STANDING OUT AS AN ONLINE TRAVEL AGENT

DIFFERENTIATION WHEN TECHNOLOGY AND PRICE ARE NOT ENOUGH

DECISION POINT™
— by WNS

Overview

When Online Travel Agents (OTAs) entered the travel market around a few decades ago, they enjoyed tremendous advantage in aggregating bookings across products and brands. Their technology was better than other players in the market, and hotels and airlines offered them their best rates, assured of significant booking volumes. As of 2015, OTAs accounted for annual travel sales of USD 246 Billion, just shy of 20 percent of the global travel market.

In recent times, however, things have changed for OTAs. Hotel and airline brands have developed aggressive online strategies of their own, complete with online booking platforms, mobile apps and integrated loyalty programs. More importantly, changes in rate parity laws have started allowing them to offer lower rates on their own website, taking away one of the key differentiators that OTAs had. Metasearch engines which have brought in even more transparency in pricing and sharing economy players (such as AirBnB) exert further pressure on OTAs. Along with all of these developments, travel players have been setting their sights on gaining a piece of the growing online travel market. By 2020, online travel will account for 44 percent of all travel sales.

How can OTAs seize market share in this scenario? Do they still have inherent differentiators that they can focus on? WNS DecisionPoint™ surveyed travel platform users in North America, Western Europe and Asia-Pacific, and uncovered insights on customer use and buying behavior that can help OTAs redefine their sales pitch. Here are a few highlights from the survey:

- With better marketing and scope for personalization, bundled packages (including non-flight, non-hotel offerings) can be bigger value enhancers for OTAs

- Customers say that OTA loyalty programs offer greater ease of redemption through mobile apps, compared to hotels and airlines. Pushing greater adoption and offering broader redemption options across their non-hotel, non-flight offerings can help strengthen the advantage that OTAs have

- Non-hotel, non-flight products drive greater use of apps, and their consumers are likely to see greater value in bundled packages and loyalty programs

- APAC is an exception, where bundled packages, mobile apps and loyalty programs do not necessarily enhance customer perception of OTAs' role. It is also the most price-sensitive market and needs a value-for money positioning through combo deals and interlinked discounts

The next few years are likely to see more technology innovations. Focusing on the threefold strategy of bundled packages, mobile apps and loyalty programs can help OTAs carve out their differentiated identity in the market.

By 2020, it is predicted that the travel industry will have the highest penetration of online sales compared to any other industry globally. This sets the stage for all players in the travel industry to focus their efforts on online sales channels, giving rise to intense competition. It is thus important for OTAs to carve out a viable differentiation strategy.
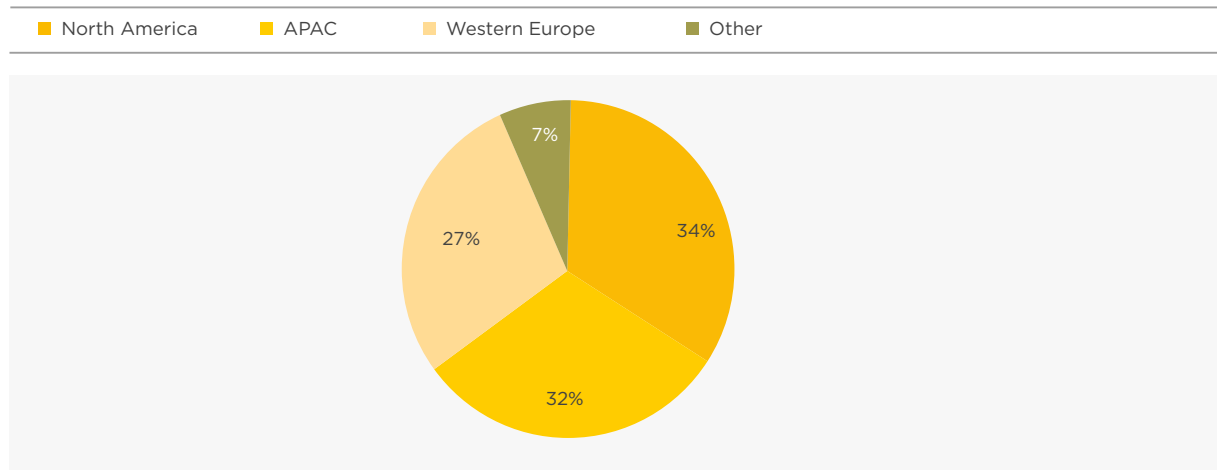
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INTRODUCTION

The global travel market is estimated to be $1.4[i] trillion, comprising a wide array of players spanning the transportation, lodging and entertainment industries. OTAs (Online Travel Agencies) entered the market a few decades back and have seen phenomenal growth since then. They gained advantage by being early movers in providing easy-to-access online platforms for booking across travel brands and products. In 2015, OTAs accounted for global travel sales of $246[ii] billion (19 per cent increase YoY). However, with the continuous rise in Internet penetration and the use of smart devices, travel and hospitality suppliers (hotels, airlines, etc.) themselves realized the importance of a robust online distribution platform and made significant improvements in this direction. Other players such as metasearch engines and direct booking third-party platforms have also emerged to challenge the OTA advantage. All these dynamic and evolving disruptive trends are driving OTAs to carve out a differentiation strategy to counter the changes in customer purchasing behaviors.

Exhibit 1

OTA Travel Sales (2015): Split by Region (Total $246 Billion)

Legend: North America | APAC | Western Europe | Other

North America: 34%
APAC: 32%
Western Europe: 27%
Other: 7%

Source: Euromonitor International

By 2020, it is predicted that the travel industry will have the highest penetration of online sales compared to any other industry globally. This sets the stage for all players in the travel industry to focus their efforts on online sales channels, thus giving rise to intense competition.

Exhibit 2

Percentage of Online Sales by 2020[iii]

Industry	Online Sales (%)
Travel	44%
Retail	11%
Restaurants & Dining	7%
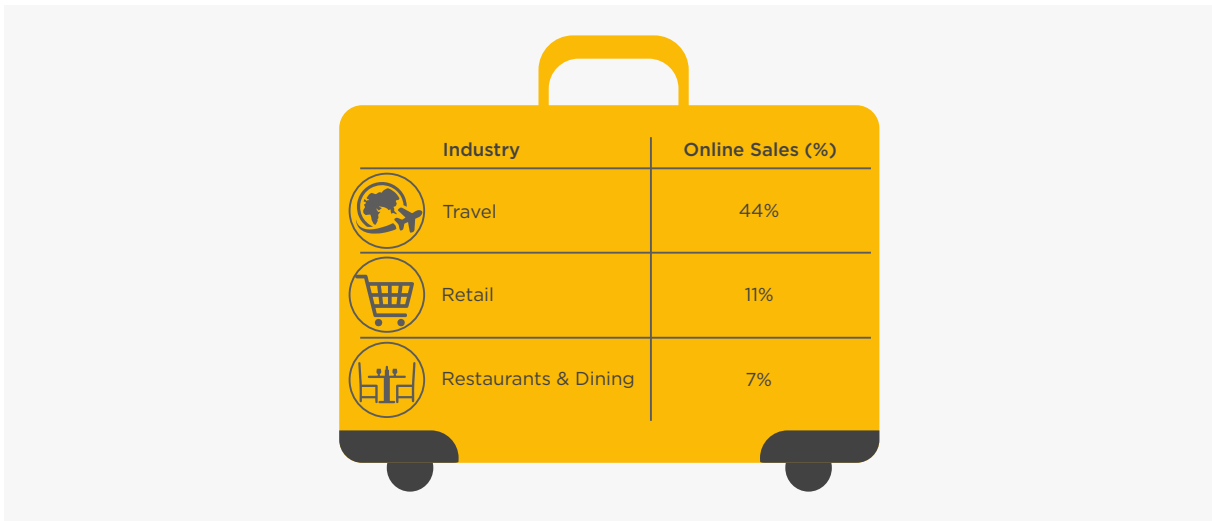
Source: Euromonitor International

There has also been a lot of discussion around rate parity in recent years, especially in Europe. Rate parity can be defined as having consistent rates for the same product, across all online distribution channels. The first step against rate parity was taken in January 2013, when the Higher Regional Court of Dusseldorf ruled against the practice of 'best rate guarantee', followed by Hotel Reservations Services (HRS). This was followed by a number of investigations in the European Union and a subsequent relook at the rate parity clauses.

This obviously is not good news for OTAs, as in a lot of cases, hotels are no longer bound by clauses to not provide lower rates on their own websites. A Google study showed that 52[iv] per cent of travelers typically check out the hotel's website after discovering the product on an OTA.

Additionally, hotels face a margin impact due to the rise in OTA distribution costs. Exhibit 3 shows the impact estimated by Credit Suisse, in their report 'Global Hotel & OTAs – The Distribution Revolution II', released in November 2014.

Exhibit 3
Margin Impact
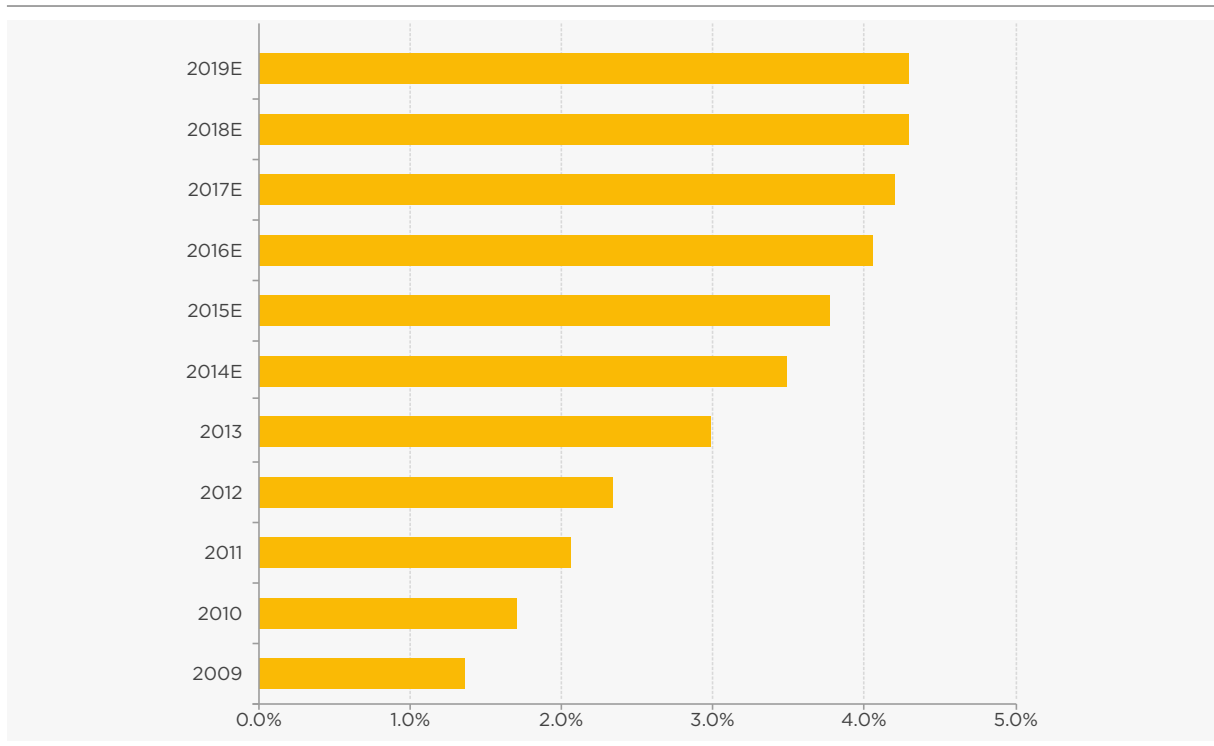
Source: Credit Suisse

Hotel operators are now aggressively pushing for direct channel bookings by providing exclusive discounted rates. Exhibit 4 gives details of what the top global hotel brands are doing on this front. Current data (over 200 million price comparisons) shows that 53[v] per cent of rates on hotel websites are cheaper than those provided by intermediaries.

Exhibit 4
Direct Channel Push by Hotel Brands

Hotel Brand	Strategies Adopted in Recent Times
Hilton	▪ Offered exclusive **Honors discounts of up to 10 per cent** off published rates at select hotels and brands in certain destinations in early 2016 ▪ Started the **'Stop clicking around'** campaign to convey that the lowest guaranteed rate at a Hilton can only be found in Hilton.com ▪ Launched a **360 degree video ad campaign** to push direct bookings
Marriott	▪ Introduced new lower **hotel booking rates exclusive** to **Marriott Rewards loyalty program members**, who book directly and through select corporate channels ▪ Additional benefits include mobile check-in, free Wi-Fi and the ability to earn points toward free stays ▪ Marriott has also launched a new digital campaign to publicize its direct rates

Hyatt	▪ **Latest entrant** in the direct booking war ▪ Launched an **exclusive discount** for members of its loyalty program, **Hyatt Gold Passport** ▪ Members, who book direct with Hyatt, will get a discount of up to 10 per cent on their bookings ▪ Additional benefits include online check-in, express checkout, reservation management via smartphones ▪ Revamping and working to enhance guests' mobile and digital interactions with the brand
Choice	▪ Offers exclusive rates (up to seven per cent lower than the best available rate found on the other channels) for members of its loyalty program, **Choice Privileges**. These rates will be available only on ChoiceHotels.com and to those using the hotel's mobile app.
IHG	▪ IHG Rewards Club launched a **Book Direct promotion** offering up to **30,000 bonus points** for three stays between March 15 and August 31, 2016, for members in APAC, the Middle East and Africa

The immediate impact of the direct booking push has been quite encouraging, going by some numbers given below:

▪ **Hilton:** Since the launch of the "Stop Clicking Around" campaign in February 2016, there has been a 90[vi] per cent increase in Hilton HHonors membership enrollments, driving HHonors occupancy levels to a record 55[vi] per cent.

▪ **Hyatt:** Since the launch of the new Hyatt Gold Passport member rates, over 70 per cent of the revenue associated with member discount click-throughs has been sourced from new or previously inactive Gold Passport members. More than 40 per cent of new or previously inactive members have made repeat bookings, and the pace of online Gold Passport sign-ups has quadrupled on an annual basis. Room revenue, booked through Hyatt.com, has increased at a double-digit rate and the overall channel mix in favor of Hyatt.com has increased.

Direct channel push by hotels is a growing cause of concern for OTAs, given the share of hotels in the OTAs' revenue stream. Hotel products are estimated to account for around 90 per cent and 70 per cent of revenue for Priceline and Expedia respectively. Airlines too have already globally forged ahead with direct distribution. Priceline saw a 1.6[vii] per cent YoY drop in the number of airline tickets sold in 2015, against a 12[viii] per cent YoY rise in 2014. Their room night reservation growth rate has been decelerating and has come down from 40[vii] per cent in 2012 to 25[vii] per cent in 2015.

The sharing economy players, led by Airbnb, are also creating added pressure on the OTAs. According to a Morgan Stanley[ix] report, 'Global Insight: Who Will Airbnb Hurt More - Hotels or OTAs?', released in November 2015, Airbnb's leisure segment is growing much faster than the corporate segment. The leisure market is also the more important market for OTAs. More than 80 per cent of Expedia and Priceline bookings come from leisure demand. Analysts from Cowen Group Inc., a leading investment banking services company, predict that Airbnb might grow to one billion[x] room nights per year by 2025. If further pushed by the growing success of Airbnb type players, hotels might try to turn them into collaborators and use them as intermediaries, in the hope of lesser commission payout. Airbnb currently charges a three per cent host service fee on booking transactions, while OTAs charge substantially higher. Eventually, OTA commissions might face a downward push to maintain the relationship with hotels. To balance this, the need for volume growth will only go up.

Exhibit 5

OTA Commissions

1996	5%	2000	10%	2005	15%-30%	2016
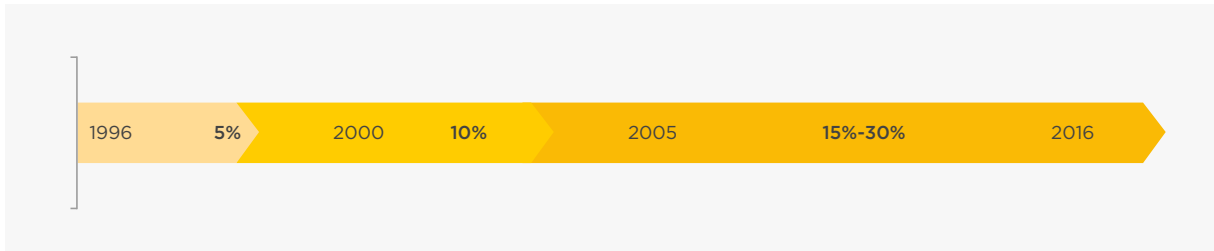
Source: Skift[xi]

Price transparency has increased as the rise of metasearch engines have made it extremely easy for travelers to compare prices on a single platform - not only across hotels and airlines but across OTAs as well. Also, players such as Google and TripAdvisor, who can capture reservations at the research stage, pose a threat to OTAs. They offer direct bookings on their websites by displaying rates, and availability, via a feed from the hotel booking engine system. The customer does not need to leave the Google or TripAdvisor webpage during the entire booking process. In spring of in 2015, web-traffic research firm, ComScore, estimated that Google's sites attracted more than 200[xii] M unique monthly visitors, the most by any single U.S. entity. Google's entry in the booking space can thus be a high potential threat.

IDENTIFYING VIABLE DIFFERENTIATORS

Keeping the above developments in mind, it may be reasonable to assume that technology and price will stop being key differentiators for OTAs. All this at a stage when OTAs are still in the growth phase. In 2015, such companies accounted for $246[ii] billion of travel sales, less than one-fifth of the global travel market.

The need for OTAs to design and promote their offers in ways that can be perceived to add value to the trip planning process will become increasingly important in the future. **WNS DecisionPoint™ conducted a survey of users of travel platforms in North America (NAM), Western** Europe and Asia Pacific (APAC) to understand the customer perception of OTAs, the nuances of the buying behavior of various online customer segments and the preferences of these segments.

OTA PERCEPTION

To start with, we assumed that OTA customers, who are a part of the following segments, appreciate the value-added role of OTAs in a trip planning process significantly more than others. This is because the following segments naturally gain from the depth and variety of the travel products that OTAs offer on a single platform.

- OTA users also purchasing products other than flights and hotels

- Bundled package users

- OTA mobile app users

- OTA loyalty program members

Survey Results Revealed some Interesting Patterns

The table below (Exhibit 6) summarizes the response of survey participants across various regional segments and by age groups. They were asked if they felt OTAs added value to the trip planning process or were merely online agents.

Green blocks: Market segments where the share of survey respondents saying OTAs add value to their trip planning process is significantly more than the others. For example, 56 per cent of North America (NAM) users of OTA mobile apps feel OTAs add value compared to just 31 per cent who do not use OTA apps. This means mobile apps are significant differentiators for OTAs in NAM.

Amber blocks: Market segments, where there is less than or equal to two per cent gap between the share of survey respondents saying OTAs add value to their trip planning process compared to the others. For example, just 55 per cent of APAC population who are members of OTA loyalty programs feel that OTAs add value, versus 57 per cent who are not members of OTA loyalty programs, and still feel that the OTAs add value. This means that loyalty programs in APAC are not acting as a differentiator.

Red blocks: Market segments where the share of respondents saying OTAs add value to their trip planning exercise is significantly less than the others. For example, just 54 per cent of APAC users of OTA apps feel OTAs add value compared to 64 per cent who do not use OTA apps. This means that significantly fewer number of app users in APAC see value in OTAs compared to non-app users.

Users in Asia Pacific (APAC) and those in the 18-24 age bracket seem to be segments with interesting aberrations, corroborating the validity of our assumptions in the more mature markets.

On an overall basis, our assumption that OTA customers, who purchase products other than flights and hotels, bundled package users, OTA mobile app users and OTA loyalty members appreciate the value-added role of OTAs in the trip planning process significantly more than the others was proved. Throughout the rest of the paper, it will also be evident how the four segments are interrelated.

Exhibit 6

Customer Sentiment towards Identified OTA Differentiators

Responses based on region				
Segment	**APAC**	**Western Europe**	**NAM**	**Overall**
OTA user also purchasing products other than hotels & flights	🟩	🟩	🟥	🟩
OTA users of bundled packages	🟨	🟩	🟩	🟩
Users of OTA apps	🟥	🟨	🟩	🟩
Members of OTA loyalty programs	🟨	🟩	🟩	🟩
Responses based on age				
Segment	**18-24**	**25-39**	**40-54**	**Overall**
OTA user also purchasing products other than hotels & flights	🟥	🟩	🟩	🟩
OTA users of bundled packages	🟩	🟩	🟩	🟩
Users of OTA apps	🟩	🟩	🟩	🟩
Members of OTA loyalty programs	🟥	🟩	🟨	🟩

Source: WNS DecisionPoint™ Analysis
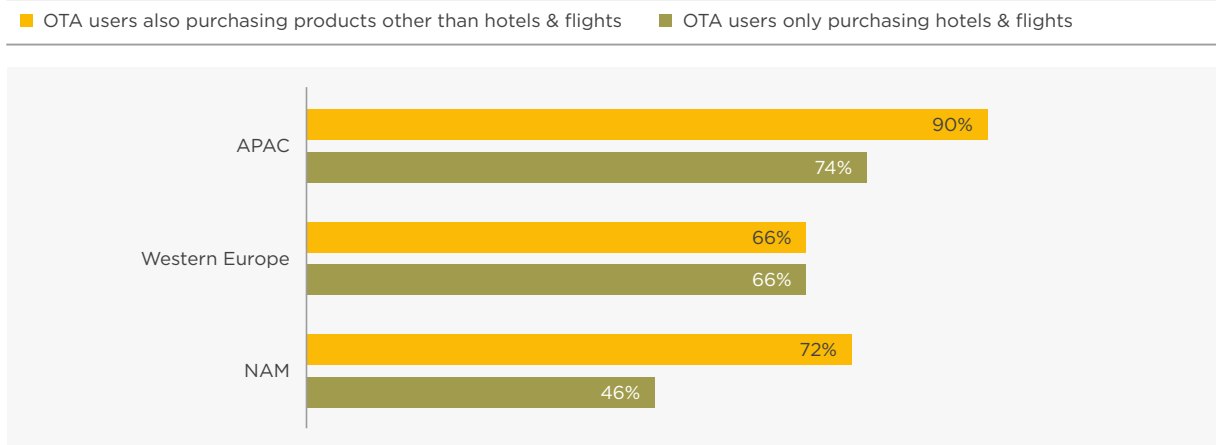
USING BUNDLED PACKAGE AS A DIFFERENTIATOR

The use of bundled packages is much higher among OTA users, who also book car rentals, holiday activities, and other products besides traditional travel products such as flights and hotels (Exhibit 7 and 8). However, the challenge is that the current product penetration of the various offerings on OTA platforms is low for the non-flight and non-hotel segment compared to the flight and hotel segments (Exhibit 9 and 10). APAC has maximum market penetration for most of the travel product types available on OTA platforms. An overwhelming 90 per cent of APAC respondents purchasing OTA non-flight and non-hotel products use bundled packages.
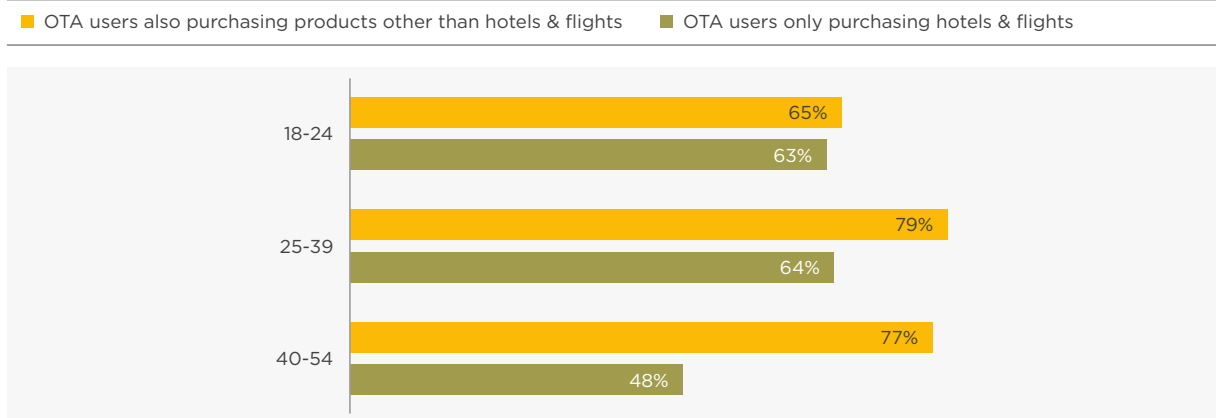
Exhibit 7

Bundled Package Penetration across Regions

■ OTA users also purchasing products other than hotels & flights   ■ OTA users only purchasing hotels & flights

Region	OTA users also purchasing products other than hotels & flights	OTA users only purchasing hotels & flights
APAC	90%	74%
Western Europe	66%	66%
NAM	72%	46%

Source: WNS DecisionPoint™ Survey

Exhibit 8

Bundled Package Penetration across Age groups

■ OTA users also purchasing products other than hotels & flights   ■ OTA users only purchasing hotels & flights

Age group	OTA users also purchasing products other than hotels & flights	OTA users only purchasing hotels & flights
18-24	65%	63%
25-39	79%	64%
40-54	77%	48%

Source: WNS DecisionPoint™ Survey

Exhibit 9

OTA Product Penetration across Regions

■ APAC   ■ Western Europe   ■ NAM

Category	APAC	Western Europe	NAM
Hotels	92%	84%	83%
Flights	87%	82%	82%
Bus	31%	16%	11%
Rail	33%	26%	14%
Car Rental	29%	28%	42%
Cruise	18%	10%	15%
Holiday Activities	48%	26%	18%
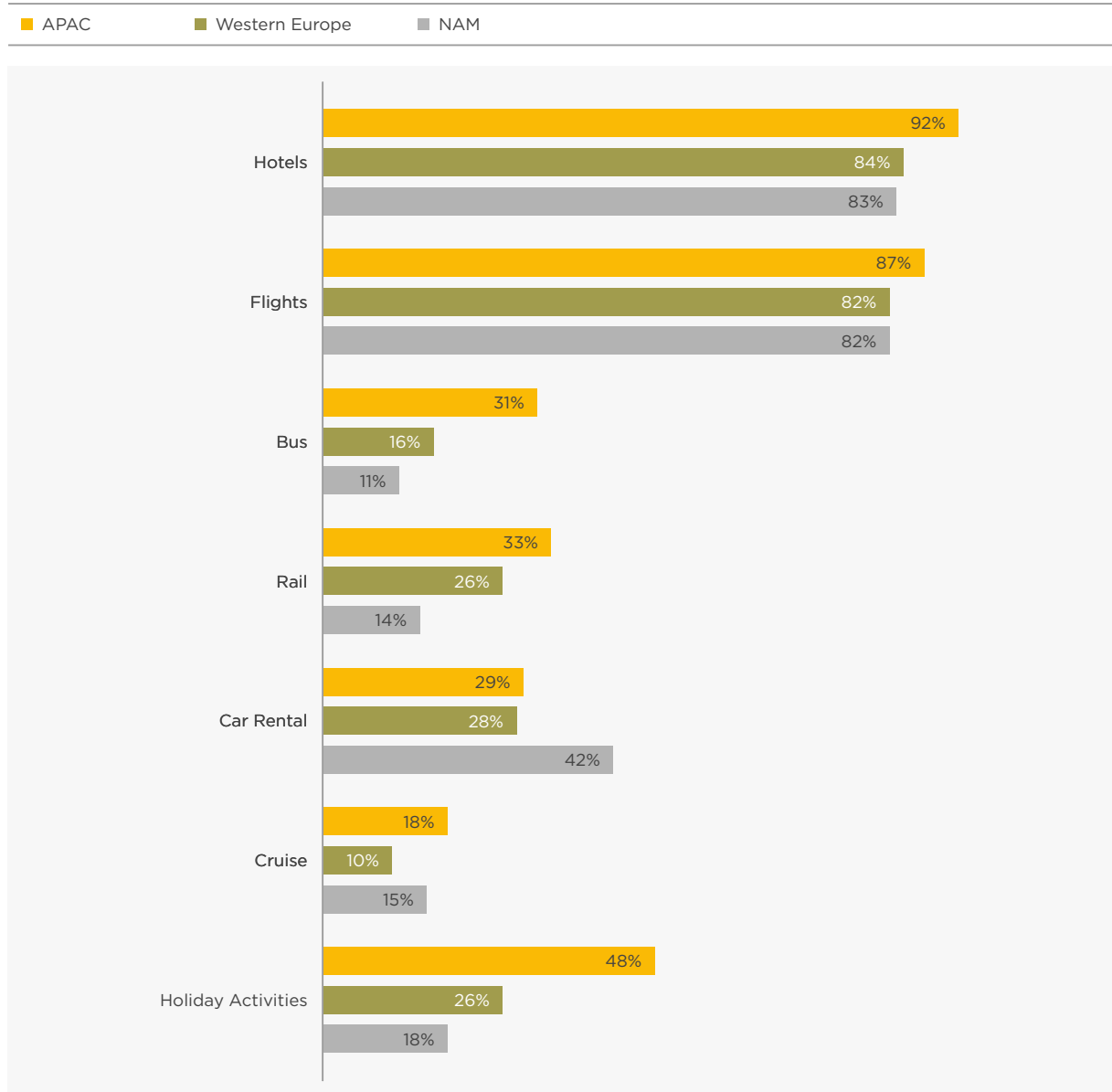
Source: WNS DecisionPoint™ Survey

Exhibit 10

OTA Product Penetration across Age groups

■ 18-24   ■ 25-39   ■ 40-54

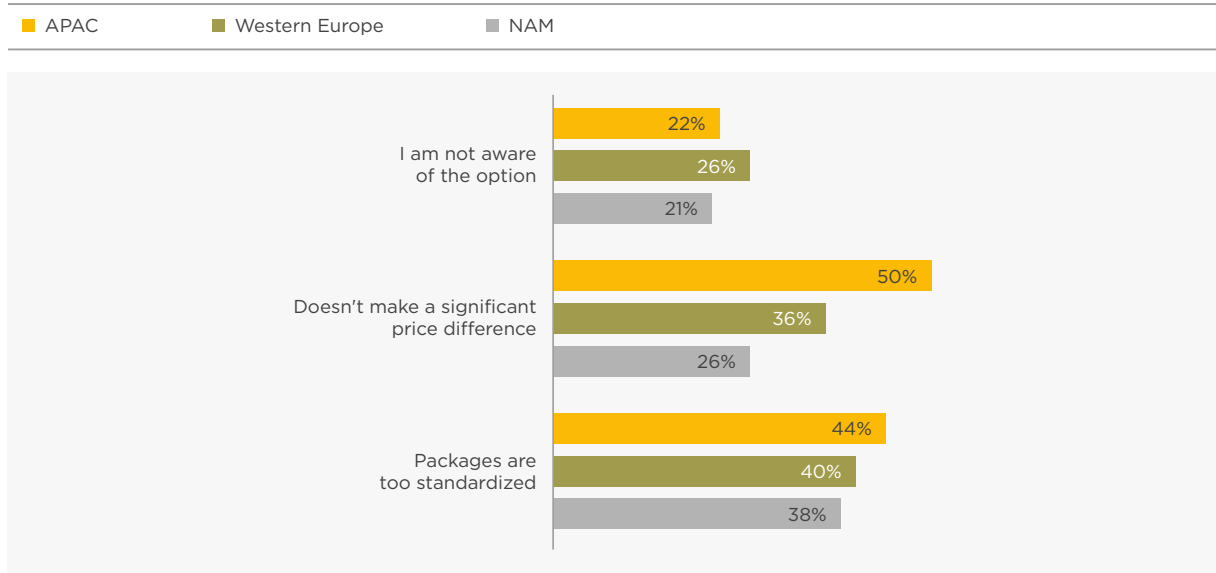| Category	18-24	25-39	40-54
Hotels	76%	90%	87%
Flights	77%	86%	83%
Bus	23%	20%	8%
Rail	22%	27%	16%
Car Rental	20%	39%	36%
Cruise	12%	15%	14%
Holiday Activities	30%	31%	23%
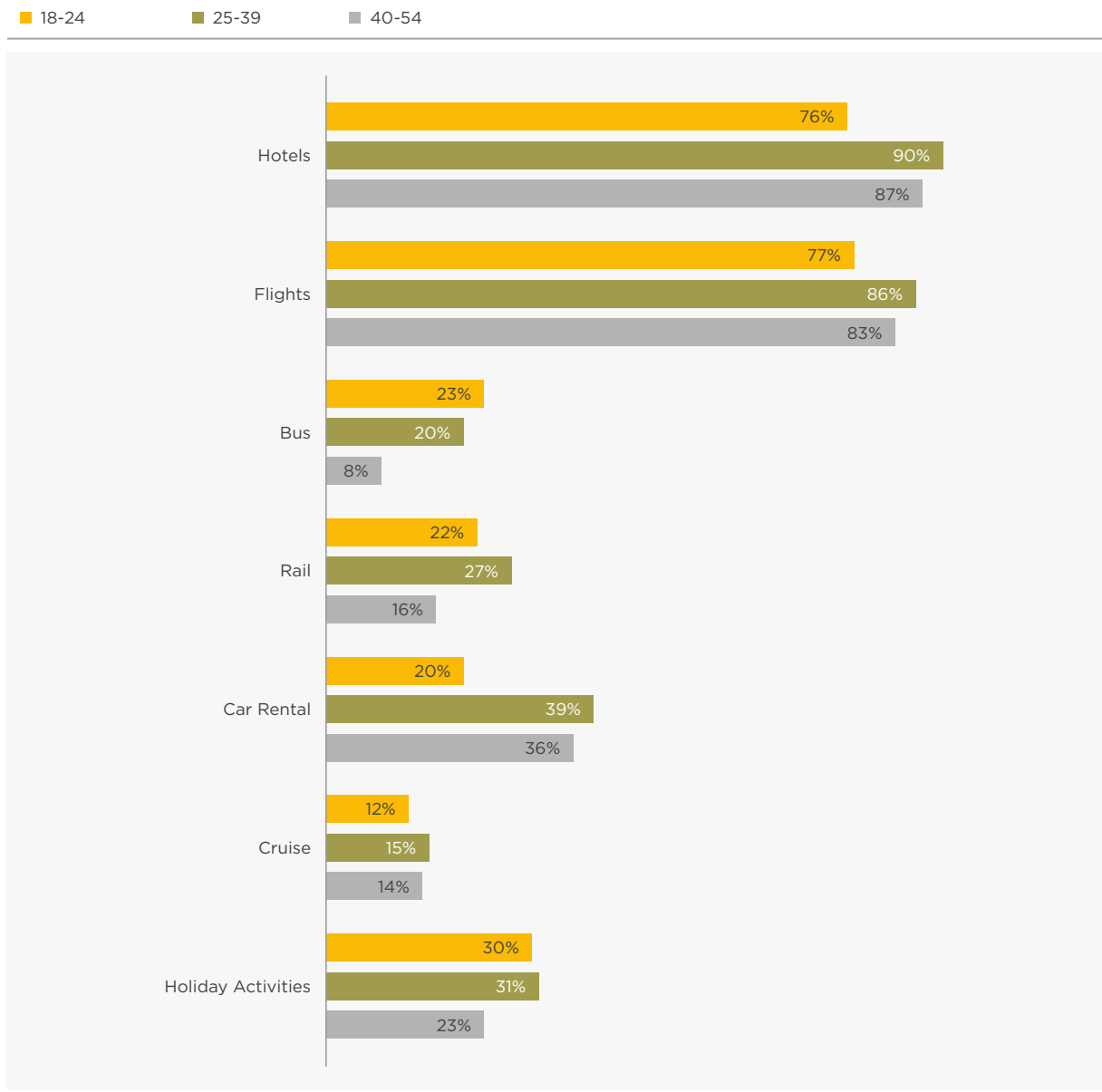
Source: WNS DecisionPoint™ Survey

Promoting non-flight and non-hotel products through innovative bundled packages will eventually strengthen the position of OTAs. However, bundled packages, in their current form, need to address some key shortcomings (Exhibit 11 and 12) to increase market penetration. "Packages are too standardized" came up as the biggest complaint from the non-user group, stressing the need to invest in offer personalization. Including as many travel elements as possible in packages will make packages appear less standardized. On the positive side, an overwhelming **95.5 per cent of the bundled package users said they would use it again,** indicating that the problem does not lie as much with the customer experience as with the promotion.

Exhibit 11

Reasons for not Using Bundled Packages across Regions

■ APAC ■ Western Europe ■ NAM

I am not aware of the option
- APAC: 22%
- Western Europe: 26%
- NAM: 21%

Doesn't make a significant price difference
- APAC: 50%
- Western Europe: 36%
- NAM: 26%

Packages are too standardized
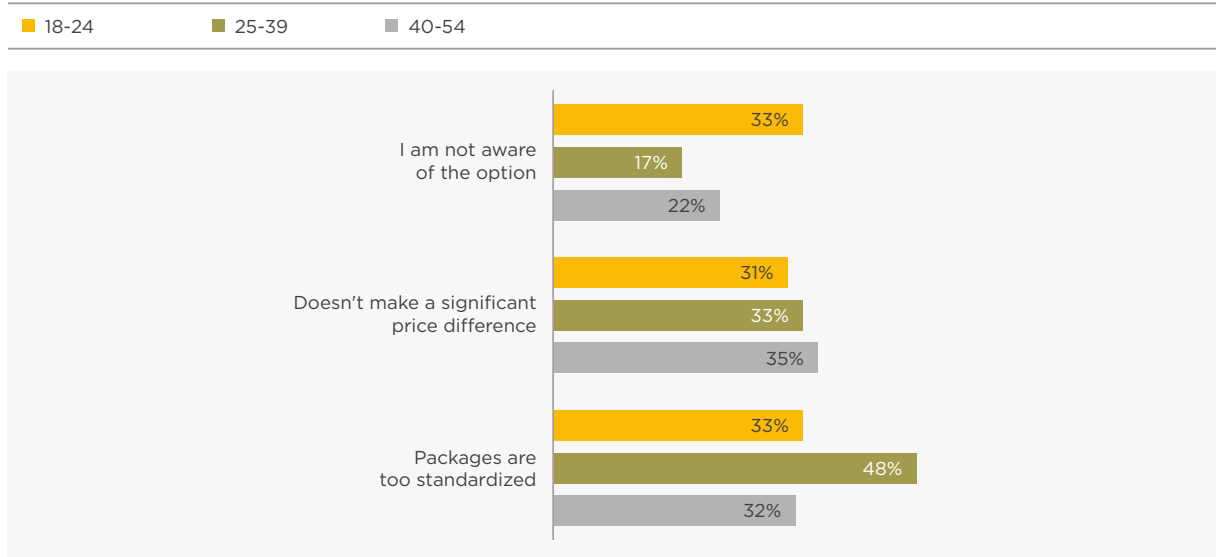- APAC: 44%
- Western Europe: 40%
- NAM: 38%

Source: WNS DecisionPoint™ Survey

APAC, which has the highest penetration among various OTA products, also shows up as the most price-sensitive market. This calls for special attention to designing products for APAC that add value to customers such as offering quicker redemption options that do not need very high loyalty points.

Exhibit 12

Reasons for not Using Bundled Packages across Age Groups

■ 18-24 ■ 25-39 ■ 40-54

I am not aware of the option
- 18-24: 33%
- 25-39: 17%
- 40-54: 22%

Doesn't make a significant price difference
- 18-24: 31%
- 25-39: 33%
- 40-54: 35%

Packages are too standardized
- 18-24: 33%
- 25-39: 48%
- 40-54: 32%

Source: WNS DecisionPoint™ Survey

The popularity of the non-flight and non-hotel products, as well as bundled offers, should logically encourage the use of mobile apps. The greater the number of relevant products, more will be the number of occasions of using the app. Vice versa, greater adoption of apps will allow channels to better promote and popularize the use of non-flight and non-hotel products and bundled packages.

A look into the mobile app usage patterns of different customer segments, who use OTA platforms only for flights and hotels, compared to those who also buy non-flight and non-hotel products, display similar trends (Exhibit 13 and 14). Users of bundled packages also have adopted mobile apps far more than customers, who do not use bundled packages (Exhibit 15 and 16).

Exhibit 13
OTA Mobile App Use across Regions

■ OTA users also purchasing products other than hotels and flights　　■ OTA users only purchasing hotels and flights

APAC
- 67%
- 49%
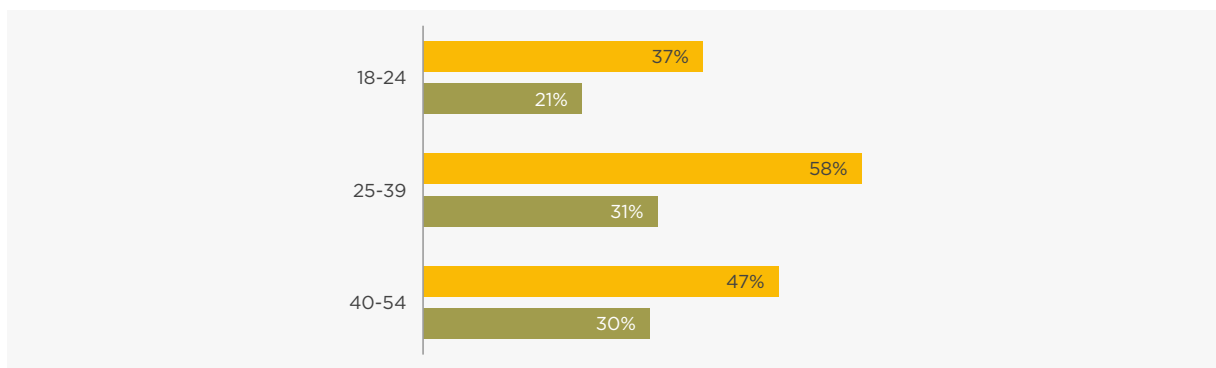
Western Europe
- 43%
- 22%

NAM
- 45%
- 21%
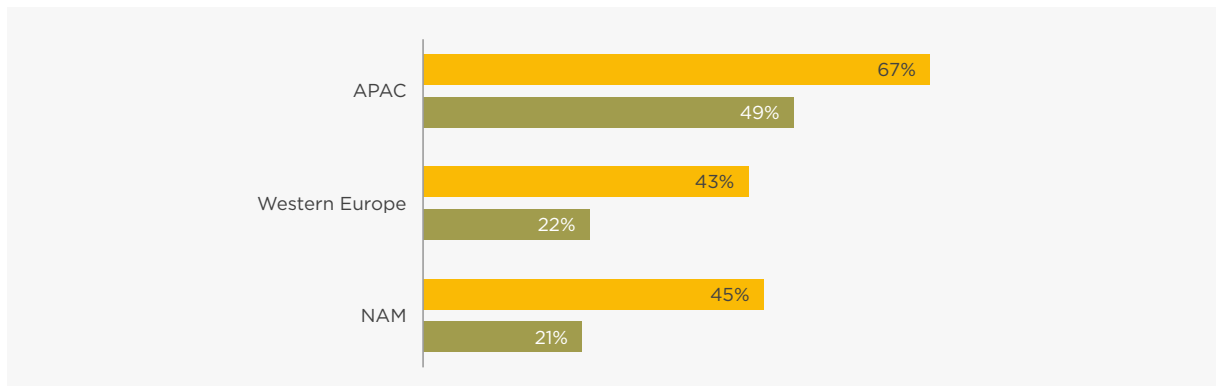
Source: WNS DecisionPoint™ Survey

Exhibit 14
OTA Mobile App Use across Age Groups

■ OTA users also purchasing products other than hotels and flights　　■ OTA users only purchasing hotels and flights
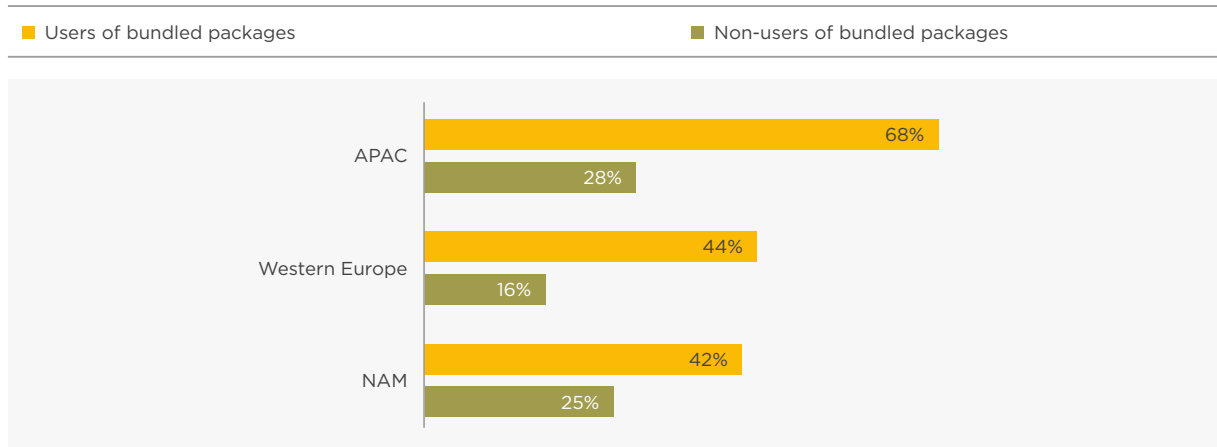
18-24
- 37%
- 21%

25-39
- 58%
- 31%

40-54
- 47%
- 30%

Source: WNS DecisionPoint™ Survey

Exhibit 15

OTA Mobile App Use across Regions

■ Users of bundled packages　　　　　　　■ Non-users of bundled packages

APAC
- 68%
- 28%

Western Europe
- 44%
- 16%

NAM
- 42%
- 25%

Source: WNS DecisionPoint™ Survey

Exhibit 16

OTA Mobile App Use across Age Groups

■ Users of bundled packages　　　　　　　■ Non-users of bundled packages

18-24
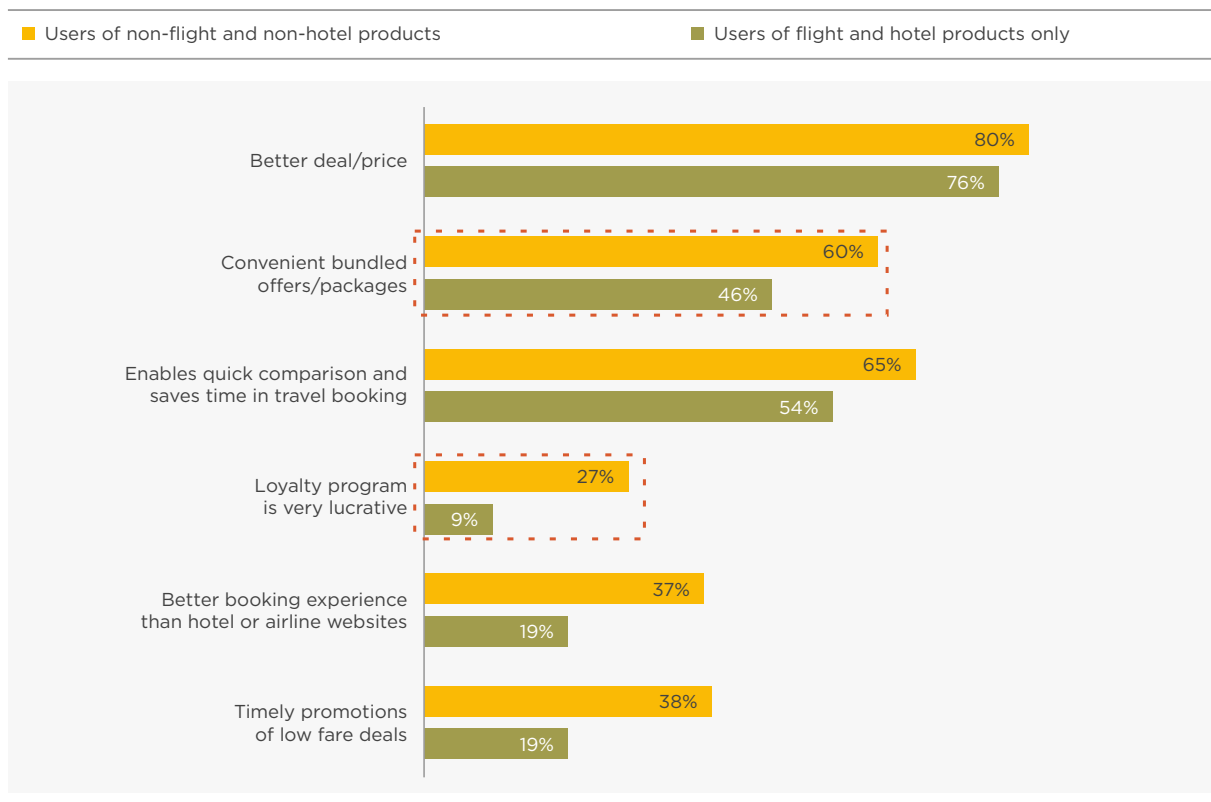- 38%
- 15%

25-39
- 57%
- 28%

40-54
- 51%
- 19%
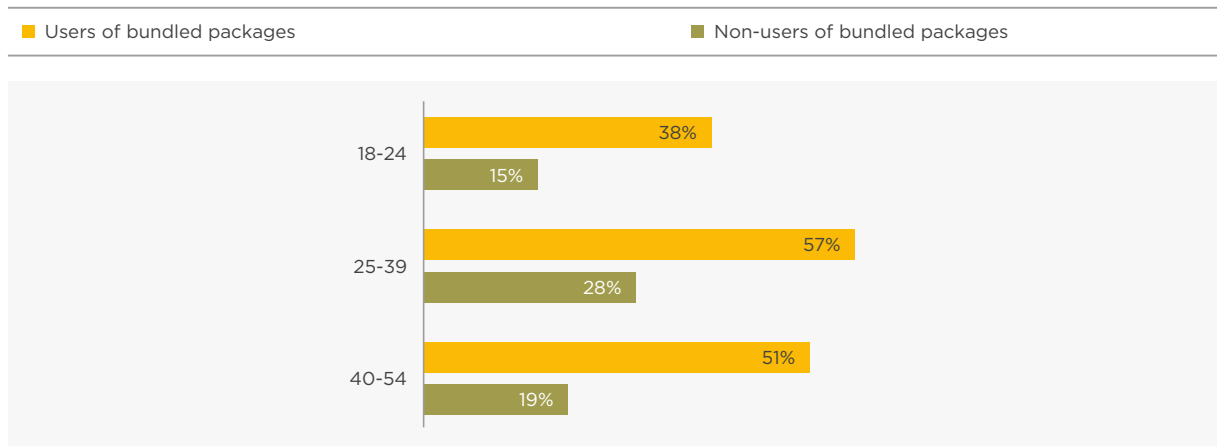
Source: WNS DecisionPoint™ Survey

It is interesting to note that OTA users purchasing non-flight or non-hotel products acknowledge the value of loyalty programs more, compared to those who only book flights and hotels on OTA platforms.

Among the respondents who saw OTAs as value-adding travel partners, the following were the key reasons driving such a perception (Exhibit 17.)

Exhibit 17

Key Value Addition Factors of OTAs

■ Users of non-flight and non-hotel products   ■ Users of flight and hotel products only

Factor	Non-flight/non-hotel	Flight/hotel only
Better deal/price	80%	76%
Convenient bundled offers/packages	60%	46%
Enables quick comparison and saves time in travel booking	65%	54%
Loyalty program is very lucrative	27%	9%
Better booking experience than hotel or airline websites	37%	19%
Timely promotions of low fare deals	38%	19%

Source: WNS DecisionPoint™ Survey

OTAs currently offer travel packages, but while planning marketing strategies, more focus needs to be given to the promotion of this product segment. **Twenty three per cent of OTA users in our survey said they were not aware of the bundled package option.**

The OTA industry, through a series of mergers and acquisitions, has witnessed a phase of consolidation. This gives them access to multiple travel products, putting them in the best position to offer bundled options and greater choices to customers.

Designing innovative product combinations at tailored price points and catering to specific audiences will enable OTAs to be better perceived as value-added service providers, rather than just online travel agents, who are easily replaceable.

To enhance the effectiveness of marketing campaigns, segmentation grids can be developed on the basis of structured data such as age, range of income, profession, family type and size, past travel spend, destinations and so on. A couple of examples are given below:

The vertical axis indicates the vacation type preference of the traveler while the horizontal axis represents the travel budget.

Exhibit 18

2X3 Grid for Segmented Bundled Packages

	Budget	Value	Premium
Active	▪ **Sample:** Budget travel and hotel with a discount offer on a sight seeing tour ▪ **Branding Focus** on the deal price and the places to visit	▪ **Sample package:** A deal on a mid segment hotel (vacation rental option for bigger groups), budget airline travel with some add-on ancillaries, one adventure sports option and a group site seeing tour ▪ **Branding focus** on the activities included	▪ **Sample package:** A luxury hotel deal including a spa voucher, travel with lounge access, one adventure sports activity and a detailed sight seeing tour including museum tickets ▪ **Branding focus** on the inclusive aspect
Relaxed	▪ **Sample package:** Budget travel and hotel with some local restaurant options ▪ **Branding focus** on the low cost	▪ **Sample package:** A deal on a mid segment hotel (vacation rental option for bigger groups), budget airline travel with some add-on ancillaries, some local restaurant options and a one time Spa voucher ▪ **Branding focus** on the value for money aspect	▪ **Sample package:** A luxury hotel deal including ample use of a spa and restaurants, free access to DVD library, travel with lounge access and cab for a day of shopping and travel around the city ▪ **Branding focus** on the luxury features included

Source: WNS DecisionPoint™ Analysis

In the case of a lower marketing budget, the target segments can be visualized as four types, based on a 2X2 Grid

Exhibit 19

2X2 Grid for Segmented Bundled Packages

	Budget	Premium
Active	▪ **Sample package:** Budget hotel or a deal on a mid segment hotel, travel in a budget airline, one adventure sport included, discount offer on a sight seeing tour ▪ **Branding Focus** on the activities	▪ **Sample package:** A luxury hotel deal including a spa voucher(vacation rental option for bigger groups), travel with lounge access, a couple of adventure activities and sight seeing including museum tickets ▪ **Branding focus** on the inclusive aspect
Relaxed	▪ **Sample package:** Budget hotel, travel on a low cost airline, with some local restaurant options and a spa discount ▪ **Branding Focus** on the low cost	▪ **Sample package:** A luxury hotel deal including ample use of spa and restaurants, free access to DVD library (vacation rental option for bigger groups), travel with lounge access, cab for a day of shopping and travel around the city ▪ **Branding focus** on the luxury features included

Source: WNS DecisionPoint™ Analysis

This strategy highlights the minimum viable customization capability of OTAs. Further personalization can be offered as a premium offering.
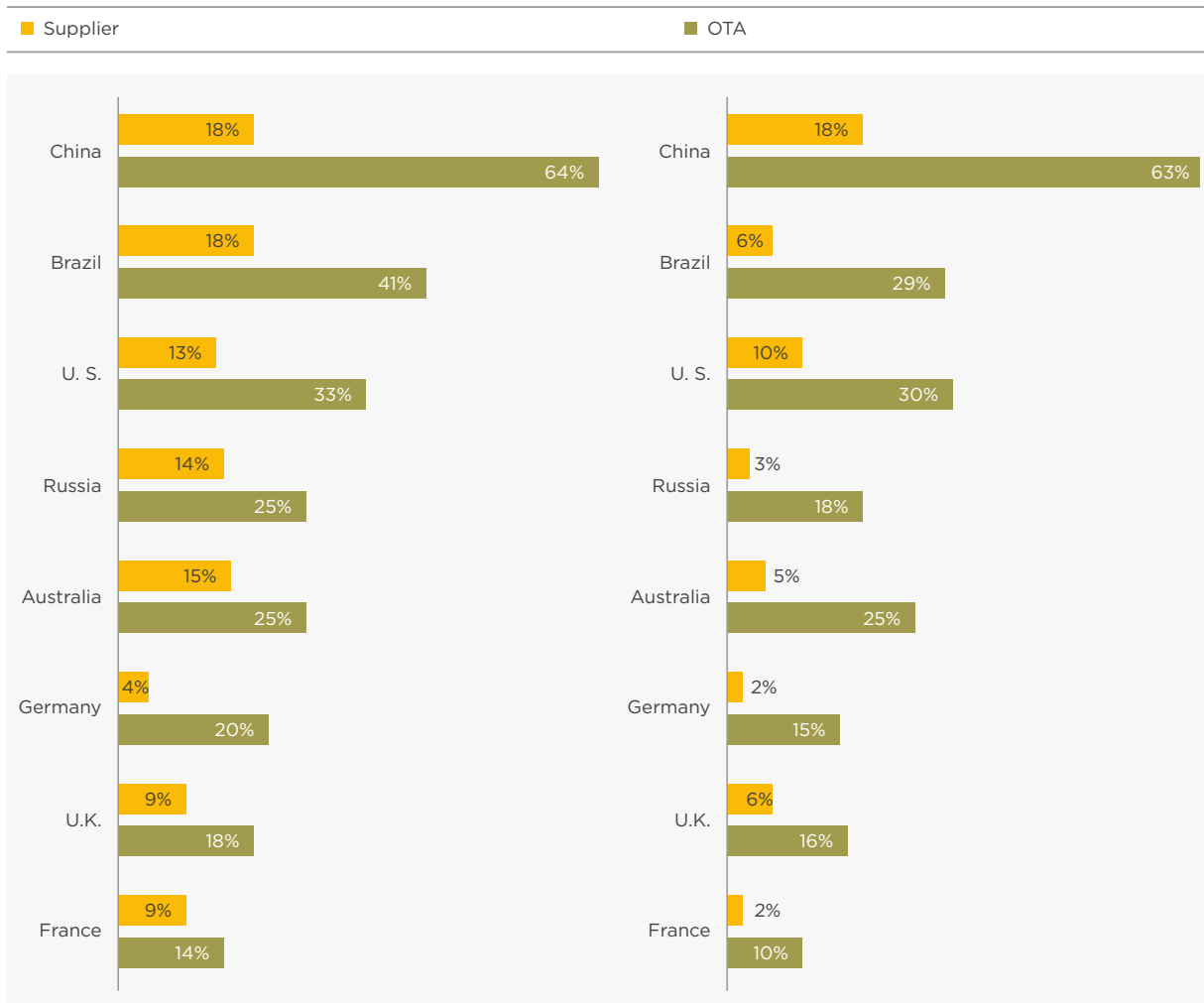
The above mentioned bundled segments will need to be promoted through targeted campaigns by segmenting registered users as well as potential travelers.

USING MOBILE APP AS A DIFFERENTIATOR

OTAs already have a distinct advantage over hotels and airlines in the smartphone segment. This is evident from the chart below (Exhibit 20).

Exhibit 20

Smartphone Shopping by Travel Segment (2016)[xiii]

- ■ Supplier
- ■ OTA

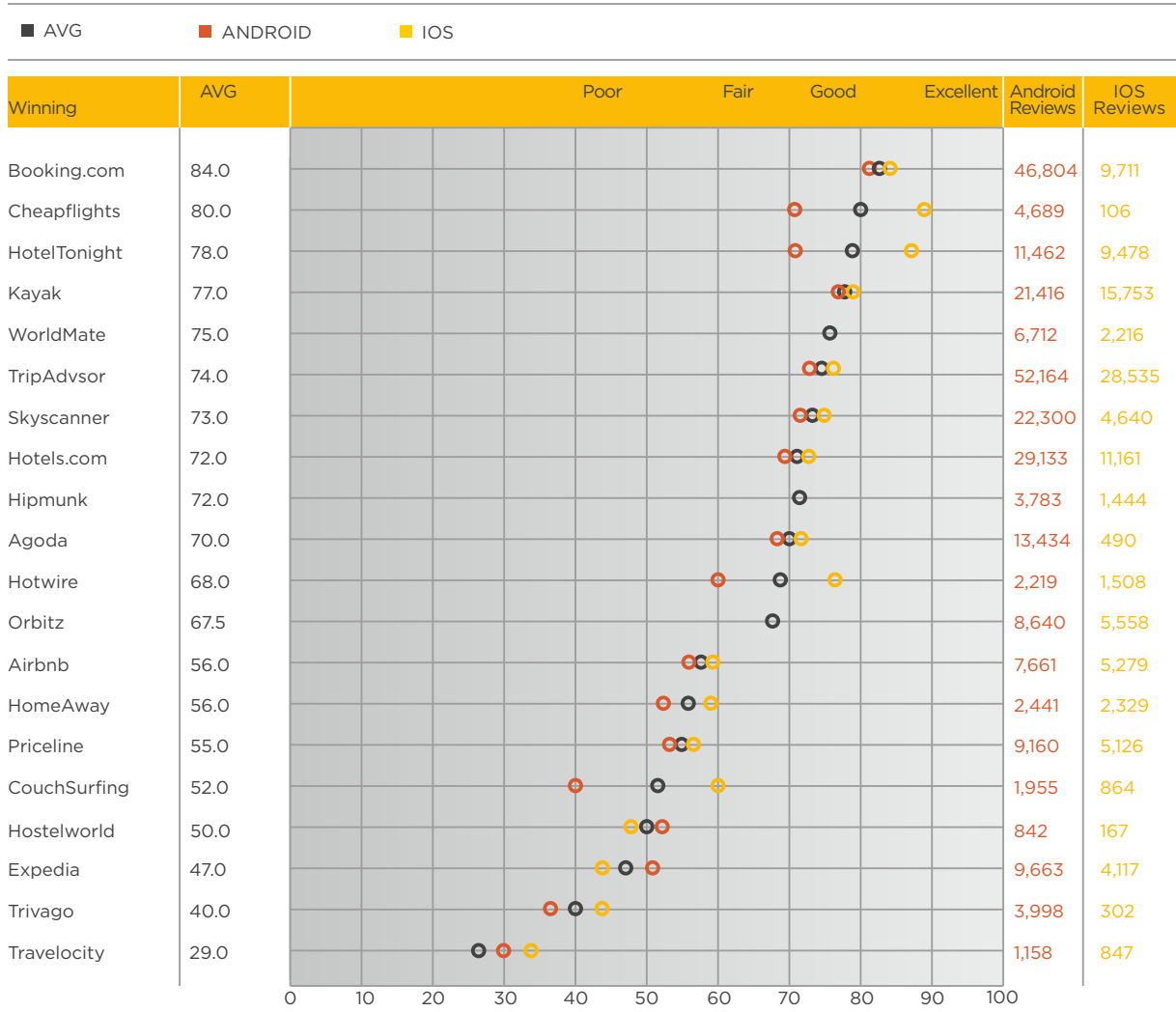|	Supplier	OTA
China	18% / 64%	18% / 63%
Brazil	18% / 41%	6% / 29%
U. S.	13% / 33%	10% / 30%
Russia	14% / 25%	3% / 18%
Australia	15% / 25%	5% / 25%
Germany	4% / 20%	2% / 15%
U.K.	9% / 18%	6% / 16%
France	9% / 14%	2% / 10%

Source: The State of Online Travel Agency Bookings in Charts - Tnooz

A look at the App Quality Index given below also shows that OTA apps, on an average, score much better than those of airlines and hotels.

Exhibit 21

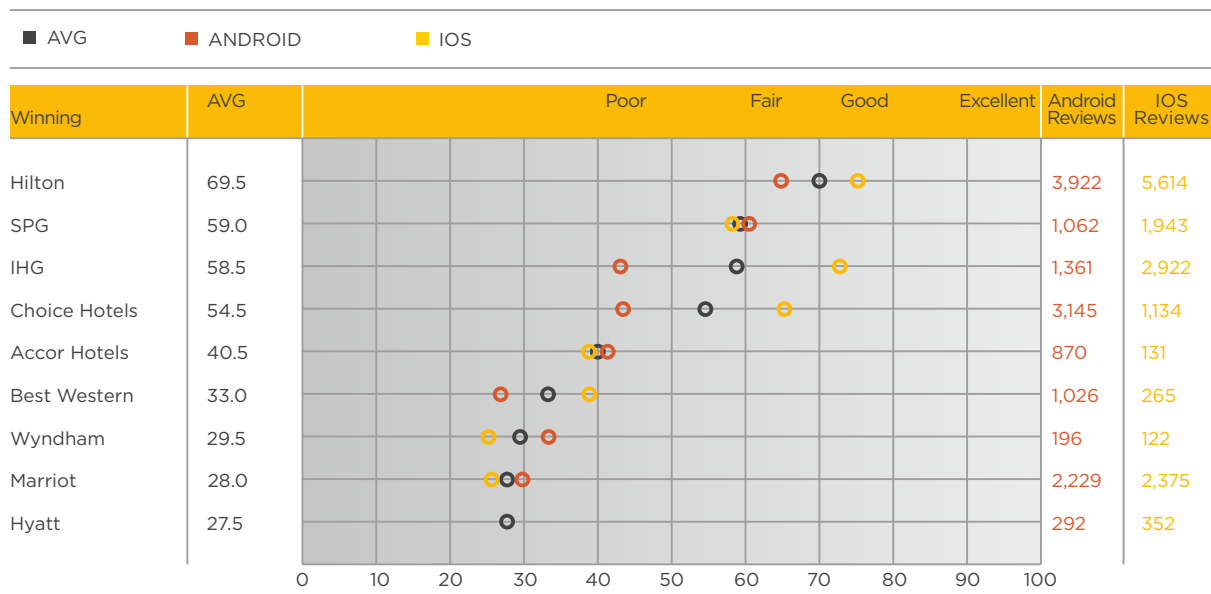# App Quality Index for OTAs, 2016[xiv]

■ AVG　　■ ANDROID　　■ IOS

Winning	AVG	Poor	Fair	Good	Excellent	Android Reviews	IOS Reviews
Booking.com	84.0					46,804	9,711
Cheapflights	80.0					4,689	106
HotelTonight	78.0					11,462	9,478
Kayak	77.0					21,416	15,753
WorldMate	75.0					6,712	2,216
TripAdvsor	74.0					52,164	28,535
Skyscanner	73.0					22,300	4,640
Hotels.com	72.0					29,133	11,161
Hipmunk	72.0					3,783	1,444
Agoda	70.0					13,434	490
Hotwire	68.0					2,219	1,508
Orbitz	67.5					8,640	5,558
Airbnb	56.0					7,661	5,279
HomeAway	56.0					2,441	2,329
Priceline	55.0					9,160	5,126
CouchSurfing	52.0					1,955	864
Hostelworld	50.0					842	167
Expedia	47.0					9,663	4,117
Trivago	40.0					3,998	302
Travelocity	29.0					1,158	847

0　10　20　30　40　50　60　70　80　90　100

Source: Applause Mobile Sentiment Analysis, May 2016

Exhibit 22

App Quality Index for Hotels, 2016

■ AVG   ■ ANDROID   ■ IOS

Winning	AVG		Poor	Fair	Good	Excellent	Android Reviews	IOS Reviews
Hilton	69.5						3,922	5,614
SPG	59.0						1,062	1,943
IHG	58.5						1,361	2,922
Choice Hotels	54.5						3,145	1,134
Accor Hotels	40.5						870	131
Best Western	33.0						1,026	265
Wyndham	29.5						196	122
Marriot	28.0						2,229	2,375
Hyatt	27.5						292	352

0   10   20   30   40   50   60   70   80   90   100

Source: Applause Mobile Sentiment Analysis, May 2016
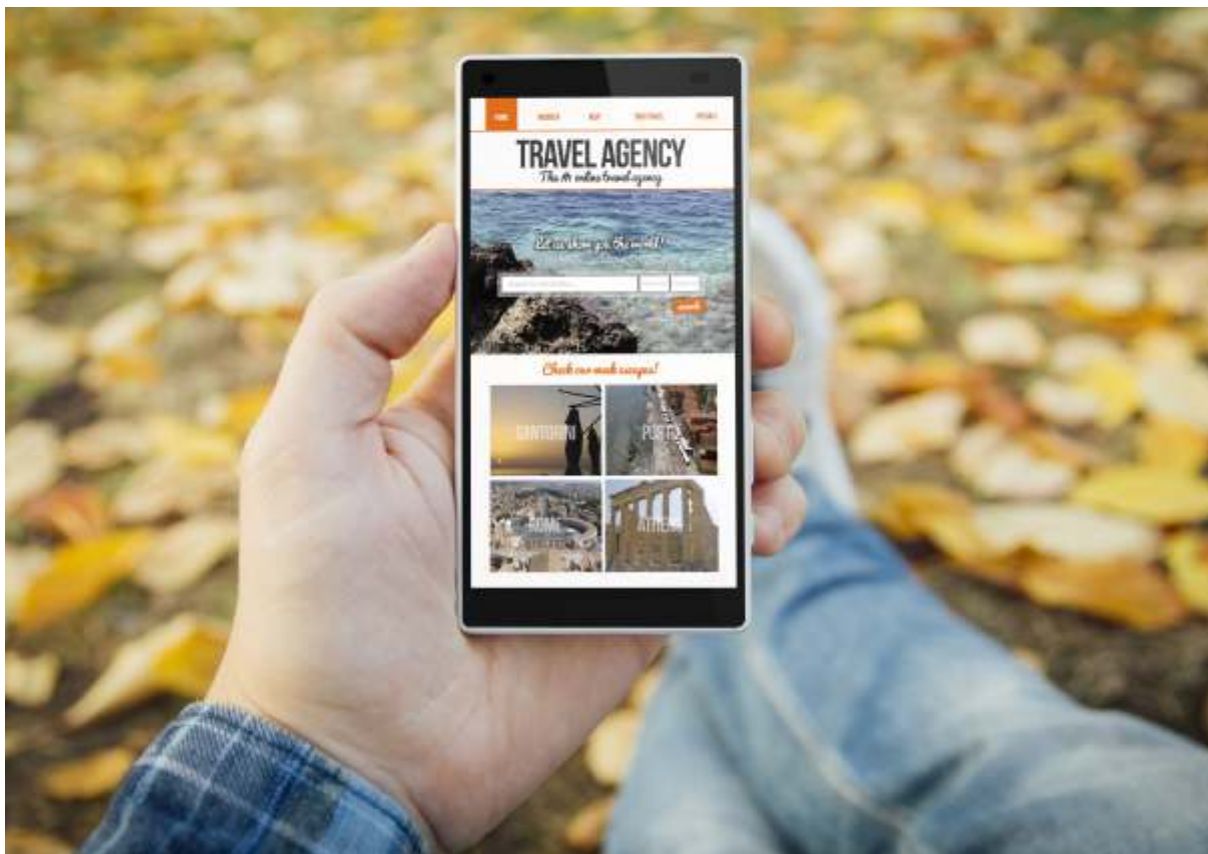
Exhibit 23

App Quality Index for Airlines, 2016

■ AVG　　■ ANDROID　　■ IOS

	AVG	Poor	Fair	Good	Excellent	Winning	Android Reviews	IOS Reviews
Alaska Airlines	83.5						6,558	3,687
Turkish Airlines	53.5						481	109
British Airways	51.0						3,811	558
JetBlue Airways	43.5						2,685	3,086
Lufthansa	40.5						856	741
Qatar Airways	39.5						823	119
United Airlines	36.5						5,426	2,836
Delta Air Lines	35.5						6,920	5,228
Air France	31.5						183	106
Singapore Airlines	31.0						934	130
KLM	30.5						839	119
Emirates	30.5						623	107
American Airlines	28.5						3,305	3,945
Air Canada	27.5						197	83
Southwest Airlines	25.5						5,664	5,215
FrontierAirlines	21.5						124	76
Jet Airways	19.0						3,075	36
RyanAir	17.0						3,236	79
Hawaiian Airlines	13.5						197	275
Aer Lingus	12.5						978	68

0　10　20　30　40　50　60　70　80　90　100

Source: Applause Mobile Sentiment Analysis, May 2016

As discussed in a Credit Suisse Digital Distribution Seminar (November 2014), an average smartphone user has around 26 apps on his/her device but actively uses just 10. The rest are hardly ever used. 29 per cent of apps are downloaded and used only once. WNS DecisionPoint™ survey results also reveal that although 57 per cent of OTA customers have downloaded an OTA mobile app, only 42 per cent use it at least once a year (Exhibit 24). The figures look somewhat encouraging as far as multiple OTA app downloads and frequency of use are concerned (Exhibits 25 and 26).
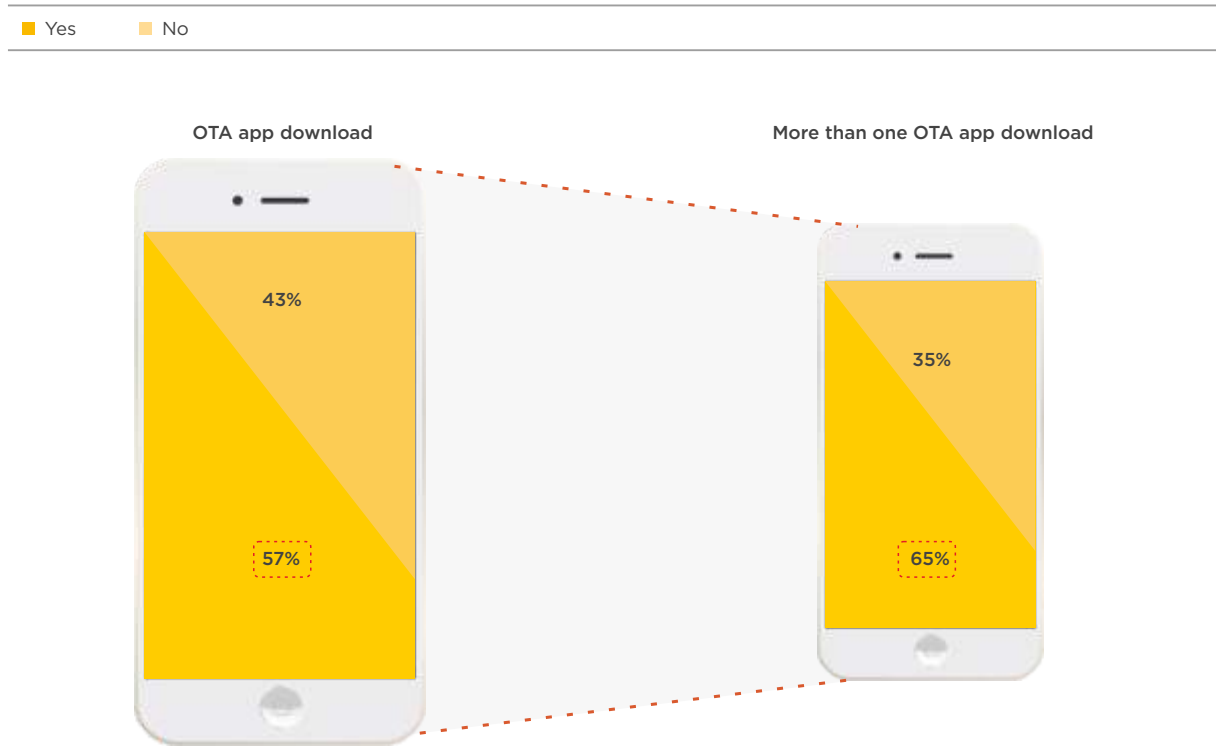
Exhibit 24

Gap between Download and Use of OTA Apps

■ OTA app download　　　　　　　　　　　　　■ OTA app use

Region	OTA app download	OTA app use
APAC	77%	62%
Western Europe	47%	34%
NAM	53%	36%
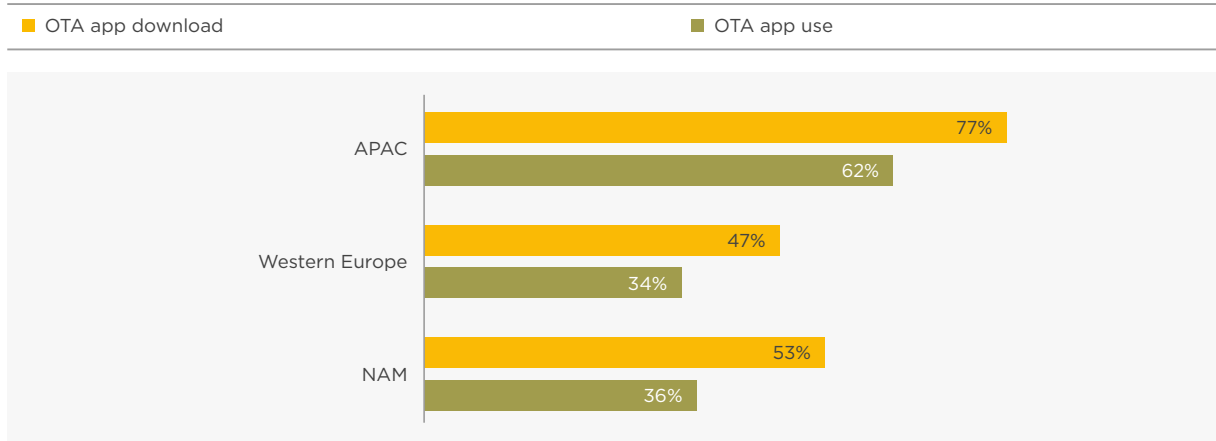
Source: WNS DecisionPoint™ Survey

Exhibit 25

OTA App Download Trends

■ Yes　　■ No

OTA app download

43%

57%

More than one OTA app download

35%

65%

Source: WNS DecisionPoint™ Survey

Exhibit 26

Frequency of OTA App Use

■ Overall   ■ User of flight and hotel products only   ■ User of non-flight and non-hotel products

Once a month or more
- 39%
- 32%
- 42%

Once a quarter
- 34%
- 41%
- 32%

Twice or thrice a year
- 21%
- 23%
- 20%

Once a year
- 4%
- 4%
- 4%
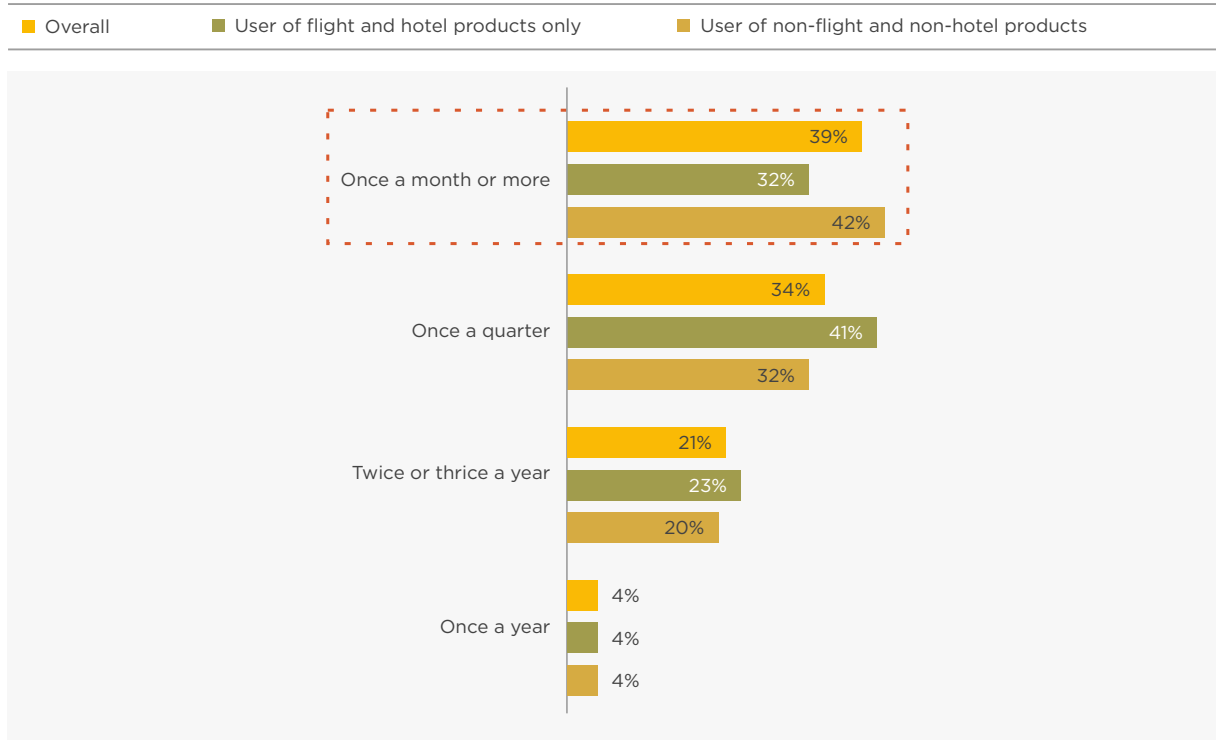
Source: WNS DecisionPoint™ Survey

Monthly usage rate of OTA mobile apps is much higher for those purchasing non-flight and non-hotel products as well.

It was also interesting to note that 59 per cent of OTA users, who had downloaded the app, said they did so to get an app-specific discount or offer (Exhibit 27). However, the top two perceived advantages of OTA apps were getting instant updates and ease of use (Exhibit 28).

Exhibit 27

Discount as a Motivation Factor for OTA App Download

■ Yes   ■ No

41%

59%
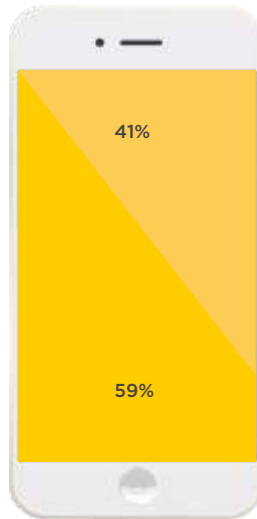
Source: WNS DecisionPoint™ Survey

Exhibit 28

Perceived Advantage of OTA Apps

Avail of app specific discounts	38%
Get instant updates	52%
Ease of use	52%
Quicker to complete a search and booking	23%
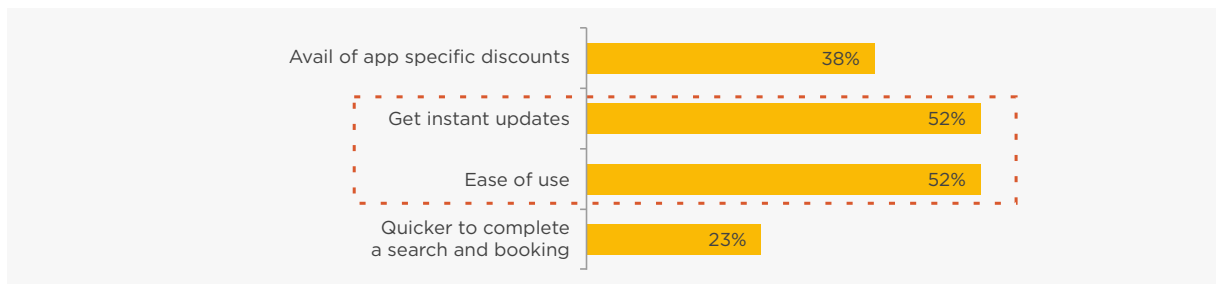
Source: WNS DecisionPoint™ Survey

Thus, offering discounts do work as a stimulus for initial app download, but for sustained use, customer engagement via instant updates, ease of use and intuitive functionality should play a more critical role.

To promote the use of OTA apps, some existing challenges need to be taken into consideration. **WNS DecisionPoint™ studied ~500 reviews of OTA mobile apps listed on the Google Play website and came across 80 negative**

responses. The top complaint at 20 per cent was 'Bundle/Package option not available'. This highlights our earlier point that bundling offers effectively will be an essential differentiator for the OTAs.

Exhibit 29

Top Complaints with OTA Apps

- Bundle/package option not available
- Itinerary not shown properly
- Navigation problem
- Limited search/selection features
- Crashes frequently
- Other
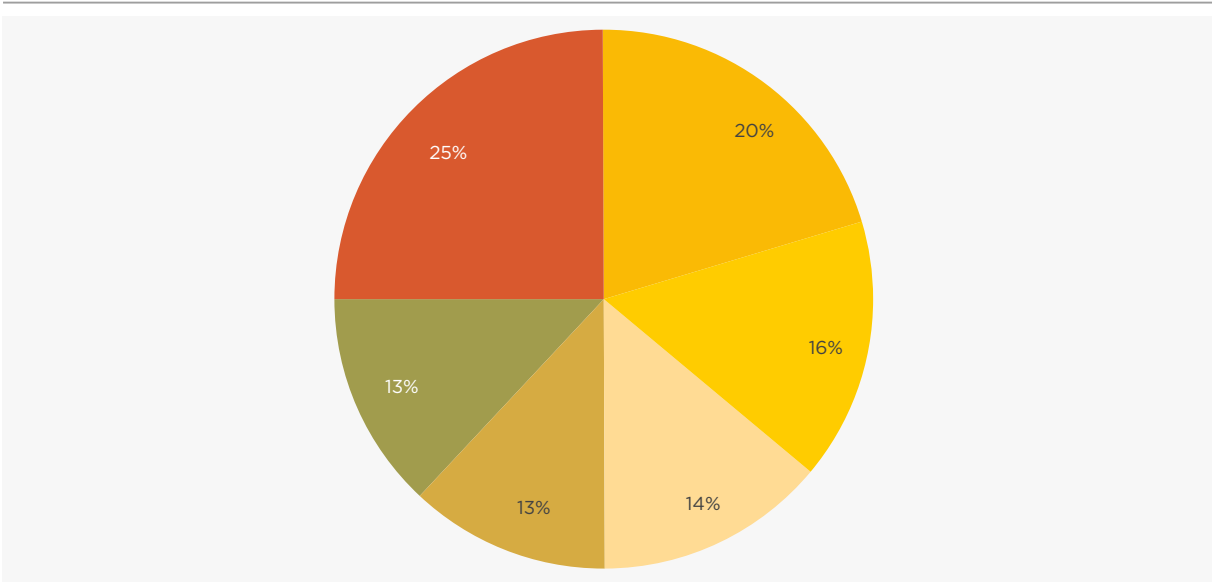
Source: Google Play Website, WNS DecisionPoint™ Survey

Another challenge lies in the adoption of mobile as a booking device for travel. This is still far below laptops and desktops. The survey figures exhibit reveal a huge contrast even while comparing browsing vs. booking activity within the mobile user segment.

Exhibit 30

Device Usage for Browsing Travel Options and Booking Travel Products

- Browsing
- Booking/Purchasing

Device	Browsing	Booking/Purchasing
Desktop	21%	25%
Laptop	46%	52%
Tablet	9%	10%
Mobile	24%	14%
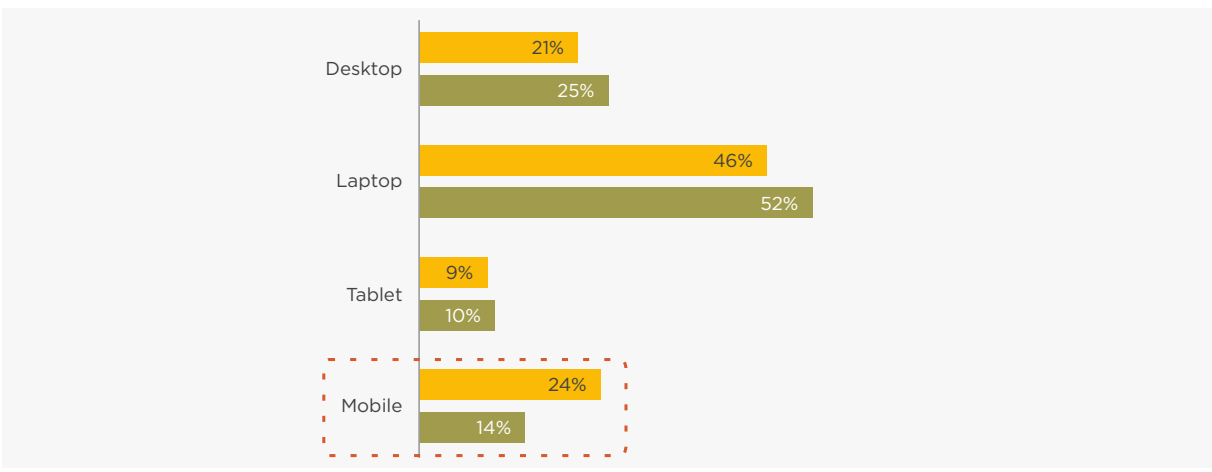
Source: WNS DecisionPoint™ Survey

A look into all the OTA app users' responses on whether they use

mobile apps for browsing only or also for completing the booking

transaction points towards a need for huge improvement (Exhibit 31).

Exhibit 31

Inhibitors for not using OTA App for the Complete Booking Procedure

■ Only Browsing   ■ Browsing & Booking

OTA App Use — 40% / 60%

Don't undertake financial transactions on mobile device due to security concers	45%
Not all features available on the website are present in the app	53%
User interface not convenient and intuitive enough	36%
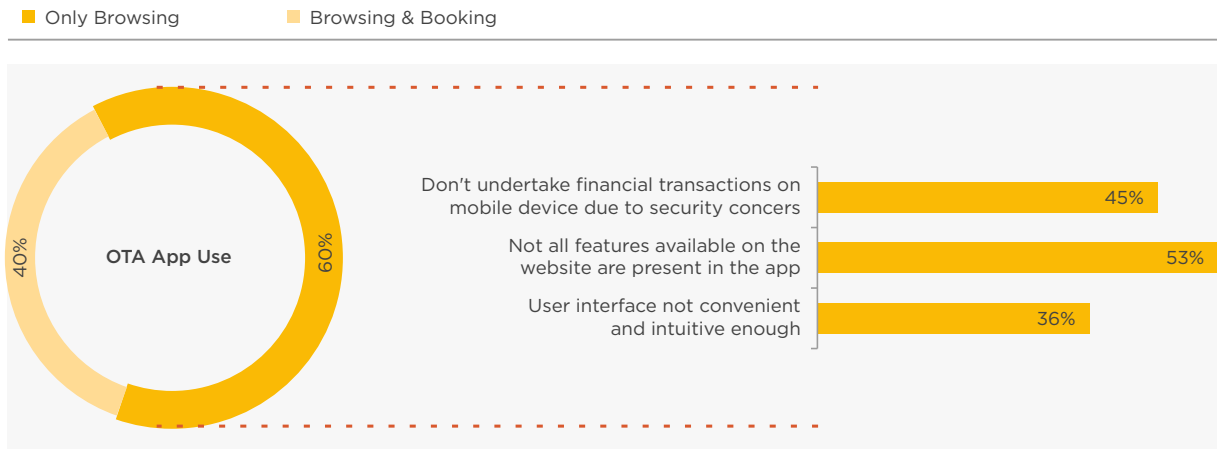
Source: WNS DecisionPoint™ Survey

More than half of OTA app users say that not all features available on desktop websites are present in the apps. Redesigning the apps to create a more comprehensive and robust set of features can enhance the user experience. An indicative set of such user-friendly functionalities and features are given below:

- Bundled packages available on apps

- Choice of accessing travel itineraries offline

- Ease of navigation

- Lite versions of apps

Also, some efforts towards **creating awareness of the security aspects of mobile transactions** through innovative pop-up messages might help generate confidence among app users and encourage them to go ahead with the full booking procedure.

Given the wider scope of OTA apps usage vs. individual hotel or airline apps, this is a channel where OTAs

can have a distinct advantage over hotels and airlines. Further, designing an OTA app so that a traveler can use it as a one-stop travel solution should yield positive results in terms of bookings. Post the consolidation phase, the **bigger OTA brands can work on making products of subsidiary brands available as part of a single app.** This will not only broaden the coverage and increase the per-person-revenue potential, but also bolster the frequency of app use.

LOYALTY PROGRAMS

More than half (52 per cent) of OTA loyalty program members recognize the value addition provided by OTAs, compared to just 39 per cent of users who are not a part of any OTA loyalty program. More so, in the context of direct push by hotels, lucrative loyalty programs become a necessity to counter the hotel loyalty programs, which are the major tools aiding the direct booking strategy.

Hotels are established players with a long history in the loyalty landscape when compared to OTAs. Major hotel and airline loyalty programs have existed for the last two to three decades. Most of the OTAs, on the other hand, started their loyalty programs just a few years back. As seen below, they have a long way to go in terms of loyalty program adoption in contrast to hotels and airlines.

Exhibit 32

Loyalty Program Penetration

OTA	28%
Hotel	50%
Airline	56%
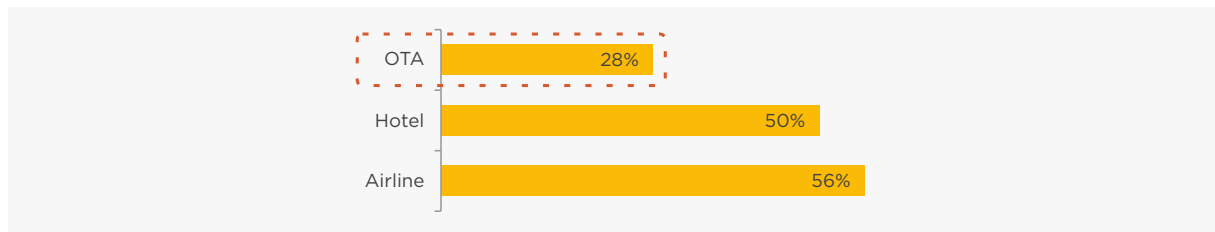
Source: WNS DecisionPoint™ Survey

The current limitation of OTA loyalty programs is that they mainly offer discounts and encourage price-centric customer behavior. Some are simply tied to credit cards and limited in terms of geographies. However, OTAs have some distinct advantages, which can be used in their favor to nurture their relationships with loyalty members.

Wider product portfolio offers wider redemption options. A quicker redemption cycle is possible, as members can collect and redeem points irrespective of the travel brand. In the case of hotels, travelers need to stick to the same or associated brands to accumulate or redeem points. This is more lucrative for leisure travelers, who form the bulk of the OTA user segment.

OTAs possess an enormous amount of data on the detailed purchasing trends and buying behavior of travelers, spanning travel products such as hotels, flights, car rentals, holiday activities, etc. Application of sophisticated analytics techniques can reveal patterns, which can aid the design of relevant and new loyalty programs that are more evolved than today's cookie-cutter schemes. A lot of ideas can be generated by closely studying hotel and airline loyalty. For example, leading OTA players undergoing a series of mergers and acquisitions can take a page out of Marriott's book by studying the way Starwood Preferred Guest (SPG) and Marriott Rewards were merged post the acquisition of Starwood by Marriott. SPG members can now opt to link their account with Marriott Rewards while retaining their membership tier in both programs. The two programs will operate independently till 2018, after which they will be combined into a new program. As of today, the two programs together have about 85 million members.

Programs can be designed in a manner so as to encourage redemption across the various subsidiaries of major OTAs. This lets the guests explore the wide array of services provided by a plethora of brands. However, while OTAs may have an upper hand in offering more redemption options, hotel loyalty programs have a natural advantage in terms of the experience provided to members. Being travel suppliers themselves, it is more convenient for hotels to offer experience-centric

perks such as late check out, complimentary drinks, spa discounts, etc. Making deals with independent hotels (with limited distribution capabilities of their own) to drive up customer loyalty is an option, which can add to the experience aspect of OTA loyalty programs.

It is also wise to **keep looking for partnering opportunities** such as Expedia recently did. The OTA giant

has introduced a provision for displaying discounted loyalty rates next to standard rates and is promoting the hotel's loyalty programs. The first hotel brand to enter in this arrangement is Red Lion Hotels Corporation, operating in the USA and Canada.

Higher adoption of loyalty programs can also work in favor of the frequency of app use and vice versa.

Currently, OTAs seem to be doing better than hotels and airlines in terms of smooth redemption of loyalty points on mobile apps (Exhibit 33). They are also encouraging app use by providing extra loyalty benefits for app users (Exhibit 34).

Exhibit 33
Ability to Conveniently Redeem Loyalty Points on App

■ Yes   ■ No

	OTA	Hotel	Airline
No	14%	21%	28%
Yes	86%	79%	72%
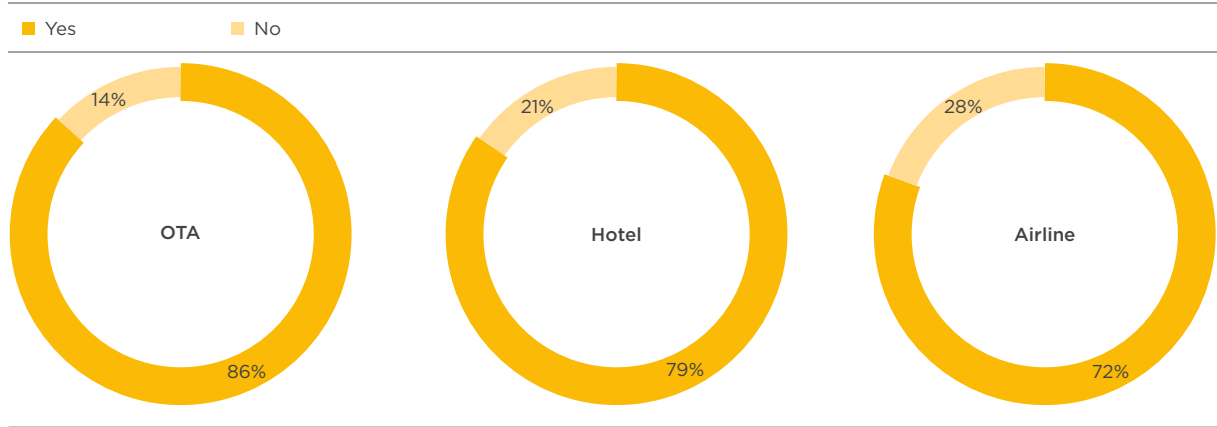
Source: WNS DecisionPoint™ Survey

Exhibit 34
Extra Loyalty Benefits for Using App

■ Yes   ■ No

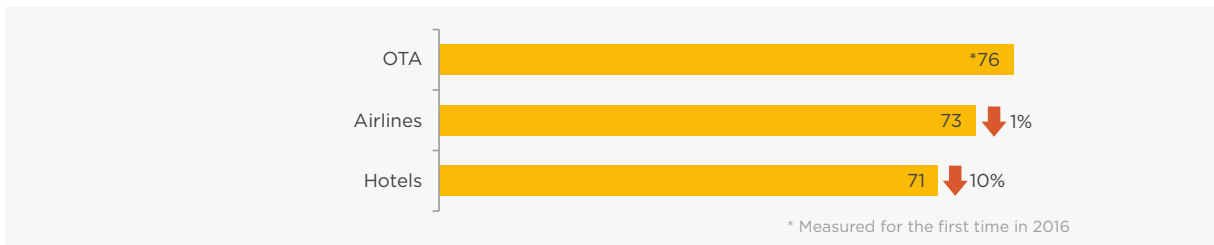|	OTA	Hotel	Airline
No	32%	49%	57%
Yes	68%	51%	43%
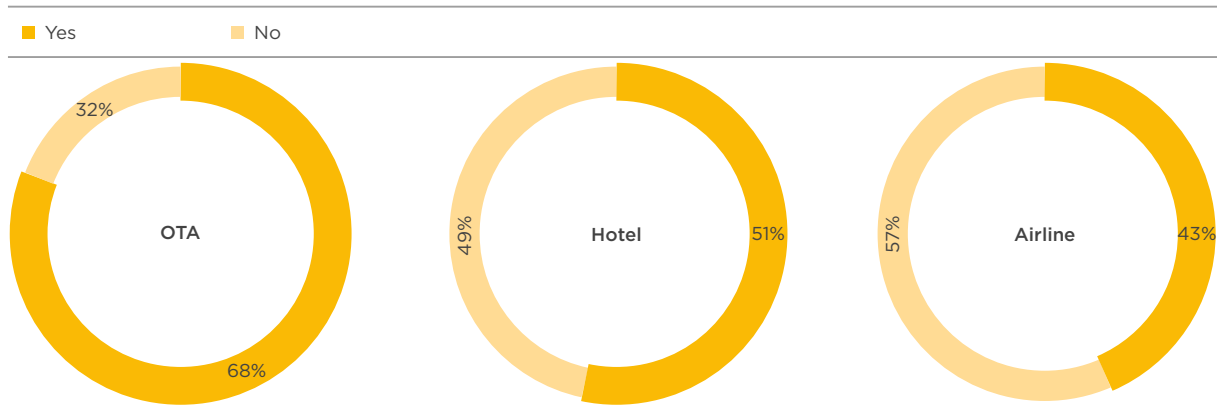
Source: WNS DecisionPoint™ Survey

According to the American Customer Satisfaction Index (ACSI) figures released in 2016 (Exhibit 35), OTAs fare better than hotels and airlines on the loyalty program front.

Exhibit 35

ACSI Loyalty Program Satisfaction (2016)

OTA		*76
Airlines	73	⬇ 1%
Hotels	71	⬇ 10%

* Measured for the first time in 2016

Source: Credit Suisse estimates

OTAs seem to have recognized the need for an extra push on loyalty.

However, being late entrants, they have a long way to go, judging by market penetration and adoption rate (Exhibit 32).

CONCLUSION

Customer engagement is a key requirement in an environment where travelers are regularly flooded with emerging alternatives in the travel intermediary space. Bundled packages, mobile apps and loyalty programs can be used as tools to effectively identify and augment the most loyal segment. These interconnected elements can be woven into a strategy to boost customer engagement and secure a distinctive space in the traveler's mind and wallet.

Building customized bundled packages and marketing campaigns through apps, along with working towards higher adoption of loyalty programs, should be the key strategy.

Going by what we saw earlier in Exhibit 6, this strategy will work well in the more mature markets such as Western Europe and North America.

While APAC is an exception, where bundled packages, mobile apps and loyalty programs do not necessarily enhance customer perception of OTAs' role, the user segment from this region is technology-savvy and the most receptive to OTA platforms and products. However, it is also the most price-sensitive market and needs a value-for-money positioning through combo deals and interlinked discounts. For example, offering extra loyalty points for the use of bundled packages and app-specific discounts.

In the long run, as the emerging markets mature, the following differentiation roadmap has the potential to be a successful framework at a global level.

1. Build customizable bundled packages

2. Promote packages with special focus on mobile apps

3. Boost the above steps further through bonus points in loyalty programs

About DecisionPoint

Making key decisions that improve business performance requires more than simple insights. It takes deep data discovery and a keen problem solving approach to think beyond the obvious. As a business leader, you ought to have access to information most relevant to you that helps you anticipate potential business headwinds and craft strategies which can turn challenges into opportunities finally leading to favorable business outcomes.

WNS DecisionPoint™, a one-of-its kind thought leadership platform tracks industry segments served by WNS and presents thought-provoking original perspectives based on rigorous data analysis and custom research studies. Coupling empirical data analysis with practical ideas around the application of analytics, disruptive technologies, next-gen customer experience, process transformation and business model innovation; we aim to arm you with decision support frameworks based on points of fact. Drawing on our experience of working with 200+ clients around the world in key industry verticals, and knowledge collaboration with carefully selected partners, including Knowledge@Wharton, each research asset draws on "points of fact" to come up with actionable insights which enables 'bringing the future forward'.

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