Research Insights

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The bizarre bazaar of travel transactions

Making travel industry sales more collaborative for sellers and more enjoyable for travelers

IBM **Institute for Business Value**

IBM

By Steve Peterson
and Greg Land

Talking points

Not working well
For travelers, travel providers, and most travel intermediaries, travel distribution is not working as it should. For travelers, the complexities of shopping for travel diminish the excitement of a new trip. These customer disappointments set in at just the wrong time for providers and intermediaries, who might otherwise profit from this phase of the travel journey.

Divergent strategies
Industry participants have worked in isolation to improve travel distribution for decades, but their divergent strategies are often conflicting and contradictory. While travel providers seek to persuade their customers to book with them directly, other intermediaries try to demonstrate and enhance the value they bring by selling more tailored solutions.

More coordination needed
Travel distribution leaders are coalescing around a few common solutions, but if improvements are to come, even more coordination is needed on the trajectory of travel distribution. In their persistent efforts to win and retain customers, travel market participants lose sight of the fact that an improved experience depends on market rivals working together on behalf of the customer.

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The buying and selling of travel

From the pedestrian-choked corridors and spice-scented stalls of Istanbul's Grand Bazaar to the data-soaked floor of the New York Stock Exchange, markets the world over are fascinating hives of human activity. They manage to collect and organize our shared but often competing interests. Markets from Mumbai to Mombasa mediate these interests in their own languages, and through their own versions of a universal economic logic.

Similarly, the buying and selling of travel—the process by which a willing traveler finds, secures, and pays for the various elements of a future trip—is governed by a mix of explicit rules, implicit assumptions, and market norms. Sadly, the market norms that govern the buying and selling of travel—known as "travel distribution" to industry insiders—are vexingly complex and inscrutable, even to market participants. Even industry veterans agree that the travel market qualifies as one of the world's most "bizarre bazaars"—one that that perplexes experts and is maddening to consumers.

But the travel industry's peculiarities are worth understanding. Not only does the buying and selling of travel rank as one of the most significant economic activities on the planet and as one of the top sources of global employment but it also impacts an increasing large share of the world population. For example, 4.3 billion passengers were carried by air in 2018.[1] More people are obtaining the economic means to take to the rails, air, and sea to explore the wonders that lie within and beyond their own borders. The International Civil Aviation Organization (ICAO) estimates that 1.4 billion tourists traveled across an international border in 2018.[2] In practical terms, efforts to improve travel distribution, if effective, will directly and indirectly improve the lives of people in all corners of the globe. Because of its size and impact, travel distribution is worth not just understanding, it's clearly worth improving.

Key findings

51%

Fifty-one percent of survey respondents expect travel distribution to see transformative change over the **next five years**.

89%

While **89 percent** of customers enjoy the inspiration phase of the travel journey, only **38 percent** of companies profit from this activity. Conversely, **38 percent** of customers enjoy shopping for travel, while **75 percent** of companies profit from it.

4 out of 5

Four-out-of-five travel companies expect travel distribution transformation to be a top five priority in the next five years.

While views are wide-ranging, few travel experts dispute that major distribution improvements are urgently needed. Travel providers have complained about the structures of travel selling for decades. Even the intermediaries that make the most money in this complex market agree the system is broken. Clearly, the travel distribution market is not working as well as it could for travelers, many of whom spend significant chunks of time shopping for and eventually booking their trips. No one knows how much time travelers spend travel shopping by going from website to website, app to app to uncover a seemingly infinite number of similar offers, bundles, and prices for trips. Perhaps no one has dared to tally up the cost of this collective expenditure because they are afraid of how staggering and depressing it might be.

None of this is news to industry insiders. For decades, industry experts have been reading about how travel distribution is in a state of crisis. Some of these stories are more credible than others, but all of them explore a set of problems that are well understood in the industry. As summarized by Skift, a well-known industry analysis aggregator, "[Travel] distribution needs to change to keep up with the modern economy. Its tech is evolving, but it takes time to turn around such a large and complex ship."[3]

In truth, it's hard to know if the endless hand wringing about the state of travel distribution is a sign of a healthy or a structurally unsound market; objective analysis on this topic is hard to find. On one hand, new entrants, new technologies, and new investments are attracted to the travel distribution space on a regular basis, which is suggestive of a well-functioning, or at least attractive market. On the other hand, persistent complaints about market barriers, incumbency advantages, and other structural conditions argue that travel distribution needs more fundamental change.

An emerging consensus around key technologies and a few simple guiding principles could point the way to a better future.

In any case, even if the market is functioning well, the performance of any individual players in that market can be improved by more thoroughly understanding the nature of competition taking place within it, and the possible developments that may be coming if significant changes are ever made. To understand what specific market changes are most likely, it's important to examine the conditions that have allowed the status quo to persist, despite the longstanding and widespread discontent among many travel distribution market participants.

While there are myriad small-scale factors that contribute to travel distribution market dynamics, the primary reasons the market continues to exist in the way that it does is that its participants adopt defensive postures, rely on incremental thinking, and deploy divergent strategies. Even though all these individual decisions seem rational from the perspective of each market actor, history has demonstrated they are likely to produce suboptimal outcomes for the market in aggregate.

Fortunately, there are glimmers of hope, especially among travel companies that adopt cooperation-based solutions and are willing to unite under a common vision for the future. An emerging consensus around key technologies and a few simple guiding principles could point the way to a better future, but only if market participants manage to achieve the hardest thing of all: cooperation in a market that seems hard-wired to generate antagonism and mistrust.

The balance of this report is informed by a survey conducted with 88 global travel distribution experts—the real decision makers who drive the industry forward—and is a good-faith effort to get the travel distribution industry on the same strategic page. Travel distribution is dysfunctional. That is not in dispute. But understanding this grim reality from the perspective of various industry actors is important because it show that the non-coordinated and unevenly informed perspectives on market conditions is making matters worse, not better. Based on the survey responses (see "Methodology" on page 15) that inform this analysis, an emerging consensus may be coming into view about the solutions and technologies needed to move the industry forward. But common solutions are not enough. A unified vision and a common commitment to a few, simple guiding principles are needed in the industry to significantly improve travel distribution, not only for the members of the travel ecosystem, but also for travelers.

Cross modal and customer data platforms

Trainline—the passenger rail operation of Deutsche Bahn—has started selling non-train journey elements to customers. This cross-modal platform play is a real hit with customers and is strengthening the company's position in the travel value chain.[4]

Other companies focus on customer data platforms including mParticle, Segment, and Arm Treasure Data. They address core challenges associated with data collection, control, hygiene, and organization. Many of these companies have also developed customer identity resolution capabilities, which enable subscribers to turn anonymous customers or shoppers into known targets.[5]

How has travel distribution become so deeply dysfunctional?

Participants in the travel distribution market all have their views on how the market functions, but it turns out those views play a central role in shaping the trajectory of the market. The decisions market participants make about their own investments, their desired market positions, and even about the very basis on which they intend to compete shape future market interactions. But one thing is clear: many companies expect big changes will occur in travel distribution in the next five years (see Figure 1).

Unfortunately, many of the decisions travel companies will make about how to apportion their distribution investments will be based on perceptions and misperceptions derived from a familiar mix of facts, spin, and pure myth.

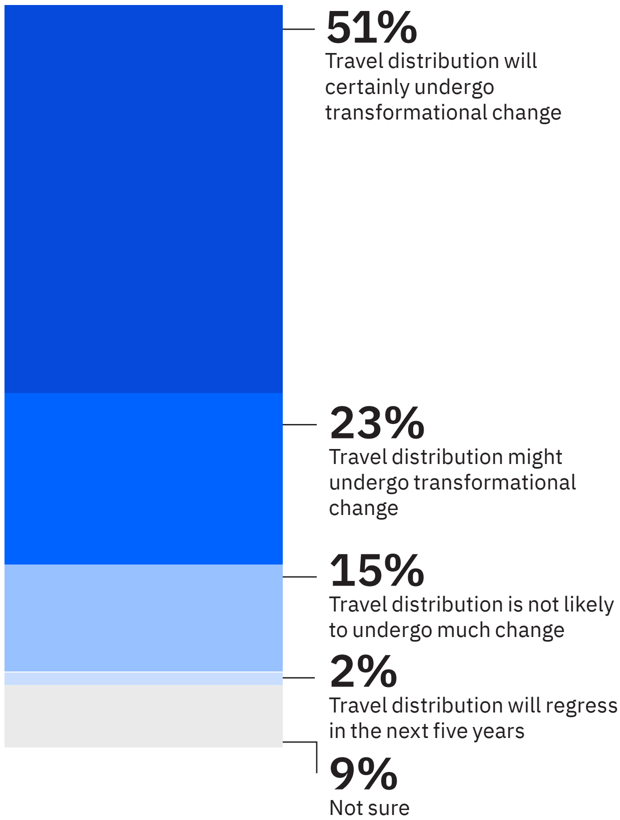
Perceptions, of course, shape expectations about what, how, and why travel distribution will be transformed. For this reason, it's important to examine the underlying market forces and industry dynamics that set the context for many market-shaping decisions.

Market forces impact all industries. In the travel industry, the most notable market forces include volatile global economic conditions, shifting regional demographics, rapid technological-driven change, ever-increasing customer expectations, and consistent growth of adjacent, or substitute, solutions. These forces are common to many other industries but being common does not diminish the associated challenges.

Industry dynamics, or the interaction of members of the industry ecosystem, are also vitally important. The industry dynamics of the travel distribution market are defined by increasing business complexity, intense inter-industry rivalries, persistent product commoditization, uneven government regulation, and limited trust among industry partners. These unique dynamics make it difficult for the travel distribution market to improve over time, especially when improvements require coordination among members of the travel ecosystem. Collectively, the market forces and industry dynamics create the conditions for a market that consistently produces discontent among both travelers and the travel companies that serve them.

Figure 1

Over half of travel distribution experts are confident that travel distribution will undergo transformational change in the next five years



Source: All respondents (n=88). Q8. In your opinion, what changes do you expect for travel distribution in the next five years?

In the current travel distribution landscape, customers often experience a frustrating mix of product and process complexity and a commoditized and confusing mix of offers and services. It's no surprise that travelers report relatively low levels of satisfaction with the travel industry as a whole, and are frustrated by how long it takes to sort through seemingly identical offers online. In fact, it is an understandable pair of outcomes in a market that incentivized price-based competition and transaction-focused selling.[6] The large and growing number of

Providers say they want to deliver personalization and improve the end-to-end journey, but their investments and actions tell another tale.

websites visited and apps downloaded by most travelers seems to indicate that customers are unhappy with the *status quo*.[7] These simple metrics show that travelers are searching in vain for something better.

Unfortunately, the travel distribution market is not much better for providers. Most members of the ecosystem generate only meager profits from their rather substantial distribution investments, and virtually all of them can be heard at industry events and conferences complaining about unfair market conditions. They often point to the relatively large margins of global distribution system (GDS) providers.[8]

Even more tellingly, providers say they want to deliver personalization and improve the end-to-end journey, but their investments and actions tell another tale. Most providers tend to undertake projects to optimize distribution engagement in a highly siloed manner, without regard to other members of the travel ecosystem. These efforts might not have an impact on customer satisfaction metrics, which 52 percent of respondents in our survey say will be negatively impacted by travel distribution shortcomings.

From travelers' perspectives, this is the digital version of the type of process improvement that results in them getting from airport to airport more quickly, but then having to wait on the tarmac for an available gate, or a ramp employee to guide their plane into the terminal. These types of sub-optimal solutions abound in travel distribution and produce frustration among travelers, employees, and the travel companies that hope to satisfy market needs more holistically.

Similarly, the industry-wide push for increased personalization is great in theory, but the execution of this priority leaves much to be desired. It often leaves travelers feeling even more frustrated and confused. For all the talk about using artificial intelligence (AI) in the travel domain to improve service, what most customers experience is actually just more "opportunities" for self-service through the use of AI chatbots, or other forms of process automation.[9] For the aspects of travel distribution that have not been automated with AI, customers experience more choices being thrust upon them via ecosystem-provided apps and websites. From the customer's point of view, efforts to personalize service end up leading to even less-differentiated communications and an even more tiresome travel shopping experience.[10]

Transaction service and data sharing

Further Networks is angling to serve the travel distribution market as a settlement, payment, and transaction service provider. But in doing so, the company is also serving as one of the first back-end platform "plays" in the travel industry. This innovative startup is embracing several of the key principles outlined in Travel Distribution 3.0 and is well-positioned to impress even the largest global travel service providers.[11]

Journera is an industry-specific travel data sharing mechanism currently being used by two of the largest global airlines, United and American, as well as a substantial number of the largest global hotel chains, including Marriott, IHG, Hilton, and Hyatt. The team is led by travel industry veterans who spotted a clear and compelling market need and are working hard to meet it with smart technology and a sound business model.[12]

The frustrations that travelers feel in the distribution market also have a deep relationship to corporate profitability. Of the six major aspects of the travel journey—inspiration, shopping, day of travel, time at the destination, returning home, and time after the trip—most companies report that travel shopping and booking and time at the destination are the most profitable for them (see Figure 2). This represents a structural disconnect between aspects of the travel journey from which companies derive the most profits and those that travelers find most enjoyable.

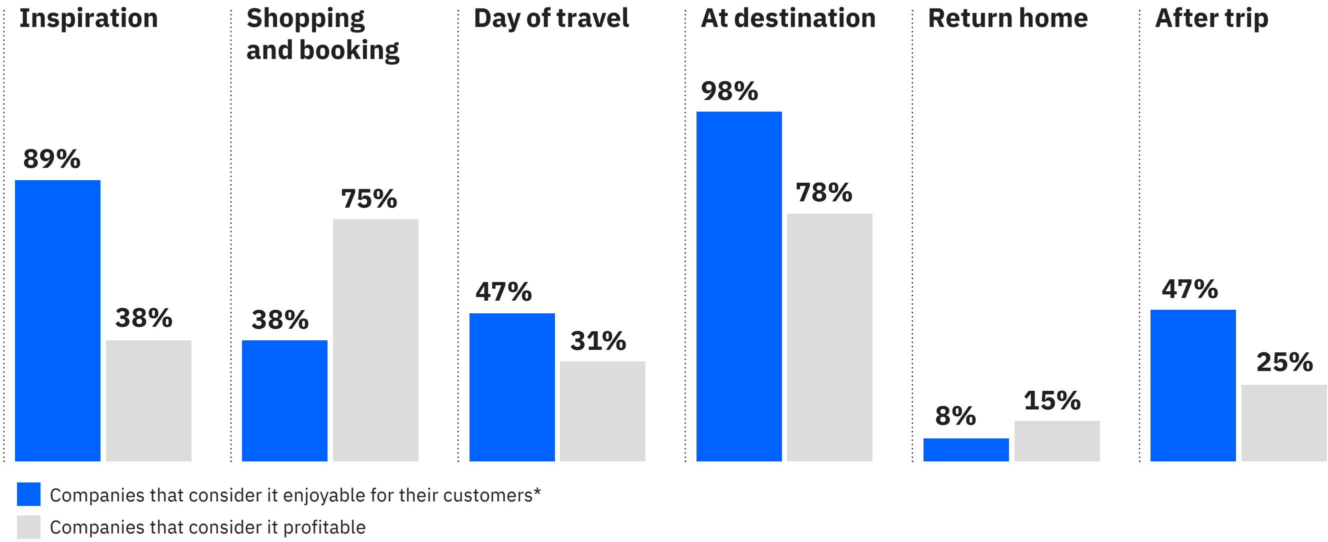
Travel companies would love to derive profits from the stages of travel that their customers enjoy most, but that is not always the case. In fact, travel companies derive the most profits from shopping and time at the destination, but customers tend to enjoy the inspiration phase of travel and time spent at the destination. So, customers enjoy the time they spend at the destination and the companies that serve them do profit from this phase of travel. This is a powerful alignment between customer preferences and business needs.

But travel companies depend on the profitability of shopping, despite the fact that customers derive relatively little enjoyment from this unavoidable activity. Conversely, customers enjoy the inspiration phase, but companies profit only moderately from it. Such structural mismatches are likely an ongoing source of frustration for both providers and their customers.

Clearly, there are many elements of the travel distribution status quo that are not working well for customers or travel companies. But how long can this imperfect status quo persist? Sadly, without a more coordinated effort across a variety of companies, these market conditions may continue indefinitely. Breathless pronouncement that the industry's travel distribution crisis is at or near a tipping point have worn thin; those of us who follow the industry closely know that significant changes are probably not close at hand.

Figure 2

There is a disconnect between aspects of the travel journey from which companies derive the most profits and from those that travelers find most enjoyable



Note: Percentage of companies that consider the aspect controlled based on MaxDiff results (Anchored MaxDiff Score > 50).
Source: All respondents (n=88). Q4. When a customer is planning/ booking travel with your company which of the following, in your opinion, is the most enjoyable aspect and which is least enjoyable? Q5. Which of the following aspects of a customer's travel is the most profitable for your company and which is least profitable?

Why haven't industry rivalries improved the travel distribution market?

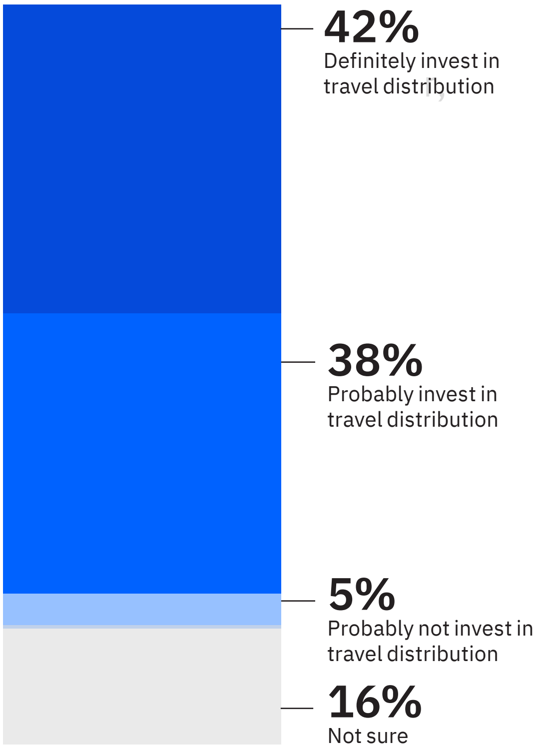
In some markets, competition between rivals makes the market stronger; in travel distribution, the opposite seems more accurate. Distribution market insiders—including airlines, ground transport providers, hotels that provide market inventory, global distribution companies, travel agencies, and other intermediaries—tend to have very different objectives. Their divergent strategies produce a net outcome that perpetuates a status quo that suits just a few participants. Ironically, by stubbornly chasing their own solutions, each participant solidifies the underlying structure of the market they so frequently bemoan.

For travel companies that provide inventory—namely, airlines, hotels, rental car companies, and passenger rail operators—distribution is about strategically moving to more profitable areas of the travel value chain. These companies have witnessed the explosion in profitable revenue that can be derived from the sale of ancillary or add-on services, and they are interested in becoming better retailers by finding ways to leverage the data they have about each traveler.[13] Of the 42 percent of surveyed travel companies that have plans to invest in distribution in the next five years, many of them hope to focus on the retailing aspects of shopping, the day of travel, and the time at the destination (see Figure 3).

But travel providers also have a track record of shifting what otherwise might be seen as strategic, market-changing investments into more tactical and predicable market plays. Hoteliers, for example, in a continued effort to combat high and growing look-to-book ratios (25,000: 1 in a recent Phocuswire study), may attempt to convert a higher share of website visitors into purchasers by making their websites more engaging and "stickier."[14] They may also continue to invest to expand their marketing and delivery of travel experiences, as several global hotel chains have done within the context of their loyalty programs.[15] Of course, personalization—which, in the case of hotels often translates into attribute pricing, and automated room and service customization—is also likely to attract ongoing executive attention and investment.[16]

Figure 3

A large portion of travel companies plan to invest in travel distribution in the next five years, but a surprisingly higher number have no plans to do so.



Source: All respondents (n=88). Q18. Is travel distribution likely to be in the top five investment priorities for your company in the next five years?

Airlines, another big player in the travel distribution landscape, are likely to pursue their own unique-but-related strategic objectives. They, too, have a strong interest in retaining more of their direct website visitors, so continued improvements to websites and apps would not be surprising. But some carriers will also likely continue down a few more strategic distribution avenues.

Customer interactions and connections

AMEX GBT partners with Lola, an innovative AI-based travel agency that combines the skills of seasoned travel agents with AI capabilities that learn from observed travel patterns, preferences, and ways of interacting with the customer. It is not clear to the travel market how, when, or in what form this partnership will make an impact, but AMEX GBT and Lola make a powerful combination in the AI-travel domain.[17]

F-ness & Associates and Verteil combine forces to provide travel agents in Japan the ability to sell products and services to consumers using an industry compliant IATA-NDC connection. This development process opens up a sea of potential for other companies hoping to establish richer, more direct connections between their customers and the products they sell, regardless of which channel is doing the selling.[18]

Lufthansa, for example, may keep up the pressure it has been applying to members of the GDS community by increasing the already steep fee it places on transactions booked through Sabre, Amadeus, and Travelport.[19] Other airlines, including American Airlines, may also continue to leverage market incentives to get travel agents to book directly with them, instead of working through travel intermediaries.[20] The intense focus airlines place on winning direct booking may give Phocuswright, a global travel market research company, confidence in its prediction that, by 2022, direct booking could reach 50 percent of all bookings.[21]

Several carriers may also explore the application of distributed ledger solutions to the travel distribution market by increasing the scope and scale of their investments and trials with companies like Winding Tree.[22] It is difficult to know what the effects, if any, these more structurally focused distribution efforts may have on the industry ecosystem, but if history is a reliable guide, these more strategic investments will be dwarfed by airlines' more substantial commitments to the solutions they continue to rely on: legacy systems and providers. In other words, despite all the hype, the legacy distribution structures that dominate much of air travel sales will likely persist well into the future for most global carriers.

Travel agencies, including so-called offline travel agencies (TAs) and online travel agents (OTAs), on the other hand, could likely prioritize their own investments in travel distribution according to a very different logic. Where airlines and hotels tend to try to leverage customer data to increase guest intimacy, travel agents are often intent on using insights about locations, properties, and packages to ingratiate themselves to travelers and justify any service fees they impose. For some agencies, this strategy manifests in a focus on specific travel segments, while others translate this logic into a regional or tour-type concentration.

But no matter the market focus, most travel agencies stay keenly focused on the cost side of the distribution equation. They do all they can to lock in profitable commission overrides and incentives while automating routine or low-value-add elements of the traveler interaction. Travel agencies, such as AMEX GBT and Lola, are forming partnerships that help them simultaneous advance several of these strategic objectives (see sidebar on AMEX GBT and Lola).

Companies that play at the periphery of the travel market play an important role in how the market is shaped.

For all the attention they receive in the industry press for being among the most profitable players in the travel distribution market, GDS providers do seem to support industry-wide efforts to improve travel distribution for customer and others.[23] All major GDSs have invested in improvements to their core technology platforms in the past several years, which reduces the incentives travel companies have to explore alternative options.[24] GDSs have also embraced emerging industry messaging and communication standards, which, in theory, will enable the industry to sell the products and services of all members of the travel value chain.[25] Finally, in keeping with a trend that started over a decade ago—even though it runs counter to other industry trends—GDSs are also working to capture their share of ancillary revenues by offering to help airlines, hotels, and others in the industry become better retailers by leveraging their robust, but fee-driven, distribution networks.[26]

Finally, a host of other travel distribution intermediaries, from large to small, hope to advance yet another set of unique and competing interests. These companies are an important part of a more optimistic future for travel distribution because they seek to use data to simplify and better serve their customers. Doing this well requires them to maintain strong working relationships with virtually every other member of the travel value chain. And to do so in a cost-effective way requires them to be smart about their uses of technology and their selection of target customers.

Sadly, these companies often play a “bit role” in the larger travel distribution drama because they lack the scale needed to exert their will on the broader travel ecosystem. That said, travel startups often seek to disintermediate the established distribution players, which may account for the fact that 96 percent of them fail.[27]

Collectively, the many diverse objectives and tactics of industry insiders produce a set of divergent strategies that fail to take the industry in a consistent direction (see Figure 4). Their contradictory efforts ironically serve to calcify the very structures and relationship they seek to reform.

On the other hand, companies that play at the periphery of the travel market—including travel-industry startups, digital giants that interact with the fringes of the industry distribution landscape, market regulators, and industry bodies—also play an important role in shaping the travel distribution market. For the most part, these actors read the landscape and proceed with caution by leveraging incremental engagement strategies, not by attempting to take the entire market by storm or to fix all that ails travel distribution with a single, giant investment. Waiting for a few large players to revolutionize the industry—and repair the current dysfunctional distribution arrangements—has delayed many potential improvements.

Figure 4

Divergent strategies among travel distribution insiders help to groove in the status quo that defines the market

Travel Providers

- Increase share of direct travel bookings
- Control travel distribution through force, despite impacts on the travel ecosystem
- Differentiate in the market by focusing mostly on product enhancements

Travel Agencies

- Become one-stop-shop for travel buyers
- Market and sell travel commodities as commodities, not unique offerings
- Push delivery/brand risk to providers

GDSs

- Protect legacy business at all costs
- Derive significant profit from integration, maintenance, and enhancement fees
- Invest in core platform improvements

Intermediaries

- Build to bypass core industry platforms
- Focus on profitable segments/markets
- Leverage new technologies to bring incremental process improvements

Wisely, startups and other small firms tend to focus on niche markets and minor process improvements. In 2017, companies in this category generated USD 8 billion in investment capital.[28] Examples of this type of approach include a host of firms that have targeted the travel needs of small-to-medium businesses, recruitment travelers, various versions of peer-to-peer lodging, and younger and backpacker-style travelers.

Of course, very well-known exceptions exist to the niche-focused travel startup "rule." Global juggernauts like Airbnb and Uber both spotted large-scale market opportunities in the travel distribution domain. Both of these companies entered the market with disruptive business models, solid customer support processes, and sufficient capital.

Other startups may hope to apply this model to other aspects of the travel value chain. But with the amount of time senior executives and corporate boards now spend thinking about how to compete with and protect against such players, the odds seem low in the near future of this strategy being successful at the Uber or Airbnb scale.[29]

Another potential source of market disruption, and another set of players that keep travel executives up at night, are the so-called "digital giants." Digital giants, including the small handful of tech-based superstars like Amazon and Google, have mostly chosen to avoid the conflicts in the existing (and rather large) travel market by focusing on their own core business operations instead. Aspects of their operations do interact with the travel market: specifically, advertising sales to large travel brands by Google, and enterprise sales by Amazon Web Services (AWS). Both these companies have thus far elected to limit their travel endeavors to their own established areas of expertise.

The notable exceptions to the strategic decisions of both Google and Amazon to delve directly, if briefly, into the travel market sent significant tremors into the global travel distribution domain. Google's 2011 purchase of ITA Software, an established and well-regarded player in the travel distribution space, still elicits industry speculation about Google's plans to play in the travel market going forward.[30] Similarly, Amazon's brief effort to establish a vacation packaging business, called Amazon Vacations, in 2015 is often cited as an example of that company's enduring interest in disrupting the travel industry.[31]

But for all the ink that has been spilled in speculation on the possible impacts these two firms could have on the travel distribution market, neither has made a substantial or sustained investment in travel for a long time. Nevertheless, the uncertainty sowed by the mere possibility of an industry disruption led by either is significant.

The final set of market actors that shape the travel distribution space are market regulators and industry bodies. Regulators include a wide array of local and national governments, regulatory and safety authorities, and shared infrastructure managers, such as port and airport authorities. These entities generally perform a somewhat indirect role in travel distribution but—to the extent they get involved—it is usually at the behest of the largest players in their sphere of influence. And industry bodies are generally committed to remaining as neutral as possible in market disputes, while doing all they can to protect the status quo—usually the aspects that benefit the largest players in their sphere of influence.

Industry bodies, on the other hand, play a more constructive role in the market, even if their efforts to improve market function are largely limited by the scope of their remit within the industry sub-sectors they serve. The hotel, rental car, and travel agency sectors have industry bodies to advocate for their interests. But, by far, the most notable industry body is the International Air Travel Alliance (IATA). In the last few decades, IATA has invested significant effort and resources into establishing the technology standards, communication protocols, and norms the entire industry can use to coordinate efforts.[32]

Because of IATA, the air travel sector and, more generally, the entire travel industry enjoy the benefits of electronic ticketing, industry-wide advance passenger information (API) standards, and next-generation distribution capability (NDC) standards, to name a few.[33] But while these are all important to, and necessary for, continued travel distribution improvements, no actor of this scale can have a transformational impact on an entire industry (see Figure 5).

Market regulators include a wide array of local and national governments, regulatory and safety authorities, and shared infrastructure managers.

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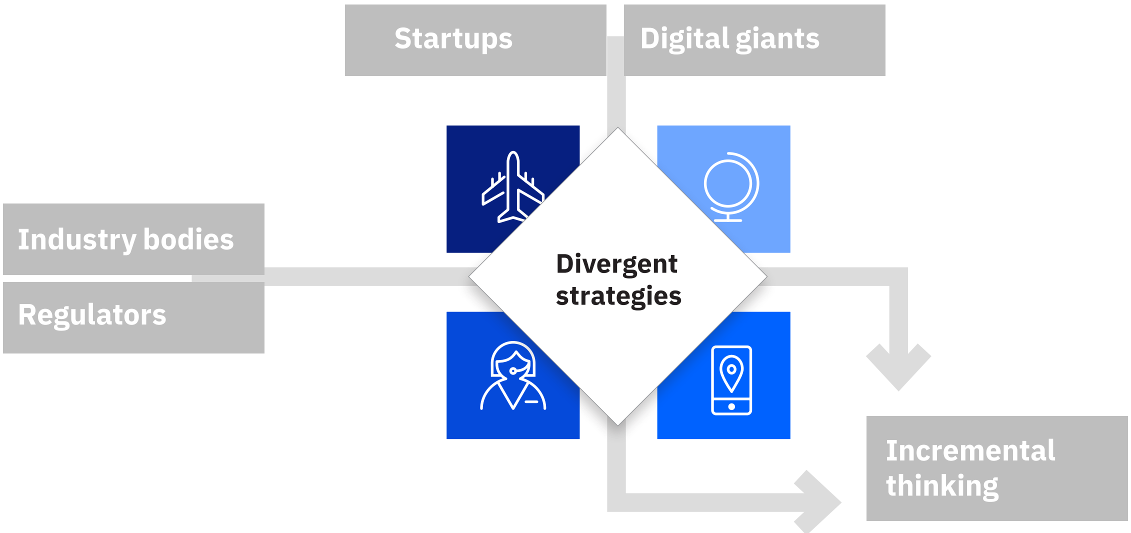
Figure 5

What allows the travel distribution status quo to persist—a morass of divergent strategies among industry insiders combined with mostly incremental thinking among market outsiders.



What are the contours of Travel Distribution 3.0?

The global travel distribution market, like other markets, is significantly influenced by the technologies that enable its participants to interact. For this reason, it should be considered in the context of the broader technology developments taking place in society. Before 1998, travel distribution was defined by basic computerization. Between 1999 and 2019, it was defined by the meteoric rise of the internet. For simplicity, we can think of Travel Distribution 1.0 as an outgrowth of the computer era and Travel Distribution 2.0 as the internet, or dot.com, era.

In recent years, technology has begun to change the game once again. In many ways, cloud computing—the catchall term for the mechanisms whereby companies process and store business critical data and applications independently of a headquarters or central location—is quietly ushering in the beginning of Travel Distribution 3.0.

Interestingly, Travel Distribution 1.0 and 3.0 have a lot in common. Both eras promote cooperation among distribution partners, and both encourage a longer-term view of market interactions than the more transaction-oriented 2.0 era. But where Travel Distribution 1.0 facilitated the development of multi-period relationships—between travel agents and customers, for example, Travel Distribution 3.0 will enable companies to perfect personalized selling using a mix of shared profiles, customized products and prices, targeted communications, and AI.

These developments will allow travel companies to change the nature of marketplace competition. Whereas 1.0 enabled companies to compete on the basis of service delivery, and 2.0 encouraged price-based competition, the 3.0 era will facilitate competition on the basis of the overall travel experience. As the transition to Travel Distribution 3.0 accelerates, travelers will distinguish competitors not only on the basis of what promises companies make, but how good the providers actually deliver against those promises. Of course, doing this well will depend on setting the right expectations in the travel distribution process and also coordinating across multiple actors in the travel value chain to deliver high-quality service.

Companies that elect to embrace and define Travel Distribution 3.0 will need to adopt these key travel distribution priorities:

- Prioritize travel distribution in terms of both financial and human capital allocation
- Implement solutions that apply travel context across all traveler interactions
- Explore the use of platform business models in the travel industry.

This will require new ways of thinking about the use of data in the customer travel journey. Naturally, these companies will also seek to empower their employees, whose daily interactions with travelers define the travel brand and, in many ways, the entire customer experience.

Many of these changes will require companies to simplify their technology footprints as the layering on of additional solutions will only complicate travel for customers and employees.

How to lead Travel Distribution 3.0

1. **Invest meaningfully in travel distribution.** Invest in travel distribution as though it is a top priority. All travel journeys start with travel distribution. It is the fundamental first step in creating and shaping customer expectations about your brand, so getting it right is a priority. Improving the travel distribution situation for your customers will not only increase traveler satisfaction, it may ultimately help boost corporate profits.

2. **Apply traveler context consistently.** Every interaction with travelers needs to be a two-way street. Travel companies will want to gather information about customer intentions, feelings, and plans, and feed that data into AI-enabled systems that can be used to improve subsequent traveler interactions. And the same goes for operational, customer service, and even financial systems. As much as possible, act upon each available bit of insight on what makes customers tick, as well as where the engagement opportunities exist in current travel processes.

   A worthy goal of travel companies is to aggressively and methodically reduce the percentage of unknown traveler, unknown purpose, and unknown context interactions. The aim of interactions is to leave the customer with an impression that the company serving them knows them well—who they are, why they are there, and what they are seeking. Likewise, customer interactions are intended to result in an increased understanding about not just the specific customer, but also the travel market companies serve.

3. **Arm employees with usable insights, not data.** The travel industry expects enormous things from its front-line staff. Not only are customer-facing employees asked to master complex and often outdated service systems, they're also expected to respond to varied, and sometimes unpleasant, customer requests in some of the highest-stress places on the planet. What's more, the industry demands that these quickly trained hyper-busy staff do all that is expected of them (and more) with a smile.

   In this context, travel companies would be doing their employees a disservice by piling customer or operational data on their already full plates and expecting that they will have the time, patience, and skills to know what to do with it. At the same time, these "experienced staff" are not interested in prescriptive suggestions on exactly how they should treat each customer. The travel distribution leaders of tomorrow will strike a healthy balance between giving employees raw data to churn through and giving them explicit instructions, which may insult their substantial capabilities.

4. **Simplify and standardize operational systems.** Travel distribution suffers from many deficits: the industry lacks sufficient funding, it isn't predictable enough, and it's always short on patience. But nobody who knows this industry would claim it needs even one more complex or bespoke solution. Each year, the travel industry spends countless millions training new recruits on how to get the most from byzantine IT systems—systems that should be both highly intuitive and user-friendly. To get the most from employees, and to give the best possible experience to customers, travel companies can benefit from an aggressive overhaul of back-end customer systems. By doing so, employees can focus a larger share of their attention where it matters most: on the traveler.
5. **Take the lead on industry platform plays.** Platform business models are all the rage in most industries, but in the travel industry this hot trend has real potential, especially with respect to travel distribution. Industry platforms that enable multiple industry and non-industry actors to share insights, split responsibilities, and explore unmet needs could have a big impact on how travel is bought and sold. These capabilities could revitalize an industry rife with suspicions, committed to entrenching old rivalries, and perpetually in desperate need of customer-motivated cooperation.

   Very few travelers go from an airport to a hotel without also first getting on an airplane, and even fewer go from one airport to another without then continuing to another destination. Yet, so few solutions exist to coordinate these moves between travel modes that it's shocking the industry is not already at the forefront of implementing and maturing the platform model.

Embracing emerging platforms

Travel companies well-positioned to thrive in the Travel Distribution 3.0 regime are expected to be the ones that are early to form a deep embrace with emerging industry platforms and adhere to these guiding principles:

Focus on getting traveler treatments right, not unlocking data insights

Data, and the insights that it helps generate, are great, but without action, the insights are useless. Providers should identify more variables against which to personalize the traveler experience.

Prioritize empowerment and avoid prescriptions

Give employees simple tools that are rich with insights and ideas, not formulaic responses. Personalization must be driven by human interaction, not recommendation engines.

Enable simplification, not systematization

AI is a useful tool that can be used to generate powerful insights. But to have an impact, those insights must be delivered to customers and employees in simple, intuitive ways.

Organizational distribution processes can make it easier or harder to achieve market objectives.

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Key questions to consider

- Over the last few decades, how well have your company's efforts to improve travel distribution worked?
- What causes the leaders of your company to take an antagonistic view of other members of the travel distribution ecosystem?
- What initiatives is your company exploring to deliver a more unified travel experience to your customers? Are your company's distribution processes making it easier or harder to achieve these objectives?
- If travel distribution platforms emerge in the next few years to help manage and deliver a more integrated shopping experience to travelers, what role will your company play in these platforms?
- Will travel distribution be a source of strategic differentiation at your company in the next five years?

About the authors

Steve Peterson
linkedin.com/in/stevenjohnpeterson
Steve.Peterson@us.ibm.com

Steve Peterson is the global Travel and Transportation lead for the IBM Institute for Business Value. Steve is the author of numerous industry studies, and has served as a strategy consultant to the industry since 1998. His work has been embraced by IBM clients around the globe and widely praised in the industry and popular press. Steve is based in Denver.

Greg Land
linkedin.com/in/gregland
Greg.Land@us.ibm.com

Greg (James) Land is the IBM Global Segment leader for Hospitality and Travel Related Services. Greg has dedicated his entire 25-year career to the travel industry, where he has served as a strategy consultant, advisor, and executive. His work with global airlines, travel technology providers and hospitality companies have informed his views on digital transformation. Greg is based in New York.

How IBM can help

To succeed in today's hyper-competitive world, travel and transportation companies need to solve increasingly complex problems and seize new and exciting opportunities faster than their competitors. They must continue to drive operational excellence and enable collaboration across enterprise functions and between members of emerging ecosystems. Above all, industry leaders must run the business well amidst constant change. The IBM Travel and Transportation practice understands these challenges and brings its extensive industry experience, business insight and technical prowess to bear on them. For more information, visit ibm.com/industriestraveltransportation.

Related reports

Peterson, Steve; Raimon Christiani. “Travel loyalty: How loyalty programs can deepen traveler engagement, improve profits and drive brand allegiance.” IBM Institute for Business Value. October 2015. http://www.ibm.com/services/us/gbs/thoughtleadership/travelloyalty

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For more information

To learn more about this IBM Institute for Business Value study, please contact us at iibv@us.ibm.com. Follow @IBMIBV on Twitter, and, for a full catalog of our research or to subscribe to our monthly newsletter, visit: **ibm.com**/iibv.

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Study approach and methodology

To understand the dynamics that will shape travel distribution in the next five years, the IBM Institute for Business Value, through its research partner Frost & Sullivan, surveyed a mix of travel distribution decision makers, including C-level, VP, and directors of travel agencies, hotels, airlines, and other travel companies. Between October and December 2018, experts from Americas, Europe, and Asia-Pacific were surveyed using computer-assisted telephone interviews. Once initial conclusions were derived, supplemental external research was conducted and in-depth interviews with subject-matter experts were completed to review and validate the main hypothesis and conclusions in the study. Finally, IBM leveraged key findings about the travel sector from other IBM Institute for Business Value Reports, as well as a host of secondary sources cited in the “Notes and sources” section of this document.

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IBM Institute for Business Value

The IBM Institute for Business Value (IBV), part of IBM Services, develops fact-based, strategic insights for senior business executives on critical public and private sector issues.

About Research Insights

Research insights are fact-based strategic insights for business executives on critical public and private sector issues. They are based on findings from analysis of our own primary research studies. For more information, contact the IBM Institute for Business Value at iibv@us.ibm.com.

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IBM Corporation
New Orchard Road
Armonk, NY 10504
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