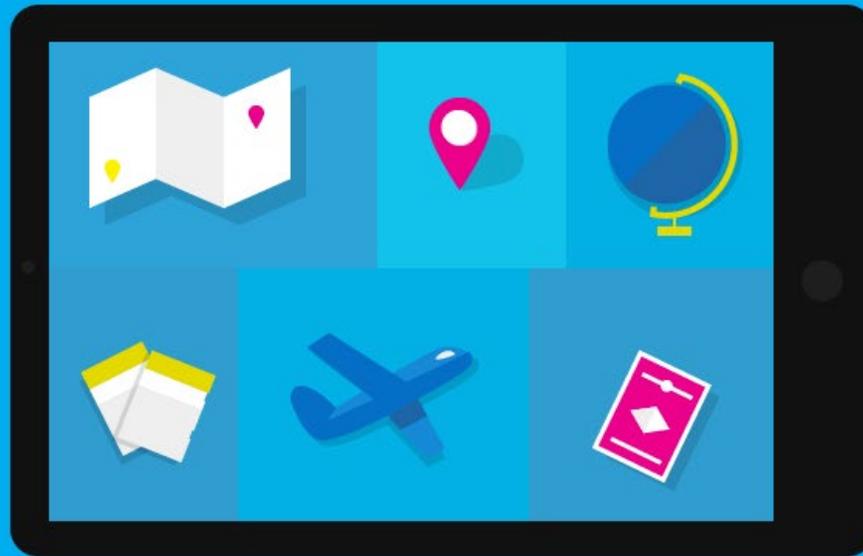


# What matters now: Travel.



Nearly a decade and a half ago the travel industry underwent major disruptions as digital technologies enabled greater price transparency, eliminated the need for most travel agents and empowered consumers to make their own travel decisions. Today the travel industry is still evolving—this time driven by mobile technologies, Millennial travelers, and increasingly pressured margins.

### Travel companies are getting ready for Millennials.

Millennials (born between 1980 and 2000) are a generation 79 million strong, larger even than the post-World War II Baby Boom generation. By 2020, Millennials will comprise more than 40 percent of the U.S. workforce, according to the Bureau of Labor Statistics. Just as they are poised to transform retail (See *What Matters Now: Retail*), they are also going to transform the \$855 billion U.S. travel and tourism industry.

This is an independent, digital-savvy cohort that is more interested in socially conscious travel than their predecessors. It's also a generation that is more globally focused than others. According to a study by Boston Consulting Group,

respondents aged 18-34 reported a stronger desire to travel abroad than other generations by a 23 percent margin. Additionally, despite a sluggish economy, travel spending by that group rose 20 percent in 2010 (American Express Business Insights).

Travel companies are getting ready for them. Luxury tour operators like Abercrombie & Kent and Butterfield & Robinson have rolled out less expensive and more informal lines of trips. These itineraries are intended to attract Millennials with greater value by offering “lighter” bundles to some of their more popular destinations. Other travel companies are appealing to Millennials with “voluntourism” opportunities to dig wells for clean water, build houses, and work with healthcare professionals to provide medical relief in underserved areas.

Likewise, companies adjacent to the travel industry are dipping their toes by appealing to Millennials' desire for authenticity. For instance, Whole Foods recently introduced a new travel venture, *Whole Journeys*. The trips are focused on tying travel to authentic food experiences, including a Turkish food festival, a bike tour of Italy, and a horse-led caravan in China.

Last, traveling like a local is a priority for Millennials. They tend to disdain staying at sequestered resorts or overly touristy areas, and would rather explore new locations the same way locals would.

**Key Takeaway:** Authenticity is the watchword for the next generation of travelers. Travel companies that want to appeal to the Millennial generation need to offer experiences that provide global, socially conscious perspectives. Additionally, Millennials are *hard to target* through traditional marketing channels, but tend to respond better to lifestyle content. A robust content marketing program is crucial to communicating with this demographic.



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### The sharing economy expands beyond lodging.

Airbnb proved the potential of the peer-to-peer model (also sometimes referred to as “collaborative consumption”) for accommodations in travel. The idea of short-term rentals for vacation homes was established long ago by the timeshare industry. Airbnb pioneered the concept of regular people opening up their primary residence to complete strangers to rent. Online communities drive consumer connections and also act as a safeguard, allowing trust to blossom between strangers. They allow the peer-to-peer model to scale globally and now into other corners of the travel industry.

There is an upsurge in peer-to-peer travel startups focused on everything from car rentals to tour guides. Car sharing companies [RelayRides](#) and [Getaround](#) allow car owners to rent their vehicles to other drivers. [Spinlister](#) lets neighbors rent bikes from other neighbors.

[Lyft](#) is a newer entrant into the on-demand ridesharing market. And [SideCar](#) is a new entry in San Francisco and Seattle that encourages “regular” drivers to pick up people who want a ride. Even tour guides have entered the digital age. Startup [Vayable](#) matches travelers with local experts who can take them on an insider’s tour of their town.

Airbnb is facing competition of its own from new players [Portico](#) and [Inspirato](#) (the latter has partnered with American Express), who are targeting upscale homeowners and travelers with fee-based memberships.

Not surprisingly, there has been a flood of venture capital funding these startups, and even acquisitions as the sharing economy goes mainstream, such as the recent buyout of [ZipCar](#) by Avis. As they grow, these startups risk losing the “soft” factors—sustainability, social interaction, civic awareness—that made them successful in the first place.

**Key Takeaway:** There is a land grab occurring as companies in the sharing economy race to acquire not just customers but also communities of homeowners, car owners, and service providers. For an established travel player attempting to launch a service that draws upon the sharing economy, an understanding of consumer motivations such as a sense of self-efficacy and community participation is critical.

### Paper becomes passé.

Paper tickets are on the way out. Apple’s Passbook allowed users to store boarding passes and tickets on their phone. It was quickly embraced by major airlines including United,

American and Delta, as well as hotel groups such as Starwood and rail operator Amtrak.

Consumers aren’t just storing their boarding passes on their phones. They are also transacting via mobile. According to [comScore](#), nearly 40 million U.S. consumers accessed travel sites or apps from their smartphones in July 2012, representing more than a third of total smartphone users. The potential for growth is significant. According to [eMarketer](#), there will be 73 million people researching travel via their smartphone by 2016, and 36 million people booking their travel directly from their smartphones.



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# 40 million

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While mobile technologies can streamline parts of the travel experience, like booking travel, planning itineraries, and expensing business charges, travelers want more. Hotels and other travel-related companies are beginning to roll out mobile check-in and checkout services, discounts for travelers, and traveler requests for room service and house-keeping. Disneyland's app features additional features like character "meet and greet" schedules, dining options, and weather forecasts.

To differentiate in this market, travel companies need to dig into their analytics to understand the usage patterns and preferences of the mobile user. This requires not looking just at booking behavior but also how audiences consume content.

**Key Takeaway:** The growth of mobile has a significant impact on design for travel apps and websites. Emphasizing simple and fast booking as well as search tools is crucial, as is offering mobile-exclusive discounts and promotions.

### **Yield management goes mobile, too.**

Yield management, or the science of optimizing pricing based on inventory availability and demand forecasts, has been a cornerstone of the travel industry's profitability. Initially pioneered by the airlines 30 years ago, the science has moved to other facets of the industry including hotels.

Last minute travel deals are one way the industry has used technology to manage inventory. Smartphones have accelerated this trend. **HotelTonight** is an app with a singular purpose: book last minute, same-day hotels in the city a user is in. Unlike the airline industry that raises prices closer to departure, hotels tend to greatly reduce room rates for same-day booking. Starting at noon, the app offers deeply discounted rates in the user's preferred city at carefully curated hotels catering to business travelers.

The app's success has inspired copycats. Priceline has already launched "Tonight-Only" hotel deals and in Europe, **Hot Hotels** and **Blink** are just two of the apps that mimic the HotelTonight model.

The benefit to travelers is obvious: If they are stuck in a meeting and miss a flight, these apps offer a simple, inexpensive way to book a room. For hotels it offers another opportunity for yield management, a way for them to sell unreserved rooms. HotelTonight and the others get a commission from the hotels for every successful booking for minimizing the financial risk and act as deal aggregators for users.

**Key Takeaway:** Revenue managers need to consider emerging opportunities for yield management. While some hotels are concerned that consumers will learn to wait until the last minute to book a room, rendering advanced

purchase rates less relevant, the great majority of travelers will continue to book in advance. Same-day bookings are sources of incremental revenue and potentially new customer types. Hotels have an opportunity to maximize their revenue by selling distressed inventory at the last minute but need to ensure they can match the offer on their own booking engines and competing channels.

### **Navigation is about more than mapping.**

In the mobile ecosystem, location is king. With mobile phones now helping consumers choose a restaurant, figure out the best route downtown, or find the cheapest local gas station, maps sit at the center of those apps. And the apps themselves threaten to displace traditional travel guides.

In the past, Google and Apple have been archrivals in mobile mapping, with the flawed introduction of Apple Maps helping to solidify Google's dominance. Google's recent \$1 billion acquisition of social mobile mapping app Waze suggests the company is not only battling Apple but also Facebook, which had also courted Waze.

Waze's "collective cartography" app depends on user-generated content, updating drivers in real time with traffic tips and alerts. While Google Maps are arguably the strongest navigation venture, social aspects have eluded the search giant. Israel-based startup Waze has 50 million users, bringing a

large, collaborative user base. Foursquare has already proven the value of a social map—one that allows users to see points of interest, find nearby friends, and discover deals close by.

Crowdsourced reviews and tips are playing a larger and larger role in the travel ecosystem, from finding a hotel to a nearby restaurant or park. Static travel guides risk irrelevance as users depend more on Foursquare and Yelp once they've already arrived in a new city.

Geoanalytics can reveal patterns and trends in user behavior. Overlaying real-time information including time of day, season and weather can be used to make suggestions related to these factors, such as nearby parks on a sunny weekend or movie theaters when it's cold and raining. Big Data can be used to tap community activity data to show what's popular and personalize mapping based on the user and her friends' past behavior and preferences.

**Key Takeaway:** What the mapping wars reveal is that navigation is about much more than maps—it's about Big Data. For Google and Apple, unlocking the potential of Big Data and mapping represents a massive revenue opportunity from advertising and sponsorship. For travel, hospitality and retail companies the opportunity lies in connecting with consumers in real time while they're out and about in the real world, providing them with relevant offers, coupons and incentives.

### **Travel fees are unbundling.**

Digital and mobile innovation has also introduced greater price transparency into the travel market, allowing travelers to more easily and comprehensively comparison shop to get the best deal. To combat the resulting downward pricing pressure, travel companies are unbundling fees that were once included in the overall price of a ticket or room. Airlines have been leading the way, charging separate fees for services like baggage handling, on-board Wi-Fi, priority boarding, extra leg room, and meal service. Spirit Airlines recently started charging fees for even carry-on luggage. Discount European carrier Ryanair charges occasional fees for online check-in and re-issuing airport boarding cards. As a result, airlines pocketed \$36 billion in ancillary fees in 2012 ([IdeaWorks](#)).

Hotels are not far behind, charging a la carte for services that were once part of the cost of a room. Additional housekeeping services, bathroom amenities, and even non-movie television are some of the services hotels have begun charging for separately. Within the hotel industry, allowing guests at check-in to opt out of services such as daily housekeeping is known as “decontending.” Guests are incentivized to opt out with extra loyalty points, price discounts, and food and beverage vouchers. Hotel chain Westin has already adopted this approach, as have several boutique hotels.

**Key Takeaway:** This kind of nickel-and-diming doesn't sit well with consumers. The travel industry should expect greater demands for pricing transparency (certainly from consumers, and potentially from regulators). It also opens up opportunities for startups to help consumers navigate fees before they book.

### **Travel and hospitality companies will need to work harder to build loyalty.**

Travelers have a good reason to be disillusioned with loyalty programs and switch allegiances. Rising ticket costs and booking complexity contribute to diminishing loyalty. Blackout dates, non-qualifying miles and airline consolidation add to flyer confusion and frustration. Even within tiered loyalty programs there is a widening gap between those on the top tiers and those on the bottom. Hotel chains, in an attempt to lower demand for the most expensive award redemptions in their loyalty programs, implemented award adjustments this spring that devalue their rewards.

As frequent flyer and awards programs are progressively hollowed out, the travel industry needs to shift its perception of “loyalty.” The objective of loyalty programs today is to shift or increase traveler spending, tied to incentives. Once the “deals” begin to disappear, so does consumer loyalty. But genuine loyalty is when a consumer chooses a hotel or airline even when that option costs more or is less convenient than competitors.

For travel brands, service is crucial to building loyalty. Service goes beyond interactions with employees at check-in, at the airline gate, or with room service delivery. Certainly, great customer service is a differentiator. But customer service must extend into digital channels today.

Hotel, resort and cruise operators (particularly in the luxury sector) are finding innovative ways to integrate concierge services with mobile applications, such as giving guests iPads in their rooms with preinstalled apps or encouraging them to download mobile apps to their phones. E-concierge services connect guests immediately after check-in to customer service, helping meet their needs throughout their stay and even after with post-vacation outreach. Portability is key and requires building not just customer-facing apps but integration into enterprise customer service software to help staff respond to guest requests immediately. Think mobile point-of-sale, but focused on service and social engagement rather than transactions.

**Key Takeaway:** A great customer service experience begins online—and continues through multiple digital channels. From creating a simple, easy-to-book interface to offering online meal pre-ordering to responding in real time to minor queries via Twitter, creating an outstanding service offering requires aligning digital channels with offline practices.

### **Sometimes you don't need to reinvent the wheel, just build a better wheel.**

Given the complexity of travel booking and how deeply entrenched legacy systems are in the booking process, there hasn't been much innovation in digital business models for online travel agencies in the past decade. However, several startups have shown that while business models may be slow to evolve, there is opportunity to gain traction by providing a better user experience and simpler interface for the same underlying transaction.

**Hipmunk**, a San Francisco-based venture-backed startup displays flight search results graphically by time of day on a single page. Users can sort by price, schedule or “agony”—a ranking based on the length of a flight and number of stops. Similarly, hotel searches are ranked by reviews, price or “ecstasy”—a combination of price, amenities and reviews. Hipmunk recently integrated Airbnb listings into its hotel results, making it even more of a one-stop shop for the 21st century traveler.

While Hipmunk doesn't sell tickets or book hotels itself, it makes a commission by redirecting customers to purchase their flights and hotel at Orbitz or directly from the airline or hotel. The site's strength is its ease of use. While it offers the

same basic information as its competitors, the simple graphical interface makes it easier for users to sort through complex search results.

**Tingo**, owned by TripAdvisor, brings a single innovation to the hotel booking process. Consumers can book a hotel through Tingo whenever they want, and the service will automatically re-book the reservation for a lower rate if the price drops. The traveler doesn't need to do any extra work and is notified about the new booking price, bringing greater price transparency to the process.

**Key Takeaway:** Not every successful travel innovation disrupts the entire industry. Smaller innovations in UX, design and functionality can have a profound impact both on the customer experience and revenue opportunities for travel companies.