

Dynamic Packaging

The Next Battlefield

Are You Dynamic Yet?



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Executive Summary

The Dynamic Packaging market is growing. Hotels, Spas and Resorts need to learn from what happened after 9/11 when the online agencies took control of hotel bookings. Accommodations providers have been fighting to take back control of their inventories (Chains more successfully than **Independents**). Dynamic Packaging is now the next battlefield. Online agencies have been using dynamic packaging as a way of building increased customer loyalty and profit; if hoteliers sit back and wait they will be squeezed out of the packaging market.

Currently 45% of US package buyers booked a package online, these package buyers are being trained to go to online agencies to book package deals. 76% of online package buyers bought through an online agency, while 9% bought only at a supplier site (*Forrester Research*). Online package purchases will continue to grow as online agencies focus on educating customers that you can save big by building your own package vacation.

Promoting Dynamic Savings Front and Center

Expedia: *Book Together + Save!.... Expedia discount for booking together*

Orbitz: *Book Your Flight and Hotel Together and Save*

Travelocity: *Book Together and Save*

Cheap Tickets: *Customized Package Savings*

Marriott: *Bundle your room with air, car or both and save a bundle on vacation packages.*

Intercontinental Hotels Group: *Create your own travel package and Save!*

RIU: *Save on Vacation Packages*

Best Western: *Save more by booking hotel + flight or car together!*

Your customers want to do business direct with you. When asked, "If you knew that the price of travel would be the same, who would you prefer to buy travel from?" 69% chose you, while only 29% chose **Travel Agencies** (*Forrester Research*). Dynamic packaging makes it easier for them to do so.

Major chains & resorts have already reacted to the new challenge and have started offering dynamic packages on their websites. Hyatt, Marriott, Intercontinental Hotel Group, Best Western, Outrigger, and RIU already encourage their customers to book all their travel/vacation needs directly with them, keeping their current and potential customers from leaving their website to book air, car and activities. Once they leave your website you lose control, allowing them to book and possibly stay elsewhere. The chains and progressive hoteliers are offering their loyal customers added reasons to book directly with them.

Offering customers the ability to book packages with hotel, air & car was named **one of the top ways** hotel websites could influence you to book directly rather than on a travel website (*HeBS Rush Report*).

It may sound difficult, but adding dynamic packaging to your existing website is not complicated. Vendors offer Dynamic Packaging Solutions that works easily with your existing reservation system and can be up and running in a matter of days.

Package Sales By The Numbers *(Forrester Research)*

Vacation Package Sales on the Web are forecast to reach \$3.3 billion by 2009. That is more than double the \$1.6 billion booked in 2006. What is more disconcerting is that these bookers are the most brand loyal of all the online bookers. They are the most loyal to your hotel, but they currently have little opportunity to meet their vacation needs on your website.

Packages are Hot and Heating Up

- 22% of US online leisure travelers bought a vacation package in the past year
- 45% of US package buyers booked a package online
- An add'l 29% of US online package buyers researched their package online but purchased it offline
- Package Sales on web grew from < \$1B in 2003 to \$1.6B in 2006, \$3.3B by 2009
- What motivates package Bookers? It's the brand, not rock bottom deals
 - 6 in 10 agreed with the statements "I am willing to pay more for a noticeably better quality product or service" and "I am willing to pay more for travel products that save me time and hassles."

You want the Online Package Bookers

Demographics of a Package Booker (vs non package booker)

- Younger (41 vs 45yrs of age)
- More Affluent (avg. head of household income 6K greater)
- Better Educated (college degree or higher 57% vs 51%)
- Entertainment Motivated (52% vs 38%)
- More Leisure time (5.7 leisure trips per year vs 5.1)
- More tech optimistic (73% vs 65%)
- Annual Leisure travel spending 75% higher than non package booker (\$6.5K vs \$3.7K)

Hotels, Spas & Resorts are losing the Packaging Battle to Online Agencies

Losing Control of their Own Customers

- 40% of package bookers bought leisure travel at online agency only (like Expedia & Orbitz)
- 9% of package bookers bought at supplier (Accommodations & Airlines) sites only
- 36% of package bookers bought at both type of sites
- 15% of package bookers bought at other types of online sellers

Give your customers more reasons to book directly on your website

Offer unique product offerings found only on the hotel site

- Only 2% of hotel website visitors make a booking while the other 98% will read, scan, and then leave your site (HeBS).
- Online travel consumers prefer to shop around and on average visit 3 or 4 travel related sites before making a booking (HeBS). The preferred last stop is a travel supplier's site.
- It costs 4-6 times more to attract a new customer than to retain a current customer. Existing customers also respond 4-5 times more readily to promotions and email campaigns. (HeBS)
- Expedia claims that over 40% of its visitors researched travel on their site and then ended up booking on travel supplier sites.

Trends that Impact Your Online Plans

Major Hotel Brands are winning the Online Battle with Intermediary Websites.

BUT... Independent Hotels, Resorts & Spas Still Losing the Battle

In 2006 the major hotel brands did 81.4% of their online bookings direct and only 18.6% through intermediary websites (Hilton does 90% direct and only 10% indirect). By contrast most Independents do less than 40% of their online bookings direct. How do you stack up?

USA Online Hotel Bookings	2003	2004	2005	2006	2007
Hotel Websites	53%	54%	60%	62%	65%
Intermediary Websites	47%	46%	40%	38%	35%

(Merrill Lynch, HeBS)

Online Intermediaries need hoteliers more than hoteliers need them (HeBS).

Hotels are the only major travel segment that still provides abnormally high profit margins to online intermediaries. Now is the time to start working with fewer third party intermediaries and at dramatically lower margins (target 15%-18%).

Avg. Revenue for Online Intermediaries per booking

Airline Reservations	\$10
Car Rental Reservations	\$5
Hotel Reservations	\$80 (ADR \$200, 2 nights 20% markup)

Hotels are the foundation on which online agencies build their lucrative travel packages business.

A major STR/PWC study found that the hospitality industry lost over \$1 billion on profit leakage due to online intermediaries in the form of abnormally high markups

Case in point, to protect their bottom line, the biggest online intermediaries have invested heavily in dynamic packaging, purchasing two of the biggest dynamic packaging technology providers. WWTE is owned by Expedia and Neat Group is owned by Orbitz. Are they really on your side? Do they have your best interests at heart? You need to be careful in how you go about entering the packaging business.

Reclaim your margins by booking more of your rooms direct with air inclusive dynamic packaging.

Direct to Customer online distribution with dynamic packaging has the following benefits:

- Puts hotel in control of its internet presence and exposure
- Prevents brand and price erosion
- Lessens dependence on online discounters and intermediaries *(if done carefully)*
- Is the shortest path to establishing interactive relationship with customers.
- Provides long-term opportunities to benefit from the lifetime customer value
- Is the least expensive way to distribute hotel inventory – direct to consumer
- Gives customers a one-stop shop purchase decision – discouraging leaving the site for air
- Offers customers unique products, special deals and added savings on your website

Conclusions

Why Hotels need to add Dynamic Packaging to their Product Mix

- **The Dynamic Packaging Market is growing:** Forecast to more than double between 2006 - 09
- **Packages offer Better Margins:** Packages are more profitable than selling rooms through third party online agencies. Better manage your revenue mix
- **Keep Control of Your Customers:** Dynamic Packaging buyers are more brand loyal. They are coming to your site. Do not let them leave your website to go to a third party vendor to book their air. They may not come back.
- **Provide the "One Stop Shop" Your Customers Now Expect:** Your customer are being trained that they save when they buy a package. Check out Expedia and Orbitz for proof. Offer this savings directly to your customers.
- **Hotel Chains are already offering Dynamic Packaging:** Do not fall behind the big brand chains. It is not complicated to add dynamic packaging to your website.
- **The Big Hotel Chains are already offering Dynamic Packaging:** Do not fall behind the big brand chains (Marriot, Hyatt, Intercontinental etc...). It's not complicated or expensive to add dynamic packaging to your site
- **Stop Subsidizing Online Travel Agencies:** You've fought back to sell more and more of your room inventories direct. The online agencies have changed tact and are now heavily promoting package deals and buying up dynamic packaging technology providers. And it 's working. Currently, 76% of online package buyers bought through an online agency. The margin for these packages comes primarily from the room component, not the air and car segments.
- **They are your Customers not the Airlines:** customers leave your site to book air, making sure they can get to their destination at an acceptable price at the time they desire. Make their life simpler and offer your customers the ability to book air on your website.
- **Offer your customers a less expensive way to get to you:** Airlines allow their tickets to be discounted when packaged with a hotel room. You can only pass this savings onto your customers through dynamic packaging.
- **Build Brand and Customer Loyalty.** Continue the education process that your site is the place to book the best deals and special promotions not available at third party providers. Offer unique product offerings found only on your site.