CORPORATE TRANSFORMATION SERVICES

Travel Intermediaries Relying on B2B2C Might Soon Become an Endangered Species

Challenges and opportunities in the post-pandemic package holiday segment

After facing the worst slump in decades during the Covid crisis, the European travel sector was expected to fully recover to pre-pandemic levels. Revenues were projected to reach $275 billion next year, according to data company Statista, with the package holiday segment making up the largest share of the annual sales at 44%.

Although the current recovery in travel may be threatened by the increasing economic uncertainty and likely lower household disposable income in 2023 and potentially 2024, underlying trends in package holiday business models should not be ignored.

The rapid growth of online package bookings continues to trigger significant changes within the industry, resulting in challenges and opportunities for new and existing travel intermediary companies.

While online booked revenues accounted for 45% of the European holiday package segment in 2019 on average, in The Netherlands and some Scandinavian countries they already represent more than 80% of the market, according to Euromonitor Passport Series data. Notably though, online booking shares in Germany and France are still amongst the lowest in the region.

Structures and dynamics in more mature online travel markets can hint at potential future developments for travel intermediaries in other regions. For example, one of the main features of these markets is the high direct-to-consumer share of intermediaries, as most players cut out further middlemen when distributing their products.

Direct-to-consumer approach can improve customer interaction and reduce cost of sales

This results from opportunities driven by the higher online penetration observed in these countries. If done well, getting more direct to the client has proven to be not only cheaper in cost of sales, but also more effective in terms of customer interaction, retention and upselling. In addition, profit pools of more direct-to-consumer markets are typically larger, highlighting the opportunity to obtain higher margins by going more direct.

There are also opportunities for intermediaries and suppliers in this context. For instance, independent retailers and OTAs can establish their own offering of packages while suppliers – especially in hospitality, cruise and airlines – could expand direct package sales to an even larger share of customers, based on their own product.

That said, recent changes in market dynamics may present challenges for travel companies looking to explore these strategies. Markets with a higher share of direct-to-consumer sales tend to have more competitive prices, resulting in lower gross margins for intermediaries. This still creates higher profits due to significantly lower cost of sales and the fact that the overall profit pool is likely to increase.

However, being an intermediary with a B2B2C distribution leaves players stuck in the middle, with pressure on margins, higher-than-average cost of sales and a higher organizational complexity and cost resulting from serving both corporate and retail clients.

As direct-to-consumer is likely to grow rapidly, players should take action to get out of the danger zone

This might be a dangerous spot for travel intermediaries to be at, especially as online distribution growth rates continue to increase rapidly following the pandemic. To get out of the danger zone and to successfully ride on the upcoming opportunities, affected players in the travel value chain need to make significant transformations in their practices and business models. These include:

- Increase in brand investments to grow awareness and organic traffic
- Stringent focus in customer touchpoints and customer lifetime value (CFV) reporting
- Optimization of online and omnichannel booking processes
- Focus on data insights to tailor product offering, individualized customer interaction and upselling

Proactive and incremental changes for players trying to exploit the opportunities while trying to stay clear of the threats are not easy and not for the faint-hearted. They demand significant investments into process, technology, people and brand and will take time to materialize. Moreover, some could lead to conflicts with business partners and should therefore be handled with care. Yet it is necessary to start the transformation journey now to be able to successfully navigate the upcoming realities of the ever-changing travel distribution market.

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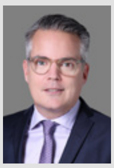

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