

## Travel 2.0

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Winning over the travelers of the future will require technologies that, like human travel agents, can segment customers accurately and give them what they want.

by Volkmar Koch, Jürgen Ringbeck, and Stefan Stroh

**T**wo trends are troubling the worldwide travel industry. The first is the slowdown in the growth of online travel booking sites such as Expedia and Travelocity, and their unexpected decline in total customers, if not total bookings, over the past year. The second is the unlikely resurrection of the traditional travel agency: Fed up with the time-draining quirks and the impersonal service of booking travel online, consumers are turning again to human beings — that is, travel agents — to help them sort through the maze of choices to set their itineraries, buy tickets, and make reservations.

At a time when other business sectors, particularly many types of retailers, are using the Internet and database technology to collect information about and directly market products at individual customer preferences, most big players in the travel industry are trapped in a one-size-fits-all model. They compete primarily on price and expend little effort to customize product offerings to the needs of specific consumer segments.

At the same time, ironically, travel companies — traditional tour operators, online booking services, agents, and suppliers such as airlines and hotel chains — have spent tens of millions of dollars developing attractive Web sites, powerful booking engines, and marketing data warehouses. Yet according to industry researchers IBISWorld, the Internet is still used primarily for simple

bookings such as short-haul, city-to-city flights and hotel rooms. And despite all their technology, most travel companies know remarkably little about their customers.

In Europe, the situation has engendered a rash of consolidation among traditional tour operators; for example, Thomas Cook has merged with MyTravel, and TUI has merged with First Choice Holidays. These moves are intended to reduce competition and improve margins through economies of scale and by eliminating the overcapacity in the market on which the online travel agents thrive. Yet these deals still don't solve the travel industry's essential problem: how to distinguish one company's offerings from that of its competitors'.

Travel companies are missing opportunities by failing to learn as much as possible about their customers. Indeed, success in the travel industry in the coming years will be defined by a keen understanding of customer habits and tastes and by an ability to tailor products, services, and channel strategies to highly differentiated, carefully delineated consumer segments — whether high-touch service seekers, online power shoppers, holiday traditionalists, or bargain hunters. To succeed, segmentation criteria will have to address sales potential, complexity of service, and profitability of consumer options. In turn, sales and marketing capabilities must be designed around each of those customer

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segments, and their specific demands, to improve turnover of the inventory of travel offerings and synchronize travel demand with supply. In other words, companies must become the technology-driven equivalent of the perfect human travel agent.

**Knowing Your Audience**

Customer segmentation requires boosting capabilities on three levels:

**1. Strategic.** Each customer segment will require its own product design, branding, and service approach, from booking to fulfillment, as well as a carefully tuned approach to making sure every available spot — whether on flights and tours or in hotels — is filled at the highest possible price.

**2. Tactical.** Companies should choose appropriate sales and distribution channels for each segment. Travel agents should be categorized according to their client base, and loyalty programs must be aligned with each segment's strongest motivators. Bargain hunters might respond better to future discounts, for instance, than to added luxuries, whereas service seekers may prefer the opposite.

**3. Operational.** All customer contact points, including agents, call centers, and Web sites, must be capable of adjusting marketing and selling techniques based on customer segments.

But none of this will work without rethinking the role of information technology in the travel industry. Current search-based reservation systems are no longer adequate. Instead, companies must work on developing tools for capturing detailed information on customer preferences, linking that information to powerful marketing databases, and deploying flexible multichannel

IT architectures. Online usability must also be improved, tailored to the various customer segments, and augmented with such features as suggested itineraries, interactive customer forums, videos, and 360-degree pictures. And all of this must be made available on mobile devices. Think Travel 2.0.

If travel players want to capture and hold profitable customers, however, they need to offer more than Internet bells and whistles. They must be able to flexibly handle and package a wide variety of travel options — flights, hotels, cars, tours, tickets, and side trips, from the obscure to the commonplace — offered by hundreds of different companies and inventory aggregators throughout the travel industry. Thus, online travel agents must develop the tour-operator ability to package complete and tempting offerings, either on their own or through partnerships with other companies.

Operators must be able to package and price these components in real time, have the technology in place to instantly steer customers toward a personalized solution within any sales channel, and accurately match travel plans to each customer's willingness to pay. To do so will require a booking engine capable of highly dynamic product configuration, pricing, procurement, and inventory management processes that can react immediately to customer requests and to prices that change hourly.

To manage these vast inventory databases and squeeze the most profit out of them involves a high-wire act of balancing supply and demand. After all, there's little point in building fancy, dynamic booking engines without sufficient attractive and varied inventory to tempt each customer segment. Although this is a problem for every travel intermediary, online travel agents suffer the most. Their asset-light business model depends

in part on the avoidance of inventory risk; they prefer to foist the potential losses from unsold inventory on travel suppliers such as airlines and hotel chains. Because those suppliers, quite reasonably, will happily trade certainty for higher margins, they typically offload large chunks of their offerings at a deep discount to travel agents and tour operators, which then sell these trips and reservations in blocks. In the long run, as every category of intermediary becomes more proficient at a much more dynamic, minute-to-minute booking game, online travel agencies will be left with fewer and less competitive offerings, especially at times of high demand.

Consequently, it is essential for online agencies, and indeed all intermediaries, to be willing to enter into inherently risky inventory commitments. Doing so profitably involves putting sophisticated processes in place that will let them make better decisions about which offerings to purchase from travel suppliers, as well as the potential value of these offerings. The proper combination of long-range demand forecasting, real-time pricing and yield management, and agile, dynamic sourcing can give travel companies the right inventory at the right price points at the right time, boosting both revenues and margins. Presently, the corner travel agent is still the most adept at sizing up regular customers — where they want to go; how much they're willing to pay; and how much time it's worthwhile to spend with them, given their likely value. And the travel agent knows where to find the inventory to satisfy customers. In the future, large-scale, more click-based operators — whether online agencies, tour operators, airlines, or hotel chains — will have to turn to much improved technology to perform those functions profitably. And when that occurs, travelers will be rewarded with any

number of companies that can find them personalized, flexible, competitively priced travel options. Those companies that perform the best will no doubt enjoy the greatest consumer loyalty.

Now if only they could do something about the leg room. +

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## Resources

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