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ANALYSIS

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Nine Things (Not 10) That Will Drive Travel Distribution in 2010

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PhoCusWright

About PhoCusWright

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

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 America, Europe and Asia, PhoCusWright produces several high-profile conferences in the U.S. and Germany, and partners with conferences in the U.K., China and Singapore where industry leaders gather to debate issues, share ideas and define the ever-evolving reality of travel commerce.

The company is headquartered in the United States, with offices in Germany and India.

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As one of travel's worst years on record, 2009 was a year many in the industry were glad to leave behind. The global economic recession hit travel especially hard, driving down total full-year industry revenues 16% in the U.S.,[1] 10% in Europe[2] and 6% in Asia Pacific.[3]

Looking into 2010, PhoCusWright analysts collaborated to assess the nine key trends poised to shape travel distribution. [Readers who expected an even 10 trends, click here and tell us what *you think* should be our 10th trend]. Some are continuations or consequences of the events of 2009, while others are new trends just bubbling to the surface:

- A Restrained Recovery
- Online Travel Agencies Maintain Momentum
- Airline Optional Services – Ancillary No More
- Mobile Travel Bookings Become Reality
- Social Media Tops Agendas
- Getting Local: Mobile, Social and Search Converge
- Growing Pains Prompt Meta-morphosis
- Trip Planning Gets Personal
- Emerging Markets on the Radar

A Restrained Recovery

Following the dismal first half of 2009, travel demand began to inch back up in the latter months of the year. While the change in direction has been encouraging for a bruised travel industry, 2010 will be a year of restrained recovery. PhoCusWright projects gross travel bookings to remain essentially flat in the U.S. and Europe and to grow by 5% in the Asia Pacific travel market.

All segments will not recover at the same pace. Increasing demand for lodging will be offset in some markets by supply growth, which will sustain downward pressure on pricing. Hoteliers are having to balance their mission to raise rates with the reality that demand is still soft and competition is still fierce. Hotel suppliers are not likely to see bottom-line impact of the recovery until 4Q at the earliest. In contrast, the ability to control supply through reduced capacity in both air and car rental has already been fueling a quicker rebound. Premium destinations and luxury travel overall will continue to suffer, and "luxury for less" will emerge as suppliers adjust to new economic realities. As it did in 2009, online travel will continue to outperform the broader sector.

Key to the industry's recovery will be corporate travel, which contracted by nearly one fourth in 2009. In the U.S., the rebound in the corporate travel and meetings sector will trail improvements in the overall health of big business. In the current cautious business environment, rigorous corporate travel supply and demand management and the rise of virtual meetings technology will limit corporate travel growth to modest single digits this year.

Online Travel Agencies Maintain Momentum

The downturn in 2009 clearly favored online travel agencies (OTAs). The dramatic fall in demand pushed excess supply into the open arms of OTAs, whose strategic removal of booking fees – initiated by Expedia in March and quickly adopted by all others – prompted price-conscious travelers to not only shop with them, but to book with them as well. According to *PhoCusWright's Online Traffic and Conversion Report,* in 2Q09 OTAs were able to increase their air conversion by two percentage points over the prior quarter.[4]

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[1] *PhoCusWright's U.S. Online Travel Overview Ninth Edition*
[2] *PhoCusWright's European Online Travel Overview Fifth Edition*
[3] *PhoCusWright's Asia Pacific Online Travel Overview Third Edition*
[4] Conversion of unique monthly visitors within calendar month

With hotel occupancy still at a historically low 55% and unlikely to reach 60% until later in 2011, the chains will still need help reaching leisure travelers via the OTAs. Even as the economy improves, OTAs will continue to benefit from broad inventory access and rising margin revenue from recovering hotel rates.

A healthy year for OTAs lifts the online travel industry overall. OTAs represent 39% of all online travel volume in the U.S., Western Europe and Asia. While basking in this favorable environment, however, OTAs will need to prepare for the inevitable. The pendulum of leverage will swing back (it always does), and intermediaries must take steps in 2010 to prepare for this shift in the second half of 2011. Locking in long-term deals with hotel suppliers has already become standard procedure, and this will help OTAs keep their shelves stocked when access to inventory becomes strained. The consumer proposition is less clear-cut than in previous years, and Expedia's "sophisticated" new look may be a sign of how the market leader is planning to move up along with consumer vacation ambitions.

In addition, OTA consolidation could be in the works as the global distribution systems (GDSs) – Travelport, Sabre and Amadeus – pursue initial public offerings (IPOs). This could prompt them to spin off their OTA holdings, with Expedia as a possible buyer. Speculation on OTA consolidation has been considerable, and while an Expedia acquisition of one of the GDS-owned OTAs could make financial sense under some scenarios, it makes less strategic sense given both Travelocity's and Orbitz's exposure to the air ticket business. OTAs owners may have to look elsewhere for buyers.

Airline Optional Services – Ancillary No More

Airline merchandising and ancillary services is arguably the hottest topic in travel distribution today. Airlines and intermediaries are increasingly looking for ways to squeeze more revenue out of their offerings – unbundling fares and charging consumers for checking their bags, pre-selecting their seats, or having a meal onboard. In 2010, airlines will broaden the range of services and products available for purchase, from on-demand movies to wireless connectivity, including tie-ins with partners such as hotels, car rental companies and ground transportation. Airlines plan to offer these services at the time of booking, both separately and bundled as a package. The opportunity is certainly not limited to the booking touchpoint, however, and airlines will market these products throughout the post-booking period – up to and including the in-flight experience.

The move toward unbundling and charging for ancillary services comes at an interesting time for the airlines. With GDS distribution agreements up for renewal in 2011/2012, the airlines will use their merchandising requirements as leverage. They will seek to exploit GDS inability to support new merchandising capabilities; they may also threaten to withhold content. They are already seeking ways to bypass the GDSs to reach their largest agencies.

While airline ancillary services have until now been largely on the fringe for the OTAs, 2010 may be the year in which one of the major online travel agencies does something meaningful about merchandising these offerings. Look for something a cut above the current Band-Aid approach: While whatever strategy the OTAs choose may not give consumers complete flexibility in selecting (and purchasing) a wide range of customized ancillary services, it will likely add some up-sell functionality to the ticket purchasing process. OTAs are looking for financial incentives from the airlines to sell this ancillary content, however, and face considerable disadvantages if they don't provide these options for consumers as part of both the booking and post-booking processes.

Much of "optional" services revenue to date has been compulsory (e.g., checked bags), but airlines will have to innovate to create experiences people will *want* to purchase. Airline merchandising programs promise customizable packages and a la carte services that are value-additive and tangibly better, but the programs will have to demonstrate to consumers the benefits of not having to pay for things they don't want – or need. Until then, consumer sentiment will remain as it is today: airline merchandising = nickel-and-diming. In 2010, those following the airline merchandising mania would do well to ask, "If they build it, will consumers come?" For most travelers, there's little choice.

Mobile Travel Bookings Become Reality

For years, the opportunity for mobile phones within travel marketing and distribution has been discussed almost entirely in terms of its future potential. At the beginning of 2009, PhoCusWright ranked mobile as one of the year's top trends, predicting "a flood of new mobile travel and location-based applications."[5] Despite one of the most challenging years on record for the industry, travel companies answered the call to action. Smartphone ownership has proliferated – and so have travel applications (see the Trend "Getting Local: Mobile, Social and Search Converge").

Driven by the surge in smartphone use (nearly 35 million in the U.S. as of August 2009) and propelled especially by the remarkable success of Apple's iPhone, applications and services delivered via mobile devices have moved into the mainstream. But despite myriad applications that help travelers navigate their surroundings or weigh travel options, mobile travel bookings are tiny. PhoCusWright estimated in its *Mobile: The Next Platform for Travel* report that mobile bookings were under $10 billion in 2009, or less than 5% of the total travel market. In May 2009, only 9% of travelers said they purchased travel or made a travel reservation directly on their mobile devices.[6] But things are about to change: Suppliers are seeing a constant uptick in mobile travel reservations (and not just re-bookings), indicating a permanent change in behavior that will impact both computer and traditional reservation methods. Many of the impediments to delivering a quality user experience on a mobile device have disappeared. Hotel and car mobile bookings will show superior growth, as these product categories are more likely to be booked via a mobile device.

Just about everything in mobile travel is still in its infancy, but the opportunity is attracting tremendous innovation, and this year will undoubtedly bring dramatic developments to the mobile domain. Google's Android platform, with just 4% market share of smartphones worldwide, is in the early stages of what promises to be a long battle to gain share against the iPhone. But if iPhone strikes that long-anticipated deal with Verizon, it will be hard for Android to catch up.

Social Media Tops Agendas

If consumers are increasingly tapping into their social networks to plan their travel, companies are still trying to figure out how to make it work – and pay. In 2009, every travel brand, product, destination or service worth its salt got into the social media act. Deals were tweeted; fans and followers were wooed; videos went viral (or didn't); and blogs, posts, mentions and tweets were monitored and measured more than ever before. Some brands, like JetBlue, it seemed, could do no wrong. Others, such as United and Royal Caribbean, learned the hard way of the perils of paying too much or too little attention to their image in the increasingly social Web.

Translating social media strategies into actual revenue has been elusive, but social media marketing is growing up. Experimentation is giving way to best practices. Social media is (or should be) now central to marketing, communications and brand management strategy. According to *PhoCusWright's 2009 Travel Marketing & Distribution Survey* of travel industry executives,[7] more than half (52%) of respondents said they plan to increase investment in social media marketing/advertising – the same percentage that planned to step up search engine optimization (SEO) spending. Six in 10 considered Facebook important to their marketing strategy versus 42% for Twitter. Travel companies that disagree with this strategy risk much. Some 60% of online travelers use a social network, and 27% have posted a review of a travel product or service.[8] Those active users of social networks and micro-blogs such as Twitter are also the most prodigious producers of user-generated content.

[5] "PhoCusWright's 2009 Technology Trend Predictions," *The PhoCusWright Research Subscription: Technology Edition*
[6] *PhoCusWright's Consumer Technology Survey Third Edition*

[7] *PhoCusWright's 2009 Travel Marketing & Distribution Survey* contains responses from 525 travel industry sales, marketing and distribution professionals in June-July 2009 in the U.S., Europe and Asia.
[8] *PhoCusWright's Consumer Technology Survey Third Edition, Part 2: General Use of Social Media*

Getting Local: Social, Mobile & Search Converge

In the exercise of trend forecasting, the word "convergence" is, to put it mildly, overused. And yet four major trends are indeed converging to potentially transform the "local" or in-destination experience for travelers and create new opportunities for travel companies to interact with and service travelers.

Local activities, events, attractions and services have long been overlooked – or passed over – by the broader travel industry. The domain is highly fragmented, with myriad small players operating low-margin independent businesses with little automation. Rapid advances in geotagging and GPS-empowered applications, online mapping services, contextual and location-based search and rich mobile applications are finally beginning to provide powerful, relevant services and content to travelers during their travel and in-destination. Well-executed, context-aware travel apps will change how travelers choose what to do, where to go and what to buy – all while on the road. Not only will mobile travelers be able to enhance the travel experience with a variety of location-specific content, but content providers will leverage new opportunities to target their customers with highly relevant information, deals and offers based on where they are.

Mobile applications: Key to mobile app success is relevance, context and location. Mobile apps from Priceline and OpenTable, among many others, instantly serve up offers based on traveler location, while innovations such as augmented reality enable travelers to learn about and choose services within their local environments like never before. This is just the beginning.

Social networks: In addition to being leading mobile social networks, foursquare and Gowalla connect a user's social network and location via mobile applications. There is also a bevy of startups – nextstop, Joobili, EveryTrail, Trazzler, Where I've Been and others – focused on local destination content in a social networking context, enabling travelers to share experiences and get recommendations from others in the network. Twitter recently introduced a geotagging application programming interface (API) to its service, opening up location-based targeting for travelers and travel companies alike.

Search: Local activities and services are getting a lot of attention from some pretty big players. While Yelp is focused on this domain, Google has been stepping up its efforts here dramatically, soliciting user reviews for just about every type of product and service and introducing new services such as Google City Tours. Online travel startups Goby and openplaces are taking a very search-centric model to delivering targeted local destination content and information to travelers.

While still in its formative stages, the convergence of innovation in mobile, social media and search will change how travelers discover and decide what to do while traveling.

Growing Pains Prompt Meta-morphosis

The travel metasearch landscape changed dramatically in 2009. While some major travel companies jumped into the arena – including TripAdvisor, Bing and Travelzoo – the year was pretty disappointing overall. Year-over-year traffic growth for the metasearch category[9] slowed from 28% in 2Q08 to 11% in 2Q09.[10] In its defense, metasearch did outperform most transactional channels in terms of traffic growth in 2009. On the other hand, it trailed far behind the planning and review category, which grew 34% in 2Q09.[11] How could growth stagnate in a year when consumers were all but obsessed with finding the lowest price – the most compelling reason to use metasearch?

One likely culprit is that when the OTAs removed airline ticket fees in 2009, they also removed a motivation for people to switch to meta – fare results lost meaningful difference. Sure, metasearch engines like Kayak have all kinds of sliders and checkboxes, but sophisticated technology alone does not a major consumer travel

[9]Unique monthly category visitors
[10]Compete data from *PhoCusWright's Online Traffic and Conversion Report*
[11]Ibid.

brand make. This is especially true when vying for attention against the big ad budgets of Expedia, Priceline, Orbitz and Travelocity. So with a reported $60 million in advertising, Kayak hopes to jump-start its sputtering growth trajectory in 2010 and transition from being the biggest of the small players to the smallest of the big players. And the changes don't stop there: No longer focused solely on price comparison, Kayak will attempt to become a more full-service travel site. Part of this strategy includes the introduction of Private Sale – a calculated move to break into the hotel space using the tried-and-true method of discounting. Private Sale customers sign up to get discounted hotel rooms, which are only be available for a short window of time. Functionality is slated to include payment facilitation (Kayak passes purchase information through to the booking site), which will be available on the mobile application as well.

Kayak's new plans reflect reaction to a fundamental issue for metasearch brands – the inability of the relatively meager economics of flight metasearch to support these companies in the next phase of evolution. Cheap acquisition channels cannot sustain sufficient growth past launch phase. To survive in the long term, metasearch companies must figure out how to attract and engage consumers with other, more lucrative products – particularly hotels. In 2010, we will see more stand-alone meta brands pad their offerings with additional products and attempt to transition their consumer propositions from price comparison to travel planning.

Trip Planning Gets Personal

For years, Internet-savvy travelers have passively received so-called personalized offers and recommendations from online travel suppliers and intermediaries that claim to know them. More often than not, such messaging was irrelevant, unnoticed or ignored. Today, travelers are finally taking the driver's seat when it comes to getting their hands on relevant, customized information that enhances the travel planning experience. Flexible trip planning and itinerary Web sites, more robust and responsive online travel vendors, and social networks that deliver travel recommendations and content from people whose opinions we value all make the concept of relevancy and personalization far more realistic.

There has already been a proliferation of customizable trip planning and itinerary sites and services, and this trend will gather more steam in 2010. Trip planning Web sites and tools such as gliider and Goby make it easier for travelers to search for, collect and organize pertinent travel content across multiple sources and access points. Itinerary planning services like TripIt and Traxo are enabling travelers to aggregate all their plans in one place before, during and after their trips. Most of these sites anticipate revenue flow from advertisers that can now target offers based on trip details.

This year will also see increasing connections between travelers' social networks and their trip planning activities. Social media and collaborative tools provide travelers with a voice and the means to change the immediacy and effectiveness of communications. Services like TripAdvisor, Dopplr, and Everlater look to leverage travelers' interest in exchanging their travel plans, itineraries and experiences with one another. While the functionality to use social media for trip planning is developing at a rapid pace, consumers' awareness of and willingness to use this technology still lags behind. Look for travel companies to emphasize messaging and branding on social networks in 2010. We should not expect them to fundamentally change how people plan their travel, but social networks are beginning to take their place as an important piece of the trip planning puzzle.

All of this emphasis on trip planning has put pressure on transactional businesses, such as OTAs and GDSs, to get in the game. In fact, nontransactional sites such as planning and review sites have increased their share of total travel visits by four percentage points since 2007, according to PhoCusWright analysis of Compete data.[12] It is no wonder that entrepreneurs are embracing trip planning's future – while overall travel sales were down in 2009, online travel advertising spend was up. According to *PhoCusWright's 2009 Travel Marketing & Distribution Survey,*[13] 65% of nontransactional online travel media

[12]*PhoCusWright's Online Traffic and Conversion Report*
[13]*PhoCusWright's 2009 Travel Marketing & Distribution Survey* contains responses from 525 travel industry sales, marketing and distribution professionals in June-July 2009 in the U.S., Europe and Asia.

sites expected 2009 revenues to increase over 2008. This means that OTAs and GDSs stuck in the transactional model could provide a likely exit for many of these trip planning startups.

Emerging Markets on the Radar

In a global travel market estimated at roughly $850 billion, PhoCusWright has identified $216 billion,[14] or 25%, that is booked online in the U.S., Western Europe and Asia Pacific. Worldwide, more than half a trillion dollars in global travel sales is still waiting to be flipped online (whether through laptop, desktop, television, smartphone or other device). While some markets, such as the U.S., U.K. and France, are reaching a saturation point, others are just making their mark. China, Japan, India, Spain and Germany, for example, have less than 35% online penetration and will continue to show double-digit growth in the coming years. Next on the horizon are high Internet-growth regions, including Eastern Europe and Latin America.

PhoCusWright sees the trend in emerging markets accelerating throughout 2010, while attracting increasing interest and investments. Businesses will look to drive online penetration and increase electronic payments, particularly since many of these markets are still dominated by cash transactions. While profitability may be several years down the road, considerable opportunity exists for top-line growth as companies fight for share in these early years. Look for a slew of new Web sites focusing on these regions, along with acquisitions and consolidation of existing players.

[14] *PhoCusWright's Global Online Travel Overview*