

Tourism and Travel Distribution in a Changed World



Volume 1

itjc

Irish Tourist Industry Confederation

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Tourism and Travel Distribution in a Changed World

- Executive Summary -

1. INTRODUCTION

During the past decade, there has been a pronounced shift in how people purchase travel and tourism products. This change has been driven by the rapid growth in the spread and use of the internet, especially in developed economies. It has been estimated that the global number of users of the internet has grown from 16 million in December 1995, through 361 million in December 2000 to reach 1.8 billion by December 2009.

The internet has had a major impact on tourism and travel, with the development of huge numbers of websites and applications including reservation systems, online travel agents and tour operators, and interactive product review sites. This constantly changing environment presents many challenges to the Irish tourism industry. The Irish Tourist Industry Confederation therefore commissioned CHL Consulting Company Ltd. and AMAS Ltd. to conduct a study into current and anticipated future trends in tourism and travel distribution, and to identify in these trends the implications for Irish tourism.

This Executive Summary presents the principal conclusions of the study and the recommendations arising from these. References should be made to Volume 2 for the detailed analysis of the research findings – this volume is available for download at www.itic.ie.

2. MAIN ACTION POINTS FOR THE IRISH TOURISM INDUSTRY

This study has a series of important messages and action points for tourism product providers, for industry bodies, the State agencies and tourism policy makers. For individual product providers, there is a number of specific actions that they need to take that merit particular attention in this Executive Summary.

The overarching message from this study is the need for Irish tourism product providers to recognise the fundamental changes in distribution channels and to respond to the internet's increasing role in researching, planning and booking holidays. There is a series of practical steps every provider, large and small, needs to take:

- 1) **A product provider's own website is a very important channel for transactions and promotion:** as the study shows, consumers who research travel on Online Travel Agency (OTA) websites also often visit a hotel, B&B or other provider's site. The expectation is that they will get more detailed content (photographs, maps, online content etc). There may also be opportunities to convert 'lookers' into 'bookers' and achieve higher yields through the provider's own website than is the case on OTA or other third party websites. Consequently, providers need to actively manage and market their own websites to capitalise on such opportunities.
- 2) **Product providers need to continually review and revise the number and profile of channels that they use, particularly their online channels:** there is a proliferation of different websites, portals and OTAs that can be used. While much emphasis is placed on the well-known websites and brands, there are many more important local websites and OTAs that operate in Ireland's most important markets. Product providers should ensure that their product is available across the widest range of channels and specifically channels which offer good yields or give access to a new or emerging market.
- 3) **Product providers cannot afford to ignore traditional channels, such as incoming tour operators or GDSs:** such intermediaries have had to adapt their business models to take account of the internet and they continue to channel significant levels of business to Irish tourism.
- 4) **Irish product providers need to manage their reputations online and, specifically, monitor and manage what is being said about their businesses by tourists on websites such as TripAdvisor:** such websites, which publish online reviews and comments, are having an increasing influence on buying decisions. Moreover, providers should ask guests who have a positive experience to share that experience with others by posting reviews on websites such as TripAdvisor.
- 5) **Tourism product providers need to continuously invest as much in their company's skills as in technology:** there is a recognised skills deficit for ecommerce and online marketing and the industry and the State agencies in tourism need to recognise the need to address the skills deficit and respond with relevant recruitment and training measures. Where appropriate, providers should retain technical services specialists with proven experience in delivering online sales and return on investment.

The rationale for these action points is outlined throughout this study and particular reference is drawn to Sections 2 (Trends in Tourism and Travel Distribution Channels) and 3 (Issues for the Irish Tourism Industry).

There are also two very useful appendices in this study which offer practical resources to assist tourism businesses to implement these action points. Appendix 3 provides guidance and links on online reputational management while Appendix 4 contains resources and links for website management, monitoring and marketing.

3. TOURISM AND TRAVEL DISTRIBUTION CHANNELS

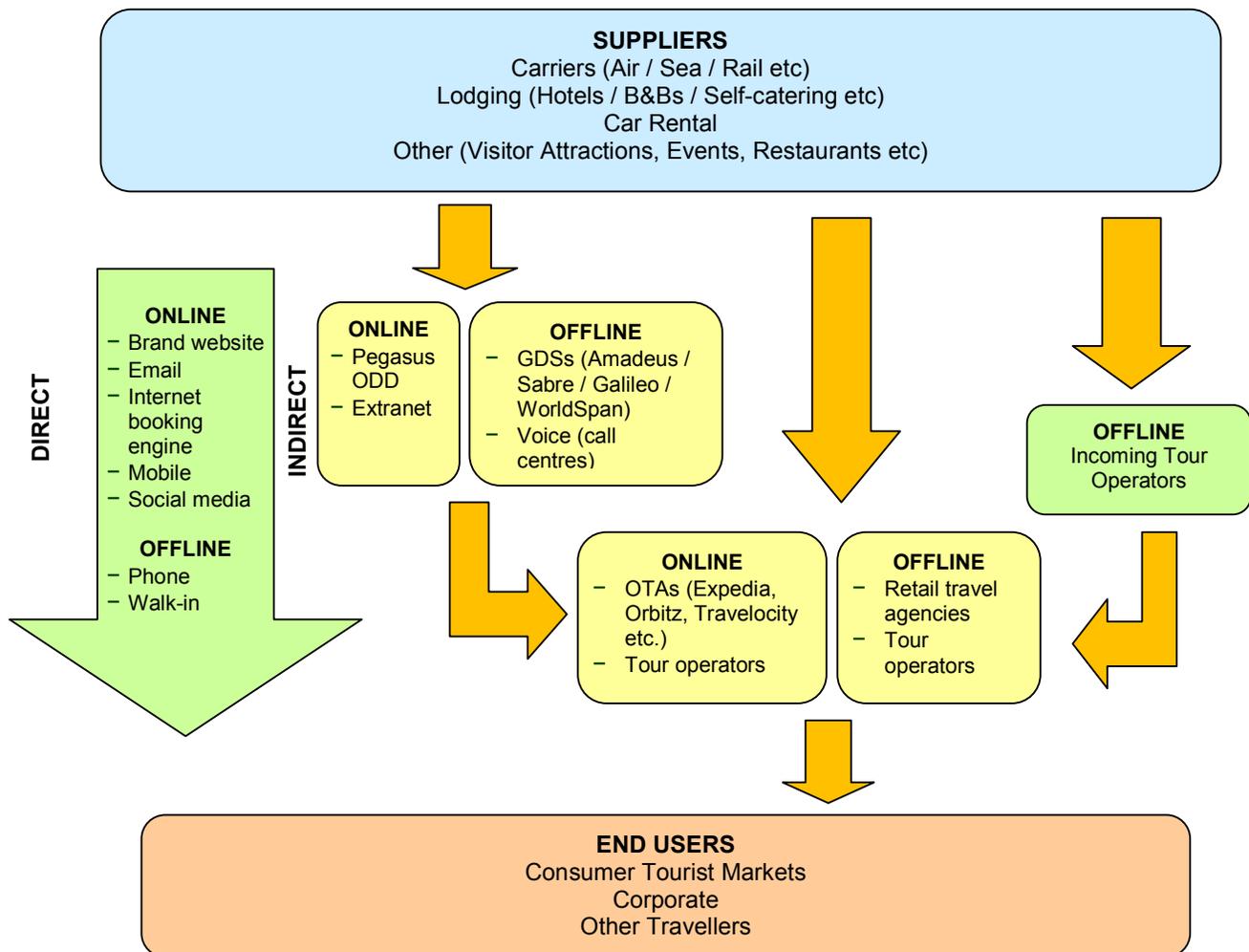
A summary of the main components of current tourism and travel distribution channels is presented in Figure A. As the diagram shows, there are many routes by which tourism and travel products are distributed to tourists, comprising online, offline, direct and indirect channels in any number of combinations. While offline channels still account for a significant share of overall demand - and probably about 50% in Ireland - there is ample evidence that online channels are taking a rapidly increasing share of the market. For example, European online bookings for leisure and unmanaged business travel grew by approximately 20% in 2008 compared to just 3% for the overall industry itself while the offline travel industry has not grown since 2002.

In both the US and European markets, online demand will continue to grow at the expense of offline demand, and can be expected to overtake offline in certain market segments. (For example, segments comprising younger and more cost-conscious leisure travellers; frequent travellers and those taking last minute trips are also greater users of online channels). Demographic changes and increased broadband penetration will accelerate this trend.

A number of fundamental observations may be made about the evolving structure of distribution channels, as depicted in Figure A.

- **Traditional channels of distribution are still important, especially at the business to business (B2B) level, but they are making increasing use of the internet as a medium for communication:** the use of traditional channels remains very important but it is clear from international research and direct enquiry that the method of doing business has changed with a significant shift being made to online communications. This shift is being followed by increased online transactions as tour operators raise their investment in online technology.

Figure A: Distribution Channels at a Glance



- Consumers tend to make greater use of travel agents and tour operators when purchasing complex products or travelling to distant destinations:** offline retail travel agencies and tour operators with public offices, or at least, a voice at the other end of a phone line, are typically sought where itineraries are more complex, where consumers need or demand more information, or where a contact person is required in the event of something going wrong.
- Online travel agents (OTAs) represent the fastest growing distribution channel and have gained significant market share:** they appear to have been particularly successful in the short-break travel market which has experienced very high growth during the past decade; they can be expected to continue to thrive since they are

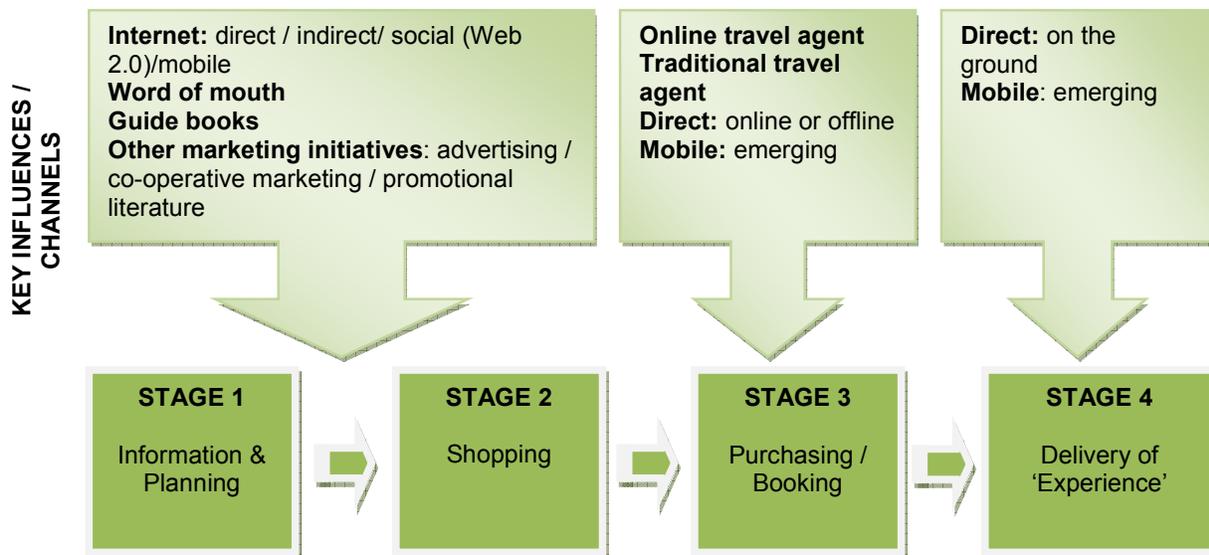
positioned to provide consumers with access to lower prices, comparative pricing, and personalised as well as comprehensive product information.

- **Direct sales by suppliers to consumers constitute the largest share of online sales:** about 70% of online airline ticket sales and 70% (US) to 80% (EU) of online car hires are made directly through supplier websites. On the other hand, the suppliers' share falls to 42% (EU) and 59% (US) in the case of hotels as online travel agents have taken a large part of this market.
- **Online sales have been most successful where price is the primary driver of choice:** airline, ferry and rail travel tickets are commodity-like in nature and can be purchased with ease directly from carriers or OTAs, with price being the primary reference point for comparison. Differentiated products, such as hotel accommodation, do not lend themselves as easily to this type of selling, but OTAs have been effective at commoditising them with price again being the primary comparator.
- **Online concentration and fragmentation:** the evolving online tourism and travel distribution industry is characterised simultaneously by concentration and fragmentation. At one end, the leading brands are becoming concentrated in conglomerate structures which may combine Global Distribution Systems with OTAs and travel review sites. At the other end of the market is a vast number of websites offering travel and tourism products at local, national and international levels. Consumers and product providers have to make decisions about which sites to use, which to trust and with which to transact business.

4. HOW CONSUMERS ARE BUYING TOURISM PRODUCTS

The tourism product buying process can be broken into four distinct stages, as illustrated in Figure B. At each of these stages, the buyer is open to external influence and the internet has become an increasingly important influence, especially in the crucial first and second stages.

Figure B: The Buying Process



Other influences such as word of mouth, traditional advertising, films or co-operative marketing initiatives now have the added dimension of being available online as well as offline. For example, film is no longer limited to the big screen or television set: potential visitors can readily view YouTube videos of chosen destinations. Advertising campaigns increasingly provide calls to actions to visit a website, to visit a dedicated YouTube channel or to join a community on a social media website such as Facebook.

Research and Planning Stage

The Internet has become a vital medium for research, planning and purchasing Irish travel and tourism products. At the information and planning stages, consumers are likely to visit a variety of sites which will invariably include any one or more of the following:

- General search query websites such as Google
- Destination marketing websites such as *Discoverireland.com*
- Online Travel Agents (OTAs) such as Expedia
- Travel community websites such as TripAdvisor
- Metasearch sites, such as *Kayak.com* or *Cheapflights.com*, which can search multiple individual search engines/websites to generate product and price comparisons
- Links identified within social media websites such as Facebook and Twitter.

Weeks can be spent exploring the various options before an actual booking is made. Undertaking research through a particular channel is no guarantee that an actual booking will be executed at this same site - for example, 60% of travellers who use OTA sites to research a holiday book it elsewhere.

In choosing and planning trips to Ireland, the internet plays a dominant role in all source markets with its use highest among British visitors. The internet is used by all age groups with there being a direct correlation between age and usage: i.e. younger age groups are more likely to use the internet than older age groups. The internet is also used across all segments by purpose of visit, although word of mouth is more important to business and VFR visitors than it is to holidaymakers. The latter, particularly Americans, are more likely to use tourism specialists than other segments.

Websites most frequently used in planning the trip to Ireland are, in order of importance, as follows:

- 1) Specific air / sea carrier websites (68% of those using the internet to plan their trip to Ireland)
- 2) General flight / accommodation / package search portals (28% of those using the internet to plan their trip to Ireland)
- 3) Specific accommodation providers' websites (23% of those using the internet to plan their trip to Ireland).

Purchasing and Delivery Stages

While the internet is not the only route through which Irish tourism products are purchased, 80% of all visitors to Ireland in 2008 purchased some part of their trip online. Visitors from Britain are the most likely to use the internet reflecting proximity, familiarity and their higher propensity than other markets to take short breaks in Ireland, and also the fact that carriers on the Irish Sea strongly favour direct sales via the internet. However, the majority of both Mainland European visitors (78%) and US visitors (72%) also buy some part of their trip online. Price, product choice and convenience are the driving forces behind online purchasing. Intermediaries are widely used in both markets, particularly where travel is more complicated (for example, multi-stop tours of Ireland, long haul trips etc.).

Air/sea tickets are the components most frequently purchased followed by accommodation. As with choosing and planning, there is also a direct correlation between age and internet purchasing, with a distinctly lower level of online purchasing

among older age groups. As internet savvy people get older this difference is likely to diminish. The extent of purchasing travel to Ireland online is undertaken in similar measure across all promotable segments with the one exception being touring/paid accommodation. This finding is not surprising as the complexity of such holidays necessitates interaction with a specialist.

Concluding Comments

The internet has already transformed the way in which visitors research, plan and purchase their trips, and its role will only increase in importance, particularly among European travellers. The internet's power as a marketing tool cannot be ignored and should not be underestimated, and tourism product providers must respond actively to the opportunities that it offers – or suffer the consequences.

Understanding buyers' motivations (i.e. convenience, price and selection) for buying online need to be incorporated into suppliers' online strategies. Attracting visitors to their websites provides suppliers with an opportunity to:

- make a strong first impression and
- convert 'lookers' into 'bookers.'

To this end, it is important that providers' websites are available, accessible, easy to use and informative. Uploading photographs, online videos and product reviews to websites will serve to enhance their impact.

5. HOW THE IRISH TRADE ARE DISTRIBUTING THIS PRODUCT

Online vs. Offline

Online sales account for a large and increasing share of bookings received by Irish accommodation providers. Just over one-third of the respondents received more than 60% of their bookings online in 2009, while a further quarter received between 40% and 60% of their bookings online. While most respondents anticipate further growth in online sales over the coming 3 years, offline bookings still account for a large share of business. Based on Fáilte Ireland and CSO survey data, it is estimated that about half of all bookings with Irish product providers are made offline.

Consumers typically make offline bookings by telephone or email, although there still may be some business done by fax and post. Offline bookings are also made by incoming tour operators and overseas tour operators/travel agents who were rated as

important or very important distribution channels by more than 40% of survey respondents. However, it is also evident that leading tour operators are investing heavily in online reservation systems and this will impact on how they do business with product providers in the future.

The Importance of Direct Sales

Direct sales, via own website and direct calls, is the most important distribution channel for most accommodation providers. Some two-thirds of respondents place direct sales to consumers as the most important source of online bookings.

A strong website with an online reservations system is a must, and this is recognised by the vast majority of accommodation providers. 70% of all respondent accommodation providers' websites have an online reservation capability, rising to 94% for hotels. However, a provider's online distribution strategy cannot end there as, in isolation, direct sales alone are not enough for most providers.

The Role of Intermediaries

Intermediaries, including online travel agencies (OTAs), incoming tour operators and overseas travel agents who book directly, all play an important if secondary role in selling Irish tourism products, especially accommodation bednights.

Survey respondents reported that OTAs such as Expedia are the second most important source of online bookings and hence it is not surprising that nine in ten hotels, seven in ten B & Bs and six in ten self-catering providers use OTAs. For most providers, avoiding OTAs would be an unrealistic and unwise strategy. The goal is to identify and work with OTAs that can deliver the most effective results with respect to a provider's target markets.

Clearly the payment of commissions to intermediaries is an issue. Some respondents reported paying as much as 30% or more to certain OTAs, although the average is much lower. For their part, the OTAs would argue that higher commissions are sought in return for access to a far wider market than a product provider could ever achieve independently. Higher levels of commission are also associated with packages offering additional services, such as prominent positioning on the OTA's website, inclusion in marketing campaigns and into bundled vacation packages.

Encouraged by the promises made by intermediaries, it is hardly surprising that accommodation suppliers use a lot of them. A substantial proportion of hotels manage at least five inventory systems and about half of all B&Bs manage in between two and five systems.

Concluding Comments

While offline distribution channels continue to be very important, the challenge for product providers is to develop their online distribution strategy wisely to complement their offline distribution and achieve their marketing targets. Given the pace of change in online technology, this is less familiar territory, and smaller independent providers need specialised external support.

A provider's distribution strategy must form a coherent and integrated part of their overall marketing and sales strategy. While traditional promotional methods are still used (i.e. print, brochures and advertising), online campaigns have become increasingly important and any offline marketing initiatives should incorporate referrals to the provider's website. Finally, online marketing and the impact of social media is perhaps the most difficult and unwieldy area for suppliers to understand and manage.

6. PERSPECTIVES ON IRISH PRODUCT DISTRIBUTION

The Irish tourism industry's capability with regard to online distribution and product access is well regarded by intermediaries. Eight out of twelve incoming tour operators feel that Irish product providers have developed their online reservation services at the same rate as their leading competitors and eight in ten of the international intermediaries view Ireland as being at least up to the average if not above average in terms of product access and distribution.

Overall these findings are quite positive with Ireland regarded as performing well in comparison to other competitor destinations, principally identified by the respondents as being Scotland, England, Wales and France. While this implies that there is room for improvement, it is reassuring to know that Ireland is at least on a par with its competitors. Incoming tour operators to Ireland and international Intermediaries are able to effectively access the product and they recognise that Irish product providers are distributing it well.

Personalised contact is still very important: 'on request basis' is the means by which product in Ireland is accessed by seven in ten international intermediaries, and email and telephone are regarded as the most important routes used when making reservations

with suppliers. While the current high level of investment by tour operators in online technology implies that a growing share of business will be transacted online, direct contact is likely to remain a central element of product distribution in the medium term.

7. TECHNOLOGY DEVELOPMENTS

Three key trends are noted in the study:

- **The Irish tourism industry is continuing to develop its presence on the internet:** over 90% of Irish businesses which completed the tourism product providers' survey regard the internet as positive to their businesses. Almost the same proportion (88%) said that their use of the internet had increased sales, while 71% said that it had led to improved yields and 60% to improvements in capacity utilisation.
- **Web 2.0: Word of Mouth Has Gone Viral:** the impact of word of mouth at the research, planning and shopping stages should not be underestimated. The challenge for product providers is how to manage it now that it is online and widely distributed by Web 2.0 sites such as TripAdvisor whereby travellers are encouraged to upload and share their experiences. Consumers, overwhelmed with too much information, frequently turn to travel review and comparison websites for help in making their purchase decision. In effect, the authority on travel information has moved to websites such as TripAdvisor and *Boo.com*.
- Internationally, according to researchers PhoCusWright, just over half of the top 200 travel websites are actual booking websites with the other half being referral and media sites offering reviews and/or metasearch capabilities. The latter are having a growing influence on travellers. Meanwhile another study has found that three-quarters of consumers agree that they choose companies and brands based on what others say about them online with as many as nine in ten review readers claiming that an online hotel review has a significant influence on their purchase.
- **The Growing Impact of Mobile Technology:** existing and emerging mobile technologies will play an increasingly important role in channel distribution, in both the corporate and consumer markets. Forecasts show rapid adoption of the mobile internet and significant predicted growth. The mobile internet comprises various different devices and platforms. Smartphones such as the iPhone are gaining ground, particularly in the corporate market but also in consumer markets as handsets fall in

price and price plans become more competitive. The basket of mobile internet devices also covers in-car systems and wireless home devices.

At present, it is estimated that seven in ten corporate travellers carry an internet enabled device allowing them to access information at any time and if necessary change their travel plans. Many of these same corporate travellers are as likely to be carrying their mobile enabled devices when travelling for leisure purposes, while other segments, particularly younger age groups, are also carrying mobile enabled devices, allowing them to research and book hotels, visitor attractions, restaurants and so on, on a more spontaneous basis.

Already 15% of US leisure travellers are using their mobile device to research hotel availability and one in ten are using the device to book air and hotel travel. In Europe, one in four of those who have a mobile enabled device state that they would be likely to use it to change existing reservations, confirm additional activities and/or make last minute travel arrangements if they could.

8. RECOMMENDATIONS

8.1 Recommendations on Strategy Setting

- Develop a distribution strategy or fine tune an existing strategy focusing on revenue management, ensuring that it is appropriate to the business and target markets while being open to change if distribution channel or market circumstances change.
- Manage and market their own website as their first priority albeit without neglecting other channels; providers should review their sites regularly and have people access and navigate their sites to follow the customer journey and identify desirable enhancements.
- Consult with and use resources provided by their peers, industry bodies and the State agencies before embarking on any site upgrades or substantial spend online.
- Resource the area of channel distribution and ensure that those within their organisations who are tasked with such responsibility have the appropriate skills and knowledge.

8.2 Recommendations on Traditional Channels

- Product providers should ensure that their distribution strategy includes traditional channels as appropriate to the nature of their business.
- Providers should ensure that their pricing strategies are compatible with the needs of different channels, both online and offline.
- Providers should exploit the opportunities offered by traditional channels to access potential customers in different market segments both directly and indirectly via tour operators and travel agents. (It should be borne in mind, for example, that group and coach tour business into Ireland expanded at four times the rate of growth in all inbound holiday tourism between 2002 and 2006; the group tour share of the inbound holidaymaker market has continued to grow up to 2009.)
- Offline channels allow greater scope for product differentiation and superior customer service, and providers should avail of this opportunity.
- Very small scale providers will continue to depend on traditional channels and it is important that the State tourism agencies and industry bodies take this into account in their own marketing and development support initiatives.

8.3 Recommendations on using Online Channels

- Ensure the online reservations capability of their own websites is effective, as this should generate the highest yield of any channel.
- Strive to have their product widely available through multiple channels by identifying and evaluating key intermediaries, partners and channels that are appropriate to their target markets.
- Use the services of trusted third parties (industry bodies or specialist online agencies) to develop new channels, such as local OTAs or affiliate programmes.
- Consider localisation of their websites for different markets, if the investment can be justified.
- Constantly evaluate the yield from various channels with a view to maximising those that offer the best returns.
- Identify and allocate appropriate resources to managing inventory across all selected channels.
- We also recommend that Tourism Ireland could assist Irish product providers to broaden the reach of the Irish tourism product through new and emerging channels, such as local market OTAs, by providing analysis and feedback on the effectiveness of these channels and co-ordinating access by the Irish industry.

8.4 Recommendations on Online Marketing Tactics

- Familiarise themselves with online marketing and, specifically, the range of platforms, tools and techniques that are available.
- Ensure online marketing is a core part of their marketing strategy and that all marketing activity, online and offline, is integrated into a coherent plan.
- Identify and invest in the best marketing channels to suit the business and the budget – search, email, social media, affiliates and mobile and other emerging platforms.
- For search enhancement, invest time in Search Engine Optimisation and in initiatives which can boost online referrals.
- Use existing and new resources for online marketing supplied by the State tourism agencies and industry bodies.
- Constantly evaluate performance using measurement tools and analysis (e.g. Google Analytics) and fine tune any campaigns accordingly.
- Tourism Ireland should track conversions generated through its network of websites, by tracking referrals, analysing trends in website access and usage, and sharing such data with industry bodies.

A guide to marketing and site management resources is provided in Appendix 4.

8.5 Recommendations on Reputation Management

- Tourism Ireland develop and help implement a strategy for managing and monitoring the reputation of the Irish tourism product on websites such as TripAdvisor and social media websites. The brief of Tourism Ireland’s call centre could be extended beyond its current monitoring of destination specific issues on such websites to one that is also product focused. This would work as an effective “early warning system”. Industry bodies should support these efforts and act as a conduit to the affected suppliers.

Meanwhile, the providers themselves should

- Monitor their own presence on these sites.
- Actively encourage satisfied customers to post comments to these sites, and help them to do so.
- Respond appropriately to complaints and potentially damaging comments

A guide to reputation management resources is provided in Appendix 3.

8.6 Recommendations on Human Resources/Skills Requirements

State bodies and industry groups should take a leadership role in enhancing skills through:

- Developing a database of resources, templates and pre-approved suppliers, to be established collaboratively.
- Using of industry bodies websites and other channels, such as LinkedIn, groups to share knowledge and experiences.

We also recommend that product providers need to:

- Develop the skills of their management and staff through initiatives such as Fáilte Ireland's Web Check programme as well as through training facilitated by industry groups and bought in from specialist trainers.
- Ensure that their revenue management function is adequately resourced.
- Share knowledge about strategy and experience among their peers.

8.7 Recommendations on Investment and Vendor Selection

- Product providers should seek advice from unbiased sources including their peers and industry bodies to identify appropriate sources of technology and services, including website development and online marketing.
- Providers should also seek to develop essential knowledge either in-house or through the use of external advisors to avoid wasting money on ineffective initiatives and technology
- Industry bodies have a responsibility to help the industry grapple with these issues – scope for joint purchasing could be investigated
- All in the industry need to recognise that investment in technology is a continuous requirement. The constant evolution of technology and online marketing means that there is no 'right time to invest' and providers need to invest as much to capitalise on new business opportunities as to preserve existing business. However, investment decisions need to be well-informed and take account not only of current but also of likely future technology trends, for instance the growth of the mobile internet.

8.8 Recommendations for Industry Bodies

Industry bodies should take a leadership role in helping their members to develop their distribution strategies and manage their online reputations. They should

- Constantly inform their members of developments in online distribution.
- Develop resources in conjunction with the State bodies to be provided through their own websites and other online channels.
- Identify existing experts and build a list of recommended vendors in the area of online strategy, web development and online marketing.
- Work collaboratively with both Tourism Ireland and Fáilte Ireland on distribution channel development, identification of new channels, upskilling and other pertinent issues.

1. INTRODUCTION

1.1 Background to the Study

During the past decade, there has been a pronounced shift in how people purchase travel and tourism products. This change has been driven by the rapid growth in the spread and use of the internet, especially in developed economies. It has been estimated that the global number of users of the internet has grown from 16 million in December 1995, through 361 million in December 2000 to reach 1.8 billion by December 2009¹.

The travel and tourism industry has been at the forefront in the innovative development of ecommerce applications on the internet. So effective has the industry been in this regard that a large majority of tourists in the leading source markets of Europe and North America now research, plan and purchase travel online. While the gallop in the growth of online travel sales was brought to a halt in 2009 by the recession, it appears that the fall in online sales was much less than that in offline sales which suggests that the online share of the market continued to grow².

The pace of change in sales of travel is being paralleled by the development of online marketing and promotional tools. Traditional marketing methods are being challenged as technology has displaced mass marketing and enabled tourism providers to develop personalised, direct communications to consumers. The boom in interactive information sharing and online collaboration on the internet (Web 2.0) is enriching the online marketing mix. Social networking sites, such as Facebook and LinkedIn, are now developing as marketplaces with an increasing array of tourism and travel products being promoted through these networks.

This constantly changing environment presents many challenges to the Irish tourism industry. The Irish Tourist Industry Confederation therefore commissioned CHL Consulting Company Ltd. and AMAS Ltd. to conduct a study into current and anticipated future trends in tourism and travel distribution, and to identify in these trends the implications for Irish tourism.

¹ Internet World Stats, Miniwatts Marketing Group, 2010

² For example, online travel sales in the USA contracted by an estimated 3% in 2009 versus an 11% decline in total travel sales – PhoCusWright, 2009

1.2 Study Objectives, Scope and Methods

The primary objectives of the study may be summarised as follows - the full terms of reference are provided in Appendix 1 of Volume 1:

- to provide a comprehensive and detailed analysis of how global tourism and travel distribution is evolving
- to identify future trends in distribution channels and media
- to identify the potential impacts of these changes on Irish tourism businesses and distributors
- to provide conclusions and recommendations to guide future distribution strategies and systems development for Ireland's tourism sector.

The scope of the study covers:

- consumers and how their buying behaviour is changing, with particular reference to Ireland's principal source markets;
- the use of different distribution channels by the Irish tourism industry
- the impact of technology on distribution channels, and how the latter are likely to evolve over the coming 3-5 years.

The study team conducted its work between February and May, 2010. The research methods were as follows - a more detailed description is provided in Appendix 2 of Volume 2:

- extensive documentary and online research
- specific analyses of data from Fáilte Ireland's annual Visitor Attitudes Survey and Survey of Travellers
- wide-ranging consultative programme
- online survey of the Irish tourism industry
- online survey of Irish tour operators
- survey of overseas online and offline tour operators and travel agents, conducted with the assistance of Tourism Ireland
- workshop with members of ITIC to review research findings and identify implications for the Irish trade.

1.3 Structure of the Report

The report is presented in two volumes, as follows:

- Volume 1: Main Report
 - Executive Summary
 - Trends in Tourism and Travel Distribution Channels
 - Issues for the Irish Tourism Industry
 - Appendices, including Glossary of Terms, guidance on online reputation management and online marketing, and further exploration of key themes.

 - Volume 2: Research Findings
 - How Consumers are Buying Tourism Products
 - How the Irish Trade are Distributing Their Products
 - Findings of International and ITOA Surveys
 - Appendices, including references and research methods.
- (this volume is available for download at www.itic.ie)*

1.4 Acknowledgements

CHL and AMAS wish to acknowledge the assistance of many individuals and organisations with the conduct of this study, including the participants in the consultative programme and workshop, and the respondents to the three surveys. We would like to thank ITIC and the sectoral representative bodies, including the ITOA, IHF, B&B Ireland, ISCA, Car Rental Council, CTTC, Irish Hostel Association, Restaurant Association of Ireland and IBRA who assisted with the surveys. We also gratefully acknowledge the assistance of Tourism Ireland and Fáilte Ireland with the surveys, data sourcing and analysis.

A useful **Glossary of Terms** explaining the technical terms used in this report is provided in Appendix 2 of Volume 1.

2. TRENDS IN TOURISM AND TRAVEL DISTRIBUTION CHANNELS

This chapter profiles tourism and travel distribution channels and describes current trends in these. It sets the context for the research and analysis detailed in the following chapters.

2.1 Overview

A summary of the main components of current tourism and travel distribution channels is presented in Figure 1. As the diagram shows, there are many routes by which tourism and travel products are distributed to tourists, comprising online, offline, direct and indirect channels in any number of combinations. While offline channels still account for a significant share of overall demand, there is ample evidence that online channels are taking a rapidly increasing share of the market. For example, European online bookings for leisure and unmanaged business travel grew by approximately 20% in 2008 compared to just 3% for the overall industry itself³ while the offline travel industry has not grown since 2002.⁴

In the US, half of all travel by volume is booked online, representing 40% of all US travel revenue (the apparent mismatch is due to higher value travel being booked offline than online.) While online demand in the US experienced a decline of 3% in 2008-2009 this was far less than the overall industry decline of 11%, indicated a further gain in the online market share.⁵

The share of all travel booked online in Europe is less than that in the US but is rapidly catching up – the share of internet sales in the European travel market has grown from 1% in 2000 to 26% in 2009 (excluding B2B sales).⁶ In relative terms, the Nordic countries are the biggest buyers of online travel followed by the UK. However, the UK is by far the largest online travel market in Europe, accounting for almost 30% of the total European online market in 2008. Germany and France are the next largest, with shares of 18% and 14% respectively.

³ PhoCusWright - European Online Travel Overview (fourth edition)

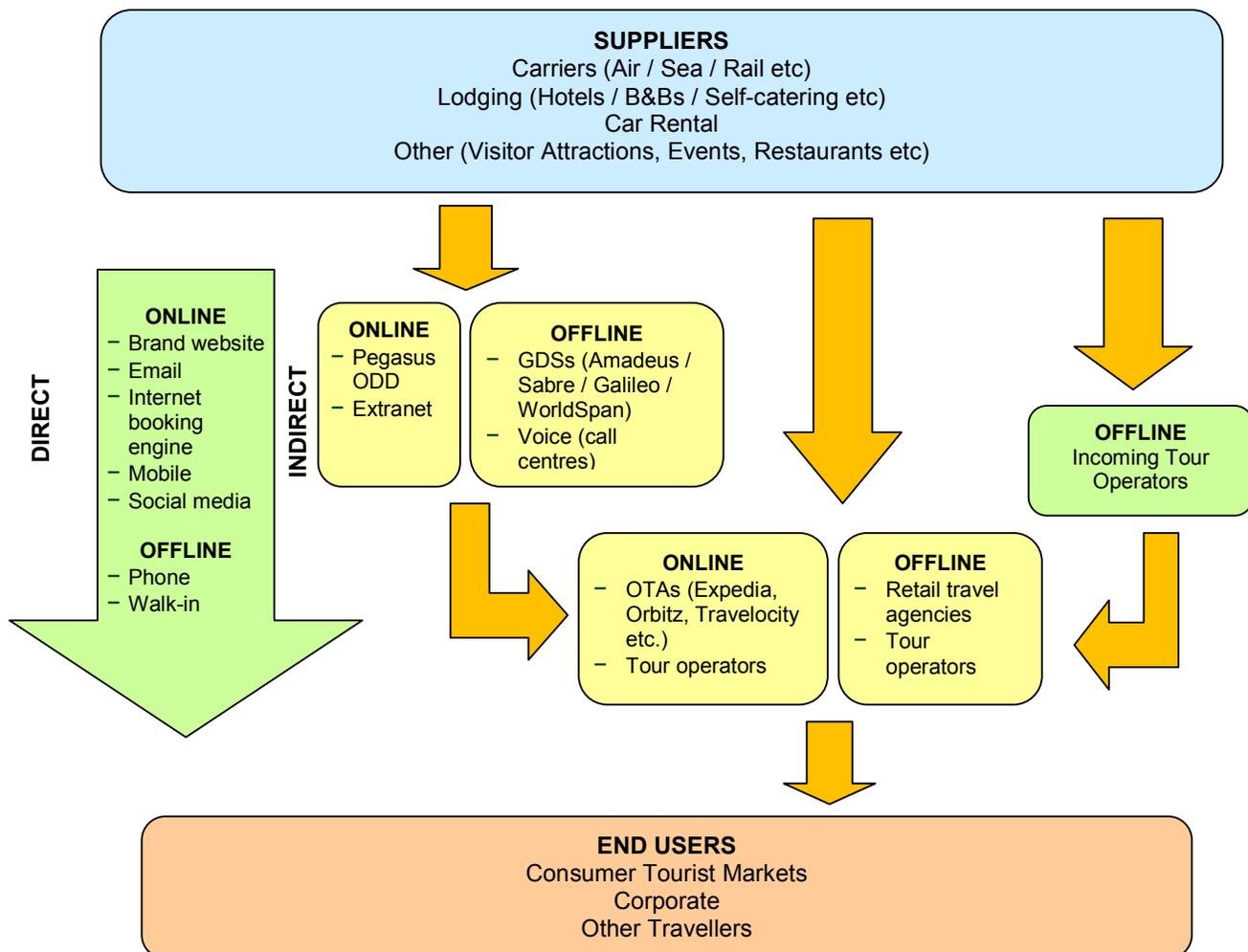
⁴ Eyefortravel – European Online Travel Report November 2009 (edition three)

⁵ PhoCusWright - US Online Travel Overview (8th edition) and the Role and Value of GDS in Travel Distribution.

⁶ Centre for Regional and Tourism Research, Denmark – www.crt.dk, 2010.

In both the US and European markets, online demand will continue to grow at the expense of offline demand, and can be expected to overtake offline in certain market segments. (For example, segments comprising younger and more cost-conscious leisure travellers; frequent travellers and those taking last minute trips are also greater users of online channels). Demographic changes and increased broadband penetration will accelerate this trend.

Figure 1: Distribution Channels at a Glance



A number of fundamental observations may be made about the evolving structure of distribution channels, as depicted in Figure 1. These points will resurface repeatedly throughout the analysis in the following chapters, and their implications for the Irish tourism industry will be examined in the conclusions.

- **Traditional channels of distribution are still important, but they are making increasing use of the internet as a medium for communication:** the use of traditional channels remains very important at the B2B (business to business) level where suppliers channel their products through intermediaries including tour operators, travel agents and global distribution systems. However, it is clear both from international research and direct enquiry that the method of doing business has changed with a significant shift being made to online communications. This shift is being followed by increased online transactions as tour operators raise their investment in online technology.
- **Consumers tend to make greater use of travel agents and tour operators when purchasing complex products or travelling to remote destinations:** offline retail travel agencies and tour operators with public offices, or at least, a voice at the other end of a phone line, are typically sought where itineraries are more complex, where consumers need or demand more information, or where a contact person is required in the event of something going wrong. One example where such customer support is necessary is in the sales of packages to Ireland which typically involve a tour around the country with a number of overnight stops at different locations. As another example, online travel agents (OTAs) have indicated that a large proportion of their cruise sales (which by their nature are complicated since choices need to be made with regard to itinerary, cruise line, ship, cabin, dining options etc.) are actually completed over the phone.⁷
- **Online travel agents (OTAs) represent the fastest growing distribution channel and have gained significant market share:** OTAs appear to have been particularly successful in the short-break travel market which has experienced very high growth during the past decade. It can be expected that OTAs will continue to thrive since they are positioned to provide consumers with access to lower prices, comparative pricing, and personalised as well as comprehensive product information, for which there is a strong demand. However, OTAs will need to invest in dynamic and increasingly sophisticated customer “interfaces” if they wish to manage more complex transactions. At the same time, retail agencies will require an online presence in order to promote themselves more effectively among suppliers and consumers. OTAs can exist without an offline presence but retail travel agencies will be unable to grow their business without an online presence. Lines will continue to blur between the two

⁷ PhoCusWright - The Role and Value of the Global Distribution Systems in Travel Distribution, Nov 2009.

with a new type of travel agency possibly emerging which blends offline and online services.

- **Direct sales by suppliers to consumers constitute the largest share of online sales:** research indicates that supplier websites account for a majority of online sales in the EU and the US - close to 65% in both cases⁸. However, there is some degree of variation between product categories - about 70% of online airline ticket sales and 70% (US) to 80% (EU) of online car hires are made directly through supplier websites. On the other hand, the suppliers' share falls to 42% (EU) and 59% (US) in the case of hotels as online travel agents have taken a large part of this market. (The larger hotel groups appear to have been more successful in driving business to their own sites, and Intercontinental, Hilton and Marriott are among the top twenty travel sites worldwide.)
- **Online sales have been most successful where price is the primary driver of choice:** airline, ferry and rail travel tickets are commodity-like in nature and can be purchased with ease directly from carriers or OTAs, with price being the primary reference point for comparison. Differentiated products, such as hotel accommodation, do not lend themselves as easily to this type of selling, but OTAs have been effective at commoditising them with price again being the primary comparator. This strategy facilitates OTAs but runs counter to the marketing goals of many suppliers who seek to compete by differentiating their products on the basis of features, quality and service. Commoditisation is a challenge for suppliers, especially those in the accommodation sector.
- **Online concentration and fragmentation:** the evolving online tourism and travel distribution industry is characterised simultaneously by concentration and fragmentation. At one end, the leading brands are becoming concentrated in conglomerate structures. Examples include Travelport which has two global distribution systems (Galileo and Worldspan) under its umbrella, as well as ebookers, *needahotel.com*, *orbitz* and *octopus.com* and various other brands. Travelocity and *Lastminute.com* are owned by Sabre Holdings, another global distribution system. Expedia, by far the largest OTA, owns a host of online brands, including TripAdvisor, Virtual Tourist, *Hotels.com* and Venere.

⁸ PhoCusWright, Third Edition, 2006: US Online Travel, Overview, Seventh Edition, 2009; Eye for Travel Research: European Online Travel Report, Edition 3, 2010,

Google, which already owns YouTube where consumers post travel videos, has just announced that it has agreed to buy ITA, a flight information software company which licences its software to airlines and travel distributors including flight information and price comparison websites such as Kayak, Orbitz and Farecast. This is seen as a significant move by Google into the travel industry and it may be opposed by leading OTAs and Global Distribution Systems.

At the other end of the market is a vast number of websites offering travel and tourism products at local, national and international levels. The barriers to entry are low and new websites are constantly appearing. Both consumers and suppliers have to make decisions about which sites to use, which to trust and with which to transact business. Metasearch sites, such as *Kayak.com*, which search across multiple sites to produce comparative data for consumers, are becoming increasingly popular as a tool to simplify the clutter and accelerate the process of researching and buying travel products.

2.2 Adoption of Technology by the Irish Tourism Industry

The pace of technological change has brought considerable opportunities for all involved in the tourism sector. While the same point may be made for other sectors of the economy, the reality is that the change has been more profound for tourism, with significant activity moving from traditional to online channels.

The main opportunities which the internet presents centre around the ability to market and promote more cost-effectively and also to use Information and Communications Technologies (ICT) to improve efficiencies and reduce operating costs. The challenges range from defining a strategy to deal with multiple new online channels to managing yields, selecting technology providers and managing websites and online campaigns. There is an acceptance among Irish tourism businesses of these challenges and the need to adapt their business models to deal with the impact of the internet.

While technological change may be happening at a bewildering pace, the conclusion that can be drawn from two ITIC studies - one carried out in 2007⁹ and this one - is that tourism businesses are making the transition and viewing technological change in a positive light. The 2007 study found that many small businesses within tourism were at a relatively early stage of online adoption, specifically:

⁹ Tourism SMEs and the Web, study conducted by AMAS for ITIC, published December 2007.

- B&Bs, farmhouses and country homes, as well as visitor attractions were at the lower end of online maturity
- Businesses were slow to adopt so-called Web 2.0 initiatives
- Tourism businesses were missing referrals because of the absence of data from the main database that promotes Ireland as a destination.

The evidence from the 2010 surveys and from other sources contacted for this study is that there has been significant progress during the past three years. Over 90% of Irish businesses which completed the tourism product providers' survey regard the internet as positive to their businesses. Almost the same proportion (88%) said that their use of the internet had increased sales, while 71% said that it had led to improved yields and 60% to improvements in capacity utilisation. As Figures 2 and 3 show, there were no notable variations in the responses between the two main groups surveyed - hotels and B&Bs.

Figure 2: Advantages of Use of the Internet – B&Bs

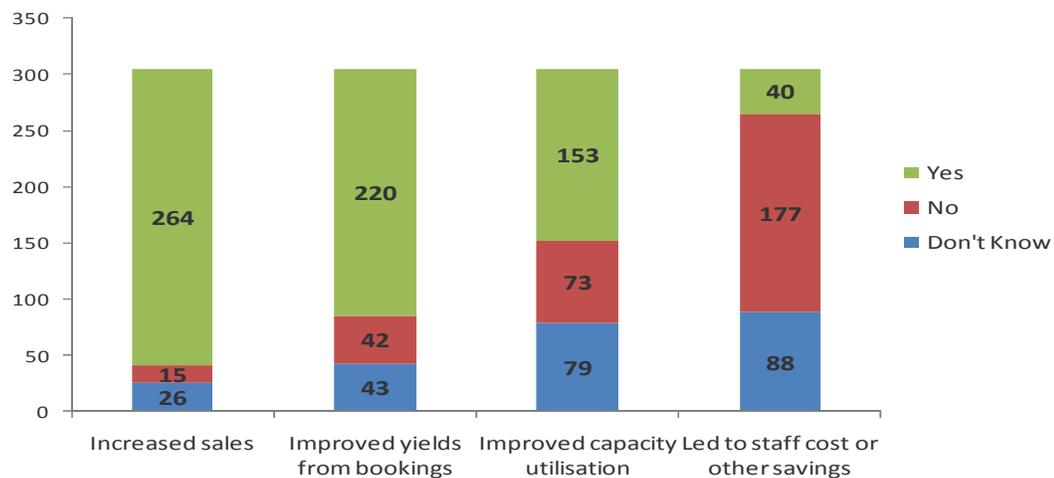
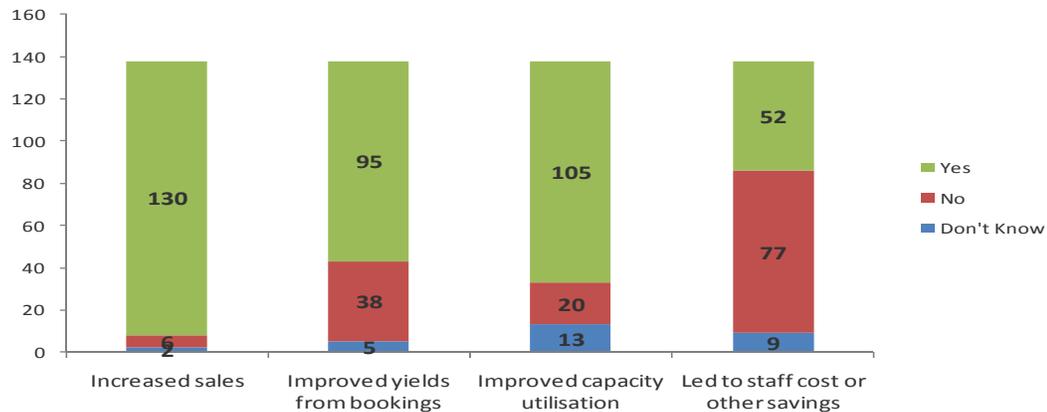


Figure 3: Advantages of Use of the Internet – Hotels



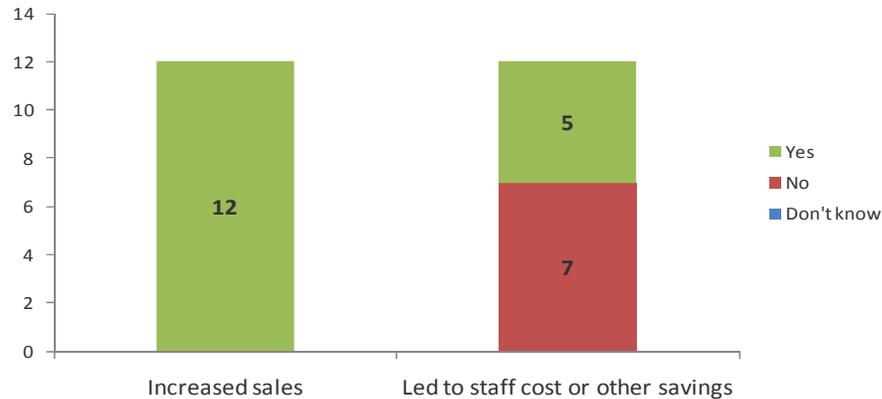
While the focus of the impact of the internet on tourism tends to be in the Business to Consumer (B2C) markets, it is also having a profound impact on Business to Business (B2B) relationships and transactions. The internet may have resulted in disintermediation, enabling consumers to book directly with product providers but, as this study has found, intermediaries continue to play an important role in planning and booking travel.

Many traditional intermediaries influence and facilitate the buying process, particularly for corporate and specialist markets and for consumers who want personalised guidance if they are planning a significant and perhaps complex holiday. So-called re-intermediation, through online intermediaries such as the OTAs, has also emerged as a significant trend.

Tour operators who service the Irish tourism market have had to adjust to greater electronic distribution and have invested in B2B systems that allow their overseas clients to book, check inventory and carry out other transactions.

Similar to the tourism product providers, Irish tour operators view the internet positively, as found by the survey conducted among members of the Irish Tour Operators Association. All 12 companies surveyed said that the internet had resulted in increased sales while a minority reported that it had led to cost savings. This finding is in line with the responses from B&Bs, hotels and other product providers.

Figure 4: Advantages of Use of the Internet – Incoming Tour Operators



Overseas tour operators, OTAs and others who market Irish tourism in overseas markets are generally positive towards how the product is being distributed in those markets and the transition that Irish suppliers have made to electronic channels. Asked specifically about the channels they use, email and telephone are the two highest, but websites with either extranet type functionality or online booking facilities also feature highly.

2.3 Web 2.0: Word of Mouth Has Gone Viral

The impact of word of mouth at the research, planning and shopping stages should not be underestimated. The challenge for suppliers is how to manage it now that it is online and heavily impacted by Web 2.0 sites whereby travellers are encouraged to upload and share their experiences.

The findings of research on how consumers are choosing and buying Ireland show that many travellers shop around online, researching different options available through various suppliers and/or search engines before making the actual purchase online via an intermediary or direct with the supplier. Web 2.0 is playing a significant part in this research process as consumers, overwhelmed with too much information, turn to travel review and comparison websites for help in making their purchase decision. ***In effect, the authority on travel information has moved to websites such as TripAdvisor and Boo.com.***

Internationally, according to researchers PhoCusWright, just over half of the top 200 travel websites are actual booking websites with the other half being referral and media sites offering reviews and/or metasearch capabilities. The latter are having a growing influence on travellers. **Meanwhile another study has found that three-quarters of consumers agree that they choose companies and brands based on what others say about them online with as many as nine in ten review readers claiming that an online hotel review has a significant influence on their purchase.**¹⁰ In an Irish context, a typical month could include as many as three million unique visits to TripAdvisor with almost 3,500 accommodation establishments and over two thousand Irish restaurants viewed by potential visitors – see Table 2.1.

Consumer reviews are important influences. Indeed, Google research indicates that both personal and business travellers are a little more likely to trust consumer reviews than those of experts (Table 2.2):

Table 2.1: Ireland in One Month on TripAdvisor

Ireland in One Month on TripAdvisor	
➤	2,880,747 unique visits
➤	5,241,335 page views
➤	130,162 reviews
➤	50,517 forum topics
➤	3,482 lodgings
➤	1,633 attractions
➤	2,007 restaurants

Table 2.2: Google Research Findings on Consumer Reviews

I trust content of...	Personal	Business
	%	%
Trip reviews from people like me	59	65
Trip reviews from experts	57	63

Source: Presentation by TripAdvisor to Tourism Ireland.

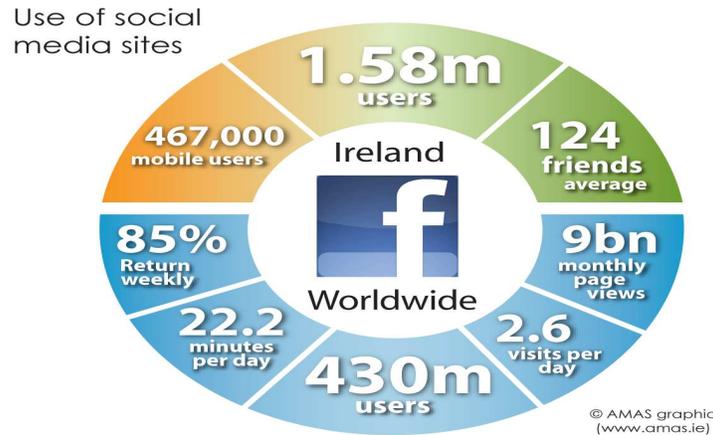
Apart from travel community sites, social networking sites such as Facebook and Twitter are being used to share experiences, get recommendations and increasingly to facilitate holiday bookings.

¹⁰ The Society for New Communications Research (2008)

Facebook’s growth and reach has become a global phenomenon. In May 2010, its worldwide user audience reached 430 million.¹¹ As Figure 5 shows, the Irish user base stood at 1.6 million that month. For travel businesses, Facebook is being used for communications, marketing and, increasingly, as a distribution channel.

Twitter, the micro blogging site, is also being used for tourism marketing and communication purposes. National tourism organisations including Tourism Ireland, are using Facebook and Twitter as so-called ‘listening channels’ - ways to listen, understand and respond to travellers’ queries and issues.

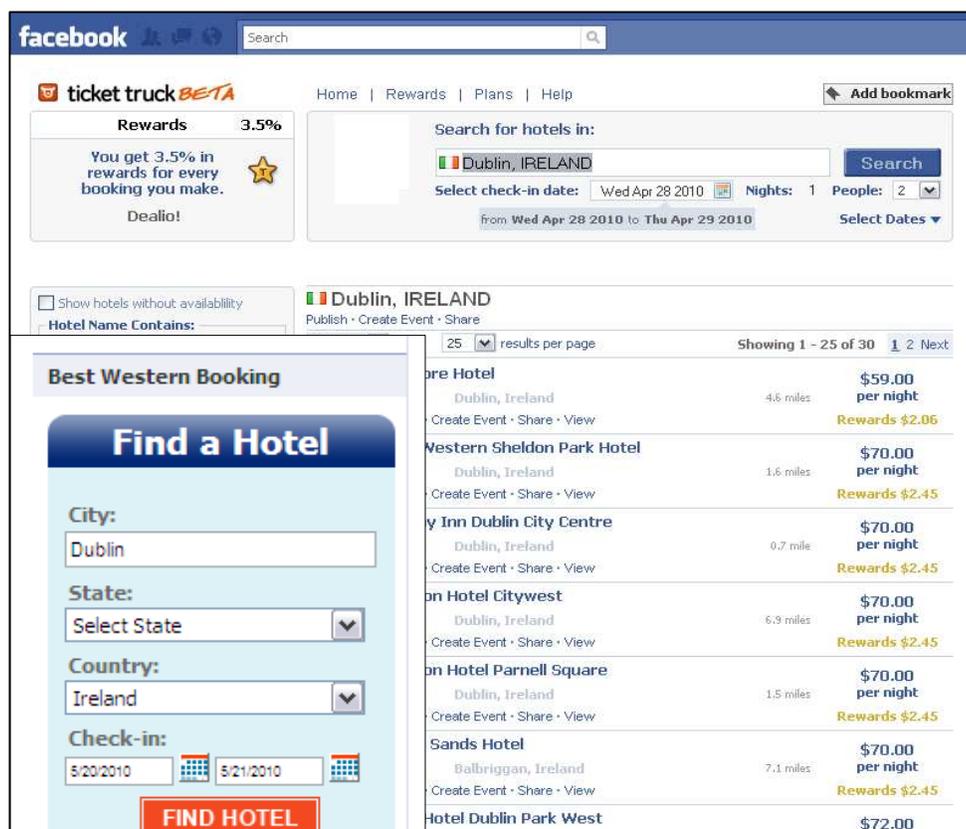
Figure 5: Use of Social Media Sites



Source: AMAS, based on Facebook data, May 2010.

There is a range of applications available or in development on Facebook for travel businesses. Examples are illustrated below.

¹¹ Facebook, May 2010



The screenshot shows a Facebook page for 'ticket truck BETA'. The main content is a search interface for hotels in Dublin, Ireland. The search parameters are: Dublin, IRELAND; Check-in date: Wed Apr 28 2010; Nights: 1; People: 2. The search results are displayed as a list of hotels with their names, locations, distances, and prices per night. A 'Best Western Booking' sidebar is also visible, featuring a 'Find a Hotel' form with fields for City (Dublin), State (Select State), Country (Ireland), and Check-in dates (5/20/2010 to 5/21/2010).

Hotel Name	Location	Distance	Price per night	Rewards
Best Western Hotel	Dublin, Ireland	4.6 miles	\$59.00	\$2.06
Best Western Sheldon Park Hotel	Dublin, Ireland	1.6 miles	\$70.00	\$2.45
Best Western Inn Dublin City Centre	Dublin, Ireland	0.7 mile	\$70.00	\$2.45
Best Western Hotel Citywest	Dublin, Ireland	6.9 miles	\$70.00	\$2.45
Best Western Hotel Parnell Square	Dublin, Ireland	1.5 miles	\$70.00	\$2.45
Sands Hotel	Balbriggan, Ireland	7.1 miles	\$70.00	\$2.45
Hotel Dublin Park West			\$72.00	

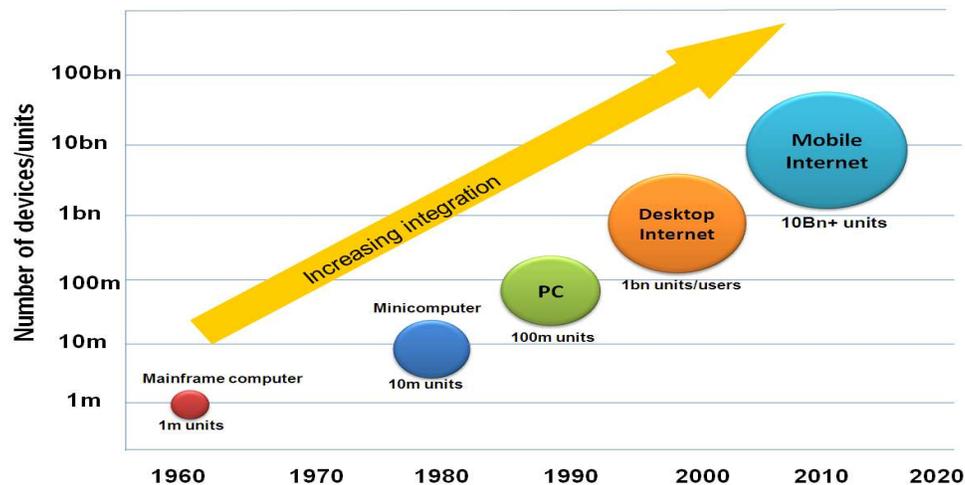
2.4 The Growing Impact of Mobile Technology on Purchasing Behaviour

Existing and emerging mobile technologies will play an increasingly important role in tourism and travel distribution, in both the corporate and consumer markets. Forecasts show rapid adoption of the mobile internet and significant predicted growth. Mobile internet adoption is set to reach 10 billion by 2015 as individuals and organisations acquire multiple units – see Figure 6.

The mobile internet comprises various different devices and platforms. Smartphones such as the iPhone are gaining ground, particularly in the corporate market but also in consumer markets as handsets fall in price and price plans become more competitive. Apple's new device, the iPad - something of a hybrid between a PC, a phone and an electronic reader - has been a sell-out in the first few months of its launch in early 2010. The basket of mobile internet devices also covers in-car systems and wireless home devices.

The mobile internet is gaining in market share in some mature markets. In March 2010, Google stated that there are a greater proportion of internet searches being performed through mobile devices than on PCs in Japan. A senior Google figure¹² has stated publicly that mobiles will soon overtake PCs in terms of internet platform.

Figure 6: Accelerating Pace of Adoption of Technology



Source: Morgan Stanley

At present, it is estimated that seven in ten corporate travellers carry an internet enabled device allowing them to access information at any time and if necessary change their travel plans. Many of these same corporate travellers are as likely to be carrying their mobile enabled devices when travelling for leisure purposes, while other segments, particularly younger age groups, are also carrying mobile enabled devices, allowing them to research and book hotels, visitor attractions, restaurants and so on, on a more spontaneous basis.

Already 15% of US leisure travellers are using their mobile device to research hotel availability and one in ten are using the device to book air and hotel travel.¹³ In Europe, one in four of those who have a mobile enabled device state that they would be likely to use it to change existing reservations, confirm additional activities and/or make last minute travel arrangements if they could.¹⁴

¹² John Herlihy, head of Google Europe, speaking at the Digital Landscapes Conference at University College Dublin, March 2010

¹³ Forrester US & Travel, Google Inc. (2010)

¹⁴ PhoCusWright European Consumer Travel Trends Survey (2009)

In response to this, many airports are now pursuing mobile technology to deliver flight information and advertising to travellers' mobile phones. For example, Denver International Airport has teamed up with a marketing company and aviation consulting firm and introduced an iPhone app called 'goHow Airport' which allows users to track flights, receive flight status alerts, security line wait times and search airport amenities. This app can also deliver highly targeted advertising taking into account the traveller's actual gate location, time of day and departure or arrival cities.¹⁵ Heathrow is adopting a similar approach – see Figure 7.

Figure 7: London Heathrow Mobile App

This App provides:

- Terminal guides and maps
- Live flight info
- Latest security guides
- Guide to shops/restaurants
- Airline contact details
- Timetable information
- Weather forecasts



In summary, as more suppliers create mobile specific sites with booking capabilities, this route for promoting and distributing tourism products will gain momentum among consumers.

¹⁵ USA Today 17th May 2010

3. ISSUES FOR THE IRISH TOURISM INDUSTRY

A number of issues have emerged from this study and need to be considered by industry bodies and individual businesses. These may be brought together under the following headings:

- Setting a strategy
- Continued use of traditional channels
- Using online channels
- Online marketing tactics
- Reputation management
- Human resource/skills requirements
- Investment and vendor selection - systems and services
- Role of industry bodies.

These topics are addressed in this Chapter.

3.1 Setting a Strategy

Rapid and continual technological change, the fast adoption of particular online channels and, in some cases, a lack of knowledge of online distribution and marketing, has made the process of defining a distribution strategy difficult for many tourism businesses. One operator summarised this by saying that the learning from more than a decade of online distribution is that a strategy 'cannot be set in stone' and must take account of changing market dynamics.

In that case, the original strategy was based on securing bookings on the operator's own site complemented by a policy to prohibit their inventory from appearing in websites which aggregated content from a range of providers. That strategy changed with the realisation that the aggregators in question had gained a considerable market share in overseas markets and had a richer online offering than the individual operator could provide. While the yield per booking was greater on the operator's own site, there was a recognition that consumers are using a range of other channels offering more options and that sales opportunities were being lost.

Another operator has changed from a blanket distribution strategy covering all markets to one that is market specific and takes account of market share, demographics and other factors influencing demand. In this case, the operator's physical presence in some markets has been increased whereas in other markets there is a total reliance on internet booking, both direct to the operator's website and via GDS-based online intermediaries.

As the internet is so widely used at the research stage, product providers are faced with the very real challenge of

- 1) ensuring that content viewed online encourages potential customers to visit the provider's own website for actual purchasing, and
- 2) ensuring that any review sites are accurate, at the very least, and hopefully positive, as a negative online review can have a disproportionately bad effect on sales - as already highlighted in Chapter Two in Volume 2, consumers are increasingly reliant on user generated reviews on websites such as TripAdvisor to help them make decisions.

Once consumers have navigated their way through the myriad of information available, made a decision and moved onto the purchasing stage, suppliers then need to ensure that their product is readily accessible to them in appropriate distribution channels which may vary from market to market.

For product providers, the strategic questions are about

- what role their own website should play,
- how widely their product should be available,
- how best to manage their inventory across a range of channels, and
- what are the investment requirements.

The provider's own website is the one area in which the provider can control the promotion of their own individual identity/brand. Yields are higher from own websites and the Visitor Attitudes Survey shows that about a quarter of all overseas visitors who use the internet in planning refer to specific accommodation provider websites, while almost 70% use specific carrier websites. On the domestic market, where half of all prebooked trips are booked over the internet, provider websites are often the first port of call. Just under 80% all product providers who responded to the industry survey conducted for this study consider their own website as being very important in terms of securing business -

this proportion rises to 88% for hotels. Thus any distribution strategy must place a high emphasis on this highly valuable source of bookings.

There is increasing evidence of providers such as hotels and B&Bs adopting a multi-channel approach to online distribution. The industry survey found that a range of different websites and booking engines are being used. In dealing with multiple channels, many tourism businesses are on a steep learning curve in terms of inventory management, commissions, online marketing and site management. The allocation of appropriate resources to these tasks - in terms of time and expertise as well as cash – has become a critical issue.

Right across the industry, there has been considerable investment in new systems or are using the solutions and services which specialist providers now offer (see Figure 8). Industry bodies such as the Irish Hotels Federation and B&B Ireland have also invested in their own websites and transactional booking engines to ensure that their members can access electronic bookings at cost-effective rates. However, it appears that a substantial minority have yet to come to grips with this requirement: 21% of respondents to the industry survey do not consider their own websites to be an important distribution channel, while 30% do not have an online booking capability - see Sections 3.1 and 3.2 in Volume 2. It is also possible that the survey sample, while large, may be biased to some extent towards enterprises who are already engaged in online distribution and that the proportion of the total population of providers who are lagging behind may be greater than indicated by the survey.

Figure 8: Technology and Marketing Providers that Service the Tourism Sector in Ireland



Recommendations on Strategy Setting

In summary, we recommend that product providers need to:

- Develop a distribution strategy or fine tune an existing strategy focusing on revenue management, ensuring that it is appropriate to the business and target markets while being open to change if distribution channel or market circumstances change.
- Manage and market their own website as their first priority albeit without neglecting other channels; providers should review their sites regularly and have people access and navigate their sites to follow the customer journey and identify desirable enhancements.
- Consult with and use resources provided by their peers, industry bodies and the State agencies before embarking on any site upgrades or substantial spend online.
- Resource the area of channel distribution and ensure that those within their organisations who are tasked with such responsibility have the appropriate skills and knowledge.

3.2 Continued Use of Traditional Channels

It is, perhaps, inevitable in a study such as this which is concentrating on current and future trends in distribution that the greater emphasis will be placed on the forces of change. However, it would be a mistake to construe this as a suggestion that traditional distribution channels can be abandoned. It is evident from the research findings that a considerable share of demand continues to be delivered through the traditional channels, including direct offline routes, tour operators and travel agents.

There is no doubt that the internet is a dominant feature of the travel and tourism landscape. However, much of the distribution activity on the internet represents a shift in the medium of communication rather than a shift in channels. Thus, tour operators, both incoming and overseas, use the internet extensively as a means of communication with product providers, primarily in the form of email correspondence. The survey of overseas operators and agents found that direct contact with providers to make and confirm reservations is very common and used by 70% of all respondents, including 53% of the online agents/operators.

While a high proportion (80%) of overseas holidaymakers who visited Ireland in 2008 made use of the internet in researching, planning and purchasing their trip, this figure needs some qualification:

- Almost 80% of holidaymakers bought carrier tickets online, but much lower proportions bought accommodation (58%) or car hire (24%) online.
- A majority of holidaymakers over 44 years of age did not buy accommodation or other ground arrangements online.
- Over 60% of holidaymakers on packages did not buy their package online.

Product providers have also emphasized that direct offline bookings are the second most important channel of business after their websites. (In this context, emails are counted as offline.) Incoming tour operators are ranked as the fourth most important channel by respondents to the trade survey, and most of their communications are offline. Tourist offices and overseas tour operators and travel agents who book directly are also important channels. Overall, the weighted average share of bookings received offline by survey respondents in 2009 amounted to 50% - this means that exactly half were received offline.

Looking ahead, it is likely that online bookings will increase as a proportion of total demand. This trend is being accelerated as incoming tour operators and customers make increasing use of online reservation systems. However, for the foreseeable future, there will be a continuing need for product providers to attend to traditional channels and to promote their products to and through these channels.

Recommendations on Traditional Channels

In summary, we recommend that:

- Product providers should ensure that their distribution strategy includes traditional channels as appropriate to the nature of their business.
- Providers should ensure that their pricing strategies are compatible with the needs of different channels, both online and offline.
- Providers should exploit the opportunities offered by traditional channels to access potential customers in different market segments both directly and indirectly via tour operators and travel agents. (It should be borne in mind, for example, that group and coach tour business into Ireland expanded at four times the rate of growth in all inbound holiday tourism between 2002 and 2006; the group tour share of the inbound holidaymaker market has continued to grow up to 2009.)
- Offline channels allow greater scope for product differentiation and superior customer service, and providers should avail of this opportunity.
- Very small scale providers will continue to depend on traditional channels and it is important that the State tourism agencies and industry bodies take this into account in their own marketing and development support initiatives.

3.3 Using Online Channels

Selection of Online Channels

As many as 70% of the tourism suppliers surveyed reported that they had online reservations systems in own websites and that their inventory is available across more platforms; in fact, 60% said their inventory is available across two or more platforms - see Figures 9 - 11. Among B&Bs, two online booking platforms are dominant - B&B Ireland and Gulliver. Among hoteliers, the range was much greater with OTAs such as *Booking.com*, *Expedia* and *LastMinute.com* being prominent. The principal advantages of using online intermediaries were quoted as including greater market access, heightened visibility and, in some cases, free advertising.

All leading OTA sites have been targeting the Irish market and appear to have secured significant sign-ups. The extent of their representation can vary. Expedia, for instance, says it has better representation in urban areas or in locations which are near airports,

similar to other European markets. Along with other OTAs, it is seeking to expand its inventory in Ireland and is targeting other sectors such as B&Bs.

While the merits of paying large commissions to OTAs may be questioned, some observers say that this is no different to the travel agency model adopted by hoteliers in the pre-internet era. Such agency deals were instrumental in helping hotels achieve higher occupancy rates than would otherwise have been possible.

Figure 9: Online Intermediaries used by Irish Product Providers (n=379)

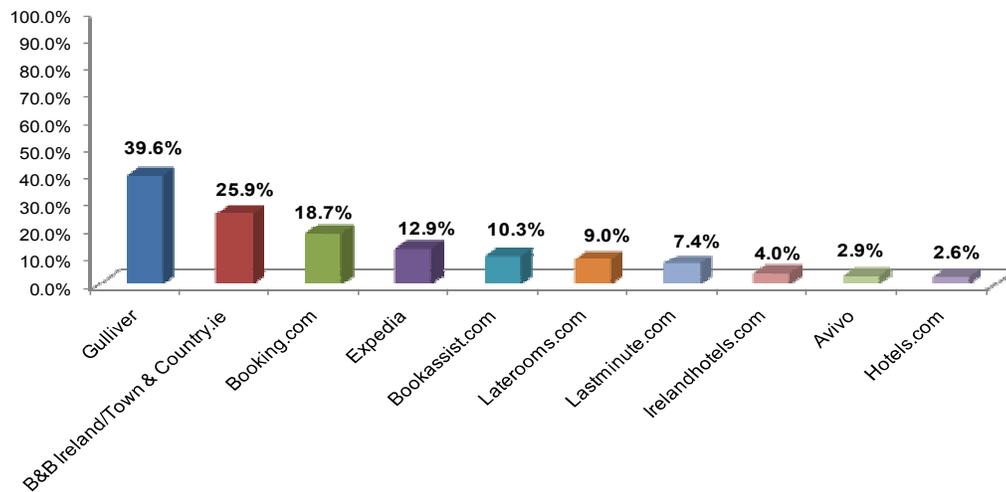


Figure 10: Online Intermediaries used by B&B Ireland Members (n=215)

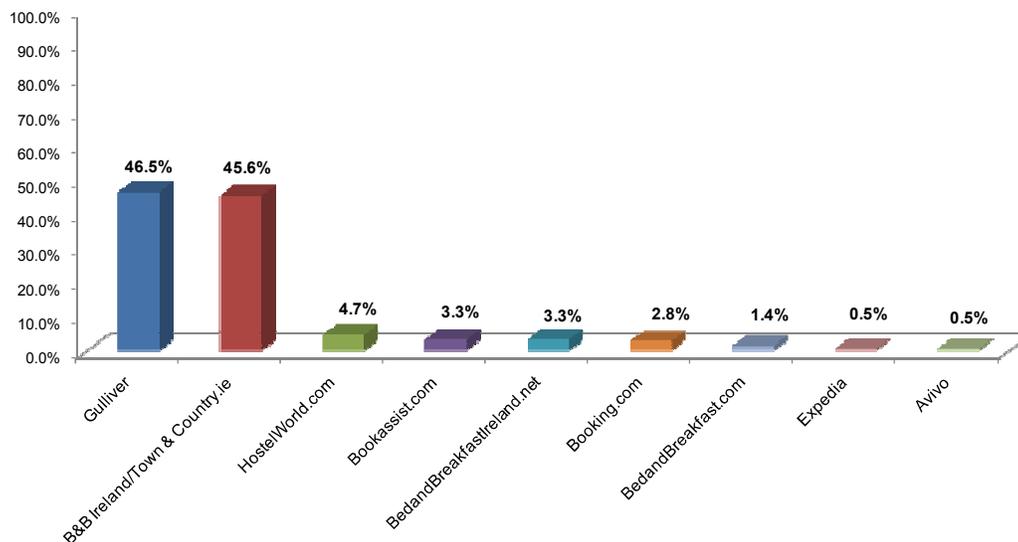
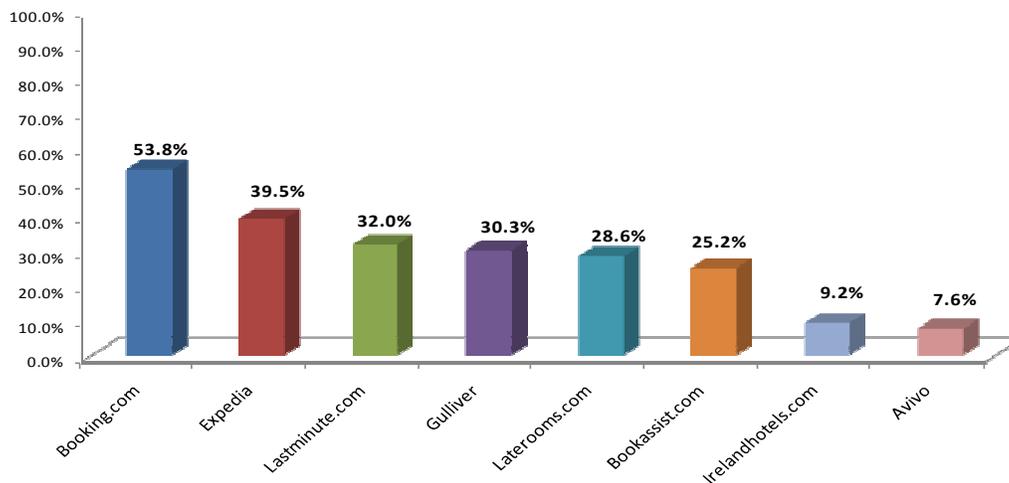
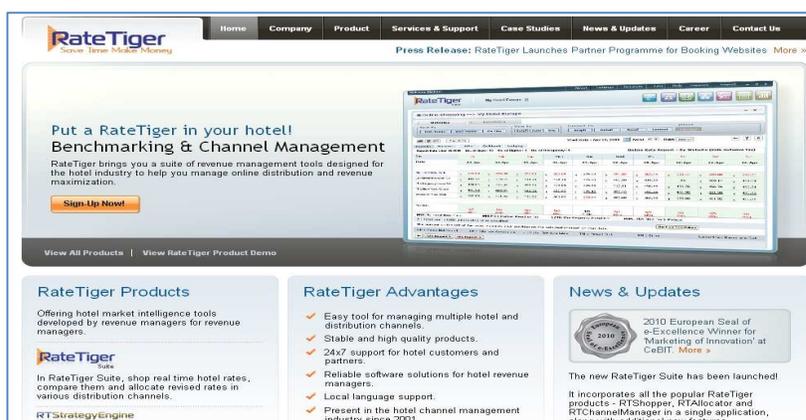


Figure 11: Online Intermediaries used by IHF Members (n=119)



Apart from identifying channels and deciding which and how many to use, providers must also address the issue of managing inventory and yields across a number of different systems. This was a frequent topic of discussion during the interviews with providers. As the survey found, many providers, especially hoteliers, are dealing with a sizeable number of online intermediaries and this occupies a significant amount of time. Some hoteliers are using services such as Rate Tiger (Figure 12) to manage multiple online distribution systems with the cost of this service being dependent on the number of systems being updated. Others have to update their inventory and rates separately on each of the systems on which they are featured. As the industry survey found, not all providers manage to keep up with the constant update demands, and one-third only update their online inventory either once a week or “irregularly”.

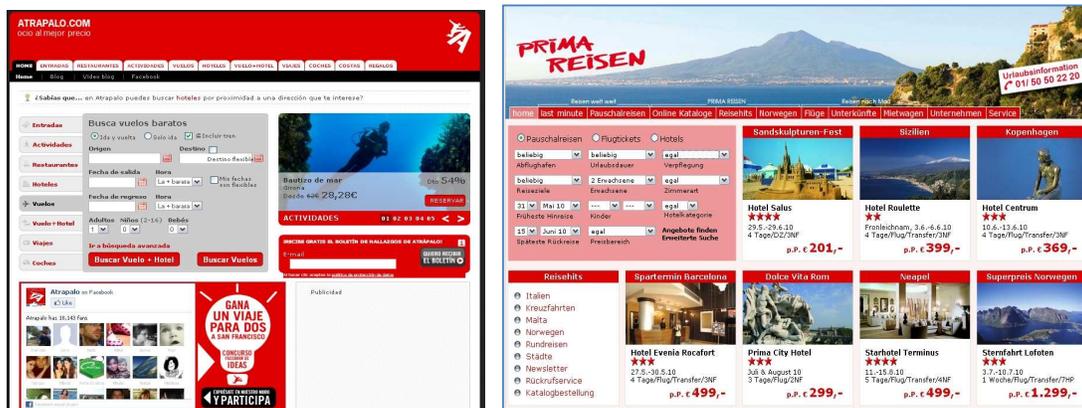
Figure 12: Rate Tiger



Leading OTAs such as Expedia provide tools on their systems to allow hotels and other providers to benchmark their rates and compare them to others in any particular market. This type of extranet functionality allows hotels to adjust their rates if they can see that they are uncompetitive relative to other properties in their category (comparative properties are not named in the system).

While overseas operators have a generally positive attitude towards the distribution of the Irish tourism product, not all those interviewed believe that Irish providers have made a full transition to electronic booking and to online marketing, and believe they lag behind tourism businesses in more mature internet markets, such as the US and the UK. Hoteliers in those markets tend to make their product available through a far greater number of channels. Moreover, while Irish inventory may be available across leading OTA sites, some interviewees noted that Irish hotel inventory was not strong in local market OTAs. Moreover, it appears that some websites and transactional elements have not been “localised” to meet language and currency requirements in those markets. This has led some observers to believe that Irish tourism providers are missing opportunities in certain markets. In many of the main markets for Irish tourism, local OTAs have emerged which have acquired a significant market presence. Examples include Astrapolo in Spain and Prima Reisen which operates in Germany, Austria and Switzerland.

Figure 13: Astrapolo and Prima Reisen Websites



Commissions to Online Channels

Commissions paid for online bookings vary considerably. This is particularly true for hoteliers who reported, through the industry survey, commission rates ranging from the flat 10% charged by *IrelandHotels.com* (the IHF's own site) to OTA rates that are mainly clustered in the 15%-25% rates but in some cases go higher.

OTA rates were quoted as high as 40%, although it should be stated that only a handful of hotels surveyed quoted rates above 25%. Specific commission rates for Expedia were quoted at between 12.5% and as much as 40% by survey respondents, but the most common response was 25%. GDS fees are usually included in the commissions charged by retail or online travel agencies. The fees charged by GDS and online reservations technology providers have the effect of pushing up the overall commission charged to the product providers.

Expedia itself states that its commission for so-called merchant accounts is 25% off the hotel's best rate; however, larger international chains operate on lower commissions which Expedia does not disclose. Some Irish operators sell their inventory on another site, *Venere.com*, which Expedia bought and which hoteliers and other providers access through the Expedia platform.

It has been suggested that Irish product providers, especially hotels, are paying very high commission rates to OTAs to secure business, but this perspective was only partly validated by the industry survey undertaken for this study (see Section 4.3). It is undoubtedly true that some hotels are paying high commissions and this is attributed to the over-capacity in the market and weak bargaining position of hotels. However, many hotels are paying more reasonable levels of commission. It is also the case that high commission rates of 30% are not unique to Ireland. So-called 'net rate' programmes offered by Expedia, for example, charge hoteliers and smaller properties up to 30% per reservation. Such programmes are promoted as offering marketing advantages including preferential treatment/ higher placement on travel websites and are inclusive of the GDS fee.

There is evidence that some hoteliers are more likely to bargain with OTAs to secure better commission rates than others. Moreover, there are differing views about the merits of relying on a smaller number of booking engines whose commission rates may be lower than others. OTAs can be broadly divided into 'full-service' sites, such as Expedia,

which offer back-office and marketing services as well as more support for consumers, and 'budget/no-frills' sites which essentially sell on price and offer little or no support either to the supplier or consumer - examples include Hostelworld and Priceline. In developing an online distribution strategy, suppliers need to consider which sites are most consistent with their brand and market positioning.

Recommendations on using Online Channels

In summary, we recommend that suppliers should:

- Ensure the online reservations capability of their own websites is effective, as this should generate the highest yield of any channel.
- Strive to have their product widely available through multiple channels by identifying and evaluating key intermediaries, partners and channels that are appropriate to their target markets.
- Use the services of trusted third parties (industry bodies or specialist online agencies) to develop new channels, such as local OTAs or affiliate programmes.
- Consider localisation of their websites for different markets, if the investment can be justified.
- Constantly evaluate the yield from various channels with a view to maximising those that offer the best returns.
- Identify and allocate appropriate resources to managing inventory across all selected channels.
- We also recommend that Tourism Ireland could assist Irish product providers to broaden the reach of the Irish tourism product through new and emerging channels, such as local market OTAs, by providing analysis and feedback on the effectiveness of these channels and co-ordinating access by the Irish industry.

3.4 Online Marketing Tactics

Online marketing is an essential element of tourism product distribution strategies. The goals are to build awareness among target audiences and to drive transactions online. There has been a significant change in how marketing budgets are being spent internationally, with online now the single biggest advertising category in certain major markets such as the UK. Online advertising and promotion¹⁶ accounted for 24% of all

¹⁶ PricewaterhouseCoopers research for the Internet Advertising Bureau, 2009 data

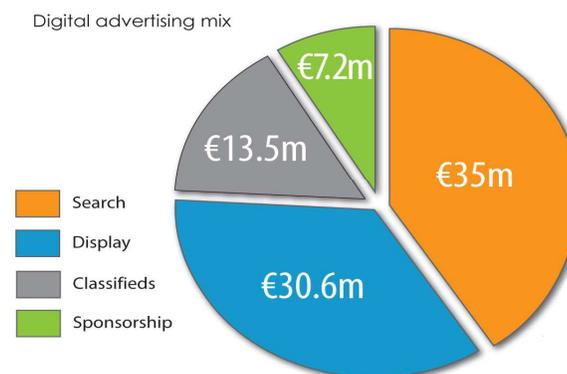
online advertising in the UK in 2009, significantly ahead of traditional market leaders such as television and newspapers.

Online advertising falls under three broad headings:

- **Search:** sometimes called Search Engine Marketing (SEM), where Google is the market leader with Google AdWords. SEM accounts for about 60% of the online advertising market in the UK. Search engine optimisation (SEO), the process of being found naturally by the search engines, does not incur a marketing budget but does involve resourcing, as it is time consuming.
- **Display:** banners, videos and a range of other formats account for 20% of the UK online advertising market
- **Classifieds:** effectively listings and links on recruitment, property, motoring and other types of website have an online market share of about 20% in the UK.

The number of formats continues to grow, with advertisements shown before and after online video being the fastest growing format in the UK. In Ireland, online advertising is expected to be the third largest category of advertising¹⁷. The digital advertising mix in Ireland, as shown in Figure 14, is along similar lines to that in the UK.

Figure 14: Digital Advertising Mix in Ireland

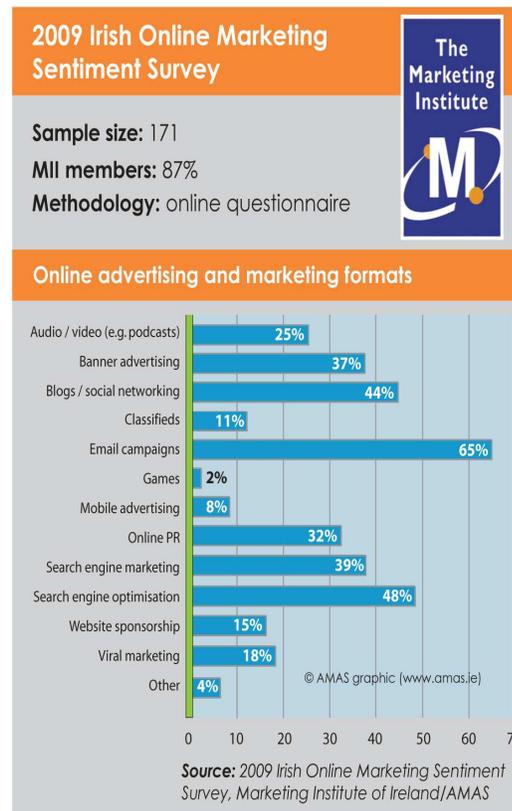


AMAS research shows that marketing professionals are spreading their budgets and their time across a range of different online formats. As Figure 15 shows, email is the most popular format in Ireland, followed by SEO and social media.

¹⁷ Source: Billetts, Ireland Media Forecasts analysis, published December 2009.

Several studies have shown that those charged with managing an online marketing budget tend not to drop a format that works. Email, for instance, is one of the oldest formats but continues to add value because it is a personalised form of communication. Email technologies are increasingly effective and it is a relatively low-cost medium.

Figure 15: Online Advertising and Marketing Formats, 2009



Search and, specifically, Google is a powerhouse of online marketing. Travel is one of Google's top sectors and there is intense competition and upward pressure on rates to buy keywords for Google AdWords campaigns. It is an open market where, in the case of hotel accommodation for example, OTAs, hotel chains and individual properties bid against each other to secure the best terms. The consequence of this competition is that the cost per click can be high, and large-scale players such as the OTAs have a distinct advantage because of their size and expertise.

There is a healthy debate among online marketers about whether such rates can be justified - on one side of the argument are those who say that €2 a click is difficult to justify for a bednight that might cost €60 and where there is no guarantee of conversion

(i.e. the user who clicks on the ad may bounce out of the site and may not book). They would also argue that many who buy Google AdWords do not have the sectoral and online advertising experience to maximise campaign budgets. The opposing argument is that the cost per click is relatively low given that such campaigns can be highly effective in securing bookings and also serve to raise awareness.

There is also an argument that tourism businesses do not make the most of either SEO or low-cost paid clicks. Google itself provides such free promotional platforms, one of which, Google Local, is being used extensively by hospitality businesses to get more prominence on search engine results pages, to promote their businesses and to create special offers. Figure 16 overleaf shows how Google Local works and how it is being used by one hotel, the Westbury in Dublin.

Social media sites are growing at a phenomenal pace internationally and are being used as marketing, communications and, increasingly, transactional channels. The most popular ones addressing consumer audiences are Facebook and Twitter, where Irish tourism businesses are well represented and where properties are promoted through special offers.

Tourism Ireland makes good use of Twitter with a series of Twitter profiles localised to meet individual markets. Tourism Ireland posts special offers and responds to tweets posted about Ireland, offering suggestions, links and advice to potential tourists - see Figure 17.

Finally, it is worth repeating that a provider's own website is the area in which the provider can exert greatest control over their identity and market positioning. Any marketing spend must ensure that their website reflects their identity. Providers who have a heavy presence in foreign language speaking markets need to ensure that their websites and transaction formats are localised to meet appropriate language and currency requirements. Otherwise they will miss valuable opportunities to develop new business.

Figure 16: How GooglePlaces Works

The screenshot shows a Google Ireland search for 'luxury hotel dublin'. The search results include a map of Dublin with a red circle highlighting local business results. A yellow box on the right side of the map area contains the text: "Local results appear after sponsored links".

Westbury Hotel example

The Westbury Hotel's natural search ranking is boosted by using Google Local.

The listing is an owner-verified listing which means a representative from the Westbury created it. Google weights owner-verified listings higher in search ranking.

The Westbury's listing contains details about the hotel, pictures, prices, coupons and testimonials.

Up to ten pictures and up to five videos can be uploaded

The Westbury Hotel
2 Grafton St, Dublin 2, Co. Dublin
01 679 1122
doylecollection.com
★★★★★ 411 reviews
Directions Search nearby Save to... more ▼

Categories: Pastries, Espresso Bar, Sandwich Shop, ...
Transit: St. Stephen's Green (200 m) Green 20B, 33X, 46B, 46N

A favourite spot for a teatime tête-à-tête or champagne with a sumptuous sandwich or...

"However, the exceptional staff are what makes it special. Positive: Very pleasant decor and staff" - booking.com ... "Great location and service" - booking.com ...

Details

Prices: €150-€350 double; €380-€940 suite
breakfast €30
Services: Babysitting/Child Services, Bar/Breakfast in the Room, Business Centre, ...
Parking: Parking €20
booking.com, ttrip.com, frommers.com
[More details >](#)

Coupons

Click on a coupon below to view and redeem it.

- Foursquare Competition**
Mayors to dine for free
Available to Foursquare users only. Mayors on 24 Feb and 24 March will win a dinner for two. You must be mayor by 12 midday on the above dates. For full terms and conditions see www.doylecollection.com/foursquare
Expires: 30 Jun 2010
[google.ie](#)
- Complimentary Rooms**
Book your conference with us
Receive - 1 complimentary bedroom with complimentary high speed internet access
646 3397 to avail
Expires: 31 May 2010
[google.ie](#)
- 10% OFF Food**
Exclusive City Centre Dining
Enjoy 10% off food in Café Novo at The Westbury Hotel
be used in conjunction with any other offer
Expires: 31 May 2010
[google.ie](#)

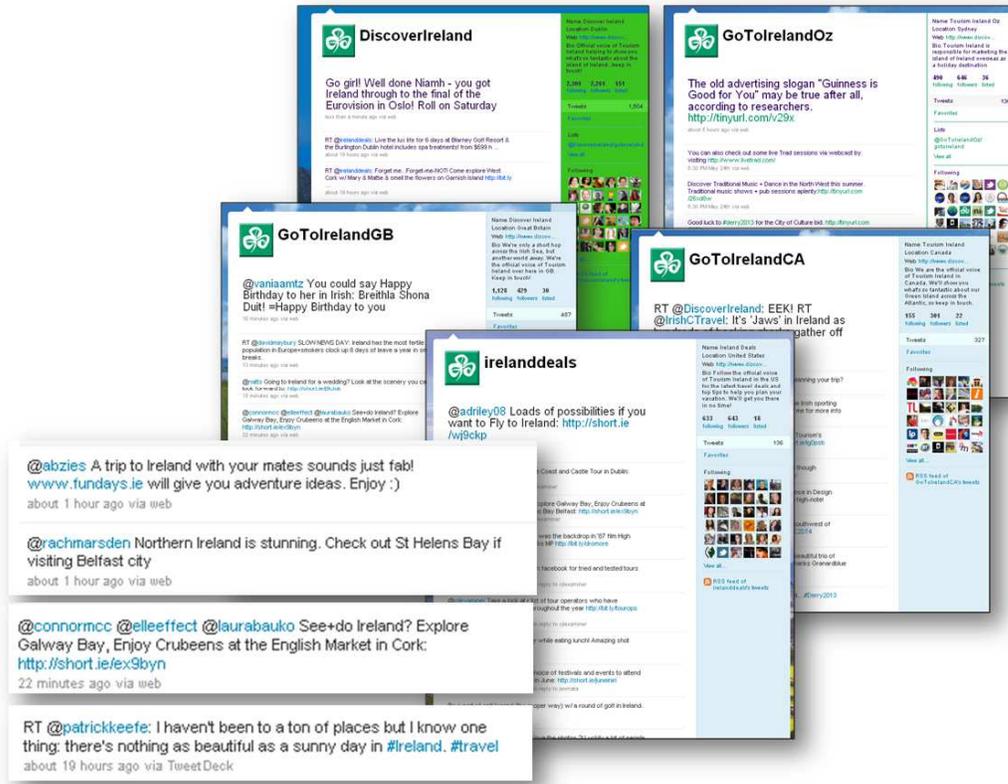
Café Novo in The Westbury Hotel
10% OFF Food

Coupons for 10% off at Café Novo and a complimentary room for conference holders

Photos & Videos

From the owner From the owner From the owner From the owner

Figure 17: Example of Tourism Ireland’s Twitter Accounts



Recommendations on Online Marketing Tactics

In summary, we recommend that providers should:

- Familiarise themselves with online marketing and, specifically, the range of platforms, tools and techniques that are available.
- Ensure online marketing is a core part of their marketing strategy and that all marketing activity, online and offline, is integrated into a coherent plan.
- Identify and invest in the best marketing channels to suit the business and the budget – search, email, social media, affiliates and mobile and other emerging platforms.
- For search enhancement, invest time in Search Engine Optimisation and in initiatives which can boost online referrals.
- Use existing and new resources for online marketing supplied by the State tourism agencies and industry bodies.
- Constantly evaluate performance using measurement tools and analysis (e.g. Google Analytics) and fine tune any campaigns accordingly.
- Tourism Ireland should track conversions generated through its network of websites, by tracking referrals, analysing trends in website access and usage, and sharing such data with industry bodies.

A guide to marketing and site management resources is provided in Appendix 4.

3.5 Reputation Management

The growth in online travel reviews, and the trust which travellers place in such reviews, has significant implications for Irish tourism businesses. Numerous websites publish online reviews, and some transactional sites are combining booking with user reviews and content sharing. An example of this is *HostelWorld.com* - see Figure 18 - which was founded by an Irish entrepreneur and is now the world's largest booking platform for hostels. Users who book on this site can publish reviews of properties they have visited, as well as photographs and other content.

Travellers are also sharing their experiences, good and bad, on social media sites such as Facebook and are using their virtual contacts to seek recommendations. Monitoring and managing these channels is highly important for tourism businesses. A poor review

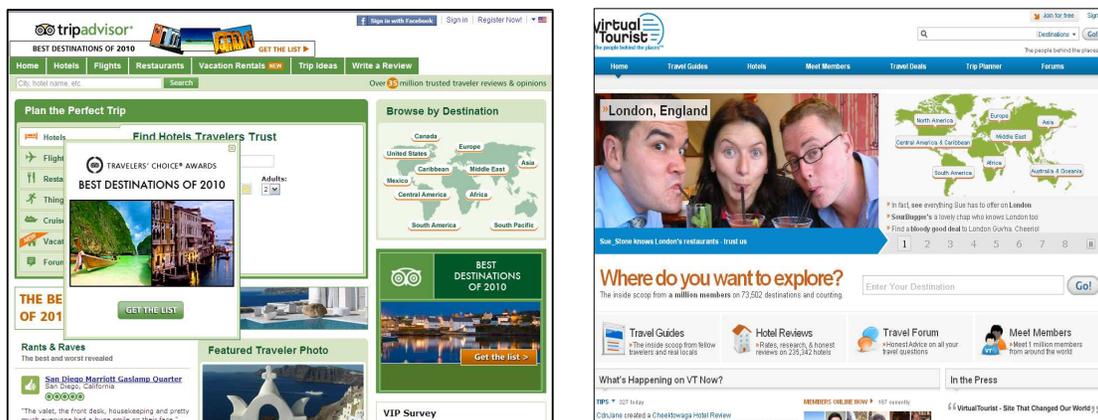
on a site with such market reach and influence as TripAdvisor will have damaging consequences for a hotel or a visitor attraction or other product provider.

In other tourism markets, evidence suggests that tourism businesses are doing more to manage their reputations online. For instance, visitors who have a good experience of a hotel or an amenity are encouraged before they leave to log on to TripAdvisor and record their comments.

Figure 18: HostelWorld.com Website



Figure 19: TripAdvisor and Virtual Tourist Websites



At a minimum, businesses need to monitor their presence on such sites. Through tools such as Google Alerts, it is possible to filter online content and identify whether a property is the subject of an online conversation. There is also a considerable number of

online resources that have been created to help the tourism sector, and businesses generally, to manage their online presence – a guide to these is provided in Appendix 3.

Recommendations on Reputation Management

In summary, we recommend that:

- Tourism Ireland develop and help implement a strategy for managing and monitoring the reputation of the Irish tourism product on websites such as TripAdvisor and social media websites. The brief of Tourism Ireland's call centre could be extended beyond its current monitoring of destination specific issues on such websites to one that is also product focused. This would work as an effective "early warning system". Industry bodies should support these efforts and act as a conduit to the affected suppliers.

Meanwhile, the providers themselves should

- Monitor their own presence on these sites.
- Actively encourage satisfied customers to post comments to these sites, and help them to do so.
- Respond appropriately to complaints and potentially damaging comments

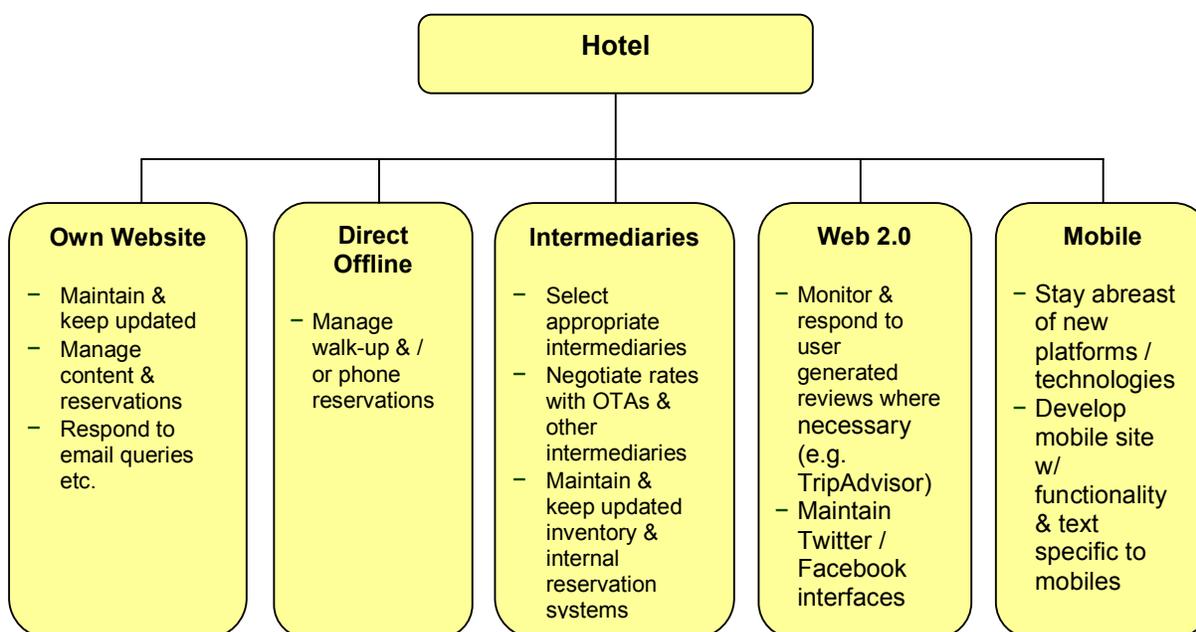
A guide to reputation management resources is provided in Appendix 3.

3.6 Human Resource/Skills Requirements

The rapid growth in online business activity in the tourism sector has placed pressure on product providers to acquire the necessary skills through training and recruitment. A number of companies interviewed noted how their staff profile had changed, and they were increasingly recruiting with skills in online technology. In larger enterprises, the number of staff in this area has increased significantly while staff in the more traditional areas of administration, reservations and marketing have been reduced. Revenue or yield management has become a key part of the business, and providers who have not done so need to think about allocating sufficient staff resources to this area as a central part of their sales and marketing budget.

The increasing extent of providers' obligations with regard to managing and servicing the various distribution channels is summarised in Figure 20. Essentially, the amount of activity involved on a continuous basis can be overwhelming unless adequate resources are devoted to this task. The findings of the survey suggest that many providers are not making the necessary commitment and this deficiency will have an increasingly negative impact on their businesses unless addressed.

**Figure 20: Ever Increasing Management Obligations Regarding Distribution:
 A Hotel's Perspective**



Acquiring the necessary skills presents a challenge to the Irish tourism sector. There is a recognised shortage of certain skills, not only within tourism businesses but also within many of the vendors for web design and development and online marketing. Indeed, the skills shortage for online trading, web development and marketing applies right across the Irish economy. Companies which are selling and promoting goods online are finding it difficult to secure the right people. For particular activities, such as SEO, there is a recognised shortage of qualified specialists working in Ireland.

Fáilte Ireland is attempting to address the gaps in online skills within tourism through its WebCheck programme. Launched in mid-2008, this programme addresses the issue through a programme of audits, training and supports, and almost 1,000 participants

have been through it. A more advanced programme, WebCheck Plus, assists tourism businesses to use social media and manage their online reputations on site such as TripAdvisor.

Recommendations on Human Resources/Skills Requirements

In summary, we recommend the following measures:

State bodies and industry groups should take a leadership role in enhancing skills through:

- Developing a database of resources, templates and pre-approved suppliers, to be established collaboratively.
- Using of industry bodies websites and other channels, such as LinkedIn, groups to share knowledge and experiences.

We also recommend that product providers need to:

- Develop the skills of their management and staff through initiatives such as Fáilte Ireland's Web Check programme as well as through training facilitated by industry groups and bought in from specialist trainers.
- Ensure that their revenue management function is adequately resourced.
- Share knowledge about strategy and experience among their peers.

3.7 Investment and Vendor Selection – Systems and Services

The level of investment required in online systems varies widely from business to business and from one sector of the industry to another. Aer Lingus, for instance, was hampered in the early years of its internet presence by old back-end systems. It is about to embark on a significant upgrade of its technology to support its new business model, replacing its Astral reservation system and also developing other systems to give customers more options to upgrade or customise their experience at all four stages of the relationship.

Vendor selection has been a point of pain for many tourism businesses. Frequently, they lack the skills to specify a website or supporting technology. In some cases, selection decisions are based on weak criteria such as convenience to the business rather than on the critical technical, graphical or marketing experience needed to create an effective

website or back-end application. As a result, projects can fail to deliver the expected return: an example might be a new website that is built on a platform or in a way that is not optimised for search visibility.

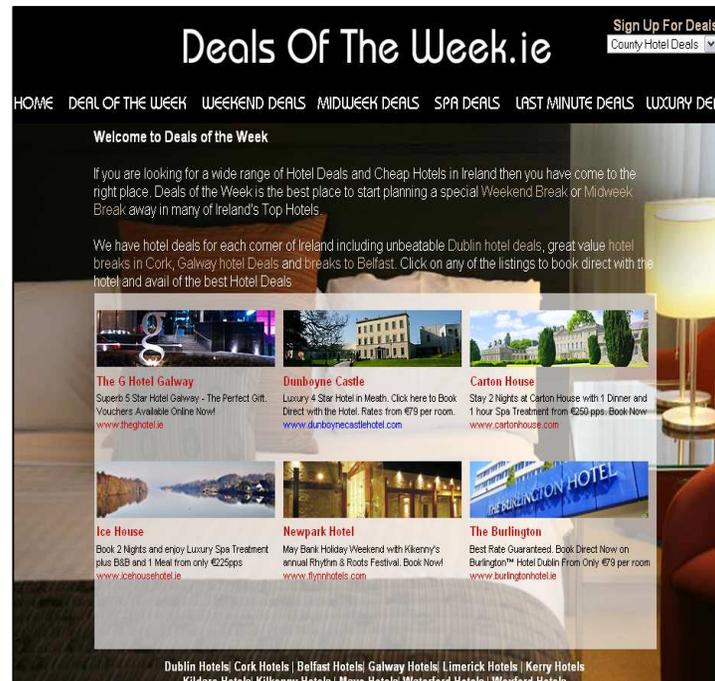
Only a minority of tourism businesses tend to run their own paid online campaigns but they are typically involved in other online marketing activity such as SEO or email marketing campaigns. In seeking to meet their needs, many web developers buy Google AdWords campaigns for their clients but often do not have the required experience and skill-set to do so effectively.

There are concerns about whether general advertising agencies or digital agencies have the experience to manage campaigns for hotels and others within the tourism sector. One internet market leader said that there are no more than three companies in Ireland with the expertise to run digital advertising campaigns for the tourism sector. While there are many agencies providing online marketing services, there is a growing recognition of the need for specialist knowledge and experience to manage hotel and other tourism campaigns.

An effective online marketing agency should have the ability to run campaigns in the language of the target market using a range of appropriate techniques, from AdWords to social media and affiliate campaigns. Such an agency should be constantly seeking innovative ways to generate traffic and transactions. An example of innovation is an affiliate programme involving partner sites in the target markets. For instance, in the Irish market a site called Deals of the Week (Figure 21 overleaf) promotes special offers in hotels. If a booking occurs on a hotel's site that has been routed from its website then this is tracked electronically and the affiliate secures a commission.

This is a feature of how travel is sold internationally - across myriad sites which are not necessarily about travel and whose names may not be familiar. Moreover, there are changes occurring internationally as to the payment models for online marketing campaigns. In more mature internet markets, such as the UK and the US, online marketing agencies are increasingly being remunerated not by the number of clicks they secure, or by a handling fee, but under what is called a Cost per Action (CPA) model. In this model, the marketing agency only receives a commission when the property secures a transaction or another defined benefit.

Figure 21: Deals of the Week.ie Website



Recommendations on Investment and Vendor Selection

In summary, we recommend that:

- Product providers should seek advice from unbiased sources including their peers and industry bodies to identify appropriate sources of technology and services, including website development and online marketing.
- Providers should also seek to develop essential knowledge either in-house or through the use of external advisors to avoid wasting money on ineffective initiatives and technology
- Industry bodies have a responsibility to help the industry grapple with these issues – scope for joint purchasing could be investigated
- All in the industry need to recognise that investment in technology is a continuous requirement. The constant evolution of technology and online marketing means that there is no ‘right time to invest’ and providers need to invest as much to capitalise on new business opportunities as to preserve existing business. However, investment decisions need to be well-informed and take account not only of current but also of likely future technology trends, for instance the growth of the mobile internet.

3.8 Role of Industry Bodies

There are many challenges for the tourism industry in keeping up with the rapid changes in marketing and distribution technologies, and in ensuring that valuable opportunities are not being as a result of deficiencies in these areas. As so many of the product providers in tourism fall into the small enterprise category, there is a shortage of time, skills and finance to develop advanced distribution strategies. In this context, the industry bodies can fulfil an important role in providing assistance and support to their members in addressing the many issues that arise in this field. A number of the bodies, including the Irish Hotels Federation and B&B Ireland, have already made significant investment in distribution technology in the interests of their members. There is more that could be done, and suggestions are made below.

Recommendations for Industry Bodies

In summary, we recommend that:

Industry bodies should take a leadership role in helping their members to develop their distribution strategies and manage their online reputations. They should

- Constantly inform their members of developments in online distribution.
- Develop resources in conjunction with the State bodies to be provided through their own websites and other online channels.
- Identify existing experts and build a list of recommended vendors in the area of online strategy, web development and online marketing.
- Work collaboratively with both Tourism Ireland and Fáilte Ireland on distribution channel development, identification of new channels, upskilling and other pertinent issues.

4. APPENDICES

Appendix 1: *Terms of Reference*

A1. TERMS OF REFERENCE



TOURISM AND TRAVEL DISTRIBUTION IN A CHANGED WORLD

– THE IMPACTS AND OPPORTUNITIES FOR IRISH TOURISM

BACKGROUND

In recent years, there have been marked shifts in how people purchase travel. This has been apparent in the shift to independent travel away from package holidays to Ireland from each of the main source markets. The most noticeable influence on changing consumer purchasing patterns has been the rapid expansion of technology and the digital environment. The new universal and interactive means of communication, together with evolving consumer behaviour and attitudes, has brought about change in the traditional tourism and travel distribution channels and expanded the range of distribution opportunities. This in turn has created a challenge for most tourism businesses.

Ireland's tourism industry is largely dominated by small and medium sized enterprises (SMEs). To be profitable in an increasingly competitive global environment, tourism enterprises need to maximise distribution of their product, both directly to consumers and through intermediaries.

The increasingly widespread use of the Internet as a means to deliver products has created an environment for the emergence of new e-mediaries. These include suppliers selling direct on the Internet (particularly airlines and hotels), and web-based virtual travel agents allowing consumers direct access to inventory systems and secure online booking facilities.

The introduction of advanced communication technologies, such as the proliferation of mobile communication devices, has further intensified competition in the travel products distribution arena.

PROJECT PURPOSE

The purpose of this project is to provide a comprehensive and detailed analysis of how global tourism and travel distribution is evolving, where it is potentially heading and what the implications are for Irish tourism.

The analysis of the review should focus on efficacy of channels and opportunities for distributing the Ireland product through traditional and non-traditional intermediaries and direct to consumers in Ireland's key source markets.

The output should provide guidance to the range of tourism products and services on how best to reach the best prospects for leisure and discretionary business travel to Ireland, consistent with Tourism Ireland's marketing strategy.

PROJECT OBJECTIVES

The project should meet the following objectives:

- Identify and describe the current and emerging distribution channels and their relative importance to the marketing of the Ireland tourism experiences. The major players in each type of channel in each of Ireland's key source markets should be identified.
- Establish the changing trends and buying patterns of consumers generally, and particular impacts for travel purchasing in overseas and domestic markets.
- Where possible, provide data on the volume of business converted through intermediaries in each channel and by consumer-direct mechanisms and how this is evolving, in respect of leisure and business travel to Ireland by air and by ferry.
- Analyse the relative benefits of the various traditional and new intermediary channels in each source market, distinguishing the various types of consumers including age and/or other segmentation for each channel including the known benefits and preferences of consumer segments.
- Explore the impact of new online distribution on the group travel market for leisure, conferences, incentives, etc.
- Identify changes that are taking place with consumer-driven mechanisms for gathering and sharing information and how operators can utilise these sources of cost efficient feedback to enhance product development, distribution and meeting visitor service expectations.
- Classify the potential impacts all of these changes will have on Irish tourism businesses and distributors.
- Identify impacts on distribution costs, including operators' product pricing and yield management strategies.
- Discuss the form that distribution is increasingly likely to take, including future direction and insights as to how tourism and travel distribution might look in five years and beyond and how Ireland's intermediary players and product providers might continue to adapt to changing consumer needs.
- Identify the implications of dynamic packaging or clustering for 'new' product development opportunities.
- Provide conclusions to guide future distribution strategies and systems development for Ireland's tourism sector, identifying any apparent variances between sectors.

Appendix 2:
Glossary of Terms

A2. GLOSSARY OF TERMS

Term	Definition
Affiliate marketing	<p>A method of promoting web businesses (merchants/advertisers) in which an affiliate (publisher) is rewarded for every visitor, subscriber, customer, and/or sale provided through his/her efforts.</p> <p>Affiliate marketing also refers to an industry where a number of different types of companies and individuals perform this form of internet marketing, including affiliate networks, affiliate management companies and in-house affiliate managers, specialised third-party vendors and various types of affiliates/publishers who use a number of different methods to advertise the products and services of their merchant/advertiser partners.</p>
Apps, applications	<p>Application software – increasingly sophisticated third-party software programs that can be downloaded directly by mobile devices such as iPhones or iPads, phones using Google Android and Windows Mobile. Many apps can also be downloaded to a computer and transferred to the device.</p> <p>Apps also refer to games, utilities and other "add-ons" that enhance social networking sites such as Facebook.</p>
Blogs	<p>Blogs (web logs) are websites where entries are written in chronological order and commonly displayed in reverse chronological order. Many blogs provide commentary or news on a particular subject such as travel or politics, or function more as personal online diaries.</p> <p>Some companies use blogs on their websites to give more informal and individual slants on their activities.</p>
Content management system	<p>Software that assists the management of a website by automating processes and facilitating easy publication of content by non-technical staff.</p>
Discussion boards	<p>Web-based message boards where users can post their own content. Also commonly referred to as discussion forums, bulletin boards, BBSs (bulletin board systems) or simply forums. Messages within a forum's subsections are displayed either in chronological order or as threaded discussions.</p> <p>Some websites operate mainly as forums - one of the oldest and largest in Ireland is Boards.ie – while others incorporate forums as subsections of the larger site.</p>
DTOs	<p>Destination tourism organisations, such as Tourism Ireland.</p>

Dynamic packaging	A relatively new type of package holiday bookings that enable consumers to build their own package of flights, accommodation, car rental etc instead of a pre-defined set of services in a "traditional" package holidays.
eBusiness	Both eCommerce (see below) and the restructuring of existing business process to make best use of digital technologies.
eCommerce	Buying and selling products and services online.
Extranet	A password-protected website which organisations use to communicate and interact with clients and/or suppliers or members. See also intranet .
eZine	A newsletter (or eNewsletter) delivered by email which usually promotes content on a website by offering summaries and links to that content.
GDSs	<p>Global Distribution Systems. These evolved from airlines and are increasingly back-end providers to traditional travel agencies and online travel providers. Modern GDSs typically allow users to book not only airline tickets but also hotel rooms, rental cars and other services, and provide access to railway reservations in some markets.</p> <p>GDSs act as a central information hub for the analysis of thousands of different pieces of information relating to suppliers and their products, then display succinct information relevant to the end user's requirements. Major players include Sabre Holdings, Amadeus, Travel Port, WorldSpan and Galileo.</p>
Hits	Or page hits, a term which describes the retrieval of any item from a Web server. Hits are not a reliable indication of web traffic, or meaningful for marketing purposes. If a visitor calls up a webpage with 30 graphics, that's at least 31 hits (one for the page and 30 for the graphics). Better indications of web traffic are page impressions and unique visitors , using traffic metrics tools such as Google Analytics.
ICT	Information and communications technologies.
Interoperability	The ability of diverse systems (and organisations) to work together.
Intranet	A private computer network within an organisation, using internet-based technologies to share information, usually on an internal website. While intranets are generally restricted to employees of the organisation, extranets may also be accessed by customers, suppliers or other approved parties.

Keywords	In metadata , the words that are the essence of a piece of content. In searching, the key phrases that users input to describe the information they want. External search engines such as Google do not place as much priority around keywords as they used to when classifying web pages. However, keywords can still be important for internal search and for "tagging" information in metasearch .
Localisation	The process of adapting an existing website, including style and content, to the local culture, language, regulatory environment etc. of a target market.
Metadata	Information about information. Webpage metadata is not normally displayed in a web browser, but it enables information to be found in search engines. As the volume of information grows on websites, the need to "tag" information with appropriate metadata also increases.
Metasearch	A search engine that queries other search engines and then aggregates all of the results.
Online channels	The full range of online communications channels available, including websites, email, intranets, extranets and mobile (e.g. cellphone) platforms.
OTAs	Online travel agents, a relatively new type of intermediary. Expedia is the market leader, and other major players include Orbitz and Travelocity.
Page impressions	The number of times a website has been accessed or viewed by a user. The number of page impressions is a good indicator of how many times a site has been visited and is a more reliable measure of web traffic than hits .
Podcast	An audio file, or a series of audio files, that are shared over the Web. Podcasting is a commonly-used term for distributing ("syndicating") audio files over the Web.
RSS	RSS (sometimes called "Really Simple Syndication") allows Web content to be distributed in completely automated fashion. From the users' point of view, it is a simple, easy way to keep up-to-date with subjects which interest them from a number of different sources. From the publishers' point of view, organisations that have multiple online channels - such as several websites, a Facebook page and a Twitter feed – can use RSS to feed news automatically to several of these channels at the same time.
Screen scraping	A way of crawling through multiple websites such as airlines or hotels, getting live content from those sites by extracting data from the HTML feed. Ryanair has an ongoing legal campaign to stop sites from scraping its content and then reselling flights.

Search engine optimisation (SEO)	Methodologies to get good natural ("organic") results in search engines. As much as 80% of web traffic is accounted for by search engines. Optimising a website includes a number of factors, such as the structure and relevance of the site content, the presentation on the page, the metadata , links to the site and submissions to directories.
Search engine marketing (SEM)	SEM aims to promote websites by increasing their visibility in search engine results pages and offers a defined Return on Investment (ROI). SEM methods include Search Engine Optimisation , paid placement and paid inclusion. SEM programmes are offered by all the major search engines. Campaigns using Google's AdWords, which is a market leader, are shown as Sponsored Links on results pages.
Smartphones	<p>Mobile phones that offer more advanced computing ability and connectivity than more traditional models. Smartphones run complete operating system software, providing a platform for application (apps) developers.</p> <p>Smartphones such as the iPhone are gaining ground, and Apple's iPad marks the arrival of hybrid devices between a PC, a phone and an electronic reader.</p>
SMTE	Small and medium sized tourism enterprise: an owner-managed business with fewer than 50 employees which has no franchise or other relationship with a local or international brand.
SMS	Short Messaging Service or text messages; can be integrated with a website to issue alerts on important events.
Social bookmarking	A method for web users to share, organise, tag, search, and manage bookmarks of sites, pages and other online resources. Unlike file sharing, the resources themselves aren't shared, merely bookmarks that reference them. The term was coined by Delicious.com, and other sites such as Digg, StumbleUpon and Reddit offer similar systems for organising social news.
Social media	A wide range of Web 2.0 type online media for social interaction, featuring user-generated content . Examples include blogs , discussion forums, Twitter and other micro-blogging, social networking sites (such as Facebook), collaborative wikis , social bookmarking (such as Delicious) and social news (Digg, Reddit), content sharing (Flickr, YouTube, Vimeo), presentation sharing (slideshare, scribd), and review and opinion sharing sites (<i>epinions.com</i> , <i>yelp.com</i> , Google Answers)
Social networks, social networking	Online communities of people who share interests and activities. Examples include Facebook (now the biggest player), MySpace and Bebo.

Twitter	<p>A social networking and microblogging service that enables users to send and read messages ("tweets"). These text-based posts of up to 140 characters are displayed on the author's profile page and delivered to the author's subscribers ("followers").</p> <p>Originally used primarily by individuals for updating and exchanging personal information, Twitter is increasingly used by organisations to update their stakeholders.</p>
Unique views	Visits to a single webpage. For example, if one person viewed a single page five times during the same visit, that page would show five pageviews, but only one "unique view".
Unique visitors	People who visit a website more than once within a specified period of time. This is a more reliable indicator of web traffic than hits .
User-generated content	A wide range of online content, produced by end users and usually publicly available. Examples include blogs , wikis (such as Wikipedia), social networking sites (such as Facebook), content sharing sites (such as YouTube and Flickr), as well as websites that offer the opportunity for the user to share their knowledge and familiarity with a product or experience, for example through customer reviews and comments boxes.
Web 2.0	Shorthand for how the internet has evolved into a second generation of web-based communities and hosted services which seek to generate collaboration and sharing among users. Examples include social networking , wikis and "folksonomies".
White label	A term used by technology companies to describe an installation of an unbranded version of their software within a client environment.
Wikis	Online encyclopaedias and other collections of information that can be collaboratively edited, and which provide an easy method for linking from one page to another. One of the best-known wikis is Wikipedia.org.
XML	Stands for Extensible Markup Language and is a set of rules for encoding documents electronically.

Appendix 3:
Reputation Management Resources

A3. REPUTATION MANAGEMENT RESOURCES

A wide range of free online resources are available to track conversations about your business across different social media and social networking sites. Instead of needing to go to a large number of sites, blogs and other online channels, many of these tools can be set up in advance to look for mentions of particular phrases and search terms related to your brand.

They then work away in the background, tracking these sources and sending you real-time (or near real-time) updates via email alerts or - particularly if you want to minimise clutter in your email - by RSS feeds.

Alerts

Google Alerts is one of the most popular email alerts systems. Among its advantages, it can be set up to monitor the Web, Google News and/or blogs; the delivery rates can be set to once a week, daily or "as-it-happens"; and delivery can also come via an RSS feed rather than email.

- "Getting started" guide to Google Alerts - <http://www.google.com/support/alerts/>
- Video on how to set up Google Alerts to notify you when people are talking about your business - <http://www.youtube.com/watch?v=WZeICjmP03U>

Other aggregators

- Alltop – scans news sites, blogs, and forums for certain topics or trends – <http://alltop.com/>
- Netvibes: "follow dozens of blogs, activity streams and Twitter conversations all at a glance" – <http://www.netvibes.com>
- Bloglines: blog/feed search engine, aggregates content into "your own personal web news page" - <http://www.bloglines.com>

Facebook

Openbook is a simple search engine of Facebook - <http://youopenbook.org/>

RSS readers

RSS ("Really simple syndication" has its origins as feeds from media organisations such as newspapers, but modern RSS readers such as Google Reader can now be used to

track fresh content from many other social media channels, from blogs to Twitter searches.

RSS can be used to pull together multiple feeds from hundreds of sites to one central point – your RSS reader – in real time or near real time. Many free readers are available. Some are downloadable applications, and others are browser-based – see up-to-date list at: http://en.wikipedia.org/wiki/List_of_feed_aggregators

If you already have a Gmail account, you can use Google Reader, which aggregates RSS feeds in a typically easy-to-use Google way: <http://www.google.com/intl/en/googlereader/tour.html>

One feature of Google Reader that can be useful for the travel industry is that headlines of feeds in foreign languages can be automatically translated into English, making it much easier to cover non-English language sources in dozens of languages.

Twitter

Twitter has an advanced search facility at <http://search.twitter.com/advanced>. View a Fáilte Ireland video for beginners on how to use it to track conversations about a particular topic - <http://www.youtube.com/watch?v=jxIA22aUgKU>

Other specialised tools for tracking Twitter conversations and trends in real time include:

- Monitter - <http://www.monitter.com/>
- Convo Monitor – <http://www.convomonitor.com>
- Hashtags.org - <http://www.hashtags.org/ashtag>
- Cuesense: Find customer testimonials for your product offering in tweets and blogs - <http://www.cuesense.com>

Appendix 4:
Marketing and Site Management Resources

A4. MARKETING AND SITE MANAGEMENT RESOURCES

Fáilte Ireland Tourism Content System (TCS)

<http://tcs.ireland.ie/tcslite/>

Regional Content Editor contact details: <http://tcs.ireland.ie/tcslite/ContactUs.aspx>

TCS content is syndicated to multiple distribution channels to assist in promoting Irish tourism at home and around the world. It services over 15 websites as well as tourism offices, call centres, print and other channels, so it plays a key marketing role for SMEs in the tourism sector.

If you answer “yes” to any of the following questions, you will need to contact your Fáilte Ireland Regional Content Editor in order to update/amend your TCS profile:

- 1) Do you have old or outdated photos on your existing TCS profile?
- 2) Have your contact details changed?
- 3) Have you recently developed a new website?
- 4) Has the business changed ownership?
- 5) Are there new amenities in your area?

Web-Check

<http://www.iaa.ie/failte-ireland/>

This Failte Ireland initiative for tourism SMEs reviews your web issues, fixes immediate problems and identifies future development options. Web-Check PLUS offers further support for selected SMEs. Site also includes guides to planning, building and promoting your website, and tips on how to protect your business online

Discussion forum for tourism providers

<http://www.talktourism.ie/forum/>

Facebook

Facebook is the world's leading social network, with over 300 million users. Mashable.com has several good guides on how your business can get the most out of it, including:

- Short introduction to optimising your brand on Facebook - <http://mashable.com/2009/04/01/optimize-facebook-page/>
- Essential apps for Facebook pages - <http://mashable.com/2009/05/13/facebook-brand-apps/>
- More guides, from beginners to expert users - <http://mashable.com/guidebook/facebook/>

See also:

- Video on how to add RSS to your Facebook page - <http://www.youtube.com/watch?v=0ye83dyvaMo>

Feedburner

<http://www.google.com/support/feedburner/bin/answer.py?answer=79408>

Service owned by Google. FeedBurner can be used by tourism businesses that already have an RSS feed to improve their understanding of and relationship with their audience. Includes detailed analytics, "chicklets" (or subscription badges), feed optimisation and ad insertion.

Flickr

<http://www.flickr.com/tour/upload/>

Guide on how to use the popular image-sharing website.

Google Adwords and keywords

- Google's Keyword Tool – use this to get new keyword ideas for your website - <https://adwords.google.com/select/KeywordToolExternal>
- Googspy.com – search engine shows what Adwords and Keywords your competitors are using – <http://www.googspy.com>

Google Analytics

<http://www.google.com/analytics/>

Free, powerful and flexible website metrics.

Google Maps

<http://maps.google.com/>

Embed a Google Map of your location on your website, and you can add your organisation (or multiple locations) to Google Maps. See also Google Places below.

Google Pagerank tools

<https://addons.mozilla.org/en-US/firefox/addon/2007>

A Firefox add-on that displays the Google Pagerank of pages in your browser, including those on your own website and competitors.

Google Places

<http://www.Google.com/places>

Tools that enable businesses to manage their presence on Google. Google Places can connect consumers to information from businesses by location, displaying photos, reviews and essential facts, as well as real-time updates and offers.

See an introduction for beginners: "What Google Places Means For the Travel Industry".

<http://blog.tigglobal.com/index.php/uncategorized/eye-on-the-industry-google-local-business-center-becomes-google-places-what-it-means-for-the-travel-industry>

Google Webmaster tools

<http://www.google.com/webmasters>

A free and easy way to make your site more Google-friendly. It shows Google's view of your site, helps diagnose problems, and lets you share information with Google to help improve your site's search visibility. Key features include submitting a sitemap and specifying your preferred domain.

Internet trends: State of the Net

<http://amas.ie/online-research/state-of-the-net/>

"State of the Net" is a quarterly bulletin published by AMAS for decision makers, plotting and analysing Irish and international internet trends

Podbean

<http://www.podbean.com/>

Free podcast hosting - easy to publish, with promotional tools, iTunes facilities and metrics.

Slideshare

<http://www.slideshare.net/>

Upload, host and share PowerPoint presentations, Word documents and Adobe PDF portfolios, and embed them within pages on your website.

Social bookmarking

<http://delicious.com/help/savebuttons>

How to add "Bookmark this on Delicious" links to your website.

TripAdvisor resources

- TripAdvisor owner support pages - <http://www.tripadvisor.ie/help/owners#c1>
- Video showing how to respond to a review about your property on TripAdvisor, including automatic notification of reviews via email so you can respond to them quickly – <http://www.youtube.com/watch?v=c25Dsviodag>

Twitter resources

- Twitter 101 – guide for businesses - <http://business.twitter.com/twitter101/>
- Twitpaper – customise and brand your Twitter page – <http://www.twitpaper.com>
- Twitterfeed – republish your RSS feeds to your Twitter account or Facebook page – <http://twitterfeed.com/>
- Futuretweets - schedule your Twitter messages to be posted at specific times in the future – <http://futuretweets.com/>
- Twaitter – schedule tweets, send them directly from a calendar, manage multiple accounts, includes basic translation facility – <http://www.twaitter.com>

Wikipedia

http://en.wikipedia.org/wiki/Help:Contents/Getting_started

How to use the free open encyclopaedia, add your business listing and edit content.

YouTube

"10 Killer Tips for Creating a Branded YouTube Channel".

<http://mashable.com/2010/04/26/branded-youtube-channel>

Guide to Using YouTube to Promote Your Business

<http://www.work.com/using-youtube-to-promote-your-business-1966/>

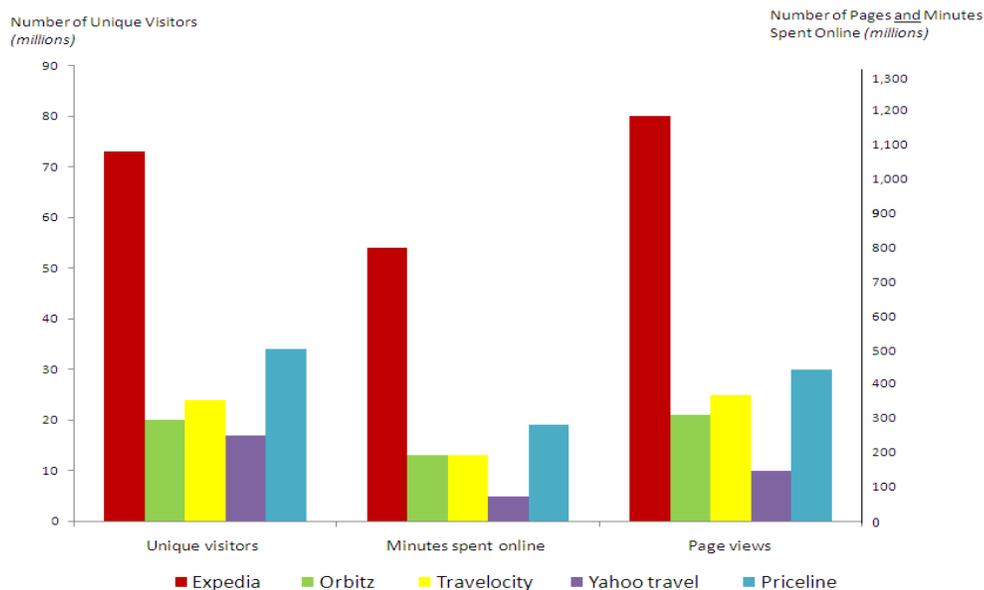
Appendix 5:
Online Travel Agents: The Expedia Example

A5. ONLINE TRAVEL AGENTS: THE EXPEDIA EXAMPLE

Since their emergence in the mid to late 1990s, online travel agents have rapidly grown their market share to become a major influence in the tourism industry. As noted in Section 2.1 in Volume 1, they have achieved their highest level of market penetration in the hotel sector.

Among the OTAs, Expedia is the market leader by some distance. In March 2010, it had an audience as measured by unique visitors of 73 million worldwide - see Figure A5.1. That is 116% greater than its nearest competitor (Priceline) in the US and 122% ahead worldwide. Customers spend longer on Expedia sites than comparable sites, according to independent research. According to Expedia, over 67 million hotel roomnights were booked through its websites in 2009.

Figure A5.1: Global Market Share of Monthly OTA Internet Traffic



Source: ComScore Media Matrix, March 2010

Expedia's business model involves acting as a bridge between tourism suppliers (hotels, airlines, car rental companies, cruise lines, advertisers and its GDS partners) and consumers as well as other travel companies. It provides travel products, information and technology to the leisure and corporate markets, to other providers who are offered a

technology under a “white label” (i.e. unbranded) arrangement, and to offline retail travel agencies.

Expedia owns a set of strong brands which have achieved a leadership position, as Figure A2.2 below indicates. The selection in Figure A5.2 only includes the 8 leading Expedia brands - its website lists a total of 31.

Figure A5.2: Expedia Leading Brands Portfolio

 Expedia	<p><i>#1 Online Travel Agency (OTA) globally, with presence in 19 countries</i></p>
	<p><i>Leading hotel specialist globally, with over 70 localised sites</i></p>
 tripadvisor get the truth. then go.™	<p><i>#1 online travel community, operating in North America, Europe & Asia Pacific</i></p>
	<p><i>Leading value-based travel provider</i></p>
 venere .com	<p><i>A leader in the online hotel reservations market with 30,000 hotels and over 550,000 reviews</i></p>
	<p><i>Fifth largest travel management company in the world, operating in 14 countries worldwide</i></p>
 CLASSIC VACATIONS	<p><i>Operates in the luxury holiday space mainly in the North American market</i></p>
 艺龙旅行网 eLong.com	<p><i>A leading online travel company in China</i></p>

Source: Expedia Inc. Investor Presentation, April 2010

Expedia itself states that it has a stronger market position in the US than in other markets. In Europe, it tends to have a greater share of city markets and other destinations where there are good air services, given that it bundles air, hotels and other components of a corporate or leisure trip.

OTAs have been aggressive in marketing their activities to tourism providers. Hoteliers, particularly, are targeted by a range of leading OTA brands and also some smaller entities. In the case of Expedia, it has put a particular focus on the Irish market in recent

years with a sales effort that was initially based out of London but has since justified the establishment of an Irish office. Expedia is claiming it represents approximately 800 properties across Ireland.

The proposition presented by Expedia is that it delivers a greater market reach than properties – especially independent hotels and small chains – could otherwise achieve. While price remains the key driver, Expedia says that it also offers tools to differentiate product offerings as well as a range of marketing, business support and information services. Different service packages are offered to product providers in accordance with different commission rates - the issue of commission rates paid to OTAs is discussed in Section 3.3.

Appendix 6:
Global Distribution Systems

A6. GLOBAL DISTRIBUTION SYSTEMS

Global Distribution Systems (GDS) constitute an essential component of online tourism and travel distribution. Originally established by the airline industry in the 1970s, the GDS providers enabled travel agents to make airline reservations via dedicated terminals installed in their offices. Over time, the GDSs expanded their content offering to include large numbers of hotels, the leading car rental companies, tour operators and cruise lines seeking to distribute their products to travel agencies.

With the advent of the internet, the GDSs have evolved into content providers for online travel agencies in addition to the traditional offline agents. Moreover, they also both established and acquired OTAs to become large players in that field. There are three major GDS companies operating in North America and British markets, and they control six global distribution systems - see Figure A6.1 overleaf. As shown in the Figure, these companies also own a selection of leading OTAs and online corporate travel brands.

According to a study by PhoCusWright¹⁸, transactions across the major GDSs represented 35% of all travel market bookings revenue in the US and 21% in Europe in 2008. This is a substantial share and represents a very large number of bookings – in 2008, GDSs accounted for about 1.1 billion transactions globally, representing about \$268 billion in global travel sales. Airline bookings continue to account for the bulk of GDS transactions, but accommodation and car hire bookings through the GDSs are rising. The GDSs also have a very large share of the managed corporate travel market.

GDSs cut down the number of connections that a travel agent or an OTA needs to have between its reservation system and those of the suppliers, specifically airlines and hotels. For example, Sabre GDS claims to link 55,000 travel agency locations with 400 airlines, 88,000 hotels, 24 car rental brands and 13 cruise lines.¹⁹

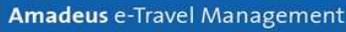
In recent years, GDSs have made significant investment in technology to service both traditional and online customers. GDSs provide the 'backend' to online and offline travel agencies. Consumers, probably unknowingly, access GDS inventory online through well-known OTA sites which package various elements of the travel product. OTA sites such

¹⁸ PhoCusWright: 'The Role and Value of the Global Distribution Systems in Travel Distribution', 2009.

¹⁹ Sabre Corporate Information.

as Expedia have direct contracts with various providers but also take inventory from GDS systems.

Figure A6.1: Major GDS Companies in North America & Europe

GDS parent	Leisure market brands	Corporate market brands
	   	
  	     	 
  	       	 

* Abacus is an Asian GDS.

A further distribution channel of relevance to hotels in particular is the Pegasus Online Distribution Database (ODD) which connects hotels to hundreds of internet travel portals and OTAs. The Pegasus database includes more than 86,000 hotels around the world and it provides services to a majority of the world's travel agents. It owns Utell, a major international hotel representation service with 11,000 member hotels.

Suppliers such as airlines and hotels load inventory information (their seats/fares or rooms/rates) into the GDS and ODD networks directly or via a reservation technology provider. Online travel portals, OTAs and other intermediaries retrieve the information and display it in relevant search results. Bookings can then be made by consumers directly online or indirectly via travel agents with these transactions immediately transmitted back to the relevant suppliers.

As the foregoing suggests, the number of intermediaries between suppliers and consumers can increase quickly and invisibly in online transactions. Many airlines and major hotel groups have therefore aggressively focused on growing the share of revenue brought directly through their own websites in order to reduce distribution costs and increase yields. Airline websites in the US have increased their share of all airline revenue from 3% in 1999 to 30% in 2008; hotel websites have increased their share of all hotel room revenue from about 1% in 1999 to 15% in 2008; car rental companies' websites have increased their share of total rental revenue over this period from 2% to 26%²⁰. The GDSs have responded by introducing new technologies and models, and reducing prices.

Tourism product suppliers are adopting different strategies in terms of their use of GDSs. That is illustrated by the differing approaches adopted by Ryanair and EasyJet, who are market leaders in driving online distribution in Europe. Ryanair has a policy of not making its product available through GDSs and has an internet-centric distribution strategy. EasyJet, although a direct competitor of Ryanair within Europe, has a different approach and promotes both internet and GDS distribution, believing that it will miss out on the corporate market if it does not have the latter.

In the US, JetBlue has increased its presence on GDS platforms in 2010 to give it better access to the corporate market. However, it has also gone public on its disquiet at 'increased GDS distribution costs for sometimes low-yielding tickets'.

²⁰ PhoCusWright, 'The Role and Value of the Global Distribution Systems in Travel Distribution', 2009.

Appendix 7:
Dynamic Packaging

A7. DYNAMIC PACKAGING

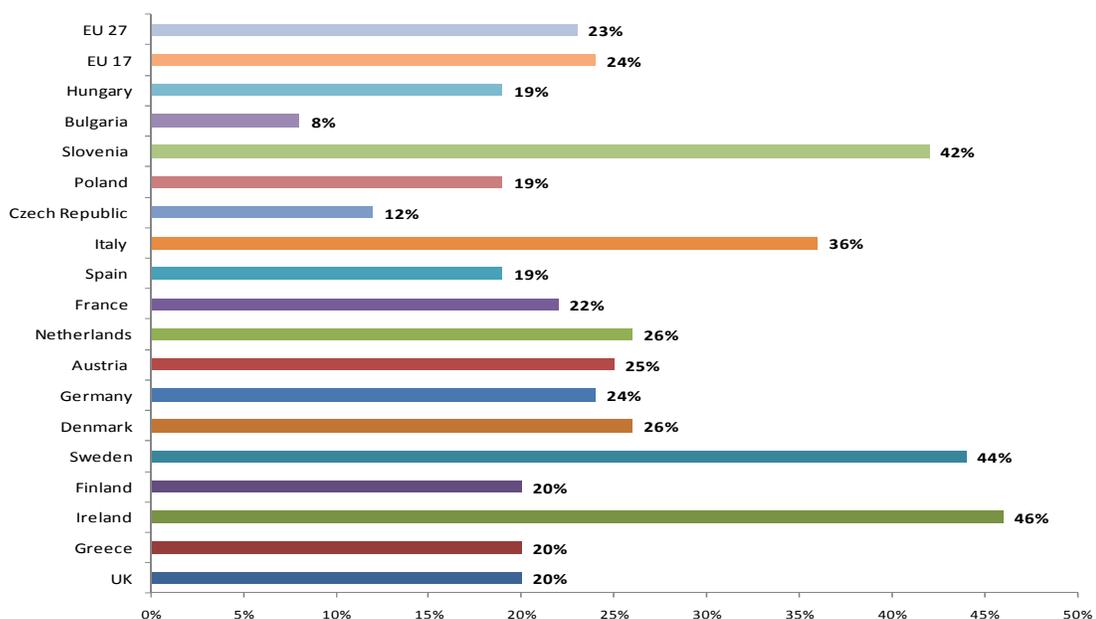
Dynamic packaging involves consumers putting together the elements of a holiday on a single website, directly with an OTA and with partners who are either linked off the site or whose inventory is available on that site. Holidays where consumers make their own arrangements by buying different components of a holiday on different sites are not deemed to have bought a dynamic package.

Dynamic packaging is growing in importance in the travel market. EU data²¹ indicate that the entire European travel market was worth €246 billion in 2008, shared between:

- traditional packages accounting for 40% of the market
- dynamic packaging accounting for 33%
- other arrangements 25%.

Adoption levels of dynamic packaging are growing. While latest research shows that the EU27 average was 23%, the level was far higher in some markets. Ireland showed the highest adoption at 46%, followed by Slovenia (42%), Sweden (44%) and Italy - see Figure A7.1.

Figure A7.1: Use of Dynamic Packaging in the EU between 2007-2009



Source: *Consumer Detriment Survey in the Package Travel Context, London School of Economics, 2009.*

²¹ *Consumer Detriment Survey in the Package Travel Context, London School of Economics, 2009*

Increased regulation of online transactions has followed mass adoption by consumers to buying goods and services online, with the EU taking a lead internationally to protect consumers. Under EU distance selling rules, consumers who buy goods online have more rights than in a traditional physical transaction. For instance, they can return the goods bought in an online store within seven days and the trader is legally obliged to give the consumer a full refund under the so-called “cooling off” period. There is no similar obligation on retailers who have sold goods or services in a conventional store.

This right to cancel applies to many goods from books to clothes, and also applies to a large range of services. However, it does not apply to accommodation, transport, catering or leisure services to be provided on specific dates or within a specific period other than as permitted by the supplier.

For travel transactions, EU rules on passenger rights are quite forceful as was evidenced by the volcanic ash crisis in 2010 when consumers were encouraged to seek compensation or other redress under the relevant directives. EU regulatory bodies have reported increased complaints from consumers about online purchasing of travel.

There has also been intense lobbying by traditional package tour operators about differences in the regulatory regime for traditional and online tour operators. Another factor has been increased insolvencies within the travel trade within Europe. In France, there were 125 insolvencies involving tour operators in 2008, affecting 9,000 consumers, compared with 95 cases involving 2,500 consumers two years previously. EU research indicates that there is a low level of awareness among consumers about their rights when buying travel online compared with a traditional transaction.

Such issues have led the European Commission to signal its intention to tighten regulations to protect consumers who opt for dynamic packages. The EU’s 1990 Package Travel Directive is under review and the Commission is to make proposals for change in autumn 2010. Consumers who make their own independent arrangements through a combination of unconnected websites will not be covered by these proposals.



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