



THE ANCILLARIES CHALLENGE IN ONLINE TRAVEL BOOKING

THE TRAVEL “BOOKING JOURNEY” has many stages – from the first dream of a destination to the last photo shared on Facebook. And where once interaction with a travel agent might have been limited to booking a ticket and a room, consumers now expect a wide range of travel services and products to be on offer at every stage of the booking journey. These “ancillaries,” as they are known in the industry, are an important revenue stream for both travel suppliers, such as airlines and hotels, and travel retailers, such as online travel agents (OTAs).

Ancillaries come in two flavors: *unbundled*, which refers to add-ons that were previously included in a core product offering (such as baggage and in-flight meals for airlines), and *incremental or trip-related* products, such as ground transportation, activities and tours, and insurance. Ancillaries currently account for a relatively small share of total revenues for airline and hotel brands. (For example, ancillaries accounted

for only about 8 percent of total US airline revenues in 2015.) There is broad consensus, however, that ancillaries could reach \$180 billion globally by 2020. It’s an enticing future market that traditional travel suppliers are not doing nearly enough to win.

DIVING INTO THE BOOKING JOURNEY

Online shopping, smartphones, and social media have conditioned consumers with limited time to bookmark websites and download apps that provide quick, simple solutions. This trend will only grow, given that global Internet and smartphone penetration are expected to reach 80 percent by 2025. In the travel arena, this means that consumers are gravitating to “one-stop shops” that are perceived to offer good value for money, along with up-to-date information and a frustration-free booking experience. The result is that OTAs such as Expedia and

Priceline have taken a significant chunk of direct travel bookings (and margin) from travel suppliers.

OTAs allow customers to build comprehensive and tailored travel packages, including a wide range of trip-related ancillary products from a variety of suppliers. Many hotels and airlines have developed effective online booking flows for their core seat or room products and unbundled ancillaries. But they are not taking full advantage of the opportunity presented by trip-related ancillaries – which could lead to their falling further behind OTAs in terms of customer appeal.

Many airlines and hotels also have built only limited ancillary merchandising capabilities, focusing heavily on the booking stage of the customer journey. OTAs, on the other hand, are investing heavily to capture ancillary sales end-to-end. They inspire whole-trip ideas, seamlessly market targeted ancillary products between the booking and traveling steps, and integrate customer review and rating systems and social media links.

Travel suppliers' immediate tactical response has been to offer benefits such as free wireless and loyalty points for direct bookings. This clearly is insufficient, as evidenced by the continued slide in direct channel bookings. Unless they dig deeper, airlines and hotels risk becoming simple commodity suppliers to OTAs.

GOING THE DISTANCE ON ANCILLARIES

To regain their competitiveness in relation to OTAs, travel suppliers will need to consider a number of strategies to improve their direct channel offerings and enhance their appeal to customers.

Direct Booking Enticements

Airlines and hotels need to give customers a reason to book directly with them. This could include capitalizing on their core inventory to offer unique unbundled ancillary products, such as the ability to choose a specific

hotel room, combined with trip-related ancillaries like access to an exclusive supplier or product.

Travel suppliers also must streamline and innovate the booking process. Ancillary sales are often an afterthought on most suppliers' websites, requiring lots of clicks, separate booking transactions, and the rekeying of data. Suppliers must integrate ancillaries into the core booking flow and design "omnichannel" processes that allow customers to seamlessly transition across multiple platforms and engage social media as well.

Increasing Customer Engagement

Ancillaries play a critical role in customer engagement by offering choices and simplifying hassles. Airlines and hotels could capture data from their direct booking channels to develop a deeper understanding of individual customer preferences, so that they can better personalize the end-to-end booking journey and present tailored ancillary propositions at personalized price points. These insights also could be used to fuel novel post-booking interactions that reinforce customer engagement, such as a targeted reminder to buy trip insurance or free downloadable apps that offer destination updates and reviews.

Strengthening the Value of Loyalty

Customer loyalty and the likelihood of rebooking can be strengthened through better use of ancillaries. Customer insights, for example, can be used to generate exclusive, tailored offers of complimentary or reduced price ancillaries for those who book through a travel supplier's direct channels. Hotel operators in particular are increasingly making use of loyalty member "treats" like free airport transfers and reduced-price breakfasts.

Focusing on Execution

Finally, if travel suppliers are to succeed in attracting customers to their channels and growing ancillary revenues, they must build out their execution

THE CUSTOMER BOOKING JOURNEY AND EXAMPLE ANCILLARY ENGAGEMENT OPPORTUNITIES



COMPARISON OF INCREMENTAL ANCILLARY BOOKING OFFERS

	FLIGHT	HOTEL	CAR RENTAL	TOURS AND ACTIVITIES	INSURANCE
Leading online travel agency (OTA)					
<ul style="list-style-type: none"> Fully integrated booking flow for incremental ancillaries Broad product range 	●	●	●	●	●
Major full-service airline					
<ul style="list-style-type: none"> Incremental ancillaries typically offered through separate booking flow and white label solutions 	●	●	●	●	●
Major hotel company					
<ul style="list-style-type: none"> Booking flow focused on hotel room sales Strong opportunity to expand incremental ancillaries offering 	●	●	●	●	●

● Core travel offering ● Current ancillary space ● Potential ancillary space

Note Example search for SFO to NYC for two people from 6-Feb-2016 to 13-Feb-2016: Flight + hotel + car
Source Company websites

tool kit. This means acquiring the right capabilities, assigning the strongest teams to deliver on ancillaries, and increasing their appeal as go-to booking sites.

Through exclusive partnership arrangements with highly rated brands, travel suppliers can develop a catalog of potentially unique incremental ancillary products. They should consider information technology partnerships to close execution gaps and test minimum viable products without waiting for the “perfect” technology. Most important, they must develop the big data analytics required to mine and then translate customer data insights into a seamless, personalized customer experience across the travel cycle.

THE JOURNEY IS THE DESTINATION

Clearly, travel suppliers need to invest more in ancillaries, not only to deliver additional high-margin revenue, but

also to reduce third-party distribution costs across the travel supply chain and avoid commodity status. They might do well to take a page from the e-commerce retail giants: By building a comprehensive and constantly innovating range of products, services, and experiences, they can increase their appeal to contemporary travelers and build lasting customer relationships.

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