LEVERAGING CUSTOMER ANALYTICS: HOTELS AND TRAVEL AGENCIES

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In the era of Big Data, businesses must be smart about how they deploy analytics tools to derive deeply valuable insights about their customers. In this video, Knowledge@Wharton spoke with Wharton professor and analytics expert Peter Fader and Raj Sivakumar, head of the travel, technology and strategy unit at WNS, a global business process management company, to discuss the role analytics plays in travel agencies and the hotel industry.

An edited transcript of the conversation follows.

What are travel agencies, both traditional and online, doing now in analytics to understand their customers better? And what business opportunity does this represent?

Raj Sivakumar:Travel agencies and large intermediaries such as OTAs [online travel agencies] are becoming increasingly savvy at applying customer analytics to enhance their own business, as well as enhance the customer experience. Just to give you an example: Everything starts with the data collection. And they're getting increasingly good at knowing their customer, knowing their customer's profile, where they're booking from, and certainly, the advances in the geolocation and such is helping the process as well. The result is that data collection is becoming richer. They're able to collect [information on the customer's uncompleted] booking process before they walked away. Did they just look for something? Did they go all the way up to the payment screen and then they walked away? So you have all of this rich data about customers and how far they went in their booking process.

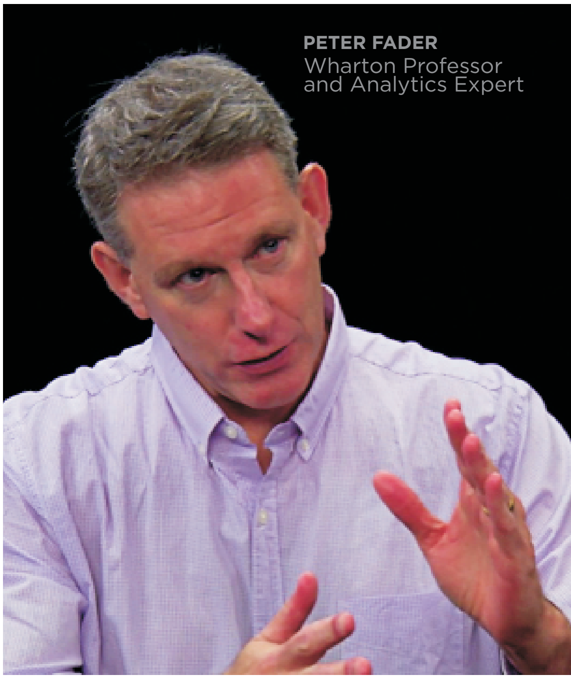
The OTAs and the travel agents have an advantage that even the airlines don't, and that is, they're able to understand the entire ecosystem of customers' travel. As an example, if you go to a large OTA nowadays you can either just book a flight or book a flight and a hotel, book a flight and hotel and car rental, etc. They have this rich area of information from the customer on what class of customers would rather just travel and what caused them to book a hotel, what caused them to book a car rental or any combination of that.

So again, the data collection is getting bigger and better. And they're starting to use that data to target customers with specific offers. All of us have seen this, with the large OTAs in particular. We get offers: Do this and you'll get this for free, whatever the case may be. And they're getting better at that. They're getting better at analyzing the data. They're getting better at target offerings for the customers. And that's fantastic.

Peter Fader: They are so smart. It's amazing. They're not just out there getting more data. They're not just capturing every click, but they're really understanding what it means. It's almost [going] inside the consumer's head to see the process they're following. So it's not just how many clicks until they book or they leave, but it's understanding for which kinds of customers do we want to sort, say, the different hotel options on the basis of price, or on the basis of stars, or on the basis of social recommendations?

So after you've made a few bookings or even just [bringing] business to the site, we know how to serve up the information for you and other customers like you. We know how many results we should be showing. Some people get overwhelmed if they see more than five. Other people would like to see more options. We know which sort order to use. We know which filters to have on the left side.

The idea of customizing the experience, not just the overall travel experience itself, but the experience that leads to the travel, I think, has been one area where the OTAs have been way out there on the leading edge. And it's been great to see, among other things, the way that they've embraced a lot of academic work in order to run experiments and do the right kinds of data optimization and so on to become smarter about it. I think the best is yet to come.



What are some best practices that hotels and OTAs need to follow in your opinion?

Raj Sivakumar: I think OTAs have an incredible opportunity to understand unconstrained customer behavior. When you look at the airlines, for example, all the airline gets to see is the flown pattern, if I can say that. What the hotels get to see is what led the customer to make a decision whether to book or not to book. And with that opportunity also comes a responsibility on the part of the hotels as to how do they maximize -- for their own goals, as well as for the customer's benefit -- the value that they provide to the customer in terms of targeting the customer with the right offer, offering the customer the right value, and perhaps even partnering with the airline to enhance the experience for the customer. This is advanced [customer analytics] and clearly, we're not there yet. And unfortunately, in a lot of instances, there's a bit of an adversarial relationship among the different players in the ecosystem as well. But given that the OTAs are at the fulcrum where they're able to get an advantageous view of a customer from multiple components of the travel ecosystem, they truly have an opportunity to put all of these pieces together and be a leader when it comes to understanding the customer and prescribing to the other players in the ecosystem what could be done to increase the value for everybody.

Fader: I just want to add one word to what Raj said, and that's experimentation. The OTAs are facing so many different sources of variability, so many different options that a customer might want to see. But that creates an opportunity. So let's go out there and vary different offers. Let's go out there and vary the look and feel of the website. Let's go out there and vary, as I said a moment ago, the way that we sort the different options that are more available to the customer. Let's do this in a systematic way. Let's have control groups. Let's not only run this experiment today, but let's think about, based on the result of this experiment, what experiments are we going to run next? So we see a lot of leading edge work there in order to really embrace all of that variability.

And as Raj said, to not only do a better job for themselves, but then become even more of a thought leader throughout the entire ecosystem to pass some of that knowledge to some of the partners that they work with.

Travelers like to compare prices online, but when it comes to actually making a booking, they tend to go with the companies where they have loyalty programs. What can OTAs do to enhance their customer bookings?

Fader: This has been one of the most fascinating and one of the most well-cited papers that I've ever written, a paper that I wrote, goodness, 15 years ago when all of this was just starting, when the whole internet thing was just taking shape and we were throwing around words like hyper-competition, frictionless commerce, disintermediation. And we figured that by, say, 2016 or 2017, everyone would be pricing at cost. But that's not the case.

One of the things that we observed is that there's much less search going on than there should be. If people were rational, if markets were efficient, then customers would be searching every possible option to find the best price. But we find out that there's a lot more stickiness in the system. And here's the question, why do we have that stickiness? Is it because the loyalty programs exist? Is it because of true loyalty that a lot of customers feel that they just can't abandon certain OTAs or travel providers? Is it laziness?

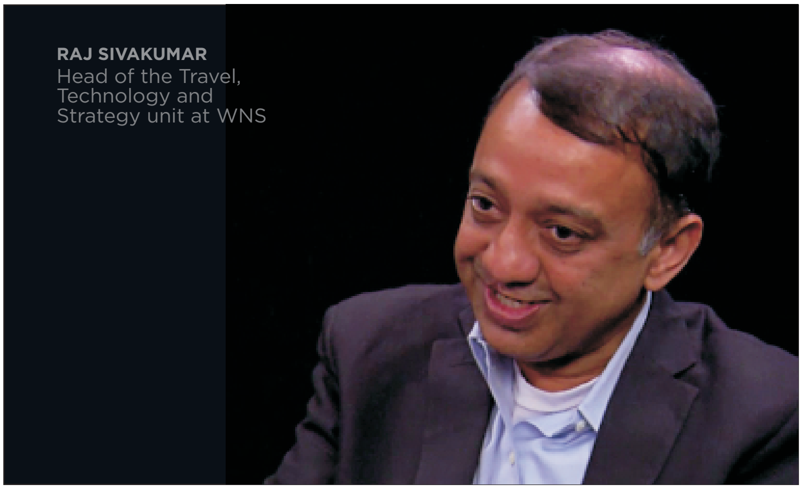
There's a lot of different reasons why. And that's part of the research that I do, is to try to sort out in which cases is it true loyalty or is it that you feel held hostage because you've accumulated so many points and you'd better stay there? Is it in some cases just laziness and I found an offer, it's good enough, I'm moving on?

[The goal is] to understand those sources of stickiness and how it's going to vary from different kinds of customers, and then very importantly, how it is that companies can both create it and leverage it, to understand that the people aren't going to search so broadly, and so maybe we don't have to compete on price. Maybe we can compete more on service and selection and quality and convenience, that price is, as Raj likes to say, just a trade-off attribute. It's not even necessarily the one attribute.

So in a weird way, if we can be a true trusted advisor to the customer, then search is a bad thing. We want them to search less. We want them to know that they're going to get a pretty good deal, not just on this trip, but we're going to surround them with a variety of other products and services. Search is just the tip of the iceberg about all of this stuff that we call customer centricity. And some of the strange surprising results that we've seen for it, I think, shows the power of loyalty and customer centricity.

Sivakumar: At the end of the day, the customers are going to go through each step of their transaction where they see the value. Clearly, they come to the OTAs because they see the value in shopping. And they take the effort of going to an airline website to make the booking because they see some value in doing that part of the transaction despite the additional effort that is involved. Like I said before, they are the fulcrum where these different components of the travel ecosystem come together. And it is incumbent upon the OTAs to make sure that the value is generated all the way through the transaction and not just for search purposes.

Also, the act of moving towards an airline for booking is geographic. A lot of this happens in North America, but whereas when you look at Asia and certainly Europe, the transaction is completed on the OTA site. And it goes back to understanding the customer. At the end of the day, why is the customer in North America going to an airline to complete their transaction? Why is the customer in Asia and Europe perhaps staying in their OTA? So the data is available. It's up to the right people to do the right kind of analysis to answer the question.



RAJ SIVAKUMAR
Head of the Travel, Technology and Strategy unit at WNS

Hotel chains would like to maximize their marketing return on investment through analytics. How can they use analytics to manage loyalty tiers more effectively?

Fader: For me, it starts with customer lifetime value. In the old days, before we had the data, before we had the analytical capabilities, it was, 'here is a guest, let's just figure out what's the right thing for the guest.' And they were faceless, nameless, undifferentiated entities. But today, based on collecting good data, on having really good CRM systems and the ability to draw insights from them, we can [find our most valuable] customers. Using analytics like customer lifetime value, we can project how much more value they [will yield in the future] and we can start to treat them a little bit differently -- maybe have a different line for check in, put them on a different floor, give them different kinds of services or maybe even be a touch more responsive to them than we'd be for other customers.

There are a lot of industries that have been hesitant to do that. They didn't believe that they could really see the difference across customers. And they also thought that it would be both too difficult, too expensive, there would be too much of a backlash if they treated different customers differently. But we're starting to see hotels embrace these ideas quite well and to recognize that there really are different tiers of customers, not on the basis of demographics, but on the basis of genuine value. And so, to embrace that more and more, and build the business around those differences across the customers is the real path to the future. And they're off to a good start.

Sivakumar: The hotel loyalty programs have an even higher possibility for success than airline loyalty programs, if you think about it, for a couple of different reasons. Because of the nature of the business, hotels have an opportunity to create even more of an emotional bond with the customers, as opposed to just an airline, because the only thing that happens in an airline is, you sit in the seat and go from point A to point B.

Secondly, the hotels, unlike the airlines, have multiple brands. So depending on the travel needs of the customer, they're able to say, we can target you with specific offers on the specific brand for a specific location. The opportunity is there. And the concept behind the loyalty program is the same everywhere: It increases the stickiness and it also gives you a higher share of the wallet. If the hotels can tap this right, they have an incredibly rich possibility of leveraging even more out of the loyalty programs than what the airlines do. And they're starting to do that. They have a long way to go, but the opportunity is clearly there.

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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