Travelocity and the opaque booking model: New ways to stimulate incremental revenue

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Introduction

In today economy the declining hotel occupancies are motivating hotels to push deeply discounted rates through online travel agency opaque booking models. Online travel sites like Priceline and Hotwire have benefited from the opaque booking model even though overall travel and the economy is down.

According to the study *Profitability and Survivability of Hotel Distribution Channels: an Industry Perspective*, opaque sites are online channels that hide product information until the purchase is finalized. Opaque Sites are often used to sell distressed inventories, sacrificing potential profit with deep discounts in the exchange for immediate non-refundable payments (Kang, Brewer & Baloglu, 2002). Hotwire.com uses a “brand opaque” booking method where the website shields the hotels rates by omitting the name or location of the property until customers have made the purchase where Priceline.com uses the “price opaque” method where the customers to do not know the exact hotel until the payment is submitted – Priceline also uses an opaque action method with their “Name you own Price” line of business where customers can offer a bid price for an undisclosed hotel.

Online opaque bookings sites (Hotwire and Priceline.com) are benefiting in today’s current economy because travelers are increasingly shopping for better online deals. Opaque pricing is becoming increasingly popular as savvy consumers respond to deals where they can book together and save, or take a chance at purchasing a hidden offer that protects the hotels rate integrity.
An online travel agency like Travelocity.com, who is much larger in comparison, needs to strategize for the future if it wants to benefit from the uplift in incremental revenue through the current opaque travel booking trend. Travelocity uses a merchant model booking method where the get hotel inventory through net rate pricing and mark those rates back to the hotels sell rate – the rates and hotels are always disclosed to the customers. The merchant model has evolved over the years where third party sites once bought the inventory in bulk and resold them through their distribution systems. Today, sites like Travelocity do not own any inventory – they only work on a net-rate program selling rooms from the hotels allotted inventory. Travelocity will not lose money if the rooms go unsold because they do not actually own the inventory.

There are many different booking methods online today, and eventually it the industry will move to a blended model, but switching technology and revenue models, especially in today’s current economy is not as easy as turning on a switch. It takes many work hours and possibly many thousands of dollars to create an efficient enough technology to provide a positive customer service experience while, generating enough revenue to make a positive return on investment. It also takes great supplier partner relationships to prove to hotels they can move distressed inventory as part of an opaque price without damaging their brand integrity.

The demand is there - according to PhoCusWright’s Online Travel Overview Eighth Edition, supplier sites account for 61% of the online market vs. 39% for OTA’s in 2008 (see graph below):
So as you can see online travel agencies have reached a competitive booking market share, and the demand is now turning in favor of the online travel agencies.

Hotwire and Priceline are moving in the right direction with their “Name Your Own Price” or hidden hotel type opaque booking models where the hotel name is hidden to the customer until after the purchase. But currently on Travelocity, hotels can only drive more volume by providing net (or wholesale) rates to receive preferred placement in the Hotel-only path through standard published rates; or through Packaged rates where it bundles bulk air with hotel net rates (this is opaque bundling, but it is only part of a package)…and lastly, through the sale of distressed inventory as part of a last minute package where the packages only sold from 28 days to 3 hours before flight departure, and
needs to include a Saturday night stay and a 2-night minimum (distressed pricing).

Even with these 3 lines-of-businesses; none include a method to sell room-only inventory to customers where the hotel identity is kept a secret until after the reservation is complete (truly opaque).

In order to keep up with the current trends and to create incremental revenue - Travelocity needs to innovate towards developing better opaque booking models while maintaining high levels of customer service, and protecting it’s hotel partners brand integrity.

In this study, I tend to provide an in-depth look at the opaque online travel market, and the new ways Travelocity can stimulate incremental revenue through the opaque booking model.

**Purpose of Study**

This study is an examination into the ways Travelocity can further utilize the opaque booking model to stimulate incremental revenue in today’s economy. Consistent declining hotel occupancies are motivating hotels to shift share into the deeply discounted online opaque booking models. Travel websites like Priceline and Hotwire.com are benefiting from the opaque booking model even in today’s economy where travel is on the decline. People are still considering taking a vacation, and savvy travelers are increasingly shopping online for better deals through the opaque channels where they can book together and save. In this study, I tend to provide an in-depth look at the opaque online travel market;
including a comparison of Travelocity’s opaque model compared to the growth developments of Lastminute.com, Priceline.com and Hotwire.com.

This study is very important to the future of Travelocity’s opaque booking model because the website lacks a truly opaque model where the customer does not see the hotel identity until after purchase (e.g. Priceline and Hotwire.com). This is important to note because authors like Dylan Biles are now publishing ways consumers can use sites like Travelocity to take advantage of published deals online. According to Biles, one easy way to do this is to go to a hotel or airline’s Web site, find the price that they are listing and then go to a comparison site and compare the price there...”I find that Kayak.com and Travelocity.com are great resources at finding significantly lower prices. Once you’ve found a price that you find agreeable, call the hotel or airlines directly, tell them the price that you are being offered and ask them if they can beat it.” The true opaque model helps detour consumers from using the website as a research method by offering compelling discounts and concealing the package identity until purchase.

_Sabre Holdings and Travelocity: Financial Analysis_

Sabre Holdings connects people with the world's greatest travel possibilities by retailing travel products and providing distribution and technology solutions for the travel industry. Sabre Holdings supports travelers, travel agents, corporations, and travel suppliers through its companies: Travelocity, Sabre Travel Network (STN), and Sabre Airline Solutions (SAS). Headquartered in Southlake, Texas, the company has approximately 9,000 employees in 45 countries. Full year 2006 revenues totaled $2.8 billion. In March of 2007 the
company went private when it sold to two private equity firms, Silver Lake Partners and Texas Pacific group. While not a traditional ‘hospitality’ company, Sabre's integration in the travel and hospitality industries is realized through each of its three divisions: Travelocity, STN, and SAS.

The Travelocity segment markets and distributes travel-related products and services directly to individuals, including leisure travelers and business travelers. Travelocity is a truly global company operating sites in Europe (lastminute.com) and Asia (Zuji.com) which help make it one of the largest travel agencies in the world. Travelocity also provides content and functionality to market and sell products and services through private-label websites for suppliers, distribution partners and travel agencies. Through these offerings; travelers can access pricing, and information about airlines, hotels, car rental companies, cruise lines, vacation and last-minute travel packages and other travel-related services. They also have Travelocity Business, an online corporate travel agency segment that provides business travelers the corporate travel technology and full-service product offerings along with the online expertise of Travelocity.

The Sabre Travel Network segment markets and distributes travel-related products and services for its travel supplier participants through the online and offline travel agency and corporate channels. Sabre has a proprietary global distribution system (the “Sabre system” or “Sabre GDS”) which produces more bookings for airlines and hotels than any other distribution system. Users of the Sabre system can access information about, book reservations for, and purchase
a variety of travel offerings. These offerings include, among other things, airline trips, hotel stays, car rentals, cruises and tour packages. Sabre also enable’s corporate travel management through their *GetThere* product. They provide travel agencies with office automation tools, consortia management services which enable them to provide services via the Internet. In addition, Sabre Travel Network provides marketing information to suppliers and reservation management, along with technology services to hotel properties.

The third segment of the portfolio is Sabre Airline Solutions. SAS is a global leader in providing passenger management solutions; software products and related services, and consulting services to help airlines simplify operations and lower costs. SAS provides airline reservations inventory and check-in hosting solutions which helps to address the challenge of building and retaining customer loyalty while reducing costs. They also help improve profitability, increase revenue, streamline operations and improve workflow to airlines by supplying decision-support software and technologies. In addition, they offer a complete range of consulting services to the airline industry, ranging from one time to extended engagements. Clients of SAS include airlines, airports, manufacturers and governments, as well as individuals, travel agencies and members of the financial community.

On December 12, 2006, Sabre entered into a definitive agreement and plan of merger with affiliates of Texas Pacific Group and Silver Lake Partners. Under the terms of the Merger Agreement, investment funds affiliated with the Sponsors indirectly acquired the Class A Common Stock of Sabre Holdings for $32.75 per
share. The $5.4 billion acquisition was funded with direct and indirect equity investments from the investment funds and with underwritten debt commitments from Deutsche Bank and Merrill Lynch. On March 30, 2007, Sabre Holdings announced the completion of the acquisition of the company by affiliates of Silver Lake and TPG. The company deregistered and de-listed Sabre Holdings common stock and the stock ceased to trade on the New York Stock Exchange.

*Competitive Landscape*

The travel marketplace is intensely competitive. Sabre Holding’s brands offer a broad portfolio of leading travel marketing, distribution and technology solutions that are well positioned in the marketplace. It markets travel in the consumer-direct channel primarily through Travelocity. Travelocity’s competitors include Priceline.com, Travelport (which owns Orbitz and ebookers.com), Expedia (which also operates Hotels.com and Hotwire.com) and Opodo (owned by nine European airlines and Amadeus Global Travel Distribution S.A. (“Amadeus”). Virtually all major airlines, and many other travel suppliers, have websites that allow consumers to book directly with that supplier, and some offer an array of products and services. Certain owners of these sites may make certain discounted fares and prices available exclusively on their proprietary or multi-vendor websites.

Like Travelocity’s parent company Sabre Holdings, many of its competitor’s flagship brands are also considered competition. Travelocity competes with Orbitz, and Sabre Holdings competes with its parent, Travelport. Another example of this would be Amadeus’ global travel distribution competing
with Sabre while their subsidiary Opodo competes with LastMinute.com. While some business is consumer facing, others are business to business; but all have various touch points throughout the travel and hospitality industries.

*Sabre Competitive Landscape*

Figure 2

**Competitors**

![Competitors Diagram]

*Current Online Travel Trends*

According to Dr. Peter Yesawich, Chairman of Ypartnership, "The results corroborate what we have been preaching now for several months: American travelers are trading down, but not out." What Dr. Yesawich is saying, is consumers will be planning and purchasing leisure trips differently by actively searching for a "good value". According to Dr. Yesawich, 76% expect to book a packaged vacation to save money and six out of ten (58%) plan to comparison shop for prices and rates specifically on the Internet (Keefe, 2008). Those 58%
who intend to comparison shop are exactly the savvy travelers Travelocity needs to either monetize through transaction, or entice to book with an opaque offering.

According to Travelocity’s 2009 Forecast Poll; travelers are significantly more likely to book their trips further in advance. The poll shows that 76% of respondents will book their 2009 travel two or more months in advance compared to 69% in 2008 – 27% of which will book 4 or more months in advance compared to 22% in 2008 (Travelocity, 2008).

Figure 3

Without a true opaque line of business where the identity of the hotel is hidden; Travelocity is susceptible to being consistently used as a method of research, and losing business to the competition, while relying on their last minute packages line of business that falls inside the current advance purchase window.
Price seems to be a big factor amongst bookers as 48% of the respondents report room rate as having an average influence when selecting a hotel (Travelocity, 2008).

Figure 4

Although rewards points seem to be a key factor for booking – affordable destination and flexible travel dates will also be a major decision factor. According to the forecast results, 39% of the respondents will consider traveling to more affordable destinations, and 34% will be more flexible with travel dates and times while only 12% will consider purchasing a package as a key booking factor in 2009 (Travelocity, 2008).

Figure 5
In the current economy, travel costs have the most influence on how respondents plan to travel in 2009 – 79% of the respondents said that increased travel deals will influence their decisions (Travelocity, 2008).

Figure 6

And 71% of respondents consider travel costs the most important influencer of 2009 travel (Travelocity, 2008).

Figure 7
By looking at the major decision factors of respondents in this poll (cost, advance purchase, and deals) it reveals that Travelocity is not aligned with the current travel trends with their current lines of businesses onsite. The Hotel-only exposes the hotel and rate to the booker, the Vacation Packages are opaque, but are only offered as part of a flight + hotel bundled package, and the Last Minute Packages are offered as distressed opaque package that are well within the current advance purchase booking trends. In addition, Priceline.com is making the economy a major theme for 2009. According to Priceline.com Chief Marketing Officer Brett Keller, “Priceline.com makes leisure travel affordable even in this economic environment…delivering great travel deals is built into the priceline.com brand's DNA. If there ever was a time to give priceline.com a try, it's now. And The Negotiator delivers that important message in a way that's both humorous and informative.”

**Scope of Study**

Priceline.com
Priceline.com Incorporated (Nasdaq: PCLN) www.priceline.com provides online travel services in 27 languages in over 75 countries in Europe, North America, Asia, the Middle East and Africa. Included in the priceline.com family of companies is Booking.com, a leading international online hotel reservation service, priceline.com, a leading U.S. online travel service for value-conscious leisure travelers, and Agoda.com, an Asian online hotel reservation service (Priceline.com, 2009).

Figure 8

In the U.S., priceline.com gives customers numerous ways to save on airline tickets, hotel rooms, rental cars, vacation packages and cruises. In addition to getting published prices, leisure travelers can narrow their searches using Priceline’s TripFilter advanced search technology, customize their search activity through Priceline’s Inside Track features, create packages to save even more money, and take advantage of Priceline’s trade marked ‘Name Your Own Price’ service (Priceline.com, 2009).
Priceline’s ‘Name Your Own Price’ service is a unique feature that truly utilizes the opaque booking model, and sets its self apart from the competition. As you can see from the example below, customers have the ability to bid on hotels in a set area, and under set perimeters (e.g. star rating, location, etc.). Figure 9
As you can see, Priceline takes you through the booking or “bidding” process without revealing the identity of any hotels, only disclosing minimal clues, like the star rating and area location. This booking method can be seen as a risk, but in today economy having the ability to get a 3 ½ star hotel near the
airport for $35 is a risk worth taking. Lastly, in step 3 Priceline takes you to the booking page where the hotel is not revealed until you review your portfolio and accept the booking.

Figure 10

Once you click ‘Buy My Hotel Room’, Priceline will look for a hotel to match your offer, and then the hotel identity is revealed.

For Priceline.com, the truly opaque booking model, and the ‘Name Your Own Price’ service is proving to produce positive revenue even in today’s current economic condition. According to the website, the full-year of 2008, Priceline’s gross travel bookings were approximately $7.4 billion, a 53.2% increase over 2007. Full-year 2008 revenues were $1.9 billion, a 33.7% increase over a year ago. Priceline’s gross profit for 2008 was $956.0 million, a 49.5% increase from the prior year (Priceline.com, 2009). President and Chief Executive Officer Jeffery H. Boyd say’s, “Priceline continued to grow and take market share in the United States and internationally despite very challenging global economic
conditions. Worldwide recessionary conditions have resulted in lower overall travel demand and we have seen hotels significantly reduce their average daily rates in response to declining hotel occupancy rates.”

Jeffery Boyd brings up a direct connection between wholesaling and Average Daily Rate (ADR) - hotel ADR can at times be threatened by the increased use of wholesaling. For example, hotels that consistently load net rates in deeply discounted platforms like Priceline and Hotwire.com can result in a lower ADR. ADR is calculated by dividing the rooms revenue by the number of rooms sold (e.g. $7,426 / 94 rooms = $79.00). Wholesaling involves calculating a net rate, for example, if you have a sell rate of $99.00 with a margin of 25% (33.33% mark-up); your net rate will be $74.25.

As you can see, a net rate of $74.25 off a $99 rate is extremely low which stems to a low ADR...now, there are a few different ways hotels can utilize online travel agencies without threatening their ADR. Websites like Priceline and Hotwire.com focus mainly on highly discounted distressed opaque (hidden/bundled) rates. These opaque rates are preferred in distressed situation because they do not jeopardize the hotels best rate guarantee by keeping the identity of the hotels hidden until after purchase. This strategy eliminates rate wars amongst competition, and protects rate integrity.

Priceline seems to be taking advantage of their opaque booking model to position themselves for today’s economy. According to Boyd, “in the U.S., Priceline.com’s gross travel bookings grew in the 4th quarter by what we believe is a market-leading 31.1% year over year as our value brand and low prices
appealed to cost-conscious consumers and suppliers used our ‘Name Your Own Price’ distribution to sell their services in the face of slowing demand.” Boyd goes on to say, “we believe that our brand identity and an effective marketing campaign featuring The Priceline Negotiator, is resonating with customers in this difficult economic climate.” Looking forward, Mr. Boyd said, “We are in the midst of a period of unprecedented economic turbulence that is significantly impacting travel demand, pricing and currency exchange rates. Our goals are to continue building our global brands and deliver value to customers looking for the best travel value and suppliers looking to drive demand in a challenging market.”

Hotwire.com

Hotwire.com is an online discount travel site with low rates on airline tickets, hotel rooms, rental cars, cruises and vacation packages. Launched in 2000, Hotwire negotiates deep discounts from its travel suppliers to help travelers book unsold airline seats, hotel rooms and rental cars at significant savings. Hotwire is an operating company of Expedia, Inc. (NASDAQ : EXPE).

Hotwire.com is an individually operating unit owned by Expedia, Inc. that provides discount travel services using an "opaque" booking model, which allows price-conscious consumers to shop for travel on price (versus brand). According to the website, this enables suppliers to sell excess airline seats, hotel rooms, and rental cars through a brand-shielded model. This booking model makes it possible for Hotwire.com to provide travel at significant discounts and to help airline, hotel, and rental car partners attract new customers and achieve incremental sales (Expedia.com, 2009).
Hotwire’s booking model is similar to Priceline due to its truly opaque booking method of not disclosing the hotel’s identity until after the customer purchases the booking.

As you can see, the opaque model is a little similar in comparison to Priceline.com – it breaks down the search by narrowing the parameters to star rating, best value, amenities, and location. Hotwire’s business model, like Priceline.com, is also inline with the current economic climate, and can deliver value to customers looking for the best travel value and travel partners looking to drive demand in this current challenging economy.
According to JD Power’s and Associates, for the third consecutive year, discount travel site Hotwire.com has been awarded J.D. Power and Associates’ highest ranking in customer satisfaction among independent travel Web sites. This marks the first time an independent travel web site has been named the top travel site three consecutive years in the history of the study. According to the study, J.D. Power and Associates 2008 Independent Travel Web Site Satisfaction Study(SM) found that Hotwire again outperformed the competition for competitiveness of price and ease of navigation (Hotwire.com, 2009). Hotwire also achieved the highest ranking for 2008 in ease of booking and appearance/design of the Web site. Eric Grosse, president, Hotwire Group say’s, “We’re excited to be recognized by J.D. Power and Associates for the third consecutive year as the top independent travel site…we’re especially honored to rank highly for our competitiveness of price year after year because, at Hotwire, we continually strive to bring deep discounts to our customers.”

In the study, Hotwire was ranked the highest overall with a top ranking with 4 out of 6 measures of satisfaction - based on responses from 7,667 consumers who booked their travel reservations through independent Web sites from May 2007 to October 2008, the J.D. Power and Associates 2008 Independent Travel Web Site Satisfaction Study measures customer satisfaction with online booking for airline, hotel or rental car reservations made on seven major independent travel Web sites. Six factors are examined to measure customer satisfaction, including: competitiveness of price; ease of booking; usefulness of the information on the Web site; availability of booking
options/travel packages; appearance/design of Web site; and ease of navigation (Reuters, 2008).

Customer satisfaction and retention is a necessity for businesses in today’s economic condition. According to Forrester Research, it estimates that between 5% and 10% of Bookers abandon the channel every year. So on top of low brand loyalty, eBusiness and channel professionals must also contend with an audience that is more than happy to revert to offline channels to plan and buy trips (Forrester 2008). Travel agencies such as Hotwire are positioning themselves well by focusing on customer satisfaction, technology, price, and user friendly technology. Both will help increase customer confidence and loyalty.

Travelocity.com

Travelocity is provider of consumer-direct travel services for the leisure and business traveler. It markets and distributes travel-related products and services directly to individuals through Travelocity and its various brand Web sites and contact centers, and Web sites owned by its supplier and distribution partners. Travelocity customers can access offerings, pricing information about airlines, hotels, car rental companies, cruise lines, vacation and last-minute travel packages, and other travel-related services. Travelocity is the leader in European online travel through its European brand, lastminute.com (Travelocity.com, 2009).
Websites like Travelocity as a brand are at a disadvantage in today’s economy when trying to compete with the Hotwire and Priceline.com who use a true opaque booking model because they try to not to position themselves as discounted travel sites. They are similar in the sense that they both work on net rates, but contractually they push for rate parity by taking the net rates and marking them up to the hotels sell rates so they are not competing against them (the rate and hotel identities are disclosed in an unbundled fare).

Let’s take a look at Travelocity’s 3 main booking methods.

Travelocity’s Hotel-Only line of business:

Figure 12
As you can see, in the Hotel-Only line of business can drive more volume by providing net, non-commissionable rates where the hotels receive preferred placement in Hotels path above all standard published rates. There are also multiple distribution methods depending on the hotels connection: Extranet, GDS or Direct Connect. Hotels also get opportunities to participate in Travelocity Consumer Advertising Campaigns and in special regional hotel promotions, and distribution partners include Travelocity’s millions of members, AOL, Yahoo! Travel, and American Express. Hotels see this as an advantage because of Travelocity’s instant payment (including room & taxes) upon checkout via Travelocity American Express for each booking, so there is no monthly billing for the online reservations. Customers get more security and flexibility because they can sort their search criteria’s by adjusting star ratings and price to narrow selection, search by hotel name or neighborhood, city, and can compare up to 4 hotels at a time.

The Travelocity Vacation Package line of business bundles bulk air with hotel net rates:

Figure 13:
Packaged rates are another distribution channel for Travelocity creates a potential for higher revenue due to longer LOS. Travelocity packages bundled bulk air with hotel net rates. There is a greater booking window because the majority of bookings are made 30 – 60 days in advance versus 14 for hotel only. It also equates to a longer average length of stay – average LOS 4-nights versus only 2-nights for hotel only. According to Travelocity, 83% of Packaging bookings made from packaged/bundled rates (Gaines, 2008). Package rates are considered an opaque rate because the hotel rates are bundled with a flight, but the identities are still revealed throughout the booking phase. Bundled rates are considered opaque because the rates and airfares are blended together to protect the hotel’s best rate guarantee. This method allows the hotel to get competitive by heavily discounting its rate without running into rate parity issues,
and gives the customer discounted prices with the security of knowing what hotel they are purchasing.

The third and last line of business Travelocity uses is similar to the package path, but only sells distressed inventory as a package (flight + hotel) – the booking window for these packages are 28-days out to three hours before flight departure - Travelocity’s Last Minute Packages Program:

Figure 14

Hotels can drive incremental revenue through sale of distressed inventory as part of a last minute package where they can only sold from 28 days to 3 hours before departure and must include a Saturday night stay and a 2 night minimum.
According to Travelocity’s 2008 Forecast Poll, 80% of all distressed packages sold were booked three days from departure (Gaines, 2008).

Hotels can use travel sites like Travelocity as revenue management tools – they work in 3-ways; by selling the room-only rates, package (flight + hotel) and distressed rates. For example, hotels can take the room-only rates and use them as a standard across-the-board occupancy that can be open and closed at anytime. They take the package (flight + hotel) rates as business on the books further out – the booking window is further out on these bookings because they included a flight. Lastly, the distressed rates (normally the deepest discounted rates onsite) can be used as desperation rates for when they have weak occupancy, a group cancellation or room block drop-offs. Having the ability to run all of these rates puts the hotel in front of the customer with any trip situation (business, vacation or last minute).

Websites such as Travelocity definitely have pros and cons depending on the hotel. For example, these websites have a large breath of product, and spend millions of dollars on advertising – this is exposure to customers and dollars that hotels without large chain affiliation could not normally afford or capture. They are global companies that expand the hotels presence worldwide, and often times are affiliated with other large companies for travel needs. For example, Travelocity powers the booking engines for AARP, AOL, American Express Leisure, and hundreds of different convention and visitors bureaus across the country – not to mention they are owned by Sabre Holdings (GDS). Hotels can also greatly benefit by having the ability to consistently sell rooms to
increase occupancy in most markets on these websites (when they have the inventory). Hotels with large chain affiliation are often times protected by corporate – they sign large corporate agreements with solid policies and procedures for working with such websites. Small hotels can get customers eyes to their hotels when a customer would not normally know they existed.

There can also be cons when using online travel agencies - hotels need to learn how to protect the hotel whether it is by chain affiliation or constant education – hotels need to evolve in the market just as these online agencies are constantly evolving. Online travel agencies and ecommerce is not a bad thing – it’s fast, convenient and it has real-time global reach. It’s also getting customers to your hotel who would not normally know you existed.

According to Forrester Research, online travel is a mature industry, and as it is a mature industry; it will be more difficult for investors and startups to find easy, mass-market wins. Investment and entrepreneurial opportunities in travel eBusiness do exist — it’s just that they’re increasingly in niches (Forrester Research, 2008). One area of travel eBusiness that Forrester believes warrants consideration is sites or applications that can help travelers get contextual information about what they’re planning to buy and make them more confident that they’ll get the expected value. Another is creating affordably priced, Web-friendly reservations systems (Forrester, 2008).

Travelocity drives to help instill consumer confidence as well, making its site less of a risk over the true opaque models. It also adds a technology on the package path (its opaque model) called ‘PriceGuardian’ to help anxious travelers
with a fear the price will drop after they book. According to Sabre Holdings, with Travelocity PriceGuardian, when a customer buys a vacation package with Travelocity, and another Travelocity customer later books the same vacation package at a lower price before the trip, Travelocity will automatically refund the difference to the customer, from $10 up to $500 (Sabre Holdings, 2009). As the economy has softened, vacation packages have become more popular with price-conscious customers. Travelocity research shows that customers save an average of $315 on a vacation package versus booking the same flight and hotel separately (Gomez, 2009). This type of technology is getting Travelocity closer inline with current buying trends and the economy.

According to Tracey Weber, President, Travelocity North America, “When a customer is about to buy a vacation package that will likely cost thousands of dollars versus a few hundred dollars on a flight, it’s important for them to have that added peace of mind…vacation packages have gained in popularity in the present economic environment and we think Travelocity PriceGuardian will only add to their appeal.” This is another example of the ways Travelocity is attempting to be closer inline with current buying trends and the economy.

Lastminute.com, US

Lastminute.com, Europe's leading independent online travel and leisure group, operates directly in fourteen European countries and participates in three international joint ventures, providing travel and leisure inspirations and solutions to customers. In 2005 lastminute.com had over 9.8 million subscribers to its weekly newsletter. The business is based on the idea of matching supply and
demand. Lastminute.com offers consumers opportunities to acquire airline
tickets, hotel rooms, holidays (both self packaged and third party packages), car
hire, entertainment tickets, restaurant reservations and food delivery, specialty
services, gifts and auctions (Lastminute.com, 2009).

Sabre Holdings (Travelocity’s parent company) acquired Lastminute.com on August 3, 2005. According to Brent Hoberman, CEO of lastminute.com, “The deal marks the beginning of a new chapter in which we look forward to becoming a leading player on the global stage. Being part of Travelocity and Sabre Holdings not only gives us global reach but enables us to offer a wider product-range to benefit our customers.”

Since the acquisition, Lastminute.com has taken on a few different types of Travelocity’s characteristics with its booking capabilities, and cannonball search engine, but the European based OTA still has its advantages in today’s economy.

Figure 15
The website was launched under the Sabre umbrella in September 2005; re-launched in June 2006 with Site59 (also under the Sabre umbrella). Although owned by Sabre Holdings, the website still operates under a separate technology platforms, so any enhancements between Lastminute.com and Travelocity need to be built out separately from a technology standpoint.

Although the two websites have similar characteristics, Lastimminute.com has a few small advantages which keep them in line with Priceline, Hotwire and the economy. The technology is subtle from the homepage, but once a customer enters a search in the hotel path, it gives you the option to sort hotel returns in both opaque and non-opaque options.

Figure 16
After the search parameters have been entered, Lastminute.com provides a page that defines a Top Secret Hotel, or an entry point for the customers to shop for Top Secret hotels. The cannonball solution allows users to select a destination; travel dates, number of rooms and number of people, but the site will hide the hotels identity. This is similar to the search results for Priceline and Hotwires opaque booking capabilities. Lastminute.com gives the customer the best of both worlds – it relates to both price conscience customers, and those who value the security of what hotel they are booking before they purchase.

In the long run, Travelocity’s focus still needs to focus the Customer Championship Guarantee intuitive, and to inspire travelers – that is what separates them from the competition in regards to long term customer loyalty. They also still need to focus providing user friendly technology, and great service, but at the same time they need to do it efficiently and focus its investments where they can truly have the most positive impact. They also need to understand what is most critical to customers, and right now, being an advocate includes helping customers get the most for their money and making their travel possible.
Online travel companies are well positioned right now because of the ability to get great values in front of the right people. This is a great opportunity for Travelocity – but also for its competitors. Winning in this economy is going to be about who is most determined, and that includes working smarter, not just harder; in today’s economy companies need to “say no” to things that are off plan; and “say yes” to concepts that will make an immediate impact, and that may seem undoable when the opportunity is big.

Even though budgets are tight, people want to travel, and Travelocity is in the perfect position to get the right deals in front of the right people. They can truly have an impact over the competition when it comes to personalization on site and utilizing its sister channels, like Lastminute.com and they need to maximize that.

They already have their three main lines of business (hotel-Only, Package and Distressed), so now they need to learn from the competition and Lastminute.com to create a truly opaque hotel only model to focus on making it easy for the deal hunter to find relevant deals on-site.

**New Ways to Stimulate Incremental Revenue**

According to a TripAdvisor.com case study, in difficult times, you need to ask yourself: what else can you do? Can you compete for another slice of the pie? What are you currently doing well and how can it be morphed to provide more value (Travel.com, 2009)?

*Case Study: Flight Metasearch and Fees*

In 2008, airlines were adding more and more complicated and sometimes
hidden fees. The result is that an old consumer need reasserted itself strongly: the need to determine “what the bottom line” was for airfares. TripAdvisor decided to tackle this issue because people were already coming to TripAdvisor media group sites to shop flights. As a result, they launched a flight metasearch product and added a fees estimator feature that serves as a “wizard” to calculated estimated baggage, in-flight services, food, and drinks costs as part of a total cost of the flight. The lesson I took away is to look for this incipient demand from your existing customers. Customers were sending a clear signal that TripAdvisor had the “permission” to extend their services into flights. The Fees Estimator became a nice “hero” feature to garner press/analyst attention and reinforce the “Get the Truth then Go” consumer advocacy attributes of the brand (Petersen, 2009). In summary, the focus should be on the consumer’s increasing need to see value in their purchase decisions…this includes both keeping costs low and investing in the areas critical to the future. Expedia, who owns TripAdvisor tried to generate revenue by cutting cost (or a revenue stream) without investing in the future by eliminating booking fee’s all together. They felt it would be the competitive move to make in today’s economy - the move cost the company about $3 million per month. Expedia CEO Dara Khosrowshahi said during the company’s first-quarter earnings call that no decision had been made on whether to keep the policy in place after the company’s "Free Nights & No-Fee Flights" promotion ends at the end of May. He noted that the company would consider competitors’ moves before making a decision. Khosrowshahi added
that Expedia’s decision to match Orbitz’s hotel-fee reduction on April 22 also could cost Expedia $3 million per month (Schaal, 2009).

Khosrowshahi put the fee reductions in the context of Expedia’s year-and-a-half study on why some consumers look but don’t book on Expedia sites. He said that about 75% of these lookers book on supplier sites, which don’t charge booking fees. The remaining 25% booked on competitors’ sites, including Priceline, Orbitz and Travelocity (Schaal, 2009). In that regard, Khosrowshahi said Expedia decided to eliminate fees because air shoppers are among the most price-sensitive. He noted that attracting more air buyers gives Expedia the opportunity to up-sell them with higher-margin hotels and vacation packages (Schaal, 2009). Hotels are the largest part of Expedia’s business and the decision to reduce hotel fees was a way to be competitive. According to Khosrowshahi, “In a competitive marketplace, you have to do what it takes in order to get consumers to come to our site and book,” he said. Orbitz’s started the trend, and the move to cut fees backed the competition in a corner, and also cost Expedia about 3 million a month in revenue. Revenue they could have used to invest in the future.

According to Schaal, for the quarter ended March 31, Expedia sold 4% less airline tickets, and revenue from those sales dropped 17%. Khosrowshahi noted that the volume decline was far less than the decline for the travel industry. Global hotel room nights rose 13%, to 13.5 million, while hotel revenue fell 10%. Expedia’s net income fell 23%, to $39.4 million. Revenue declined 8%, to $635.7 million (Schaal, 2009).
Case Study Two – Orbitz.com

In the 2008 article, ‘Orbitz Rocks The Boat’ it describes how Orbitz has recently launched its “Summer Sale” promotion - the Orbitz summer sale is a little different where bookers can enter in a specific promo code and receive an additional 10% off their room rate. Here's the kicker: Orbitz is paying the 10% out of their margin.

The article also goes on to describe how Online Travel Agents (OTA) gained significant strength during the previous economic downturn. It states that as the economy recovered, some hoteliers expressed frustration with the margins they paid to OTA sites for their listings. Independent and branded hotels began offering discounts on their own Web sites, or shutting down their inventory allotments when they didn’t need the rooms. At risk of losing their position in the marketplace, OTA sites responded with the following:

• Guaranteed allotments or last room availability were included in contracts, ensuring their customers could find rooms, even during high-demand periods.

• Price parity was included in OTA contracts, stating that they would have the lowest publicly available rates. Parity can be complicated, as different OTA sites charge different net rate percentages. To accommodate this, most contract language requires that your net rates be in parity, based on your set markup percentage.

• “Low Price Guarantees” were advertised to the traveling public, giving them confidence that the price they saw on a travel site would be the lowest they could find anywhere. Result: The price for a hotel room is generally consistent across all channels (Orbitz Rocks the Boat, 2008).

By reducing the price by 10%, funded by its own margin, Orbitz threw thousands of hotels out of parity with other travel sites. An undisclosed senior operations hotel executive in the article says “Contractually, we are in parity.
Expedia and other OTA’s have a real issue here. Market forces are finally driving margins down, and this can only benefit hotels across the country.”

The article then goes on to question how competitors will respond - will they drop their margins to match - will they strong-arm hotels, telling them they will drop them from the site if they don’t pull away from Orbitz?

As the article stated, the last time the economy slowed, major travel sites solidified their business model and grew exponentially which is an example of how the travel industry is once again at a crossroads. On one hand, mutual customers are demanding change and improved innovation all the way across the travel value chain. They are more sophisticated than ever before about what they want; their expectations are growing; and they don’t just want a good price – they want flawless travel experiences, which means OTA’s have a lot of work to do to live up to what customers demand and deserve (Hartesvelt, 2008). At the same time they have a tremendous opportunity to serve customers in ways they haven’t been served before. Consumers are watching their pocketbooks closely, and the OTA’s need to collectively convince them that travel is not discretionary – but rather it’s as vitally important to a well-lived life as a place to live and food on the table.

So, change is imperative, and time is of the essence. When faced with tough times, the travel industry tends to fall back into price competition because it’s what they know instead of relying on real creativity to stimulate demand. They can be overly wed to the past way they have done things, and sometimes fail to think about innovation and new business models in fundamentally different ways.
So let me tackle a few of these, share some examples inspiring from outside the travel industry. First, OTA’s need to collectively solve the poor satisfaction levels with travel; second, we can work together to be more innovative for our customers.

While in the travel industry we are seeing declining customer satisfaction rates, other industries are thriving. According to the American Consumer Satisfaction Index 2008 Annual E-Commerce study, e-retail companies – online travel notwithstanding – are enjoying soaring customer satisfaction scores, despite a tumbling economy. The top player that emerged in the e-retail sector was Amazon (Butsunturn, 2008).

As so many of us know from being avid customers, Amazon’s mission is to be “Earth’s most customer-centric company.” Since noted in the study for the first time five years ago, they have raised their overall customer satisfaction four points in the last five years, which is perhaps not surprising given Jeff Bezos is always passionately emphasizing the company’s dedication to the customer experience (Butsunturn, 2008).

An article in the New York Times documented the story of how the Playstation 3 a news reporter ordered for his son’s Christmas present was stolen from his apartment building. When he realized it on December 21st, he called Amazon in hopes of a miracle and got one – the empowered Amazon customer rep shipped a replacement that arrived on Christmas Eve. Needless to say, Amazon has a customer for life.
Now if being customer-centric means you financially compensate for customer mistakes, then we are all in trouble...how could this make financial sense? But there are a couple of things we can learn from Amazon. First of all, we all have to think about the long-term and be bold enough to overcome the fear of the now. When travel companies change schedules on customers, when delays cause major problems with their plans, when they don’t alert them as to things that may go awry (like a pool closure), they run the risk of very long-term damage to the brand and to the loyalty of customers. And while they may save money from some of this in the short-term, they will lose satisfaction, risk commoditizing our industry, destroy the ability to premium price, and lose loyalty and revenue down the line.

Recently Travelocity conducted a comprehensive study on correlating people’s reported satisfaction with its service with their actual repeat bookings over a 12 month period, and found there is a massive correlation. When the company disappoints, customers don’t come back. When they delight, they come back over and over again. And more interestingly, when they screw up and recover, they are even more loyal then if nothing went wrong in the first place. Which of course, makes you thinking they should just purposely mess up everyone’s’ plans and then recover. Even in our ultra-competitive environment, Online Travel Agencies simply have to balance cost-save initiatives (innovate to stimulate demand) with better with long-term satisfaction. We can’t afford to keep acquiring new customers.

*Top Secret Hotels*
Travelocity cannot sit back in hopes that the economy is going to bounce back…it needs to get angry about losing hotel share to the competition. Their dynamic packaging product continues to be a success so there’s no reason why the stand-alone hotel product cannot produce the same results. What’s it going to take to turn around their hotel business? At a high level it means they must get pricing right, and then run strong promotions and merchandising to feature those great prices. Another option is to evolve Lastminute.com’s ‘Top Secret Hotels’ concept over to the Travelocity’s hotel platform to offer deep discounted pricing on properties to customers…it’s the same opaque concept that Hotwire and Priceline.com are using to stay competitive in today’s economic environment.

The ‘Top Secret Hotels’ concept is the equivalent to adding another line of business to the site the will keep the hotel name “hush hush” – until after the customer completes the booking (a true opaque model).

Travelocity’s mission to inspire travelers and be their champion (or advocate) is still true, it just so happens that being their champion right now also includes helping them find the best value and deals. Downturns have often presented an opportunity for online travel companies as suppliers start to discount offerings to bring travelers back. Travelocity is in a perfect position to reach millions of people quickly to show them how to find great value for their travel, or even plan a trip they didn’t think was possible. Now, is the perfect time to take full advantage to offer a great platform - to launch something Europe has done particularly well, ‘Top Secret Hotels’ product for consumers to book rooms at opaque properties at a reduced price.
Below are examples of how Travelocity can take the ‘Top Secret Hotels’ concept and roll it into the Travelocity platform:

**Figure 17**

![Image of Travelocity interface with Top Secret Hotels promotion]

From the home page, the entry point can be off a home page super promo advertising spot utilizing last searched functionality to display a super promo to users who have shopped any of the cities where they decide to launch the ‘Top Secret Hotels’ concept (this would be right on the home page front door).

Another example would be to blend into the home page with text links onsite that are clickable and would take the customer to a separate landing page.

**Figure 18**
Travelocity can feature call-to-action type promotions from the cannonball feature to announce the new feature onsite. They also have the ability to put it all together for a triple effect to offer super promo spots, text links and call-to-action announcements on the cannonball.

Figure 19
From here, there would be a ‘Top Secret Hotels’ front door to provide a page that defines a “Top Secret” hotel and an entry point for the customer to shop for ‘Top Secret Hotels’. The cannonball solution allows users to select a destination, travel dates, number of rooms, and number of people. The destination drop down will contain only the cities where they offer ‘Top Secret Hotels’ (just like the Hotel-Only and Vacation Packages feature).

The next path the site will take the customer is the search pages that list the hotel results, but in comparison to the original search there will need to be a few subtle changes in order to keep the ‘Top Secret Hotels’ identity secure. The changes will mainly be in the review and descriptions features. As you can see from the red arrows below you can see the similarities from the disclosed Hotel-Only results, and the ‘Top Secret Hotels’ results:

Figure 20
As you can see there is no property description listed in the 'Top Secret Hotels' results because it is very easy for savvy customers to simple compare descriptions to unveil the hotels identity. This is the same situation with the hotels review tab – the customer will be informed that the property is a top secret hotel therefore Travelocity can not show the actual reviews as they might give the hotel identity away. There will be a rating system, but not a link to the actual reviews. These ratings will show an over all rating grid on how customers rated
the hotel (room quality, etc), but not the verbiage. Lastly, the ratings will stay the same on both paths.

Clicking on a hotel brings the customer closer the booking, and reveals more clues to what they are looking for, excluding the identity.

Figure 21
Another tricky feature to fend off savvy bookers trying to reveal the hotels identity and location is the mapping tool (Figure 22). The mapping tool will have to be the same as the Hotel-Only search path but the difference is will be that the ‘Top Secret Hotel’ displays the hotels area’s proximity rather the exact location.

Another feature Travelocity can offer similar to the Hotel-Only path is the comparison tool where customers can compare unbranded to unbranded hotels by Travelocity star ratings (smiley faces but no link to reviews) amenities, proximity and the “Top Secret” generic photo (Figure 23).
The last piece to the puzzle is the billing page which discloses the unbranded hotel name, the unbranded room description, a recap of prices, and the review of the ‘Top Secret Hotels’ policies (specifically no cancellations or refunds which is standard with the opaque booking model). Figure 24
There needs to be a new line of “The Top Secret Hotel name will be revealed after you complete this reservation” directly below the “your card will be charged…” line. Once the customer confirms the agreement – the confirmation page appears with a new line stating “The secret is revealed…in this example it is the Hyatt Regency:

Figure 25

The hotel will be clickable to the hotel’s branded dateless landing page allowing the user to read the hotel’s details (description, location, etc).

*Travelocity’s 2009 strategic objectives*

Build the best team in travel - this truly is what differentiates Travelocity. Particularly right now, its success is dependent on being focused on what they need to do to win. The competition is looking at the exact same opportunity, and they need to do what they can to outsmart them. Every group and every person will engage and will make a difference (employee first focus).

Drive smart retailing and online marketing to the next level - smart retailing means understanding what’s important to the customers, and in this environment it’s about communicating savings through relevant, targeted messages and
promotions. For example, proven opaque offerings from ‘Top Secret’ hotels in Europe should be launched in the U.S. They also need to negotiate great deals from suppliers, select the best ones to feature, and then carry the sales promotions from the home page and emails through all the landing pages on the site. To improve online marketing, they must also be better at search engine optimization (SEO) and be smarter about where they spend marketing dollars. In order to drive quality traffic to the site, they need to invest in online channels that provide a higher return on investment (e.g. ‘Top Secret’ hotels).

Fundamentally, this means growing the volume and share in hotels globally. In North America, the hotel plan will need to focus on driving conversion through opaque channels, good pricing and good promotions. In today’s cost conscience environment, Travelocity needs to launch what Europe has done particularly well, a ‘Top Secret Hotels’ product for consumers to book rooms at opaque properties at a reduced price.

Operate efficiently and effectively - lastly, Travelocity needs to make sure they are keeping costs low so they can invest in the areas critical to its future, like in an opaque booking model. ‘Top Secret Hotels’ is a great example of how to invest in, and deploying, next generation technology globally that can be consumed locally. This allows them to be efficient by avoiding duplicate investments, and allows them to generate greater revenue through better conversion, a better customer experience and new capabilities around the world. Travelocity needs to optimize what they do today as well as find new opportunities for future growth; stays focused on its long term objectives, and
continue to be the customer’s advocate, and ultimately, make travel an affordable possibility.

According to the author Ron Kuhlmann, with the seismic shifts in customer behavior, it is incumbent on OTA’s to go back basics of marketing. They need to fully understand all the customers and their various buying criteria; realizing that the same individual can fit many profiles (Kuhlmann, 2008).

Kuhlmann refers in the article ‘Future of Revenue Management – Why is revenue management is not working?’ to a concept he called “Expense Management” based on the premise that the customer is determining the value of the offer rather than the carrier offering a set price for the product. This concept then evolves into “Customer Management” that suggest in a low-fare environment (which Kuhlmann thinks we are in) there is a need to see pricing and revenue management as one piece of the overall customer management (Kuhlmann, 2008).

This economy and year will continue to be challenging. It’s imperative that Travelocity both manages its business conservatively and keep its eyes squarely on its customers’ needs and how they can help them be successful. All online travel agencies have a great opportunity to forge lasting relationships with customers who need them now more than ever. Travelocity has many ways, more opportunities to help its customers make money, save money and improve their relationships with their customers… the things that matter most to their businesses not only in tough times, but anytime.

Conclusion
Certainly the economic conditions of today are unprecedented, and many predict they will continue well into 2010. For now, though, these continue to be tough times, both for corporations and employees personally. According to the book, the current market situation can be described in a nutshell as a painfully slow recovery following an economic downturn, worsened by travel safety and security issues. A survey last fall commissioned by the Travel Industry Association of the USA showed that only a small percentage of those, who choose not to travel, do it because of the 9/11 terrorist attacks. The majority of the guests who stay away from hotels would not travel because of the economy. Revenue management deserves a somewhat different and a more complex approach from hotel managers in order to unlock its full potential. Changes in market conditions must be clearly understood by management before applying revenue management solutions. If we don't know exactly the root cause behind changes, we may pull or push the wrong lever (Forgacs, 2002).

2009 is about crossing a chasm… how companies manage through these times to not only survive, but to come out better on the other side. For businesses, they need to make decisions every day with an eye on the long-term health of the organization. They need to remain vigilant in managing costs and scrutinize every dollar they spend. They also need to seize on the growth opportunities these times uniquely afford on them and fortify their customer relationships… so that when they get to other side, they are a stronger company, and a fiercer competitor with a stronger set of global brands.
For Travelocity, looking into 2009 needs to have a more cost conscience focus on travel which, may make some may question if they need to refocus their Customer Service Guarantee with the economy, and the answer is...no. The Customer Service Guarantee represents its long-term strategy. These low-cost driven travel objectives represent the core focus areas for this year, and this economy.

Travelocity’s mission to inspire travelers and be their champion (or advocate) and that is still true; it just so happens that being their champion right now also includes helping them find the best value and deals. Downturns have often presented an opportunity for online travel companies as suppliers start to discount offerings to bring travelers back. Travelocity is in a perfect position to reach millions of people quickly to show them how to find great value for their travel, or even plan a trip they didn’t think was possible. Now, they need to take full advantage, and these 2009 objectives offer a great platform.
References


