

A Forrester Consulting Thought Leadership Paper Commissioned By Amadeus

Cross-Sell Your Way To Profit

How Travel Suppliers Are Using Third-Party Ancillary Services To Drive New Revenues And Enhance Their Travelers' Experiences

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FORRESTER

Headquarters | Forrester Research, Inc.
400 Technology Square, Cambridge, MA 02139 USA
Tel: +1 617.613.6000 | Fax: +1 617.613.5000 | www.forrester.com

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Third-Party Ancillary Services: The Context

Two words make travel marketers' eyes sparkle as they contemplate how to increase customer engagement. Two words make travel revenue managers' and CFOs' pulses quicken as they anticipate higher revenues and margins. Two words make travel database managers dream as they contemplate the potential to enrich their customer insights. Two words make travel CIOs tremble as they consider their implications on their technology infrastructure and systems.

The two words?

Ancillary services.

Though economic and travel industry forecasts may project recovery starting in 2011, the outlook remains unpredictable. To counter uncertain demand and improve both revenue performance and margins at a time when it is difficult for travel suppliers to raise base-level pricing, many travel suppliers such as airlines, hotels, cruise lines, and railroads are increasingly turning to the sale of optional, fee-based, non-core products and services — known as ancillary services — to improve their bottom line.

Ancillary services are at the forefront of the travel industry as it strives to become — and remain — financially stronger. Ancillary services are also key to helping travel suppliers find ways to better respond to and serve travelers' needs for additional services or amenities in order to have more enjoyable, productive trips.

While much has been written about ancillary services in the last two years, almost all of this content has been focused on airlines' à la carte, or unbundled, ancillary services. These à la carte ancillary services are operated or delivered directly by the travel supplier. Examples of à la carte ancillary services include airline checked baggage fees and a hotel-owned-and-operated restaurant.

In this report, we focus on the untapped potential of third-party or commission-based ancillary services for all travel suppliers, such as airlines, hotels, cruise lines, car rental companies, and inter-city railroads and ferry operators. We define third-party ancillary services as follows:

Third-party ancillary services are those operated or delivered by a third-party provider to the travel supplier, for which the supplier earns revenue via the payment of fees or commissions from the third party.

Travel insurance, a hotel room cross-sold on an airline Web site, and a shore excursion operated by a local tour operator but sold by a cruise line to its passengers are different examples of third-party ancillary services. Many travel providers in these segments have built their business on third-party ancillary services. The revenue upside for travel suppliers from third-party ancillary services is significant, with commissions ranging from 5% to 10% for ferry bookings, 10% to 15% for car rental and hotel bookings, 10% to 16% for cruise bookings, and 30% to 50% for travel insurance.¹

The Basis For Travel's Future Retail Success: An Overview

This paper explores the potential for third-party ancillary services to drive revenues and profitability across the sector in the short to medium terms and identifies more long-term “extreme” third-party ancillary services that may well shape the future of travel up to 2020. By “extreme,” we mean new, innovative third-party services that hold the potential to radically transform the travel experience and that travel suppliers would be unable to offer without partnerships.

Travel suppliers expect revenues from third-party ancillary services to increase 30% in the next five years, meaning third-party ancillary revenues will grow from representing 10% of total ancillary revenues in 2010 to 13% in 2015. This is significant when compared with overall travel industry growth of 3% per year.

It looks at how travel suppliers can make the most of third-party services to become better retailers, build brand differentiation, and deliver the types of services that travelers are demanding now and into the future. It also looks at the role of third-party ancillary services in helping travel suppliers to improve the traveler experience by offering a more holistic and seamless proposition.

Forrester believes that the results from this study show that third-party ancillary services provide travel suppliers with an underexplored revenue-generating opportunity. Most — 62% — of the respondents say it will be important in 2015, compared with fewer than half — 42% — that say it is important in 2010.

For the 67% of travel suppliers surveyed who count on 2010 revenues of \$1 billion or more, third-party ancillary revenues are expected to represent approximately \$25 million by 2015. For today's \$560 billion global airline industry, that translates to \$16.2 billion in revenues coming from the sale of third-party ancillary revenues by 2015.² These significant figures are based on the findings that revenues from overall ancillary revenues today account for 13% of travel supplier income. Suppliers expect 19% of their ancillary services revenue to come from third-party ancillary product sales by 2015, meaning this will equal approximately 2.5% of total travel supplier revenues. The benefit for travel providers is that this uplift can be achieved from relatively low levels of investment — and with healthy margins on third-party ancillaries, profitability is very attractive.

There is growing recognition that third-party ancillary services will become important revenue contributors to travel suppliers, provided they offer a relevant product mix and make these services available throughout a journey and across channels. Third-party ancillary services offer the potential for travel suppliers to extend the length and breadth of traveler interactions before, during, and after a trip. The right technology infrastructure is essential to making third-party ancillary services available when and where needed, and travel suppliers will need to develop a story arc to optimize offer management and communications.

It is possible that a number of drivers will conspire to make third-party services an integral part of the offer for travel suppliers in the next few years. These include:

- **The total travel experience.** Travelers are increasingly looking for a more seamless travel experience. This means that travel suppliers will need to work in a more integrated way to overcome the weak points in the trip experience. Mobile will also be a major driver of greater integration, allowing travel suppliers to communicate to travelers in real time at the point of need.

- **Personalization.** Travelers will come to expect greater levels of personalization and will be willing to pay for additional services, beyond the core product, that will allow them to tailor their travel experience more to their individual needs.
- **The profit imperative.** As pressure on the baseline price becomes more intense, travel suppliers will need to identify new pockets of revenue and profitability. This is likely to spring from both overcoming traveler pain points and delivering a more inspiring travel experience.

To better understand and quantify the impact of third-party ancillary services across the global travel industry, Amadeus commissioned Forrester Consulting, a division of Forrester Research, to survey travel suppliers about their current and expected use of and attitudes toward third-party ancillary services.

Methodology

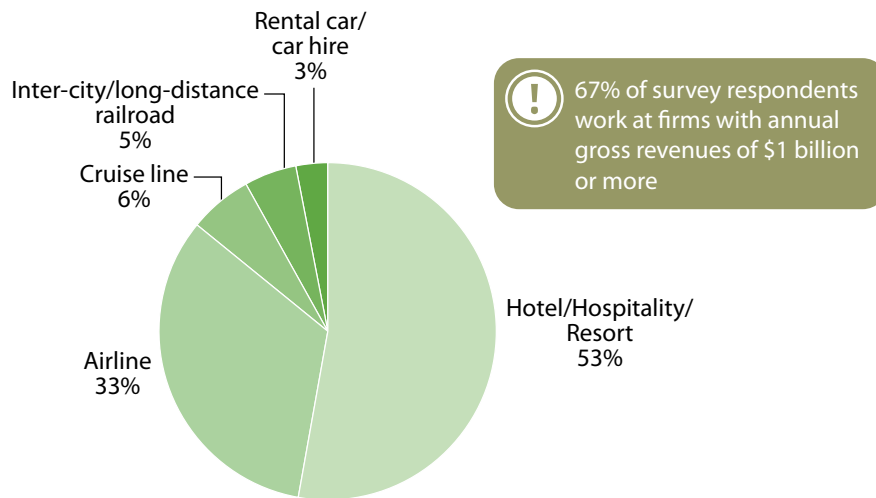
To gather this information, Forrester fielded an online 20-minute survey of travel suppliers worldwide. Respondents were promised anonymity for their participation, and all results were aggregated for our analysis. No incentives were paid or otherwise provided to survey respondents for their participation. Respondents from 36 travel suppliers participated in the study. In addition, nine eBusiness, marketing, and technology professionals from the participating travel suppliers agreed to allow Forrester to interview them by phone, again with the promise that their names and company affiliations would be kept confidential.

The study's 36 respondents represent a strong, credible mix of the industry. Its participants are (see Figure 1):

- **Large enterprises.** Most — 67% — of the respondents in the study estimate that their 2010 revenues will be \$1 billion or more. This makes the study particularly meaningful in that it represents the mindset of some of the world's largest, most influential travel suppliers.
- **Primarily airlines and hotels — major users of ancillary services.** Twelve airlines and 19 hotels responded, as did two inter-city rail lines, two cruise lines, and a rental car firm. In addition to being heavily involved with ancillary product sales, their use of multiple direct and indirect, online and offline distribution channels provides a rich and complex mix through which they may choose to sell the ancillary services they offer.
- **Global.** Forty-two percent of the respondents are headquartered in either the US or Canada, 36% are based in Europe, 8% are in Latin America, another 8% are in the Middle East and Africa, and 6% are in Asia Pacific. Nonetheless, both North America and Europe are currently leading the industry's use of ancillary services.

Figure 1
Most Survey Respondents Were From Hotels And Airlines

“Which of the following reflects your company's primary line of business?”



Base: 36 travel marketing, eBusiness, and technology professionals

Source: A commissioned study conducted by Forrester Consulting on behalf of Amadeus, Q4 2010

The Opportunity: More Revenue, Brand Differentiation, Happier Customers

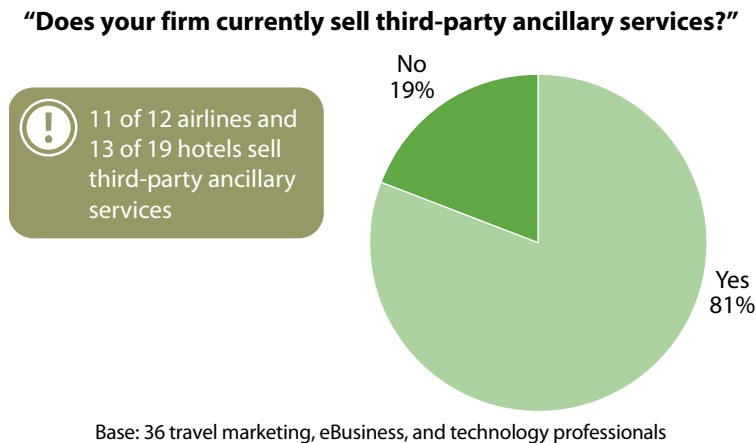
It's clear that travel suppliers have already clarified the difference between à la carte and third-party ancillary services. They have different strategies for both and account for them differently as well.

The sale of both à la carte and third-party ancillary services is common across the industry. Every travel supplier in this study presently sells some form of ancillary services, and 75% — including all of the airlines and 13 of the 19 hotels in the study — currently distinguish between the revenues generated from à la carte ancillary services and those generated from third parties.

Third-party ancillary services are also pervasive. Eleven of the 12 airlines and 13 of the 19 hotels in the study currently offer their customers various non-core, commission-based products operated or delivered by third-party firms (see Figure 2).

“Ancillary services have not previously been a priority, but next year [2011] they will be. We see them as an attractive way to improve revenue in a weak ADR [Average Daily Rate] and revPAR [Revenue Per Available Room] environment.” (Marketing executive, global hotel company)

Figure 2
Four In Five Travel Firms Surveyed Sell Third-Party Ancillary Services In 2010



Source: A commissioned study conducted by Forrester Consulting on behalf of Amadeus, Q4 2010

Travel suppliers clearly have substantial financial and business expectations of ancillary services. They:

- **Expect overall ancillary services revenue to increase 50% in five years.** Travel suppliers expect ancillary revenues to account for 12% of their 2010 annual revenues. By year-end 2015, 18% of travel suppliers’ revenues will come from the sale of ancillary services — a 50% increase (see Figure 3). Ancillary services currently account for twice as much of hotels’ revenues as of airlines’ revenue — logical when you consider that the hotel business model is essentially entirely à la carte (see Figure 4). Airlines expect ancillary services will account for twice as much of their revenue base by 2015 as it will in 2010. Hotels expect ancillary services will grow 41% during the next five years. The unstable global economy isn’t expected to substantially impact ancillary services sales, but more travel suppliers have negative concerns about the economy than believe ancillary sales will benefit from a stronger economy (see Figure 5).

“We don’t earn a lot from ancillary services today, but it is slowly becoming an important revenue stream.”
(Marketing executive, European-based hotel company)

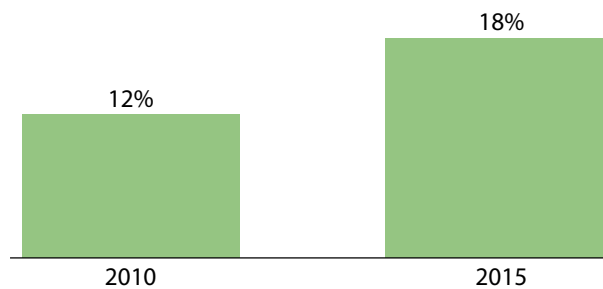
- **View third-party ancillary services as becoming more important in their business success.** Revenues from third-party ancillary services are set to rise, and their importance as a product is poised to increase as well (see Figure 6). To increase revenues travel suppliers must enter new markets, steal customers from one another, and develop new products to sell to their customers, which is where third-party ancillary services come in. Travelers have vice-like grips on their wallets. Raising prices will remain a challenge until the global economy strengthens. Hence travel suppliers’ recognition that their future financial success will increasingly involve third-party ancillary services. Forty-two percent of travel suppliers rate third-party ancillary products as somewhat or very important in 2010, with airlines and hotels particularly enthusiastic. By 2015, 61% of travel suppliers expect third-party ancillary services will be important to them — a clear recognition of this category’s potential.
- **Anticipate third-party ancillary services revenue will grow 10 times more than general sales.** Survey respondents are optimistic — though not unreasonably so — in their assessment of third-party ancillary services’

potential revenue growth. Overall, travel suppliers anticipate that third-party ancillary services will increase 30% from 2010 to 2015 (see Figure 7). When compared to standard industry growth levels of around 3% per year, the growth potential for third-party ancillary services is impressive. Travel suppliers clearly see meaningful revenue potential in the sales of relevant third-party services to their customers.

“There is a lot that we can offer, like dynamic packaging, airport pickup, and more. These are services travelers use.” (Marketing executive, European-based hotel company)

Figure 3
Travel Suppliers Expect Ancillary Services Revenue To Increase 50% Between 2010 And 2015

Percent of revenues estimated to be generated by ancillary services

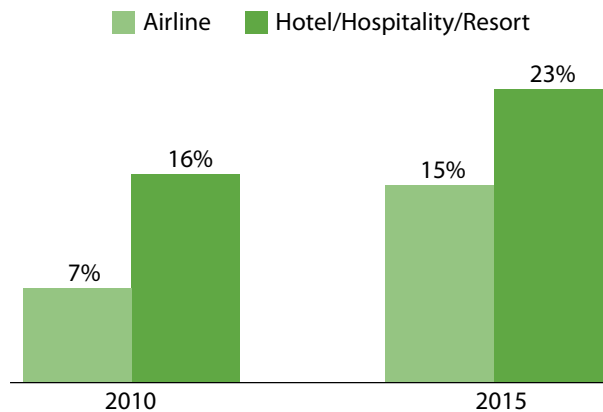


Base: 36 travel marketing, eBusiness, and technology professionals

Source: A commissioned study conducted by Forrester Consulting on behalf of Amadeus, Q4 2010

Figure 4
Airlines Expect Ancillary Services Revenue To Double In Five Years, While Hotels Expect 41% Growth

Percent of revenues estimated to be generated by ancillary services



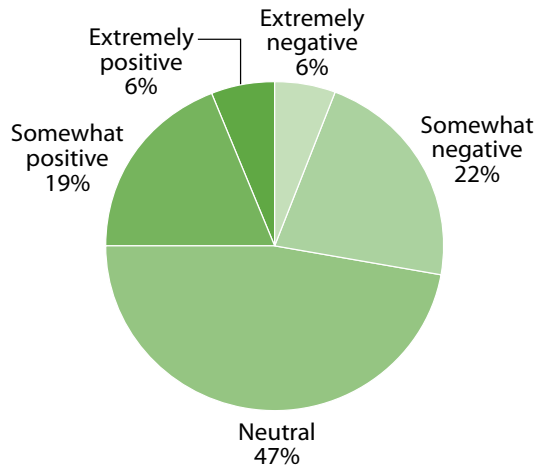
Base: 31 travel marketing, eBusiness, and technology professionals at airline and hotel/hospitality/resort organizations

Source: A commissioned study conducted by Forrester Consulting on behalf of Amadeus, Q4 2010

Figure 5

Travel Suppliers Believe The Economy May Affect Their Ability To Meet Their Ancillary Services Revenue Goals

“To what degree do you believe the current economy, various austerity measures, and consumer spending will affect your company’s ability to achieve its overall ancillary revenue objectives?”



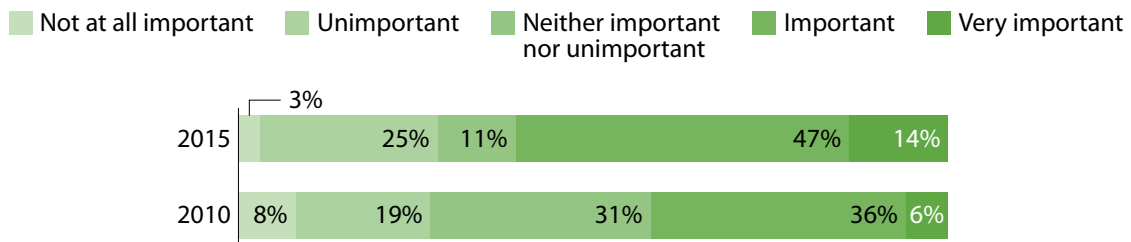
Base: 36 travel marketing, eBusiness, and technology professionals

Source: A commissioned study conducted by Forrester Consulting on behalf of Amadeus, Q4 2010

Figure 6

Travel Suppliers See Third-Party Ancillary Services Increasing In Importance From 2010 To 2015

“Please rate the importance of third-party ancillary revenue (revenue earned from the sale of products or services provided by a third party, sold in addition to the core product of a seat, room, or cabin) to your company this year and in 2015.”



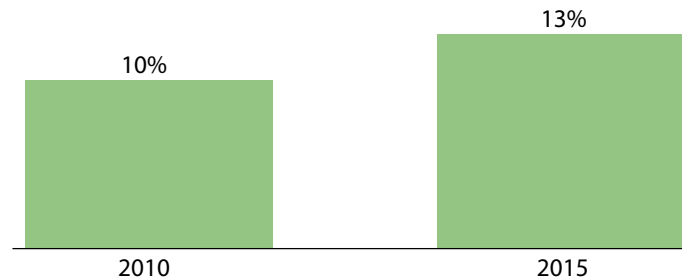
Base: 36 travel marketing, eBusiness, and technology professionals

Source: A commissioned study conducted by Forrester Consulting on behalf of Amadeus, Q4 2010

Figure 7

Travel Suppliers Expect Ancillary Services Revenue To Increase 30% Between 2010 And 2015

“Of your company’s estimated total ancillary revenue, about how much do you expect will come from the sale of third-party ancillary services?”



Base: 36 travel marketing, eBusiness, and technology professionals

Source: A commissioned study conducted by Forrester Consulting on behalf of Amadeus, Q4 2010

Both Travelers And Travel Suppliers Benefit From Third-Party Ancillary Services

Travelers may look at à la carte ancillary services and see fees that obscure the true cost of their trip and complicate the planning and purchasing process. This is because often à la carte services are seen by travelers as fees for services that were previously included. This is not the case with third-party ancillary services. As a result, travel suppliers view ancillary services as tools that offer multiple benefits — some of which are traveler-focused, and some of which are focused on their business performances (see Figure 8).

- **Primary purpose: Improve the traveler’s journey.** The top reason why travel suppliers offer ancillary services — cited by 83% of the survey respondents — is to provide their customers ways to get more enjoyment from their trips. While airlines and hotels have differing viewpoints on how to deploy ancillary services, most airlines — eight out of 12 — agree with this, as do all hotels. A benefit of third-party ancillary services is to allow travelers to more effectively personalize their travel or trip experience according to their needs and preferences. If travel suppliers can provide the right services, travelers will be willing to pay for value.

“The ancillary services we’re introducing now are mostly new products or services that many of our Economy passengers never had access to before.” (Marketing executive, US network airline)

- **Secondary purpose: Create a sustainable secondary revenue stream.** To 78% of travel suppliers, ancillary services are analogous to a person working a second job: They see these products producing a supplemental revenue stream. With travel suppliers expecting all ancillary services to account for 18% of total revenues by 2015, that’s a large “supplement.” This links back to the profit imperative: Travel suppliers will continue to search for opportunities to drive profit and extra revenues with relatively low investment — a solution that third-party ancillary services offer. Again, more hotels agree with this statement than airlines, likely due to global variation among airlines that sell à la carte and third-party ancillary services.

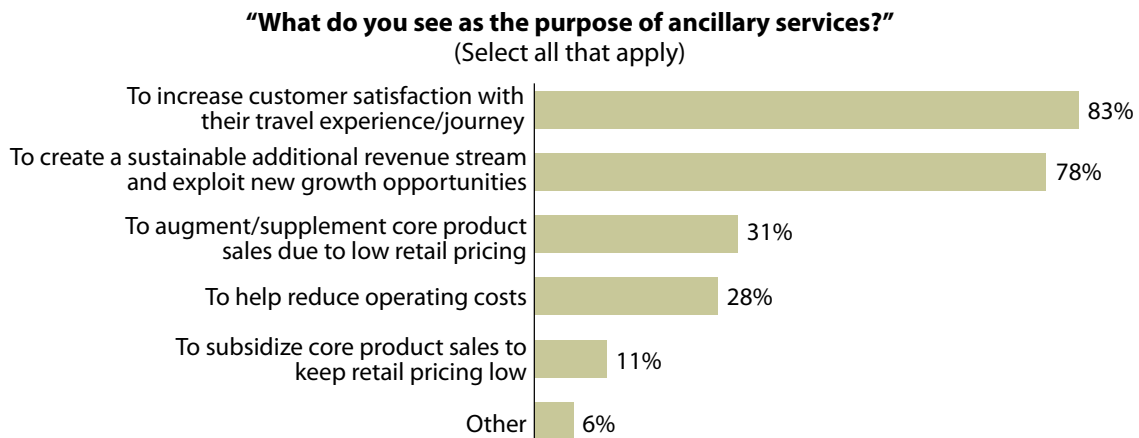
“We view ancillary services as a primary way in which we will be a profitable business.” (Marketing executive, global airline)

- **Tertiary purpose: Augment retail pricing.** Travel suppliers view third-party ancillary services as a further way to compensate for their inability to raise base-level pricing. Thirty-one percent of travel suppliers say ancillary services provide a financial cushion to the low retail pricing environment — an environment that is clearly expected to remain as travelers stay focused on “lowest price” shopping. To ensure that they meet their revenue expectations, travel suppliers will need to ensure the various technology systems they use will be capable of integrating both direct and extreme ancillary series and offering those up to travelers across all relevant channels and interactions.

“My properties face intense competition. There are more beds than heads to go in them. By being better at cross-selling, we can help make up for some of that revenue gap.” (eCommerce executive, global hotel company)

Figure 8

Travel Suppliers See Ancillary Services As An Important Way To Help Travelers Have More Enjoyable Trips



Base: 36 travel marketing, eBusiness, and technology professionals
(multiple responses accepted)

Source: A commissioned study conducted by Forrester Consulting on behalf of Amadeus, Q4 2010

The Next Five Years: Becoming A True Retailer

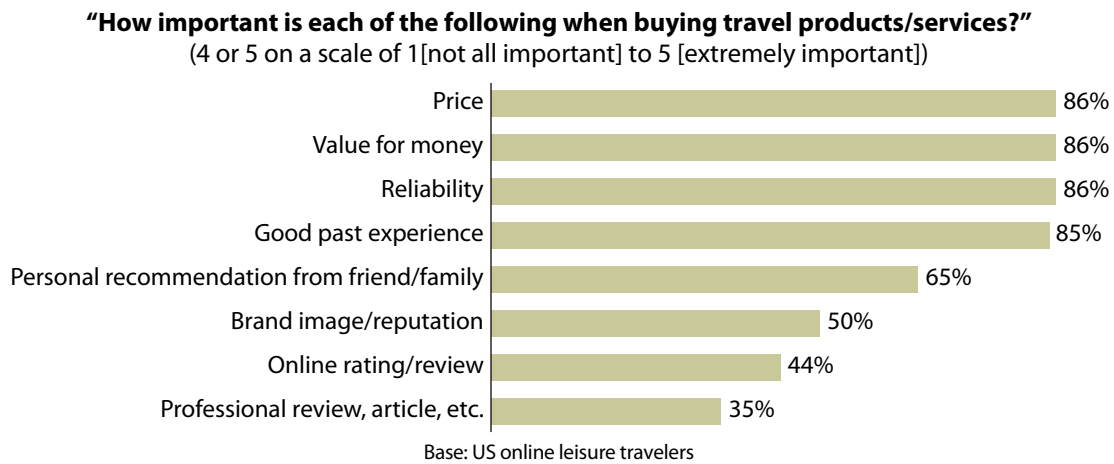
Travel has traditionally been a retail-like business. Regardless of their geography, sector, and even product quality, travel suppliers tend to rely on price to attract and keep their customers. Relying on price alone, though, can be hazardous to a travel seller's financial health. Data from Forrester's US Consumer Technographics® research shows that though price certainly matters, attributes like brand, reliability, and overall value are equally important to travelers as they plan and book their trips (see Figure 9).³

Yet in spite of the travel industry's retail-like nature, travel suppliers have not necessarily been quick to adopt the retailing mindset that is now required in order to successfully promote and sell à la carte and third-party ancillary services. When compared to non-travel retailers such as Tesco, Wal-Mart, and Amazon, travel suppliers continue to face a long and challenging path if they hope to capitalize on travelers' willingness to pay for services that meet their needs and inspire their imagination.

Travel suppliers' focus on ancillary services, combined with the potential to utilize customer data to target offers and a growing mix of channels through which to sell, further propels travel suppliers toward becoming true retailers. What's intriguing is that airlines and hotels alike are prepared to offer substantially more third-party ancillary services by 2015 — services that will allow individual suppliers' sites to better compete with third-party intermediaries.

"Ancillary services are one medium we can use to regain share from aggregators." (Marketing executive, global hotel company)

Figure 9
Price, Value, And Reliability Are Equally Important To Online Leisure Travelers



Source: North American Technographics Travel And Automotive Online Survey, Q4 2009 (US)

With Strength In Travel And Destination Services, Airlines See Media As A New Revenue Source

Travel services like hotels and rental cars, destination services like sightseeing tours, and media vehicles like selling advertising to third-party businesses in order to reach passengers at their destinations are all expected to be growth areas for airlines (see Figure 10).

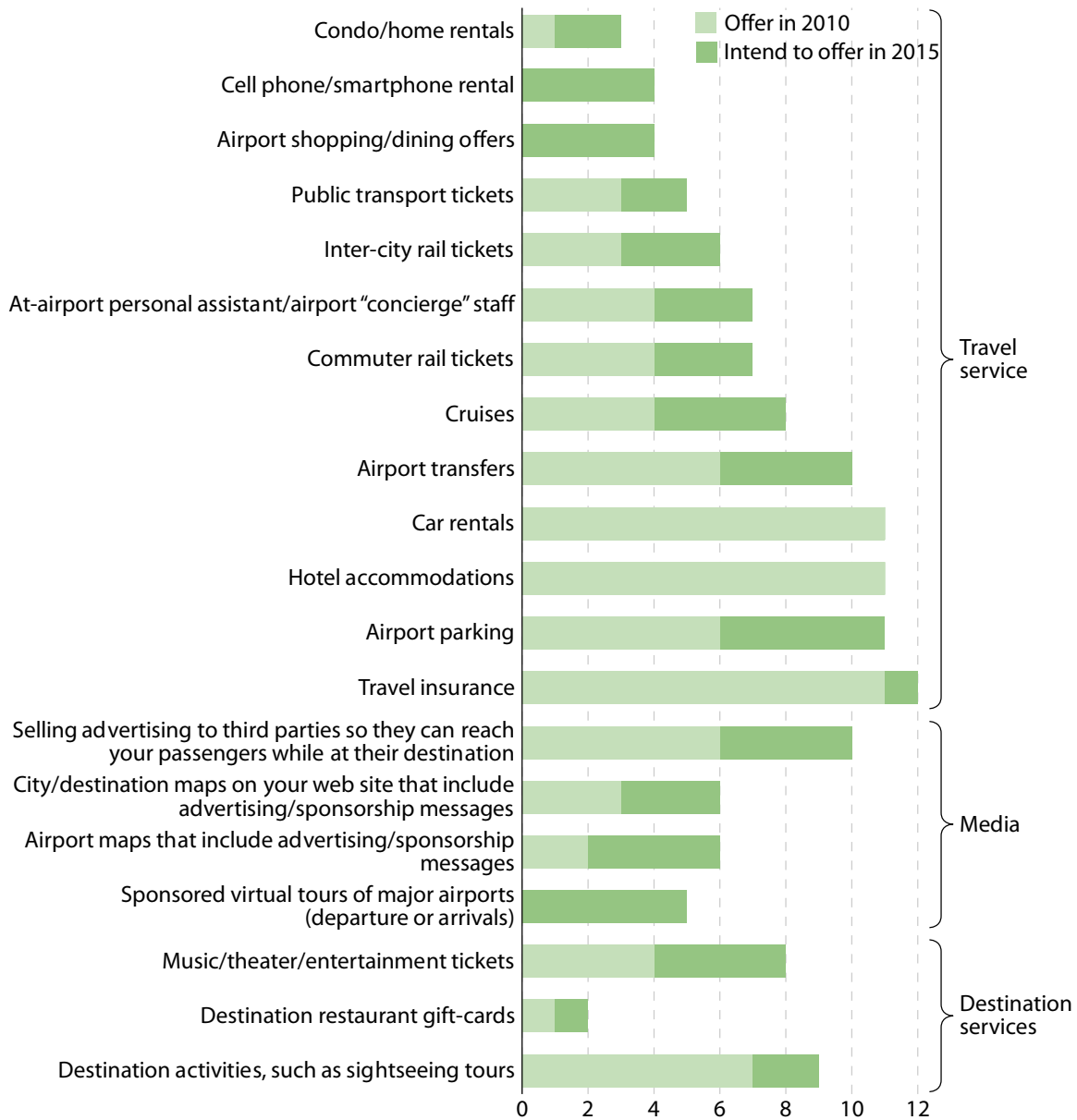
- **Travel services are the most popular category now and will remain so through ongoing growth.** Travel services include transportation, accommodations, and journey-focused services, like commuter rail tickets, airport parking, and airport transfers. Eleven of the 12 airlines in this study currently offer the “triple crown” of travel services — travel insurance, hotels, and rental cars — on their Web sites. Note, also, how more airlines intend to sell a wider selection of niche travel services like cruises, commuter rail tickets, and airport parking concierge services — a mix of both mundane, expected products and more adventurous, inspiring products. By offering these services, airlines and other travel suppliers could fulfill many of the product areas in which they don’t currently participate while also offering a more comprehensive travel experience to their customers.
- **Thanks to a surge in entertainment ticket sales, airlines will see destination-related products grow.** Dominated by sightseeing tours, destination services already have presence on airline Web sites. In five years, airline participation in this category will increase 37%. Recognizing that people travel to do things at their destinations, more airlines plan to sell tickets to various events, including concerts and theater. Since this may offer “frictionless fulfillment” — travelers take their receipt to the box office window to collect their tickets — and is desired by entertainment-focused travelers, it’s no surprise that within five years, this is expected to be one of the top third-party ancillary service products. This offers airlines, as well as other travel providers, the opportunity to inspire customers with new products and services. By doing so, airlines are bringing together the key ingredients of the total travel experience.
- **Airlines become digital marketing and media firms.** Media-related ancillary services are of growing interest to airlines. For example, offering advertising of another business’ products and services on their Web site’s airport terminal maps is something that interests half of the airlines in this study. This is smart and creative and is something more airlines should consider. Airlines’ insight into knowing where a passenger may be, as they will have knowledge of the passengers’ route through an airport, would be useful to a variety of businesses. However, with this insight comes great responsibility. Airlines that offer media products to advertisers must protect travelers’ individual personal information and respect their passengers’ privacy, lest they find themselves on the wrong end of a negative publicity firestorm.

“I have more members in my frequent-flyer program than the largest US cable operator has as customers. There’s money to be made here.” (eCommerce executive, US network airline)

Figure 10

By 2015, Airlines Plan To Add More Destination Services And Media To Their Third-Party Ancillary Offerings

“Please indicate whether you offer the following third-party ancillary services now, and whether you expect you will offer these services in 2015 — assuming the technology will allow you to do so.”



Base: 12 airline marketing, eBusiness, and technology professionals

Source: A commissioned study conducted by Forrester Consulting on behalf of Amadeus, Q4 2010

Hotels To Focus On Destination Services For Third-Party Ancillary Services Growth

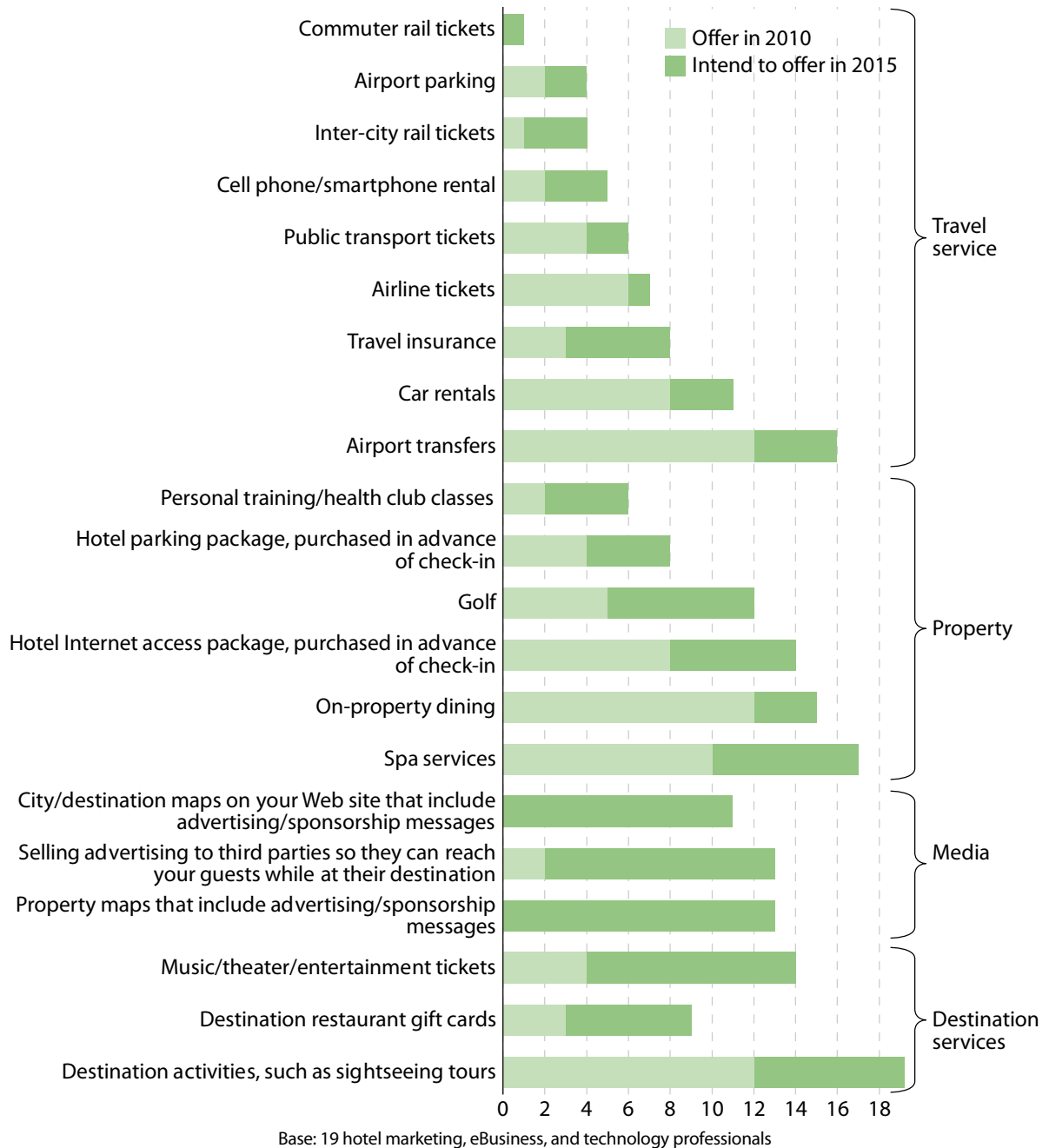
Hotels aren't airlines. From the study, it is clear that they intend to take a very different approach toward third-party ancillary services (see Figure 11).

- **Eight in 10 hotel Web sites will sell some type of destination service.** Twelve of 19 hotels now offer activities like sightseeing tours — a product that all hotels are expected to offer by 2015. Hotels show substantial interest in selling tickets to sporting events, concerts, and similar types of entertainment. By 2015, the number of hotels that sell this product will more than triple from 2010 levels.
- **Expect hotels to aggressively pursue media services.** Few hotels offer any media-related ancillary services on their Web sites today. By 2015, not participating in media-related ancillary services will be the exception for hotels, not the rule. Look for hotels to embrace advertising-supported digital property maps and serve as brokers to third parties that want to advertise to their guests.
- **Hotels give more emphasis to third-party, on-property ancillary services than travel services.** Recognizing that the skills needed to be a successful hotel operator aren't necessarily the same as those needed to be a successful restaurateur, hotel owners sometimes outsource their restaurants to third-parties. To ensure these establishments succeed — hotels collect a portion of restaurant sales as revenue — 12 of 19 hotels now offer restaurant reservations on their Web sites, and more will do so by 2015. To calm their stressed-out guests, expect all hotels that have a spa to sell those services on their Web sites by 2015. Guest room Wi-Fi service is another on-property third-party ancillary service that hotels increasingly intend to sell on their Web sites. Hotels' interest in selling these on-property services — all operated by third-parties on behalf of the hotel — exceeds their interest in selling third-party travel services. For example, by 2015, more hotels will sell golf tee times than rental cars, travel insurance, or airline tickets.

"It's easier for us to sell a [food and beverage] offer than it is to sell an airplane ticket." (Marketing executive, European hotel company)

Figure 11
 Hotels Anticipate Adding More On-Property Third-Party Services As Well As Media Between 2010 And 2015

“Please indicate whether you offer the following third-party ancillary services now, and whether you expect you will offer these services in 2015 — assuming the technology will allow you to do so.”



Source: A commissioned study conducted by Forrester Consulting on behalf of Amadeus, Q4 2010

Thinking Beyond: Mobile Technology And “Extreme” Services To Shape 2020

Third-party ancillary services offer travel suppliers numerous ways to improve both their travelers’ journeys and their bottom lines. This category will grow as new products are introduced. As they are, travel suppliers must get ready to profit from them by being prepared to sell through all relevant channels.

A mix of technological, market, and business factors will contribute to the introduction of new ancillary services over the next 10 years, to 2020 (see Figure 12). Thanks to the likely proliferation of smartphones, tablet devices, and mobile-based payment methods, travel suppliers expect mobile to have the greatest influence on the development of future third-party ancillary services, followed by the growth of travel between developed and emerging markets.

“Mobile will definitely play a role in how we sell all of our ancillary services, including à la carte and third-party.”
(Marketing executive, European hotel company)

Where travel suppliers may be misreading the market is their relatively low belief that an aging population will shape their third-party ancillary services product offering. 2011 is the first year in which Baby Boomers in the US and developed European markets will turn 65, causing the ranks of older leisure-focused travelers to swell for the next several decades. In Europe, this segment arguably is characterized by greater customer loyalty, more so than younger travelers, presenting an opportunity for those providers able to integrate additional third-party services from brands that are relevant to this group.⁴ Market-focused travel suppliers will need to focus on the third-party ancillary services this emerging customer base will find useful and, of course, will pay for.

Though the current mix of third-party ancillary services will continue to generate revenue for travel suppliers, travel suppliers have big plans for the future. By 2020, travel sellers expect to sell a wide range of new, non-traditional, “extreme” ancillary services (see Figure 13). Among the new offerings travel suppliers expect to bring to market are digital concierge services (80%), organic and sustainably produced food products (69%), and virtual reality applications that can help travelers “experience” airports, hotels, and cruise ships before they actually arrive on site (54%). Motivating their behavior is the travel suppliers’ desire to tap into an expectation that travelers will have an increased focus on play and entertainment.

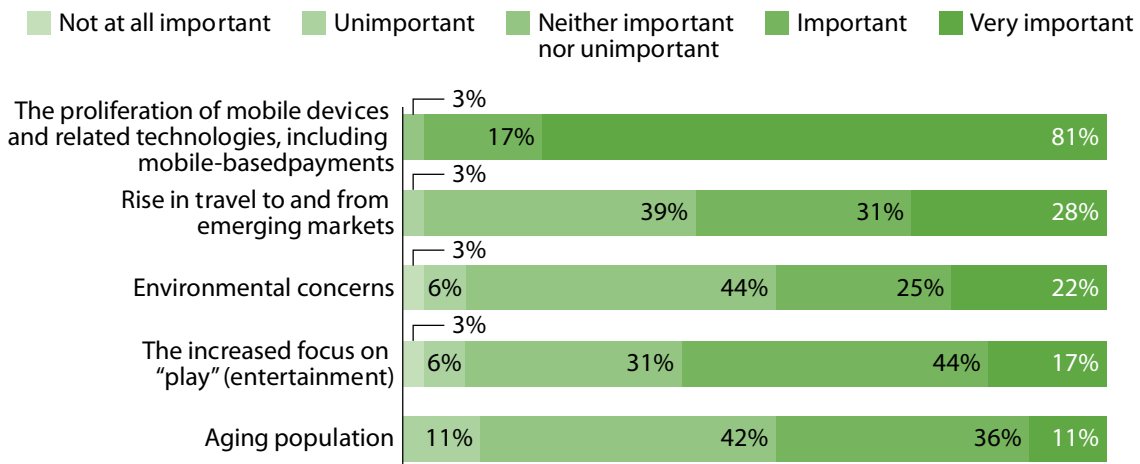
Once again, airlines and hotels have different perspectives on the extreme ancillary services they intend to focus on.

- **Airlines show interest in entertainment and productivity devices.** Airlines will seek out greater revenues by tailoring technology to their passengers’ needs (see Figure 14). By 2020, most airlines say they expect to rent devices that provide consumer entertainment or facilitate business travelers’ productivity for use in-flight or during a trip. But airlines know that passengers don’t live by technology alone. Within 10 years, many airlines — 7 out of 12 — also believe they’ll be able to offer their passengers in-flight spa services. While not totally new — Virgin Atlantic Airways was the first to provide this to its business-class passengers — airlines’ interest shows an awareness that they may be able to profit by providing services that help passengers reduce stress and maintain healthy lifestyles, even mid-flight.
- **Hotels want to improve guest engagement while containing staff expense.** Extreme ancillary services aren’t just a way for a travel supplier to generate more revenue — they may provide a method to control costs as well. How? Offering a virtual concierge application on a mobile phone — of interest to 18 of 19 hotels — may help hotels

better manage staff headcount (see Figure 15). Similarly, a pre-arrival virtual reality application (11 of 19 hotels) that can help guests get a sense for hotel services, like its spa, restaurants, and golf courses, will contribute to sales without requiring additional headcount during peak seasons.

Figure 12
 Multiple Factors Will Contribute To The Introduction Of New Ancillary Services Between 2010 And 2020

“Looking out ten years to 2020, how important do you believe each of the following trends will be in shaping the type of third-party ancillary services that will be offered?”



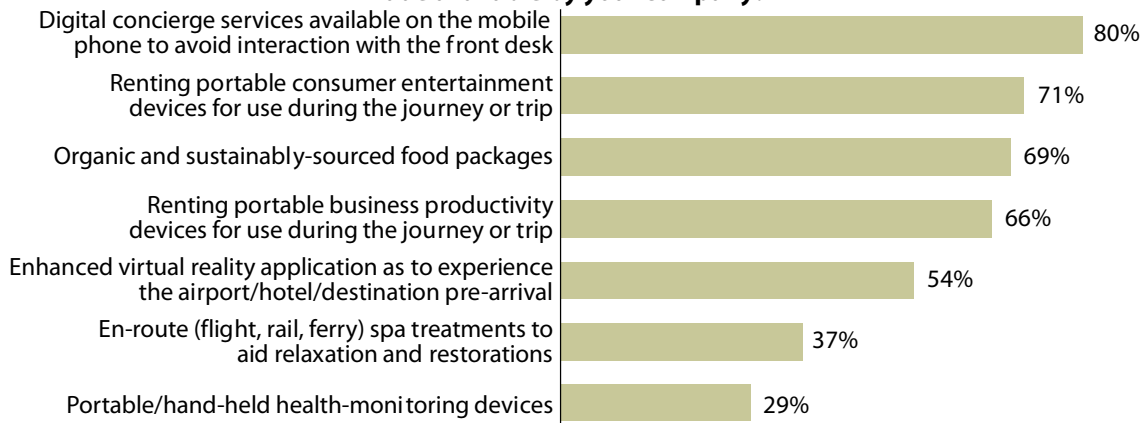
Base: 36 travel marketing, eBusiness, and technology professionals
 (percentages may not total 100 because of rounding)

Source: A commissioned study conducted by Forrester Consulting on behalf of Amadeus, Q4 2010

Figure 13

Expect Travel Suppliers To Introduce Numerous Extreme Third-Party Ancillary Services By 2020

“Looking out ten years to 2020, do you anticipate any of the following third-party ancillary service to be made available by your company?”



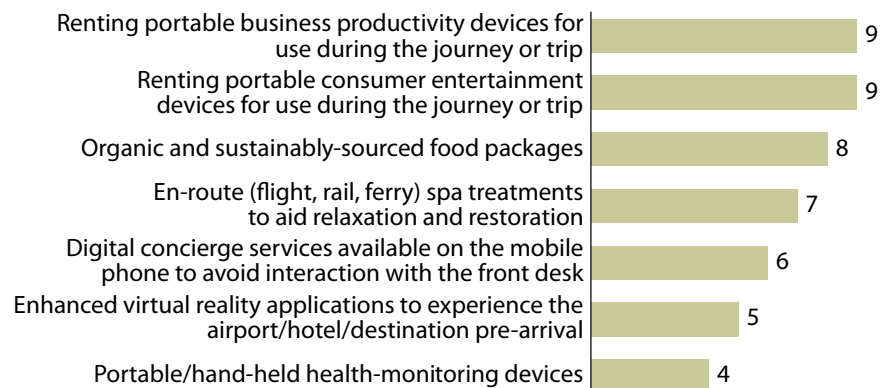
Base: 36 travel marketing, eBusiness, and technology professionals

Source: A commissioned study conducted by Forrester Consulting on behalf of Amadeus, Q4 2010

Figure 14

Among Extreme Third-Party Ancillary Services, Entertainment And Productivity Devices Most Interest Airlines

“Looking out ten years to 2020, do you anticipate any of the following third-party ancillary services to be made available by your company?”



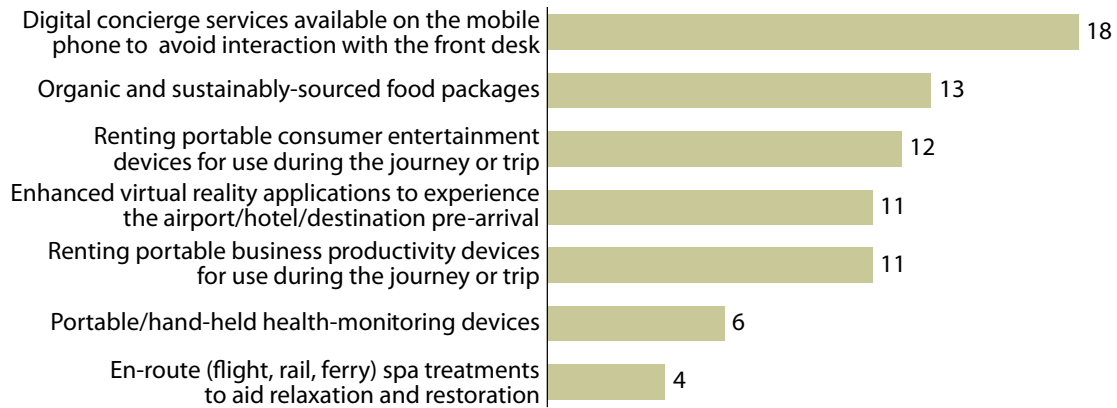
Base: 12 airline marketing, eBusiness, and technology professionals

Source: A commissioned study conducted by Forrester Consulting on behalf of Amadeus, Q4 2010

Figure 15

Extreme Third-Party Ancillary Services Like Digital Concierges And Virtual Reality Can Help Hotels Reduce Staff

“Looking out ten years to 2020, do you anticipate any of the following third-party ancillary services to be made available by your company?”



Base: 19 hotel marketing, eBusiness, and technology professionals

Source: A commissioned study conducted by Forrester Consulting on behalf of Amadeus, Q4 2010

Right Time, Right Place Play Key Roles In Unlocking Third-Party Sales

The proliferation of à la carte and third-party ancillary services and the future emergence of extreme ancillary services will force travel suppliers to reexamine their customer-facing cross-selling strategies and tactics. Why? Successful retailing isn't the result of presenting random offers to a customer. It's the result of a carefully thought-through product strategy paired with equally robust technology systems and applications that allow products and services to be sold in a relevant and effective manner. Travel suppliers will need software and applications that can support any industry standards that may be developed for third-party ancillary services. Ideally, these systems will also be designed using state-of-the-art, open source architecture and programming languages that are reliable, flexible, and scalable.

“A challenge for us is the lack of standards for third-party ancillary services. Integration with back-end systems can be difficult.” (Marketing executive, European hotel company)

To achieve this, however, requires more than bits, bytes, and servers. First, both the business and technology leaders within a travel seller must understand that each trip — whether for business or leisure — is made up of four inter-related phases that form the journey life cycle (see Figure 16). For ancillary services — especially third-party ancillary services — the planning, booking, and support phases will be most important.

Next, to effectively sell all their ancillary services, travel suppliers need an effective selling framework. Forrester calls this framework a “story arc,” a term that has its roots in the television industry (see Figure 17). In a TV series, the story arc serves as the framework for the series' plot line. The ancillary services story arc will help a travel supplier's business, product, and technology managers determine the ancillary products to offer at a given point of a trip, as well as the channels in which to extend the offer. For the ancillary services story arc to succeed, departments such as marketing,

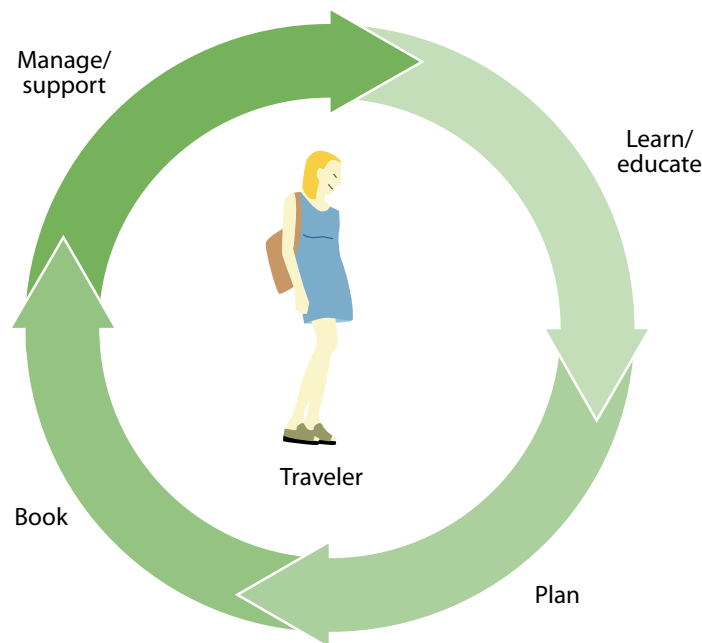
eCommerce, and operations will need to agree on objectives and collaborate on topics such as channels and customer communications. It will also require travel suppliers to track and store key data points, such as the third-party ancillary services a traveler researches, shops, and buys. Of course, this will also require that the supplier's internal systems have the ability to connect with the supplier's third-party ancillary service providers.

“Integrating with back-end systems can be difficult due in part to disparate systems that were not originally designed to be integrated with one another.”
(Marketing executive, global hotel company)

In 2010, 53% of travel suppliers believe that the most effective time to sell a third-party ancillary service is when an airline or cruise ticket, hotel room, or rail reservation is initially booked (see Figure 18).

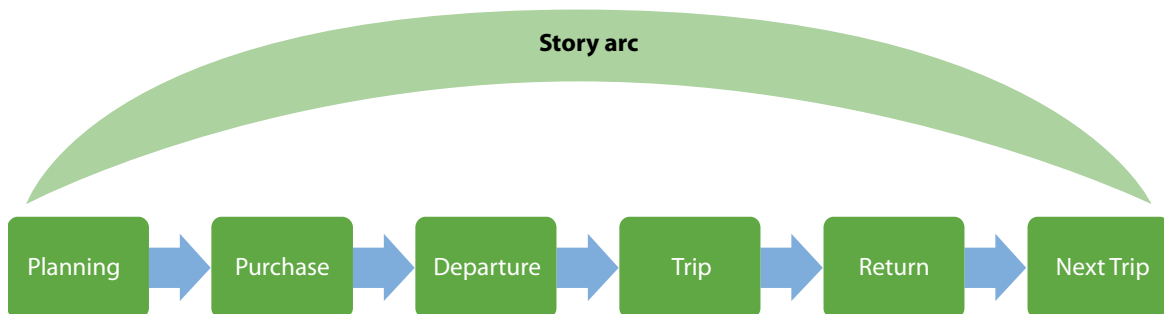
By 2015, nearly two-thirds expect this will be the most effective selling opportunity. But the time frame between making the initial booking and departing on a trip (or checking into a hotel) is expected to become the second most effective point to sell a third-party ancillary service, no doubt in part due to improved mobile-based communications. Travel suppliers will inevitably become more adept at their merchandising and marketing skills. As they do, and as they take advantage of new and emerging technologies, including those used by employees to interact with customers, don't be surprised to see some of these rankings change.

Figure 16
The Travel Life Cycle Consists Of Four Interconnected Phases



Source: Forrester Research, Inc.

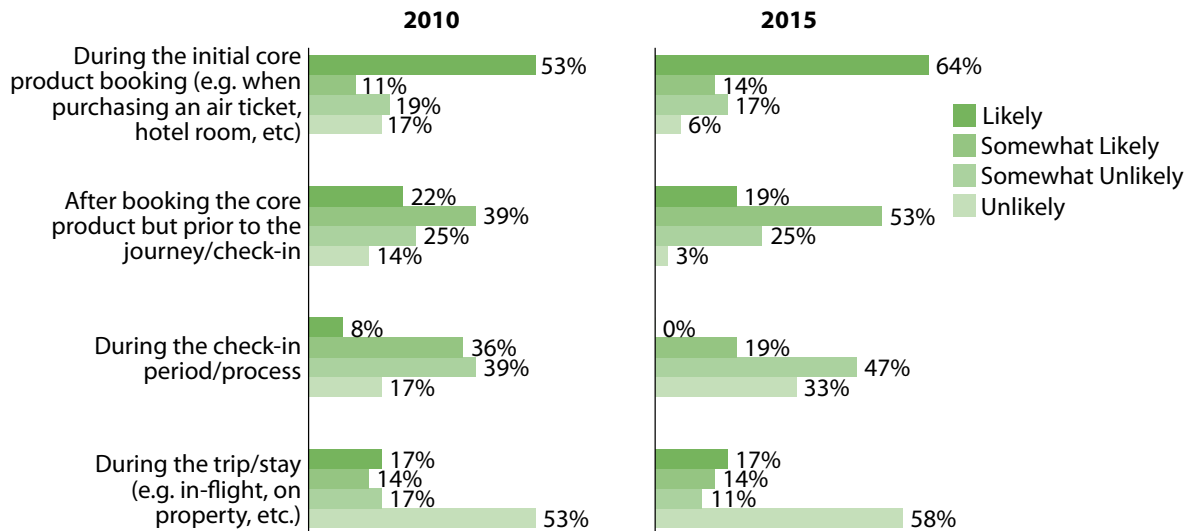
Figure 17
 A “Story Arc” Provides Travel Suppliers With A Cohesive Framework To Sell Third-Party Ancillary Services



Source: Forrester Research, Inc.

Figure 18
 Travel Suppliers Expect The Initial Booking Step To Become More Important In Selling Third-Party Ancillary Services

“When during the travel purchase and consumption process are your customers most likely to purchase third-party ancillary products? Please rank the following stages of the travel process according to the likelihood of third-party ancillary product purchase.”



Base: 36 travel marketing, eBusiness, and technology professionals

Source: A commissioned study conducted by Forrester Consulting on behalf of Amadeus, Q4 2010

Suppliers Say Direct Channels Are Their Primary, But Not Exclusive, Focus

Travel suppliers have the flexibility to sell third-party ancillary services through a variety of channels, including direct channels like their Web sites (e.g., “brand.com”) and call centers, and third-party intermediaries like traditional travel agencies, travel management companies, and online travel agencies. What’s their plan?

Led by their Web sites, travel suppliers believe that in 2010 their direct channels are configured to use technology most effectively to sell third-party ancillary services (see Figure 19). However, it's clear that suppliers see room for their direct channels' use of technology to improve. For example, 14% of suppliers feel their Web sites do not use technology well to sell third-party ancillary services, and nearly 1 in 5 feel their call centers' use of technology is ineffective when it comes to selling a customer a third-party ancillary service.

Today, travel suppliers don't believe they sell third-party ancillary services through their various channels as well as they could. Behind this tepid outlook are a number of factors. For the most part, third-party ancillary products — when offered — are presented without much forethought. Targeting is rare, and not all systems support third-party ancillary services well. For these scores to improve, travel suppliers must examine their channels' infrastructure, as well as those of any third parties with whom they work, to ensure they can sell third-party ancillary services in as effective a manner as possible.

“We sell certain products through third-party distributors, and we sell some things exclusively on our own channels. Our approach is evolving. This will form a significant part of our strategy focus for the next couple of years.” (eCommerce executive, US-based network airline)

As travel suppliers assess their channels' potential, they anticipate significant improvements in different channels' capabilities from 2010 to 2015 (see Figure 20):

- **Web sites lead in 2010.** Most travel suppliers give their branded Web sites an acceptable score of 3.7 out of 5 for their effectiveness as a sales channel for third-party ancillary services — good, though not great. Travel suppliers believe this channel will remain queen of third-party ancillary services sales in 2015, thanks to likely improvements in site design, personalization, and targeting.

“We want to provide offers on our Web sites that guests cannot find on other Web sites.” (Marketing executive, European hotel company)

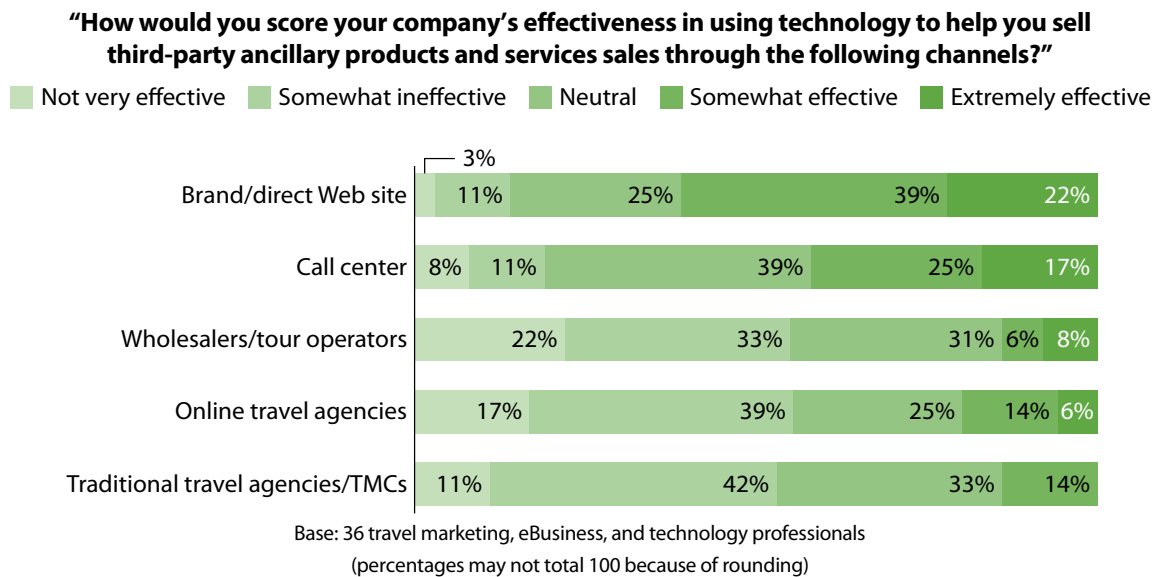
- **The greatest anticipation is in mobile.** Mobile may not have been an ugly duckling in 2010, but it comes close. Travel suppliers currently have an extremely low opinion of mobile's effectiveness to sell third-party ancillary services, ranking the channel toward the bottom, behind social media and face-to-face channels like airport ticket counters and hotel front desks, and narrowly ahead of self-service kiosks. Within five years, though, mobile is expected to emerge as a beautiful swan.
- **Keep your eye on the blank space.** Travel suppliers expect the rising tide of future technology advancements and their own merchandising capabilities to improve the selling effectiveness of all channels for third-party ancillary services. What's striking is how many foresee that a new technology yet to be invented will emerge during the next five years as a fully credible selling application. This optimism and trust illustrates the need for leaders and managers in departments like marketing, eBusiness, and IT to regularly discuss emerging technologies and discuss their potential opportunities for their third-party ancillary services business and the implications they may have on their firms' infrastructure.

By 2015, travel suppliers expect mobile will be the second most-effective channel for third-party ancillary product sales as smartphones and tablet devices become more ubiquitous and travel suppliers develop more and better selling capabilities within this channel.

“We don’t know what we don’t know. That’s what keeps this all so exciting.” (eCommerce executive, European low-cost airline)

Regardless of the channel used to sell their third-party ancillary services, travel suppliers need to understand that what they’re doing entails enticing a consumer into buying an optional product or service. For travel suppliers to fulfill business, marketing, and revenue objectives, they must emotionally engage their travelers. They need to better understand why their customers travel, what they expect, and what will make the difference between a good experience and a great experience. This is key to becoming a true retailer. Travel firms are only just beginning to act like true retailers. Examining how a competitor may sell third-party ancillary services may not be the best approach — that competitor may not be smarter than you. Instead, travel suppliers need to look outside the travel industry. Though only 41% do this, it can pay off, especially if they study successful consumer retailers. What kind of retailers should a supplier study? Firms that use Web page design, photography, copy, analytics, and recommendation engines to create involving online shopping experiences. Among the retailers that do this well are Lands’ End and J. Crew — each of which began as a catalog retailer — along with luxury merchant Tiffany & Co., electronics retailer Best Buy, UK grocer Tesco, Chinese online marketplace Taobao, and online merchant Zappos.com.

Figure 19
 Travel Suppliers Say Their Direct Channels Use Technology Best To Sell Third-Party Ancillary Services



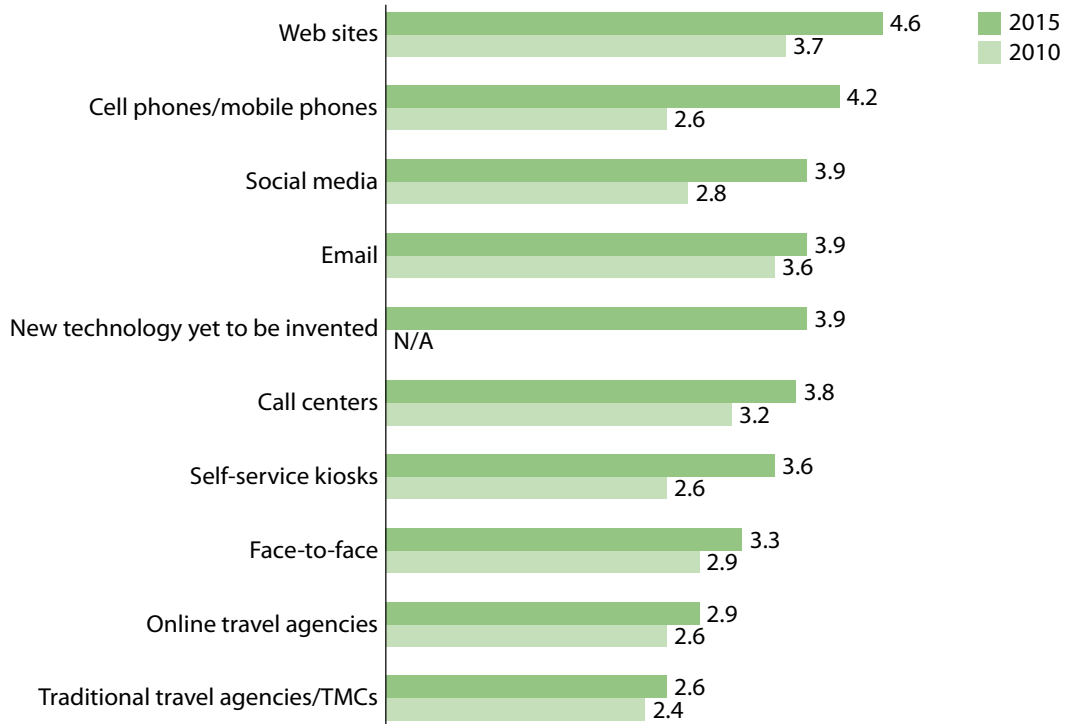
Source: A commissioned study conducted by Forrester Consulting on behalf of Amadeus, Q4 2010

Figure 20

Travel Suppliers Anticipate Significant Improvements In Channels' Capabilities From 2010 To 2015

“Please rate the effectiveness of the following channels in helping you sell third-party ancillary products to your customers today and how you expect them to perform in 2015.”

(average score on a scale of 1 [Not very effective] to 5 [Very effective])



Base: 36 travel marketing, eBusiness, and technology professionals

Source: A commissioned study conducted by Forrester Consulting on behalf of Amadeus, Q4 2010

Conclusions

Third-party ancillary services provide travel suppliers with an underexplored revenue-generating opportunity, expected to increase by 30% by 2015 compared to 2010. As an example, let’s look at the airline sector. Industry trade group IATA estimates the world’s airlines grossed \$560 billion in 2010. If the industry saw top-line revenue grow 3% annually each year between 2010 and 2015, the industry would gross more than \$649 billion by 2015 — of which \$16.2 billion would come from the sale of third-party ancillary revenues.⁵

There is growing recognition that third-party ancillary services will become important revenue contributors for travel suppliers, provided they offer a relevant product mix and make these services available throughout a journey and across channels. The right technology infrastructure is essential to making third-party ancillary services available when and where needed, and travel suppliers will need to develop a story arc to optimize offer management and communications. And while most suppliers anticipate that their own direct channels — especially their Web sites — will be their most

effective sales channels, many believe that by 2015 their most effective sales channel will rely on a technology that hasn't yet been invented.

It is essential that travel suppliers invest the time to think about what it means to become a true retailer offering a comprehensive selection of relevant third-party ancillary services. It is only through customer insights — by knowing what drives them, exploring the different channels they use to interact, experimenting with different third-party products and services, and offering something personal — that travel suppliers will be able to reap the rewards of what is yet an untapped and underexplored opportunity.

Recommendations

Smart steps that travel suppliers can take to successfully sell third-party ancillary services include:

- **Get to know your customers.** There is almost no limit to the number of third-party ancillary services available to travel suppliers. Surveying travelers about what they may be interested in buying is a good way to understand potential demand, but only by offering products will you truly know what your customers want.
- **Track the sale of your ancillary products and services as much as you track the sale of your core products.** Don't just track sales volumes, but how travelers interact with your Web site and other sales channels. Test products, and test elements such as price, page placement, descriptive text and visual images, and entry and exit points. Track sales of third-party ancillaries to find out which routes and destinations are reaping the greatest total shopping basket value and why. Test, test, test — and test some more, and be willing to make changes based on your findings.
- **Communicate your full offer to your customers.** Plugging in third-party content to complement your core offer is just the first step. To maximize the full sales potential, implement and track promotional campaigns for your third-party ancillary products and services as you would for your core offering. Invest in joint marketing programs with partner providers and explain the benefits of your total offer to your customers.
- **Create a cross-department third-party ancillary services work team.** This team will be responsible for setting and implementing enterprisewide business objectives and revenue goals; identifying, reviewing, and approving potential third-party ancillary service partners; collaborating with relevant departments for sales, fulfillment, and support; coordinating third-party partner promotions and customer marketing and communications; and collaborating with IT for necessary systems and applications.
- **Feed sales data back into your customer data warehouse.** It's important for travel suppliers to know more than just gross sales volume and similar performance metrics. To effectively measure customer value and evolve into better merchants, travel suppliers need to be able to track the third-party ancillary services a customer browses, puts in her "shopping cart," and actually books or purchases. This will help you gauge customer profitability while simultaneously building a real-time picture of customer interests that can be used to better target product offers and communications.

- **Lead — don't just follow.** There is value in taking a longer-term view of the third-party ancillary services that may be in demand 10 years hence. By looking at broader traveler, technology, and societal trends, it is possible to secure a competitive advantage by identifying the most relevant “extreme” third-party ancillary services to test to determine whether and when any demand is forthcoming, with little downside risk.
- **Keep your eye on the ball.** In a volatile environment, social, economic and political trends will continue to shape and reshape your customers' preferences and behaviors. Ensure that you keep an eye on these trends so as to ensure that your brand, and its products and services, remain relevant.

Appendix A: Methodology

Forrester conducts surveys in 12 countries on five continents spanning North American, European, and emerging markets. We target specific job functions and titles of respondents for each survey population. For this report Forrester conducted an online survey of travel suppliers worldwide. Respondents were promised anonymity for their participation, and all results were aggregated for our analysis. Respondents from 36 travel suppliers participated in the study. In addition, nine eBusiness, marketing, and technology professionals from the participating travel suppliers agreed to allow Forrester to interview them by phone, again with the promise that their names and company affiliations would be kept confidential.

Because the number of complete responses was lower than 100, the survey results are representative of the organizations that have taken part in the study, but results cannot be extrapolated to the entire population of travel suppliers. The study does, however, help us understand how and why polled businesses use and plan to use ancillary services and delivers forward-looking insight into the interest level and adoption of the organizations that participated in the study.

Appendix B: Endnotes

¹ Source: Amadeus executive interviews, December 2010.

² IATA airline industry revenue estimate, September 2010.

³ Source: Forrester Research, Inc. North American Technographics® Travel And Automotive Online Survey, Q4 2009

⁴ Among European online leisure travelers, 31% agree with the statement “When buying leisure/personal travel, I consider myself to be 'brand loyal.’” In contrast, only 27% of online leisure travelers ages 55 to 64, and 25% of those ages 45 to 54, agree with this statement. Source: Forrester Research, Inc. European Technographics Retail, Customer Experience, And Travel Online Survey, Q3 2010.

⁵ Based on third-party ancillary revenues equaling 2.5% of gross revenues (19% of revenues coming from ancillary sales by 2015, and 13% of those from third-party ancillary services).