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DYNAMIC TRAVEL PACKAGING

THE NEXT GAME-CHANGER

In cooperation with



PEAKWORK

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Impressum

Dynamic Travel Packaging: The Next Game-Changer

A PhocusWire Report sponsored by Peakwork
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Executive summary

Dynamic packaging has been growing and evolving for the past ten years and this trend will continue to 2020 and beyond.

Airlines are launching holiday brands, hotels are launching their own tour operators, rail companies are selling accommodation, metasearch players are upselling packages within flight search results, even Google is taking an interest in the practice of offering package search results in and outside the Google travel section.

Technology underpinned the development of packaging as a product in the early days of online travel. Today, the technology powering the creation of packages is among the most sophisticated in the industry. It is now possible

for travellers to get a response to a query almost instantly, and that response will comprise real-time availability and pricing.

The economics of truly dynamic packaging are compelling: pricing in realtime allows suppliers to present price-competitive options to travellers while maintaining control over their own yield and margins without compromising price integrity.





Introduction

Dynamic packaging is the innovation which lets travellers book their trip in a personalised manner by combining flights and a hotel, breaking free from the restrictions of static offers and rates of the pre-defined packages.

One of the earliest references to dynamic packaging comes from PhocusWire sister brand Phocuswright in its press release, "Dynamic Packaging Fuels Growth of Online Combination Purchases in 2004," which accompanied the launch of its Consumer Travel Trends Survey Seventh Edition twelve years ago (March 2005).

Growth and complexity

Fast forward a decade, and dynamic packaging continues to grow, increasing in complexity as it moves beyond "combination purchases" towards "in-the-moment production and distribution."

Statistics from Euromonitor International confirm package sales have grown annually since 2011 in the largest markets. The latest figures for 2017 show growth in the major European markets of the U.K., Germany and Spain where sales came in at \$20.6 billion, \$18.1 billion and \$9.2 billion respectively. Sales in Japan were \$25.2 billion while the U.S. leads with sales of \$35 billion.

The total figure for package sales in 2017 was \$252 billion. This growth is forecasted to continue throughout

to 2020 with markets such as Russia, China and India also contributing with growth.

Complexity comes from the evolving traveller trends as well as distribution and production shifts. Dynamic packaging encompasses: automated bundling, the unbundling of processes, real-time pricing, flexible product sourcing, extended inventory, targeted upsells, customer support, online price comparison, social media marketing, online distribution and more.

Suppliers creating the packages or providing the components can incorporate real-time inventory and pricing into the end result. Returning a competitive result for consumers at an acceptable margin for the supplier is a strong example of efficient market dynamics.

Geographical borders and regional legacy systems vanish as the market is reshaped with new entrants competing with established innovators. In Asia Pacific, domestic and outbound travel is growing, resulting in more inventory in the region becoming available for the global travel industry to package.

KAYAK, TUI, Hotelplan and Holidays.ch are examples of businesses which have embraced the new dynamic packaging paradigms and use the technology as a springboard to drive sales, generate new business lines, enter new markets or consolidate a leadership position.



Market size

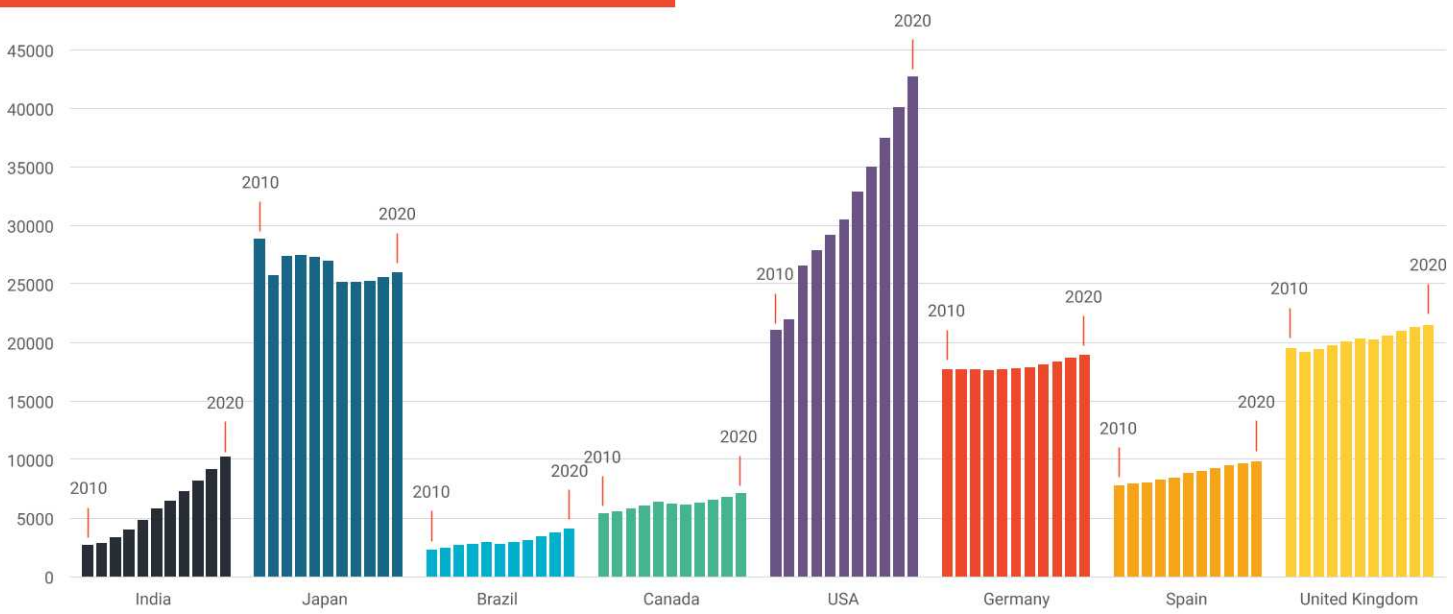
Research group Euromonitor International includes "intermediaries package holiday sales" in its ongoing series of country reports. The definition comprises traditional package holidays; dynamic packages which are created online by the consumer at an OTA, airline or tour operator website; and specialist packages such as adventure holidays, city breaks, fly-drive or spa breaks. It is limited to leisure trips and does not include cruise packages.

The chart below illustrates that in all the major markets, package sales have grown over the past years and will continue to do so to 2020.

The increase and continuous growth in demand, new entrants and ongoing technological advancements making the package product customizable, searchable and bookable will fuel future growth of this segment.

Growth of package sales

Historical/forecast retail value, US\$m, current prices, fixed 2017 exchange rates



New combinations

Driven by tech, demanded by travellers.

Today's customers demand dynamic, broad and personalized combinations of travel offerings. Suppliers face new customer and product requirements, sales models, and the opportunity to optimize yield management through more flexible price and inventory management as well as opaque pricing. "Flight + hotel," driven by tour operators or OTAs, is the most common form of dynamic packaging. However, new combinations as well as packaging capabilities are technologically possible, demanded by customers and adopted by suppliers.

For example, within the "flight + hotel" segment, there are the following variations of the traditional package:

"Flight +" combinations—airline yield management

One product which has emerged is the airline-branded holiday package, such as Ryanair Holidays, easyJet Holidays or Lufthansa Holidays. United Airlines, American Airlines, China Airlines and Hainan Airlines have also entered this space.

Often, the airlines outsource their holiday brand to partners with dynamic packaging and fulfilment capabilities. Holidays.ch has been the fulfilment partner for multiple leading airline holiday brands powering Lufthansa, Condor, Swiss, Sun Express and most recently, Ryanair Holidays.

Sven Ickstadt, member of board at Holidays.ch, said that airlines are increasingly considering the airline-branded package product for three major reasons: targeting a new customer segment, diversifying revenues and optimizing margins.

"Ancillary services such as seat assignment and checked-in baggage generate revenues because of the volumes, but holiday packages deliver more revenues at greater margins."

Holidays.ch aggregates seat inventory from its airline partners and combines this with accommodation inventory.

"About 80% of our accommodation inventory is directly contracted, which gives us control over the pricing of the holiday package. Good hotel content helps differentiate the offering and convert flight customers into package customers and hence capture part of this new segment and diversify revenues."

Access to flight inventory at a preferential rate also helps the airline and its partners. Because customers only see a single price for the package, rather than for the individual components, such as the flight price, airlines can sell seats without compromising their price consistency and have more flexibility around margins.

A fulfilment partner can adapt the packaged product to the needs of the airline and segment it operates. Holidays.ch can add value to the airlines by providing services such as representatives at the destination or call centre support. Fulfilment partners also have to use technology that's flexible enough to cope with different airline propositions. "So, with some, there is checked baggage allowance included in the seat cost and this flows through into our booking engine; with Ryanair, we have to be able to include booking the ancillaries when creating the price for the package."

"Hotel +" combinations—hotel brand leverage

Another variation of the traditional "flight + hotel" is the hotel-branded holiday product, driven by large international hotel chains such as Vacations by Marriott, powered by Expedia. More hotel companies are starting to follow and create their own holidays business to leverage their brand and capture part of the package segment.



Creating a branded holiday product is another direct channel for hotels, generating more interest in their brand-dot-com.

Airlines think the same. Ickstadt noted that many airlines are seeing holidays as an opportunity to establish a closer relationship with their customer, generate loyalty and hence repeat customers.

“Hotel + Flight”—OTAs’ portfolio differentiation

Online travel agents were the early adopters of “flight + hotel,” but over time, their model has evolved. Access to a wide range of hotels was enough in the past; today, differentiation has become essential. Large OTAs can negotiate preferred rates directly with hoteliers thanks to their global scale, while mid-scale and smaller OTAs are dependent on sourcing accommodation from bedbanks or wholesalers.

Flight inventory for OTAs usually comes directly from the airlines or a consolidator, many of whom only make public fares available to the OTAs for the package. Therefore, accommodation and the technology which creates the package is how OTAs can differentiate. Expedia.com’s continual refinement and optimisation of its packaging

product, reinforced by the messaging of its consumer-facing marketing, has ensured that it remains a leader in packaging, by some distance.

Of note is Booking.com’s recent trials with packaging, partnering with OTAs such as lastminute.com to trial a flight + hotel offering on its homepage. Even Google has become a player having launched third party packages on mobile and desktop prominently in the first countries already, such as US, UK, Germany etc.

“Rail +” combinations—enrich supplementary product

Rail packages have gained popularity. Train operators have developed their own distribution technologies, which in turn facilitates the creation of rail-based packages combining the rail product with hotel, cruise, activities and other components.

In Europe, where high-speed rail travel is taking market share from flights on city pairs with a flight time of up to three hours, customers have the option of booking their rail journey and, for example, adding a concert ticket and accommodation in one transaction. Event and ticketing agencies have caught up and can now also make their inventory available for the packaging engine.

Dynamic packaging is a global trend. In China, Ctrip has had great success with the “rail + flight” package option. The growth of China’s travel infrastructure has been rapid—there are more than 200 airports in China, but still more than 100 big cities remain connected only via rail. Ctrip’s “rail + flight” option provides the link.

Flexible technology enabling new package combinations and distribution

Peakwork offers a comprehensive solution for dynamic packaging as well as connectivity to global distribution channels. Peakwork CEO Jan Gerlach comments on the current demand of global travel companies: “Today’s technology has to meet global travel firms’ expectations and enable flexible new business opportunities. We see a clear trend towards the sales of combined travel products with opaque pricing possibilities.”

He adds: “Online travel search becomes more and more powerful and transparent in international markets. Today, next to tour operators, airlines, hotels, and other service providers, metasearch and social networks also influence and sell directly to travellers. Peakwork connects all these market players with one API accessing packages software for search and booking.”



New challenges for metas

Metasearch sites work with two models-“clickout” which redirects the user from the search result on the meta website to the supplier website, and “instant” or “facilitated” booking where the user books on the meta site itself. This latter development-that customers are purchasing the product on meta site-is beginning to disrupt the traditional meta model.

Moreover, metas have diversified their product portfolio to address the major travel product segments: flights, hotel, and now packages.

Package goes meta

KAYAK is at the forefront of not only meta but also the entire spectrum of travel technology, since it was founded in 2004. Now part of Booking Holdings, KAYAK has been trying its hand at package searches since 2014. Jan Valentin, currently an investor in travel, mobility and blockchain startups in Europe and Asia and former managing director of KAYAK Europe, explained that the package product is currently active across multiple countries or points of sale with more than 40 advertisers. KAYAK has been testing the facilitated book functionality on KAYAK for packages with selected partners.

It uses the multiple brands that it works with, such as Momondo, Cheapflights and Swoodo to drive growth of its package product and deals product globally.

“KAYAK accesses a cache, where the partner uploads the inventory and data for the packages. The priority is to have many different sources of data and product for packages so KAYAK can offer a breadth of inventory.

“It is important that when the user is searching for flights, hotels and packages, the website can offer them the widest

possible range of options. It’s relatively easy to return a wide range of results quickly, but results have to be accurate for the user to book the offer, hence the strong correlation between accuracy and conversion,” said Valentin.

Valentin acknowledged that packaging is “complicated” in terms of not only the travel technology requirements, but also the regulations around package travel, fulfilment, PCI compliance, privacy and data protection.



Next-generation travel search and social networks

Google has supported users in finding flight and hotel offers from day one, and today, it is putting a lot of effort into its own version of instant or facilitated booking, Book on Google, which allows users to search, find and book their flight or hotel on Google. In early 2017, Google introduced package travel search in the the U.K., the U.S. and Germany. Currently, the model for the package product so far is click-out, so customers go to the suppliers' website to book.

Metas, search engines and social media sites are driven by innovation and are always testing different features and functionalities-to drive more traffic, retain customers and convert users into bookings. Upselling is a specific area of interest for all these businesses. In-product upsells-such as a better room or a better seat-and upselling car hire or activities to an existing purchase-are established. The new era of upselling, driven by technology, could be converting customers from a hotel or air purchase to a package booking.

Jan Valentin thinks so: "I think in the future when people search for flights, the results will include packages which match the search queries as well. By playing around with the margins, the total price presented to the customer will offer a great deal, while the supplier can make a decent return. The supplier will fulfil the package booking on their own site."

Social networks such as Facebook optimize travel search to meet their audiences' needs in the travel segment and when planning their next trip. Dynamic technology allows new applications and services exactly where consumers are most likely to e-meet. Dynamic Ads for Travel ("DAT") is Facebook's specialized travel product, allowing advertisers to sell flights and hotels specifying origin and destination, prices and availabilities. Facebook's DAT can be used to sell packages.



Global sourcing and package production

For travel suppliers and operators to compete in the global landscape, they need to adapt from their home market to other local market conditions and dynamics. This also means sourcing and producing travel products in a dynamic and flexible manner that can adapt over time and to different requirements.

The world's leading tourism company, TUI, has managed the transition from a locally focused legacy trading company to a vertically integrated global tourism business with a strong focus on hotels and cruises. Next to developing, investing in and operating its own hotels and cruise vessels, TUI is developing a presence in new markets as part of its TUI 2022 plan and aims to attract one million new customers and an additional €1 billion of revenue by expanding, with a focus on Southern Europe, Brazil and—in particular—Asia.

This will all be achieved “on the basis of a digital, standardised, globally scalable software architecture as well as global expansion of the strong TUI master brand.”

Frank Rosenberger is member of the Executive Board and responsible for IT and Future Markets at TUI Group. He said that TUI's global plans are also a natural progression from its content-centric approach—namely its strategy to control hotels, by owning them or through management contracts. Packages are TUI's core business and the internationalization strategy is technically based on one central technology platform.

“Having access to global points of sale is a great opportunity for us to make the most of our hotels,” he said, “and there is a great counter-seasonality opportunity when looking at our portfolio globally. We have a lot of properties in the Caribbean, for which we have an established European season and a Canadian season. But if we make

those rooms available to the U.S. or Brazilian market when Europe and Canada are off-peak, we can maximise utilisation of our content and raise yields.”

Rosenberger understands that TUI needs more accommodation inventory than the hotels it owns to give new customers in new markets a choice when it comes to the package options. Its owned and managed hotel portfolio—more than 325 hotels with a total of 239,000 beds in 30 countries plus around 100 concept hotels—will be supplemented by inventory from negotiated bedbanks rates, while the air component of the package comes from different sources.

“Packages in the new markets will be different from Europe, where we have our own airline with specific routes and schedules and build the package on. In the new markets, we package dynamically because the offers are created using real-time flight availability and pricing.”

Rosenberger highlights TUI's requirements of its packaging engine: “The ability to access different sources of content and the ease with which new supply partners can be integrated, the extent to which the platform can prioritise the results in the way we want, how quickly it can create these combinations, and then what we call price purity—how good is the availability and how accurate are the prices.”

Meanwhile, TUI is also using its global technology competence to enter new markets as a B2B partner. “We have set up our platform so that it can be used across our web points of sale, in our travel agencies, as well as white-label. This is another way in which we can generate distribution efficiencies,” added Rosenberger.

While each new market has specific requirements when it comes to payment mechanisms, regulations, licensing,

etc., “there is no fundamental difference in how you do the packaging,” Rosenberger insists.

TUI’s global outlook befits its position as one of the world’s leading travel companies. But even smaller-scale travel operators are taking advantage of available technologies and creating new business opportunities.

Hotelplan is the largest tour operator in Switzerland and has a packaging business across Switzerland and other European points of sale, combining third-party flights with either directly contracted hotels or inventory from bedbanks. It has launched a new business focusing exclusively on online distribution under the brand “bedfinder” to broaden its reach. bedfinder was quick to become a Book on Google and Trivago Express Booking partner. bedfinder initiated the business with hotel-only product and has very rapidly expanded into the package product, partnering with different metasearch partners on global and local levels.

Thomas Stirnimann, CEO of Hotelplan Group, said that bedfinder went live on Google in the U.S. after only eight months in development, and is now operational in the U.K. “Book on Google effectively opens up global distribution to our hotel partners.” For its Book on Google initiative, it is only selling hotels for suppliers with whom it has negotiated rates directly.

Google has stringent requirements of its partners, so a high-performing sourcing and packaging solution is essential for international success.

“The prices need to be accurate because consumers do not tolerate seeing the price change or availability withdrawn. Accuracy is important because without it, you lose the customer and you lose the marketing investment you have made in acquiring that customer,” said Stirnimann.

Hotelplan is aiming high for bedfinder-it would like the brand to develop into a full-service OTA selling flights, hotels, cars, tours and activities, and, of course, packages. For this iteration of the brand, it creates packages using bedbanks as well as its own direct contracts in order to offer a choice comparable with the established market leaders.

Stirnimann believes that the “open world” which now exists in travel technology allows it to compete with much bigger businesses. “Digitisation enables us to challenge our European competitors. We are relatively small, but by choosing the right technology partners, putting a lot of thought into the best distribution channels and taking advantage of our existing relationships to secure rates and availability of our products, we can successfully grow our business into new verticals and source markets.”

Conclusion

Packages have remained a central part of the online travel ecosystem and businesses of all sizes from all geographies have an interest in creating the ideal combination at a price that works for consumers and at margins which work for the business. As technology across travel improves, innovation in the production and distribution of packages will continue. Brands will continue to give their customers convenience, suppliers will continue to get their inventory in front of distributors, and tech providers will continue to make the process as quick and efficient as possible.

The combined advancement of voice recognition and artificial intelligence might impact the traditional search and booking process we know today. Learning algorithms already offer new services in terms of personalization. The combinations of products which comprise a package might change, as might the competitive landscape when it comes to the global leaders. New entrants are never far away. Truly dynamic packaging-real-time availability with real-time pricing-is what will take the online travel industry forward over the next decade, and technology will be the impetus.



Dynamic packaging solutions for today's digital travel companies

Along with our leading dynamic packaging solution, Peakwork offers supply and distribution solutions for all leisure travel suppliers to boost global sales and develop new distribution channels.

Player Hub Network for global sourcing and international reach

With more than 1 million accommodations and a global flight supply, the Peakwork network keeps on growing worldwide. The network comprises more than 300 travel brands and partners. Our distribution partners include Google, global metasearch and social networks such as Facebook and thus open new sales opportunities with today's and tomorrow's customers.

All you need is one API for search and booking

New partners are connected fast and efficiently. Access individual and decentralised high-performance partner caches to source travel packages for international sales. You either source travel components for dynamic packaging across a global network of partners via one API or you offer packages via our technology.

State of the art packaging technology powering new business models

New packaging concepts help you to develop your core business and sell your products combined with additional services. Whether you want to leverage your brand, enhance your product or just extend your product portfolio and margin within package prices. Benefit from new technology to easily set up a comprehensive tour operator solution and dynamic packaging platform to grow your business.

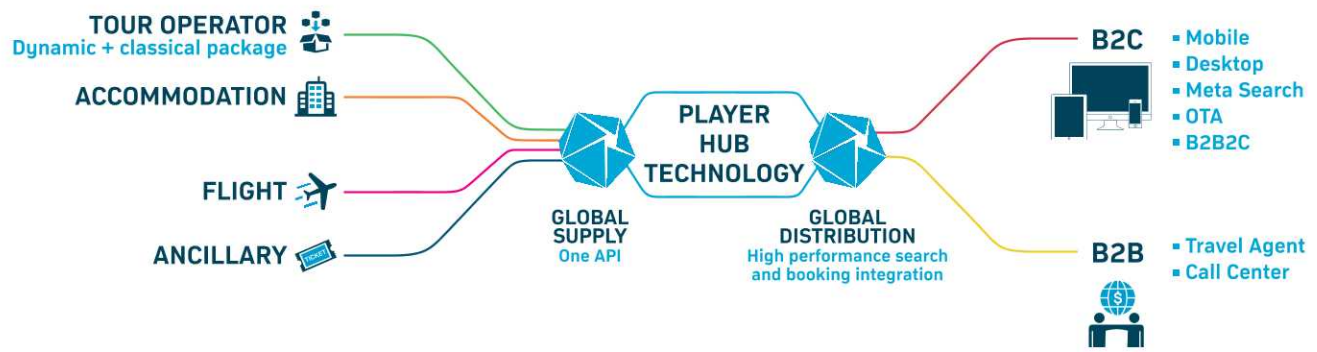
Powerful technology handling mass traffic, increasing conversion and sales

Peakwork manages vast search and global booking traffic whilst keeping data accurate. With an average response time in milliseconds, Peakwork's powerful travel technology handles mass traffic fast and reliably. Users benefit from individual and open search option while receiving offers that meet exactly the requirements. Products can be booked online at the displayed price. Thanks to solid technology, conversion and sales increase significantly.

Be prepared for the future. Just get in touch to explore together what opportunities Peakwork's efficient travel production and distribution management solutions can offer your business.



Peakwork: Global travel network through one API



PEAKWORK CONNECTS

- 45+ airlines
- 3 GDS and other aggregators
- 1 mio+ accommodation properties
- 90+ package suppliers
- transfers, car rentals, tours & activities, insurances, payment solutions
- More details on our [partner list](#)

OUR SOLUTIONS

- Dynamic packaging
- Distribution of packages, hotels, flights and more
- Connectivity to worldwide travel offers
- Connectivity to metasearch and OTA



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PEAKWORK

About Peakwork

Peakwork offers supply and distribution solutions for all leisure travel suppliers to boost global sales and develop new distribution channels.

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