

Appendix 2:

Online travel sales

Introduction

While it may be hard to imagine a time when all travel was booked by phone or in person, the fact is that the online travel market is barely two decades old. But unlike the early days when travel website interfaces seemed impossible to navigate and online inventory was scarce, today, convenience and content abound. Travellers from all corners of the globe now routinely turn to the Internet to plan and book their trips. Whether for air, hotel, rail, car rental, vacation packages, cruises or activities, online is mainstream. The online sales channels continue to grow and innovate and offer high levels of consumer engagement at all levels of the path to purchase.

Customers have more opportunities to dream, plan and book their trips in the ever-advancing online world. We know from Google's travel shopper research¹⁰ that travellers turn to the web early in the travel research process and the influence of friends and family is crucial. The online sales channels continue to grow and innovate and offer high levels of consumer engagement at all levels of the Path to Purchase.

According to PhoCusWright¹¹, the global landscape for online travel booking varies considerably. In some markets, almost 60 per cent of all travel bookings are made online, but that figure can be fewer than one in 10 in some countries. Overall, a third of worldwide travel sales are now made online and this should rise to 37 percent by 2015.



¹⁰ Randeau, Darlene. Webinar: Understanding Today's Travel Shopper: Learning From Google's 2014 Traveller Study, September 2014.

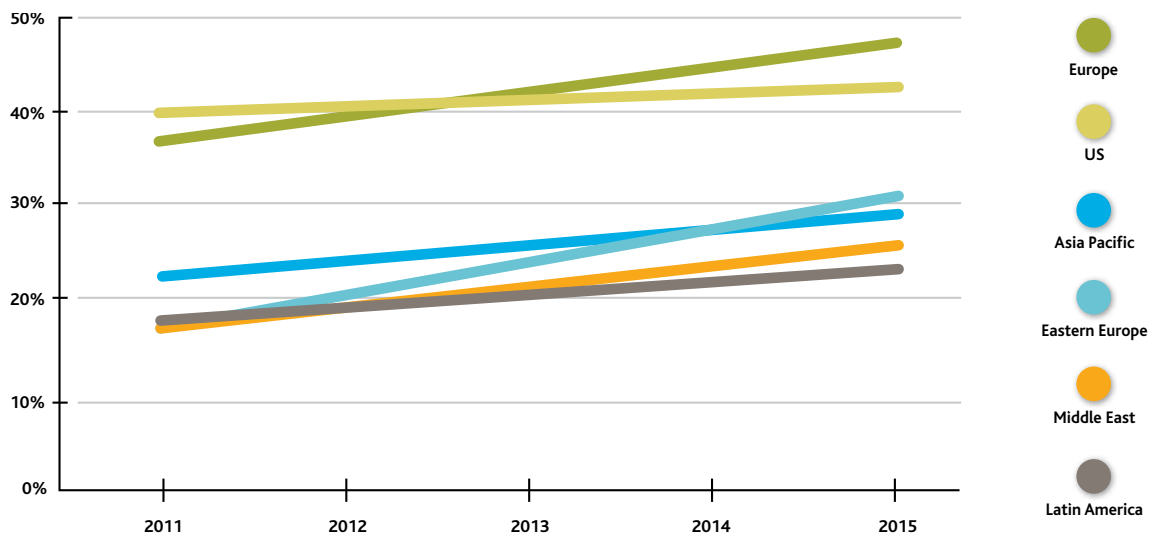
¹¹ PhocusWright, Global Online Travel Overview Third Edition, July 2014

The key findings from PhoCusWright's most recent global report, published in mid-2014, included:

- Gross bookings for the global travel industry rose 3 per cent to US\$1.2 trillion in 2013. This figure is expected to reach US\$1.3 trillion by 2015.
- Online travel sales rose by 9.2 per cent to US\$402 billion in 2013, with Europe and the US accounting for more than two thirds (despite representing just 53 per cent of total worldwide travel sales).
- More rapid sales growth is expected from emerging markets in coming years, with the online dominance of Europe and the US declining over the same period.

Figure 13

Online Travel Penetration by Region, 2011-2015



Note: 2013-2015 projected.

Source: Global Online Travel Overview Third Edition ©2014 PhoCusWright, Inc. All Rights Reserved.

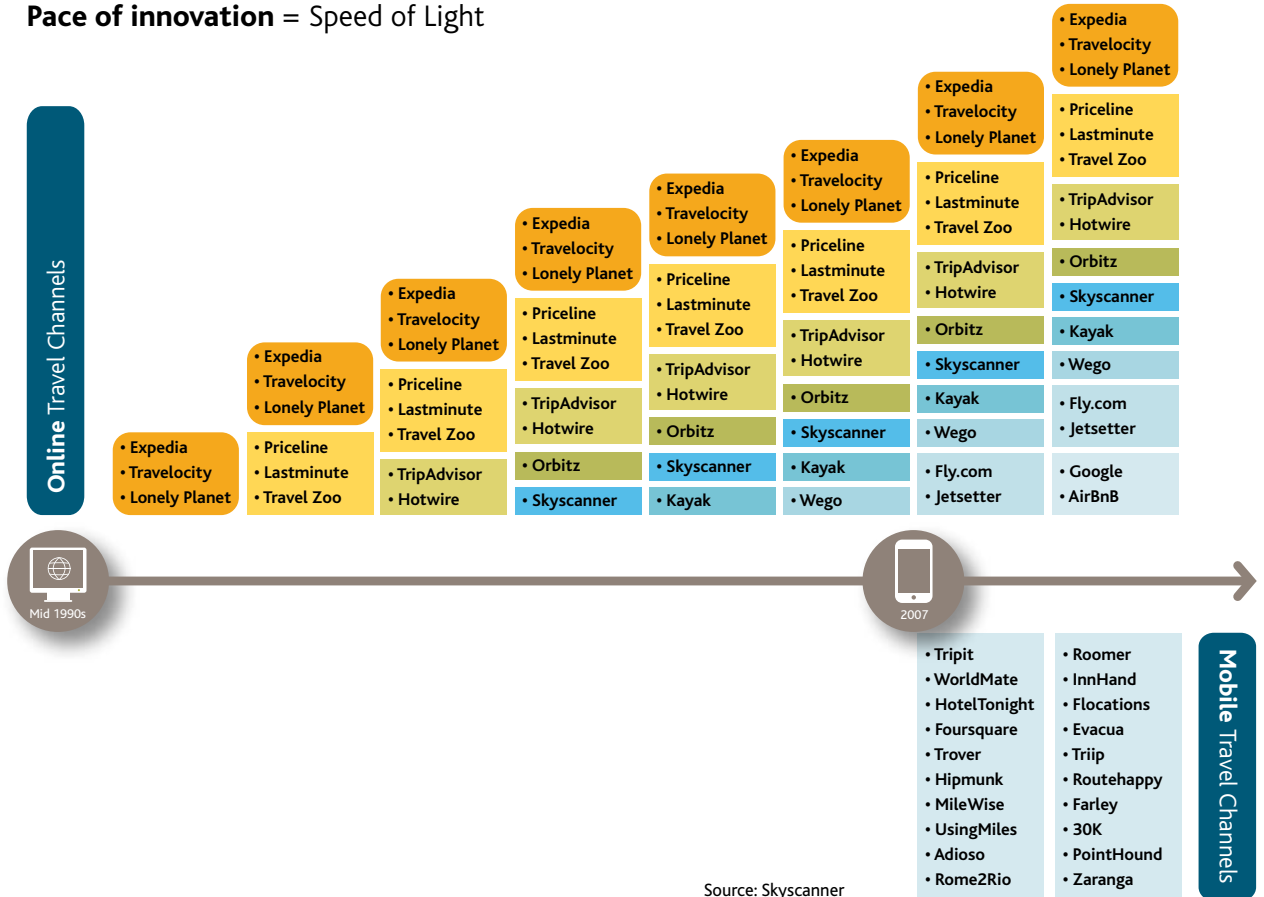


The number of key players in the market has grown exponentially in recent years.

Figure 14

Growth in Online Travel Channels

Pace of innovation = Speed of Light



Source: Skyscanner

The growth of mobile

Mobile bookings made on smartphones and tablets are becoming increasingly important for the travel industry. They accounted for 10 per cent of the online travel market in the US and 11 percent in Europe in 2013. These figures are forecast to rise to 27 per cent and 20 per cent, respectively, by 2015.

The Path to Purchase research has shown that the customer journey is not straightforward. There is no set linear process. Instead, they jump from one online source to another, often changing devices during their research.



**TIP**

Tailor your experiences to meet your target segments

Direct booking

It is clear from the Paths to Purchase research study¹² that consumers often book with OTAs or third-party websites but think they are booking directly with the hotel brand. Furthermore, as part of the booking process, more than 40 per cent visit the hotel/brand website as well as visiting an OTA site.

The customer's potential confusion during the booking process means each hotel or hotel brand must work harder to inform the customer that its own website is the only official place to book and get the best available rates.

Channel overview: direct online booking channel

By 'direct online booking channel' we mean the hotel's own website, if it can take bookings online. It usually comprises:

- The content pages, which could include hotel information, a photo gallery, contact details, blog articles and other content
- The booking engine, where the customer puts their desired dates into a search box and are then taken through a number of steps before their booking is confirmed

Unusually, we have a large number of indigenous booking engine providers in Ireland, relative to the size of the accommodation market. Many are growing their businesses outside of Ireland. The main providers in the Irish market are:

- Net Affinity
- Avvio
- Bookassist
- In1Solutions
- Aró
- AccuBook
- P3
- Hotelligence
- Eviivo (new provider)
- TravelClick

The first three on the list make up the majority of the booking engine accommodation market, with 864 properties (hotels, guesthouses and large B&Bs) between them across the island of Ireland. Most booking engine providers work with hotels and large accommodation providers (those with at least eight rooms available).

¹² Fáilte Ireland, Paths to Purchase survey 2014

Direct booking engine market size

According to the 2014 Crowe Horwath Ireland Hotel Industry Survey 2014 report¹³, (which has 2013 data) there are 835 registered hotels in Ireland, with a total of 57,362 rooms to sell. The average occupancy across all Irish hotels in 2013 was 65.9 per cent. The average room rate across these hotels was €77.49. Direct hotel website bookings accounted for an average of 18.6 per cent of all bookings. This gave revenue of more than €198 million coming through the direct online channel.

Of the hotels we surveyed, 59 per cent get less than 20 per cent of their international bookings through their own website. This is in stark contrast to their domestic business. In Dublin, hotels get on average 70 per cent of their domestic bookings through their own website. Outside Dublin, the average is lower at 55 per cent.

Driving direct online bookings

When putting together an international direct booking strategy, each hotel or hotel brand needs to consider:

- The customer type for which they are aiming (leisure or corporate)
- The typical trip purpose for this customer type (typically decided by the property type and location)
- The customers' countries of origin
- The typical booking lead time for this customer type
- The average length of stay for this customer type
- The average booking value for this customer type

By taking this information from previous bookings, analysing it and benchmarking it by the Irish industry averages supplied in this report, Irish hotels will have an excellent base on which to grow their direct business.

Direct online booking channel

Last year, the online travel market worldwide grew at nearly three times the rate of the overall market, according to PhoCusWright, and that trend should continue for some years. Projected growth through to 2015 is 10 to 11 percent for the global online travel market.

Irish travel businesses need to develop a clear online sales strategy, which should include their own brand website and online intermediaries. The strategy needs to make the most of online channel intermediaries and use them as billboards where possible and to capture customers that bounce from these sites to deliver as many bookings as possible through the brand website.

¹³ Crowe Horwath report 2014



To maximise the performance of their brand website in the international marketplace and to create an integrated online strategy, many Irish businesses work with a web provider.

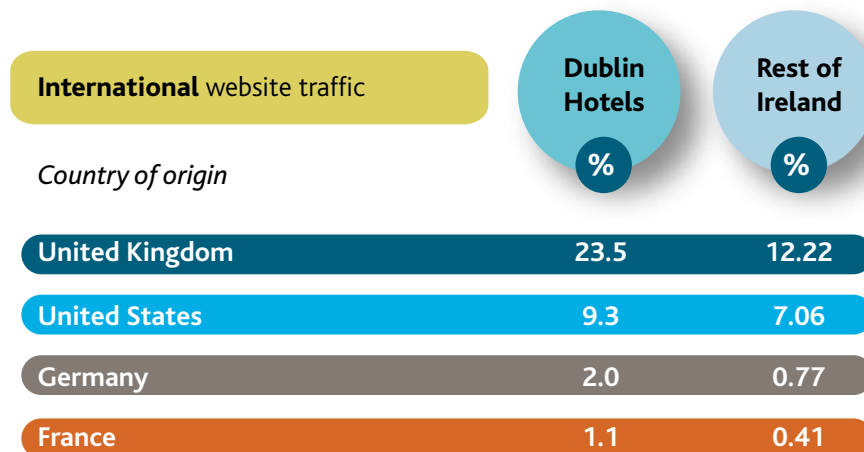
For this study, we have worked with the three main booking engine providers in the Irish market (Net Affinity, Avvio and Bookassist) to analyse the website traffic, conversions and bookings for shoppers and bookers in our key markets of UK, US, France and Germany.

1. International Website Traffic:

We asked the booking engine providers to analyse the website visits of all their clients and to tell us the total booking volumes for the four key markets, split by hotels in Dublin and those in the rest of Ireland. For hotels in Dublin, for example, 23.5 per cent of visits to their websites came from the UK.

Figure 15

Visits to hotel sites from key markets



Other markets that appeared in the top 10 for visits were Canada, Spain, Italy, Australia and Switzerland and, of course, Ireland.

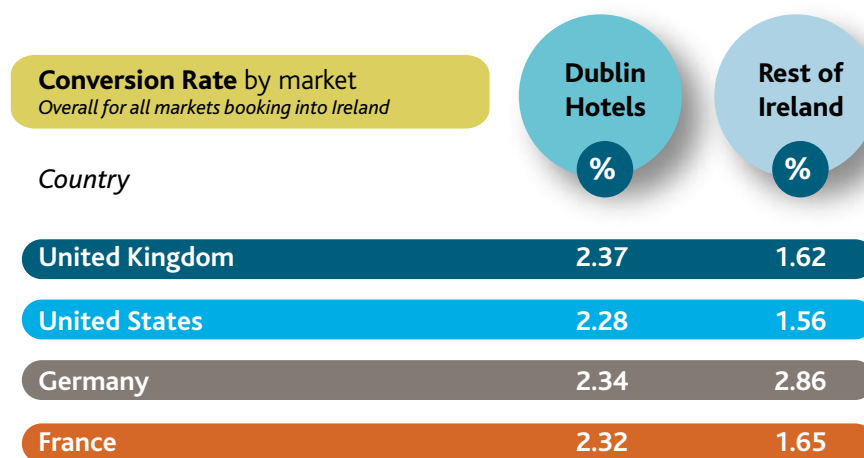


2. Conversion rates:

When it comes to website bookings, the domestic market is the largest (40% Dublin; 33% rest of Ireland). For international website bookings the UK, US and Germany are the top performers.

Figure 16

Web Conversion Rates



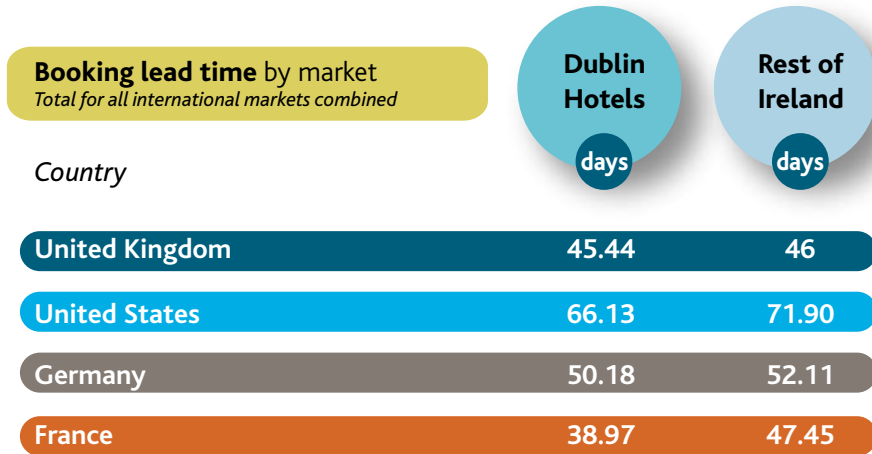
3. Booking lead time

When hotels are planning their website rate strategies and marketing to international customers, it's crucial for them to understand lead times so they can manage their future occupancy as effectively as possible. As the figures below show, they need to employ a different strategy for US visitors compared to those from France, for example.

Average lead times have increased during 2014. US-to-Dublin bookings lead the way at 66 days. Even UK-to-Dublin bookings now stretch towards an average lead time of 46 days. Interestingly, France has the shortest lead time of the four markets for Dublin bookings.

Figure 17

Booking lead times from key markets

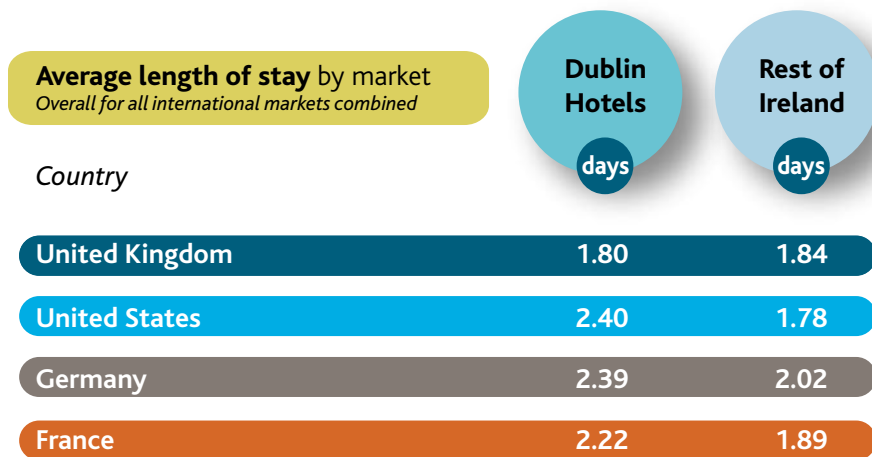


4. Average length of stay

Data from the booking engine providers on the average length of stay by market for direct website bookings correlates with the Crowe Horwath 2014 survey results. These show the average length of stay in one hotel for Dublin visitors is two days, while it is 1.7 for visitors to other parts of Ireland.

Figure 18

Average length of stay by visitors from key markets





5. Cost of sales

The booking engines said the total cost of direct online bookings should amount to 10 to 12 per cent of the booking cost, meaning they should come in under the typical large OTA costs, which is usually about 15 per cent. This 10 to 12 per cent includes:

- Booking engine charges (which average 5 per cent in the Irish industry)
- The cost of revenue management and reservations staff (updating the site with rates and availability)
- Website development, hosting and maintenance (which averages €500 a year)
- Pay-per-click (PPC) costs (which depend on budget)

Other costs can include:

- Third-party system costs (such as channel manager software – depends on hotel size)
- Email marketing
- Advertising costs
- Additional staff costs

TIP

Identify on-line intermediaries that will reach your target segments

Key learnings for direct online sales

Many Irish hotels do not have an international direct digital sales strategy. One of the most important starting points for hotels when planning or creating their online and international market strategies is to analyse their website traffic for previous search volumes by international markets.

This project has identified that many Irish tourism industry businesses do not take a strategic approach to their online distribution channels. They often follow their competitors or work with market leaders, rather than analysing the performance to date of their own site and the online channels they are using and matching this to their international target segments and markets. The necessary information is readily available to all hotels that operate a website with a booking engine provider.

By analysing their current hotel data and benchmarking against the Irish industry figures provided in this report, hotels and hotel brands can assess international opportunities for their business.

According to the booking engine companies, hotels tend to focus only on the domestic market when planning their website content and offers. Hotels may not consider the type of customers (for example, groups, individuals or couples) that are prominent for each key international market or consider other cities and countries that are fighting for an international customer's booking.

To develop an international, customer-focused, direct online strategy, hotels need to:

- Keep on top of news about international access to Ireland (for example, new direct flights from San Francisco or changes in flights to and from Prague) and put in place appropriate marketing support
- Consider the events and activities that appeal to different types of international customers and market these on their websites
- Analyse their existing databases and segment this by the key international markets so they can send emails tailored to specific markets

Indirect booking

As the Paths to Purchase research shows, international visitors are more likely to use indirect options to book online. This was corroborated by our research with Irish hotels which showed that for 59% of hotels surveyed less than 20% of international business is delivered via brand web.

Indirect booking

The growth of OTAs

The number of online tour operators has grown by 30 per cent a year since 2009¹⁴, with Priceline the strongest driver of growth with 46 per cent annual growth, compared with Expedia, which has grown by 17 per cent a year. TravelClick figures released in early 2014 show OTAs had the largest increase in international sales of any of the channels, with room nights booked through OTAs up 18.2 per cent and average daily rate (ADR) up 8 per cent in the previous 12 months.

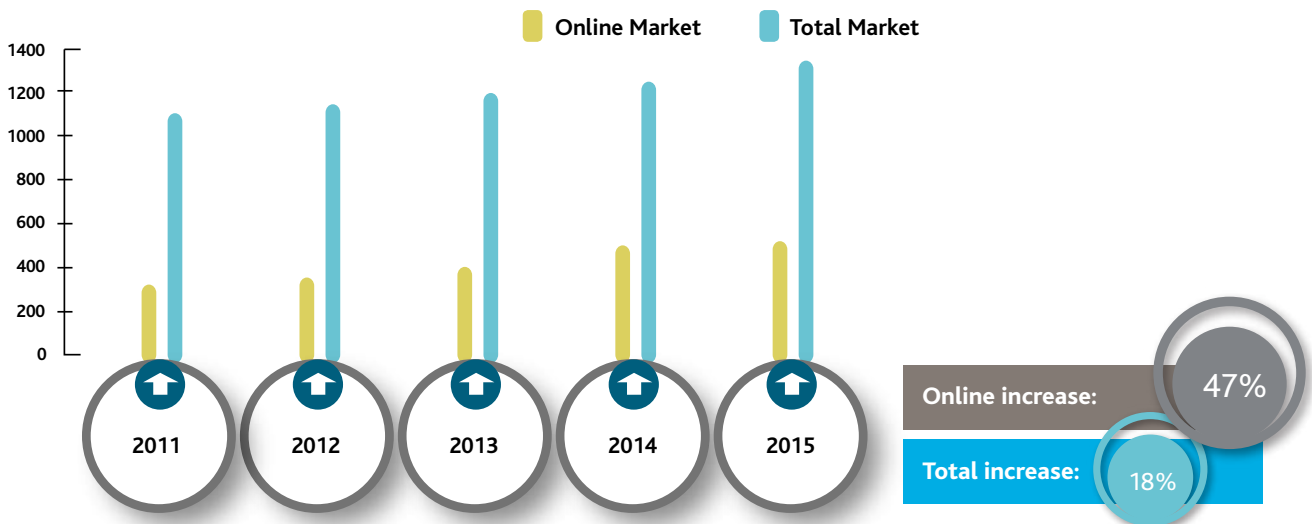
Total turnover in US publicly traded OTAs grew by 22 per cent in 2013 over the previous year; their total revenues were more than US\$90 billion¹⁵. The top OTAs by turnover are Expedia (\$39.4 billion), Priceline (\$39.17 billion) and Orbitz (\$11.4 billion). The US market accounts for 56 per cent of Expedia business and 15 per cent of Priceline bookings.

Meanwhile, the online travel market in Europe grew from €66billion to €107 billion between 2008 and 2013.

OTAs are here to stay and have captured a vast portion of the worldwide travel market. This is a highly complex marketplace and ownership structures are constantly changing. It is worth noting that Priceline owns Kayak and Trivago, both metasearch tools, while Expedia acquired Travelocity as an affiliate partner in 2013.

Figure 19

Global Online and Total Travel Market (US\$B) and Annual Change (%), 2011-2015



	2011	2012	2013	2014	2015
Online Market Annual Change (%)	-	9.7%	9.2%	10.7%	10.6%
Total Market Annual Change (%)	-	3.0%	3.2%	5.3%	5.8%
Online Penetration	29.9%	31.8%	33.7%	35.4%	37.0%

Note: 2013-2015 projected.

Source: Global Online Travel Overview Third Edition

©2014 PhoCusWright Inc. All Rights Reserved.

¹⁴ Crédit Suisse, Global Hotels and Online Travel Agents, 2013

¹⁵ Phocuswright, April 2014

Gaining sales for Irish businesses

Our survey of Irish hotels identified OTAs as the channel delivering the most international sales. Of those we polled, 52 per cent said that between 20 per cent and 40 per cent of the business coming through this channel is international. These online intermediaries can give global reach. Close to 45 per cent of Irish hotels say more than half of the business they get through GDS is international, while 33 per cent said their own website delivers less than 10 per cent of their international bookings.

Our survey also looked at the number of online intermediaries to which hotels are subscribed. We found that 90 per cent of hotels have between five and 20 online subscriptions, with more than 46 per cent having between 10 and 20. This implies a scattergun approach, a lack of appropriate focus and insufficient management of this channel. The research also highlighted a lack of analysis by tourism businesses of what different channels deliver or how to evaluate which channels are right for them.

Irish suppliers need to develop a deeper understanding of how online intermediaries can help grow their international revenue. They need to create strategic online sales plans designed to harness online intermediaries to maximise international revenue.

Furthermore, they must be more focused in their search engine optimisation (SEO)/pay-per-click (PPC) management and product offerings to attract international visitors.

Innovation by OTAs

Our primary research with the dominant players found that OTAs are seeking organic growth as well as developing new products and a new scope of work. Key brands are constantly innovating to grow their share of this lucrative and competitive market.

The key players (Booking.com and Expedia) are driving innovation in the reporting function of their sites as both see this as a key value add for their customers. Both now offer intuitive reporting, which enables clients to effectively manage revenue. Each system proactively makes recommendations on managing RevPAR and rate against an agreed competitive set.

Overleaf is an example of the partner site provided by Expedia.

TIP

Monitor performance using tools offered by online intermediaries

Figure 20

Expedia Partner Central

The screenshot displays the Expedia Partner Central interface. At the top, navigation tabs include Rates and Inventory, Promotions, Manage Reservations, Accounting, and Property Information. A central banner promotes a new photos dashboard. Below this, the 'Reservations Today' section shows 64 To Confirm, 7 Arrivals, and 0 Cancellations. The 'Check Room and Rate Plan Availability' section features two calendar views for January and February 2014, with red and yellow highlights indicating room and rate plan unavailability. A legend below the calendars defines these colors. The 'Update Availability' section shows a message: 'You have no availability issues.' The footer contains links for Help and Training, Marketing and Advertising, and Additional Expedia Offerings.

Booking.com has identified the B+B and Guest House sectors as a key client base and has developed tailored product for them e.g. the Booking.com booking button for use on their own site and a simplified client reporting system.

Furthermore, it's commonly accepted that OTAs will start to work with the corporate travel market in the next two to four years to capture new market share and boost turnover.

TripAdvisor, a content and metasearch firm, has introduced booking functionality that allows users to book directly through its mobile app. It has not released this Instant Booking function in Europe yet, although its predecessor TripConnect has been launched here. This booking functionality will be a concern to existing OTAs, although TripAdvisor will not process transactions on its site, but will strengthen its position as an intermediary.

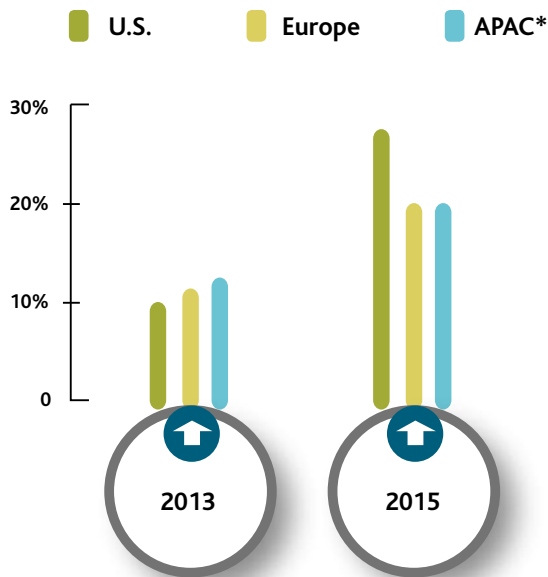
There is also a constant stream of new entrants to the mobile market. Hotels Tonight, for example, sells rooms from 9am for same-day sale. Customers are guaranteed room availability and booking takes 10 seconds. Hotels can load availability two weeks ahead and right up to 9am. The product is location-based and gives the customer the choice of up to 15 hotels. In London, 15 per cent of bookings are made by US users who have just come off transatlantic flights.

Mobile booking trends

The PhoCusWright research highlighted that 'as more travellers become comfortable booking their trips via smartphones and tablets, mobile will gain prominence across all regions. In the U.S., for instance, mobile bookings will climb from just 19% of the online travel market in 2013, to more than one in four online bookings in 2015.

Figure 21

Mobile Bookings as a Share of Online Bookings in Leading Regions (%), 2013 and 2015.



Note: *Mobile bookings calculation for APAC includes China, India and Japan only. 2013-2015 projected.

Source: U.S. Online Travel Overview Thirteenth Edition, European Online Travel Overview Ninth Edition, Asia Pacific Online Travel Overview Seventh Edition ©2014 PhoCusWright Inc. All Rights Reserved.

All the OTAs to which we spoke said mobile business was growing faster than ever. More than 50 per cent of the channel intermediaries anticipate that, by the end of 2014, more than 40 per cent of their business into Ireland will have been transacted on mobile devices. Others are experiencing less heady growth, but mobile bookings will see double-digit growth across the board by the end of 2014.

Key learnings for indirect online sales

- OTAs can reach international markets that independent brand sites or hotel group sites cannot.
- It's crucial that hotel brand websites are mobile-optimised so they can compete properly with OTAs.
- The sophistication of the revenue management tools available on the OTA client log-on gives hotels an opportunity to manipulate the source market, average booking value and length of stay metrics on the bookings they get through these channels.
- Irish hotels need to engage in ongoing education and learning in this space as OTAs continue to evolve and diversity their products, technology and functionality.

Next steps for Irish industry

Any Irish supplier keen to develop business from the international markets must ensure they have an online presence where the potential international visitor will find them. In the competitive world of search, it is unlikely that new customers will find a business's website unless they have been referred to it and are specifically searching for that site.

More typically, their search will be for hotels or things to do in Ireland or in Dublin, Killarney, Galway or another specific destination. The spending power of the OTAs and review sites ensure it will be their sites that are returned from this type of search. Any Irish business that wants to be found by potential visitors needs to ensure they work with online intermediaries.

Businesses that want to work successfully within the online channel must:

- Select the international consumer segments they are targeting (not more than two)
- Develop a tailored experience to meet these segments
- Select the core markets they are going to target – best practice recommendations for businesses that deliver less than 30 per cent of their revenue from international markets would be to prioritise no more than two core international markets.
- Research the online intermediaries that will reach these segments and markets
- Analyse performance to date for any intermediaries with which they are currently working
- Prioritise the online intermediaries by best fit to their objectives and best return on investment
- Develop a three-year sales and marketing strategy with a supporting annual operations plan, including key activities and timeline to meet the needs of the channel
- Monitor performance on a weekly basis, using the instant reporting tools offered by online intermediaries, and adjust plan as required
- Develop a customer relationship management strategy as a core part of their overall strategy and engage key operations (including front office) and revenue personnel in this process

For further detailed information on online travel sales please visit www.failteireland.ie/channelresearch

Quick Reference Guide

The best fit channel and intermediary choice are unique to each business type and are dependent on business type, growth strategy, current performance and business objectives.

Before reviewing channel options a business should define the following:

- 1) Target Segment. International segments: Culturally Curious, Great Escapers, Social Energisers
- 2) Target markets. GB, US, France and Germany
- 3) Business performance. Where are we now? What channels are we active in? How is each channel performing i.e. number of visitors delivered, number of bed nights delivered, booking window, percentage cancellations, rate, profit, flexibility, fit with business strategy, repeat visitors etc.
- 4) Business strategy. Where does the business want to go? For example wants to grow percentage international business in the medium term through targeting Culturally Curious in the US and Germany while maintaining domestic volume and rate in the short term.

When the business objectives are clear the quick reference guide overleaf can be used as a top line guide to identify best fit channel/intermediary type. Then the detailed online resources can be used for an in depth review.

Figure 22

Routes to Market

