Phocuswright White Paper

The Mobile Effect: Disrupting the Competitive Landscape in the Digital Travel Market

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Phocuswright

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About Phocuswright

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

Phocuswright delivers qualitative and quantitative research on the evolving dynamics that influence travel, tourism and hospitality distribution. Our marketplace intelligence is the industry standard for segmentation, sizing, forecasting, trends, analysis and consumer travel planning behavior. Every day around the world, senior executives, marketers, strategists and research professionals from all segments of the industry value chain use Phocuswright research for competitive advantage.

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

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

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Introduction

With mobile adoption soaring worldwide, smartphones and tablets are having a growing influence on travel purchase decisions. It is now common for travelers to shift between multiple devices in the course of planning a single trip, and the behaviors displayed when using a mobile device are often distinct from those seen among desktop or laptop users. These differences are rapidly reshaping competitive dynamics between suppliers and online travel agencies (OTAs).

The balance of power between online channels is often in flux, as airlines, hotels and OTAs vie for a larger share of the online travel pie. And while suppliers have made strides in building traveler trust and driving direct bookings, OTAs are dominating on mobile. This white paper highlights the factors driving OTAs' mobile success and examines what suppliers must do to remain competitive.

Phocuswright recently completed a major research project aimed at understanding how today's multidevice travelers are navigating the search, shop, buy process. Based on a comprehensive online survey conducted across eight markets, this research provides insight into online travel planning trends based on respondents' last leisure trip. This white paper presents key mobile shopping and booking trends to assess how mobile is influencing dynamics among travel suppliers and intermediaries.

Research Highlights

- **Smartphones and tablets are eroding PC usage.** In mature online markets, the incidence of shopping for travel online is as high as 85%. But with mobile shopping on the rise, just 65% of leisure travelers shopped for their last trip via personal computer (PC).
- **Mobile bookers are frequent travelers.** Travelers who book via smartphone are much more likely than desktop/laptop bookers to take three or more trips per year, making them an attractive consumer segment.
- **OTAs are winning on mobile.** Airlines and hotels own trust and still capitalize on those relationships via PCs. However, OTAs dominate the mobile space, despite suppliers' strong branding and loyalty.

Mobile Shopping and Booking

When it comes to travel shopping and booking, choice of device matters. Mobile shoppers and bookers have unique behaviors and preferences – and understanding these differences is key to competing in the new, multidevice world.

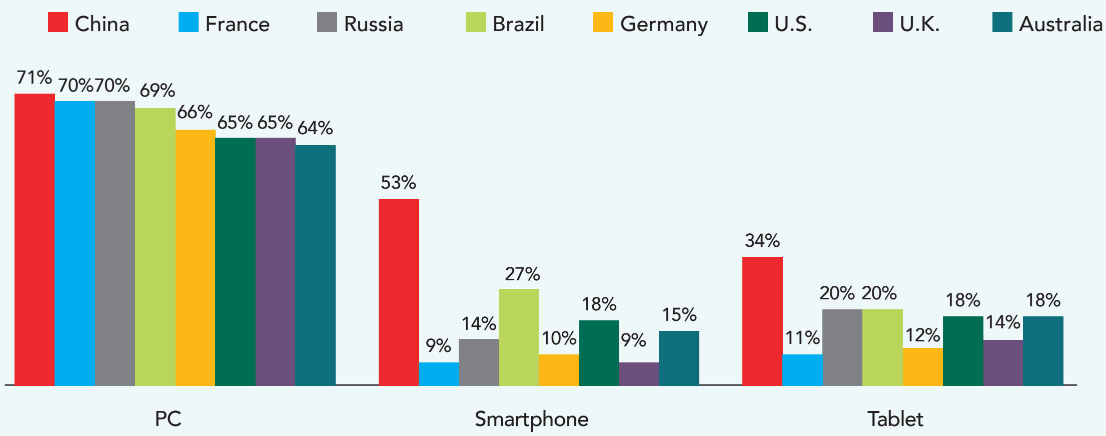
A growing share of travelers are using mobile devices to shop for and purchase travel. Smartphone and tablet shopping incidence varies across markets, but in certain mature online travel markets, a clear device shift is underway (see Figure 1).

In the U.S. and Australia, for example, roughly 85% of leisure travelers shopped online in the past 12 months. But only 65% shopped via PC when planning their last leisure trip. PC usage is receding in these markets as travelers shift to smartphones and tablets for travel shopping.

While mobile travel shopping is certainly on the rise, mobile booking is in the early adopter stage in most markets. The percentage of online air bookers who used a smartphone or tablet to book their last flight is generally in the single digits, but annual mobile booking incidence for all trips is likely to be higher, as travelers typically take multiple leisure trips throughout the year. Across markets, China stands out as a leader in mobile travel booking; one quarter of Chinese online air bookers used a smartphone to book a flight for their last leisure trip (see Figure 2).

Even in markets where mobile booking is in the early stages, travelers who book via mobile represent an attractive customer segment. Mobile bookers tend to be more experienced and tech-savvy than the average traveler, and are more likely to be frequent travelers (see Figure 3). In the U.S., for example, two thirds of travelers who booked their last flight via smartphone took three or more leisure trips over the previous 12 months. By comparison, just 45% of those who booked via desktop/laptop were frequent travelers

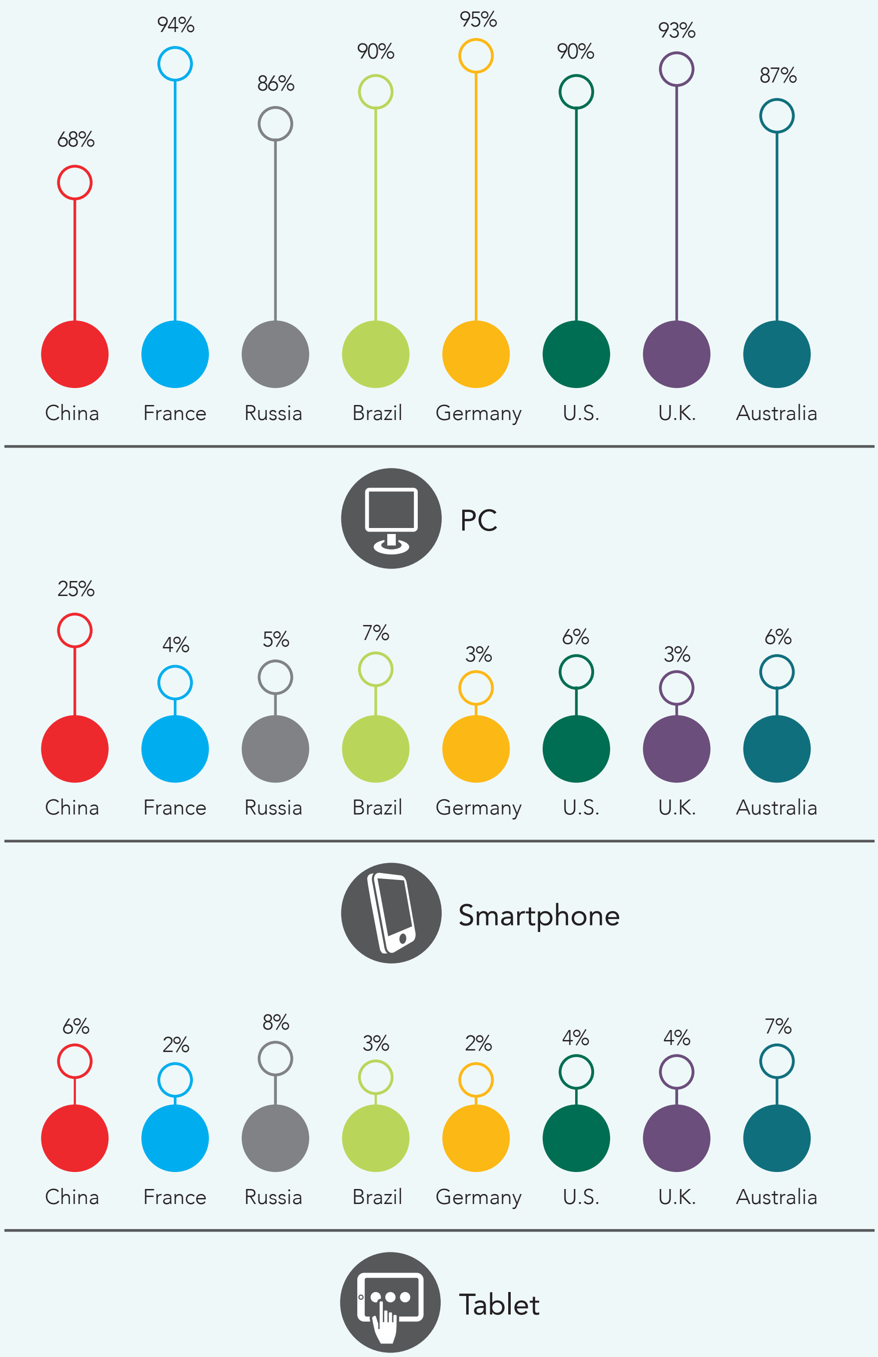
Figure 1: Devices Used to Shop for Leisure Travel (Last Trip)



Question: What sources of information do you recall using to compare and choose leisure travel prices and products, such as airline tickets or hotel rooms? Select all that apply.
Base: Leisure travelers: U.S.(N=1,003); U.K. (N=1,008); AUS (N=1,011); FRA (N=1,007); GER (N=1,007); RUS (N=995); CHN (N=1,014); BRA (N=1,000)
Source: Phocuswright's *Search, Shop, Buy: The New Digital Funnel*

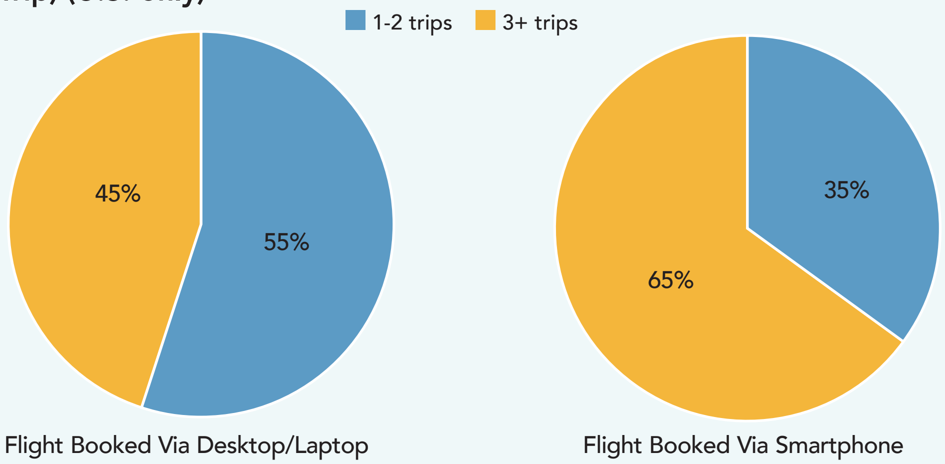
(3+ trips). As travelers gain experience using their mobile devices for more advanced activities, mobile booking will become more common, even among casual travelers.

Figure 2: Devices Used to Book Flights (Last Trip)



Question: You indicated that you booked a flight online for your last leisure trip. What device did you use to book?
Base: Online airline bookers: U.S. (N=449); U.K. (N=404); AUS (N=531); FRA (N=393); GER (N=300); RUS (N=320); CHN (N=529); BRA (N=490)
Source: Phocuswright's *Search, Shop, Buy: The New Digital Funnel*

Figure 3: Annual Leisure Trip Frequency for Desktop vs. Smartphone Air Bookers (Last Trip) (U.S. only)



Question: You indicated that you booked a flight online for your last leisure trip. What device did you use to book?
Base: Online airline bookers: U.S. (N=449)
Source: Phocuswright's *Search, Shop, Buy: The New Digital Funnel*

Mobile shopping and booking is more popular for some types of travel products than others. The simplicity of flight shopping is particularly well-suited for mobile, as most travelers can pick the right flight with relatively basic information like price and schedule. Conversely, while mobile is popular among last-minute hotel shoppers, travelers are a bit more likely to stick with PCs when shopping for long hotel stays, as confident decisions often require reviews, maps, pictures and videos. On tablets, air shopping has a substantial lead over hotel shopping in several markets (see Figure 4). For example, when planning their last trip, 55% of German tablet owners who shopped for flights online did so via tablet, versus just 26% of hotel shoppers.

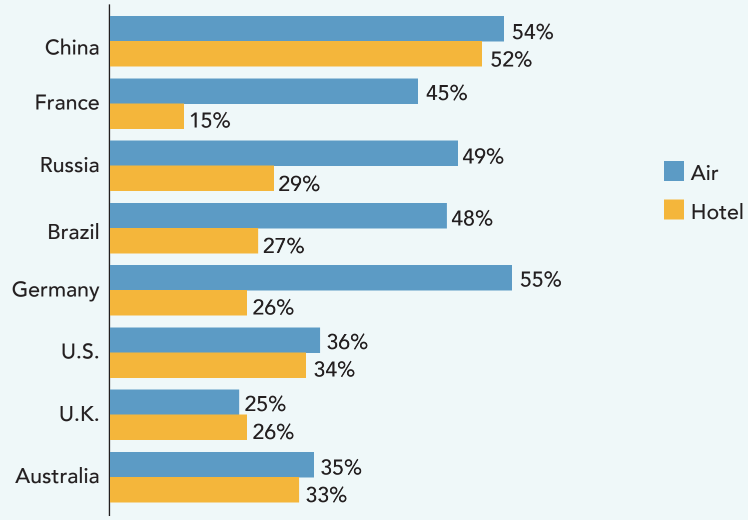
Flight shopping's lead over hotel shopping is particularly dramatic in countries with highly fragmented hotel markets, where the hotel selection process is more complex and there is often a wide range of quality in mobile hotel offerings. In the U.S., for example, where large hotel brands dominate, hotel and flight shopping incidence via tablet are nearly equal.

OTAs Own Mobile: Here's Why

As both partners and competitors, the relationship between suppliers and OTAs is complex. While airlines and hotels generally value their presence on OTA websites, maximizing profit means driving direct bookings whenever possible. The balance of power between suppliers and OTAs fluctuates based on a range of factors, including market, product type and macroeconomic conditions. As mobile's stature within the online travel ecosystem continues to grow, it is tipping the balance in favor of OTAs.

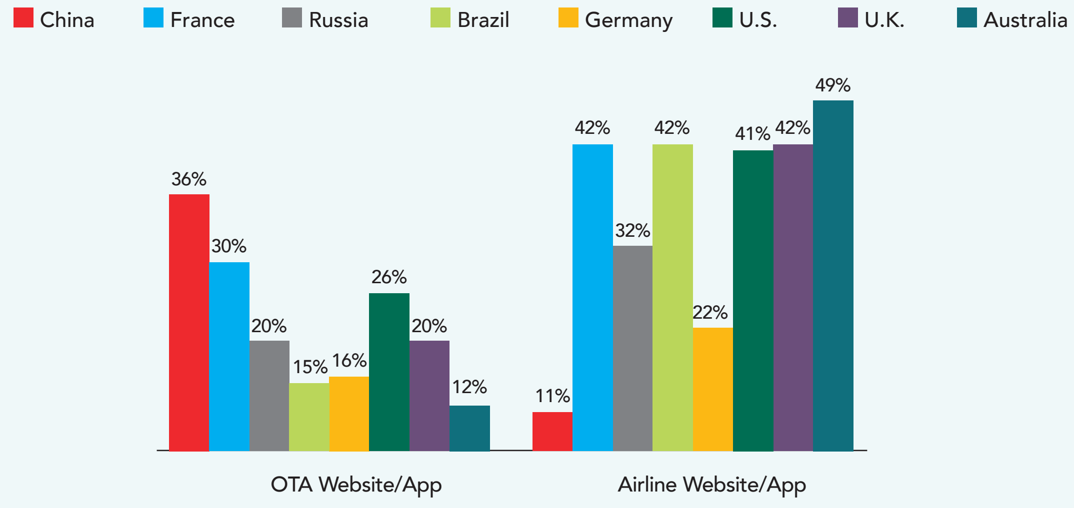
Looking at online purchase channels overall (i.e., regardless of device), in many markets, airlines have the advantage over OTAs for online air bookings (see Figure 5). With the

Figure 4: Flight and Hotel Shopping Via Tablet (Tablet Owners Only)



Question: Which of the following travel websites or apps did you use to shop for flight(s)? Which of the following travel websites or apps did you use to shop for hotel(s)? Please indicate if you used each website on your desktop computer, smartphone or tablet. Select all that apply.
Base: Online flight shoppers: U.S. (N=440); U.K. (N=393); AUS (N=574); FRA (N=359); GER (N=394); RUS (N=365); CHN (N=628); BRA (N=560)
Source: Phocuswright's *Search, Shop, Buy: The New Digital Funnel*

Figure 5: Online Channel Used to Book Flights (Last Trip)



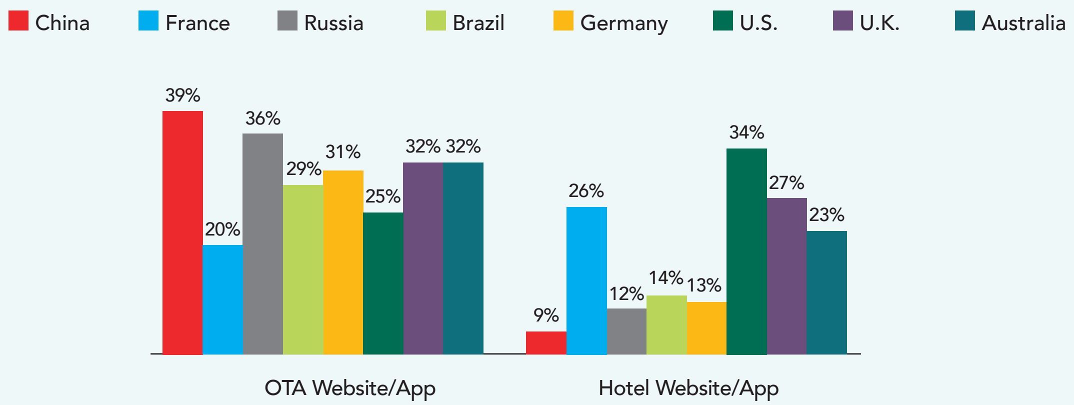
Question: Please indicate which method you used to book each travel component from your last leisure trip. Select one response per row.
Base: Airline bookers: U.S. (N=603); U.K. (N=533); AUS (N=754); FRA (N=466); GER (N=550); RUS (N=466); CHN (N=676); BRA (N=675)
Source: Phocuswright's *Search, Shop, Buy: The New Digital Funnel*

exception of China, online air bookers in every market are more likely to book via an airline website/app than via an OTA. Over the past several years, airlines across markets have succeeded in driving direct bookings in part by offering a range of ancillary products and services (e.g., priority boarding, extra legroom), many of which have not been available via intermediaries.

On the hotel side, OTAs generally perform better than supplier websites, often due to their ability to provide an aggregated view of hotel options, particularly in markets comprised largely of small, independent properties. However, in more consolidated markets with large chains, hotels are better positioned to drive online direct bookings (see Figure 6). In the U.S., for example, 34% of travelers booked a hotel for their last leisure trip on a hotel website, while 25% booked on an OTA. Nonetheless, across markets, hotels are focused on improving their websites and apps to drive direct bookings.

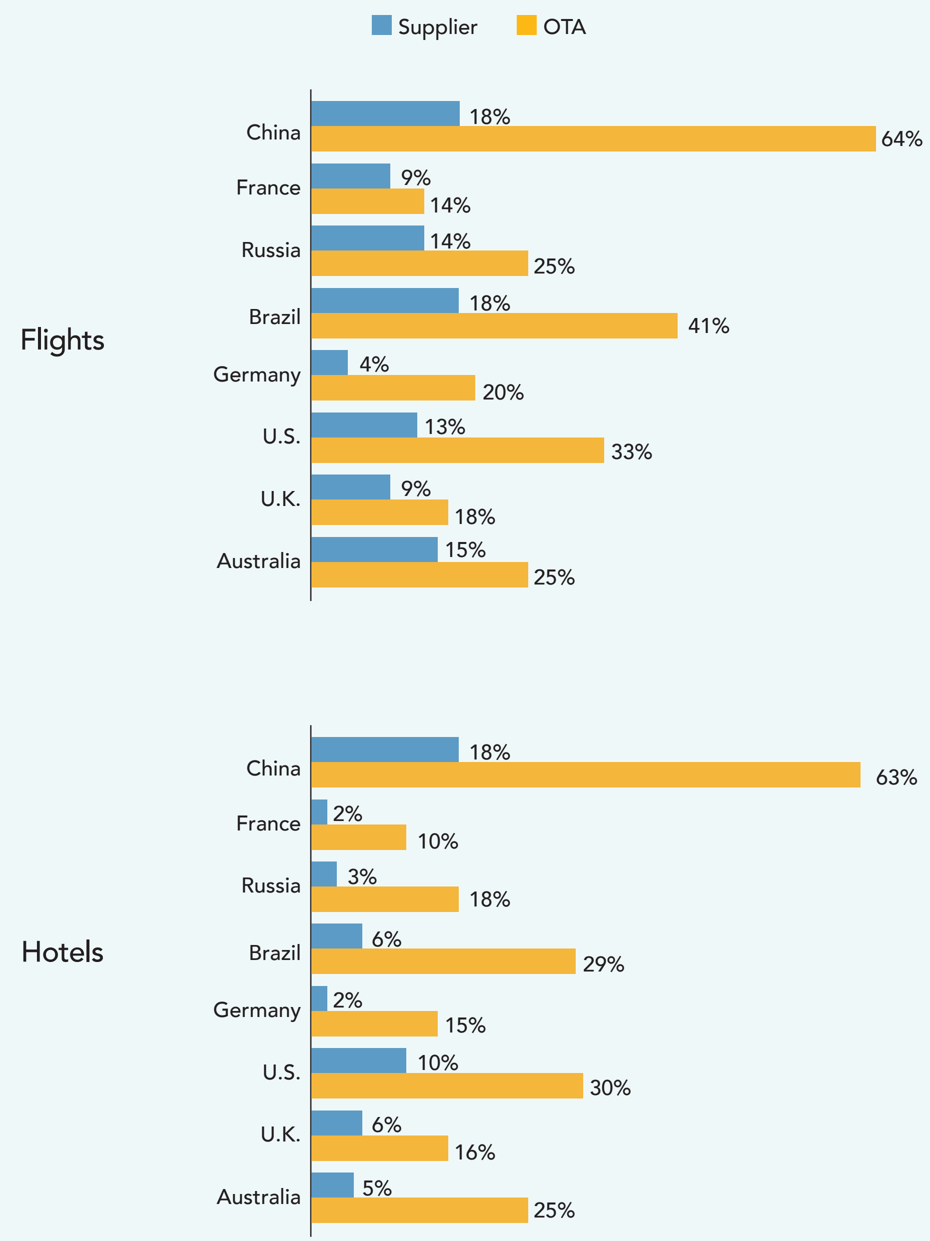
As the share of travelers who shop and book via mobile device has grown, it has become apparent that a singular view of the online marketplace no longer tells the whole story. In fact, travel behavior may vary substantially depending on device. While airlines have an edge in online bookings overall, on mobile, OTAs have the upper hand. When shopping for flights or hotels via smartphone, for example, travelers are significantly more likely to shop via OTA (see Figure 7). In the U.S., smartphone shoppers are three times more likely to shop for a hotel on an OTA than on a hotel website.

Figure 6: Online Channel Used to Book Hotels (Last Trip)



Question: Please indicate which method you used to book each travel component from your last leisure trip. Select one response per row.
Base: Hotel bookers: U.S. (N=777); U.K. (N=649); AUS (N=757); FRA (N=605); GER (N=539); RUS (N=552); CHN (N=836); BRA (N=714)
Source: Phocuswright's *Search, Shop, Buy: The New Digital Funnel*

Figure 7: Smartphone Shopping (Smartphone Owners Only)



Question: Which of the following travel websites or apps did you use to shop for flight(s)? Which of the following travel websites or apps did you use to shop for hotel(s)? Please indicate if you used each website on your desktop computer, smartphone or tablet. Select all that apply.
Base: Online flight and hotel shoppers: U.S. (N=440); U.K. (N=393); AUS (N=574); FRA (N=359); GER (N=394); RUS (N=365); CHN (N=628); BRA (N=560)
Source: Phocuswright's *Search, Shop, Buy: The New Digital Funnel*

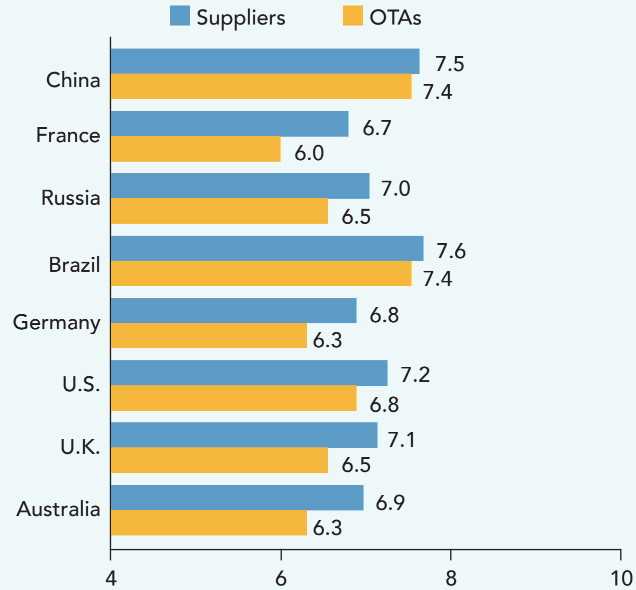
Several factors drive OTAs' advantage on the mobile channel. Mobile's smaller screen size makes user-friendliness paramount, and OTAs' ability to aggregate flight and hotel products across multiple suppliers provides a quick way for travelers to get a broad view of options. This capability is particularly important for last-minute hotel bookers, who have flocked to OTAs and mobile hotel intermediaries such as HotelTonight. In addition, mobile shopping and booking activity tends to be highest among younger travelers, who are particularly likely to focus on price when shopping for travel products.

How Can Suppliers Remain Competitive?

As mobile shopping and booking incidence continues to grow, mobile has the potential to significantly impact channel share. To remain competitive, suppliers must continue working to drive travelers to their mobile websites and apps. Where do suppliers' strengths lie? For one, suppliers have done a better job than OTAs of winning travelers' trust (see Figure 8). With the exception of Brazil and China, where trust ratings are similar for OTAs and suppliers, suppliers get significantly higher ratings for trust across markets.

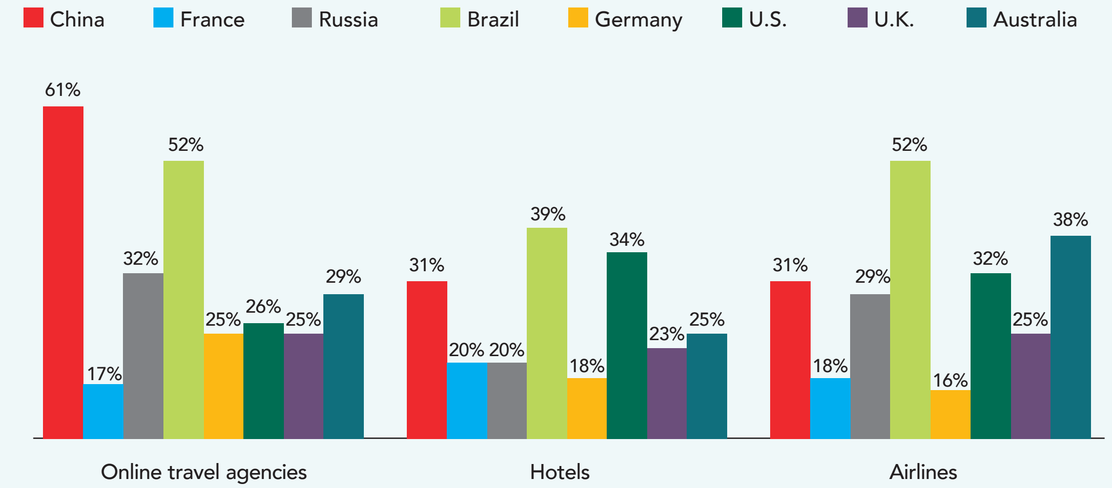
Travelers are also likely to engage with airlines/hotels via emails and online newsletters. While the specific incidence of online subscriptions varies, it is common for one quarter to one third of leisure travelers to receive emails from airlines and hotels (see Figure 9). While OTA newsletters are also popular, suppliers' connection with travelers has the potential to help build loyalty for an individual supplier brand.

Figure 8: Traveler Trust Rating for Suppliers vs. OTAs



Question: Below is a list of popular travel websites. On a scale from 1 to 10, where 1 is "poor" and 10 is "excellent," please rate each on the following five attributes. If you are not familiar with a particular website, please enter 0.
Base: Leisure travelers: U.S. (N=1,003); U.K. (N=1,008); AUS (N=1,011); FRA (N=1,007); GER (N=1,007); RUS (N=995); CHN (N=1,014); BRA (N=1,000)
Source: Phocuswright's *Search, Shop, Buy: The New Digital Funnel*

Figure 9: Incidence of Online Email/Newsletter Subscriptions



Question: Do you subscribe to online emails/newsletters from any of the following types of companies? Please select all that apply.
Base: Leisure travelers: U.S. (N=1,003); U.K. (N=1,008); AUS (N=1,011); FRA (N=1,007); GER (N=1,007); RUS (N=995); CHN (N=1,014); BRA (N=1,000)
Source: Phocuswright's *Search, Shop, Buy: The New Digital Funnel*

Conclusion

As smartphone and tablet adoption continues to grow, mobile will have an increasing impact on the competitive dynamics between suppliers and OTAs. Device shift is already underway in mature online travel markets, and travel shopping and booking will continue to shift to the mobile channel across markets as travelers become more comfortable with big-ticket mobile bookings. Given the high value of mobile shoppers, suppliers and OTAs must make mobile a key element of their competitive strategies. While OTAs have a short-term advantage, travelers trust suppliers, and that trust – paired with a compelling mobile experience – has the potential to shift the competitive balance in suppliers' favor.

Methodology

This white paper is based on findings from *Search, Shop, Buy: The New Digital Funnel*, a Phocuswright Special Project. Phocuswright fielded an online consumer survey between December 12-17, 2014 through Global Market Insite, Inc. in eight countries. The survey targeted the general adult population who has Internet access and travels for leisure.

To qualify for the study, respondents had to have taken at least one leisure trip at least 75 miles from home in the past 12 months that included paid lodging, air or rail travel. An additional screener required consumers to have played an active role in planning their leisure trips, and to have gone online to research travel destinations, shop or book travel, or share their travel experiences. Qualifying respondents are referred to as "leisure travelers." Responses are weighted to represent the adult online population who travels for leisure.

Definitions

Online shopper: A traveler who uses the Internet to compare and choose travel products.

Online booker: A traveler who uses the Internet to purchase and pay for travel products.

Mobile shopper: A traveler who uses a smartphone or tablet to compare and choose online travel products.

Mobile booker: A traveler who uses a smartphone or tablet to purchase online travel products.

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