



Phocuswright White Paper

Supplier or OTA? How U.S. Online Travelers Decide Where to Shop and Book

Sponsored by

MERKLE[®]
A Performance Marketing Agency

Written by Cathy Schetzina Walsh

Researched by Marcello Gasdia

Phocuswright

This Phocuswright White Paper is made possible by **Merkle**.

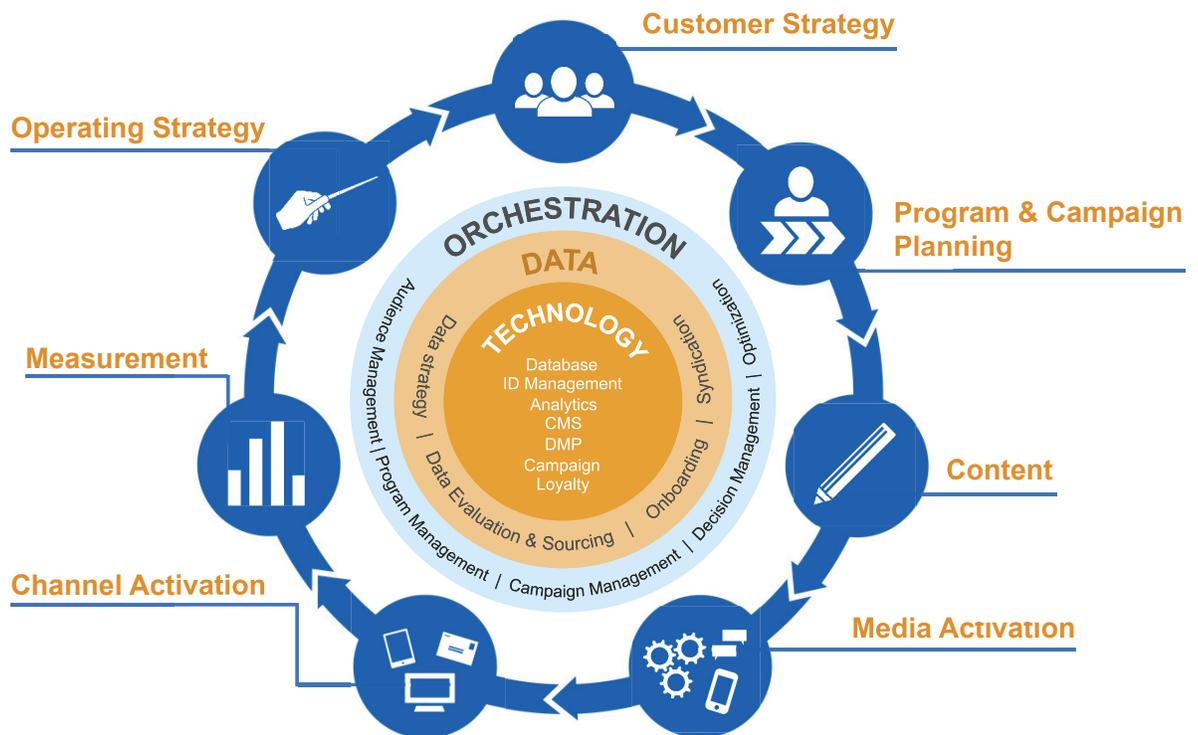


About Merkle

Merkle is a data-driven, tech-enabled performance marketing agency. For more than 25 years, we've helped companies acquire, retain, and maximize the value of their most profitable customers. Our heritage in data, technology, and analytics gives us the ability to gain unique consumer insights. When combined with our strength in performance marketing, this fuels our ability to develop and execute addressable experiences that drive customer engagement, loyalty, and shareholder value. We are proud to serve the world's largest travel brands across the hotel, airline, cruise ship and rental car segments. To learn more about our travel solutions, including data management platforms (DMP's), segmentation, cross device measurement, international data sourcing, digital marketing, or search management, visit merkleinc.com/travel.

Our data-driven, tech-enabled capabilities

We offer a full integrated suite of people-based marketing services



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.

Phocuswright is a wholly owned subsidiary of Northstar Travel Media, LLC.

Supplier or OTA? How U.S. Online Travelers Decide Where to Shop and Book

Written by Cathy Schetzina Walsh
Researched by Marcello Gasdia

Introduction

When U.S. consumers shop for leisure travel, they often turn to travel websites and apps to compare, choose and purchase travel products. Three quarters of U.S. leisure travelers shopped for their last leisure trip online, and each of those travelers had a choice of online channels and a wide array of websites. Each made a series of decisions that led them down the funnel, often visiting multiple travel websites in the process, to ultimately complete a booking.

But how do travelers decide whether to make their purchases via a supplier website or an online travel agency (OTA)? What influences their decision to shop via specific websites and apps? Understanding the priorities and assumptions driving the leisure travel decision-making process is crucial to competing in today's online travel marketplace. From airline and hotel websites, to OTAs, metasearch and more, travelers are bombarded with choices. But there is method to the travel shopping madness.

Phocuswright and Merkle recently completed a comprehensive online survey aimed at understanding how leisure travelers across eight markets navigate the search, shop and buy process. This white paper focuses on the rivalry between OTAs and suppliers, and identifies the consumer perceptions, opinions and market dynamics that influence channel selection. Readers will understand online channel usage across travel shopping and booking phases, as well as shifts in behavior for air versus hotel shoppers. Finally, the paper analyzes the growing impact of mobile and metasearch, highlighting forces that will shape OTA-supplier dynamics in the years to come.

Research Highlights

- **U.S. travelers shop via OTAs, but are more likely to book via a supplier website.** More than seven in 10 online flight and hotel shoppers used an OTA website to shop for their last leisure trip. But suppliers, especially airlines, were more likely to capture the booking: Four in 10 U.S. air bookers booked via an airline website/app, compared to one quarter who booked via an OTA.
- **Ease of use and loyalty programs sway booking channel choices.** An easy to use website is the most common reason U.S. travelers book with OTAs, while hotel/airline loyalty program membership is most likely to drive online direct bookings.

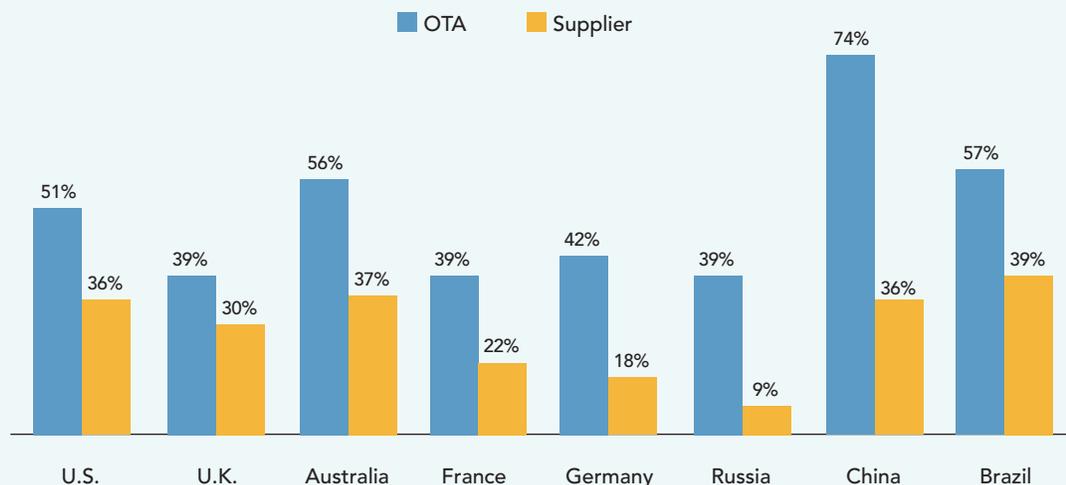
■ **Mobile and metasearch are shaking up online channel dynamics.** Smartphone shoppers are roughly three times more likely to shop for flights and hotels via OTAs than via airline/hotel websites. Online flight shoppers are as likely to use a metasearch website (74%) as an OTA (75%). Overall, OTAs are winning the mobile channel, while metasearch puts the pressure on OTAs across the online travel landscape.

The Choice: Suppliers Versus OTAs

While there are countless websites devoted to leisure travel research, planning and sharing, the options for actually purchasing travel products online are simple: supplier or intermediary? For travel suppliers, direct bookings are key to minimizing distribution costs and strengthening customer relationships. But OTAs also serve as important distribution partners, providing suppliers with access to customers they may not otherwise attract. This partner/competitor dynamic fuels an ongoing tug-of-war between suppliers and OTAs, a contest that extends to the top of the sales funnel.

Given OTAs' ability to compare various travel product types, suppliers and products, it is not surprising that these intermediaries play a dominant role in travel shopping across markets (see Figure 1). OTAs' lead over suppliers tends to be particularly strong in emerging markets, and in countries where the hotel landscape is dominated by small, independent properties, and therefore lends itself to aggregation. While the lead for intermediaries is relatively small in the U.S., leisure travelers are still more likely to shop via an OTA (51%) than a supplier website (36%).

Figure 1: Online Shopping Channels



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 hotels and accommodation(s)? Please indicate if you used each website on your desktop computer, smartphone or tablet. 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

©2015 Phocuswright Inc. All Rights Reserved.

What drives travelers to shop on one channel versus the other? While U.S. travelers rate suppliers and OTAs similarly across most quality attributes, there are key differences in how travelers perceive each channel. OTAs, which tend to be popular among travelers seeking the best option for the lowest price, get higher marks for both hotel/flight options and price (see Figure 2). However, travelers rate suppliers higher for trust (7.2 versus 6.8, on a 10-point scale), suggesting that suppliers are generally succeeding in maintaining strong customer relationships, regardless of shopping channel.

The Booking: Flights Versus Hotels

OTAs enable travelers to compare a broad range of flight and hotel options in a single search, and travelers are clearly relying on this capability during the shopping phase. A majority of U.S. online flight and hotel shoppers used an OTA to shop for flights (75%) and hotels (72%), respectively, when planning their last leisure trip (see Figure 3). By comparison, just 54% of air shoppers and 44% of hotel shoppers relied on a supplier website.

But while OTAs rule the shopping phase, when it comes to booking, many travelers shift to supplier websites to complete the transaction – and there are numerous reasons why. Some travelers are racking up loyalty points, while others trust suppliers to handle their bookings more than intermediaries. For both flights and hotels, U.S. leisure travelers are more likely to book on a supplier website than an OTA. And while the overall shopping and booking pattern holds true for both flight and hotel shoppers, key differences in market dynamics for airlines and hotels have a notable impact on consumer behavior.

Figure 2: U.S. Travelers’ Perceptions of OTAs vs. Suppliers



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
 ©2015 Phocuswright Inc. All Rights Reserved.

Figure 3: U.S. Online Shopping Channels (Flights and Hotels)



Question: Which of the following travel websites or apps did you use to shop for flight(s)? Please indicate if you used each website on your desktop computer, smartphone or tablet. Which of the following travel websites or apps did you use to shop for hotels and accommodation(s)? Please indicate if you used each website on your desktop computer, smartphone or tablet. Select all that apply.
 Base: U.S. online flight shoppers (N= 440); U.S. online hotel shoppers (N=578)
 Source: Phocuswright's Search, Shop, Buy: The New Digital Funnel
 ©2015 Phocuswright Inc. All Rights Reserved.

Driven initially by an effort to reduce costs, airlines have worked hard over the past few years to drive direct bookings via their websites. Airline websites have featured branded fares and ancillary products such as preferred seating and priority boarding, which have not been available via OTAs (although this exclusivity is changing). In addition to generating substantial revenue, airline ancillaries have helped increase direct online bookings among U.S. travelers. Four in 10 U.S. air bookers booked a flight for their last leisure trip via an airline website/app, compared to just 26% who booked via an OTA (see Figure 4). Even as OTAs gain access to more complete content and experiment with offering branded fares (as Expedia will do in 2015), suppliers have a strong branding and upselling incentive to continue pushing direct bookings.

Although hotels have also invested in marketing and website functionality in an effort to drive direct online bookings, OTAs have slightly increased their market share of the U.S. online hotel market over the past few years. This trend is due in part to the improving U.S. economy and the return of the mid-market leisure traveler – a segment that often turns to OTAs in search of deals. Yet hotel websites perform better in the chain-dominated U.S. than in other, more fragmented hotel markets, and U.S. air bookers were more likely to book a hotel for their last leisure trip via a hotel website (34%) than an OTA (25%).

Figure 4: U.S. Online Booking Channels (Flights and Hotels)

Questions: Please indicate which method you used to book each travel component from your last leisure trip. Select one response per row.
 Base: U.S. air bookers (N=603); U.S. hotel bookers (N=777)
 Source: Phocuswright's *Search, Shop, Buy: The New Digital Funnel*
 ©2015 Phocuswright Inc. All Rights Reserved.

Factors Influencing Channel Choice

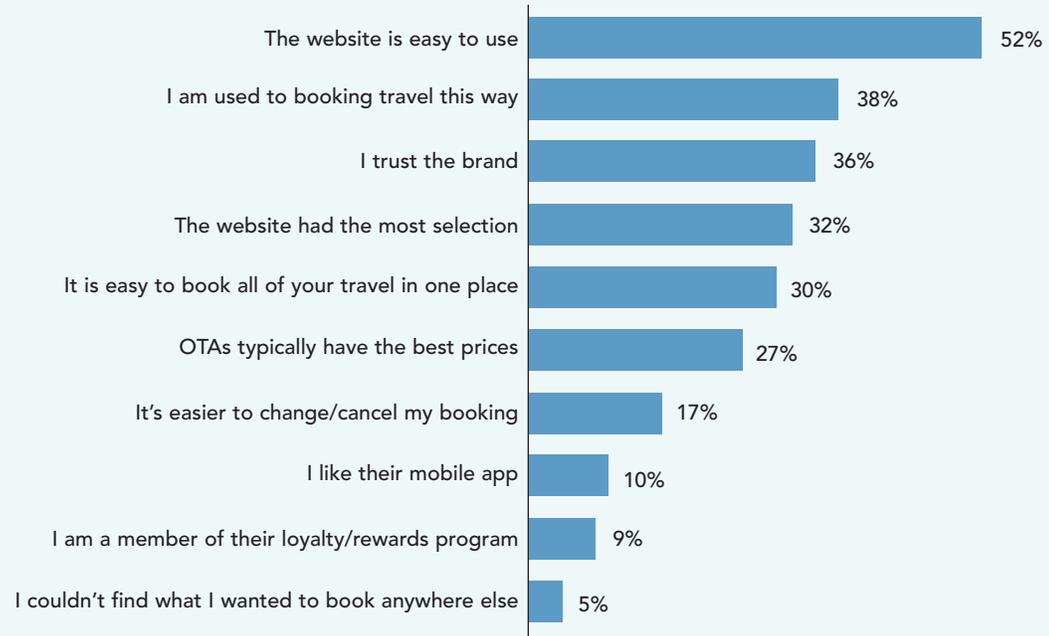
When deciding whether to book via an OTA or supplier website, many travelers choose one over the other for reasons that go beyond segment dynamics. Among travelers who booked their last leisure trip on an OTA, half cited the OTA's easy to use website, compared to just 30% of supplier website bookers (see Figure 5). This motivator indicates that supplier's efforts to enhance their own websites are well placed. OTA bookers also cited brand trust (36%), product selection (32%) and the ease of booking all of their travel in one place (30%).

For U.S. travelers who booked on a hotel or airline website, loyalty membership was an important factor. Forty-five percent of supplier-direct bookers cited loyalty program membership as a reason for booking direct (see Figure 6). While rate parity agreements have prevented hotels from driving website bookings with lower prices, many rewarded direct bookers with loyalty points. This practice has clearly paid off, and loyalty membership is the most-cited reason for booking direct.

Like OTA bookers, supplier website bookers also prioritize ease of use, but disagree about where to find it. One third of supplier-direct bookers believe that booking directly with an airline or hotel is easier, and three in 10 cited an easy to use website.

Across all online hotel and flight shoppers, in fact, ease of use is the most commonly cited reason for using a specific website. Airlines and hotels have worked to improve their websites over the past few years, and should continue to invest in the user experience across devices. In addition to following the principles of good design, speed and reliability, implementing useful online features can improve stickiness and deter travelers from looking elsewhere for needed information. Hotel bookers, for example, rate traveler-submitted reviews, photos and videos, as well as online maps that display lodging and attractions, as being important features when choosing accommodations.

Figure 5: Reasons U.S. Travelers Book Through OTAs



Question: Why did you book some or all of your travel via an online travel agency like Expedia or Lastminute? Please select all that apply.
 Base: U.S. OTA bookers (N=286)
 Source: Phocuswright's Search, Shop, Buy: The New Digital Funnel
 ©2015 Phocuswright Inc. All Rights Reserved.

Figure 6: Reasons U.S. Travelers Book Direct



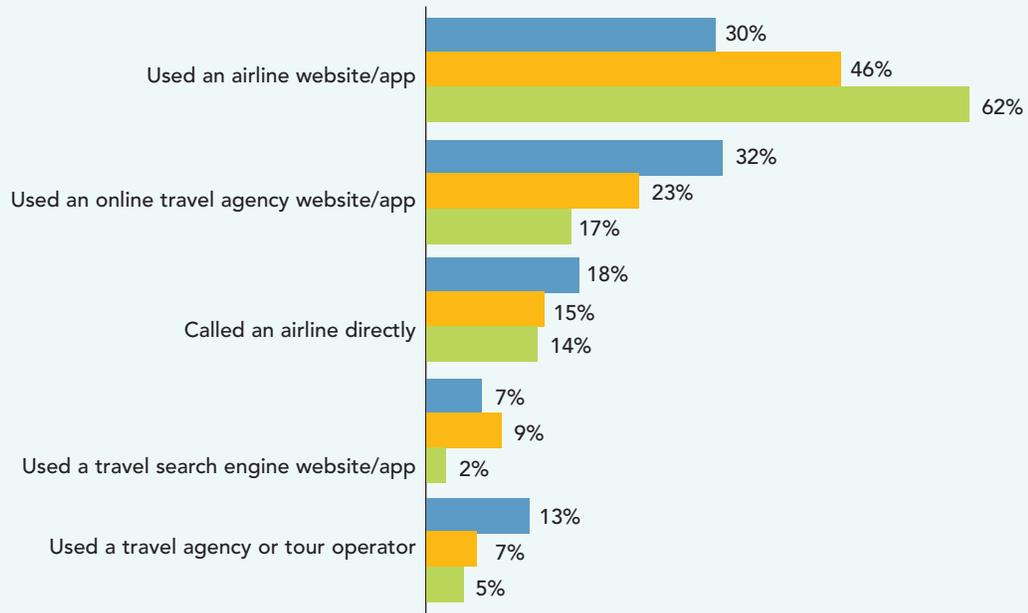
Question: Why did you book some or all of your travel on a hotel or airline website or app? Please select all that apply.
 Base: U.S. direct online travel bookers (N=400)
 Source: Phocuswright's Search, Shop, Buy: The New Digital Funnel
 ©2015 Phocuswright Inc. All Rights Reserved.

Age also plays a role in influencing channel selection. Among air bookers, the preference for booking online directly with a supplier increases dramatically with age (see Figure 7). While millennials (18-34) were slightly more likely to book via an online travel agency (32%) than an airline website (30%), older travelers clearly favored airline websites/apps. Forty-six percent of 35-54 year olds and 62% of travelers 55 and older booked supplier-direct. As travelers mature, they tend to become less price-sensitive and more brand loyal, a pattern that travel suppliers should leverage.

Looking Ahead: Mobile and Metasearch

The dynamics between suppliers and OTAs are constantly shifting due to a range of factors including macroeconomic conditions, competitive considerations and strategic shifts, to name a few. The rapid rise of mobile is the latest phenomenon to disrupt the balance of power, and travelers' use of smartphones, tablets and, possibly, wearable mobile devices (e.g., Apple Watch), is likely to have an outsized impact on channel choice over the next few years. While the jury is still out on wearables, their potential to enhance the travel process and provide new ways of interacting with travelers makes smartwatches and other types of wearable devices a trend to watch.

Figure 7: U.S. Online Booking Channels, by Age



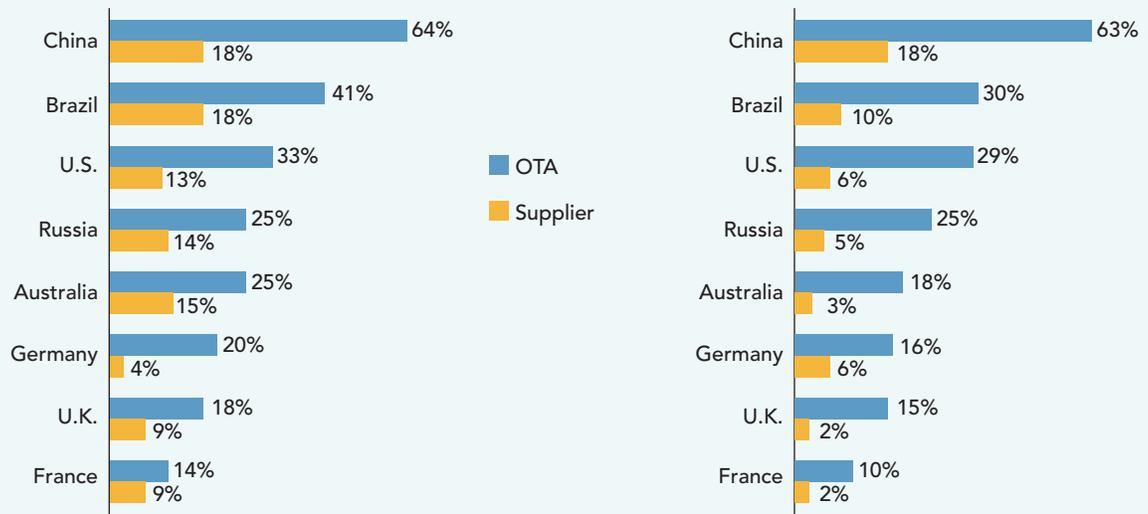
Question: Please indicate which method you used to book each travel component from your last leisure trip. Select one response per row.
 Base: U.S. airline bookers (N=603)
 Note: Totals may not add to 100% due to rounding.
 Source: Phocuswright's Search, Shop, Buy: The New Digital Funnel
 ©2015 Phocuswright Inc. All Rights Reserved.

When shopping via mobile, travelers across markets already show a strong preference for OTAs. The trend is particularly pronounced among hotel shoppers, whose reliance on intermediaries to aggregate hotel supply is even stronger via mobile devices (see Figure 8). In the U.S., travelers who shopped for hotels online via their smartphone when planning their last leisure trip were three times more likely to do so via an OTA (30%) than a supplier website (10%).

For travelers shopping via the smaller screens of mobile devices, OTA websites provide information on a wide variety of travel options with a single search, giving OTAs a clear advantage among mobile device users. In fact, U.S. OTA shoppers commonly switch between multiple devices in the course of planning a single trip (see Figure 9). Nearly three in 10 OTA users shopped via PC, smartphone and tablet when planning their last leisure trip, a metric that underlines the key role that mobile already plays in online travel shopping. As mobile shopping and booking incidence continues to grow, OTAs stand to gain market share if suppliers fail to prioritize the mobile channel.

Given the important role that loyalty programs play in driving online direct bookings overall, airlines and hotels will need to leverage loyalty membership to boost their mobile bookings. In addition, since travelers have grown increasingly reliant on multiple devices when planning their trips, some suppliers are turning to identity management solutions to gain greater visibility into consumers' preferences and behaviors. These programs can help track customer identities across all the devices they use, facilitating greater personalization and customer service throughout the travel search, shop and buy process.

Figure 8: Smartphone Shopping (Flights and Hotels)



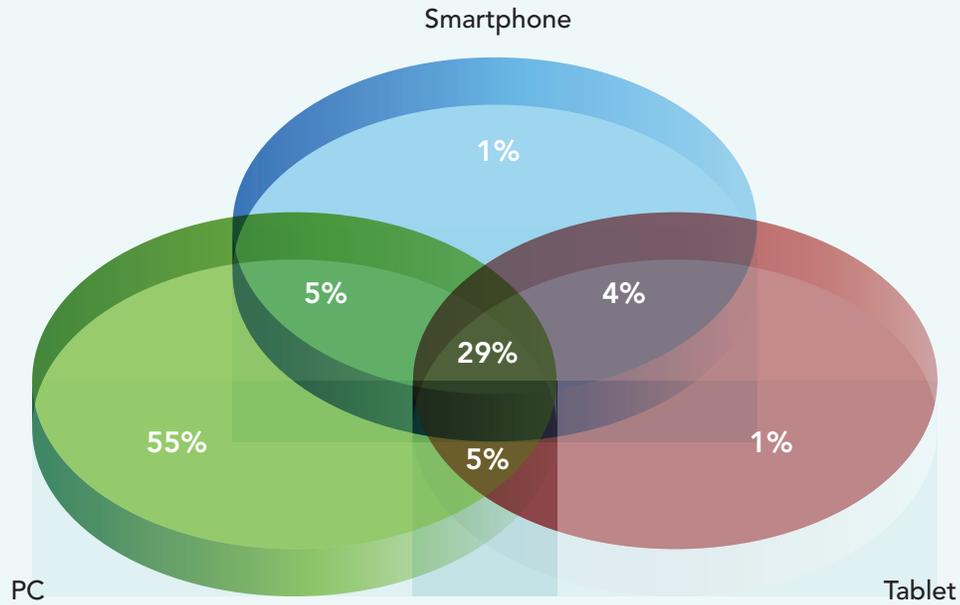
Question: Below is a list of popular travel websites. On a scale from 1 to 10, where 1 is "Poor" and 10 is "Excellent," please rate each on the following five attributes. If you are not familiar with a particular website, please enter 0.

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

©2015 Phocuswright Inc. All Rights Reserved.

Figure 9: U.S. OTA Shoppers, by Device



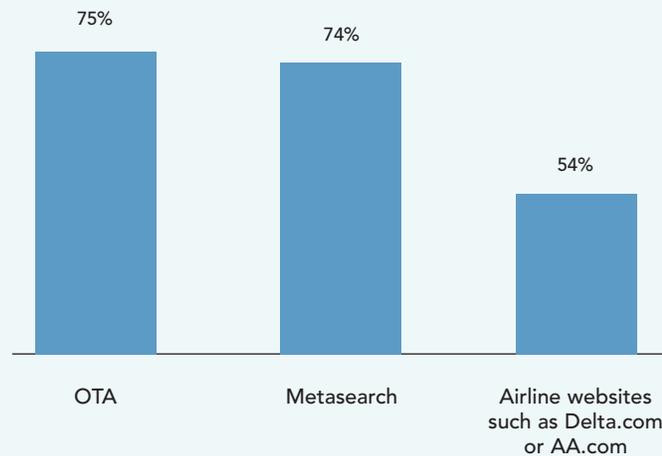
Question: Which of the following travel websites or apps did you use to shop for flight(s)? Please indicate if you used each website on your desktop computer, smartphone or tablet. Which of the following travel websites or apps did you use to shop for hotels and accommodation(s)? Please indicate if you used each website on your desktop computer, smartphone or tablet. Select all that apply.

Base: OTA users (N=512)

Source: Phocuswright's Search, Shop, Buy: The New Digital Funnel
©2015 Phocuswright Inc. All Rights Reserved.

While the ongoing booking battle between suppliers and OTAs may make online travel appear to be a two-horse race, metasearch has emerged as an increasingly powerful alternative for comparing and choosing leisure travel products. In many markets worldwide, metasearch is already on par with OTAs for travel shopping. In the U.S., for example, 75% of online flight shoppers used an OTA, while 74% shopped via a metasearch website (roughly four in 10 visit both) (see Figure 10). Although metasearch websites rely primarily on a referral model, features like Kayak's Instant Booking have muddied the distinction between different types of intermediaries. For suppliers, metasearch websites are an increasingly important partner/competitor, with the added potential to disrupt OTA-supplier dynamics.

While the use of metasearch might rival OTAs in some markets, there is very little evidence that consumers truly understand the difference between these types of websites. Most respondents rated top OTA and metasearch brands similarly on a wide variety of attributes including price, ease of use and breadth of content. Similarly, most travelers who booked with a metasearch engine over the past year were unclear about who actually handled their booking transaction. Metasearch brands are hoping their "one and done" value proposition will resonate strongly with consumers. But overall, travelers generally lump all comparison websites into one pile – with most unable to discern meta from OTA sites.

Figure 10: U.S. Online Shopping Channels (Flights)

Question: Which of the following travel websites or apps did you use to shop for flight(s)? Please indicate if you used each website on your desktop computer, smartphone or tablet. Select all that apply.

Base: Online flight shoppers (N= 440)

Source: Phocuswright's Search, Shop, Buy: The New Digital Funnel

©2015 Phocuswright Inc. All Rights Reserved.

Conclusion

When U.S. travelers sit down at their computer or pull out a smartphone to plan a leisure trip, they now have more choices than ever before. Competition for flight and hotel shoppers is fierce across suppliers, OTAs and metasearch websites, and the balance of power among them is further disrupted by travelers' increasing reliance on mobile devices. At the heart of this maze of choices, however, is the traveler. Understanding how travelers perceive suppliers and intermediaries – and how their preferences change depending on which device they are using – is the first step in winning traffic and bookings. To sway channel choice, airlines and hotels must play to their strengths by building consumer trust and leveraging loyalty programs to appeal to travel shoppers across devices.



Phocuswright[®]