

European Online Travel Agencies

Navigating New Challenges



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Section One: Key Findings, Overview and Methodology

Key Findings

- Gross bookings for European online travel agencies (OTAs) totaled €23.6 billion in 2009, representing 35% of the online leisure and unmanaged business travel market. By 2012, OTAs are expected to expand their share of the online pie to 37%. OTA share will maintain the largest share in Europe and the U.S. (40%) through 2012, although OTA gains in APAC and LATAM will continue, with share in those regions growing to 31% and 34%, respectively.
- In the wake of the global recession, OTAs outperformed the travel market as a whole. Though the overall travel market fell by 11%, OTA sales increased by 8%. Even supplier website bookings declined in the same period. PhoCusWright estimates that European OTA gross bookings jumped another 16% to €27.3 billion in 2010.
- The European OTA landscape is highly fragmented. With no single agency dominating the market, the top five players combined account for less than half of all OTA bookings. A large number of regional and local companies control the remainder of the segment.
- European OTAs have unique strategies in terms of the combination of travel product(s) they offer; some remain air focused, others are lifestyle focused. Going forward, however, there is consensus that dynamic packaging represents a significant opportunity.
- European travellers use OTAs extensively for online travel shopping, not just buying. Although travellers rely most heavily on general search engines, OTAs represent the second most popular type of website for used for shopping, easily ahead of travel supplier websites.

- A range of issues threaten to disrupt the OTA landscape, including consolidation, access to content, suppliers' direct connect strategies, social, mobile and metasearch. While there has been considerable variation in how European OTAs have responded to these issues, some common patterns have emerged.

Overview

In many ways, the European online travel market is qualitatively different from what it was like just a few years ago. Travel suppliers – especially airlines – are boosting their efforts to connect directly with their customers, threatening the traditional role of global distribution systems (GDSs) and OTAs. Metasearch, another type of intermediary, is trying to muscle its way into the marketplace. Acquisitions and consolidation continue to tighten the online space, and companies all along the travel value chain are evaluating and testing the potential of social media and mobile technologies. Meanwhile, travellers themselves are more demanding, tech-savvy and (in the aftermath of the global recession) cost-conscious than ever.

European Online Travel Agencies: Navigating New Challenges combines travel executive interviews with a consumer survey and robust market analysis to examine some of the key trends shaping the European online travel industry. This paper emphasises the issues most relevant to European OTAs -- a diverse collection of regional and global players focused on a variety of travel products and customer segments. In addition to outlining fundamental trends and issues, the paper explores the activities and strategies that OTAs are developing and deploying to remain competitive in this highly dynamic business environment.

Methodology

In spring 2011, PhoCusWright interviewed executives from a range of leading European online travel agencies, reflecting a mix of global, regional and local companies. Executives were asked about their business goals, strategies, challenges and investments. This research is supplemented with findings from *PhoCusWright's European Online Travel Overview Sixth Edition*, which examines all segments of the European online travel industry by market, and *PhoCusWright's Global Online Travel Overview Second Edition*.

To provide a consumer perspective, this paper also includes results from *PhoCusWright's European Consumer Travel Report (ECTR)*. In conjunction with the report, PhoCusWright fielded an online consumer survey in April-May 2010 through Global Market Insite, Inc., targeting the general French, German and U.K. population that has Internet access and travels for leisure.

Qualified *ECTR* respondents had to have taken at least one overnight leisure trip in the past 12 months that included paid accommodations at least 100 km from home, air travel and/or rail travel. In addition, respondents had to have played an active role in planning their leisure trips. PhoCusWright received 2,405 qualified responses (France 815, Germany 802, U.K. 788) and the respondent pool can be projected with confidence to the adult population with Internet access. The error interval for analysis of the traveler population within each individual country is +/-3.4% at a 95% confidence level.

Section Two: European Travel Market Overview

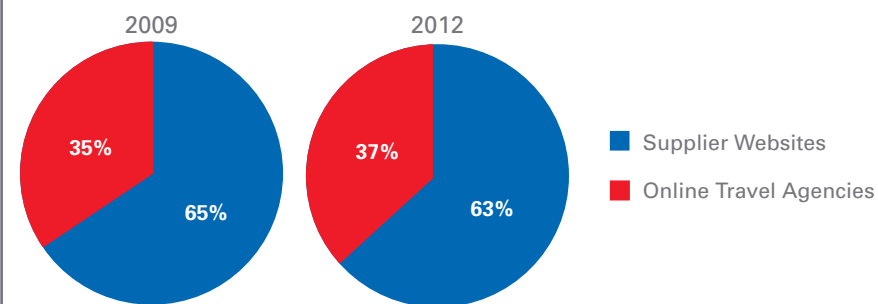
The global recession of 2009 wreaked havoc on travel commerce around the world, and Europe was no exception. Total European travel gross bookings fell 11% to €215 billion in 2009, as total U.S. bookings dropped 15% on a dollar basis and the Asia Pacific (APAC) and Latin America (LATAM) regions suffered single-digit declines. A modest recovery is clearly underway, as individual markets and sectors transition from tending their wounds to regaining lost ground. In 2010, the overall travel market in Europe was estimated to grow 2.2%, though gains have been uneven across specific sectors and countries. In 2011, total market growth is expected to accelerate moderately at 3.6%.

As in all major travel regions, the European online segment outperformed the overall travel market in 2009, highlighting a lack of market uniformity. In the midst of the double-digit decline that plagued the European travel industry in 2009, online bookings actually grew 1.7%. In 2010, the online market was projected to grow 10.5%, in contrast to just 2.2% for the total market. Clearly, growth in the online space is outpacing the total market, and this trend will continue for years to come as Internet usage in less advanced markets like Spain

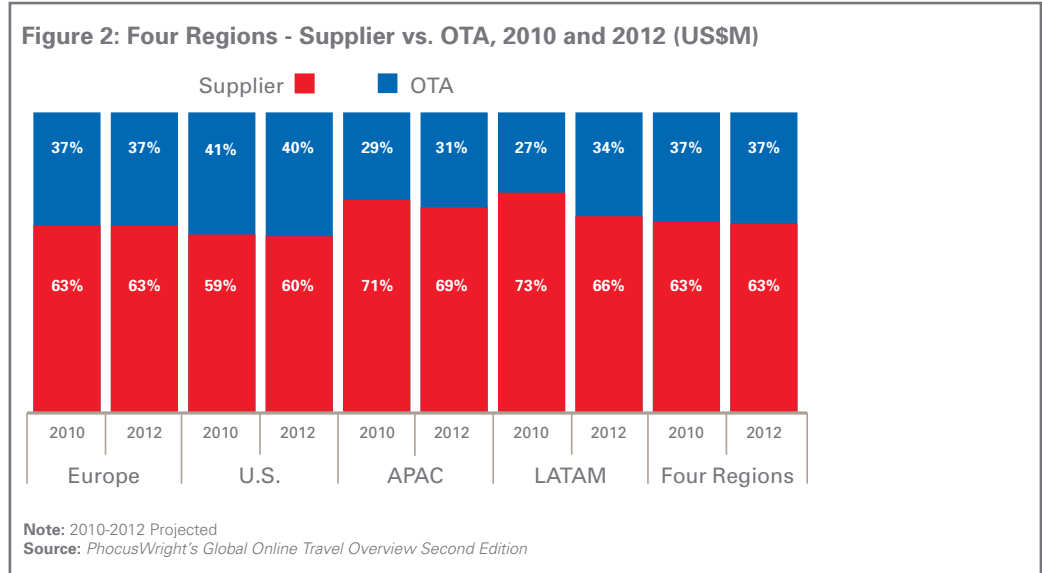
and Italy catch up to leading markets like Scandinavia and the U.K.

Supplier website bookings dominate online sales – but the gap with OTAs is shrinking, as the fragmented lodging sector fuels OTA share expansion. Although OTA share varies widely across markets, ranging in 2009 from 30% in Scandinavia to 55% in Spain, gains are expected across the board. In the short term, the sole exception is Germany, where OTA share is projected to decline slightly through 2012, following strong recessionary gains. In 2008, supplier websites captured just over two thirds of all European online bookings, compared to about one third for OTAs. However, consumers' search for a broader range of travel products at lower prices benefitted OTAs throughout the recession. By 2009, OTA gross bookings of €23.6 billion represented 35% of online sales, while supplier websites held on to the remaining 65% (see Figure 1). By 2012, OTAs are expected to expand their share of the online pie to 37%. OTA share will remain largest in Europe and the U.S. (40%) through 2012, although OTA gains in APAC and LATAM will continue, with share in those regions growing to 31% and 34%, respectively (see Figure 2).

Figure 1: European Online Travel Agency and Supplier Website Share of Online Leisure / Unmanaged Business Travel Gross Bookings, 2009 and Projected 2012



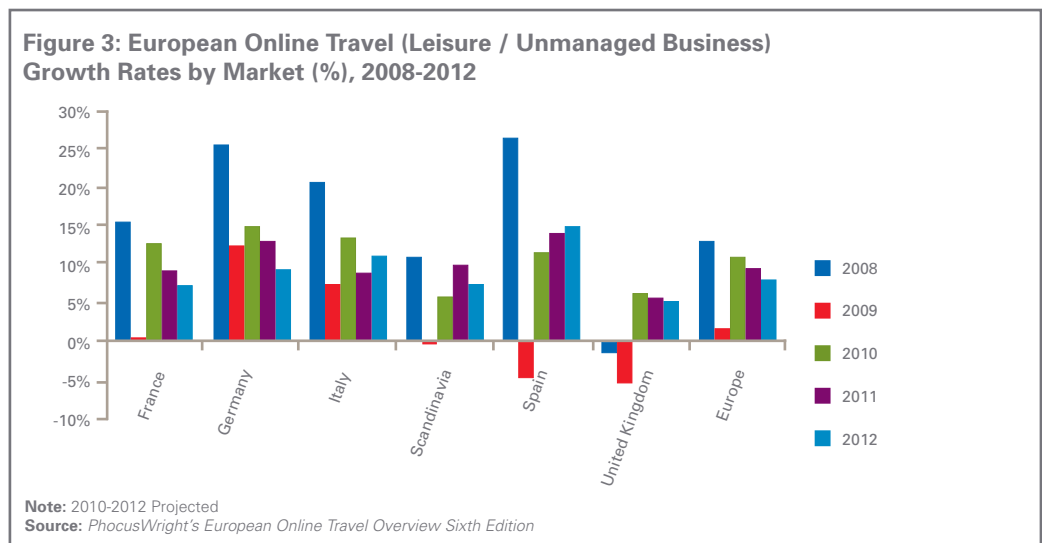
Note: 2012 Projected
Source: PhocusWright's European Online Travel Overview Sixth Edition



Key Market Trends

Europe's diverse individual markets each favor a unique OTA mix, with product sets and global versus local dominance varying by market. On average, 33% of European gross bookings revenue is transacted online, but online booking penetration varies dramatically, in 2010 ranging from

21% (Italy) to 48% (Scandinavia). Online travel growth rates tend to plateau once penetration reaches 35%, and this trend will hold true for mature markets such as Scandinavia and the U.K. through 2012 (see Figure 3). In contrast, Europe's other key markets will maintain slightly higher growth rates.



The European markets suffered to varying degrees during the recession, but OTAs overall achieved 8.2% growth in 2009, fueled by a countercyclical boost from deal-hungry consumers. In their efforts to save money, many travellers embraced new online shopping and booking methods – and smart OTAs responded by investing throughout the downturn. Competition among European OTAs is intense, as consolidation takes hold, global brands vie for the top spot, and local players seek regional expansion. Innovation will largely define winners and losers as the European online travel market continues to mature.

New products (e.g., dynamic packaging, in-destination activities), channels (e.g., mobile and tablets), and business models (e.g., media models, flash sales) should all be part of the strategic conversation. Massive opportunity remains, for example, to be among the first to truly innovate in areas like mobile. And while many OTAs are taking a backseat, the giants of both hardware and software are greedily eyeing the mobile travel space: OTAs simply cannot afford to let the opportunity pass them by.

Market differences and diversity of positioning means there is no one-size-fits-all approach. The section below highlights predominant OTA trends within Europe's key markets:

France

- At an estimated 34% in 2010, France's online share of total bookings remains close to the European average (33%).
- The market is characterised by a strong domestic road and rail network that has stunted the growth of low-cost carriers, which often drive faster online adoption levels within a market.

- Though global OTAs compete heavily in the French marketplace, local OTA GO Voyages has managed to grow to prominence in the region; specialisation on charter air has helped to differentiate its offerings. With its owner AXA Equity's joint purchase (with Permira Funds) of Amadeus' Opodo complete, the local player is now part of a new pan-European triumvirate.

Germany

- Germany's online share of total bookings (32% in 2010) has historically lagged slightly behind the European average.
- This share is expected to catch up in coming years as the country's late-blooming market comes into its own.
- Hotel specialist OTAs are some of the strongest local players, often playing in both the business and leisure space. Ab-in-den-urlaub's package-centric model has driven impressive growth as well, propelled by the German traveler's strong general affinity for packaged products.

Italy

- Italy remains one of the slowest of major European markets to embrace online booking, at 21% share in 2010.
- The force of the recessionary change is wrenching power away from traditional distribution networks, and a revitalised national carrier and stronger rail network should propel online travel forward in the next several years.
- Italy's OTA landscape is not driven by independent local brands, as Venere was snapped up by Expedia in 2008. Spain's eDreams has made substantial headway in the Italian market, leveraging market commonalities to find the right positioning with locals.

Scandinavia

- Despite being small in terms of overall bookings, Scandinavia leads the globe in terms of online share at 48% in 2010.
- Tour operators are able to drive a substantial portion of their bookings online in this tech-savvy market, which is unusual across European markets.
- Scandinavia has generated a robust set of local-grown OTAs, though several multinational players have bought their way in. Substantial consolidation has changed the competitive dynamic in recent years as market leader eTRAVELi strengthened its market-leading position through the acquisitions of VIA's OTA assets in 2009 and both Travelstart and TravelPartner in 2010.

Spain

- At 23% in 2010, Spain is at the slow end of online adoption in Europe.
- Consistent with the dynamics in most relatively young online markets, airline websites in Spain drove the most substantial growth of all segments.
- Spain represents another market dominated by local OTA players - eDreams and Rumbo have claimed the top two spots consistently for years. Permira Funds, which owns eDreams, is now the co-owner of Opodo (with AXA Private Equity). The three OTAs (GO Voyages, eDreams and Opodo) will merge at least some of their operations but maintain their distinct consumer brands.

U.K.

- Not far behind Scandinavia, the U.K. is one of the worldwide leaders in online share at 46% in 2010.
- As other markets catch up, the former dominance of the U.K. online market in setting overall European trends has diminished substantially. While local players like Travel Republic, Travelzest and On the Beach have gained significant traction, the market remains dominated by the global OTAs.
- With U.K. consumers now comfortable booking complex and rather expensive products online, packaged holiday products have gained strong momentum for OTAs over recent years. Dynamic packaging remains outside the purview of A.T.O.L. for now – a condition the Civil Aviation Authority (CAA) has tried unsuccessfully to change (most notably by fruitlessly bringing Travel Republic to court). Nevertheless, the CAA fully intends to continue pursuing the matter through a “flight-plus” reform, so OTAs cannot rest easy on the issue just yet.

Section Three: Travel Component Dynamics

The European online travel agency environment represents a vast and varied landscape of generalists, specialists, small local players and huge global giants. This section highlights the key characteristics of online travel distribution in Europe, along with some specific observations most pertinent to OTAs operating in the space.

Air Travel

Air Travel Consumer Trends

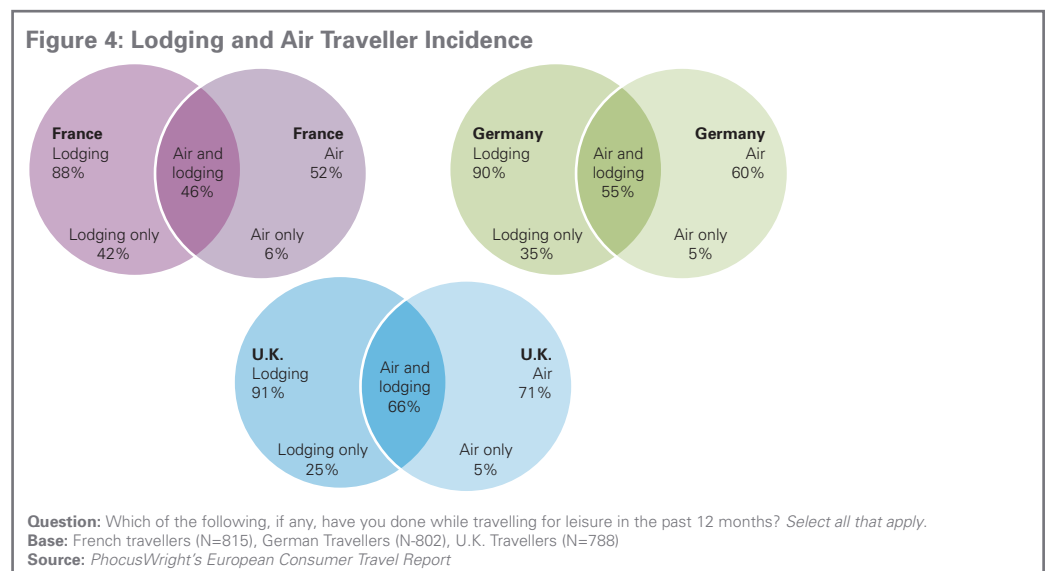
One of the most important considerations an online travel agency must grapple with is the extent to which it should include and focus on specific products – air, accommodations, car rental, rail, vacation packages, etc. Striking the correct product balance is critical, and must take into account geographical factors, market conditions and traveler profiles. In the common grocery store analogy, airline tickets are the milk that brings customers into the store, but the real money is made selling everything else.

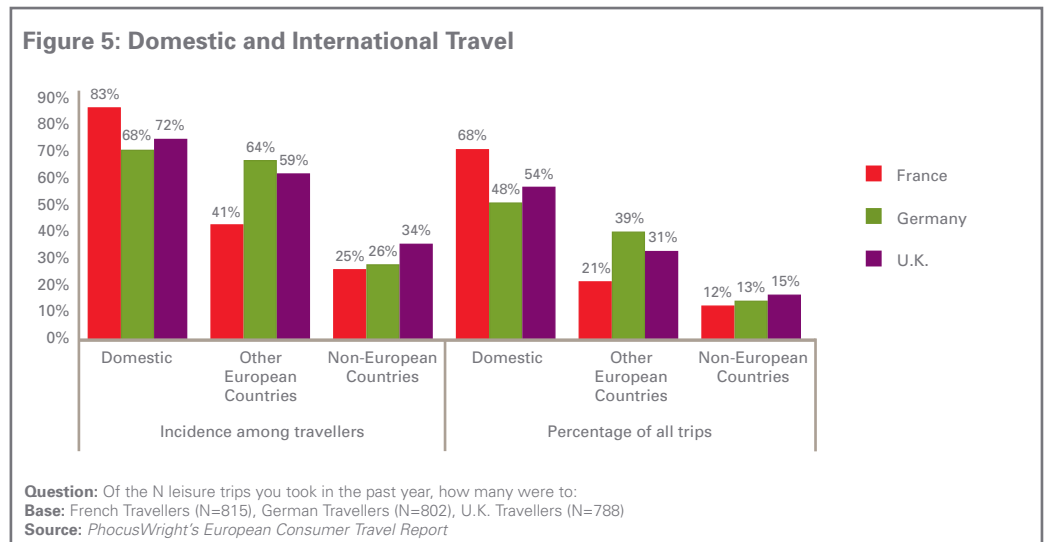
The incidence of European travellers’ leisure trips that include a flight vary by market. Of the three major markets of France, Germany and the U.K., U.K. travellers fly most frequently for leisure and 71% of their recent leisure trips included a flight (see Figure 4). This is to be expected, given that the U.K. is an island nation.

Nonetheless, more than half of leisure trips taken by French (52%) and German (60%) travellers included a flight, further underscoring the value of OTAs including an air offering in their product mix.

On the other hand, European travellers’ leisure trips rarely consist of just air, and the great majority of air trips also included lodging. Across the three markets, air-only trips comprised just 5-6% of recent trips. OTAs that focus either exclusively or primarily on air bookings are missing a tremendous amount of opportunity, compared to those with multi-product offerings.

OTAs must provide access to air routes that are well aligned with the destinations that travellers visit most frequently, whether domestic, elsewhere in Europe or outside of Europe. Here again, there is significant variation among European countries. In the case of France, for instance, more than two thirds of leisure trips are to destinations within the country (see Figure 5). An abundance of resort areas from the Mediterranean to the Alps, and a wide range of cultural and natural activities contribute to the high percentage of domestic trips.





Agencies targeting French travellers must understand the pivotal role of rail and other ground transportation options and adjust offerings accordingly.

U.K. travellers, on the other hand, have the highest proportion of leisure travel to non-European countries (15%), compared to 13% for Germany and 12% for France. As a result, U.K. travellers are more likely to use an online travel agency to shop for long-haul air product and packages; OTAs serving this market therefore often focus on securing broad geographic and product breadth.

Air Travel Distribution Dynamics – Access or Content?

Access to air content remains an important area of focus for most OTAs, and those operating in the European space have kept a close eye on issues that threaten to disrupt the current distribution scenario. Chief among these are airlines' efforts to reduce their reliance on GDSs and establish direct connections to points of sale. While OTAs are well aware of airlines' direct connect strategies, they are not anxious about the ability of their GDS partners to address these challenges.

As a result, OTAs are not overly concerned about the potential impact that direct connects pose on their business operations; nor are they developing their own direct connect strategies. On the other hand, for low-cost carrier and charter inventory not available through GDSs, OTAs may have no other option.

Google's acquisition of ITA Software is another development that could impact online travel agencies and their ability to remain competitive in the air category. OTAs have largely adopted a "wait and see" attitude toward the merger. They hope that more relevant search could be a positive outcome, but recognise they need to diversify their marketing spend. Some online travel agencies are concerned they have become overly dependent on Google, which could account for half of their online traffic. However, most OTAs operating in Europe do not view the Google-ITA merger as a direct threat. They do, however, see the merger impacting metasearch sites like Skyscanner, Trivago and Swoodoo. Since some OTAs consider themselves both shopping and booking engines, they are concerned about the potential for traffic being diverted away from their sites as well.

Regardless of the impact of Google's absorption of ITA, OTAs have mixed views on the prospects of metasearch as a marketing channel. Since metasearch sites have been effective in driving traffic to air products in Europe, air-focused OTAs are closely observing the evolution of metasearch in the region. However, because many OTAs are focused on non-air products, and are aggressively developing mobile and deals-based offerings, metasearch typically accounts for just a small percentage of OTA traffic. Metasearch's role and impact in the travel landscape varies substantially market to market, however. The general stance among global OTAs is therefore to partner with metasearch brands based on individual market dynamics.

Hotel, Packaging and Other Products

Hotels and Lodging

The lodging segment in Europe fared substantially better than air during the recent downturn, and OTAs were a key beneficiary of this trend. Many European consumers cut spending on airline tickets (choosing instead to drive or take a train to their destination), but still stayed in a hotel. Nonetheless, in an effort to improve occupancy rates, hotels across the continent were forced to slash prices considerably, and it will be some time before rates in most markets return to pre-recession levels.

Due to fragmentation, and traveler's preference to call hotels directly, online hotel distribution is still under penetrated in Europe. Online connectivity to independent hotels -- which represent roughly 75% of all hotel rooms in the region -- is challenging, particularly outside of major cities. OTAs account for just 14% of all European hotel sales, although that figure should grow to 15% in 2012.

Another 8% is booked through hotel websites. With more than three quarters of hotel inventory still booked offline, aggregating hotel inventory across Europe represents significant opportunity for OTAs.

Unlike every other European travel segment, hotel bookings made through OTAs exceed transactions via supplier websites. The strong growth and performance of OTAs in Europe has been driven, in large part, by the fragmentation that exists in the lodging segment. Consumers have relatively little motivation to visit independent supplier websites, since a variety of aggregators are able to provide more accurate and comprehensive information, and a more compelling online experience. Online penetration is still improving in the lodging segment, and there is considerable room for growth; by 2012, OTAs will account for €12.4 billion in gross hotel bookings, compared to €7.6 billion for supplier websites.

Packages

Packaged travel is an important product in Europe, and until relatively recently this category was dominated by pre-packaged holidays sold through tour operators. In most markets, these static packages represent just a small component of overall OTA bookings. However, dynamic packaging is on the rise, and online travel agencies see extraordinary potential for growth in this segment. Some European markets have already made substantial headway in selling packages online (U.K. and Scandinavia in particular). As the flexibility of dynamic packaging appeals to larger audiences, OTAs are developing their sites to take advantage of the opportunity. In addition to standard package offers, they expect to continue driving this business through daily deals, limited time specials and other exclusive offerings.

Other Products

OTAs may offer a range of additional products, including car rental, insurance and destination activities such as event tickets and attractions. The extent to which online travel agencies focus on these products varies considerably by market and strategy. Those OTAs focused on “lifestyle” offerings have the opportunity to build revenue and enhance the brand while deepening the engagement with customers and connecting with them at different stages of the travel life cycle.

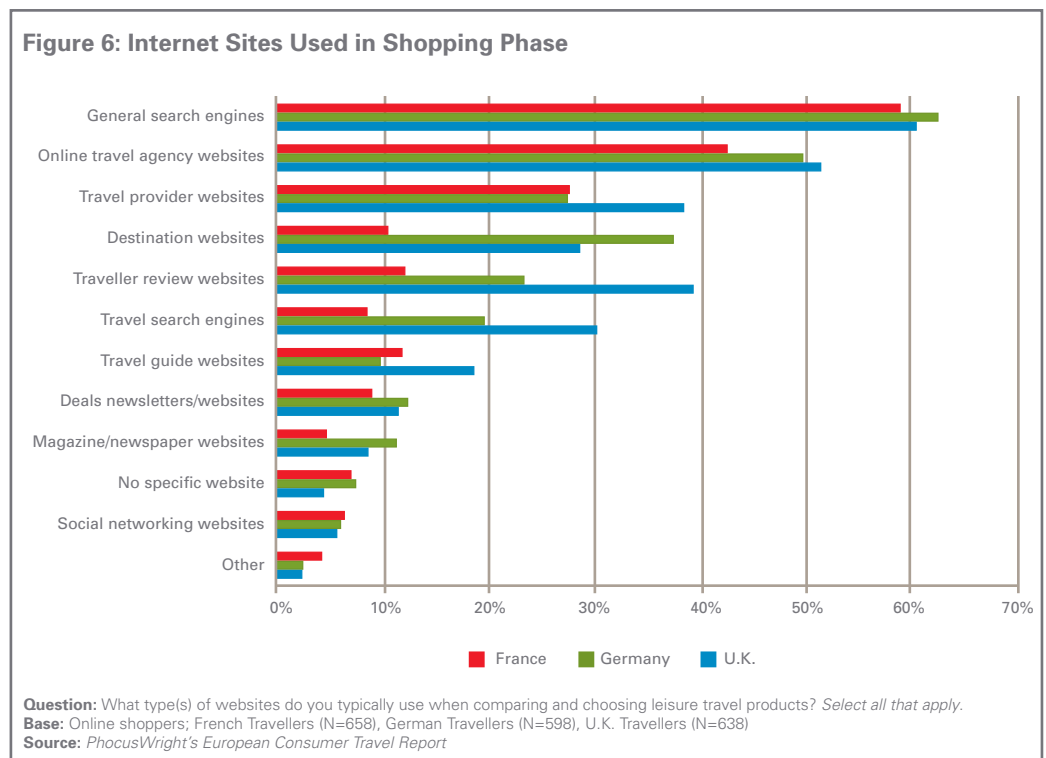
Section Four: Online Travel Shopping and Purchasing Trends

Online Shopping Channels

When comparing and choosing leisure travel products online, European travellers rely heavily on general search engines, most notably Google. More than half of travellers in three key European markets – France, Germany and the U.K. – visit general search engines during the shopping stage (see Figure 6). The broad use of general search engines is driven to some extent by fragmentation in the market; unlike in the U.S., where travellers are more familiar with and rely more heavily on OTAs, European consumers use general

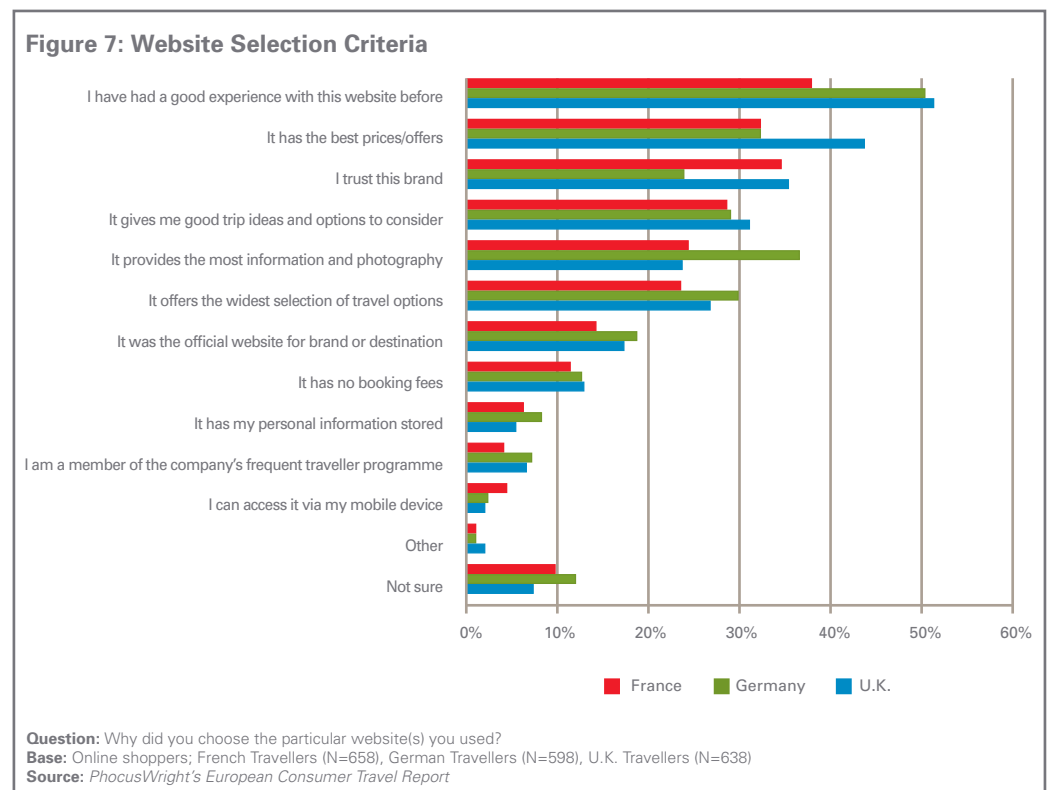
search to discover travel shopping sites and options. Travel-specific search engines, on the other hand, are not nearly as popular as general search sites. OTAs represent the second most popular type of website for travel shopping, easily ahead of both travel supplier websites and destination websites.

The use of certain types of websites for travel shopping varies considerably by market. For instance, supplier websites, traveler reviews websites and metasearch (travel search engines) are far more popular in the U.K. than they are in the other two markets.



While the power and potential of social media is evident, it is not yet driving significant traffic or conversion – at least not in any measurable way. The influence of social media will continue to grow, as its presence becomes pervasive in online and mobile channels. Many hotel companies have created standard procedures to monitor and manage user reviews, as the impact on hotel decisions is immediate. But in the case of social networks, where conversations happen in free form outside the contextual structure of travel sites, the impact is likely to remain frustratingly difficult to evaluate in the near term. Few European travellers use social networking websites directly for comparing or choosing leisure travel products. In response, most OTAs do not have employees dedicated to social media – though some engage with customers on Facebook or Twitter among other duties. Some larger organisations utilise third party service providers to maintain consistent responsiveness in social media channels while keeping the overall direction and strategy in-house.

When deciding which websites to visit during the travel shopping phase, it's no surprise that price is a key consideration for European consumers. Across all markets, "best prices or offers" was consistently among the most important factors (see Figure 7). However, prior positive experience with the website is the most important criterion for online travellers in the U.K., France and Germany, ahead of pricing. In addition, trust in the brand is an influential factor – more important than price, in fact, for French online travellers. While online travel agencies frequently specialise in identifying the best available prices across travel suppliers, they should also recognise and focus on the strong influence of non-financial factors such as trust and positive experience. Clearly, OTAs must provide a compelling, high-quality experience on their websites, so that first-time visitors become return customers.



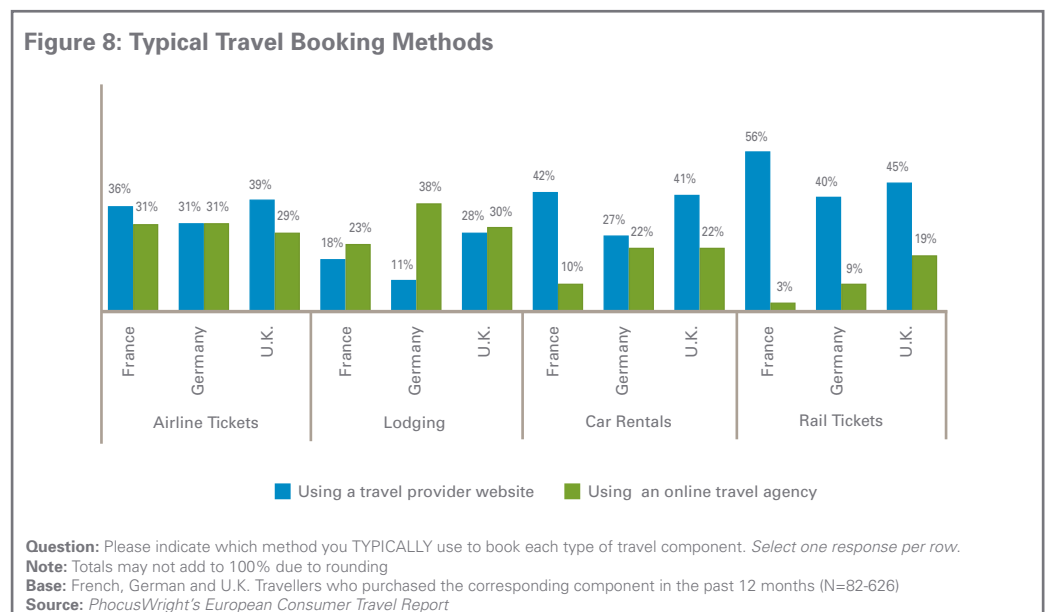
De-emphasis on price has been a difficult task, however. Few OTAs have loyalty programs or customise their offerings based on individual preferences. Having the best prices may not be the top reason for choosing to visit a website, but it remains the top product selection criteria for OTA customers. It is not the only criteria, however, and search algorithms also focus on relevance, margin, popularity, promotions/exclusive deals, and conversion. True personalisation brought about by customer relationship management (CRM) remains on the back burner, partly due to the inconsistency consumers often display.

Mobile accessibility is not a notable driver of website choice, but the platform’s growing importance is indisputable. Some OTAs have developed mobile apps, others have optimised their websites for tablets, but few have full-blown mobile strategies. Since OTAs rely on transaction-based business models, and mobile bookings are still small, OTAs largely have yet to invest heavily in the technology. This approach could backfire, however, as smartphones and tablets begin to rival computer-based shopping in some markets. Already, OTAs offering mobile transactions are seeing a significant uptick in same-day bookings.

As attractive as mobile initiatives may be, OTAs – particularly smaller ones – often do not have the resources to devote to making the most of mobile technologies. Third-party mobile website and app providers can help to ease the strain of building to multiple platforms, but limit the possibilities for differentiation. Operational constraints are often driving OTAs to focus on one platform – at least to begin with – and they often choose to build for the iPhone due to its highly active user base.

Purchasing Methods

European consumers’ travel purchasing methods vary greatly, both by market and travel product. Just under one third of airline tickets are purchased through online travel agencies, while supplier website bookings either match or exceed OTA purchases (see Figure 8). In Germany, about a third of airline tickets are purchased through retail travel agencies, while both France and the U.K. have higher online penetration rates for air.



In Europe's fragmented lodging space, OTAs have the upper hand, and outdistance supplier websites as the most common purchasing channel. About half of French and U.K. travellers make their hotel bookings directly from the supplier – either online, by phone or in person. Only about a third of German travellers, in contrast, use the supplier-direct channel; the rest rely on intermediaries, either OTAs, travel search engines or traditional travel agents.

Compared to both air and hotel, car rental and rail bookings are skewed more heavily toward suppliers and, in particular, supplier websites. Across all markets, the online supplier-direct channel is the most popular booking method for car and rail. However, in both the U.K. and Germany, OTAs capture more than one in five car rental bookings. And in the U.K., fewer than one in five rail bookings are made through OTAs.

Section Five: Forces Shaping the Future of Online Travel Agencies

Emerging markets represent a host of challenges that involve infrastructural development alongside technological development. Their leisure travel industries are relatively nascent as new middle-class generations in geographies like China and India venture on holidays for the first time. In stark contrast, travel, tourism and hospitality is an ancient industry in Europe. But traditions come with their own challenges. Old habits can be hard to break – outdated technologies, fragmentation, and a strong traditional intermediary network have made large-scale, continent-wide success very difficult to achieve.

Nevertheless, the long-tail dynamics of the Internet and the democracy of innovation level the playing field. As entrepreneurial stars come from all walks of life to dazzle the investment and technology world, we can easily recognise that creativity, ingenuity and innovative thinking can be far more important than deep pockets and expensive executives. This section reviews key trends shaping the current – and ever-changing – online travel agency environment, and how European OTAs are navigating them.

Google-ITA: Cautious but Not Anxious



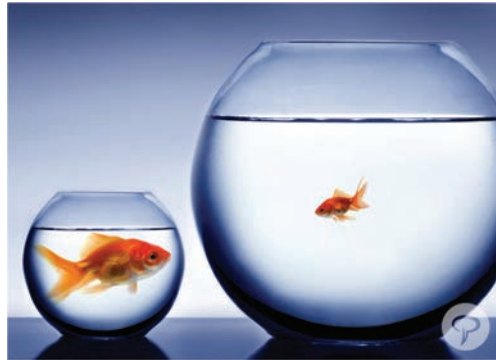
When Google momentarily announced its intention to acquire ITA Software in 2010, travel bloggers around the world turned to each other and said (or rather, typed) "I told you so."

What they didn't know was how long the U.S. Department of Justice would take to develop an opinion on the situation and that it would be spring of 2011 before a decision would be announced. While the acquisition has been completed, much remains unknown about the ultimate outcome of the marriage between the world's largest search engine and the preeminent shopping technology provider.

OTAs are taking a "wait and see" attitude toward the Google-ITA merger, but remain on alert. Search, more than social media, is driving traffic and conversions for OTAs now – so much so that OTAs are concerned they are getting too dependent on an ever more powerful Google. While the merger with ITA is not seen as a direct threat to OTAs, it is expected to impact metasearch sites more fundamentally. This concerns those OTAs that view themselves as shopping engines as well as booking engines. They see the potential for Google-ITA to divert traffic away from their sites, and are keeping a watchful eye on the situation.

While there is certainly room to improve travel search, it remains to be seen how broadly Google's travel offering impacts traveller behavior. An open-ended, text-based approach, while innovative, may not add value in all instances, particularly among travellers who already know where they want to go. After all, less than 50% of trips taken by French, German and U.K. travellers are to an independently selected destination. With Google's reach and record of innovation, however, OTAs must pay close attention as these two search powerhouses combine forces.

Metasearch: Jury Still Out on Effectiveness



When the first metasearch engines came onto the travel scene, many OTAs scoffed. Major global OTAs often refused to work with them for fear of commoditisation – and, even worse, disintermediation. Over the years, however, perspectives have mellowed dramatically and OTAs are often willing and eager recipients of metasearch referrals. Metasearch players have much to be concerned about with the Google-ITA merger, but they may just find allies in their partners, which are not particularly eager to see Google gain more share (and more power) over their marketing budgets.

Metasearch continues to bring mixed results for OTAs. Sites such as Skyscanner and Travelsupermarket have been successful driving traffic to air products, but are much less effective for hotels and packages, which make up a growing part of their business. Performance also varies tremendously between markets across Europe. Metasearch engines can be a substantial source of traffic in some places. But even in markets where they carry hefty weight, there is no comparison to general search and in particular, Google. As a result, the general consensus is where and when metasearch works, OTAs will utilise it.

Otherwise, it's simply not worth the effort.

Metasearch is theoretically a natural match for the fragmented European travel marketplace. With so many suppliers and OTAs connecting the various markets, thoroughly searching various websites can potentially yield better price/schedule options. But some might speculate that the metasearch consumer value proposition will be rendered null and void by Google's entry into the pricing display arena. Regardless of the dynamics among relatively small metasearch brands and media heavyweights, OTAs' focus must remain on spending the marketing dollars where they have the most impact on revenues. Volume of traffic is one metric, the qualification of leads is another. There is a place for metasearch players in the ITA-powered Google world as long as they can deliver the promise of better, more relevant search results to consumers, who then become better, more relevant referrals for partners – a difficult, but not impossible, task.

Social Media: High Priority, but Results Unclear



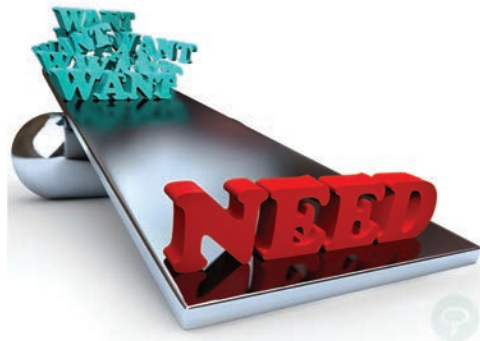
Social media is no longer worthy of shiny new trend status. Nevertheless, the general sentiment is that the power and potential of social networks is largely untapped. Finding the right spot to place the tap and figuring out which spout to use is proving difficult – never mind that new capabilities shift possibilities on a regular basis. Facebook Connect and Places sound like things OTAs would like to take advantage of in theory. But the vagueness of investment returns and the challenges of a hypercompetitive business often result in a focus on short-term gains and a deficiency of imagination.

For the most part, OTAs take social media very seriously but admit they have not fully exploited its potential. Most are in the “test and learn” mode, using social media primarily for customer engagement (e.g., Facebook Fan pages, Twitter, blogs, live chat, photo sharing, etc.). Though the power of social media is evident, it is not yet driving significant traffic or conversion – at least not in any measurable way. Few have dedicated staff.

Some consider leveraging Facebook Connect, integrating social media into search results, or adding booking engines to their Facebook page to drive transactions. OTAs are at the very least committed to keeping the social media communication points open, and most will continue to experiment to find new ways to engage consumers and (eventually) impact bookings.

Because social media empowers consumers to communicate about their travel experiences in a highly visible way, it can play a significant role in building customer loyalty. OTAs have an unprecedented opportunity to interact with their customers, but the traditional drivers of loyalty – superior value and customer service – still reign supreme. OTAs should view social networks as a powerful tool, but like any tool, not an end in itself. The secret sauce resides in how social networks are used to engage customers and demonstrate differentiation – games, deals and contests (often intersecting with the mobile platform) are just some of the vehicles best-in-class companies use to make the most of the medium.

Early Days for Mobile as Most OTAs Dabble



Is this the year of mobile? Was it last year? Is it next year? Despite popular pundit pronouncements, fundamental shifts in technology platforms and usage do not happen in one year, especially across a culturally diverse geography like Europe. Much like online booking over a decade ago, mobile booking is starting as a trickle. That it will grow into a powerful river is not up for debate – but just how wide and deep that river will run remains to be seen.

In the meantime, OTAs recognise that mobile has already begun to affect travel shopping and buying behavior. However, few have a cohesive strategy to build their mobile business, and most are not investing heavily in the platform – yet. Some OTAs are just doing the minimal amount required to be present via mobile. The focus for now is to satisfy immediate needs.

Yet all see the importance mobile will have in their strategies going forward and the need to step up their offerings to stay competitive. By enabling OTAs to engage consumers throughout the trip process (including en route and post-trip) via last-minute offers and location-based services, mobile offerings are enhancing the traveler experience. Already, OTAs offering mobile transactions are seeing a significant uptick in same-day bookings. All see the need to eventually leverage more sophisticated capabilities that the mobile platform unlocks, such as time- and location-sensitive services.

Significant opportunities exist for OTAs to exploit social media, location, and itinerary- and context-awareness to provide travellers with a seamless mobile experience spanning all stages of the travel process. But these opportunities are based on a core set of functionality that needs to be built out, and this core is where most OTAs are investing right now. The web versus app debate is alive and well, as some take sides and others do both. There is no question that companies will make some mistakes as they venture forth into the brave new mobile world. There is no question that these mistakes will cost money as dead ends and lost causes are ferreted out. Nevertheless, the riskiest thing to do is to wait and do nothing at all.

Direct Connect? Show Us the Value



In the razor-thin margin world of airlines, one cannot blame carriers for trying to do everything possible to minimise distribution costs. But that does not mean that all airline priorities and directives make sense for their partners. With spats between airlines and GDSs/agencies making frequent appearances in trade, and even consumer, news headlines, all the individual airline posturing and positioning can become exhausting to keep track of.

The European OTA executives interviewed are largely not concerned with the impact of direct connect on their businesses, and are not pursuing their own direct connect options. While OTAs are well aware of airlines' direct connect strategies, they express confidence that their GDS partners will solve the technical challenges required to aggregate and distribute air content. While many remain open-minded about the possibilities, they are not convinced of the value of wide-scale direct connect airline initiatives.

Relevancy, Yes. Personalisation – Not Yet.



There is a mythical concept revered by many as the holy grail of merchandising: the perfect personal profile. This profile would allow retailers to show the perfect product for an individual consumer's preferences out of a sea of hundreds, if not thousands, of possibilities. This profile could account for all the variations and permutations of a traveller's desires and auto-magically deliver the perfect search result. And this perfect profile is truly and utterly a fictional concept. This is partly because unlike computer programs, people do not make decisions like machines. Consumers are inconsistent, sometimes irrational, and every trip is a different situation – a situation they might only be in once in their lifetime. The other big reason, of course, is the cost would far outweigh the benefit.

The core dynamic behind the bad ROI of the perfect 1:1 merchandising concept is that results can be very relevant without being unique. Most OTAs have search algorithms based on a variety of criteria, including popularity, margin, promotions/exclusive deals, and conversion. Ultimately, however, price is the critical factor determining what sells. Perhaps that is why few OTAs have implemented loyalty programs or sophisticated customer relationship management (CRM) tools into their algorithms. Of course, no one claims that results cannot be enhanced or made more relevant by incorporating historical behavior. But true personalisation – providing offers that are unique to individuals, or at least influenced by profiled behavior – remains, for the most part, the stuff of legend.

New Business Models Emerge



OTAs are no longer the new kids on the block, and particularly in mature online markets, many are looking to spice things up to leverage the excitement surrounding new business models like social buying and flash sales.

OTAs have a wide range of plans regarding the next wave of growth. Most OTAs consider dynamic packaging a substantial source of growth potential. Non-core travel products such as destination activities and insurance are also considered opportunities to enhance revenue. But beyond the standard product enhancements, OTAs expect to continue to drive business via special offers, including daily deals, limited-time offers and other exclusive offerings a la Groupon. The success of Voyage Privé is just one example of how the OTA business model can learn new tricks.

European OTA gross bookings are projected to top €32 billion by 2012, as more consumers grow to rely on the breadth of content they provide. Though the future looks undeniably bright for the business, tremendous competitive pressures persist. From airline direct connects to global media giants making inroads, disruption is the name of the game. While common trends and perspectives shape the European OTA landscape, diversity is its hallmark. Successful OTAs will find unique ways to navigate new challenges – exploit the chaos, connect with travellers whenever/wherever they happen to be and ultimately claim more of those billions for themselves.

