PhoCusWright's

ANALYSIS

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Travel Distribution 2018: A Look Ahead

By Bob Offutt and the PhoCusWright Analyst Team

Our purpose in this Analysis was to collect perspectives from a range of PhoCusWright analysts to develop an aggregated view of what travel distribution will look like five years from now. We asked our analysts to provide their visions of 2018, and then knitted together their inputs to present a cohesive story. We considered travel distribution across the entire Travel Value Chain (Imagine, Learn, Shop, Book, Experience and Share), from both the traveler's perspective and the standpoint of travel suppliers and intermediaries.

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Mr. Offutt brings over 20 years of experience in information technology, IT management and travel industry dynamics to PhoCusWright. He was most recently the chief architect and senior vice president for Sabre Holdings where he defined the strategy and plan to migrate from a monolithic Mainframe environment to Distributed Open Systems and a Service Oriented Architecture. Prior to being Sabre's chief architect, Bob founded and led Sabre Labs, a technology incubator that made Sabre the industry leader in new online products and services. Before Sabre, he spent 26 years in the U.S. Coast Guard, where he led the agency's information technology unit. Bob has also served on the faculty of the University of Puget Sound, George Washington University and the University of Southern California. His education includes a BS in Engineering from the U.S. Coast Guard Academy and a Masters Degree in Management Science from the U. S. Navy Postgraduate School.

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PhoCusWright is the travel industry research authority on how travelers, suppliers and intermediaries connect. Independent, rigorous and unbiased, PhoCusWright fosters smart strategic planning, tactical decision-making and organizational effectiveness.

PhoCusWright delivers qualitative and quantitative research on the evolving dynamics that influence travel, tourism and hospitality distribution. Our marketplace intelligence is the industry standard for segmentation, sizing, forecasting, trends, analysis and consumer travel planning behavior. Every day around the world, senior executives, marketers, strategists and research professionals from all segments of the industry value chain use PhoCusWright research for competitive advantage.

To complement its primary research in North and Latin America, Europe and Asia, PhoCusWright produces several high-profile conferences in the United States and Germany, and partners with conferences in Canada, China and Singapore. Industry leaders and company analysts bring this intelligence to life by debating issues, sharing ideas and defining the ever-evolving reality of travel commerce.

The company is headquartered in the United States with Asia Pacific operations based in India and local analysts on five continents.

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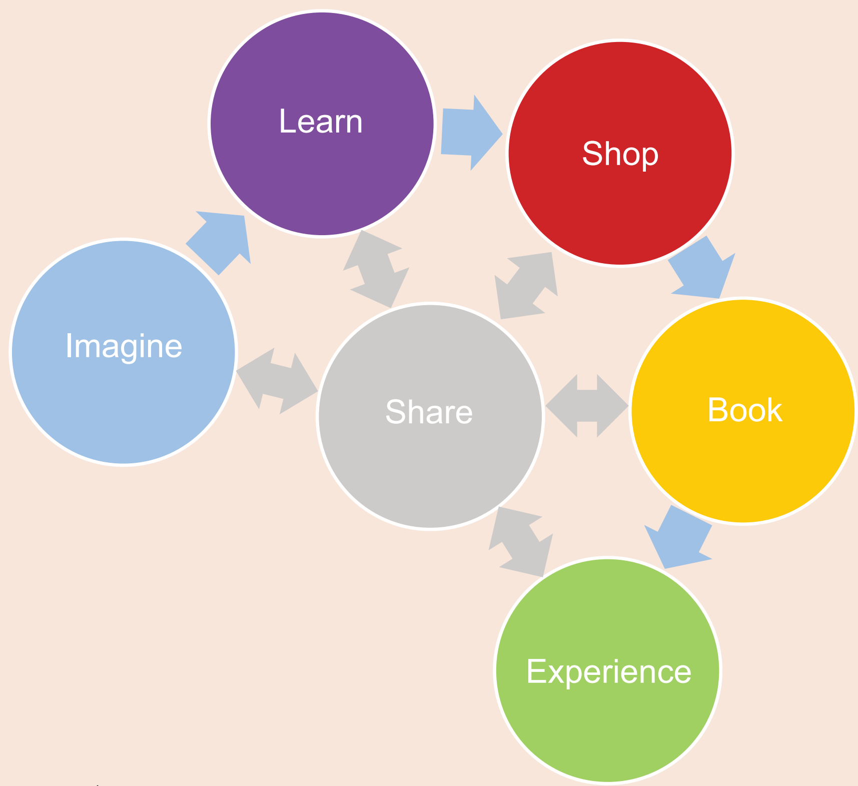
Figure 1
The Travel Value Chain



Source: PhoCusWright Inc.

Introduction

Our purpose in this Analysis was to collect perspectives from a range of PhoCusWright analysts to develop an aggregated view of what travel distribution will look like five years from now. We asked our analysts to provide their visions of 2018, and then knitted together their inputs to present a cohesive story. We considered travel distribution across the entire Travel Value Chain (Imagine, Learn, Shop, Book, Experience and Share (see Figure 1), from both the traveler's perspective and the standpoint of travel suppliers and intermediaries.

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The Traveler's Perspective

In January and February 2013, U.K.-based firm eDigitalResearch evaluated the functionality and user experience of 47 websites and 19 mobile apps of U.K. travel companies (using many of the criteria below). This research revealed that, despite the excellent mobile offerings some companies provide, the mobile user experience generally still lags the website experience in the travel arena.[4] Companies are making progress, however.

Imagine

Imagining involves a combination of implicit and explicit preferences. Explicit preferences are overtly expressed by the traveler. Travelers' implicit preferences, on the other hand, are derived from their actions and activities as well as from the experiences of friends and family and others with similar interests. Travelers' actions, such as types of restaurant searches or past reservations, can be good indicators of preferences. Developing implicit preferences using social networks underscores the power of social media, providing unedited opinions of where to go and what to see and do. These opinions originate from the traveler's circle of trust, as well as from the views of others, which may be displayed Amazon-style (i.e., "Others who have viewed this also looked at…").

The key to leveraging implicit and explicit preferences lies in the ability to develop increasingly sophisticated matching algorithms that predict travel needs. In 2018, these algorithms can continuously refine implicit preferences. In other words, consumers' shopping profiles become more accurate as they select (or reject) ideas based on their implicit preferences.

Learn

The first two questions most travel sites ask in 2013 are, "Where do you want to go?" and then "When do you want to go there?" In 2018, these questions are turned around so that the customer can say, "I want to ski in deep powder two weeks from now" or "Find me a rib cook-off sometime in the next month." Even better, some travel tools will mine preferences and past trips to proactively suggest relevant events, leaving enough time for planning and to secure reservations.

Search is more targeted and takes into account implicit and explicit profile information as well as demographic data. Online travel agencies (OTAs) have advanced filters that allow travelers to change their search parameters (e.g., trip with kids or a romantic getaway). This targeting has become even more refined on the mobile platform in order to accommodate limited bandwidth and screen real estate. On a mobile device, travelers can get any information related to trip planning or experiencing the trip (while en-route or at the destination itself) within four taps of the screen. Travelers can instantly access not just airport-to-airport travel alternatives, but also door-to-door options, including recommended ground transportation. Alternative transportation choices are well developed, as are multi-modal and mixed-mode options.

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Shop

Once the travel destination is refined, instead of the fragmented shopping that exists today, 2018 features a series of advanced filters on a single site to address all aspects of the trip. Travelers can fine-tune parameters such as: departure airport, non-stop or connecting flights, using frequent-flyer miles, discounts, ancillary options, destination hotels, local transportation, activities and restaurants.

Today, travel shopping through travel agents, OTAs and travel management companies (TMCs) is centered on global distribution systems (GDSs). In 2018, the GDS is just one shopping source – shopping will tap other travel content sources that are completely transparent to the shopper.

The sharing economy greatly expands the number of choices available to travelers, with everything from sharing spare rooms (such as Airbnb), to boat- and ride-sharing and even tour guide-sharing. All of this content based on the collaborative consumption model is integrated with traditional content and accessible through traditional travel distribution channels.

Video plays a huge role in helping travelers "see" their destinations, rooms and more before purchasing. In addition, the body of accumulated reviews – such as on accommodations and activities – has grown incredibly large and varied. As a result, sentiment analysis that aggregates and summarizes comments is a key reference as travelers select places to stay and things to do.

Customized offers based on travelers' profiles and purchase histories are presented to them as they shop, while OTAs, travel agents, hotels and airlines all vie for their business. Each supplier or service provider offers a combination of generalized content and personalized suggestions.

The shopping process has become more flexible. The shopping system effectively stores traveler selections so that they can break away from shopping sessions, and then seamlessly return later and pick up where they left off. For travelers who adopt a "wait and see" approach, the shopping system will continue to monitor their preliminary selections and advise them regarding relevant price and schedule changes.

Book

Despite intermediaries' efforts to aggregate content to provide one-stop-shopping, travel shoppers in 2018 still visit multiple sites to do their travel planning. What is different is single sign on: Once travelers enter the trip details at one site, the data (i.e., name, departure, return dates and other parameters) are portable between sites. This not only makes it easier to go between sites, but it also has facilitated networks of associated sites. Shoppers are incented with a range of perks to stay within these networks, which are similar to airline alliances, only virtual.

Meanwhile, individual airlines, hotels and other travel providers offer one-stop-booking for all aspects of the trip, with some even offering content that is unavailable through any other channel. Loyalty-point redemption is offered for small items, such as room upgrades, spa treatments or inflight meals, as well as for bigger awards, such as round-trip air or a hotel stay.

With airline-branded fares and fare bundles, it has become virtually impossible for consumers to compare different airline product offerings for the same origin and

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destination. Hotels have also embraced merchandising and bundles, in part to deter side-by-side comparisons. These changes in product offerings have led to a new kind of metasearch that guides shoppers through myriad and complex airline and hotel offerings.

Hotels have realized that they can make more money by supporting a secondary market for canceled prepaid reservations with no refund than by prohibiting name changes on reservations. This concept has spilled over to cruises and other prepaid non-cancelable travel components and represents another shopping marketplace.

Regardless of where consumers book their travel, all trip information is consolidated into a single traveler information record (known today as a Passenger Name Record or PNR). Travelers use this as an integrated itinerary, while travel companies will still have a view of the entire trip and can provide duty-of-care and other travel-support services.

Payment processes are fast and easy and feature a range of alternatives for consumers. These include mobile wallets, using a photo of a credit card and using a portable credit card-reading device. Geared to facilitate mobile purchases – which represent more than half of all travel bookings in 2018 – these new ways of effecting payment carry over to the desktop as well. Amazon's one-touch checkout, the standard for efficient online retail sales, is a travel industry reality.

Experience

In 2018, users interface with their mobile devices with speech or gestures. The display is optimized for the content being displayed. Except for screen real estate issues, the interactive user experiences are consistent across all channels.

Travelers' needs are anticipated by an intelligent travel assistant (ITA). Whether it be finding local restaurants, how to summon a taxi, the need to rebook a trip due to a late meeting, or weather or traffic issues, the ITA proactively identifies information needed to support the traveler or conditions that affect the traveler's itinerary, then provides the necessary information or modifies the trip plans and reservations accordingly.

With augmented reality, travelers have instant recognition of locations. Wearable displays also provide heads-up information like cab locations, walking/driving directions and real-time arrivals of public transport. Using their mobile devices, travelers can easily decide whether public or private transportation options are most efficient.

Hotel rooms have ceased focusing on providing movie and music services and now expect travelers to bring their own devices. Hotels provide connectivity and docking services and use Internet tools and social networking to convey property-related information and grant access to hotel services.

Traveler's profiles provide filters to screen in-location content and to proactively suggest places to eat or to enjoy local things to see and do.

Share

New devices and speech interfaces enable travelers to share their ideas, plans and experiences quickly and easily. It is as simple as saying, "Share the travel sites I have looked at with my friend Dennis" or "Send a 360-degree video of this breathtaking

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view to my family." Better yet, travelers can share this content in real time. While Facebook continues to have a strong offering, better sharing tools have emerged for travelers.

TRAVEL SUPPLIERS AND INTERMEDIARIES

In 2018, all suppliers – from small tour guide operations to large airlines – are able to provide real-time inventory availability and booking confirmation through multiple channels, including directly to the point of sale or through an intermediary. Suppliers are optimizing each channel using a suite of openly available analytic tools for travel companies, similar to Google Analytics. Except for obvious differences in screen size, the desktop, smartphone and tablet channels have blurred.

Travelers in some countries, especially developing ones, have leapfrogged the desktop-access stage and do their travel shopping on mobile devices. Across the board, more than half of all travel bookings are through the mobile channel. Suppliers' mobile capabilities now provide quality experiences regardless of the device.

Larger suppliers use revenue management techniques based on the entire traveler spend, not just the room or air travel price. This involves analyzing revenue from past and current business, and looking at future business, including ancillary air content, spa, and food and beverage revenue. Suppliers have successfully implemented merchandising strategies that expand their revenue bases and provide travelers with a wide variety of merchandise choices. Personalization and customization techniques are used to facilitate the shopping process. Suppliers have embraced geo-fencing for a large number of uses, including ad and offer targeting, theft prevention and locating incoming travelers.

Major hotels and airlines have migrated from being just air or lodging services providers to being destination services providers.

Intermediaries – including GDSs, TMCs, tour companies and travel agents – have implemented technology that can integrate content from multiple sources. For air, this includes integrating content from major airlines, low-cost carriers, scheduled charter and private charter. For lodging, this includes traditional hotels, B&Bs, vacation rentals, spare room rentals and more.

An enterprising startup has developed a cloud-based utility that supports the needs of travel agencies and TMCs with generic services. This has changed the playing field because it provides these travel companies an alternate to GDS services.

Hotels have established standards for product information and rate distribution, simplifying how hotels interface with distribution channels. Hotels have also adopted a common structure for guest profiles, eliminating the cost of independent technology development and enabling them to reduce their technology costs.

In the rental car segment, suppliers have embraced the sharing economy, with shared vehicles part of their product offering. Using technology, car rental companies have used the self-service economy to substantially reduce manpower requirements. Hertz is already experimenting with completely self-service car rental sites.

Travel companies across the board have fully embraced social media as an integral

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part of their marketing and customer service strategies. To manage their businesses, companies use multiple sources of business intelligence, customer feedback, operational data and financials on an integrated dashboard.

Customer sales agents have transitioned from being order takers to being product merchandisers. Commissions are based on up-sell and cross-sell results. Competition for the customer's wallet is based on the value delivered to the customer, not controlled by artificial technology barriers or business relationships. Meanwhile, customer service agents have full access to trip and profile data to solve issues, regardless if the data are held by the intermediary or the supplier. They work on a fee-for-service arrangement.

SUMMARY

The travel distribution industry is clearly poised for some major changes in the next five years. Some of the ideas presented in this Analysis may not fully come to fruition, while others may go far beyond what we have projected. Regardless of how this segment of the industry evolves, travelers and companies all along the travel value chain are in for an exciting time.

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