IBM Institute for Business Value

Travel 2020:
The distribution dilemma

Enhancing collaboration to enrich the
traveler experience and improve profitability

The travel industry has worked for decades to put the customer first. Unfortunately, the end result has often been unrealistic and unconnected traveler interaction and booking processes that frequently require customers to self-assemble itineraries from multiple sources. A customer interaction on an airline website, for example, often must be followed by similar attempts to engage with hotel, car rental or related sites.[1]

To solve this problem, consolidated websites were created to provide customers with a single source to book multiple travel modes. But the resulting increase in customer convenience was counterbalanced by a loss of customer intimacy and personalized merchandising opportunities. As a result, travelers, frequently presented with conflicting incentives, dissimilar methods of interaction and competing business models, were largely left to fend for themselves in a confusing, time-consuming and often undifferentiated travel distribution landscape.

Customer service has been further diminished by the economics-driven focus of many travel executives to lower distribution costs. Automated interactions have replaced labor-intensive call centers for both suppliers and travel agencies. Unfortunately, the purchasing services provided through these channels were also excised, which, again, left travelers to manage their own cross-mode travel portfolios. Perhaps the correlation between travel distribution cost reductions and decreasing rates of customer satisfaction is not coincidental.[2]

Overview

At the height of the Internet revolution, the travel industry was expected to be among the greatest beneficiaries of new, low-cost, information-rich distribution opportunities. More than a decade later, however, online channels have done little but focus travelers on price. But new technologies and business models finally offer the potential for online differentiation and the provision of value-added services and features for which travelers will pay a premium. To capitalize on these developments, enhance the consumer travel experience and create opportunities for improved financial performance, the travel ecosystem must learn to "play well" with others.

Travelers aren't the only ones "lost at sea" in today's distribution landscape. Providers also find themselves adrift by a distribution model that rarely casts their products and services in the perfect light. Consumers already have a well-documented tendency to focus on price, but many online channels make this outcome almost inevitable by displaying few, if any, of the features and benefits that distinguish competing options.[3] Global distribution systems (GDS), and the on- and off-line agencies that rely on their data, serve up only the most basic information – price, availability, and general category of service – about flight and hotel options. This suboptimal method of selling predictably produces less-than-desirable results.

Even travel distributors, which have fared much better than travel providers in the past decade, struggle to find their rightful place in the travel ecosystem. Financial returns are inconsistent among major distribution players. The competitive environment is awash with discord between distributors and major travel providers seeking to lower fees or bypass distribution systems altogether.

Fortunately, this morass of competing priorities, objectives, and technologies can be addressed by a dedicated commitment by the industry to put the customer first. The future of distribution will be defined by the success of the travel ecosystem in meeting unique customer needs. Much of that battle can be won with more coordination among competing travel providers and distributors. By sharing information about traveler preferences, the distribution community can formulate a collaborative, more complete view of customers, enhance online interactions and, ultimately, transform the customer experience. The net result promises to be an industry with happier customers and more solidly positioned for healthier financial returns.

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How can IBM help?

- **Business Consulting and Delivery Services –** IBM helps the travel industry formulate, implement and operationalize programs to respond to the changing travel distribution landscape. We help travel providers develop strategies to respond to new market dynamics, and we work with distribution companies to more efficiently and effectively reach their target customers**.**

- **Travel Industry Solutions –** IBM offers a comprehensive portfolio of solutions that help travel companies:

  - Predict demand and optimize available seats, rooms, cars, assets and infrastructure

  - Dramatically improve the end-to-end traveler experience with applied customer analytics, reservation modernization, multichannel self-service support and loyalty management solutions**.**

- **Travel & Transportation Center of Competency –** IBM helps industry partners make the best use of technology to streamline costs, reduce inefficiencies, aid product development and speed go-to-market activities. We also help companies build new capabilities to better understand, track and respond to traveler preferences, drawing on its team of highly skilled experts from around the world.

To request a full version of this paper, e-mail us at iibv@us.ibm.com

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References

1   IBM Institute for Business Value analysis; the IBM-Frost & Sullivan
     Global Travel Survey. January 2011 IBM. (100 percent of respondents to
     our travel survey provided information about the second website they
     visited in their travel planning, despite having the option to enter
     information about just one website).

2   IBM Institute for Business Value analysis based on JD Power &
     Associates report 2010 and 2011

3   IBM Institute for Business Value analysis based on IBM-Oxford
     Economics Global Travel Survey. September 2010. (Price was the
     number one selection criteria for 38 percent of air travel customers, and
     57 percent for hotel customers).

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