Building The Online Vacation Package Marketplace: Survey Results

New York University And PhoCusWright Inc.
Joint Research

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PhoCusWright
Applied Travel Intelligence

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"GDSs and Internet providers will find ways to blend products for packages online."

Table Listings

"The entire market will change as a result of home shopping, pervasive computing, and voice-enabled technologies."

Online Vacation Packaging: Assessing Challenges And Growth

In spring 2002, PhoCusWright Inc. and New York University's Tisch Center of Hospitality and Tourism began a joint research process into the biggest trend in online travel: vacation packaging. The overall purpose of the research was to investigate the technological, marketing and financial challenges for building the online vacation package marketplace.

Two online surveys were developed targeting two segments of the vacations marketplace:

- Tourism Technology Providers (vendors of software and hardware)
- Tour Operators (including online travel agencies that package and sell tours)

In May 2002, the NYU/PhoCusWright research team surveyed a select group of 200 providers and tour operators on their opinions regarding dynamic packaging, Web-enabled booking, strategic partnerships and the future of the online vacation industry. NYU/PhoCusWright received 22 completed questionnaires to the Technology Provider Survey and 26 to the Tour Operator Survey. The respondents represented a mixed group of CEOs, CFOs, directors, managers, vice presidents and other tourism professionals.

In general, the research uncovered an enthusiasm toward online vacation sales amid a host of obstacles. There were concerns about partnerships, funding, channel shift and ROI. There was also optimism about online sales potential and new technologies. This report summarizes the findings from the two research efforts. Note that several questions were open-ended and opinions were solicited during the survey. Comments by respondents appear randomly throughout the report.

"There will be a new breed of travel agent, making wider use of wireless and the Internet for bookings."

1. Technology Providers: Survey Findings

Technology providers play a key role in facilitating development of the online vacation package market. Their response to the demands for software and services impacts the desire of the travel industry to shift to online distribution. Technology providers have the means to enable the automation of packages and revolutionize the way vacations are sold to travel agencies and consumers. How quickly tour operators adopt these new technologies will determine the timeline for development of the online vacation package marketplace.

Survey Highlights

Key findings from the Technology Provider Survey include:

- **Dynamic packaging** is the major trend in software development, but legacy systems are inhibiting market penetration. Although dynamic packaging is seen as a key differentiator and a future competitive advantage, most technology providers have not yet formed the necessary partnerships to offer these solutions to their customers. Other barriers include consumer awareness, travel agent comfort levels and adoption rates.
- **Cruise travel and distribution** are the main points of focus for new platforms and software development. However, the market is still in its infancy and dependent on online shoppers becoming more confident and familiar with making large purchases online.
- Despite expected market saturation, the **Web booking engine** is still the most requested product by vacation packager customers. **GDS interfacing** ranks second, and **leisure travel solutions**, third.
- The **top issues and challenges** affecting development of dynamic vacation packaging solutions are **funding, legacy systems (GDS)** and the **current state of the economy**.
- Technology providers have learned that **Customer Relationship Management (CRM)** requires more technology investment than what is currently being allocated, and that the need for specialized personnel to implement and operate CRM systems has not yet been met.
- **Partnerships and joint ventures** are seen as fundamental to building online vacation sales. They will be a focal point in the near term, as all players need to cooperate in building this evolving marketplace.

Online Cruises: A Rising Opportunity

Eighty-two percent of technology providers surveyed sell to compa-

"For travel agents, browser-based tools and increased access speed will change GDS relationships."

nies that sell vacation packages. Their client list includes Worldspan, Mark Travel, Club Med, Expedia and Disney.

While travel technology providers generally focus on three main segments — tours/vacations, hotels/lodging and airlines (see Table 1.1) – their priorities are expected to shift in 2005. Asked where their focus will be in three years, the largest percentage, 41%, cite cruises as the next big opportunity (see Table 1.2). With most cruise lines not available on the GDSs, the need for connectivity among cruise lines, travel agencies and consumers is clearly recognized as vital. Other industry segments that will gain attention are rental cars and destinations.

Table 1.1 - What Travel Industry Segments Are Served Today?

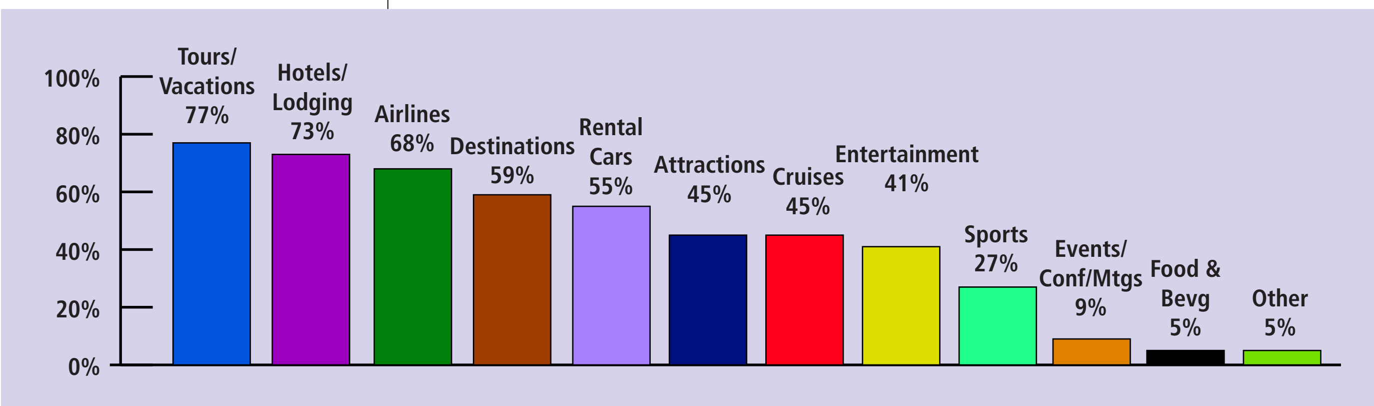
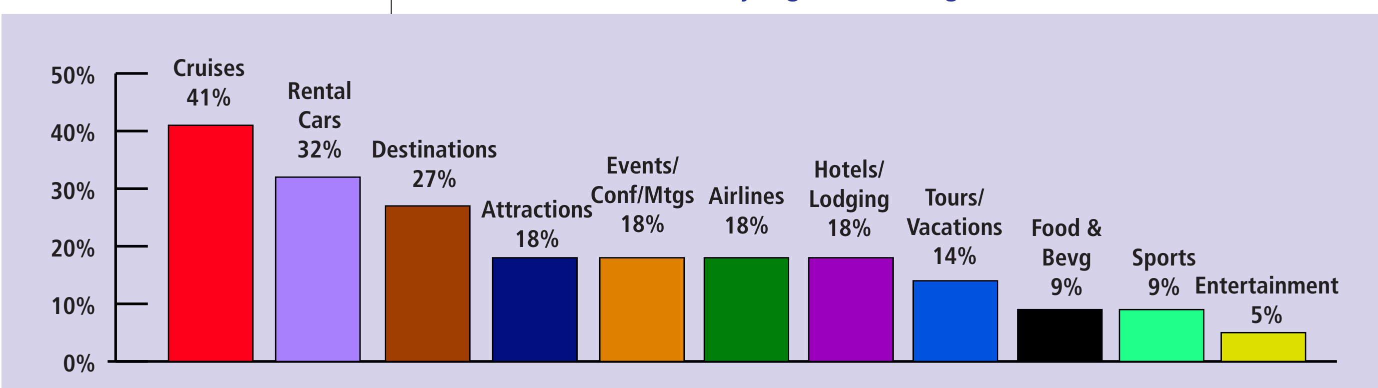


Table 1.2 - What Travel Industry Segments Are Targeted For 2005?

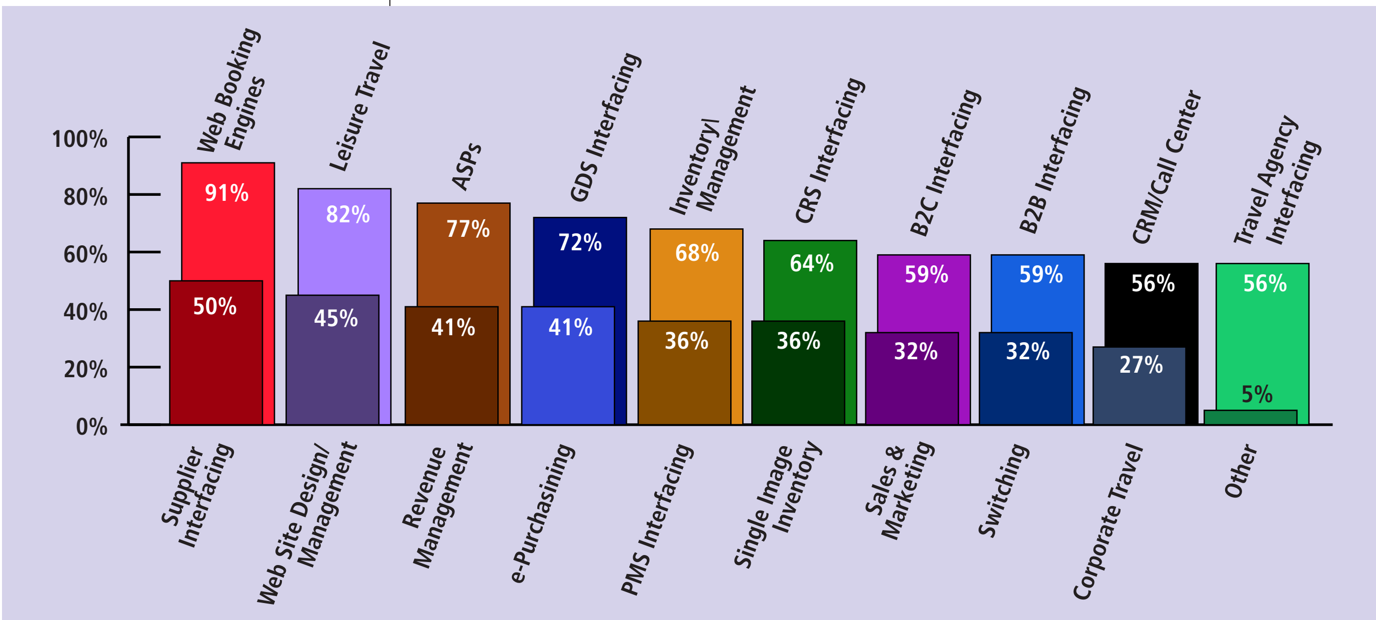


Note: Respondents may have chosen more than one response.

Software Solutions Developed

Web booking engines is the top product sold/developed by technology providers today (see Table 1.3). Leisure travel solutions, Application Service Providers (ASPs), Global Distribution System (GDS) interfacing, and inventory management services also rank among the top five products sold and/or developed. Products that rank low on the list include sales and marketing solutions, switching and corporate travel services.

Table 1.3 – What Software Solutions Are Sold And/Or Developred?

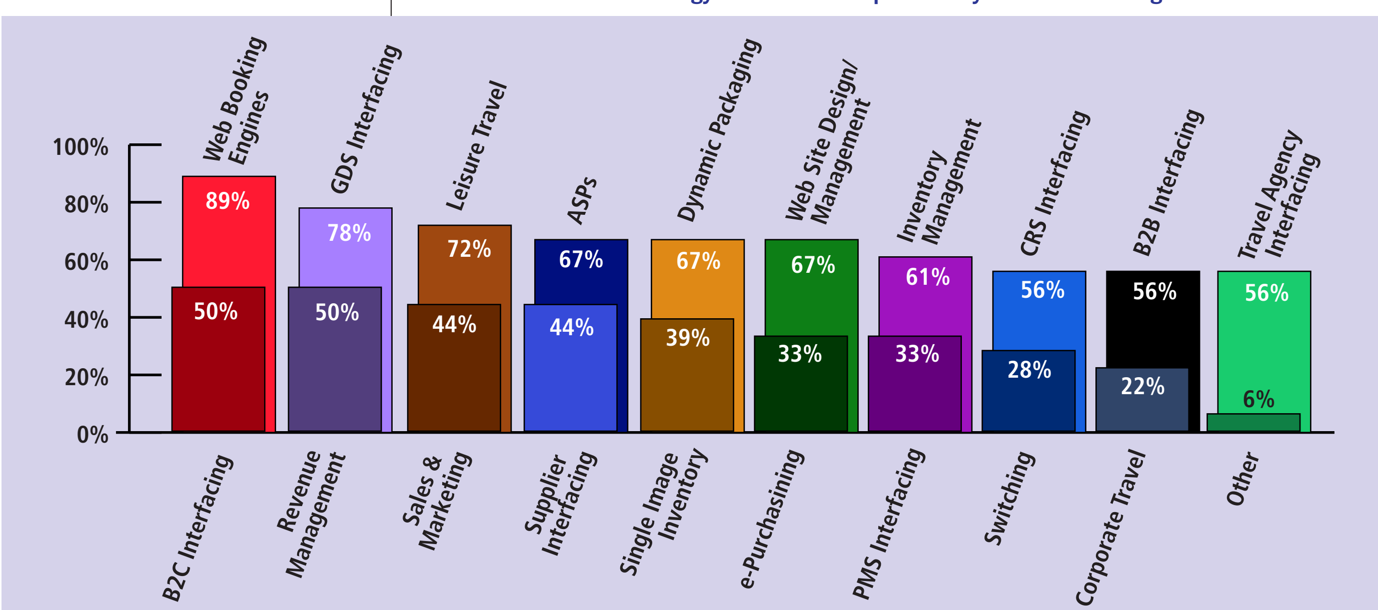


Note: Respondents may have chosen more than one response.

Web Booking Engines Tops Needs

While technology providers offer a full range of services, their offerings are generally well matched with consumer needs, except in one area: Web site design and/or management. While 67% of technology providers say their customers request that service, only 45% offer such solutions today (see Table 1.4). Among the most requested products are Web booking engines, GDS interfacing, leisure travel solutions, ASPs and dynamic packaging.

Table 1.4 - What Technology Needs Are Requested By Vacation Package Customers?



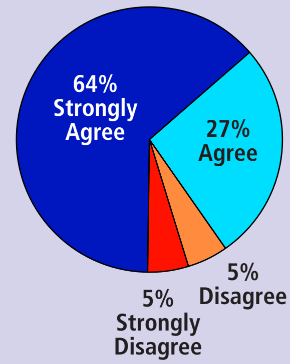
Note: Respondents may have chosen more than one response.

"The biggest change will be Web services and a large-scale replacement of legacy systems with systems capable of interoperating for inventory distribution."

Dynamic Packaging:
The Key Differentiator

An overwhelming majority of participants agree that in 2005, a company providing its customers with dynamic packaging technology will capture greater market share (and therefore revenue) than a company without this capability (see Table 1.5). Over 90% agreed, and 64% STRONGLY agreed.

Table 1.5 - Are Dynamic Packaging Offerings A Competitive Advantage?



Note: Total does not equal 100% due to rounding.

However, most respondents have not formed the partnerships required to bring dynamic packaging solutions to their clients. Asked if they currently have (or plan to have in three years) joint ventures/partnerships with companies offering dynamic packaging in online vacations, 39% say they have them today and 61% have not started working on this issue (see Table 1.6).

Among those who don't have joint strategic alliances in dynamic packaging, only 36% expect to form such partnerships in the future. In general, there was uncertainty in forming strategic partnerships in a market still volatile and fragile (see Table 1.7).

Table 1.6 – Joint Ventures/ Partnerships Today

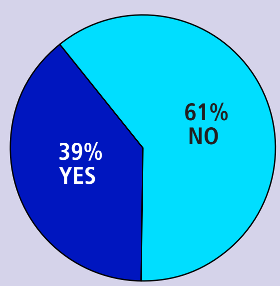


Table 1.7 - Joint Ventures/ Partnerships In 2005

Note: Total does not equal 100% due to rounding.

Funding: The Greatest Challenge

Funding is still the greatest impediment to the development of dynamic packaging solutions - more providers choose funding as a top technology issue than any other issue/challenge (see Table 1.8). Less than one-fifth of technology providers offer initial funding help and advice for the solutions developed.

Legacy systems ranked second as an issue/challenge, followed by current state of the economy, indicating the tourism and hospitality industry is often slow to adopt new distribution and booking technologies. Current state of the economy ranked third.

Table 1.8 – Top Five Impediments To Development Of Dynamic Packaging
(ranking based on all responses given)

1.	Funding
2.	Legacy systems
3.	Current state of economy
4.	Low consumer awareness
5.	Low consumer confidence

Market trends are also a concern. The respondents say low consumer awareness and low consumer confidence are among the top five issues/challenges impacting the development of successful dynamic packaging solutions. This suggests there is still a large learning curve associated with dynamic packaging.

"It will create anywhere, anytime, database access for the consumer or agent."

2. Tour Operators: Survey Findings

Tour operators are mentally ready to upgrade their distribution channels. They recognize the need to shift from manual (phone/fax) methods to online distribution. But few are prepared for these changes, with most tour operators not yet online at all. Tour operators have clear goals, but are slow to adopt the technology required to reach them.

Key findings from the Tour Operator Survey include:

- Operators are unhappy with the current distribution of vacation packages; most packages are still sold through independent travel agencies or directly through their own call center.
- Key objectives are to see sales grow through tour operator Web sites as well as online travel agencies.
- The majority of operators are dissatisfied with distribution and bookings through online travel agencies.
- The majority of operators design and manage their vacation package technology in-house.
- Dynamic vacation packaging is recognized as a future necessity; done right, it will allow tour operators to capture greater market share.
- An integrated, inexpensive booking engine is required for online vacation sales to be successful.
- The future will bring more consolidation and acquisitions by traditional operators and online companies.

"More and more traditional operators will use e-solutions to reduce their transaction costs, access new markets, etc."

Focus On Couples In Luxury/Mid-Priced Market

Most tour operators that responded to the survey focus their products on couples, followed by families and singles. They also emphasize the luxury and mid-priced markets (see Table 2.1).

Table 2.1 - How Would You Classify Your Vacation Package Target Market?

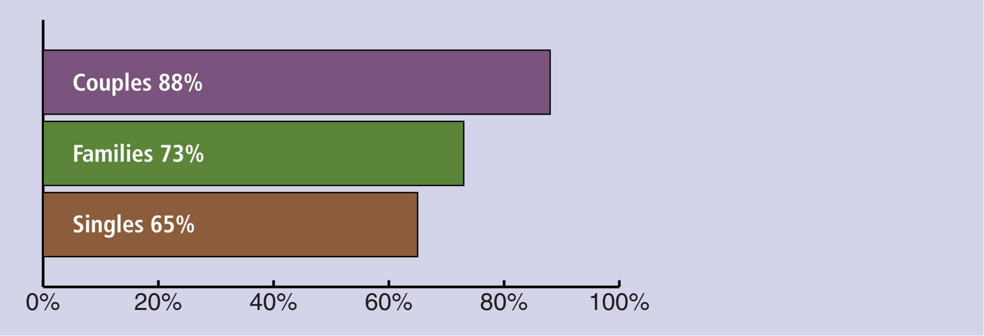
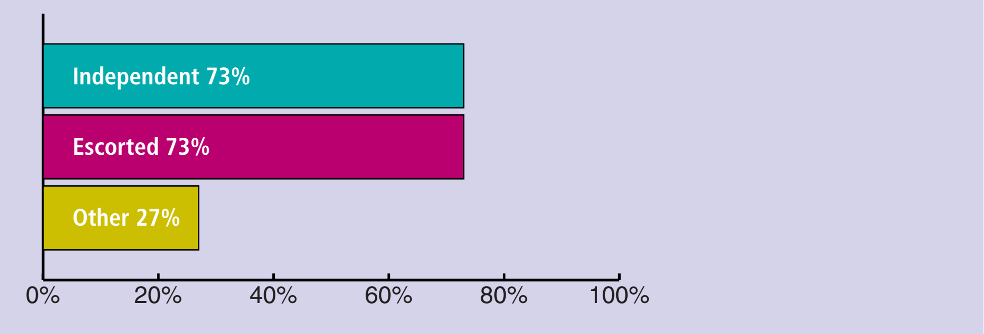


Table 2.2 - What Types Of Vacation Packages Do You Sell?



Note: Respondents may have chosen more than one response.

Almost all of the operators specialized in either Foreign Independent Travel (FIT) or escorted tours, though not many sell both (see Table 2.2). The majority (73%) of respondents sell up to 500,000 individual customer vacation packages a year (see Table 2.3).

Table 2.3 - How Many Individual Customer Vacation Packages Do You Sell Annually?
(per operator)

"Packaging from different providers will be integrated to present new packages to the consumer."

Online Presence A Reality

Over half (58%) of the operators who responded to the survey offer online consumer vacation package bookings. Yet, most of them do not provide an area on their Web sites for travel agencies to make online bookings for their customers (see Tables 2.4 & 2.5).

Table 2.4 - Does Your Web Site Offer Online Consumer Vacation Package Bookings?

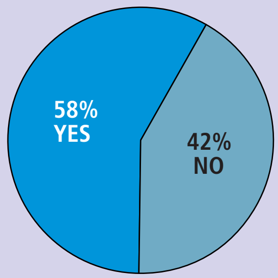
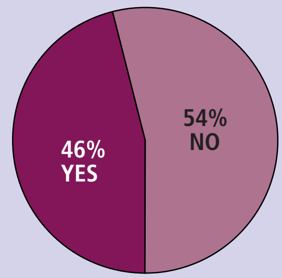


Table 2.5 - Does Your Web Site Offer Online Travel Agency Vacation Package Bookings?



Operators Unhappy With Status Quo

An overwhelming majority (73%) of the tour operators are not satisfied with their current distribution mix (see Table 2.6). Their key objective is to see sales grow through their own Web sites and through online travel agencies. The drivers for this shift, according to the tour operators, are cost reduction and filling customer needs for information and ease of booking.

Table 2.6 - Are Tour Operators Satisfied With The Current Mix Of Distribution?

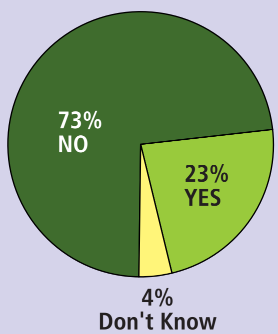
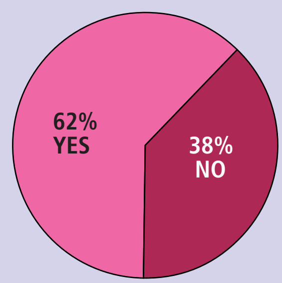


Table 2.7 – Do You Distribute Vacation Packages Through Online Travel Agencies?



Tour operators seek change; their drive to reduce costs and improve service drives them to online distribution solutions. The transition to online is expected before 2005.

At present, tour operators sell mostly through traditional travel agencies. About half of respondents say the Web site and online travel agency channels accounted for less than 20% of sales. As a matter of fact, 15% do not sell any vacation packages through their Web sites.

"The leisure and corporate [travel] world will converge with added functions, searches, and ease of use."

In the future, 62% want to see Web site sales increase and 46% want the online travel agency channel to increase.

Sixty-five percent of tour operators expect their Web sites to represent more than one in five bookings by 2005. Meanwhile, only 19% think traditional agencies will represent the majority of sales by that time.

Online Travel Agencies Bring Mixed Results

More than 60% of the respondents distribute their packages through online travel agencies (see Table 2.7).

Travelocity, Expedia and OneTravel.com were mentioned most often, but some operators sell only through smaller online agencies such as thetraveldeal.com, gotoday.com, and modernagent.com. Exit.ca of Canada was mentioned as was Mark Travel's Vacation Access, and Orbitz.

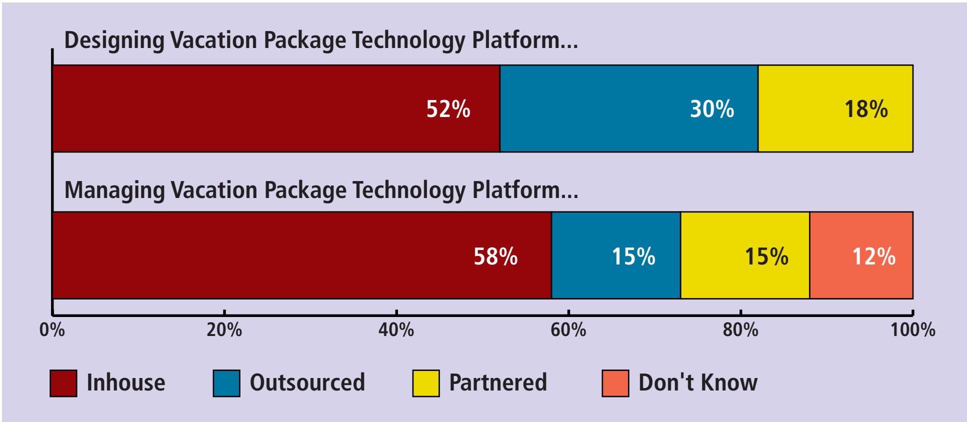
However, it appears that many tour operators would prefer a different set of relationships. Of the operators that distribute through online agencies, half are dissatisfied/very dissatisfied with the channel.

Automation was no further along on the back-end, or B2B side, of the distribution chain. The phone was chosen by 65% of respondents as the primary interface between the tour operator and the travel agency for the sale of vacation products. The Web site (50%) and fax (46%) were most often cited as secondary channels. However, 31% did not use fax at all, and 35% did not use the GDS.

Vacation Package Technology Platform: In-House Or Outsourced?

To automate the process of selling product to travel agencies and consumers, most tour operators are building a vacation package technology platform. The majority of tour operators design and manage their vacation package technology platform in-house (see Table 8).

Table 2.8 – How Do You Handle Your Vacation Package Technology Platform?

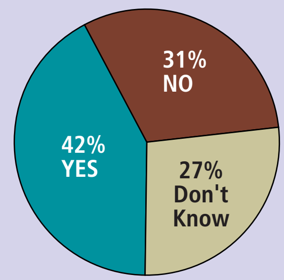


"High margin products will converge – cruises, tours and vacations... in addition, technology products will converge – GDS, CRS, PMS systems..."

While there was some dissension, those who outsourced the design and management were mostly satisfied. Outsourcing partners varied, but the most common names are Logibro (which has since changed its name to Accovia) and Data Plus. Other companies mentioned were BuyTheNet.com, Radixx and Radius Software.

Funding

Table 2.9 - Do You Have Adequate Access To Funding?

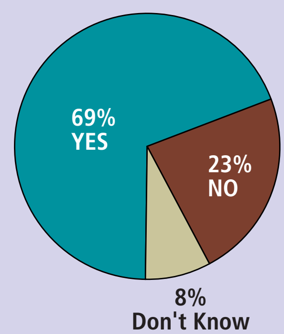


While 27% of operators don't know if they will have enough funds for future development, most operators (42%) feel they have adequate access to funds to capitalize on the future growth of the packaged vacation industry (see Table 9).

For those with funding constraints, partnerships and private capital are the strategies of choice. The most important investment decision-making criteria regarding vacation packaging are ROI and the potential for increased volume.

Dynamic Vacation Packaging: A Future Necessity

Table 2.10 - Are Dynamic Packaging Solutions Meeting Your Desired Objectives?



Half of the operators use dynamic vacation packaging solutions, making it possible to pull from live inventory to create a unique package.

The core objectives behind this trend are:

1. Servicing customer needs
2. Revenue generation
3. Increase in market share
4. Building supplier relationships

For the vast majority offering dynamic packaging, the solution is meeting business objectives. One tour operator commented that the interface needs work, and still requires human intervention.

Almost all operators (92%) agree that in 2005, a company providing its customers with online vacation dynamic packaging will capture greater market share than a company without this capability.

In general, tour operators are calling for an integrated inexpensive booking engine to support the packaged vacation market. This engine would enable their entire inventory to be connected and tour operators to execute real time bookings. Common protocols that connect suppliers and distributors would make this happen.

Web Sites Rank High

Web sites and travel agencies were most often chosen as effective channels for providing individual customer advice on vacation packages (85%). Call centers were cited as an effective channel by 77% of respondents, and 42% say the call center is "very effective." Fax flyers, chat and follow up e-mails were given honorable mentions as other effective channels.

CRM

Half the operators polled have CRM software integrated into their vacation-packaging platform. These include database marketing or customer service tools.

Consolidation

The survey also found the industry expects more consolidation driven by online companies such as Expedia in this market segment. The respondents were asked what the Expedia acquisition of Classic Custom Vacations would mean for the immediate future. Almost all thought that Expedia would sell more vacation packages on Expedia.com and that there will probably be more acquisitions where an online company will purchase a traditional tour operator.

"Any provider that falls behind the 'new technology' will disappear."

Conclusions

Technology companies must respond to tour operators' clarion call for increased connectivity as their distribution mix is expected to shift dramatically in 2005. Despite tour operators' recognition of the travel agency channel, they see a future where direct (Web site) distribution takes precedence, decreasing their reliance on intermediaries. Online travel agencies will also play an increased role in tour operator sales.

Dynamic packaging solutions are seen as a must-have solution by many tour operators. However, it's just one of many technologies that can help tour operators lower costs and service customers. Web booking engines and GDS interfacing are deemed even more important than dynamic packaging by most tour operators.

Once funding and awareness issues are resolved, the online vacation package marketplace will develop quickly. Certainly, tour operators still need evidence that the shift to online will result in greater revenues overall – as ROI is the biggest requirement for obtaining the necessary funds to move forward. Technology providers will be put to the test, as tour operators will demand greater features to jump-start their online strategy. Technology providers will be required to make partnerships to help move the industry forward.