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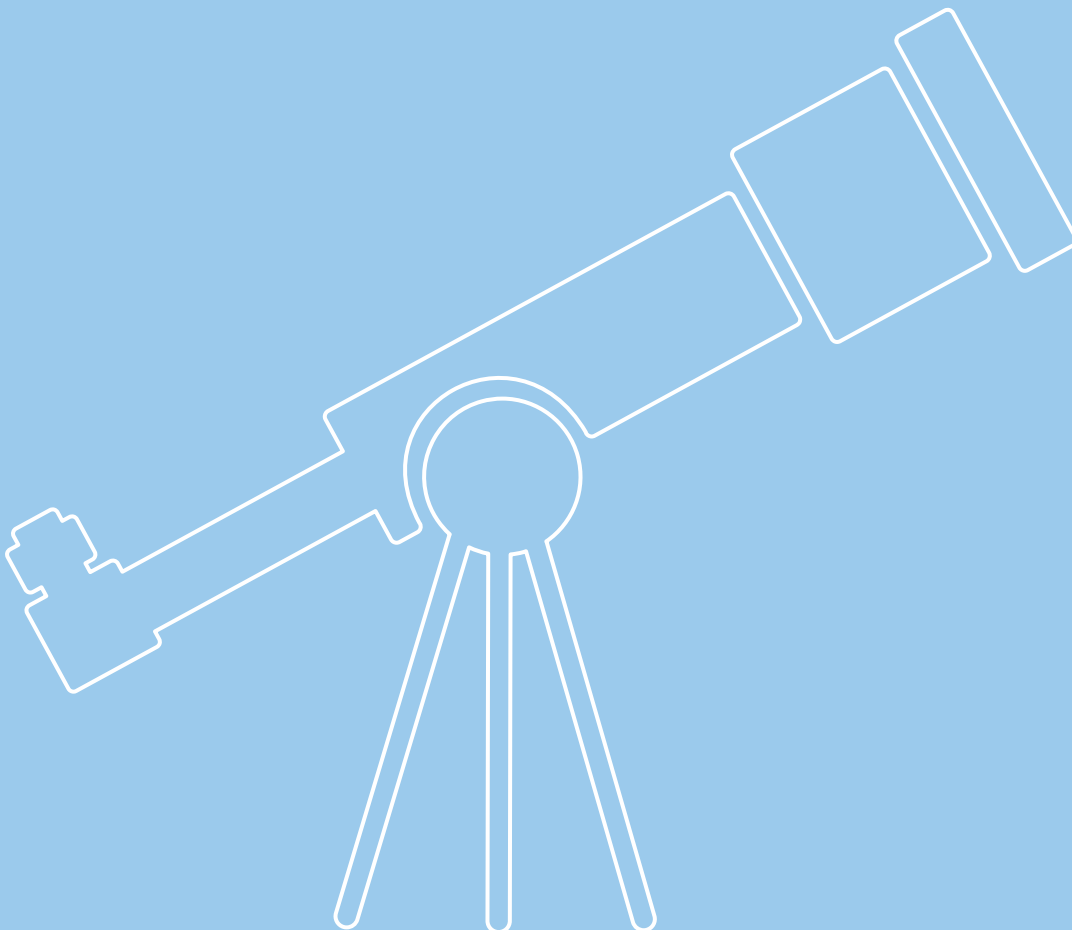
Online Travel 2020

Evolve, Expand or Expire



“To remain competitive, online travel players have to think ahead and adapt their product and business models based on anticipated changes and potential disruptions of the ecosystem.”

Sébastien Gibergues, Head of Leisure & Online Travel, Amadeus IT Group



Foreword | *The future belongs to those who prepare for it today*

In 16th century London, black swans had never been seen in the wild. They were considered so unlikely that a Latin expression referring to black swans was used to describe things and events that were deemed impossible. When, in 1697, a Dutch explorer spotted a black swan in Western Australia, the expression transformed into a metaphor used to describe major events that were previously unforeseen.

With the travel distribution landscape undergoing a period of great transformation, major players in the industry need to be on the lookout for potential “black swans” if they want to succeed in the years to come.

For this paper, Amadeus has used scenario planning to map trends and to devise likely sequences of events that paint a picture of what the future may hold for our Online Travel Agency (OTA) customers.



Sébastien Gibergues
Head of Leisure & Online Travel,
Amadeus IT Group

Sébastien leads a global team developing Amadeus business partnership with key customers in the Online Travel Agency, Tour Operator and Travel Media segments.

For over 15 years, Sébastien has focused on helping senior distribution and IT leaders develop new business models that capitalise on the evolution of travel industry trends.

At Amadeus, prior to his current position in the commercial organisation, Sébastien managed large projects for key multinational customers around the world, including complex business initiatives to optimise travel distribution, as well as numerous IT systems implementations and organisational change management transformations.

He recently brought to market innovative concepts, such as Amadeus Featured Results that won 3 awards around the world over the past couple of years.



Methodology: scenario planning

This paper is based on a research study conducted by our Segment Strategy and Innovation team, from Amadeus' Global Customer Group. It was primarily built upon ongoing research and internal focus groups of approximately 50 Amadeus experts (Global Pre-Sales & Consulting) around the world. The study also includes insights from 13 one-to-one workshops with global customers in the LATAM, WEMEA, NECSE, and APAC regions. In addition, two focus groups of 25 customers each were conducted in both the WEMEA and LATAM regions.

Our scenario planning method involves listing all the drivers affecting our business environment. Our research team grouped these drivers based on the degree of their potential impact and predictability. We then focused on the high impact and uncertain drivers to map the most critical scenarios.

For each scenario described in this paper, we defined opportunities and threats for existing OTA business models. Our customers have validated and shortlisted the scenarios in this paper based on disruption capability and probability according to their market specificities.

*“Human beings do not like **change**, but change is **inevitable**.”*

Introduction

Many people are resistant to change. We often ignore uncertain situations in the hope of maintaining the status quo. But change is inevitable and the unforeseen can and often does occur. We are already working in a quickly changing industry where disruptive business models are blurring the lines between players, and new emerging technologies, such as Chatbots and virtual reality, are taking root.

Our main objective with this project was to help us answer the question: “What should travel players be doing today to prepare for the different scenarios unfolding before us?”

With this question in mind, we have identified the evolution of four different scenarios:

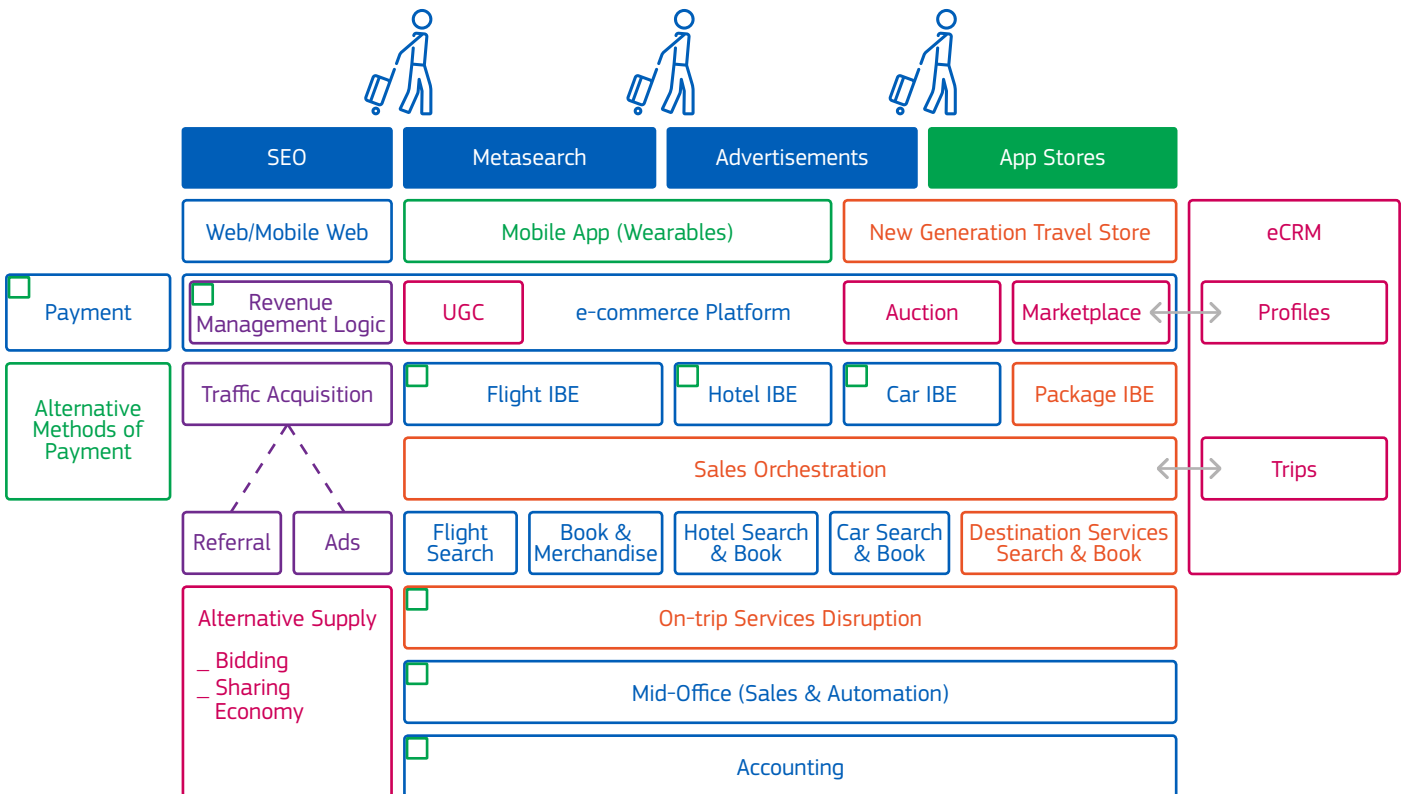
- The rise of **Mega Online Travel Retailers**: The consolidation between OTA and metasearch business models, as well as the rise of online advertising, could lead to a new kind of online travel retailer
- Introducing **Digital Tour Operators**: Traditional Tour Operators and OTAs may merge to become the ultimate travel seller. From handling complex trips to servicing with new generation travel stores, Digital Travel Operators could provide a happy mix of digital and human interaction to create a personalised travel experience
- The rise of more sophisticated **Mobile Travel Retailers**: Imagine an addictive mobile travel agency app that accompanies the traveller along the entire journey. Rather than being a complementary distribution channel, mobile could become the only means of distribution and the only app a traveller needs – or wants
- The new **Travel Marketplace**: With more and more leading IT players and e-commerce giants creating demand for new and innovative platforms, the players of the travel industry could come together and build their own Travel Marketplace platform for OTAs, airlines, hotels, and other travel-related companies to sell their products and services. The question is, how will the suppliers use the platform to create and maintain meaningful relationships with the travellers?

These new business models could be your nemeses or the vehicles for your success. Read on.



Online Travel 2020

Changing business models



□ Traditional OTA business model
 □ Mega Online Travel Retailers
 □ Digital Tour Operators
 □ Mobile Travel Retailer
 □ The Travel Marketplace

eCRM: electronic customer relationship management · **IBE:** internet booking engine · **SEO:** search engine optimisation · **UGC:** user generated content



Mega Online Travel Retailers



Mega Online Travel Retailers

In an increasingly saturated market, with major OTAs already owning the largest market share, how can they expand and grow even further?

Until recently, metasearch companies and OTAs lived separate but complementary lives, simultaneously working together while also competing for the same customers. Having made a choice, online shoppers are often oblivious to which site they use to make a purchase, i.e. whether it is a metasearch or an OTA site. But consolidation blurs the lines between OTA and metasearch business models.

OTAs are exploring the advertising model and even buying their own marketing channels. A few examples include Expedia's acquisition of Trivago, Travelocity North America and Orbitz Worldwide; Priceline's link with KAYAK; and, most significantly, Chinese OTA Ctrip's share swap deal with Baidu, which owns OTA Qunar, taking control of around 80% of the Chinese hotel and air ticket market. Ctrip also took a stake in Travelfusion, which links low-cost airlines and hotels with OTAs, booking tools, travel search, and mobile services¹.

These marriages have also brought a change in business strategy. **Traffic monetisation with online advertising** has become a great commercial opportunity for OTAs, which are largely dependent on Search Engine Marketing (SEM) and therefore need to optimise costs.

OTAs and metasearch companies are converging – and to a powerful effect. While metasearch companies move on to assisted booking (metabooking), OTAs are now advertising to customers to increase revenues, and these huge entities allow customers to search, book and pay all in one place. They have become **Online Travel Retailers (OTR)**.

We first saw a shift from transaction-based to advertising-based revenues in the US and there are clear signs that the wider metasearch ecosystem is changing in several ways. From being online referral operators, OTAs are becoming super online advertising businesses, and as a result they are operating in a highly competitive environment.

Average traveller online



There is a strong commercial imperative for advertising. The average traveller searches nearly 50 times online, makes 38 site visits², reads a dozen reviews, researches for 15 weeks, and does not have a particular destination in mind when he or she starts looking. This gives OTAs an opportunity to facilitate the process by taking advertising from competitors.

If this sounds counterproductive, think again. Users do not see it as advertising but as a core functionality of the site which inspires deeper engagement, resulting in click-through rates (CTR) of 6.3% (Intent Media Analysis) against 0.8% (Google Display Benchmarking Tool) for traditional display ads. This translates into a \$2 billion opportunity, according to Intent Media.

This convergence of the two models is giving rise to a **Mega Online Travel Retailer**. OTAs are able to produce more – and more accurate – information. They may buy their marketing channels, giving them the opportunity to build a brand, stand out from the crowd and earn more from customers, while metasearch companies get a closer relationship with the customer through OTAs.

¹ Source: Megatrends Defining Travel in 2016, Skift Magazine

² Source: Expedia <http://www.travelmarketreport.com/articles/Consumers-Visit-38-Sites-Before-Booking-Expedia-Says>

Technology transformation required to become an *Online Travel Retailer*

- **Revenue Management logic:** To arbitrate between reseller content (which you can book), referral content (which you will redirect to the supplier) and ad content (which you will forward to the advertiser), most likely based on the probability for a specific session to convert
- **Ad content sourcing:** To aggregate your own content or delegate the ad space to a trusted partner, ideally specialising in travel ads
- **Referral content sourcing:** To integrate content that is not available to sell outside the supplier channel but could deliver additional referral revenue in your flight or hotel path

Digital Tour Operators



Digital Tour Operators

The Tour Operator traditionally provides a physical experience on the high street, with colourful, well-designed glossy brochures and friendly, helpful, well-informed consultants who eventually get to know their clients quite well. Human contact is key. And everything is taken care of – no need to go online and try to get flights that align with the availability of the accommodation, as it all comes in one package.

Now consumers are often faced with a myriad of holiday offers from many channels, so Tour Operators are fast evolving to capitalise on their key assets and expertise. As holiday shoppers are increasingly well-informed, with easy access to enormous amounts of travel information, many are looking for ready-made packages, mostly online. Growth is clearly digital.

Tour Operators have to chart a new course to ensure they stand out on all fronts: they need to be seen on the street, inspire on their website, be flexible in their offers, active in social media, sharp on ads, and mobile right up to their customers' pockets – and, most importantly, they must remain relevant to their customers through personalisation and flexibility. As a result, they are looking to upgrade their technology and ways of working.

At the same time, OTAs are adopting dynamic packaging technology that allow them to create packages and are therefore offering the same service to customers online or are giving customers the ability to create their own.

Multi-channel customer access



We see converging models between these two players giving rise to new growth avenues in the area of complex trip handling and servicing. They are becoming **Digital Tour Operators**, providing a happy mix of digital and human interaction, combined with convenience and speed.

However, in the 21st century, people expect not only cool surroundings, a lively atmosphere and human help, but also the technology to be able to do it themselves in a friendly environment, which is evident in Apple stores and the lobbies of lifestyle hotels. User-generated content (UGC) is becoming ever more compelling to consumers. Experience is everything. OTAs, on the other hand, are purely digital and have continued to invest in technology.

Although a Digital Tour Operator has yet to grace the high street, the probability of such an eventuality is high. And the relationship will not stop there. We can easily imagine a scenario where Digital Tour Operators will have a cool concept brick and mortar store, where customers will be attended by engaging, trained agents – which we like to refer to as a 'Travel Mate' – using the latest technology.

After the customer has left the store, through an app they will continue to engage with their Travel Mate (aka agent) while travelling, maybe follow their blog and, if they have a problem with a flight, they can contact the agent or, better still, the agent can proactively contact them if a flight is delayed or cancelled and immediately suggest an alternative. This new type of Travel Mate will also be able to cross-sell at the destination, making suggestions about where to go or what to see, enabling customers to be put into direct contact with potential providers of a service at the destination.

Digital Tour Operators are selling the travel experience and handling complex itineraries, and we see the emergence of new generations of travel stores to enable travel agents by combining physical, digital and human aspects. Opportunities arise for other online players to reinforce their brand by establishing an offline presence.

So, what does this mean? Will we see new generations of travel stores? Will these extend the user experience from shopping to an end-to-end trip experience, with innovation through a trial-and-error approach, continuing to engage with users through flights and then cross-selling on hotels and services? Will we see an "uberisation" of travel agents?

Technology transformation required to become a *Digital Tour Operator*

- _ **Retail point of sale:** Innovation in your own shop will drive consumers to your brand. The point of sale used by your agents is a key element of the purchasing experience for your offline customers
- _ **Sales orchestration:** Processing the sale of complex packages with the flexibility required by both the end consumer and your suppliers will be an art to be mastered, in order to deliver the automation and fraud control that will secure the profitability of your business
- _ **On-trip services:** Sourcing additional destination content and delivering on-trip services will need to be integrated in your channels and offered to consumers, from the departure window until the last day of the trip

Mobile Travel Retailer



Mobile Travel Retailer

Go to almost any country and look around: people are surgically attached to their mobile. We are nearly always either talking on it, processing emails, texting, shopping, or enjoying other so-called micro-moments³. Allegedly, more people own a mobile than a toothbrush. And we can't forget that wearable technology is fast gaining ground, whether in watches, glasses or armbands.

Currently, many Online Travel Retailers make their offer available on a number of distribution channels, including mobile with responsive web design or apps, although this is usually used as a complementary channel rather than the only means of distribution. In this scenario, we imagine a mobile travel retailer with an addictive app, accompanying the traveller throughout the journey.



Mobile is no longer a platform but it's a way of life. By 2020, worldwide smartphone subscriptions are projected to top 6.1 billion⁴ and these numbers will continue to increase as prices decrease. 53% of Cleartrip's⁵ traffic comes from mobile and 70% of its mobile customers are now using mobile as their only channel for transaction. And mobile travel bookings in Europe are growing exponentially, as is general mobile commerce.

OTAs and airlines are already adapting to this changing behaviour, imagining a new travel life cycle and rethinking their mobile strategy:

- _ **Mobile-first design:** With the proliferation of tablets, smartphones and other smart devices, mobile-first design is essential
- _ **New travel life cycle:** Giving travel retailers the ability to connect with travellers throughout their journey from booking through to their return home and beyond

_ **Customer loyalty:** Mobile users will have installed a limited number of apps per activity (social media, news, travel). While it is easy to move from one website to another in a browser, app users are likely to stick to the same apps and be more loyal

_ **New marketing channels:** OTAs widely use leading IT companies for advertising campaigns on desktop but have to think of alternative ways to advertise on mobile

_ **Cross-sell and up-sell:** By pushing relevant notifications at the right time in the traveller's journey

Mobile is definitely a game changer for everyone. However, mobile with advanced technology and social media will push the boundaries still further and the same may extend to the world of wearables.

The Mobile Travel Retailer would be characterised by:



New ways of search and engagement: Mobile brings together many technologies (voice recognition, Bluetooth, sensors, fingerprints, etc.) and leverages other innovations such as Beacons, Internet of Things and virtual reality. Together, these technologies can lead to unprecedented opportunities for search and inspiration



Chatbots: enabling full booking flow, servicing and payment



End-to-end service: the app would go beyond just servicing the traveller but would also be used by someone not travelling for destination services, user generated content and other innovative services that will keep servicing and inspiring the customer for their next trip

Mobile Travel Retailers will disrupt markets with high mobile penetration and present a new way to stay with customers before, during and after a trip, presenting further opportunities to sell. They will facilitate the ultimate end-to-end experience.

³ Source: Google

⁴ Source: techcrunch.com

⁵ Source: Blog cleartrip.com

Technology transformation required to become a *Mobile Travel Retailer*

- _ **Mobile-first:** Becoming a mobile-first travel retailer will impact every component of your architecture, as each feature will need to be adapted to work better in this channel
- _ **Chat-enabled:** Chat channels will require their own investment, with a number of specific components, such as natural language recognition and artificial intelligence logic, specifically designed for travel specific cases
- _ **Open payment platform:** Alternative methods of payment (AMOP) (for example: virtual cards, PayPal, m-Pesa (East Africa mobile payment), Paytm (an Indian alternative payment system), Apple Pay, Google Wallets, WeChat wallet and Alipay, to name but a few) will be the norm moving forward

The Travel Marketplace



The Travel Marketplace

With millions of leisure travellers annually and many vendors and partners, how will the marketplace evolve? A marketplace is a platform where suppliers connect with and sell directly to consumers. It changes the business models and relationships between suppliers and travellers.

Leading IT technology players have grown over the years in defining how successful marketplaces work. Could we imagine the same in travel? In 2014, Alibaba created the e-commerce travel platform, Alitrip, a spin-off from its travel booking website. Alitrip already has 100 million users (excluding Alibaba's group members) and many suppliers make sales of more than \$100 million a year with Alitrip⁶.

There are some indications of a potential evolution of the **Travel Marketplace**. CTrip announced this year it will create flagship stores, adding another dimension to the picture⁷. It has an advertising portal and product display pages extrapolated from each travel office to increase its range of destination products.

Now, as Amazon and Alibaba have shown, the channel ensures differentiation. Amazon Prime is a good example of this, offering one-day delivery, unlimited films and TV shows, secure unlimited photo storage, early access to 'Lightning Deals', and more, all for \$10.36 a month or a lower annual fee of \$102.48 (\$8.54/month). There are many more examples around and innovation will set the pace.

The Travel Marketplace could be characterised by:



Control of user profile, marketplace services and partnerships, and possibly auctioning services



Innovation through the platform rather than the supplier (for example: Amazon Echo and Amazon Assistant)



New payment options, like the WeChat model of the payment platform, can be used to create the Travel Marketplace. WeChatPay, can be used to transfer money between WeChat users (peer-to-peer) and make payments online and with participating offline retailers

China is a clear leader in this space. The question is, will other global players follow? A few unknowns arise from this scenario. If the market evolves this way, this will mean quite a change for Online Travel Retailers. Should they participate or compete? Could this marketplace enable auctioning? Could there be more flagship stores in the offing?

In the not too distant future, could we imagine an e-commerce giant, a technology company, or one of the large OTAs like CTrip or Expedia developing an e-platform for OTAs, airlines, hotels, and other travel companies to sell on? It's not hard to imagine the Travel Marketplace moving beyond travel search and booking into at-destination services (restaurant, tours and activities) and upselling other travel services (rental equipment, insurance, etc.). Travellers will have a one-stop e-commerce platform where they can buy anything they want: the ultimate package.

There is, however, a downside for suppliers. They risk losing their relationship with the customer because the Travel Marketplace will control the profile and the payment method. Suppliers who want access to customer profiles so that they can advertise, will find that they are deprived of that information. Whoever owns the Travel Marketplace will own the traveller for the entire journey.

Another example is WeChat, a cross-platform instant messaging service app (and so much more, as described above) which has successfully created a payment platform and connects suppliers to sell a range of products and services.

Is such a Travel Marketplace likely? Could Amazon follow the Alibaba model? Could Apple partner or purchase a large aggregator or even a GDS to distribute travel content through their mobile apps? The sky is the limit but what we do know is that travellers are looking for the one-stop shop that meets their travel needs.

This scenario is not beyond the bounds of possibility. Online Travel Agencies need to be prepared for a future that is very different from anything they are experiencing today and these scenarios are to help them do that: if they want to participate in the Travel Marketplace, they will need to adapt their business model.

⁶ Source: Tnooz <https://www.tnooz.com/article/alibabas-alitrip-has-a-distinctive-travel-model/>

⁷ Source: China Travel News <http://www.chinatravelnews.com/article/88204>

Technology transformation required to become a *Travel Marketplace*

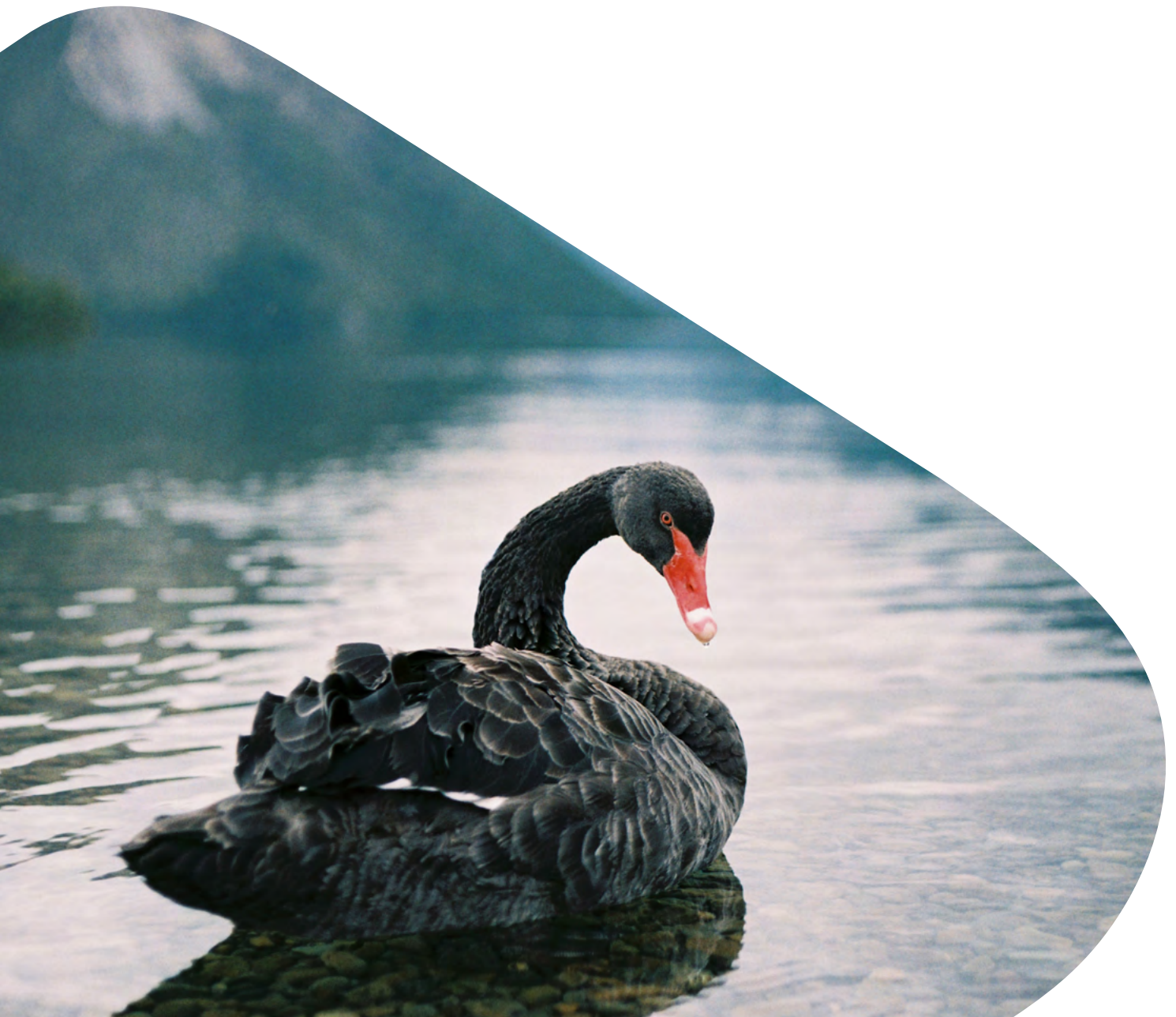
- **Travel Customer Relationship Management (CRM) (profiles and trips):** In order to own the marketplace, you need to master both consumer profiles and a trip itinerary repository, which will drive all of your marketing activities as well as the user experience on your marketplace
- **Partner store:** You will need to be able to host the online store of each of your marketplace partners so they can sell their own products through your marketplace, within your ecosystem
- **Mid-Office upgrade:** Initially it will be just about monitoring the transactions between the actors of your marketplace (partners and consumers) to secure proper sales reconsolidation and smooth customer service, but this is also where most of the business model innovations will emerge

Conclusion

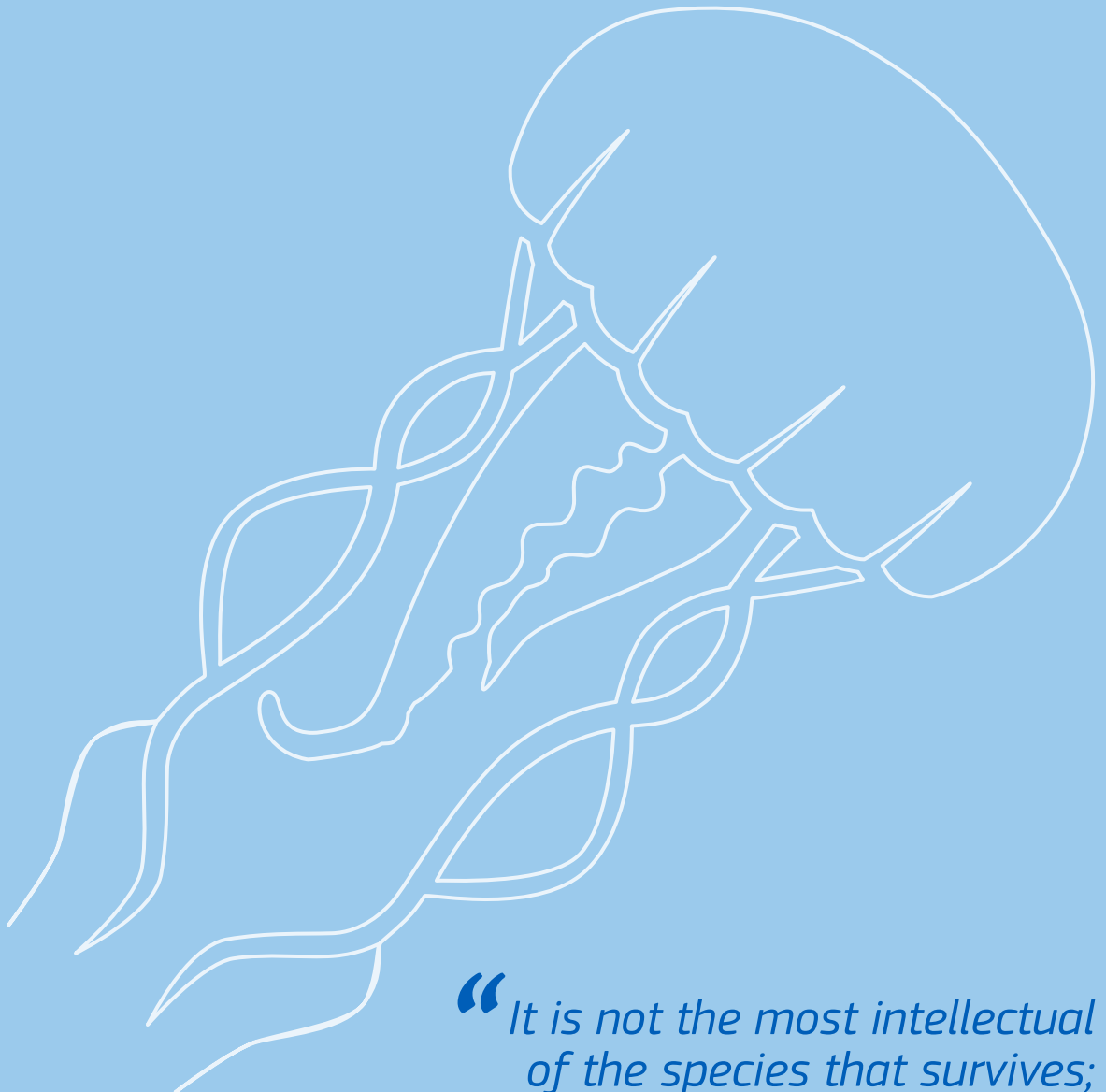
These scenarios may be projections but there are already clear indications that they may materialise. To remain competitive, online travel players will have to respond to the changes already taking place and anticipate the potential disruptions of the future, or they will be overtaken by more relevant and agile competitors. Decisions made today are critical to their survival, and however tempting it is to remain in the comfortable and familiar status quo, standing still is not an option. Companies need to decide to evolve, expand or expire. Embrace the "black swan"!

So, which future are you going to embrace and how are you going to adapt?

At Amadeus, we focus on delivering more content and technology to support your business model, so that you can focus your investments in customers and marketing and adapt to the future you want to be a part of. We also continue to invest in travel search and merchandising technology to help you deliver the ultimate online travel experience.



Credits: A special thank you to all our customers around the world who participated in the elaboration and validation of these trends, and special credits to Pascale Caron, Associate Director, Segment Strategy, Pre-Sales & Consulting, Global Customer Group at Amadeus and her Segment Strategy & Innovation team.






“It is not the most intellectual of the species that survives; it is not the strongest that survives; but the species that survives is the one that is able best to adapt and adjust to the changing environment in which it finds itself.”

Charles Darwin

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