

Phocuswright White Paper

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**TRAVEL TECH:
CREATING VALUE AND
DRIVING RECOVERY**

In cooperation with

eu travel tech

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Foreword



Putting choice directly into the hands of travellers is the mission of independent travel tech. It has transformed the travel and tourism industry over the last 30 years as digitisation and mobile have taken hold.

But the best way to see the effect is through people, not products.

Take Elisa, a 28-year-old architect living in Valencia. Her plan was to spend a week in Corfu with her friends from Poland. With a tight budget and limited time to manage she checks the possible travel options on her mobile, through the apps of metasearch and online travel agencies. Environmentally conscious, her choices are also guided by reducing her carbon footprint and travelling, where possible, by rail as well as air. This she does quickly and easily through travel intermediaries that find her a train to Madrid where she will catch a flight to Corfu on the most fuel-efficient aircraft. She will stay with friends in a small family hotel.

That hotel is run by Andreas and Elena, 52 and 48 years old, and their two children. A 10-bedroom hotel off the beaten track on the island. To succeed they need to attract customers coming every summer from across Europe and the world. A changed world rightly expecting the highest standards post COVID crisis. But there are limits to the languages and markets they can directly reach. Only through the distribution services of online travel agencies can they get to the global markets they need to fill the hotel every summer, with people such as Elisa and her friends. They can do this without upfront investment, only paying for intermediation service once the booking has been made and the overnight stay takes place.

It is travel tech and its ability to bring services together that in turn brings people like Elisa together with Andreas and Elena. The travel landscape works as it does today in large part thanks to eu travel tech members' services – creating transparent choice and opening the world to even the smallest travel or tourism supplier. Through this study, eu travel tech wants to provide objective and data-based insights into how independent distribution services are enabling the travel and tourism ecosystem to grow in an innovative, competitive and resilient way.

Only 30 years ago, organising travel was largely expensive and cumbersome. Travellers were operating in the dark with limited ability to compare options. That has changed. Online travel agencies (OTAs) compare thousands of different accommodation and travel options and select products that suit their needs – while millions of businesses can gain access to a global customer market. Business travellers, using the services of Travel Management Companies, can get the most out of every euro they spend on corporate travel. Metasearch engines let consumers compare the offers not just of airlines or rail carriers or hotels, but

also of hundreds of different OTAs. The growth of these online tools over the past 10 years is a testament to their popularity with consumers. This ecosystem is made possible thanks to the innovative technology services delivered by Global Distribution Systems (GDSs), which allow thousands of service providers to connect and sell (airlines but also railways, hotels, cruises, car rental companies or tour operators) through travel agents. The technology infrastructure provided by GDSs ultimately facilitates transparency for consumers and enables competition for nearly all phases of travel.

With the COVID crisis, the travel and tourism ecosystem has been subject to a shock of historical magnitude. But it has also exposed its importance to the overall European economy: 5.3% of European GDP and 21.52 million jobs in 2020, despite the strong decline due to COVID. The recovery will be a unique opportunity to drive the ecosystem to be more innovative, competitive and resilient and travel tech players will play a key in this transition.

However, this will not be possible without addressing the challenges highlighted by the industry players in this study, such as the entry of big tech platforms such as Google in the travel space. They leverage their dominant position to adjacent markets such as online search to rapidly grab a strong position in downstream travel markets. By integrating their travel products into their core services and favouring their own products over those of competitors, they risk undermining the competitiveness of the overall European tourism sector by strengthening the position of the biggest players with the deepest pockets to the detriment of small and innovative operators.

We trust that you will find this reading informative and useful. We hope this document serves as a strong basis for continuing discussions with all tourism stakeholders in Europe, together building a consumer-driven, innovative and competitive travel and tourism industry – one that harnesses digitisation and is based on transparency and sustainability.

Emmanuel Mounier

Secretary General
eu travel tech

Executive Summary



Gross revenue for the European travel sector totalled €299 billion in 2019. Considering the multiplier effect, the World Travel & Tourism Council estimates that this translated into a total GDP contribution of over €1.7 trillion, making travel the fifth largest industrial sector after construction, health, retail and financial services. Due to restrictions related to the COVID-19 pandemic, revenue fell by 64% to just €108 billion in 2020. Return to 2019 revenue levels and growth is expected by 2025, as the recovery of the sector will be steady but slow. Given their key role in connecting buyers with sellers, travel intermediaries will play a significant role in this process.

With risk heightened because of COVID-19, travellers are seeking out increased and more in-depth information than ever before to identify the product/service most appropriate for their travel needs. By consolidating and organising detailed, relevant and topical information on features, availability and rates from multiple suppliers, travel intermediaries are key players in the European travel and tourism market. They help consumers navigate the myriad options available, as well as facilitate the booking process, thus acting as a key resource in matching supply with demand. This is particularly important for the large number of small and medium-sized enterprises (SMEs) that characterise the European travel sector; they often make a conscious choice to partner with travel intermediaries to gain much needed visibility in a crowded marketplace. Travel intermediaries offer a cost-effective option for SMEs to distribute and market their services at a global level.

The distribution ecosystem comprises both travel intermediaries and technologies which enable and support them. Global distribution systems (GDSs) are an important source of content for intermediaries, while metasearch engines provide an easy way for customers to compare available options. Three different types of travel intermediaries – *online travel agencies* (OTAs), traditional *tour operators* and *travel management companies* (TMCs) – are prominent within the European travel sector. These intermediaries complement direct sales by positioning suppliers in front of potential customers, offering travellers a choice as to how they want to complete the subsequent

transaction. Collectively, OTAs, tour operators and TMCs generated €189 billion in gross revenue in Europe in 2019, representing over 63% of total travel revenue. Although their combined contribution fell significantly in 2020 to just €64 billion, travel intermediaries are expected to play a critical role as recovery takes hold, with indirect gross revenue returning to 2019 levels by 2024.

European consumers clearly value the contribution of travel intermediaries, using them during the inspiration, shopping and booking stages of their customer journey. Research shows that consumers particularly appreciate the ability to easily compare in-depth, rich information from several suppliers. This helps them to identify appropriate products and services, and provides speed, simplicity and the superior user experience of a one-stop-shopping process, allowing them to search for and book multiple travel products in one place. This is particularly true in the European travel market, where there is considerable fragmentation in many travel segments. By consolidating such disparate supply into a single integrated hub, travel intermediaries facilitate the searching and booking of appropriate travel products and services, adding value for customers and suppliers alike.

In addition to intermediaries' cost-effective pay-per-performance based distribution, which enables them to position themselves in front of a relatively wide audience, suppliers value intermediaries as sophisticated technology platforms servicing the travel sector. Many travel intermediaries have integrated technology deep into their core and are generating increased proportions of their revenue via their technological, rather than distribution services. With customer expectations persistently advancing, many travel suppliers see the advantages of partnering with the right travel intermediaries to service their technology-based needs in an efficient and cost-effective manner.

In an online environment, customers expect to be presented with products and services tailored to their needs and wants. Suppliers must find ways to differentiate their content from their competitors and personalise their offerings, maximising the chances of conversion. For

example, the airline industry has been moving steadily towards implementing its New Distribution Capability (NDC) standards, which allow suppliers to showcase their products and services in ways that fulfil customer expectations and engender loyalty. Technologies like the GDSs as well as travel intermediaries like the OTAs have a large part to play in enabling this transition.

Suppliers have two concerns about the future of travel distribution. The first is that many of their current technology-based systems are not capable of keeping up with industry requirements. Many need to substantially upgrade their core systems, but lack the time, resources and budgets to do so in a timely and cost-efficient manner. In turn, partnering with travel intermediaries for more advanced functionality and better service to the customer is an attractive prospect. The second is that failure to partner may leave the door open to external players, particularly global tech platforms such as Google and Amazon, which frequently look for potential sectors to disrupt. With travel complementing their existing customer bases, both companies have the scale, deep pockets and in-depth customer knowledge to be able to enter the market quickly. They can easily evolve into powerful (perhaps even dominant) players, substantially rewriting the competitive landscape and forever changing the rules of travel distribution.



Research Highlights

- As a result of the global COVID-19 pandemic, gross revenue for the European travel sector fell 64% to just €108 billion in 2020. However, recovery is underway, with gross revenue expected to grow to €208 billion in 2022 and full recovery expected by 2025.
- Indirect distribution is particularly important in the European marketplace. Travel intermediaries such as online travel agencies (OTAs), tour operators and travel management companies (TMCs) – supported by enabling technologies like GDSs – deliver over 63% of gross revenue to European travel suppliers in 2020.
- Consumers value travel intermediaries for their ability to reduce friction by facilitating the easy comparison and booking of multiple, multi-brand options in a single location. Consequently, travel intermediaries feature prominently in both the inspiration and shopping stages of the travel customer journey. OTAs are particularly valued at the booking stage, with more than two in five leisure travellers using OTA channels to make their last air and hotel bookings, respectively. Similarly, TMCs facilitate decisions for business travellers operating within the framework of their corporate policies.
- Travel suppliers value the continuing traditional role of travel intermediaries in supplementing their direct distribution efforts in a cost-effective manner. Smaller suppliers especially value the reach, visibility and additional bookings they can capture by working with the right portfolio of travel intermediaries. And all suppliers, large and small, recognise the significant benefits of travel intermediaries' pay-per-performance business model for driving incremental revenue.
- Suppliers' perceptions of travel intermediaries' roles have also broadened significantly, with the latter no longer seen solely as distribution partners but as strategic technology providers. With resources stretched by the COVID-19 crisis, suppliers are increasingly partnering with travel intermediaries, utilising their distribution technology to provide them with advanced functionality in a cost-effective and timely manner.

Methodology

Aim of This Research

Given their prominence within the travel distribution process, Phocuswright undertook this study to understand the role that travel intermediaries play in contributing to the success of European travel suppliers. The benefits of working with these players is evaluated qualitatively and quantitatively, from both the consumer and the supplier perspectives. Key trends that may disrupt these symbiotic relationships are also identified and assessed.

Methodology

To gain a comprehensive understanding of the role and importance of travel intermediaries within the European distribution landscape, Phocuswright adopted a mixed methods approach.

First, we conducted a series of in-depth interviews with senior executives of key European travel suppliers in 2020. These included airlines, hotel companies (branded and independent), car rental, train and tour operators from across the continent. Both large pan-European players as well as smaller, more regionally focused companies were included in the panel to solicit a range of views and perspectives. Follow-up interviews were conducted with the same organisations in early 2021 to assess the effect of the COVID-19 pandemic on their views and verify whether attitudes had changed as a result of the crisis.

Interviews were structured to investigate how suppliers perceive and work with travel intermediaries, as well as establish the opportunities, challenges and perceived value of such relationships. The questions focused on three main themes: identifying the portfolio of relevant partners with whom the company worked; understanding the degree to which, and motivation behind, travel companies' decisions to outsource certain aspects of their distribution (or not); and obtaining insights about relevant current developments and future possibilities, and their potential impacts on the travel sector.

Consumer data was drawn primarily from a series of complementary Phocuswright studies, in particular the *COVID-19: Path to Recovery* series of reports in 2020 and *The New Global Traveler: Discovering the Impact of Technology* in 2019. Market sizing data and leisure/unmanaged travel metrics were drawn from the *Europe Travel Market Report 2020-2024*. Managed corporate travel metrics were estimated from self-reported data provided by the major GDS companies, supplemented with data from annual reports and other public sources.

Phocuswright also conducted extensive desk research based on available published data for airlines, OTAs, traditional travel agencies, TMCs, corporate buyers, aggregators, IT providers, industry organisations and government bodies to complement our proprietary data. All sources are noted on the appropriate figures where relevant.



Introduction

Beginning in March 2020, the COVID-19 pandemic has had an unprecedented impact on travel. To control the situation, lockdowns have been declared, borders closed, flights grounded, and hotels shuttered across the globe, devastating the travel sector. Tourism arrivals in Europe [declined 70% in 2020](#), with 500 million fewer trips, according to the UN World Tourism Organisation (UNWTO). With a vaccine rollout well underway in many countries, both businesses and travellers are looking forward to an end to the crisis. However, the persistence and proliferation of new, more infectious strains of the virus are likely to delay recovery into 2022 and beyond.

From the perspective of travel, the good news is that despite ongoing outbreaks and restrictions, consumer confidence is improving. According to the European Travel Commission, [66% of respondents surveyed](#) in October 2021 indicated that they were ready to travel for leisure purposes in the next six months. Similarly, predictions for business travel are optimistic: the Global Business Travel Association (GBTA) forecasts that the European [business travel sector will reignite](#) as vaccination levels increase, starting with domestic and extending to international travellers in early 2022.

Distribution will play a key role in this recovery. Organising travel is challenging in the best of times. The travel sector is an intricate ecosystem of suppliers, aggregators and resellers, many of which simultaneously compete and cooperate with each other. Potential customers must sift through a maze of options to find the product or service that is right for them. COVID-19 has made the decision-making process even more difficult, as travellers are seeking out more detailed, relevant and topical information than ever before to make the best selection.

Consumers have traditionally accessed travel information in two ways: directly from suppliers or through third parties known as intermediaries. These intermediaries facilitate distribution on behalf of suppliers and take different forms, including travel agencies, tour operators, TMCs, destination management organisations (DMOs) or OTAs. They help connect consumers with the products and services most appropriate to their travel needs, while simultaneously increasing efficiency for travel suppliers by positioning their products/services in front of relevant, qualified audiences.

The e-commerce explosion has underscored this role, with both suppliers and travel intermediaries operating consumer-facing websites and apps, resulting in a complex, interconnected, network of potential choices for the consumer. During the COVID-19 pandemic, digital has become deeply ingrained into the daily lives of European consumers. According to RetailX, B2C overall e-commerce revenue [rose 12.7% in 2020](#), with online travel revenue likely to follow a similar upward trend as pent-up demand is released, increasing the relative importance of online channels.

Given their role and prominence within travel distribution, this study examines the contribution of travel intermediaries from both the consumer and supplier perspectives. Distribution is defined broadly, incorporating all the elements involved in the journey of today's digitally enabled customer including sales, marketing, retailing, merchandising and loyalty. The value added by travel intermediaries is assessed both qualitatively and quantitatively to help demonstrate the benefits of these key players for consumers and suppliers alike. Finally, macro trends likely to materially affect these relationships are identified, and their implications for the European travel sector are evaluated.



Size and Composition of the European Travel Marketplace

To assess the importance of travel intermediaries, it is first essential to understand the overall size of the European market. Travel, be it for leisure or for business, is deeply ingrained into European culture and is considered a [key part of consumers' lifestyles](#). The region is also home to many of the world's most popular leisure destinations and global centres of business, prompting both intra-regional and inbound travel.

As a result, the number of international tourist arrivals to European countries [reached 745 million in 2019](#). When combined with the substantial amount of domestic activity, this resulted in gross travel revenue of over €299 billion in 2019 (see Figure 1). Considering the multiplier effect,

the [World Travel & Tourism Council estimates](#) that this translated into a total contribution to the GDP of European countries of over €1.7 trillion. This places the travel & tourism sector as the [fifth most important industrial sector](#) in terms of contribution to GDP, trailing only construction, health, retail and financial services (see Figure 2).

Travel has been drastically affected by the COVID-19 crisis, with gross revenue for the sector falling 64% to just €108 billion in 2020. With the path forward still unclear, predictions about the speed of recovery are difficult to make. However, there is general agreement that recovery will be consistent but gradual, with [gross revenue reaching €270 billion by 2024](#).

Figure 1:
Europe Total Travel Gross Bookings (€B), 2018 - 2024

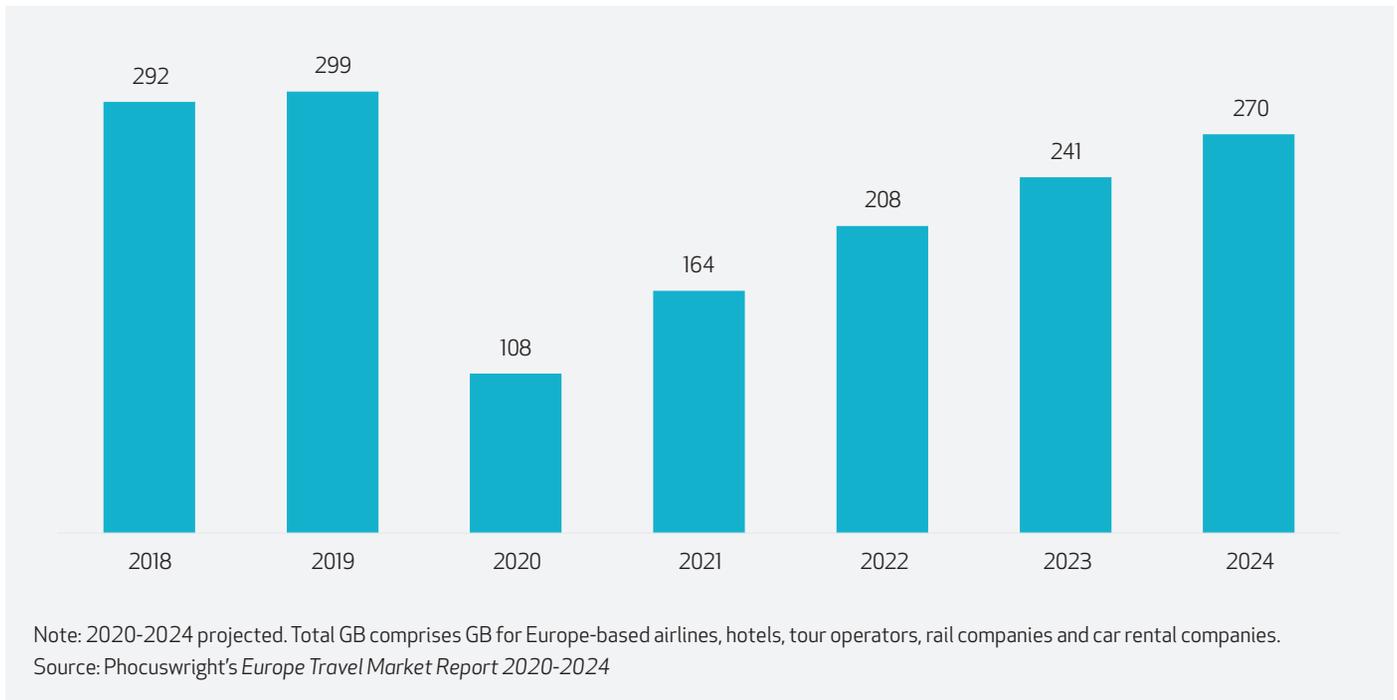
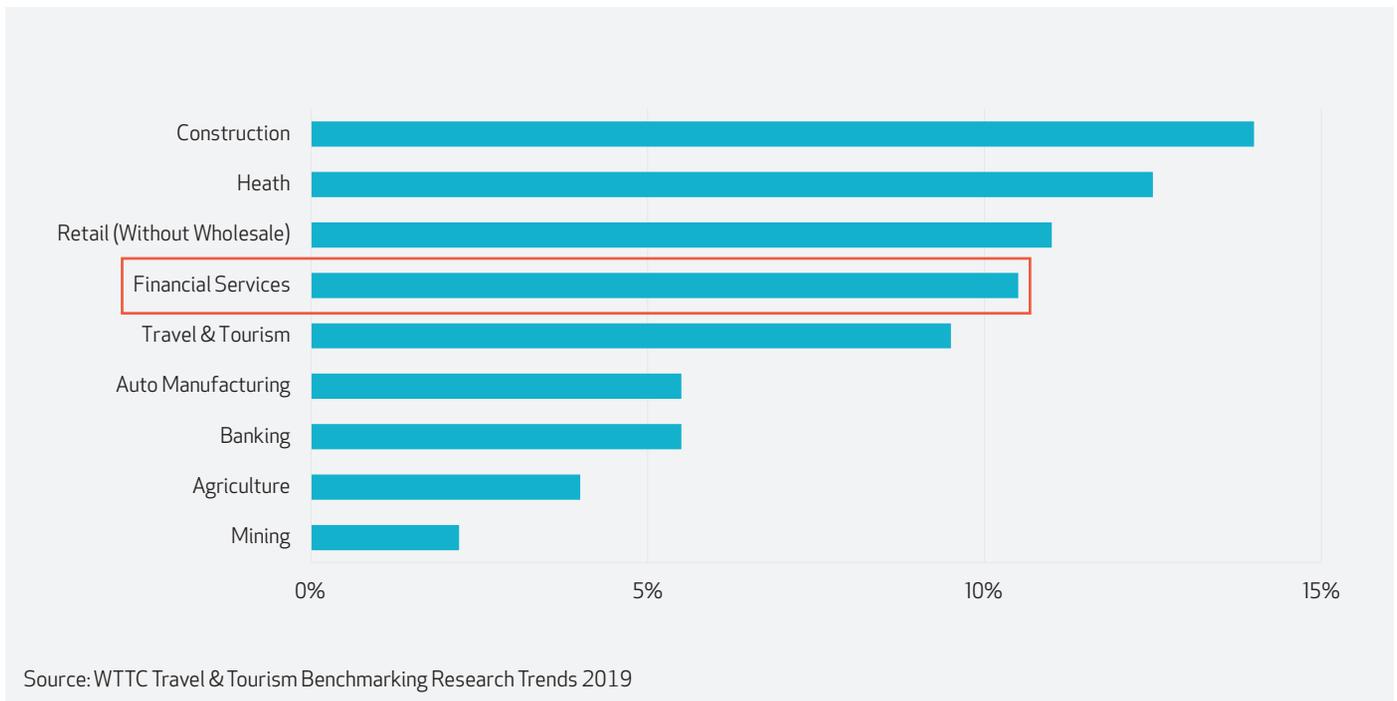


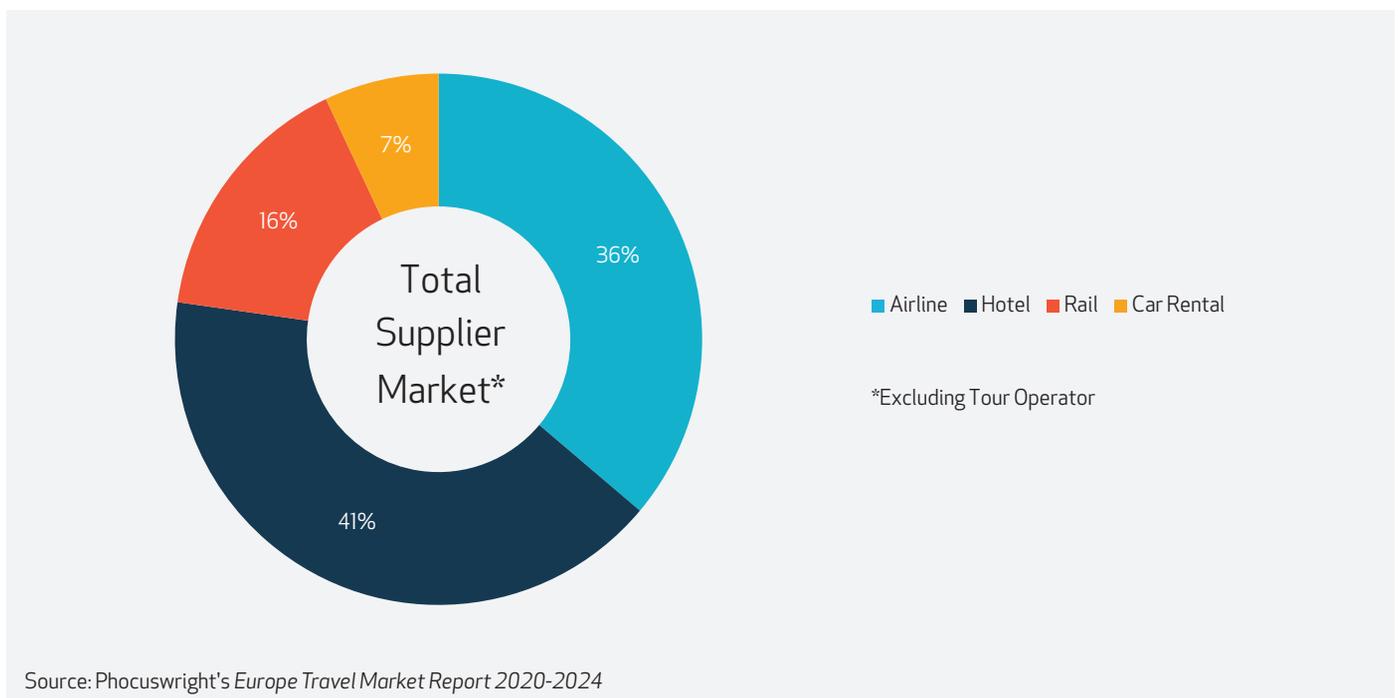
Figure 2:
GDP Share by Sector, 2018



The travel sector within Europe is made up of 2.3 million supplier companies, [employing an estimated 12.3 million people](#). Although airlines have traditionally been the largest segment, the near complete shutdown of flights due to COVID-19 thrust hotels into the leadership position in 2020, representing 41% of gross revenue (see Figure 3). Despite its relative size, the European hotel segment is highly fragmented, with branded properties representing just 13% of properties and 38% of rooms in 2018. Smaller, owner-managed, and unbranded properties are the typical profile in most European countries, and in many cases are a key component of the overall tourist experience. However, with little access to capital or expertise, such properties typically struggle operationally and financially. Additionally, they face intense competition from the short-term rental segment which has gained substantial market share in many European leisure destinations.

Rail and car rental remain important components of the European travel space, representing 16% and 7% of supplier gross bookings respectively. Both are relatively consolidated, featuring specific supplier companies that control large market shares within specific national markets, followed by a long tail of smaller suppliers. In the rail segment, most geographic markets are dominated by the (often privatised and thus former) national rail operator. Conversely, in the car rental sector, four major players (Sixt, Europcar, Avis/Budget and Hertz) capture most bookings, leaving approximately one third of the market for smaller local and regional players.

Figure 3:
Europe Total Supplier Market, Share by Segment (%), 2020



The Travel Distribution Ecosystem



To function efficiently, travel is highly dependent on the efficient exchange of information. Potential travellers need detailed, accurate and current information to help plan their trips and choose between alternatives. However, finding the right information is a challenge. Today's travel sector offers literally millions of choices, requiring customers to wade through endless options to find the product or service which suits them best.

Historically, travellers have turned to travel intermediaries to help in their search-and-book process. *Travel agents*, both retail and corporate, leverage their sector-specific knowledge and experience to match customers with appropriate products and services. *Tour operators* combine products and services together into packages to match the needs of specific market segments, selling them for a bundled price, while *destination management organisations* provide guidance on travel options within their specific region. Each act as an information broker, streamlining the processes of identifying, accessing (and in many cases booking) the right travel products and services for consumers.

Electronic systems developed in the 1970s increased the efficiency of this process. GDSs gave travel agents access to real-time flight availability, fares and booking capability. Other suppliers subsequently developed their own systems, interfacing them with the GDS to access travel agents, as well as using them to power their own internal operations. The resulting systems introduced significant efficiencies into the distribution process, by facilitating the transparent comparison of travel offers, cementing the role of technology-based distribution within travel and prompting a period of intense growth and transformation. GDS functionality and content have significantly expanded over the years, and GDS companies now play a key role in both leisure and corporate bookings for most travel segments. However, their market share has been declining over the last few years relative to direct distribution channels and other content aggregators.

Consumer adoption of the internet in the late 1990s prompted further change. Empowered by the web's transparency and connectivity, increasingly adventurous travellers began abandoning the traditional packages that had characterised European leisure travel and started combining decoupled travel products into trips themselves. In response, suppliers and intermediaries alike set up consumer-facing websites with comprehensive shopping and booking features.

Never had it been so easy for suppliers to position themselves in front of qualified customers. With few barriers to entry, any company could leverage the developing web medium to connect with potential customers. Smaller players were also



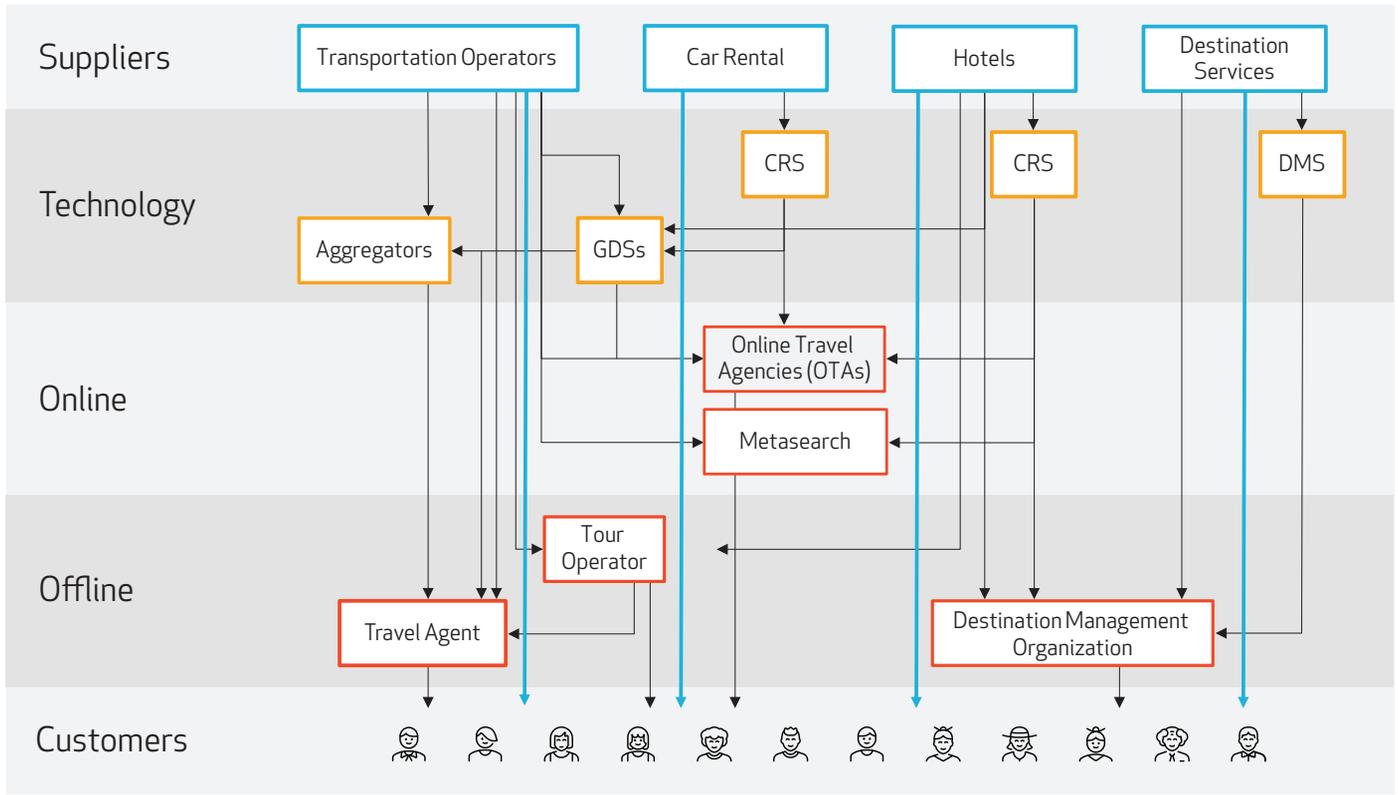
able to compete more effectively against their larger peers. As a result, the range of alternative information-sourcing routes and booking platforms grew exponentially, leading to complexity and confusion for consumers and suppliers alike.

New intermediaries emerged to help put order to the chaos. OTAs developed as double-sided platforms, providing consumers with structured, comprehensive access to multiple brands and trip components, while also enabling suppliers to position their products and services in front of millions of potential customers globally. OTAs gather inventory from various sources, including from GDSs, content aggregators as well as directly from suppliers, consolidating the market's offerings into a single point of sale for the consumer.

Similarly, a wide range of supporting technologies have developed to support travel distribution. For example, metasearch facilitates comparison shopping, particularly in terms of price, across the rapidly expanding gamut of channels that customers use to search for and book travel. Legacy intermediaries, most notably the TMCs, reacted rapidly to changes in the marketplace, developing electronic and online services that source inventory from multiple sources. However, they evolved by adding a policy layer on top, enabling them to serve the corporate travel segment more effectively.

Other technology-based systems have also gained importance, notably content aggregators (especially for low-cost carrier content) and aggregators that distribute air content based on IATA's NDC standards. Travel service providers, including airlines, have also invested in direct connections and portals to access travel agencies directly without going through a GDS or aggregator. As a result, for practically all segments of travel, multiple parallel electronic and/or online systems today sit at the interface between travellers and suppliers (see Figure 4). This provides the demand side with easy, quick and structured access to travel suppliers, and the supply side with visibility and sales in consumer markets worldwide.

Figure 4:
From Supply to Demand: Today's Travel Distribution Network



Note: GDS = Global Distribution System / CRS = Central Reservation System / DMS = Destination Management System
 Note: Transportation operators include airlines and railway undertakings.
 Source: Phocuswright Inc.

Overall, the trend is toward an increased focus on online channels. Both supplier-direct and online travel intermediaries increased share during the COVID-19 crisis in 2020, as locked-down consumers turned to the web for their shopping and booking needs. [In turn, online penetration for the Europe marketplace reached 55%](#), surpassing the U.S. to have the highest online penetration of any global region. However, penetration figures vary greatly across Europe, ranging from over 70% in mature markets such as the U.K. and Scandinavia to less than 50% in much of Southern Europe. In these less mature online markets, offline intermediaries – especially tour operators and travel agencies – continue to play an important facilitating role in travel distribution, prompting suppliers to offer online, offline and hybrid shopping and booking options to customers. However, with the shift toward online (direct and indirect) channels expected to continue, these differences will gradually fade, taking online penetration for leisure travel in Europe overall to 60% of the total market by 2024.

Direct vs. Indirect Distribution

Given the complexity of organising travel and the challenges matching supply and demand, indirect sales play a considerable role in most suppliers' sales, marketing, and distribution strategies. Travel intermediaries aggregate disparate supply, helping consumers to navigate the countless options available and facilitating the booking process, serving as a key driver of travel industry sales. Although the dividing line is becoming increasingly blurred, three different forms of travel intermediaries play critical roles within the European travel sector.

Within leisure/unmanaged business travel, OTAs are a key source of business for many travel suppliers. Gross revenue transacted via OTAs grew from €3.6 billion in 2002 to more than €50.8 billion in 2019, falling to €19.0 billion in 2020. Even so, OTAs facilitated approximately one in five bookings (18%) in the European travel marketplace during the 2020 crisis, with an additional (unquantified) proportion of bookings influenced by shopping on OTA channels but subsequently booked directly with the travel supplier. As such, OTAs act as a complement to direct sales, positioning suppliers in front of potential customers and giving the latter a choice as to how they want to complete the subsequent transaction. And while most suppliers place emphasis on driving business directly, many see the strategic value of using a portfolio approach and working with multiple OTA partners to connect with their target markets.

Within the European OTA space, market leaders Booking.com, Expedia Group and Airbnb are challenged by a diverse and substantial long tail of smaller companies based on regional or niche specialisations. As consumers' information needs become more specific, the latter are taking on increased importance and growing in popularity. A recent

SiteMinder study noted the prominence of specialised OTAs in its [annual analysis of online hotel distribution](#). In addition, other third-party players, in particular search platform Google, are digging deeper into the leisure travel distribution space, increasing choice for customers and suppliers alike.

However, OTAs are not alone in servicing European leisure travellers. Traditional tour operators remain important in most European markets, generating €18.8 billion in gross bookings in 2020 (down from €54.8 billion 2019). With a leisure focus, these companies have been hard hit over the past decade by a tsunami of challenges including political unrest in key outbound markets; terrorist attacks discouraging travel within Europe; economic uncertainty that limited travel spending; and of course, the COVID-19 crisis. This series of woes led to the demise of multiple companies, most notably the number two pan-European player Thomas Cook in 2019. Given consumer trends toward independently booked travel, recovery for this segment of the industry is expected to be challenging. As a result, many tour operators are trying to reposition themselves more firmly in the online space. They are beginning to offer decoupled products and going head-to-head with the OTAs to compete for a renewed share of the European leisure traveller's wallet.

Finally travel intermediaries also play a key role in the managed corporate travel segment. Here, bookings are facilitated by professional travel management companies (TMCs). Going beyond simple booking, these intermediaries add value by helping companies better manage their travel function by presenting them with prefiltered, relevant options, enforcing corporate travel policies, facilitating billing/payment, tracking employees to fulfil duty of care obligations, and providing a range of other travel

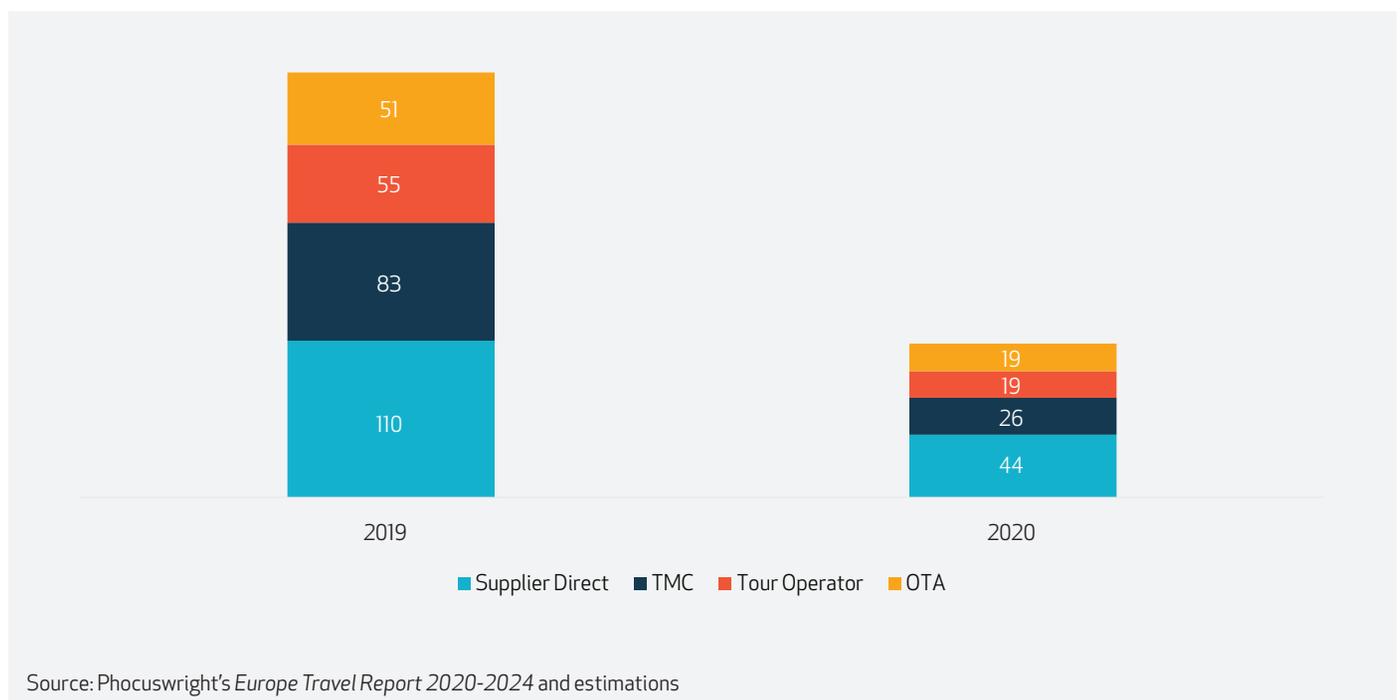
coordination services. Bookings typically flow through proprietary channels such as the GDS, including the developing NDC standard. Hence, they are [not typically reported in traditional "online" travel metrics](#).

Flights account for most managed corporate travel gross revenue. While only composing 10% of airline passengers, business travellers account for the most revenue as they book premium seats and often buy fully flexible tickets at the last minute. In 2019, GDSs supported an estimated 488 million air segments for managed corporate travel, representing more than €65 billion in total travel transaction value. Non-air bookings (typically car rental and hotel) added another €18 billion in gross revenue, taking the total European managed corporate travel market size to €83 billion, or 27.7% of the total travel market in 2019. With the COVID-19 crisis forcing companies to curtail travel in 2020, corporate travel was hit harder than the leisure/unmanaged travel sector. As a result, gross revenue fell 69% to \$26 billion in 2020. While recovery is expected to be slower than

leisure travel, the increased focus on policy and companies' duty of care towards employees will drive improvement in compliance. It is also expected to encourage others to [move to a managed solution](#), driving the relative [importance of this segment in the future](#).

Combining these three segments together enables us to quantify the relative importance of travel intermediaries for European travel. Collectively, travel intermediaries drove €189 billion in gross revenue on behalf of travel suppliers in the European marketplace in 2019, representing nearly 60% of the market (see Figure 5). Although their combined contribution fell significantly in 2020 to just €64 billion during the crisis, travel intermediaries are expected to play a critical role as recovery takes hold. Consequently, the relative contribution of travel intermediaries is expected to return to 2019 levels by 2024.

Figure 5:
European Travel Gross Revenues by Channel (€B), 2019-20



The Consumer Perspective

Empowered by the ease of access to high-quality travel information and booking capability, Europeans are moving away from their traditional multi-week packaged holidays booked via tour operators towards self-organising, multiple, shorter and more frequent trips.

To facilitate their planning and booking processes, most leverage a range of travel intermediaries. Along with general search, OTAs, travel review sites and travel search engines/apps are the most commonly used platforms at the inspiration stage (see Figure 6), with metasearch becoming important when shopping and selecting products (see Figure 7).

Figure 6:
Websites Used for Destination Research

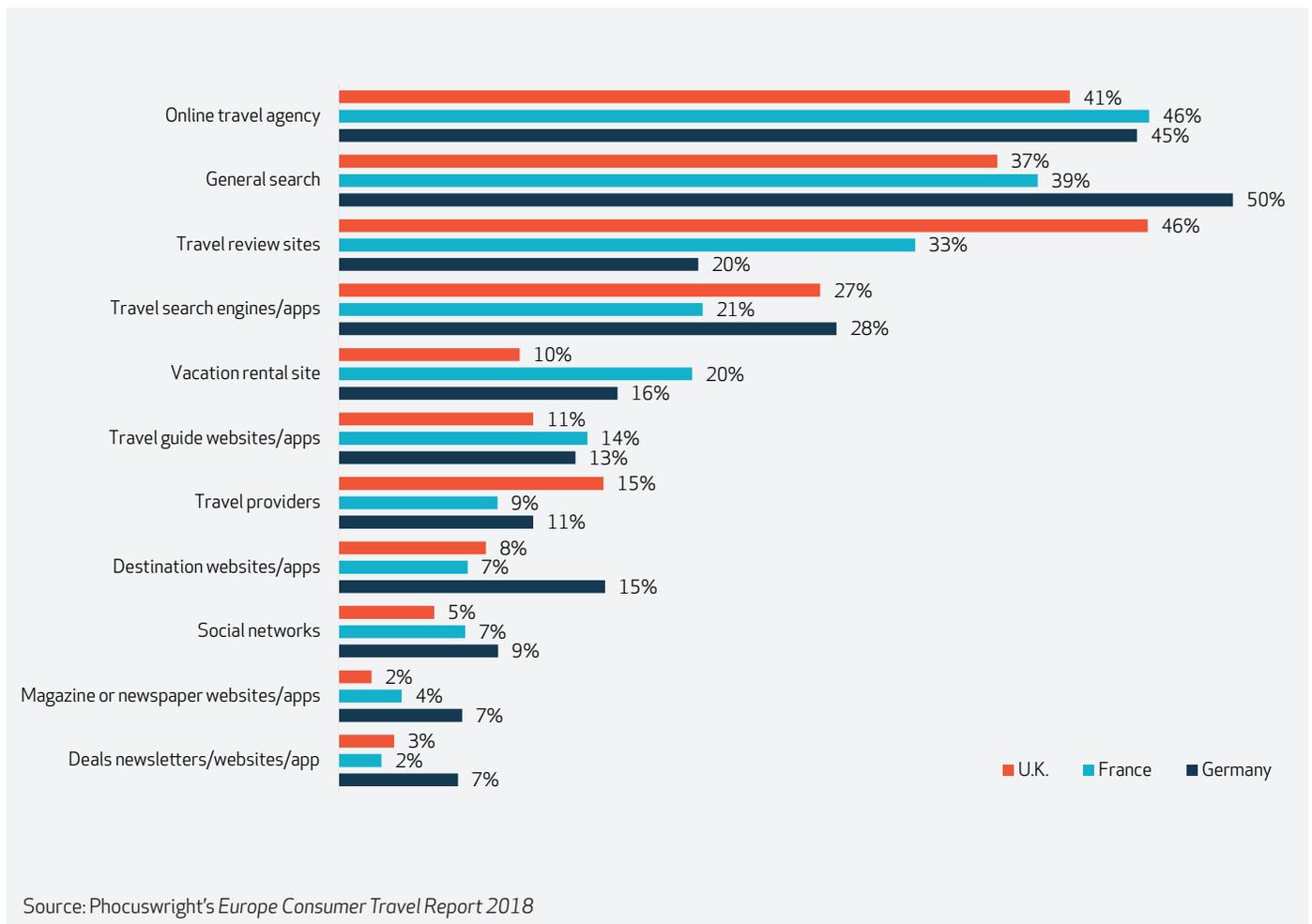
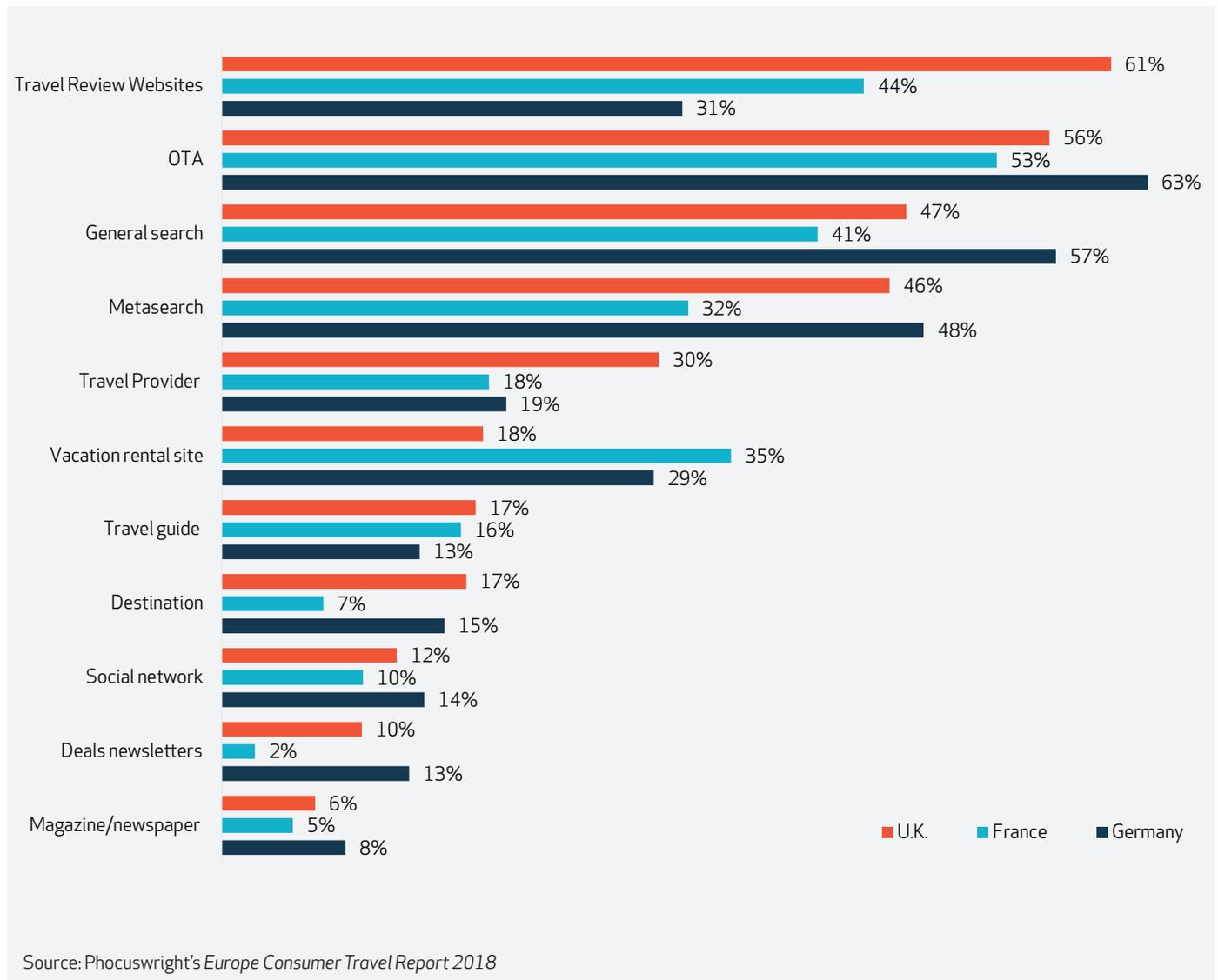
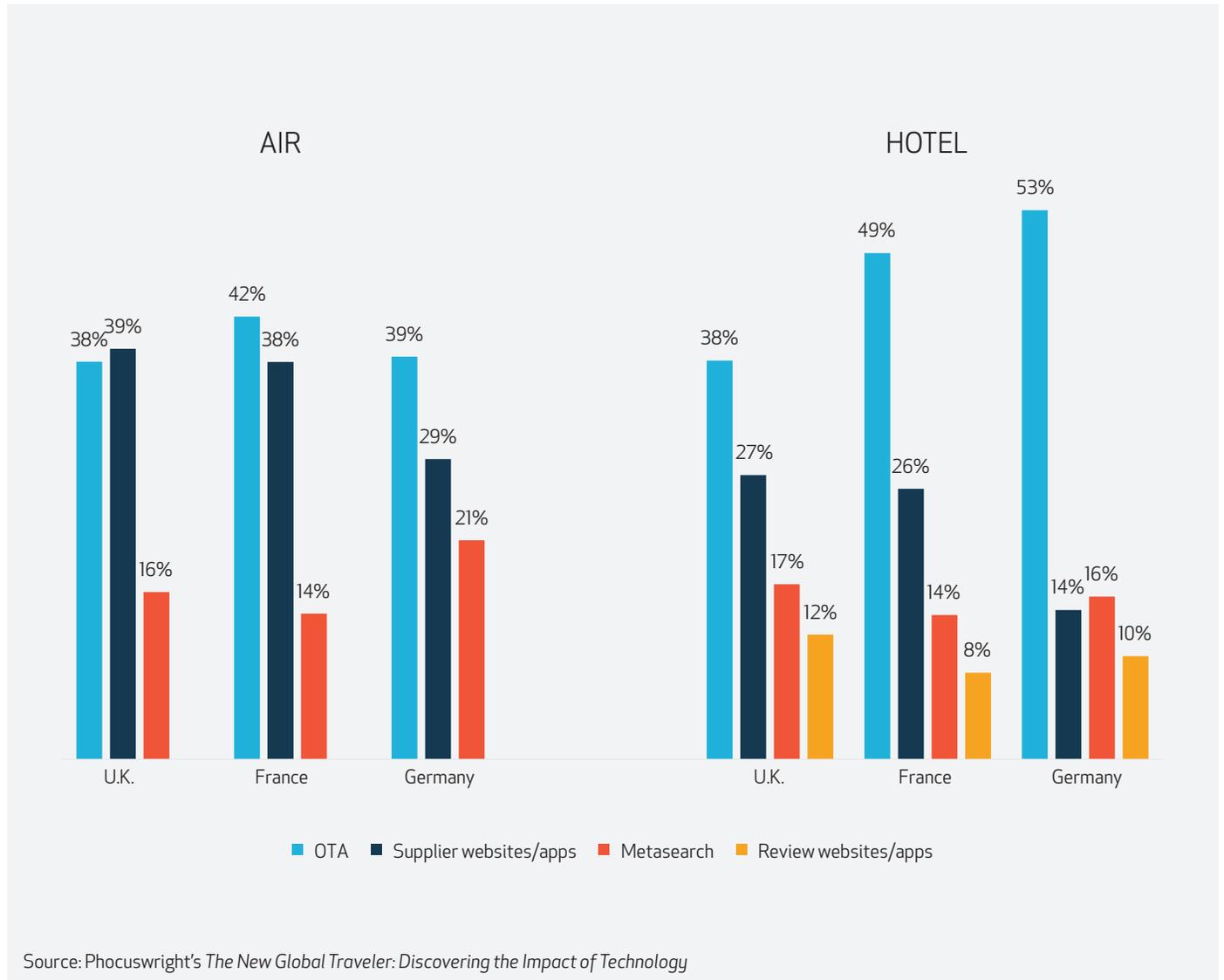


Figure 7:
Websites Used for Comparing and Choosing Travel Products



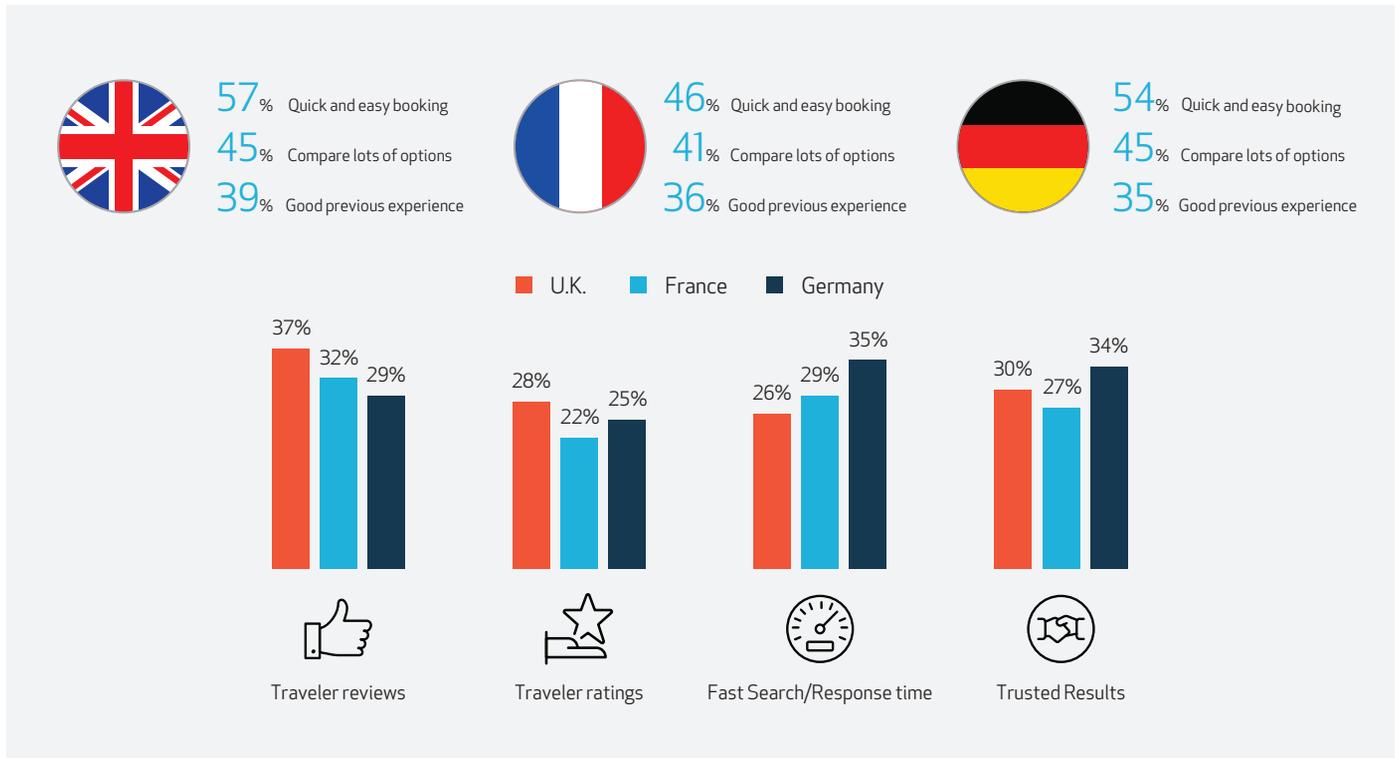
Within the European marketplace, leisure consumers exhibit a strong preference for intermediary, rather than supplier-direct sites across the entire customer journey (see Figure 8). Initial indications point to this preference accelerating post COVID-19, with 47% of respondents to a recent [European Travel Commission survey](#) indicating that they would book their immediate travel plans through intermediaries.

Figure 8:
Preferred Websites for Travel Booking



[Consumers cite a variety of reasons](#) for this, including: the ease with which they can compare options from different suppliers; more extensive, multi-brand choice; the inclusion of traveller reviews, ratings and trip ideas; as well as the seamless experience of the one-stop-shopping process that allows multiple products to be booked in one place (see Figure 9). In addition, travel intermediaries typically make it easy to navigate and filter the vast amount of data available. They add value by reducing their search costs and helping to identify appropriate products and services more easily. By doing so, intermediaries create an environment where travellers can quickly and easily seek inspiration as well as comparison shop between products and prices. If they wish, they complete their resulting booking, fostering a landscape where suppliers must actively compete to capture the traveller's business.

Figure 9:
Booking Website Features Important to Travelers



Travel intermediaries are particularly valued in situations where the travel segment is fragmented. While large companies in major sectors can leverage their brand power, marketing expertise and financial resources, suppliers in more fragmented segments typically lack the resources to drive direct bookings. For example, in contrast to the U.S. where branded hotel chains dominate, the European hotel sector is primarily made up of unique, smaller, independently owned and operated properties. Such properties often struggle to gain adequate visibility in front of potential customers, which is unfortunate since it is their uniqueness and individuality that characterises European leisure travel and attracts consumers in the first place. Travel intermediaries, especially OTAs, help bridge the gap between these smaller hotels and consumers. By consolidating supply into a single integrated hub, they make it easier for customers to find, and book, such properties. Hotels gain from the expanded reach offered by intermediaries, which in turn drives revenue and helps them to compete better against their branded peers.

The role and importance of travel intermediaries is likely to increase further as consumer expectations continue to evolve. Consumers are already exploring technologies such as virtual reality and voice search in the travel context, albeit still very much at the experimental stage. Meanwhile, mobile has evolved into a mainstream channel, representing [over 20% of European travel revenue in 2020](#). Few European travel suppliers have the in-house expertise, budgets desire or ability to explore these developing technologies, preferring (initially at least) to instead rely on intermediaries to take the risk and service early adopters.

The Travel Supplier's Perspective

Technology has also driven change on the supplier side, with travel intermediaries becoming more deeply integrated into the value chain of many companies. To understand their expanding role, in-depth interviews were conducted with senior executives from a stratified sample of European travel suppliers regarding their perceptions of the role and importance of travel intermediaries. These included representatives of airline, train, car rental, hotel and tour operating companies, including pan-European, regional and smaller, unbranded travel suppliers. Questioned as to the advantages and challenges of working with travel intermediaries, rather than developing the equivalent functionality inhouse, suppliers identified the following points.

Market Reach and Visibility

As highlighted above, consumers now use a diverse portfolio of distribution channels to shop for, and book travel. To be considered, suppliers must appear on the right channel at the right time with the right content and selling message. Given the myriad alternatives available, this has become a complicated and costly process. Working with the right travel intermediaries enables suppliers to position themselves in front of a much wider audience quicker, easier and more cost effectively than they could independently. Typically, suppliers mix and match between the variety of distribution channels available to them depending on the markets they wish to target and their distribution strategy. Very few suppliers run at 100% capacity, so any additional sales facilitated by travel intermediaries, at any financial or strategic cost, are welcomed, particularly following the COVID-19 downturn. And partnering in this way facilitates market access for small companies particularly, driving incremental bookings and allowing them to compete more effectively with their larger peers.

"Recently we decided to try to drive more business from China and we looked at our options. Going it alone would have meant translating and localising content, handling international payments as well as a substantial marketing spend to try to gain visibility. Instead, by working with an OTA partner, we were able to (almost instantly) make ourselves available on multiple important Chinese points of sale, allowing us to tap into this valuable and developing market."

COO, European hotel chain

Value for money

In contrast to other sales and marketing expenditure, working with travel intermediaries is totally pay-per-performance. For example, GDSs and OTAs predominantly charge a transaction fee or a percentage commission, which is only paid on bookings delivered, so no bookings means no costs for the supplier. This contrasts with direct distribution, where investments must be made in marketing to drive business with little guarantee of success. The pay-per-performance model significantly reduces the financial risk of working with travel intermediaries, and facilitates smaller brand and independent operator participation, enhancing choice for consumers and increasing market efficiency. And since travel intermediaries generate economies of scale by amalgamating transactions from multiple suppliers, the resulting distribution cost can be lower than working in isolation for many suppliers. This is particularly beneficial for smaller travel suppliers who typically lack the budgets to profit from digital developments independently.

"Although some claim that working with intermediaries is expensive, we have actually crunched the numbers. Compared with running our own sales function, indirect business is cheaper, more forecastable and more reliable. Our priority is, thus, to figure out how to work better with these valuable sources of business."

General Manager, independent hotel property

Access to distribution channels

Working with the right group of travel intermediaries can also facilitate access to specific channels of distribution that might otherwise have been inaccessible. For example, working with a travel intermediary partner can facilitate access to the global GDS, whose technical requirements might normally put it out of reach of smaller suppliers. Similarly, metasearch engines require suppliers to have a reservation system with sufficient capacity to respond to availability/rate requests in a timely fashion. In effect, this puts the important and growing distribution channel out of reach of smaller suppliers. By enabling access to such channels in a cost-effective manner, travel intermediaries increase competition and help smaller players in particular compete more effectively with their larger peers.

Market intelligence

Servicing multiple suppliers and segments, travel intermediaries can consolidate data at the market and industry levels to generate insightful intelligence, which they are increasingly sharing with their supplier partners. Examples include Amadeus's Demand360, Travelport's Insights, TravelClick's market intelligence products, Booking.com's and Expedia's Guest Insights, all of which are by-products of the travel intermediaries' core operations. They allow suppliers to better understand market trends, relative performance and in turn, plan and manage better.

Explore developing technologies

Most suppliers acknowledged that digital continues to have a transformational effect on travel, improving customer service, reducing costs, increasing revenue per customer and enhancing overall efficiency. However, keeping up with the accelerating pace of change is challenging, and travel suppliers generally lag in technology adoption, with the use of technologies such as the cloud, blockchain and machine learning/AI being the exception rather than the rule.

Scale plays an important role, with larger companies typically placing more emphasis on technology adoption, integrating developments into their operations to create competitive advantages that their peers cannot easily attack.

"Being able to differentiate is the driving factor in our decision as to whether to rent vs. buy vs. build. Cost has been relegated firmly into second place. When redeveloping our website, doing so internally was much more expensive, but gave us control and uniqueness. By not having the same features, functionality and user experience as everyone else, this investment will pay us back multiple times over in the long run."

CTO, major European airline

However, developing technology-based systems is a non-core activity for even the largest travel suppliers. Even with sufficient scale to justify internal development, complexity and the pace of change renders resulting systems redundant in a very short time. In addition, smaller players (and increasingly, larger players too), typically lack the budget, expertise and other resources needed to do such development in-house. By partnering with travel intermediaries, suppliers can experiment with new and developing technologies in a cost effective and low-risk manner.

“No travel company these days can do it alone; the pace of change and the costs are now too much. Everyone needs to partner to be able to leverage new technology developments and better serve customers.”

COO, European hotel chain

Not only do travel intermediaries understand travel, but they have the budgets, expertise, teams, technical resources and economies of scale to develop and maintain state-of-the-art systems. Rather than acting solely as distribution partners, these companies have integrated technology into their core by investing heavily in R&D; they are increasingly evolving into sophisticated technology platforms servicing travel. Travelport is rumoured to be spending over \$100 million every year on R&D, including integrating its legacy GDS platforms. Meanwhile, Amadeus spent €988 million, or 18% of its total revenue, on R&D in 2019 – unimaginable spending for any individual travel supplier. With continuous technological and media developments, and new potential channels (voice search, augmented reality) emerging, travel suppliers of all sizes see the advantages of partnering with the right intermediaries to satisfy their technology needs efficiently and cost effectively.

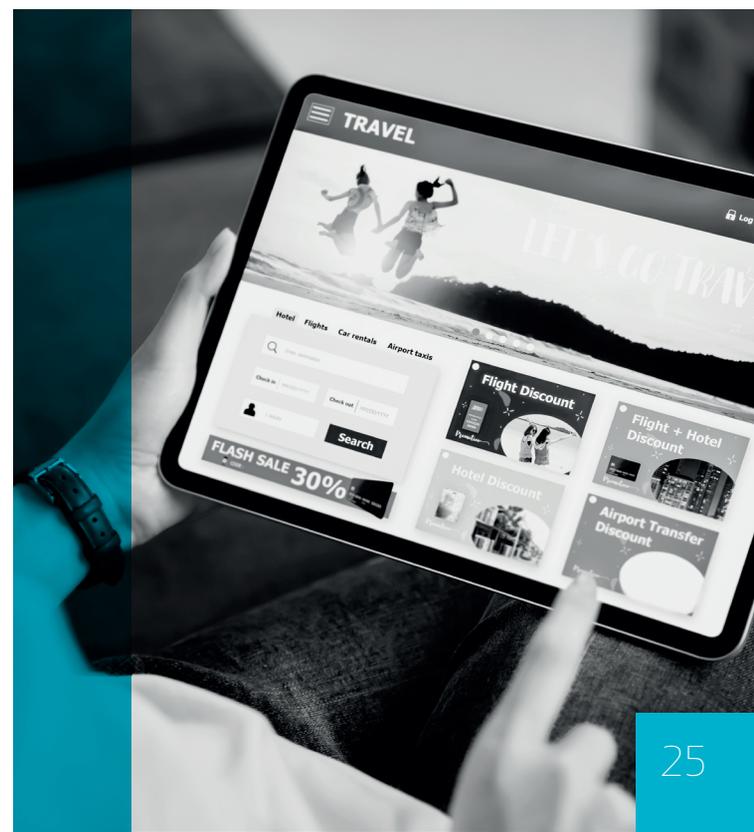
Scalability and flexibility

With markets unpredictable, another key advantage of working with travel intermediaries identified by interviewees is flexibility. Compared to developing functionality for themselves, working with a technology partner means fewer (if any) capital costs, less long-term commitment and substantially lower risk. This resulting flexibility allows them to more easily experiment with new technologies or markets, and cope better with peaks and troughs in demand. For example, accommodation providers have the flexibility to list and delist any fraction of their rooms at any time. Such an approach is also more scalable, allowing said functionality to be grown rapidly if needed.

Working with travel intermediaries is not without its challenges. Travel suppliers interviewed are concerned with the increased complexity that working with multiple travel

intermediaries entails. Most travel suppliers now make use of multiple simultaneous routes to the marketplace, each of which requires its own specific approach and attention. Content, rate and availability must be maintained in multiple locations; a pricing strategy has to be implemented and audited; channel conflicts managed; and new opportunities assessed. Doing so requires expertise and attention, as well as new skill sets and supporting systems – key reasons that many smaller travel suppliers fail to leverage all of the distribution options available.

With a proud history, many travel suppliers are resistant to change. Perhaps this is best reflected by the systems being used by many European travel businesses, which could best be described as “legacy.” In some cases, these were originally implemented decades ago, and updating them or interfacing them with more up-to-date technology is complicated. Due to their antiquated nature, and also because they are often mission-critical and drive their owner’s business 24/7/365, any disruption has major consequences for operations, customer service and, thus, profitability. So while working more closely with travel intermediaries might look appealing, the resulting project management necessary to enact change also adds negative inertia to successfully exploit any opportunities.



Future Perspectives



With most travel suppliers satisfied with their relationships with travel intermediaries, the study also explored developments that could fundamentally change the nature of this symbiotic ecosystem. Participants identified two key challenges likely to affect these relationships in the short to medium term: managing the increasingly complex portfolio of technology-based systems enabling travel distribution; and big-tech becoming more firmly entrenched in the travel sector and its implications for the competitive landscape.

Despite the established importance of travel intermediaries, many are convinced that they are only at the beginning of the journey. While most suppliers already maintain a complex, often intertwined, network of distribution channels, many feel that travel distribution in the future will need to become much more sophisticated. Driven by heightened consumer expectations, the way in which travel products are marketed and sold is already changing. Selling an undifferentiated airline seat or hotel room is no longer enough. Consumers today are more demanding in the choices they want to make in advance, wanting, for example, to book a specific room and confirm its availability in real time. Similarly, on the supplier side there is a strong desire to be able to maximise profitability and drive additional revenue by moving toward dynamic and continuous pricing, again requiring more powerful

systems than are currently being utilised by most suppliers. Many will need to upgrade their core systems to drive such functionality, and with workload, budget and resources limited, partnering in innovative ways with travel intermediaries to leverage their investments in state-of-the-art technology looks increasingly attractive.

Many suppliers also highlighted the potential entry of big tech into the travel distribution space. Already sensing how travel complements their existing portfolio of products and services, several of the large tech platforms are paying increasing attention to travel distribution in Europe. While the travel sector hesitates, global tech platforms Google and Amazon are increasingly leveraging their scale, deep pockets, and in-depth customer knowledge to enter the travel space and rapidly grab significant market share. [Google is integrating itself deeper](#) into practically every stage of the customer journey with services such as Google Travel, Google Flights and Google Hotel Search, which are proving very attractive to travellers. Increasingly, these are deeply ingrained into the company's core search and mapping technology, forcing suppliers and intermediaries alike to spend ever increasing amounts on pay-per-click advertising to maintain their visibility. Some fear that Google will evolve into the super app of travel, prompting attention from the EU and its proposal for a [Digital Markets Act \(DMA\)](#).

There is also intense speculation about Amazon's interest in travel, one of the last major consumer categories that the mega online retailer has yet to conquer. With high complementarity to its existing customer base, and a substantially lower customer acquisition cost thanks to its Prime membership program, Amazon's entry into the travel space would make a lot of sense, both strategically and operationally. More than two in five online travellers in France, and one third in the U.K. and Germany, [would book travel on Amazon](#) instead of their current preferred method, if Amazon were to introduce such services. Were either Amazon or Google to leverage its extensive customer base, marketing expertise and technology to enter the travel distribution space, most suppliers feel that they would quickly evolve into powerful, and perhaps even dominant players. Such a seismic shift would alter the rules of the travel distribution game and substantially rewrite the competitive landscape.

Even as travel is buffeted by technological changes, the industry must be cognizant of the increasing attention that consumers and governments are directing toward the environment. The pandemic has put a spotlight on sustainability issues and steps taken by the industry to mitigate its environmental impact. New distribution partnerships made possible by the liberalisation of rail have made it an attractive and viable option for consumers. Intermediaries have an opportunity to play a major role as travellers make more mindful choices during the purchase cycle. TMCs and their corporate clients can work together to offer business travellers options that fit companies' environmental policies. This could herald a new era of cooperation within the industry, in which suppliers work with enabling systems like GDSs and travel intermediaries to offer multi-modal travel products that allow seamless connections for travellers.

About Phocuswright

Phocuswright is the travel industry research authority on how travelers, suppliers and intermediaries connect. Independent, rigorous and unbiased, Phocuswright fosters smart strategic planning, tactical decision-making and organizational effectiveness.

To complement its primary research in North and Latin America, Europe and Asia, Phocuswright produces several high-profile conferences in the United States, Europe and Asia Pacific. Industry leaders and company analysts bring this intelligence to life by debating issues, sharing ideas and defining the ever-evolving reality of travel commerce.

Phocuswright also operates PhocusWire, a media service that covers the world of digital travel 365 days a year with a range of news, analysis, commentary and opinion from across the travel, tourism and hospitality sector.

The company is headquartered in the United States with Europe and Asia Pacific operations and local analysts on five continents.

Phocuswright is a wholly owned subsidiary of Northstar Travel Group.

About eu travel tech

[eu travel tech](http://www.eutravelttech.eu) represents the interests of travel technology companies. eu travel tech uses its position at the centre of the travel and tourism sector to promote a consumer-driven, innovative and competitive industry that is transparent and sustainable. Our membership^[1] spans Global Distribution Systems (GDSs), Online Travel Agencies (OTAs), Travel Management Companies in business travel (TMCs) and metasearch sites.

[1] eu travel tech's members include Amadeus, Booking.com, eDreams ODIGEO, Expedia Group, Skyscanner and Travelport. Associate members include American Express GBT, etraveli Group, Trainline and TripAdvisor. Strategic Partners include CWT, Travix and Travelgenio.