

Travel Suppliers Fighting Back In Online Battle

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The online travel market is experiencing an evolution with the balance of power shifting over the past 12 months from online agencies to the suppliers, according to PricewaterhouseCoopers LLP.

High speed broadband internet connections combined with the ability for suppliers to take control of their own inventory have lessened the competitive advantage that online travel agents once enjoyed.

Price and convenience are still the crucial differentiators in online travel purchasing which places airlines and hotel owners in a strong position. As content owners, they control their underlying assets, either planes or hotels, and the subsequent pricing. Online aggregators own little.

Malcolm Preston, partner and travel sector leader, PricewaterhouseCoopers LLP, commented:

"Suppliers are now providing the lowest-cost bookings available on the internet. Those suppliers that have sufficient scale will continue to see more and more bookings made through their own sites. It's the smaller operators that will become the key clients of the aggregators."

The internet has also had a significant impact on the cost of customer acquisition with customer loyalty in the online world traditionally being very low. Some companies have seen marketing costs increase almost every quarter over the last five quarters, while for others it represents 35% of the net margin.

Loyalty schemes for hoteliers and reward points for airlines are proving to be very successful and provide the online supplier with another advantage over aggregators.

Malcolm Preston, partner and travel sector leader, PricewaterhouseCoopers LLP, commented: "These schemes are very persuasive at ensuring customer loyalty and they are also extremely cost-effective.

"After all, they are giving away something that would not otherwise be taken. The cost to an airline, for example, is minimal but the benefit to the customer is enormous.

"Aggregators struggle to provide anything significant to ensure customer loyalty. Discounts are one option but this comes directly off the bottom line. If they want to give a free flight, they have to first purchase it from the supplier."

In the future, all online travel players will need to be more creative in their offerings. Already there are companies offering a wider range of services unrelated to travel - theatre tickets, restaurant bookings and theme park entry for example. This can result in increased customer loyalty and higher revenues per booking for the online operator.

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