current digital offerings that would minimize pain points (such as more timely communication)	☐	☐	☐
Built a product roadmap based on timing and importance of features	☐	☐	☐

Empower your workforce to follow through on promises made

	Not planned	Planned	Done
Diagnosed top day-to-day employee pain points	☐	☐	☐
Determined if digital tools can resolve top pain points (for example, automate repetitive tasks)	☐	☐	☐
Provided workforce with real-time visibility into critical areas of daily operations	☐	☐	☐
Used simulation models to plan for multiple future-state scenarios	☐	☐	☐
Built decision-making tools (such as digital twins) to choose optimal solutions for complex problems	☐	☐	☐
Defined opportunities to improve training (using tools such as simulation training, VR, AR) and provide feedback (using smart-AI tool)	☐	☐	☐

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