

Biz-Changing Trends in Travel Distribution / Part one of two

What are some of the major trends affecting travel distribution over the last several years of increasing rates, occupancy, RevPAR and profits?



By Mark G. Haley

In this article, part one of two, some major trends are discussed. There are probably a dozen trends of varying duration that could be examined. For the purpose of this series, four key business-changing trends were chosen that show some clear consistency and persistence over time:

- Transaction volume continues to shift to electronic channels, particularly to the Internet.
- The growth in Internet volume, particularly direct Internet transactions, is at the expense of voice channels and third-party channels.
- Integration of transaction-oriented booking engines with rich site design, search engine optimization and customer relationship management techniques in order to drive trial by new customers, elevate the dialog with

existing customers and increase share of mind and wallet.

- Consolidation within the distribution industry continues, as niche players need to combine to gain meaningful scale and larger players acquire broader capabilities.

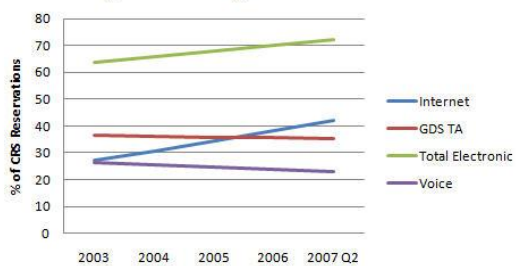
The following section examines how each of these major trends affects how room revenue gets delivered to your hotels.

Transactions Continue to Shift to Electronic Channels

Up until the global distribution systems commanded prominence in the 1970s, virtually all reservations were either voice or direct to the hotel. Since then, electronic channels have metastasized to represent more than 50 percent of all reservations for virtually all hotel companies, and greater than 60 percent for most¹. And since the Internet first appeared as a line item in CRS operating statistics around 1996 or so, the Internet has won an increasing share of that growth as travelers around the world have made the Internet the foundation for commerce, information and entertainment.

As shown in Figure 1, over the last five years all electronic channels have grown from 63.6 percent of all CRS bookings to 77.2 percent. Most of this growth has come from the Internet, going from 27.1 percent of reservations in 2003 to 42 percent in the second quarter of 2007.

Fig 1 - Booking Channel Trends

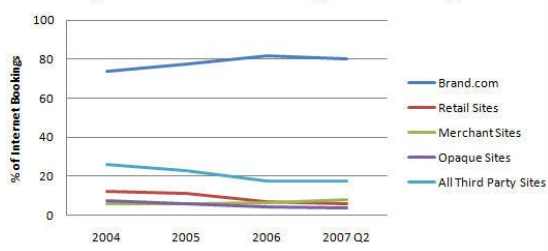


Growth in Internet Volume at Expense of Voice and Third Parties

Also shown in Figure 1, this growth in Internet volume has come in tandem with decreasing voice channel reservations, dropping from 26.2 percent five years ago to 22.8 percent last year. Interestingly, central reservations office managers report that more than half of callers have previously researched their needs online and simply want to complete the transaction when they call, rather than asking about locations, rate and availability. GDS reservations from travel agencies have stayed pretty flat, 36.5 percent in 2003 and 35.2 percent in Q2 2007.

Where it gets interesting is when one gets inside of the Internet channel and looks at production by segment as shown in Figure 2.

Fig 2 - CRS Production by Internet Segment



This data is vivid testimony to the effectiveness of hotel companies in assuming control of their inventory, a topic we will explore in part two of this series. As Internet transactions conducted directly with the hotel company's Web site (Brand.com reservations) have increased to over 80 percent of all Internet bookings, all third-party sources have dropped over 10 percentage points, down to 18.5 percent of Internet bookings.

Within the third-party channels, most of the decline has come at the expense of retail sites that sell the hotel's inventory for commission, rather than

merchant sites that sell the hotel's inventory for a (usually) fixed margin on a wholesale rate. Retail sites' share of Internet transactions dropped from 12.5 percent to 5.7 percent. Opaque sites, which conceal the brand and name of the hotel until after the sale has been made, have also tailed off from 7.5 percent to 4 percent of Internet volume.

Integration of Booking with Site Design, SEO and CRM Activities

The earliest hotel Web sites were simply storefronts offering up brochure-ware – pretty pictures with no booking capabilities. Then Internet booking engines became available from multiple sources, and hoteliers quickly made getting to the transaction, the booking, the thrust of their Web sites. This evolution is continuing, with leading companies treating their online presence holistically, and investing in more sophisticated site design to retain visitors, search engine optimization techniques to attract visitors, and providing guests online access to their profiles in the hotel enterprise's frequency or other customer relationship management database.

Figure 3 is a screenshot from Wyndham Worldwide's leading-edge frequency program, Wyndham By Request with TripRewards. This site allows members to maintain their profile, view folio detail from past stays, reservations records for future stays and more.

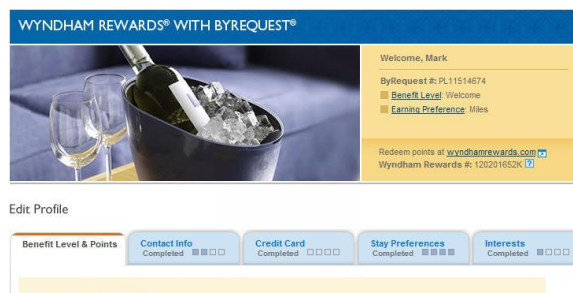


Figure 3 - Wyndham ByRequest

Less visibly, hotel companies have developed or engaged capabilities in search engine optimization and marketing (SEO/SEM). These capabilities include natural search, pay-per-click search and advertising placement. Cataloguing the strategies and tactics of SEO and SEM is beyond the scope of this article. These tools can drive massive amounts of Internet traffic, leading to increased reservations revenue. For a hotel company to not employ SEO and SEM essentially means to give up that traffic to third parties without contest.

Industry Consolidation

Numerous examples of consolidation have been seen over recent years. Pegasus Solutions acquired the Wizcom switch from TravelPort, bringing its only meaningful competitor for reservations switching in-house.

In the meantime, TravelPort added the Worldspan GDS to its vast portfolio of travel distribution assets (Galileo, Orbitz, CheapTickets and more).

TravelCLICK bought Vantis, including the Lexington customer base. Sabre Holdings, having acquired SynXis (itself a combination of the original SynXis and HubX), bought e-Site Marketing to add site design and SEO to its offerings, including the Sabre GDS and Travelocity, as well as airline technology solutions.

SideStep and Kayak merged, bringing some meaningful scale to the meta-search sector.

Expect consolidation to continue as the industry matures and new entrants with new capabilities become attractive to larger acquirers.

Part two will look at how leading hotel companies are creating, responding to and capitalizing on these trends. ■

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