Monetizing web traffic in the travel industry

August 2014, by Allie Anderson

Monetizing web traffic in the travel industry

INTRODUCTION/OVERVIEW

The travel industry is changing at a rate of knots: trends that one might have predicted were years in the offing are coming to fruition thick and fast. Vast amounts of data are available to digitally savvy consumers who have increasingly more ways of accessing this information within their grasp. In fact, earlier this year EyeForTravel highlighted the impact of mobile and tablet devices, along with the emergence of metasearch and the relevance of big data and analytics, as being among the key threats and opportunities travel companies should be focusing on this year (Eyefortravel, 2014).

Online travel agencies (OTAs) remain a favorite destination in the consumer's travel booking journey, with almost half (47.2%) of web visits attributed to OTAs (Expedia Media Solutions, 2013), while the US saw an 87% rise in the use of metasearch sites between 2010 and 2013 (MMGY,2013a). But with Priceline's $1.8bn acquisition of metasearch company Kayak and Expedia buying a 61.6% stake in Trivago within just a few months of each other, the lines are blurring between the media model of metasearch and the transactional model of traditional OTAs. It seems as though consumer demand could be creating a convergence between the two, with a hybrid model emerging as the way forward in travel search.

Add to this the fact that competition in the travel space is increasing, so maximizing profits through different revenue streams is becoming both a strategic priority and a challenge for travel suppliers. Rather than trying to squeeze more from the comparatively few transactions that take place on their ecommerce sites, some are considering making media pay in a bid to extract value from their non-buying visitors. The question is: could this hybrid approach be the key to tapping into unclaimed profits from passing web visitors?

PART 1 – THE TRAVEL LANDSCAPE

1.1 The current state of play

Travel is big business... and it's getting bigger. MMGY Global's 2013 Portrait of American Travelers revealed that despite lingering post-recession financial concerns, some 83% of leisure travelers were planning the same number of trips or more trips in the coming year, compared with the previous year (MMGY, 2013a). The way in which people go about researching and booking their trips is evolving, however. According to Expedia Media Solutions and Compete.com, a typical traveler will visit three search engines, five airline sites, five OTAs and five research sites before making a purchasing decision (Expedia Media Solutions, 2011). For a traditional OTA, this paints a mixed picture. While more traffic may be coming to your site, any one of those visitors is likely to go to 17 other sites as well, stacking the odds of that visitor actually transacting on your site firmly against you: conversion rates are often reputed to be around the 5% mark.

Looking to other industries, and to the Internet in general, it's easy to see how this consumer behavior has come about. Sites like Moneysupermarket.com in the UK have bred an expectation among consumers that they ought to be able to gain very good knowledge about a product, service or market before they buy. This insight, once the reserve of industry experts, is now readily available in just a few clicks. When it comes to travel, consumers want to get the best price and derive optimum value, and they want to have the resources to do this research themselves at a time and in a place that's convenient.

1.2 Implications for consumers

While travelers want up-to-date and relevant information about their options, trawling through 18 different sites to find it is time consuming. Travel is a big deal for consumers, particularly when it comes to organizing their annual family

vacation, which they've saved for, planned and anticipated for a long time. Presented with a plethora of data across multiple sites, some of it replicated and much of it overwhelming or confusing, even the savviest of users is likely to feel under pressure to make the right decision.

In addition, according to the MMGY Global/Harrison Group 2013 Portrait of Digital Travelers, more and more consumers are turning to mobile devices to research and book their trips (MMGY, 2013b). Their study found that the number of US travelers who use their smartphone to plan travel has almost tripled in just two years, from 23% in 2011 to 62% in 2013, while those using a tablet soared from 7% to 43% in the same period. Dubbed the 'digital elite', this segment now comprises one third of the overall market of active US travelers, a huge growth of more than 600%.

But what does this mean for their search experience? On a desktop, the user can cascade multiple tabs to view and compare information with ease. On a mobile device that's almost impossible – users can very quickly lose track and become confused and frustrated. With the likes of TripAdvisor reporting that almost half of its traffic was coming from mobile and tablets by the start of 2014[1], it becomes of paramount strategic importance to make the user interface suitable for those devices.

1.3 Implications for OTAs

There appears to be general agreement among the industry – and even OTAs themselves are resigned to the fact – that visitors to an OTA's website will, almost without exception, also visit a number of its competitors' websites. Moreover, around 95% of those visitors will leave the site without buying anything. Against such compelling evidence of user cross-shopping, focusing on boosting conversion rates alone seems doomed. Quite simply, people will shop around, regardless of how much you invest in trying to keep them on your site.

The result is that the 95% of users who don't convert are effectively using OTA sites to research and compare, in the same way they would use a search engine. This presents an interesting challenge for OTAs: if you have the best offering for what the consumer wants, the chances are they'll come back – but only if they don't get distracted along the way or become completely despondent and abandon their browsing session. Here, real-time data comes into play... and that's where the experts in search potentially have the edge.

The field of travel search is growing and more players are coming in to bat. In the UK, of the 72 million searches for flights conducted each month, 56 million (more than 75%) are done through metasearch and OTAs, which, combined, also account for 64 million (68%) of the 94 million hotel searches (various sources)[2]. Overall, 87% more American travel consumers used metasearch sites in 2013 than in 2010, while the numbers for OTAs are going the opposite way, declining 12% in the same three-year period (MMGY, 2013a). OTAs therefore face growing pressure to set themselves apart, and increasingly fewer options around how to do it.

PART 2 – THE OPTION OF MEDIA MONETIZATION

One way for OTAs to create the shopping experience consumers increasingly want, and to make themselves a more viable, long-term proposition in the marketplace, is to behave more like a search site: presenting visitors with all their travel options for a given set of search criteria, including those offered up by their competitors. As radical as it may sound, exploiting media economics to promote a competitor's products, although risky, can also be hugely rewarding.

2.1 An appetite for change?

There is a pervading sense of acceptance that

the vast majority of travel website visitors will go elsewhere to buy. However, actively nudging them on their way remains a step too far for many. Rod Welch, president of South Carolina-based OTA HotelGuides.com, says: "Lots of people come to our site, use the information and then call the hotel directly. That's just life. But we don't display advertising of any type [because] it's hard to get these people, so to send them to somebody else is not what we want to do."

For others, marketing is all too often unaccountable. "Most advertising shows you the products or services from the companies with the highest ad spend, which may have little to do with what is actually best for you. In spite of the progress made… it's still largely 'spray and pray'," says OneTwoTrip's VP, mobile and on-trip services, Bob Rogers.

Spanish OTA Destinia is embracing the monetization of non-paying web traffic in several ways, including advertising on a cost per mille impressions (CPM) basis. Director of marketing Beatriz Oficialdegui explains: "For travel advertisers, I have to balance how much money I'm going to get from that campaign against how many sales I might lose. Usually, it's definitely worth it. If we combine that with non-travel advertisers, the profitability is even higher. We are a transactional website so advertisers want to appear on it because of the profile of the user that comes to Destinia. We don't lose any sales and we make money from those businesses as well."

Destinia uses this strategy alongside in-house ad retargeting to derive income from non-buying visitors. "With cookies, we know when a customer has come to our site but not finished the conversion, so we can 'follow' the customer around the network with our banners, offering the product they've been searching for on our site," Oficialdegui adds. This approach enables Destinia to keep its site relatively ad-free. "We

still want a clean website: we may be losing potential advertising income because of that, but at the moment our core business is to sell hotels, flights and different products, and we want to focus on that."

2.2 The Amazon effect

But what would the world of travel look like if OTAs were to take a risk and fully embrace the concept of media monetization? It might look something a little like Amazon. From humble beginnings as an online bookshop that sold its first book in 1995, Amazon entered its 20th year of business as the top online retailer in America, Europe and Japan. Last year, it achieved sales of $74.5bn – but add in the products that other companies sell through Amazon's Marketplace and its revenue is almost doubled again (Economist, 2014).

According to Richard Harris, CEO of New York-based travel advertising technology firm Intent Media, the secret to Amazon's success is its smart recognition of the potential of 'co-opetition', and its seamless integration of transactional and media interests. "Amazon is extremely aggressive with competitive ads and competitive pricing, and they do it so well that few people even realize that they're ads. These ads are so relevant and so compelling that it makes people more likely to buy from Amazon," Harris says. "Asked why they do it they say that first, it generates billions of dollars of free cash flow every year, and second, it improves the consumer experience. It is also shifting the entire online ecommerce landscape where instead of Google being the site of first choice for people to start their shopping process, it becomes Amazon."

2.3 Replicating the example in the travel space

One obvious barrier to OTAs emulating Amazon's model is that they lack the scale and resources. But globally, several are successfully adding metasearch functions to their transaction sites and returning results from their competitors for a given search.

One of the most crucial factors in monetization through displaying competitors' adverts is the ability to recognize consumer intent – i.e., to accurately identify which web visitors are likely to click away and at which point in the transaction funnel. As Canada's largest online travel company (Flight Network, 2014), Flight Network has also begun to invest in media monetization strategies. Chief digital officer Thomas Jankowski is exploring data-driven technology that has the capacity to differentiate between customers and non-customers with 95% accuracy.

"Once we are happy with our chosen algorithm we'll let the sample grow for five or six months to see how well it classifies visitors," Jankowski says. "For those who are classed as non-customers, we'll see on our transaction database if they do eventually become customers through a double-blind study. Only once I am 100% certain, many months in, that classification is really working as expected will I start to think about how to proceed with monetization."

Over at TripAdvisor, the metasearch function has been up and running for just over a year. Recognizing the ever-increasing role of smartphones as the consumer's device of choice when planning travel, the next step was instant booking on mobile, which was introduced in May. The instant booking feature makes it easy for travelers to make a booking through whichever OTA or supplier they choose without leaving the TripAdvisor site experience. So when a user has made their purchasing decision, instead of being taken to the hotel provider or OTA's site to complete the transaction they are able to book there and then. "The hotel or OTA is still the merchant of record but the user is within the TripAdvisor app. We've done this because of the increased possibility that people might get lost on mobile [and] as a service to our partners to help increase the conversion rate by taking a step out of the process," Nathan Clapton, VP mobile partnerships, says. "Travelers also trust TripAdvisor and some consumers prefer to be booking within our environment, and that positively increases conversion rates." TripAdvisor earns a commission for sending qualified leads to its booking partners, so the advantage is two-way.

PART 3 – RISK AND REWARD

Is the risk for an OTA in diverting prospective customers away from their site worth the potential reward? Some would argue not. "It's never worth it and it would destroy our core business," says Welch. According to Rogers, the focus should be shifted back to the 3% of paying customers. "Rather than asking 'how can I monetize my audience?', I think the question should be 'how can I further add value to my existing customers/visitors?'" he says. "This can also reduce the risk of losing your customer to a competitor, because you are actually part of the value chain. It might require investing a bit more in your service, but that investment could very well pay off."

Intent Media, however, predicts that monetization will become the model of choice. Harris says: "The data is in, and people continue to cross-shop. Despite a lot of investment made across the industry in raising conversion rates and improving loyalty, the numbers are going the wrong way. So it's about acknowledging existing consumer behavior and deciding how to react to it."

3.1 Customer cannibalization
The most obvious threat of media monetization is losing potential buyers to a competitor, or 'customer cannibalization'. Harris admits that this risk is "real and rational", but says that with the backing of data science and ongoing A/B testing, the argument is persuasive. Jankowski agrees. "If you truly perfect your algorithm, those risks become automatically mitigated, because you're only going to be monetizing

non-converting traffic," he says. "If I am able to successfully predict that a visitor is 95% plus likely to not buy, then the risk in terms of profitability is minimal because I wasn't going to make any money from them through my primary purchase funnel anyway."

The essential part of the jigsaw is reliable, real-time data to have a shot at predicting a visitor's wants and behavior. "Consumer intent is the most valuable form of data against which to target advertising," Harris explains. "The reason Google has become this multi-million dollar player is they have access to consumer intent in all categories, globally and in real time." While Google has historically been the world's foremost depository of intent, commerce sites like OTAs, suggests Harris, have access to more and better data — like which neighborhood they prefer to stay in on which nights, their budget, brand preferences etc. As a result we're seeing sites like Booking.com, Orbitz and Travelocity rival Google as the place travelers start their shopping.

3.2 Right place, right time adverts

Intent Media's solution is built on a data science platform — large-scale statistical modelling that effectively predicts a visitor's propensity to convert. "That's really something no one in the market does," Harris says. "Depending on the situation and a lot of testing, we can use that knowledge to de-risk the proposition of competitive ads. If someone is highly likely to buy, we can discern that in real-time and let that user focus on completing their transaction. But for users more likely to buy on a different site, we can introduce a highly relevant, native ad and help them get where they are going next... which is often to a competitor."

Jankowski explains how one element works: "Let's say a customer is part-way through the funnel; they've selected their chosen dates and destination and they've clicked on 'search'. If you see at this point the customer has lingered

on the page for 30 seconds without interacting with it at all, this could be a good time to display an advert. Your statistics will tell you that 80% of these people at this stage, having done nothing, will simply close the browser or open another tab. The rest of the mechanism is all about fine tuning the other elements in order to get the system as perfect as possible."

PART 4 – THE HYBRID FUTURE

As online travel search is in its relative infancy, there are many opportunities for travel sites to develop their propositions. Filip Filipov, head of B2B at Skyscanner, believes that although OTAs will face difficulties in transitioning to a true metasearch model, having a meta-offering is a "smart decision". "It allows more flexibility — if their price is really high and they can still serve their customer by sending it off to another site, it establishes a good practice for them." Doing so also demonstrates openness and transparency, fostering consumer trust.

The industry's challenge lies in "evolving the understanding of metasearch within the supplier community and showcasing how it is the most beneficial approach when it comes to distribution", Filipov adds. "The airline industry is based in a deep-rooted model and to help progress toward other avenues and options continues to be a main objective for us."

But the OTAs' challenge, he suggests, will be in developing the technology required to replicate the hybrid approach. Skyscanner has a white label offering that allows suppliers and intermediaries to launch a search function that's powered by its technology but can be individually branded. "We also have API [application programming interface] products — flights, hotels, car hire — that allow customers to leverage our data to build a search experience specific to their audience, and a widget that provides a simple plug-and-play search tool,"

Filipov explains. "These give travel suppliers, intermediaries, or anyone else interested in offering a travel metasearch product as part of their online portfolio, a flexible way to customize the needs of their audiences and earn revenue."

The first step for OTAs, says Harris, is acceptance. "Realize that you have a lot of traffic that's giving you this asset – consumer intent. Rather than relying on gut feeling, you have to experiment with non-transactional forms of monetization. Until you have that data in your hands it's very hard to make a good decision." Jankowski believes that the success lies in getting the balance absolutely right. "If you mix your monetization efforts well, so that the delivery is unobtrusive and the customer experience doesn't suffer but to the contrary is enhanced, I think it's going to be the answer… it's just who gets to it first and what will it look like."

With thanks to:

TripAdvisor

HotelGuides.com

OneTwoTrip

Destinia

Intent Media

Flight Network

Skyscanner

REFERENCES

Expedia Media Solutions, 2011, Exploring Consumer Behavior on The Path To Purchase

Expedia Media Solutions, 2013, The Traveler's Path to Purchase. http://cdn2.hubspot. net/hub/149354/file-271132325-pdf/docs/Path_to_Purchase_Expedia_Media_Solutions_ MillwardBrown.pdf?t=1406527377789. Accessed: 04 Aug 2014

Eyefortravel, 2014, http://www.eyefortravel.com/mobile-and-technology/threats-and-opportunities-could-make-or-break-your-business-2014. Accessed: 04 Aug 2014

Flight Network, 2014, http://www.flightnetwork.com/pages/about-us. Accessed: 04 Aug 2014

MMGY, 2013a, Meet the New American Traveler: 2013 Portrait of American Travelers http://www. mmgyglobal.com/media/1403235/questex_poat_highlights.pdf. Accessed: 04 Aug 2014

MMGY, 2013b, Survey Reveals New Class of Travelers: The Digital Elite. http://www.mmgyglobal. com/news/survey-reveals-new-class-of-travelers-the-digital-elite/. Accessed: 04 Aug 2014

The Economist, 2014, Relentless.com, article dated 21 June 2014, viewed at http://www. economist.com/news/briefing/21604559-20-amazon-bulking-up-it-notyetslowing-down-relentlesscom. Accessed: 04 Aug 2014

(Endnotes)
1 Phone interview with Nathan Clapton, TripAdvisor, 23 July 2014
2 Various sources, including Google Keyword Planner, BingAds Keyword Tool, Internal Analysis, cited in In-novations in Travel Search Marketing, Intent Media presentation, 2014