Hogeschool Inholland, Amsterdam/Diemen, The Netherlands

How to improve customer loyalty in European Online Travel Agencies in the leisure segment

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Being an Individual Research Project presented in part requirement for International Business and Management Studies, Hogeschool Inholland, Amsterdam/Diemen, The Netherlands.

Report prerequisites

This work or any part thereof has not previously been presented in any form to the Hogeschool Inholland or to any other institutional body whether for assessment or other purposes. Save for any express acknowledgements, references and/or bibliographies cited in the work, I confirm that the intellectual content is the result of my own efforts and no other person.

Signed

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Stefan Katro

Preface & Acknowledgements

This individual research project (IRP) has been written for Hogeschool Inholland, Amsterdam/Diemen. It represents the student's ability to carry out independent research within the IBMS studies and especially from the areas of international business and management through-out the four years of studies.

Its objectives is not only to demonstrate skills on studied subjects and how to apply them, but it also tests the student in terms of planning and organizing the research project, managing time and deadlines, collecting and analyzing large amounts of data and other challenges faced in a real life international business world.

This IRP has been written with the cooperation of Travellink[1] which is an online travel agent (OTA) operating in Nordic Countries. The main objective of this IRP is to study a relevant, up-to-date problem the commissioning client, Travellink is facing and by careful research come up with recommendations how to solve the specified issue or the issues. By doing this the student will become an expert of the subject matter and provide the client with valuable information and recommendations while the student himself goes through an important learning process.

This IRP has been compiled from various sources which can all be found in the bibliography section. Acknowledgements to Travellink for all their support towards this individual research project. Also special thanks to everyone who participated for compiling the primary research conducted while creating this IRP.

[1] http://www.travellink.fi

Table of Contents

Content

List of figures

Summary

Many online travel agencies (OTAs) in Europe are struggling to stay profitable, and one of the key challenges has been how to make loyal customers. At the moment travelers are just browsing for the cheapest price, and as the profit margins of many OTAs are already low, there is a need to find ways to make the buyer to book from an OTA even though they do not necessarily offer the lowest price.

This research paper studies what creates customer loyalty and how can the OTAs create it. Discussed topics include how the travel market has survived the global financial crisis and how it also altered European travelling trends. It not only focuses on how customer loyalty programs can increase OTAs value proposition, but also opposes a high risk as they require a lot of planning and finance in the long term.

Other topics include the importance of branding, how to analyze it and increase it. Also which channels should the OTAs focus their marketing efforts on, how and why to increase the use of social media? Finally the report also discusses the practical ways to make sure that the service quality of the OTAs is up to modern day standards.

In the last chapter this report gives European OTAs practical and actionable recommendations on how to go about towards each of these issues in order to resolve them and as an end result, gain more loyal customers.

Explanation of terms

B2C = Business to customer

DINKS = double income, no kids

IRP = Individual Research Project

OTA = Online Travel Agent

SINKS = single income, no kids

WHOPS = wealthy, healthy, older people

Chapter 1
Introduction to the subject

1.1 Background; the fundamental problem of online travel agents

The travel industry is one of the most competitive industries at the moment and the European travel market remains the largest regional industry amounting up to €238 billion in gross bookings in 2008[2]. The market place is different than what it was 20 years ago as the internet has changed the business. Before internet, you had to leave your travel plans mostly in the hands of an agent who was in charge of finding you a good itinerary, and there was little room for self-booking.

Now, in the second decade of 21st century, you can shop for nearly everything you want online. One business model was to transfer the traditional travel agency solely online and still offer the same services as the traditional agencies, without human contact. This allowed these newly formed online travel agencies (OTAs) to save money in personnel and hence made them able to offer better deals for the buyers than the traditional offline agency.

However, as the internet penetration nowadays in Europe is significant[3], the traditional travel agency is still there and doing well. At the same time also the airlines have stepped up their game and have started offering similar services as travel agencies, including hotels, insurances, cars, etc. On top of that there are the meta-search sites which roam the internet scanning for the cheapest price from various providers.

Nowadays there exists so much travel offerings where the internet provides the buyer with means where they can easily check for the cheapest price, book straight from their home or even mobile phones. This has ultimately led to that there is little incentive for a leisure traveler to stick with one travel supplier or distributor, especially if the next time he can get better price somewhere else, where ever he will be travelling.

[2] Hermes Management Consulting, Understanding Online Travel Agencies' Cost Drivers and Ways to Optimise Business in Europe, July 2010, www.hermesmc.com
[3] PhoCusWright's European Consumer Travel Report July 2010, www.phocuswright.com

1.2 Introducing the client; Travellink

The commissioning client for this IRP is Travellink[4] which is an online travel agent operating in the Nordic European countries of Finland, Sweden, Norway and Denmark. Travellink was founded in 2000 and it offers travel services to leisure and business travellers. In 2005 Travellink was bought by Opodo, one of the largest OTAs in the European region. The product span offered by Travellink includes flights, hotels, packages with flight and a hotel, car rental, excursions and more. Travellink offers multiple leisure destinations to various destinations all around the world.

Travellink offers leisure travel to everyone, but its main customers are SINKS (single income, no kids) DINKS (double income, no kids), WHOPS (wealthy, healthy, older people) and active families. Their most sold travel is short city breaks to Europe.

1.3 The research problem and questions

As many other OTAs in Europe, Travellink is facing the same problem of how to be competitive in other ways as offering the cheapest fares for travel. This brings us to the main research problem; <u>how to improve customer loyalty in the European online travel agencies in the leisure segment</u>? In other words, what can the OTAs do to stop buyers just searching for the cheapest fare, and instead turn them into loyal customers with other means, for example with superior service.

A loyal customer is less likely to make decision purely based on the price and hence something any company wants to achieve. However, in order to find answers to the main research question, the upcoming chapters in this IRP need to answer questions such as;

- What is customer loyalty, what does it require and how to create it?
- What is the travel market environment in Europe? How is the industry doing and who are the competitors?
- What are the main customer trends in Europe at the moment that the OTAs can utilize?
- Customer loyalty programs; are they the answer to OTAs' loyalty issues and if yes, what kind of loyalty program would be suitable?
- What role does branding play in loyalty, are the OTAs doing well in this area?

[4] www.travellink.fi

- How effective are the OTAs marketing efforts in order to attract and communicate their offering?
- Service quality, how to improve it and what can the OTAs do more?
- **How to improve customer loyalty in European OTAs in the leisure segment?**

Answering these questions will help Travellink, and consequently other OTAs within the European region to understand the opportunities of the common market place and how to improve customer loyalty for their business.

1.4 The research methods

In order to find answers to the presented research questions above, different methods of research are required:

1.4.1 Secondary research:

Secondary research and data collection methods in this IRP include:

- Literature (books & e-books)
- Internet sources
- Market research websites (such as PhocusWright)
- Example; what OTAs have done in the past

A large portion of this IRP is using secondary research. This is as there are relatively extensive theoretical models available on the issues the IRP is addressing, including customer loyalty, branding, loyalty programs etc. Also as travel industry is a huge industry a lot of data on travel trends, market shares, buying behavior and other up-to-date travel information is largely available.

The secondary research used in the IRP is from the European region whenever possible in order to provide for European OTAs. Special focus has been given to information from Nordic countries, which is more suitable for Travellink. As the travel industry can change rapidly, the criterion has been also acquiring as up-to-date information as possible, often from year 2008 onwards. Whenever possible, the secondary data has been also cross checked with other sources in order to proof their validity. The information has been collected from trusted entities such as academic studies, market research companies and established news and travel sites. Less attention has been given to single personal opinions such as blogs, which might not be as objective as needed.

1.4.2 Primary research:

The IRP also uses an online survey in order to gather data on the most up-to-date consumer travel preferences and attitudes. The online survey is distributed through social media and posted on Finnish online discussion boards to gather data which is most helpful for Travellink. It is also sent to various travel professionals in order to gather expert opinions. The minimum requirement for the survey is to receive 50 respondents in order to make valid generalizations.

The IRP also considers constant discussions on several travel expert communities and takes them into account in the analysis of data.

1.5 The research scope

The scope of this IRP will remain within Europe as many of the online travel agencies are suffering from similar problems in this region. In addition the IRP recognizes the fundamental differences between business and leisure travel, and will therefore choose to focus only one of them, the leisure area. Furthermore, the scope will be within business as well as marketing functions, and this IRP will not discuss in detail the technical aspects of the OTA business such as the technology and tools to be used in order to improve the product offering. The hypothesis of this IRP is that there is unlikely one single way how customer loyalty can be increased significantly, that is why it will focus on a broader range of OTA activities, rather than a selected few.

Chapter 2
Theoretical approach to customer loyalty

2.1 Introduction

This chapter will be laying out the theoretical foundations for the IRP. First there is a need to understand the basic concepts behind customer loyalty; what it is, why should it be aimed for and what is needed to do in order to create it? Only when the answers to these questions are understood, one can know what to look for when observing the online travel world and finding the opportunities for improved customer loyalty.

2.2 What is customer loyalty?

2.2.1 Traditional customer loyalty

In order to tackle the problem of loyalty, there is a need to first define what customer loyalty actually means. In a traditional sense, customer loyalty is often seen as repeat purchases, or in other words as retaining existing customers[5]. There are many similar definitions what customer loyalty is, one suggested by Customer Insight Group: "Discipline of identifying and nurturing the yield of best customers through a long-term, reciprocity, value-added relationship"[6].

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[5] Gefen David, Customer loyalty in e-commerce, Journal of the Association for Information Systems (Volume 3, 2002) 27-51, http://aisel.aisnet.org/cgi/viewcontent.cgi?article=1197&context=jais
[6] Sallie Burnett, How do You Define Customer Loyalty, December 17 2008, http://www.customerinsightgroup.com/loyaltyblog/?p=3, as visited on 9.12.2010

2.2.2 Online loyalty defined

It is also important to know how *online loyalty* differs from the traditional loyalty. A study of online customer loyalty by Aberdeen Group defined Online Loyalty as in Figure 1 where online loyalty is defined as "the process of attracting, converting and maintaining existing customers in an e-commerce medium"[7]. As can be seen, this definition separates the different specific aspects which are part of creating online loyalty such as reward programs, CRM systems, online merchandising & marketing and post-purchase support. This IRP will discuss most of these functions in the coming chapters, and will try to identify how to use them to increase the loyal customer base of Travellink and other European OTAs.

Figure 1 Online Loyalty Defined

Online Loyalty Defined

Online loyalty is the process of attracting, converting, and maintaining existing customers in an e-commerce medium. It includes such functionality as:

- √ Shopping loyalty / rewards programs
- √ CRM systems
- √ Online merchandising
- √ Online marketing
- √ Post-purchase support

2.2.3 The different dimensions of customer loyalty

Customer loyalty as such is slightly more complicated than just talking about repeat purchases. It has three different levels, the first one being *behavioral loyalty*. Behavioral loyalty is mainly measured in the repeat purchases and it is highly linked to satisfaction towards the product or service. Secondly there is *attitudinal loyalty* which is about on-going relationship towards a brand and much more than just being satisfied with a product. A brand is the company's name, symbol, sign, logo or any other visual which represents the whole company in order to differentiate its products from other companies' products. Thirdly there is *situational loyalty* which depends on the shopping and purchasing situation for example if the product is on sale, which makes it the weakest type of loyalty but nevertheless meaningful.[8]

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[7] Aberdeen Group, Gregory Michael Belkin: Online Customer Loyalty – Converting Occasional Shoppers into a Loyal Customer Base, October 2009, http://www.aberdeen.com/

[8] Leventhal, Richard C. (Editor). Customer Loyalty, Retention, and Customer Relationship Management.Bradford, , GBR: Emerald Group Publishing Ltd, 2006.

2.3 Why is customer loyalty important?

Gaining new customers can be very expensive, costing as much as 20 – 40% more than serving an already existing customer[9]. Also the loyal customer is more profitable than a new one. Another study found out that only a 5% increase in customer retention can produce 25-95% increase in profits for many companies[10]. This can be explained by the fact that a loyal customer is less price sensitive towards the company's product. Secondly there is less need for communication for existing clients and they know what to expect from the company, which consequently can reduce customer service contacts[11].

2.4 What creates online loyalty?

The basic components which create any kind of loyalty today include factors such as customer attitude, satisfaction, trust and commitment in order to create strong customer loyalty[8]. As discussed before, pure situational loyalty is not desired by any company and they should try to create more emotional binds towards the buyers.

The online loyalty creation on the other hand is still a relatively new topic and a unified, widely recognized clear model for it does not exist. We saw previously by the Aberdeen group which factors affect online loyalty in the Figure 1 earlier, for example reward programs and online marketing. Even though these are valid points to study, the Aberdeen definitions do not specify exactly what their relation to one another is.

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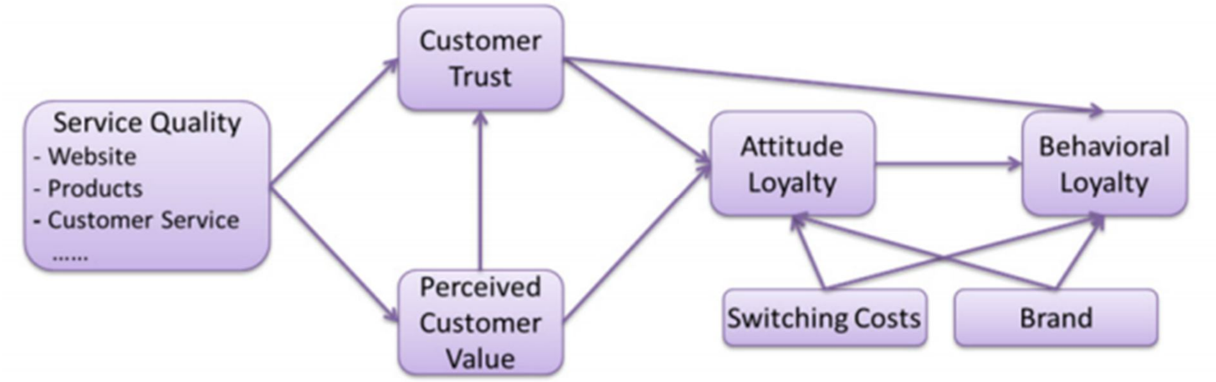
[9] Reichheld, F. F., and P. Schefter. ìE-Loyalty: Your Secret Weapon on the Web,î Harvard Business Review (78:4), 2000, pp. 105-113

[10] Reichheld, F.F. (1994), "Loyalty and the renaissance of marketing", Marketing Management, Vol. 2 No. 4, pp. 10-21.

[11] Leventhal, Richard C. (Editor). Customer Loyalty, Retention, and Customer Relationship Management.Bradford, , GBR: Emerald Group Publishing Ltd, 2006.

However the model suggested below in Figure 2 is giving us one view on online loyalty factors, trying to identify the relationships and the structure on what factors actually create loyalty[12].

Figure 2 "A Conceptual Framework of B2C Website Loyalty"



2.5 The Conceptual Framework of B2C Website Loyalty

Below is the detailed explanation about what all the silos in the conceptual framework of B2C website loyalty mean, and why they are important in order to create customer loyalty.

2.5.1 Service quality

Giving high quality service is essential in terms of how a B2C (business to consumer) website can really compete against competitors' offerings. There are several different factors which play important role to the customers' purchase intention and behavioral loyalty, one of them being service performance[13]. Another study also suggests that customer service is a major driver for loyalty[14]. In a B2C website, service quality includes factors such as website internet technologies, security, ease of return, website design and content which can all have a positive influence on customer loyalty[15]. Both, perceived customer value and customer trust are influenced by service quality, since a proper service creates both of them.

[12] Xiaowei Jin, A Conceptual Framework of B2C Website Loyalty, http://www.lse.ac.uk/collections/informationSystems/iSChannel/iSChannel2010/iSChannelVol5_Jin.pdf , iSCHANNEL 05 (2010) 27-32
[13] Smith, E. R. (2000) E-Loyalty: how to Keep Customers Coming Back to Your Website. New York: Harper Business
[14] Chia-Hung H. (2008) The effect of brand image on public relations perceptions and customer loyalty. International Journal of Management. 25(2) pp.237-246
[15] Gregory, R.H. and Kingshuk, K.S. (2001) Operational Drivers of Customer Loyalty in Electronic Retailing: An Empirical Analysis of Electronic Food Retailers. Manufacturing and Service Operations Management. 3(3) pp.264-271

2.5.2 Perceived customer value

After experiencing the service quality of the website and evaluating the product offering such as pricing and options, a customer will have his perceived idea of the value that he is offered. Perceived customer value refers to the customers' perception of the product's value, in other words the balance between value to costs, such as time, money and emotions. In this model the perceived value is regarded as one of the critical factors towards online loyalty (or e-loyalty). The factors which usually affect perceived value are pricing, ease of use and personalization possibilities[16].

2.5.3 Customer trust

Customer trust can be defined as the customer's belief towards the company's content, product and these being safe. Trust is the essential factor which has to exist before any intention of buying, whether online or traditionally in a shop. According to studies, around 62% of customers would refuse any purchase in an online environment if they have doubts on the security of their private information, for example on credit card information[17].

2.5.4 Switching costs

Switching costs represent the time, money and emotions spent when switching from one provider to another. When talking about switching costs in the online world, it also includes factors such as learning costs, where the customer needs to get familiar with how the new website works and flows[11]. When talking about travel websites, it is already known that the switching costs are not very high. According to the PhoCusWright European Consumer Travel Trends Survey 2010, consumers use roughly 4-5 websites before making a booking[18]. One way to raise switching costs can be e.g. creating customer loyalty programs, or in other words creating binding value to the customer so that he would be less likely to switch to another provider. Loyalty programs are discussed in Chapter 4.

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[16] Xiaowei Jin, A Conceptual Framework of B2C Website Loyalty, http://www.lse.ac.uk/collections/informationSystems/iSChannel/iSChannel2010/iSChannelVol5_Jin.pdf , iSCHANNEL 05 (2010) 27-32

[17] China Internet Network Information Centre. 2010. Statistical Reports on the Internet Development in China. http://www.cnnic.cn/uploadfiles/pdf/2010/3/15/142705.pdf (accessed 30 March 2010)

[18] PhoCusWright European Consumer Travel Trends Survey 2010, http://www.phocuswright.com/

2.5.5 Brand

As discussed before, brand is the company's name, symbol, sign, logo or any other visual which represents the whole company in order to differentiate its products from other companies' products. A strong brand can be highly useful for B2C websites as it helps buyers to remember the actual web site from dozens of other ones. A brand also contributes to the tangible and intangible benefits for a company such as creating trust, reputation, emotions and ultimately loyalty.[12]

Brand building, all thanks to internet can rapidly spread the reputation and due to new technologies, it has become more influential, for example through social media websites. As a consequence, the importance of a brand has increased towards customer loyalty in the e-commerce area. There has been research on investigating the causal relationship between brand and e-loyalty, which supports the argument about the importance of brand with regards to loyalty even more than previously.[19] [20] [21]. All this evidence shows that brand seems to play an important role in respect of creating customer loyalty and it is discussed in Chapter 5 in more detail.

2.6 Other approaches to online loyalty?

As mentioned before, the field of online loyalty is still rather a new subject under study, mainly as the internet boom started only about 10 years ago. Since then, the internet has constantly renewed itself, finding new ways to communicate and interact, the social media sites being the latest example.

There is also other relatively up-to-date literature which tries to explain what generates online loyalty. In Figure 3 there is another model trying to identify the online loyalty factors[22]. Even as more minimalistic, the same key factors such as trust, customer satisfaction and perceived value are claimed to be the essential factors. However unlike the Conceptual Framework model explained earlier, this model doesn't consider the relation among trust, customer satisfaction and perceived

[19] Holland, J. and Menzel Baker, S. (2001) Customer participation in creating site brand loyalty. Journal of Interactive Marketing. 15(4) pp.34-45
[20] Chia-Hung H. (2008) The effect of brand image on public relations perceptions and customer loyalty. International Journal of Management. 25(2) pp.237-246
[21] Gommans, M., Krishnan, K.S. and Scheffold, K.B. (2001) From Brand Loyalty to E-Loyalty: A Conceptual Framework. Journal of Economic & Social Research. 3(1) pp.43-59
[22] Luarn & Lin: A Customer Loyalty Model for E-Service Context, Journal of Electronic Commerce Research, VOL. 4, NO. 4, 2003

value, rather it thinks that each one of those can alone create loyalty and is not therefore chosen to be the default online loyalty model of this IRP:

The Figure 4 below concurs the Conceptual Framework model, also adding “enjoyment” to the loyalty factors, which is also linked to the website design claiming the easier the use, the more enjoyable it will be[23].

Figure 3 "A Customer Loyalty Model for E-Service Context"

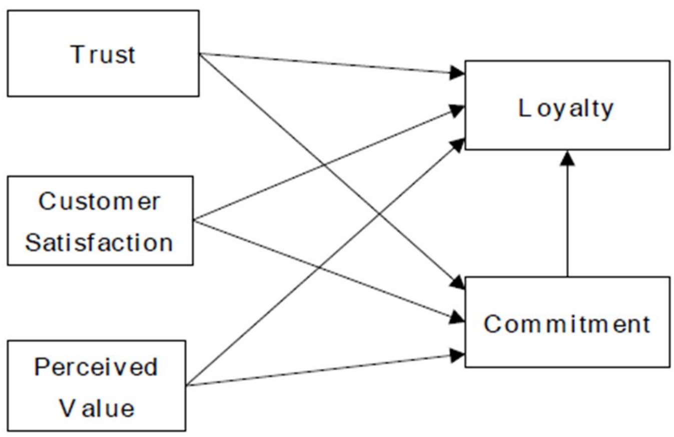
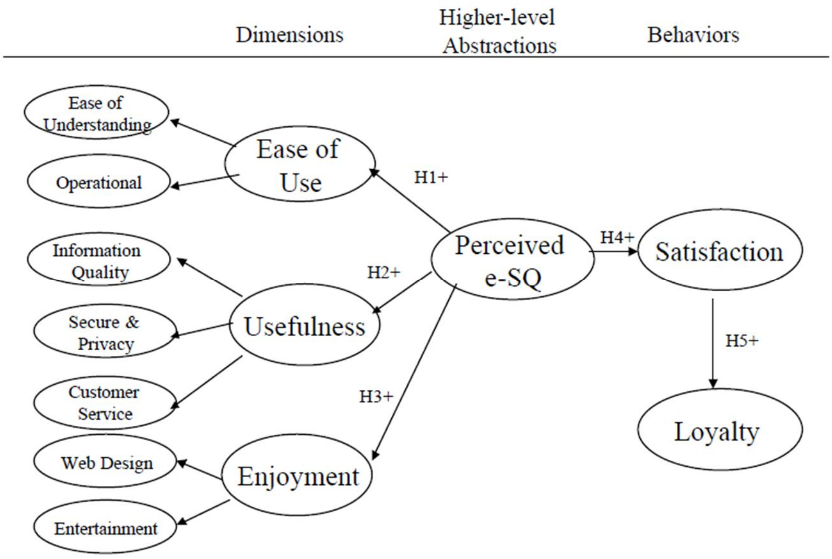


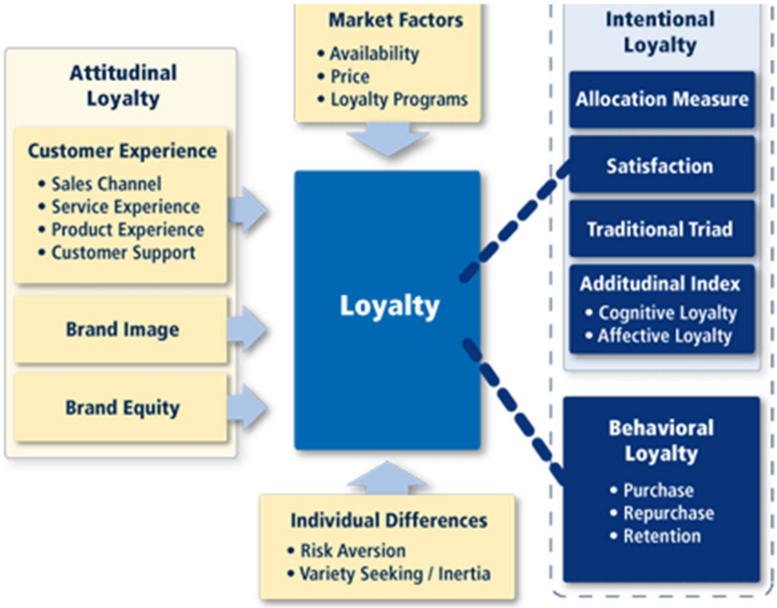
Figure 4 "An Integrated Online Customer Loyalty Model"



[23] Tam Tsui Wa Christine, An Integrated Online Customer Loyalty Model, 2003, The Hong Kong Polytechnic University, http://www.sba.muohio.edu/abas/2003/brussels/tam_pb-6310christinetam.pdf

The Multidimensional Loyalty Model in Figure 5 is also a lot aligned with the previous models, adding only individual differences to the equation, which again is linked to the perceived customer value, how much the company is able to customize their offering to different kinds of buyers[24].

Figure 5 "The multidimensional loyalty model"



2.7 The research outline based on theoretical models

After evaluating all four models for online loyalty creation there is enough evidence to assume what the key elements affecting online customer loyalty are. Even though the models have slightly different names or order, it is clear that online loyalty is not something specific, but it is constructed from various pieces which contribute to the loyalty altogether. The Conceptual Framework of B2C Website Loyalty as presented earlier in Figure 2 will be used as the default model as it seems to be the most coherent wherein all the other models are more or less concurring its logic. The upcoming chapters will apply more in depth the loyalty factors such as service quality, brand, switching costs, trust etc. and how Travellink and other OTAs create or improve these in order to reach the goal of getting more loyal customers.

[24] Maritz Research, The multidimensional loyalty model, http://www.maritz.com/About-Maritz/Our-Businesses/Research/Multidimensional-Loyalty-Model.aspx, as visited on 26.2.2011

Chapter 3
The Market Environment

3.1 Introduction

Before diving into to the specifics how OTAs operate, there is a need to understand the environment that they are operating in. Travel industry can be defined as the business of providing traveller transportation, accommodation, food & drink, attractions or other similar functions related to travel activity. It is often measured in the value of the bookings of such activities, and it doesn't need to be necessarily cross national borders.

The question therefore is how is the whole travel industry in Europe? How are the OTAs and other players doing at this point of time, especially as we are only in the slow recovery from the recession? This chapter also discusses the trends in the European travel. This enables to put all the future research and conclusions into context and helps to identify, where the opportunities and threats for OTAs are.

3.2 Travel market overview

3.2.1 European travel market

As the PhoCusWright's European Online Travel Overview Sixth Edition reveals, the European travel market is roughly at 2% growth for 2010 as seen in Figure 6[25]. The market is gradually on its way to recover from the slowdown the financial crisis inflicted from 2008 onwards.

Figure 6 European Online Travel

Especially during the financial hardship, the people before reluctant to book online are getting used to the idea and are now trying to find the most affordable options over the internet. As a result, the online bookings managed to grow 1.5% to achieve over €66 billion in

[25] PhoCusWright's European Online Travel Overview Sixth Edition, November 2010, www.phocuswright.com

bookings for 2009. This trend also helped to lift the total market share of online leisure and unmanaged business bookings to 31% of total bookings made in 2009, which is a 4% increase from 2008.

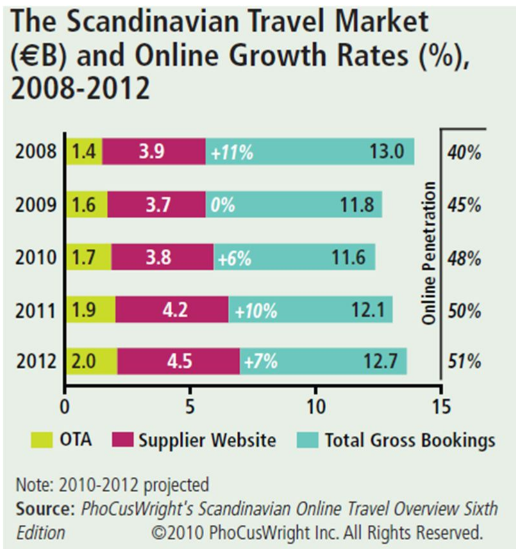
The 2% growth of online bookings in 2009 was especially driven by OTAs, which grew over 8% compared to their 2008 sales. OTAs are expected to achieve healthy growth and by 2012 to hit €32 billion in sales, compared to €27 billion in 2010. The online channels are continuing to take over market share from traditional, offline channels. By 2012 the online sector in Europe is already expected to cover 34% of the whole market.

3.2.2 The Scandinavian travel market

As the Nordic countries are the operating area of Travellink, it is also worth to look how the industry is looking there.

According to the PhoCusWright's European Online Travel Overview, the Scandinavian travel market declined by 9.5% in 2009 to €11.8 billion in total bookings. For 2010, the market is still declining by another 1.6%, mainly as SAS, one of the biggest Nordic airlines is still suffering losses. However the online sales in Scandinavia are expected to start growing again for 2011, as helped by the increase in online penetration which is estimated to go from 45% to 50% in the coming years, as shown in Figure 7. At the moment the online penetration in Scandinavia is already the highest in Europe.

Figure 7 The Scandinavian Travel Market



Between 2008 and 2009 Travellink has maintained its 12% market share in its operating area of Scandinavia, which makes it the third biggest OTA in the region, behind Booking.com with 16% market share and Seat24 with 21% market share. Travellink's bookings mounted up to €184 million in 2009[26].

[26] PhoCusWright's European Online Travel Overview Sixth Edition, November 2010, www.phocuswright.com

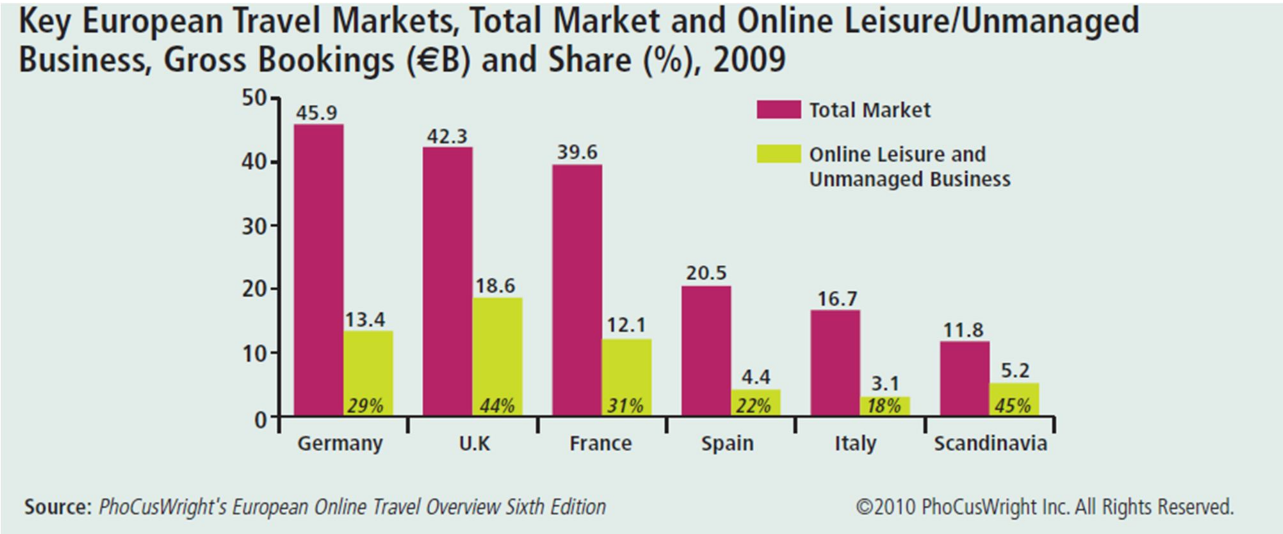
3.2.3 The size of the European online travel market

According to the PhocusWright study, the largest online markets in Europe at the moment are UK, Germany and France which represented 66% of the total online market in Europe in 2009, as shown in Figure 8. By 2012, their representation is expected to grow slightly to 67%.

However, even though many French and German travellers use online channels in their travel planning process, many still also rely on the traditional offline channels. As mentioned earlier, the Scandinavian countries at the moment have the highest online penetration and they are making the most online travel purchases, and less offline purchases than other European countries.

Spain and Italy on the other hand represent the major markets with the lowest online booking penetration at 22% and 18%. This is explained by lower levels of Internet access, continuing economic difficulties, and by powerful traditional travel distribution networks that have inhibited the growth of online channels[27].

Figure 8 Key European Travel Markets



[27] PhoCusWright's European Online Travel Overview Sixth Edition, November 2010, www.phocuswright.com

3.3 Competitors' situation in the online market place

Supplier websites, such as airlines, hotel, rail, car and also tour operators also try to sell directly to customers through their websites in order to prevent middlemen, such as OTAs to have share on profits. Therefore it is also important to recognize how they are doing in the market and how big a threat they are causing.

As mentioned earlier, the most outstanding trend in 2009 was the stable growth of OTAs contrary to the decline of many other supplier websites. This led the OTAs to overtake the airline websites in terms of total bookings, and also projected to stay ahead of them towards 2012, as projected in Figure 9. In a European level the biggest rival for OTAs, however, still remain the airlines, followed rather evenly by the rest of the suppliers.

Figure 9 European OTA and Supplier Website Bookings (€M)

	2008	2009	2010	2011	2012
OTA	21,763	23,555	27,282	29,858	32,009
Airline	24,045	23,036	24,320	26,440	28,494
Traditional Airline	*12,518*	*12,113*	*12,942*	*14,492*	*15,921*
LCC	*11,528*	*10,923*	*11,378*	*11,948*	*12,573*
Hotel	5,115	5,064	5,935	6,724	7,566
Rail	6,483	6,775	7,257	7,958	8,523
Car Rental	1,657	1,599	1,758	1,928	2,040
Tour Operator	6,241	6,407	6,877	7,540	8,021
Total	65,304	66,437	73,428	80,448	86,654

Note: 2010-2012 projected
Source: *PhoCusWright's European Online Travel Overview Sixth Edition*
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Figure 10 Scandinavian OTA and Suppliers Website Bookings (€M)

	2008	2009	2010	2011	2012
Online Travel Agency	1,391	1,576	1,730	1,867	1,979
Airline	1,610	1,524	1,593	1,829	2,057
Traditional Airline	*905*	*740*	*695*	*785*	*929*
LCC	*705*	*785*	*899*	*1,043*	*1,128*
Hotel	306	346	383	463	488
Rail	558	530	546	589	624
Car Rental	177	168	174	181	188
Tour Operator	1,211	1,102	1,115	1,152	1,186
TOTAL	5,253	5,246	5,541	6,080	6,523

When looking at the same figures from Scandinavia in Figure 10, the OTAs are also in the lead for capturing majority of all online bookings, followed closely by airlines. However unlike the whole European scale, in Scandinavia tour operators play a big role in capturing online bookings[28].

3.4 The traveller trends

3.4.1 Why to consider traveller trends?

It is all good and well to understand where is the European travel industry going at the moment, and even better from the OTA point of view to hear that their business is the fastest growing at the moment. But for the sake of customer loyalty, we need to understand also what the modern traveller is looking for when planning and booking travel. By understanding these trends we can more accurately aim our loyalty efforts to the right place.

When looking at the European traveller trends, it is important to know which type of customer is travelling the most, and what kind of travellers are the most profitable. Also where and how the European travellers buy their travel, where they want to go and what other major trends are happening in terms of new tools to make purchases.

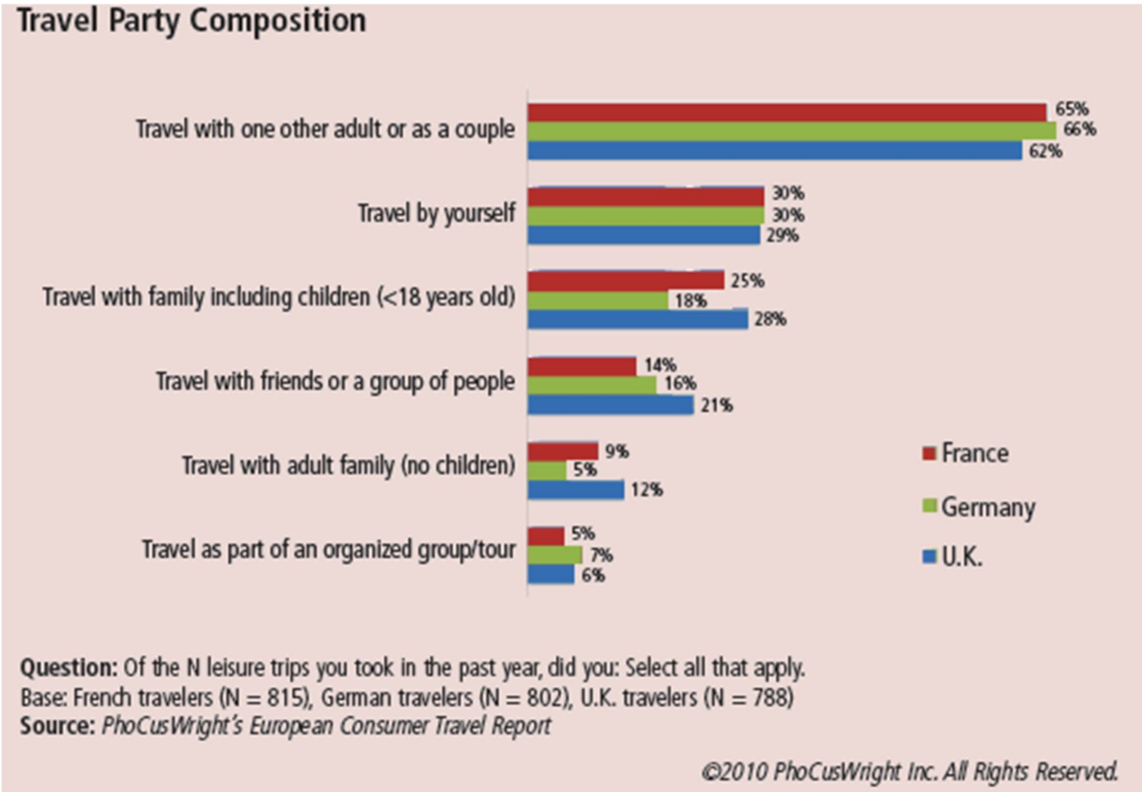
3.4.2 The best traveller types and groups

Across Europe, it is the older consumer at the age of 45 or older that spends considerably more on travel[29]. This suggests that travel companies should try to make their online offering attractive to this older audience, especially as they might not be as familiar with technology and online booking as younger audience[30]. This is important also because as the PhocusWright's report suggested, even though these older travellers usually prefer booking travel offline, many of them still make their travel decision online. Also the travel companies should realize that this older audience is still a major user of traditional media, such as TV, radio, newspaper and some focus should be aimed there as well to

[28] PhoCusWright's European Online Travel Overview Sixth Edition, November 2010, www.phocuswright.com
[29] PhoCusWright's European Consumer Travel Report July 2010, www.phocuswright.com
[30] Pwe Internet & American Life Projectand Graduate School of Library and Information Science at the University of Illinois at Urbana-Champaign Report, Information Searches that Solve problems: How People Use the Internet, Libraries and Goverment Agencies When Theu Need Help, December 30 2007, http://www.ignitesocialmedia.com/social-media-stats/internet-usage-by-age-gender-race/, as visited 19.5.2011

tap this audience. However the younger audience should not be forgotten as they are the future potential buyers.

Figure 11 European Travel Party Composition



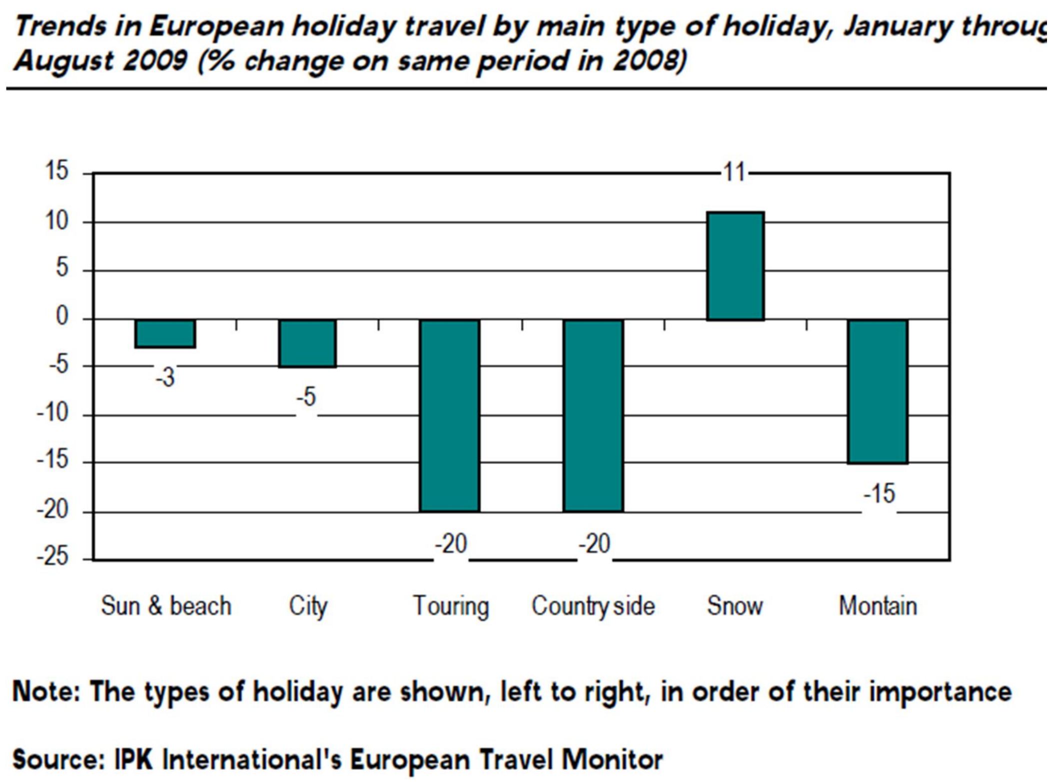
As seen from Figure 11 above, the most frequent traveler groups are adults with other adults, whether with friends, family or partners. Perhaps a bit surprisingly the second group is people who travel alone. However one explanation for this is for example people visiting friends and family and therefore also saving the accommodation costs. Third are the family travellers which is also a significant group, with around 20% of travels in Europe consisting of family trips with children.

3.4.3 Booking trends

One interesting fact that emerged during the global financial crisis is the end minute booking that increased popularity around the world. In 2009, booking within a week of travel increased 18%, while the trips booked between a week and a month before departure fell by 5%. Trips booked 1-3 months before departure or over 3 months also fell significantly, around 12% both[31].

Sun & beach holidays did relatively well in Europe during the worst years of the economic crisis and dropped only 3%. Similarly for the city holidays which were in a decent 5% drop. However, the countryside and touring trips fell around 20% in 2009 as shown in Figure 12 below. Snow holidays were in a high increase of 11%, which was however mainly explained by a good winter, whereas mountain holidays were less popular. In an addition, during the financial slow down especially the neighboring countries in Europe seemed to gain travellers from surrounding countries, as they are cheaper and more easily accessible, even by train or car. As the Europe's financial situation is still far from solved, shorter distance and shorter time travels can be a continuing trend through 2011 and beyond.

Figure 12 European leisure destination trends



[31] ITB WORLD TRAVEL TRENDS REPORT 2009/2010, www.itb-berlin.com/library

3.4.4 Travellers looking for more security

As seen from the earlier industry data, the hardened financial environment across Europe has made people book more online, and especially OTAs. But there is also another fundamental reason for this. Since the volcanic eruption in Iceland and the Japanese earthquake, people look for more security from travel agents when booking packaged holidays (flight & hotel) who in a case of an emergency can help you to arrange a safe trip home. In UK, 4 out of 10 travellers told that they used travel agency in order to make sure they are protected[32].

3.4.5 Travellers appreciating review sites

According to PhocusWright many travellers in Europe are using traveller review sites (almost 40% of travellers in UK). This shows that more and more people care about people's opinions and past experiences in their planning process. Having a third party to evaluate the quality of services can be one factor which contributes to the 'trust' factor of our conceptual loyalty model.

3.4.6 Search engine popularity

Another finding by PhocusWright was the popularity of search engines such as Google. This is a very particular behavior for European travellers where the market is highly fragmented, consisting of many countries and languages. Therefore common channels are hard to create, unlike in the US, where exists one common market with the same language. However as the PhocusWright pointed out, when there will be more consolidation especially for fewer brands, as seen in the US already, the customers become more familiar and loyal to them and the dependency on search engines will reduce.

3.4.7 Increasing use of smartphones

Another emerging trend among travellers is the use of smartphones. The growth of smartphone users is in a significant rise, counting for 44% of total phone shipments in Western Europe[33]. In the US the

[32] Bainbridge Jane, Sector Insight: Travel agents, 16.2.2011, http://www.marketingmagazine.co.uk/news/marketingdata/sector+insights/1054647/Sector-Insight-Travel-agents/, as visited 13.3.2011

[33] IDC European Quarterly Mobile Phone Tracker, February 2010, www.idc.com

amount of people using travel services and actually look to book is increasing all the time[34]. The same findings were confirmed for Europe by PhocusWright, where they found that 2 in 10 mobile users will research travel options by their mobile phones in the coming 12 months. Now, when talking about tapping the younger audience especially, we can see that the mobile phones are a clear rising channel and should be taken seriously[35].

3.5 Analysis of the travel market

The European travel market is gradually recovering and especially the OTA market is doing well. This is partly as the internet penetration keeps on increasing, and also as people are looking for cheaper prices than what the traditional offline channels could offer or even the actual travel suppliers, as OTAs can negotiate cheaper prices.

There exists an interesting relationship between the travel distributors (eg. OTAs) and suppliers (eg. airlines). Even the OTAs are selling the suppliers' products, the suppliers are trying to compete against them and offer their products directly through their own channels in order to drive down any distribution costs, but also because this way they can have direct relationships with the customers[36]. This supplier trend has been possible as technology and connectivity costs have gone down. However even though the large suppliers are trying to go more independent, many smaller suppliers cannot afford extensive marketing and depend heavily on OTAs to market their products.

The most threatening competition from the travel suppliers towards OTAs are the airliners. Not only are they trying to go around the OTAs by direct selling, but also are moving to the OTA business by starting to offer also hotels, cars and other ancillary services through their websites. Interestingly the amount of people booking accommodation from the airliner website has increased globally, going from 21% to 38% between 2009 and 2010[37]. However in terms of bookings OTAs seem to still gain upper hand as seen earlier in Figure 9.

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[34] Reed Dan, Smartphone use grows among travelers, 30.8.2010, http://travel.usatoday.com/news/2010-08-30-smartphone-travel_N.htm, as visited 12.3.2011

[35] PhoCusWright's European Consumer Travel Report July 2010, www.phocuswright.com

[36] Ritesh Gupta, Where is the Balance of Distribution Power Drifting? 11th of April 2011, http://www.4hoteliers.com/4hots_fshw.php?mwi=5948, as visited 16.4.2011

[37] May Kevin, If more people booked hotels on airline sites, who missed out? 7th October 2010, http://www.tnooz.com/2010/10/07/news/if-more-people-booked-hotels-on-airline-sites-who-missed-out/, as visited 16.4.2011

There are several reasons why people book accommodation from the airline. Firstly the selection they are offering can be good enough. It is also convenient to do everything at the same place. This is also true in case you run into problems during your trip; you have only one place to deal with it. Also if you are a part of an airline loyalty program where you receive points for travel, you might receive extra points if booking the hotel at the same place.

At the moment while booking packages (flight & accommodation), the airline isn’t necessarily the first place people think of, as the core business of airlines is flights. This can be one of the major reasons why OTAs are receiving more bookings as they are considered to be more experts in packaging and offering leisure destinations and options.

Even though the market situation and predictions for OTAs are looking positive for the moment, the same problem of un-loyal customers still remains. Whether an OTA is competing for the customers of suppliers or other OTAs, there is a need to find out how the loyalty can be increased. The next chapters will focus in detail if, how and why to take advantage of loyalty programs, discuss the branding aspects and focus on different marketing efforts as well as the service quality to boost customer loyalty.

Chapter 4
Loyalty and reward programs

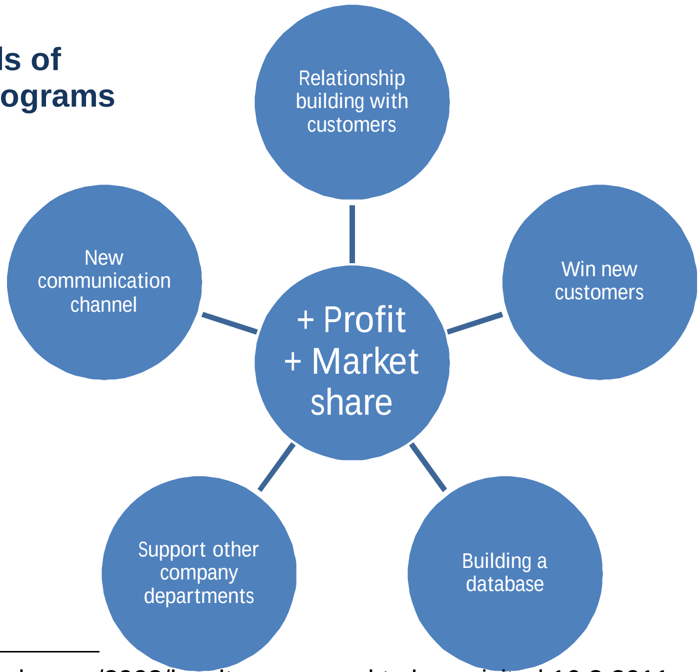
4.1 Introduction

Loyalty/reward programs are probably the obvious examples on how to go about improving customer loyalty, as it can be a significant factor which is especially affecting the switching cost as discussed earlier in our loyalty creation model. They are defined as "a program designed to lower the turnover among users of a product or service by rewarding a customer with incentives or other benefits for remaining a customer"[38]. However, not only they are for maintaining the existing customers, but also for attracting new ones. The incentives of these programs can be price cuts, better service, the feeling of belonging to a VIP club or anything to a just special communication.

4.2 Loyalty program benefits for the organization

The ultimate goal for a loyalty program is to increase profit and market share as seen in Figure 13 below, but this is the long term goal[39]. First and primary goal is the effort of building a relationship with the customer who ideally creates a long term want for the product. Secondly the program can be a useful tool for gaining new customers as it should offer extra value for the company's products. Thirdly

Figure 13 Main goals of customer loyalty programs



[38] http://www.investorwords.com/2903/loyalty_program.html, as visited 16.3.2011
[39] Butscher Stephan A, Customer Clubs and Loyalty Programmes, Abingdon, Oxon, GBR: Gower Publishing Limited, 2002, page 221

it is a valuable tool for collecting precious information on customer behavior which allows the company to focus its communication towards the customer even better. This goes together with the fourth point of supporting other company departments, as for example helping to plan what new products or services to introduce and how much demand would they have. Lastly the program can offer a new channel to communicate with the customer to achieve even higher personalized service and offers.

4.3 Loyalty program disadvantages

Even if loyalty programs have clear benefits, one should consider the downsides of it before beginning to create one. A loyalty program needs to offer benefits with high perceived value, which will require extensive preparation, planning and measuring the values offered. Exceeding costs are the number one reason why loyalty programs fail, and without a long term budget any company setting a loyalty program can end up in difficulties[40].

Not only loyalty programs are expensive to create, they also consume a lot of manpower involving personnel from various departments in a company[41]. It is also hard to abandon loyalty programs, as you are committed to offer the benefits for the customers and killing the program can be a large marketing disaster for the image of the company.

Creating a loyalty program also needs experience and a good know-how of the business and the environment of the business. Loyalty program is a long process which needs many things to go right for it to succeed. Therefore a failure in a loyalty program can be expensive, as a loyalty program aims for long term benefits and early measurement is hard to do to validate the value of it. On top of that poorly designed loyalty program does not necessarily create great loyalty, moreover it can postpone disloyalty to the point where minimum rewards are achieved[40].

4.3 The benefits for the customer through loyalty programs

Many customer loyalty programs offer mainly financial benefits, or ‘hard’ benefits, which basically mean offering the members price discounts. However price discounts are the last thing which creates lasting customer loyalty. When going about loyalty programs one should realize that it should not be

[40] Butscher Stephan A, Customer Clubs and Loyalty Programmes, Abingdon, Oxon, GBR: Gower Publishing Limited, 2002
[41] http://www.loyaltycard.in/content/view/27/38/, as visited 3.4.2011

based on financial incentives, but more on creating partnership with the customer through trust and emotions. This can be even a market requirement, as for example in Germany already since the 80s you are not allowed to sell the same product for different prices to different customers based on loyalty.. This is an important fact to realize as according to research, very few of existing 'loyalty programs' actually create any loyalty or devotion.

A loyalty program should primary focus on offering benefits around the company's core products in order to maintain control and making people actually loyal to the product and not for secondary products. However cooperation with external partners can be a good way to enhance the value of your loyalty offer. This is useful because often the third parties offer to pay commission so that they can also approach the loyalty members with their products[42].

4.4 Types of loyalty programs

There are two basic types of loyalty programs, one which is free for everyone to join (open) and the other which require a proper registration and possibly a fee for joining (limited). The limited type often helps to focus on the primary target group and ensures more quality members by keeping out freeloaders which do not create any value for the company.

The open loyalty programs on the other hand with no entry limitations often contain members which do not benefit the company at all and are costly to keep in the system. The open program is better when the target group is large or there is a want to attract customers from the competitors[43].

The loyalty programs however are not as black and white as choosing from an open to a limited one. We can define five different types of programs, which distribute the customer benefit slightly differently[44]:

[42] Butscher Stephan A, Customer Clubs and Loyalty Programmes, Abingdon, Oxon, GBR: Gower Publishing Limited, 2002
[43] Butscher Stephan A, Customer Clubs and Loyalty Programmes, Abingdon, Oxon, GBR: Gower Publishing Limited, 2002
[44] Tripp Gary, Five types of loyalty programs, 8 December 2009, http://insidehospitality.com/five-types-of-loyalty-programs, as visited on 21.3.2011

1. **Rewards**

   This concept gives the customer points for purchases, and more points the more you have purchased. These points can accumulate and then be exchanged for rewards, which can be anything from a free taxi ride to a full package holiday.

2. **Rebate**

   Rebates are about giving customers discounts for their next purchase in order to create a hold to the customer and an incentive to return to the business.

3. **Appreciation**

   This is a similar approach to rewards, but instead of giving out points for almost any purchase, appreciation gives customers rewards as they purchase above a certain limit.

4. **Partnerships**

   The partnership approach rewards customers also through purchasing partners' products and services and gives the ability to use the reward points across all the organizations involved in the program. This is a useful strategy when organization wants new customers which it can obtain from the partner's database.

5. **Affinity**

   Affinity approach is used especially for customers which are familiar to the organization and are already relatively loyal customers. Affinity programs often offer special communication, bonuses and recognition for highly valued customers. This approach is used in the situations where rewards are not needed anymore to maintain the relationship. The idea is merely reminding and informing about new products and services.

4.5 Selecting the target group for an OTA loyalty program

Deciding on which customers to offer the program is obviously an important question, as most likely an organization wants to offer it to the most profitable customers. As the Pareto's theory suggest, on average 20% of the customers usually generate 80% of the revenue[45]. This guideline is indicating that any loyalty program should primarily focus on the main, most profitable customer group in order to make sure it's worthwhile.

[45] http://www.gassner.co.il/pareto/, as visited on 19.3.2011

As discussed earlier in the Chapter 3, the customer that spends the most money on travels are people over 45 years old. If we add the most common travel group by far in Europe is an adult with another adult, we can already see the most lucrative customer type unveiling itself. This is good news for Travellink whose main customers are adult travellers without kids, including elderly people. When also considering that the sun & beach and city holidays are the most popular destinations at the moment, we know which target destinations to highlight. Therefore we can deduct the most profitable target group for a loyalty program that suits an OTA such as Travellink is an adult age of 45+, travelling with another adult to a beach or city destination, as shown in Figure 14.

Figure 14 The most profitable target group for an OTA loyalty program

Of course other segments should not be forgotten either, such as youths, families or other groups. A good loyalty program is flexible that offers personalized value for several types of customers. However for an OTA such as Travellink without a leisure loyalty program yet, the customer profile in Figure 14 represents a good starting point in which the loyalty program should cater to the most lucrative customer segment in order to maximize its benefits.

4.6 Customer loyalty programs; what have other OTAs done in the past?

4.6.1 Expedia

Expedia, one of the largest OTAs worldwide, started their loyalty program back in 2006 with the help of Citigroup, one of the major banks in the US. Their loyalty program was based on partnership where a traveller could earn points by purchasing Expedia products with Citigroups's bank or credit card[46]. The way they attracted people to join was offering \$50 - \$100 price cut on their first purchase if travellers joined and got the appropriate card.

[46] http://www.expedia.com/daily/highlights/rewards/cobrand_faq.asp, as visited 19.3.2011.

The benefits of such approach were clear for Expedia. Citigroup had already an extensive customer base (10 million users at the time[47]) to which it was offering benefits by using its credit card, and by adding Expedia to this network the users gained a great incentive to use Expedia's services rather than other travel providers. However, from 2011 onwards Expedia is ending its relationship with Citigroup and is on the process of introducing a completely new rewards program the details of which are still unknown[48]. The reasons for the end of the relationship can only be speculated, but nevertheless the 5 year relationship with Citigroup has surely been a good experience to Expedia on how to run a loyalty program and with the gained know-how they are in the position to run their completely own program.

4.6.2 Travelocity

Travelocity is another large OTA based in the US. With a partnership of American Express, one of the largest credit card providers in the world, it offers its own Travelocity rewards credit card. It offers two options, a card with an annual fee, and a card without fees[49]. The cards with fee earn more points than the free cards, and these points can be exchanged to travel products of Travelocity.

4.6.3 Opodo

Opodo, one of the largest OTA in Europe is offering similar loyalty program as Travelocity in cooperation with MasterCard, through which you can buy a special credit card with monthly fees and you get cash back rewards if booking through Opodo[50].

4.6.4 Popularity of travel agency loyalty programs?

So far many large travel sites do not offer any kind of loyalty scheme or club for its leisure travellers, including ebookers.com, supersaver.fi, or edreams.com, even as the large players could most likely afford it better than smaller agencies. The visitors often have the ability to sign up for newsletters and

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47 http://press.expediainc.com/index.php?s=43&item=115, as visited 19.3.2011

48 Schaal Dennis, Expedia to end ties with a Citi rewards program and start a new one, http://www.tnooz.com/2010/11/02/news/expedia-to-end-ties-with-a-citi-rewards-program-and-start-a-new-one/, 2.11.2010, as visited on 19.3.2011

49 https://www.barclaycardus.com/apply/Landing.action?campaignId=1458&cellNumber=3&prodidreq=CCAAE30993&referrerid=HOMEPAGE02, as visited on 21.3.2011

50 http://www.rubyrewards.ie/rewards/opodo/, as visited on 24.3.2011

this way to receive offers directly, but newsletters do not really count as loyalty programs. Another interesting fact was that all of the examples OTAs were offering rewards or cash backs with cooperation of major banks and credit companies. Clearly tailored loyalty programs for online travel agencies are still in their early stages.

4.7 Measuring the type and benefits of loyalty programs for an OTA

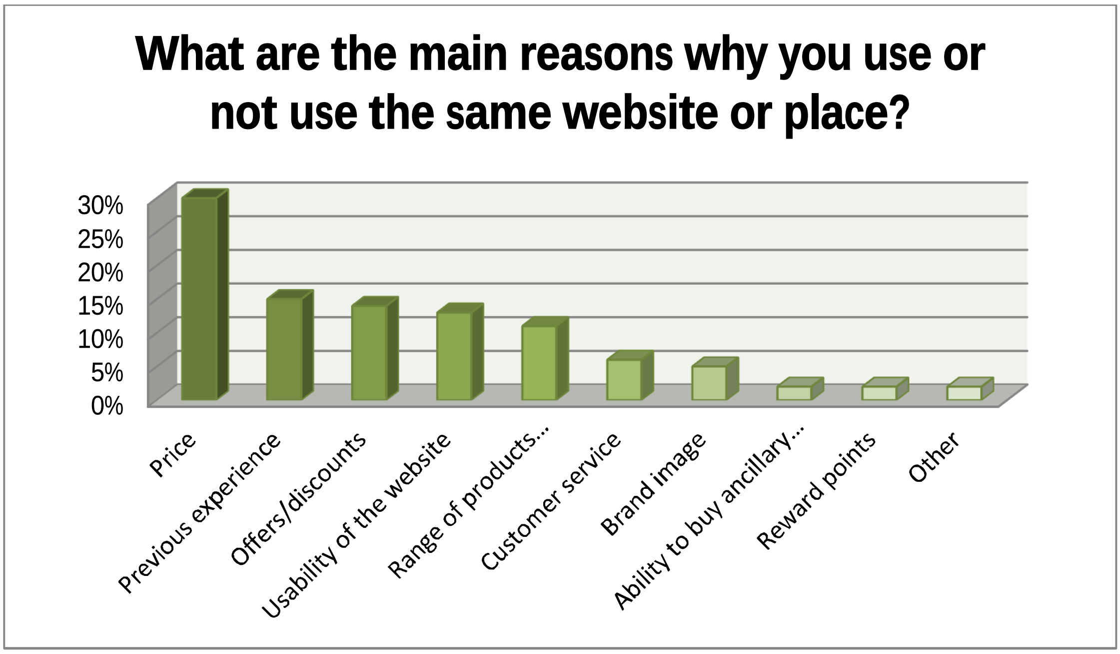
It is important to know what kind of loyalty program the travellers would appreciate the most before creating one. What do consumers value in OTAs, what benefits are they expecting from a customer loyalty program, would they be willing to pay for them, would a loyalty program make people return to the business? These are all important questions for an OTA considering a loyalty program.

4.7.1 What makes people choose a travel website and how can we use it in a loyalty program?

When asked which factors influence to use or not use the same travel website when purchasing travel, 30% selected price being the most influencing factor as seen in Figure 15. Previous experience, discounts and usability of the website and range of products came close second, all reaching 15% of responses or slightly less. Customer service got 6% of respondents and brand image 5%, and other options such as ancillary services and reward points received only few ticks.[51]

[51] Online survey with 136 respondents of which 70% from Finland

Figure 15 Factors influencing the choosing of a travel purchase website



We can notice once again the price being the number one factor influencing travel purchases, and it cannot be ignored. However OTAs can at least partially try to tackle it by customer loyalty programs, which give attention to some kind of hard benefit, such as giving reward points on purchases which can be turned into discounts.

Perhaps surprisingly usability of the website was also rated high. The ease of use and simplicity seem to play a great role when purchasing online. This is also correlating with the second highest regarded choice of previous experience with 15%, as knowing how the site works and trusting it seems to be important for any online buyer. There is little a loyalty program can help towards service quality however. Service quality is discussed more in detail in Chapter 7.

If we are looking at aspects where loyalty programs can make a difference, such as customer service and reward points, both were regarded as a low priority in the list what makes you choose a travel website. The reason for this is most likely that customer service is not necessarily something you need during a travel when everything is going as planned, and therefore many people do not have a reason to appreciate it. Reward points show a very low priority as well, however since very rare travel agencies have rewards actively in use, the low response priority for that is expected as consumers are not part of them.

4.7.2 Customer loyalty program benefits desired the most

When asked, what would buyers appreciate the most in customer loyalty programs? As shown in Figure 16. It proves that hard, financial benefits are number one with 45% of respondents saying they would like to see discounts. Other than that, buyers would also appreciate the flexibility with the use of reward points, where the OTA would allow the use of points in many situations, for example upgrading hotel rooms or car rental, rather than specific, chosen instances only. Priority customer service was the third most appreciated benefit with 20% of respondents, whereas personalized communication was not a priority.

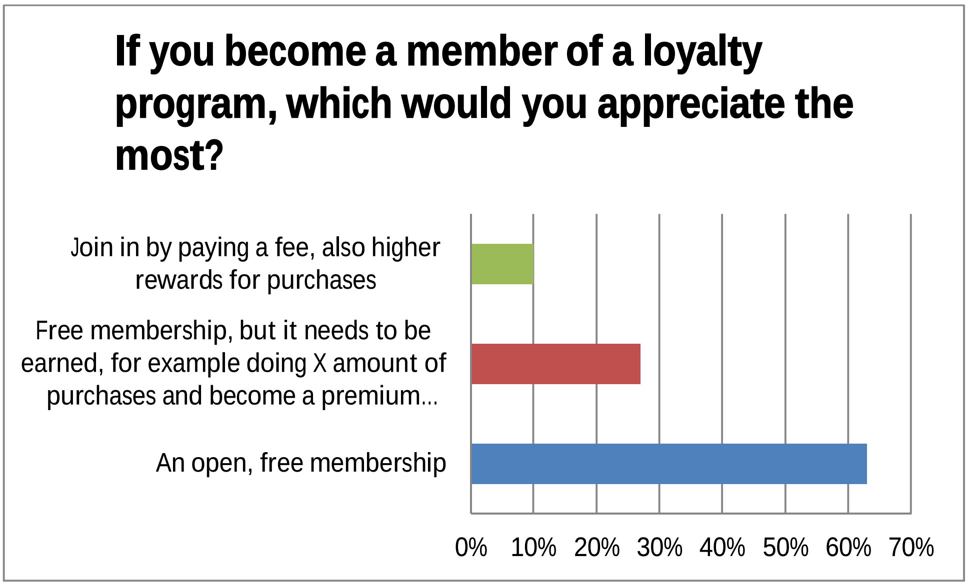
Figure 16 Benefits appreciated the most by consumers in a loyalty program

55% also said they would rather have small, quick benefits rather than to accumulate reward points and then trade them to higher value benefits. The split is still quite even as 45% said they rather accumulate the points, which would mean the loyalty program should give attention to both types of customer preferences.

4.7.3 Criteria for joining the program and the program usefulness by consumers

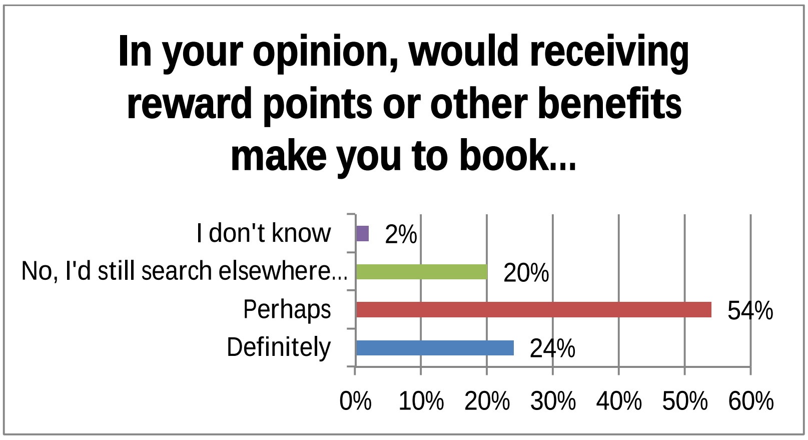
When measuring the type of joining a loyalty program as shown in Figure 17, a vast majority with 63% said they prefer an open, free program. 27% said they would like a program where the membership needs to be earned, and 10% were willing to pay for the program.

Figure 17 The type of joining to a loyalty program preferred by buyers



Lastly, when asked if receiving reward points or other benefits would make you to book from the same provider as shown below in Figure 18, 24% of the respondents said definitely. 54% said perhaps opposed to 20% who still would search elsewhere for the best price.

Figure 18 Will a loyalty program make buyers book?



4.8 Analysis of customer loyalty programs

Loyalty programs can be a useful way for the OTAs to approach the problem of customer loyalty, and as discussed, it has its benefits and downsides, as shown in the SWOT analysis below in Figure 19. It can offer a great new way to engage the customer and helps the company to create more unique messaging towards the customers. In exchange the company produces a detailed customer database which helps them to achieve just this, by collecting unique data and providing each member what they are looking for. The program should also be something of value which attracts new customers. Also at the moment very few OTAs are offering such programs, which would make a strong unique selling point for anyone that does.

However creating loyalty programs is expensive because it consumes a lot of manpower and time to create, and requires a full commitment from the organization in order to be successful. There is also a risk that the program doesn't contribute for loyalty at all; it only creates behavior that looks like loyalty as people want to get their discounts, and only that. On top of that if the program only offers financial rewards, the competition can easily top that by offering simple quick deals which might be more attractive. In addition; creating a loyalty program can create a spur in the competition, which can again lead to a price war, who has the best offer?

Figure 19 Loyalty Program SWOT Analysis

Chapter 5
Branding

5.1 Introduction

As introduced earlier in the conceptual framework of B2C website loyalty in Figure 2, brand is one of the big factors that can positively affect customer loyalty. One can argue that a strong brand can forgive other weaknesses a company has in its product or service, as brand loyal customers are still happy to buy a certain branded product/service. Creating a strong brand is not necessarily as easy with online websites where you are not seeing or touching a tangible product or meeting with actual service people, you are only faced with the service quality of the website. Nevertheless branding online is not impossible either, and it can be a great weapon towards loyal customers and therefore needs to be discussed in more detail.

5.2 The definition and importance of branding

In Chapter 2 we defined brand being the company's name, symbol, sign, logo or any other visual which represents the whole company in order to differentiate its products from other companies' products. However when examining more closely brand actually means more than that. One deeper interpretation of brand is that it is "the sum total of all user experiences with a particular product or service, building both reputation and future expectations of benefit"[52].

The brand is recognized as one of the most important factors for firms' success, regardless the industry or the size of the firm[53]. A strong, well-known brand can add great deal of value to the product as being familiar with something creates trust. The effects of a strong brand are directly related also to the loyalty of customers and therefore the question of how to generate and maintain a strong brand becomes important[54]. Brand value, or the *brand equity* can be defined as "Brand's power derived from

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[52] Miletsky, Jason; Smith, Genevieve L, Perspectives On Branding, Boston, MA, USA: Course Technolgy, 2009. p 2

[53] Ries, A., & Ries, L. (2004). The origin of brands. New York: Harper Collins Publishers Inc.

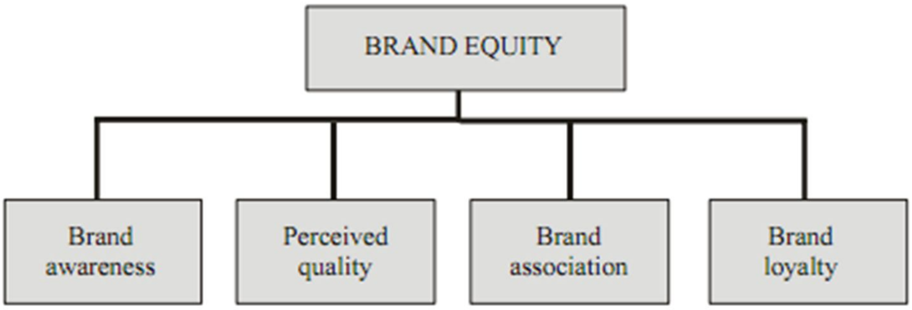
[54] Crescitelli Edson, Figueiredo Júlio Bastos, uity Evolution: a System Dynamics Model Brand Equity Evolution: a System Dynamics Model, BAR, Curitiba, v. 6, n. 2, art. 2, p. 101-117, Apr./June 2009, http://www.anpad.org.br/periodicos/arq_pdf/a_848.pdf

the goodwill and name recognition it has earned over time, and which translates into higher sales volume and higher profit margins against competing brands"[55].

5.3 Brand equity

There are several aspects that create the brand equity, as shown in Figure 20[56]. In this model the *brand awareness* is the presence of the brand in the minds of the customers. Successful brand awareness requires your brand not only to be well known but also needs to be easily recognizable[57].

Figure 20 What creates brand equity



Source: Aaker and Joachimsthaler (2000, p. 31).

Perceived quality is what the consumers are buying and is therefore linked to the brand's identity. However it's not enough that the company's product or service is high quality. What the product's or services' quality is in reality might greatly differ how consumers see it. This is why the *perceived* value of the customers can even be as important as the actual value of the products and therefore a company also needs to think what kind of image it wants to create in the minds of consumers, in other words the brand positioning[54].

Brand association refers to any memory or experience concerning the brand[58]. The association is also considering the fact that brands often reflects the person's lifestyle, professional life and social status.

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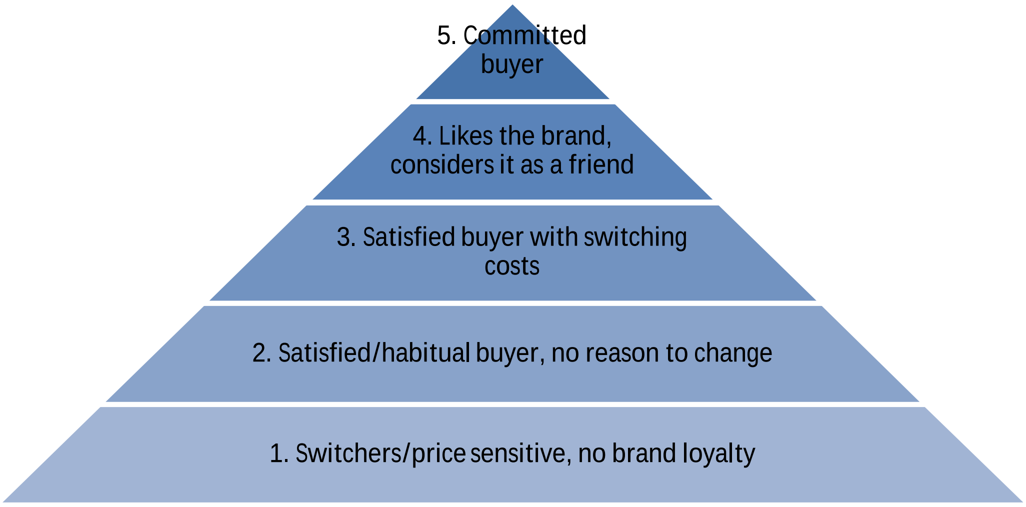
[55] http://www.businessdictionary.com/definition/brand-equity.html, as visited 14.4.2011
[56] Aaker, D. A., & Joachimsthaler, E. (2000). Brand leardership. New York: The free press.
[57] Gustafson Tara, Chabot Brian, Brand Awareness , Cornell Maple Bulletin 105 (2007), http://www.nnyagdev.org/maplefactsheets/CMB%20105%20Brand%20Awareness.pdf
[58] Aaker, D.A (1991), Managing Brand Equity: Capitalizing on the value of a Brand Name (New York: the Free Press)

Brand can also associate where the product is bought from, which country is it from and what kind of people are using it[59].

Brand loyalty defines the attachment the customer has towards the brand. Figure 21 shows the brand loyalty pyramid which categorizes the certain types of buyers[60].

Figure 21 Brand Loyalty Pyramid



1. On level one the switchers have zero or hardly any consideration towards the brand when purchasing. They buy the product if they are on sale or it is convenient for them, but they have no problem to switch brands. This is an example of situational loyalty defined earlier. The common approach to lift these buyers up the pyramid is pure marketing, making your brand more known for this audience.
2. At level two the buyers are satisfied and buy the particular brand out of habit and don't have any reason to change, an example of behavioral loyalty. However if they need to see extra trouble to get their usual brand, this is the moment they are most likely to switch to others. In such situation the marketing efforts need to be raised in order to overpower the competition's efforts.
3. Satisfied buyers with switching costs refers to buyers who are satisfied with their current brand and reluctant to switch as they see they might lose on quality, familiarity, time or other similar factors if they switch to other brands. If another brand tries to capture such buyers there would be a need to increase their perceived value significantly. Also the switching costs would need

[59] Nzuki Kithung'a Peter, BRAND ASSOCIATIONS AND CONSUMER PERCEPTIONS OF VALUE OF PRODUCTS, http://www.fiuc.org/esap/NAIRO/NAIRO9/General/brandassociations.pdf
[60] Aaker, D. A., & Joachimsthaler, E. (2000). Brand leardership. New York: The free press.

to be compensated somehow, for example offering a free service or gift if switched to another brand.

4. At level four of the pyramid, the buyers really like their brand. They can even be classified as brand enthusiast and they usually have an emotional bond to the brand among rational reasons. Also at this level the buyers sometimes do not even know exactly why they like the brand, which is a good example of *attitudinal loyalty* which is more emotions based.
5. At the top level the buyers are proud to use the specific brand and it plays an important role in their daily lives and their personal values. To maintain such loyalty, often some kind of reward is given to them through loyalty programs which recognize them as a VIP customer[61].

5.4 How can the OTAs improve their brand equity?

As demonstrated, brand can be an effective weapon to increase customer loyalty, and at the same time a weak brand can affect negatively to customer loyalty. This is why it is important to examine where and how the OTAs can improve their branding, taking into account all the four dimensions which create brand equity; brand awareness, perceived quality, brand association and brand loyalty.

5.4.1 Brand awareness

Brand awareness is something very much linked to advertising, where and how the company makes appearance in order to make consumers aware of it. Obviously, if the buyer is not aware of your products or services, no business would be possible, left alone loyalty.

Kayak, one of the largest travel meta-search companies, conducted a study towards people who use online travel sites to see if they had heard of Kayak, and 68% responded that they had never heard of the brand[62]. This made Kayak to start a new brand awareness campaign where it focused on television ads, with a mix of online marketing and outdoor marketing. By June 2010 Kayak had

[61] EURIB European Institute for Brand Management 2009, Aaker's Brand Loyalty Model, http://www.eurib.org/fileadmin/user_upload/Documenten/PDF/Merktrouw_ENGELS/Aaker-_Brand_loyalty_pyramid_model-EN.pdf

[62] Eyefortravel news, November 4 2009, http://www.eyefortravel.com/news/marketing/kayak-focuses-brand-awareness-launches-ad-campaign, as visited 15.4.2011

become the largest meta-search company and accounts 5.6 million unique visitors at their site monthly[63].

The Kayak example shows that with well-aimed and designed advertising and branding, there is a good chance of creating visitors to your site which increases the chances of turning at least some of them loyal customers. Advertising methods will be discussed more in detail in Chapter 6.

5.4.2 Perceived quality

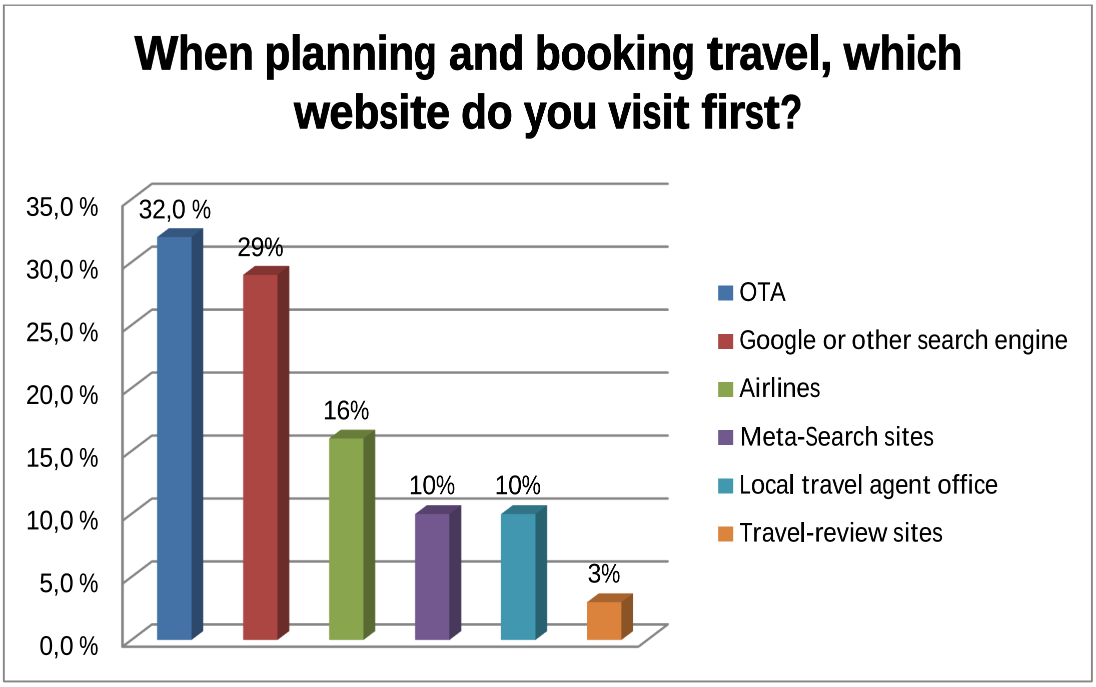
As discussed earlier, perceived quality often refers to what consumers are buying and how they see it. However, as OTAs are often mere distributors rather than suppliers, the quality of the actual product, a purchased flight for example is reflected towards the airliner, not OTA. Therefore while talking about perceived quality with regards to the OTAs; the quality of the website is what matters. The service quality will be discussed more in detail in Chapter 7.

5.4.3 Brand association

While discussing travel or holiday or trip to a buyer, the best scenario for the OTA would be that the first company the buyers would associate with is theirs. When asked "when planning and booking travel, which website do you visit first?" in an online study as shown in Figure 22, 32% said they will visit OTA sites first where 29% said they will use Google or other search engine to find the best fare. 16% said they would go for airline site and both meta-search sites and local travel agent got 10% site. Only 3% said they would go to travel-review sites[64].

[63] PhocusWright's Online Traffic and Conversion Report Second Edition February 2011, www.phocuswright.com
[64] Online research with 136 responds, 70% from Finland

Figure 22 Buyers first choice of website when planning and booking travel



The results confirm the findings PhocusWright made earlier. Even though OTAs would be the first choice with 32% while planning and booking travel, the European travellers still heavily go for search engines such as Google. This indicates that even though the OTAs were the strongest, there is still huge potential to convert buyers who have little or no loyalty towards any website and who search mostly with search engines. By increasing OTAs' brand association to position them to be the number one place to find travel; it is possible to gradually build this customer base into loyal, profitable buyers.

5.4.4 Brand association case Travelocity: Money vs. brand

Travelocity, another large OTA worldwide was faced with a critical issue as they experienced an error in their system and a fare normally costing over $2000 was put on sale for $51. The company noticed the mistake and fixed it, but already over 400 tickets were sold and had company let the tickets to be sold at the wrong price, they would have lost over $2 million. Even though Travelocity had the right to cancel to selling of the tickets, after difficult consideration they decided to honor the sale. As the CEO of Travelocity at the time said, "The only real test of whether [the branding initiative] was authentic was what happens when something bad happens."

Later on the CEO even logged onto FlyerTalk herself to announce her decision, wishing the fliers "Bula" ("welcome" or "hello" in Fijian) and asking them to post a hotel review when they return"[65].

From the branding point of view, we can argue that Travelocity did the right decision. They realized that branding is a lot about trust and by honoring the sale they showed the customers that on top of all Travelocity thinks of the customer. For the customers their $51 Fiji holiday was most likely an unforgettable experience and making them to remember Travelocity for years to come. On one hand the incident was positive for the buyers who got their cheap fare, and on the other hand the coverage Travelocity received for their brand after through the media reporting of the mistake and the word of mouth within the travelling communities boosted the brand awareness of Travelocity. Receiving all this attention, even by mistake, can be more valuable what they could have achieved by spending the $2 million in marketing and advertising. By inviting personally these buyers to contribute to the review sites of Travelocity the company managed to generate the trust and awareness every brand needs.

5.4.5 Brand loyalty

Looking at Aaker's brand loyalty pyramid presented earlier in Figure 21, most of OTA clients are in level 1, being highly price sensitive who show little brand loyalty. The online survey shows that even European OTAs were number one when searching for travel, there is still a lot to do in the field of branding from the basics of increasing their brand awareness and going all the way to increased brand association. In addition the OTAs do not seem to have much brand differentiation, and their primary description of themselves seem to be 'cheap'[66], which is something very important but if an OTA really wants to succeed, they need to find the key to success through differentiation in that case.

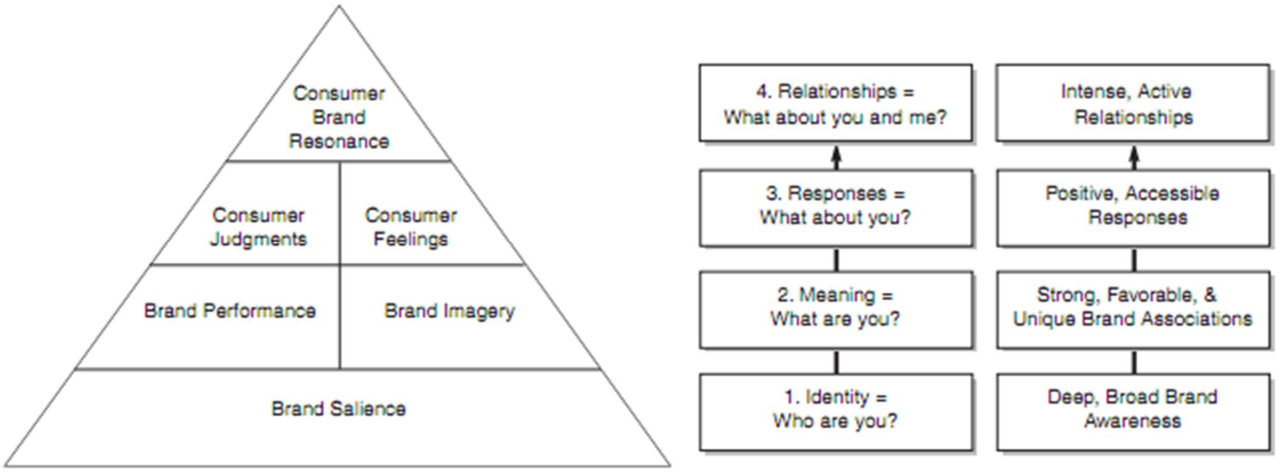
Travellink and other OTAs should therefore identify specifically what is their brand positioning, what do they want their brand to represent in addition to low prices? Trying to create emotional bond to the customer from the branding point of view in such a highly competitive industry is hard to achieve by only financial incentives.

[65] Bloomberg Businessweek, The Issue: What Price Reputation? 23 September 2007, http://www.businessweek.com/managing/content/sep2007/ca20070923_089830.htm, as visited 17.4.2011
[66] Search study with google.com, what description comes first in the search results of Expedia, Travelocity, Travellink, Ebookers, Orbitz, Opodo, Supersaver, as visited 18.4.2011

5.5 OTAs to analyze their brands

Creating strong brand equity can be a hard thing to do, especially in an industry where competition is fierce. Moreover a strong brand is a mix of things, and Travellink or any other OTA should analyze where their brand lacks, whether it is brand awareness, perceived quality, brand association etc. Below in Figure 23 is a one tool to help an OTA to identify how their brand is doing[67].

Figure 23 "A customer-based brand equity pyramid"



This customer-based brand equity pyramid gives a basis for a company to analyze how their brand is positioned, and whether it matches their customers' requirements. A typical European OTA brand equity pyramid would look something as in Figure 24:

[67] Keller Kevin Lane, Building Customer-Based Brand Equity: A Blueprint for Creating Strong Brands, 2001, Marketing Science Institute, Report NO 01-107, http://mktg.uni-svishtov.bg/ivm/resources/CustomerBasedbrandEquityModel.pdf

Figure 24 A typical European OTA brand equity pyramid

The coming chapters will focus more specifically on the marketing efforts and service quality of OTAs, and discusses how they can be improved in order to better achieve customer loyalty.

Chapter 6
Marketing Effectiveness

6.1 Introduction

This chapter goes more into the details where and how should the OTAs market themselves. What is the basis of successful advertising, what are the OTAs doing with their marketing budget at the moment and should it be adjusted? What channels work the best for which purpose and where does social media fit into the picture? Answering these questions helps OTAs to better reach the consumers and offers value proposition in order to create increased customer loyalty.

6.2 Advertising as a tool towards increased customer loyalty

The objective of advertising is to get attention, inform, persuade or to remind about company's products and services[68]. Advertisement is directly linked to customer loyalty, as it tries to persuade the customer why they should consider the products of a company. The Figure 25 below explains the long term effects of advertising[69].

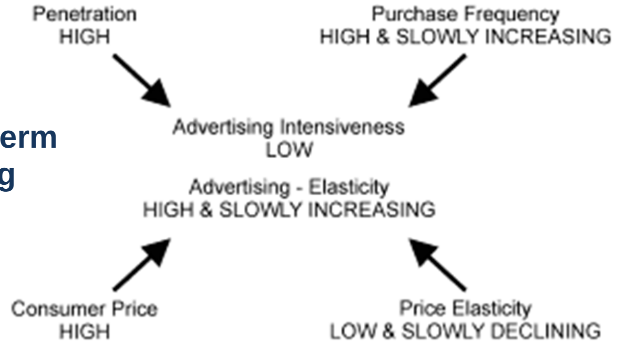


Figure 25 The long term effects of advertising

Successful advertising reveals itself by strengthening of the brand. The four peripheral factors (market penetration, purchase frequency, consumer price and price elasticity) act as important factors towards brand's health and growth. Penetration refers to brand equity as discussed in the previous chapter, how known is the brand and how people see it. Purchase frequency is the time gap the company's

[68] http://www.businessdictionary.com/definition/advertising-objective.html, as visited 23.4.2011

[69] Jones, John Philip; Slater, Jan S, What's in a Name? : Advertising and the Concept of Brands. Armonk, NY, USA: M.E. Sharpe, Inc., 2003. p 189.

products are bought again by the same buyer. Consumer price refers to the price the company is able to sell its products for and price elasticity refers to how sensitive are the buyers to price increases or decreases of their products/services.

All these four peripheral factors affect the two core factors which measure the success of advertising in a long term, the advertising intensiveness and elasticity. Advertising intensiveness is the relationship between brand's share of the market and its share of the all media advertising in its product category, whereas advertising elasticity is the effect on sales at the time of increasing or decreasing advertising expenditure.

The theory in the Figure 25 above shows, if the four peripherals are strong, the advertising becomes less important which means lower advertising intensiveness and elasticity. However, considering OTAs such as Travellink, where all the peripherals are relatively weak, one of the main issues is getting the advertising right if increase in customer loyalty needs to be increased.

6.3 Is advertising efficient to create strong brand in order to boost customer loyalty in today's European OTAs?

6.3.1 Online advertising:

As can be seen in Figure 26 below, when it comes to online marketing which also includes advertising, OTAs spend over half of their efforts to search engines[70]. If the number of people in Europe using the search engines for their travel search considered, as discovered in Chapter 3, it is clear that a presence in the search engines is important.

[70] Hermes Management Consulting, Understanding Online Travel Agencies' Cost Drivers and Ways to Optimise Business in Europe July 2010, http://www.amadeus.com/smtv/x181782.html

Figure 26 European OTAs' Online Marketing Expenses by Channel

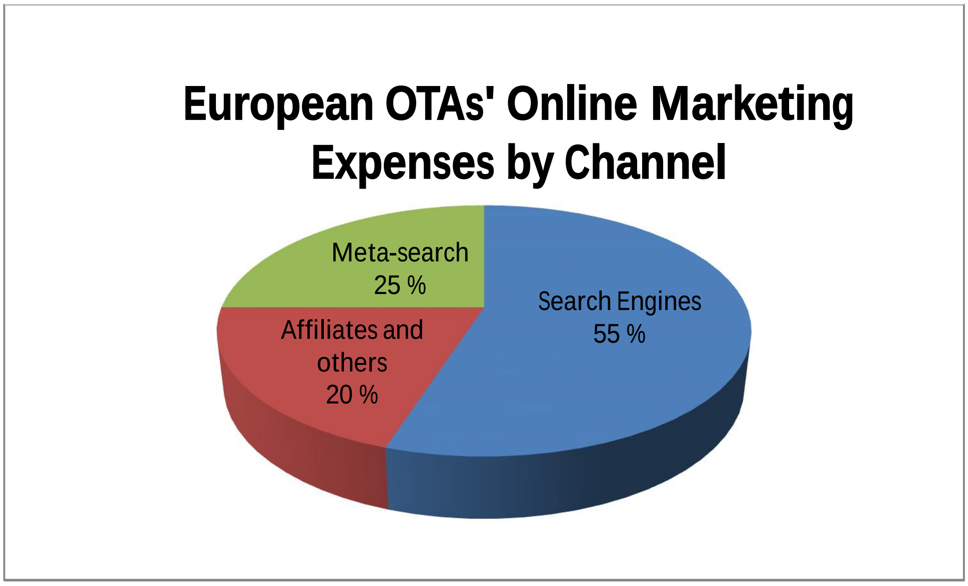


Figure 27 below shows how search engines, next to affiliates is the second highest generator of visits to the site.[71] Therefore it is an excellent way to increase traffic especially for agencies, which might be new or otherwise have relatively not so known brand. Also the affiliates are good channels for advertising, and less expensive which can therefore be even better than search engines.

Meta-search websites are another valuable source of visits counting up to 26% of online customer leads. However, according to latest statistics meta-search websites have been dropping some popularity, as much as 40% drop in traffic was experienced early 2011.[72] Another fact with meta-search websites is that they encourage price comparison, and only price comparison as the sites do not show any other factors which might affect purchase decision, such as the service quality. This is why OTAs should be fairly sure that their fares show constantly on the top on the search engine result page when one searches for low prices. In terms of loyalty, meta-search websites have little or no effect as the buyer will deal only with the actual supplier at the time of booking.

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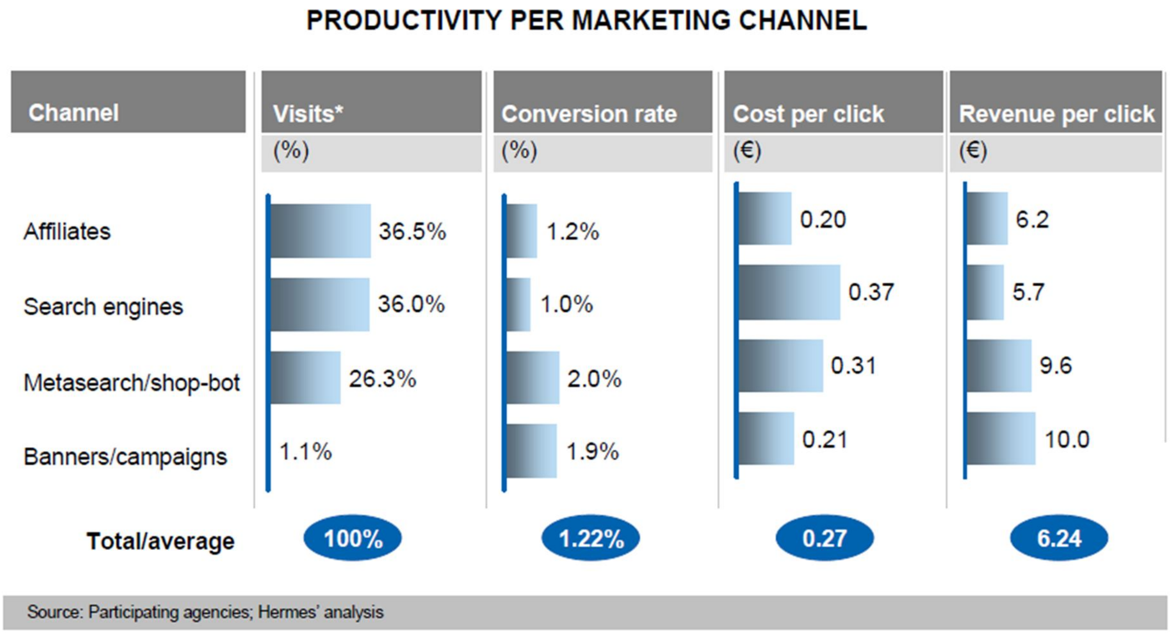
[71] Hermes Management Consulting, Understanding Online Travel Agencies' Cost Drivers and Ways to Optimise Business in Europe July 2010, http://www.amadeus.com/smtv/x181782.html

[72] Eyefortravel.com, Travel metasearch sites have seen a 40% fall in organic search traffic, 20 April 2011, http://www.eyefortravel.com/news/europe/travel-metasearch-sites-have-seen-40-fall-organic-search-traffic, as visited 12.5.2011

Banners/campaigns create only 1% of visits, but are relatively cheap and have higher conversion rate than search engines and affiliates. Hence they are most effective when used together with the other forms of advertising, e.g. to boost certain campaigns where an OTA would like to get visibility.

Figure 27 OTA Productivity per Marketing Channel

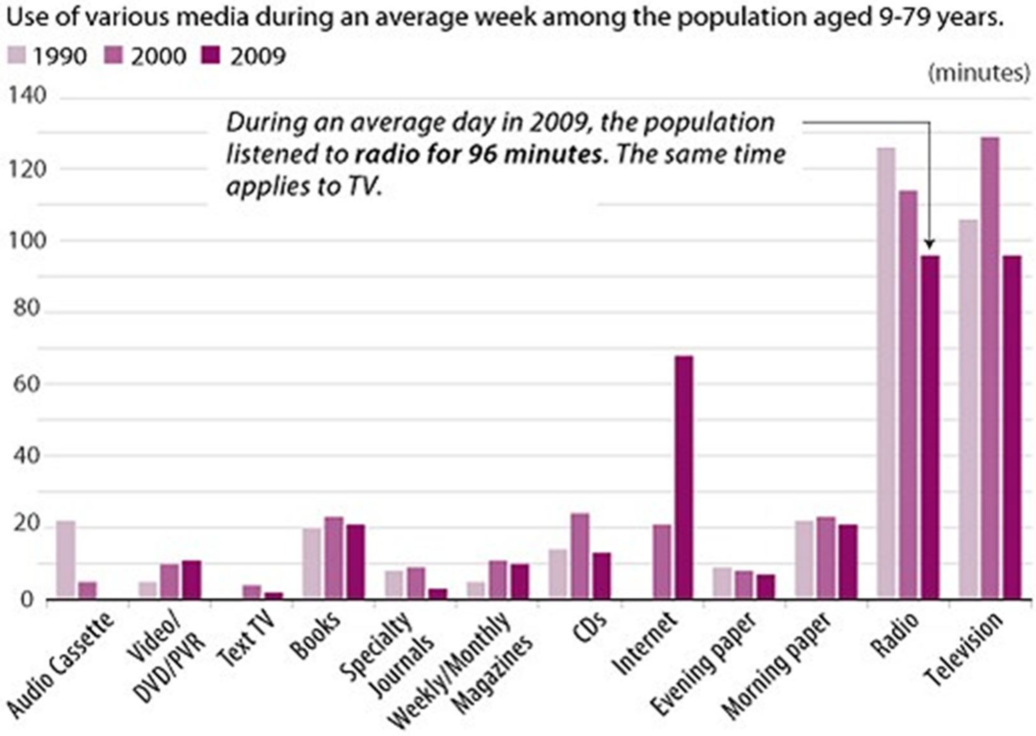


6.3.2 Offline advertising:

We have seen above how OTAs do online advertising; however the fact that many OTAs do not give much importance to offline advertising should be taken seriously. According to studies, 67% of the people searching fares online have been driven to search by offline channels.[73] Also, 39% of the people who got influenced by offline channel ultimately made a purchase. The study found that television, 37% and word-of-mouth, 36% were the channels which drove search the most. Newspaper/magazine ads and word-of-mouth were the most effective in generating purchase.

[73] iProspect Offline Channel Influence on Online Search Behavior Study, August 2007, http://www.marketingcharts.com/television/offline-channels-drive-users-to-search-who-then-buy-1317/, as visited 12.5.2011

Figure 28 Use of various media



Looking at what media people tend to use in Figure 28, radio and television are still majorly ahead to other forms of media in terms of time spent with it.[74] Both radio and television averaged to 96 minutes per week, where internet was 68 minutes per week. Besides these, both books and different kind of magazines are popular.

In the light of this information, it is safe to say that offline advertising is something OTAs shouldn't ignore, as the brand is one of the key elements in loyalty creation, and brand awareness need to be pushed to the customer.

[74] Sverige Radio, Everything Old and the New As Well, Journalism 3.0 - Media Ecology and the Future, 28 February 2010, http://sverigesradio.se/sida/artikel.aspx?programid=4042&artikel=4374852, as visited 13.5.2011

6.4 Social media marketing:

6.4.1 What is social media?

Social media can be defined as "a group of Internet-based applications that build on the ideological and technological foundations of Web 2.0, which allows the creation and exchange of user-generated content"[75]. Social media marketing on the other hand is "A form of internet marketing which seeks to achieve branding and marketing communication goals through the participation in various social media networks (MySpace, Facebook, LinkedIn), social bookmarking (Digg, Stumbleupon), social media sharing (Flickr, YouTube), review/ratings sites (ePinions, BizRate), blogs, forums and news aggregators"[76].

6.4.2 Why is social media significant?

The advantages of social media can be a great use for online travel agencies. Social media offers cost-effective advertising with potential to reach wide audience, word-of-mouth communication, presence on multiple online social networking sites and create brand awareness. These advantages can be used for marketing and sales, communication, advertising and traffic generation. Moreover, advertising in social media is highly targeted, it allows bypassing gatekeepers and it is an important source of market research.

7 out of 10 online travellers are users of online social networking sites, and 2 out of 3 of these travellers are active on Facebook[77]. Facebook is reaching 90% of travelers in the age group of 18-24. Perhaps surprisingly, also half of the people above the age of 55 are also on Facebook. When over 90% of the users log in once or more per week, Facebook alone from many social networking sites shows the vast possibilities to reach and interact with travellers online.

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[75] Kaplan, Andreas M.; Michael Haenlein (2010). "Users of the world, unite! The challenges and opportunities of Social Media". *Business Horizons* 53 (1): 59–68.

[76] Formicmedia.com, SEM Glossary, http://www.formicmedia.com/sem-glossary.htm, as visited 13.5.2011

[77] PhocusWright's Traveler Technology Survey 2010: Social Networks, September 2010, www.phocuswright.com

6.4.3 What can the OTA do with social media?

In order to increase traffic generation and brand awareness via social media, there are several things OTAs can do to engage customers. These can include:

- Create fan page which customers can share with their network
- Advertise and promote products
- Promote deals and campaigns
- Interact with customers in form of quizzes and competitions
- Publish pictures, videos, blogs related to product offering
- Micro blogging
- Direct communication between customers

6.4.4 OTA social media success?

According to PhocusWright, over half of the Facebook users become fans of companies, but only 19% have become members of travel companies of any sorts. This shows that for OTAs there is still a lot of room to improve to tap this huge customer potential. The buyers themselves need to choose to be a fan of the company, and it cannot be imposed by the company. This is one of the reasons why brand and especially brand awareness becomes important that were discussed in earlier chapters.

The key to the success of social media is to engage with your customers 24/7, the most significant examples being Expedia which has 1 million + Facebook fans. In comparison, Travellink, Finland which updates their Facebook fan page on average twice a month has mere 700 fans.

However, social media is not only about maintaining fan pages. It is a tremendous tool to for banner advertising. As by nature social media site users are giving out information about their demographic, location and their interests, these sites can offer highly targeted advertising compared to traditional online marketing. Not only is it targeted, at the moment, but it’s also very cost effective. An example in a study showed that through Facebook with little more than €100 it was possible to get over 450 000 impressions for an ad[78].(Impression is a single time an online ad was displayed)[79].

[78] Schrum Randy, King Peter, Advanced Social Media Marketing Strategies Webinar, 22 April 2011

6.4.5 The Risks of Social Media

Even though social media is a great platform for marketing, it also gives a lot of power to the customer. A reputation a company builds for years can get crushed in an instant if the customer complaints go viral. A perfect example of this is when a passenger United Airlines saw his valuable guitar been thrown to the airplane and receiving it broken at his destination, with the airline refusing to compensate. The irritated passenger created a short music video about the incident, shared it on social media where it got 150 000 views in the first day[80]. Social media requires companies being constantly alert and it sets new standards for customer service, especially for reclamations.

Another risk is the uncertainty of the future of social media sites as Facebook. In many occasions Facebook has altered the privacy settings of their site without informing its users. The problem here is that consumers often lose at least some of the trust towards these sites. Especially as the social media sites can provide even more accurate personal information, such as where you are at any given moment through smartphones, the trust issue is bigger than ever.[81]

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[79] http://www.marketingterms.com/dictionary/impression/, as visited 13.5.2011
[80] CBC News, Broken guitar song gets airline's attention, 8 July 2009, http://www.cbc.ca/news/arts/music/story/2009/07/08/united-breaks-guitars.html, as visited 13.5.2011
[81] Kirkpatrick Marshall, Privacy, Facebook and the Future of the Internet, 28 January 2010, http://www.readwriteweb.com/archives/privacy_facebook_and_the_future_of_the_internet.php, as visited 13.5.2011

Chapter 7
Service Quality

7.1 Introduction

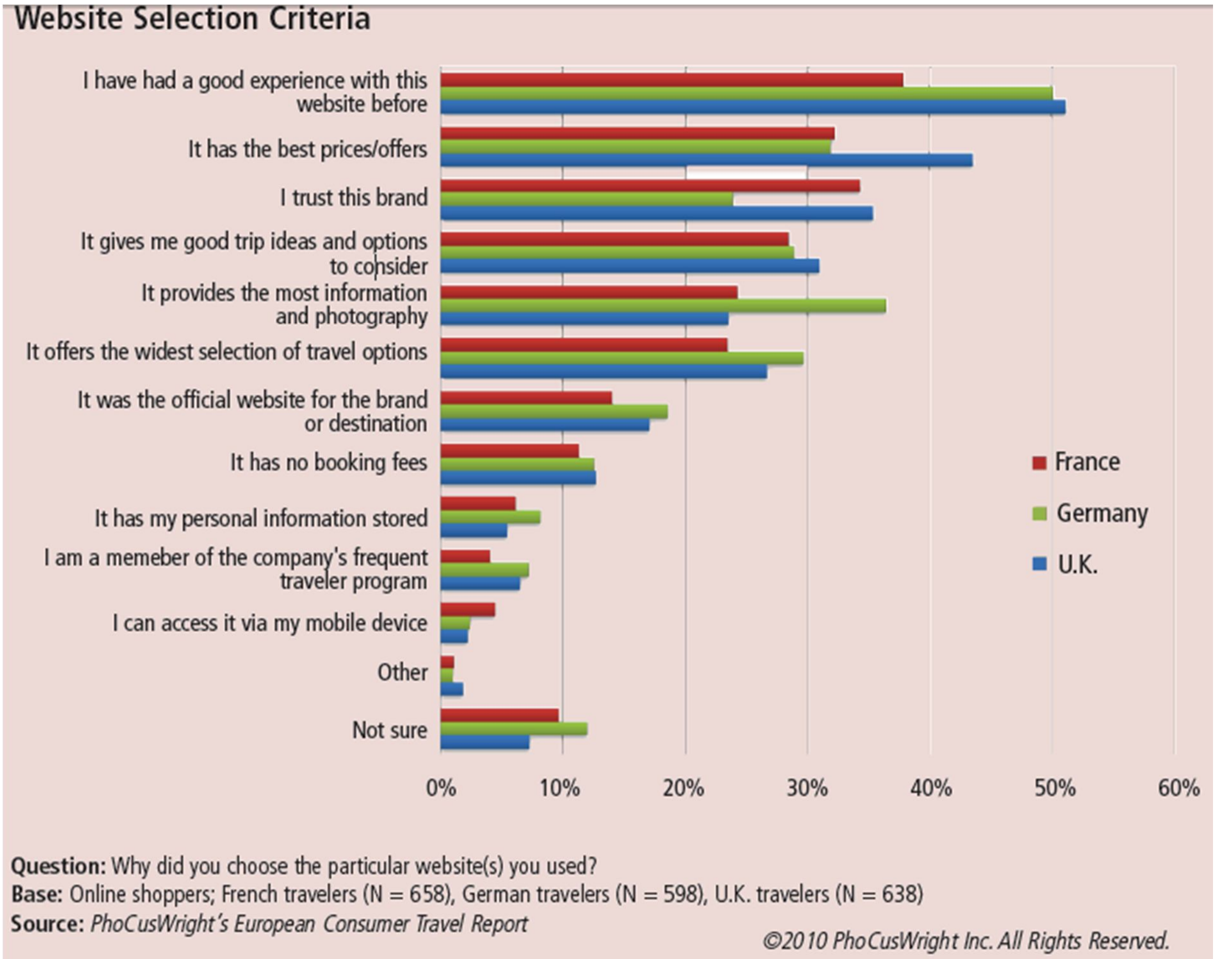
No matter how well you advertise or create brand awareness and generate traffic to your website as discussed in previous chapters, it is not enough alone to create loyalty. Whether OTAs can really offer to the buyer service quality really matters. Service quality includes the products, the website, customer service and other key factors the buyer faces while searching, booking and travelling. This chapter will focus on the main themes OTAs need to focus on regarding service quality.

7.2 What makes people to choose their travel website?

As the PhocusWright study in Figure 29 below shows, the number one reason people return to their travel website is because they had a good experience with it before. Excluding price which was the second reason after the good experience; trusted brand, trip ideas, information and travel selection were the highest regarded qualities which makes buyers to return their travel sites.[82]

[82] PhoCusWright's European Consumer Travel Report July 2010, www.phocuswright.com

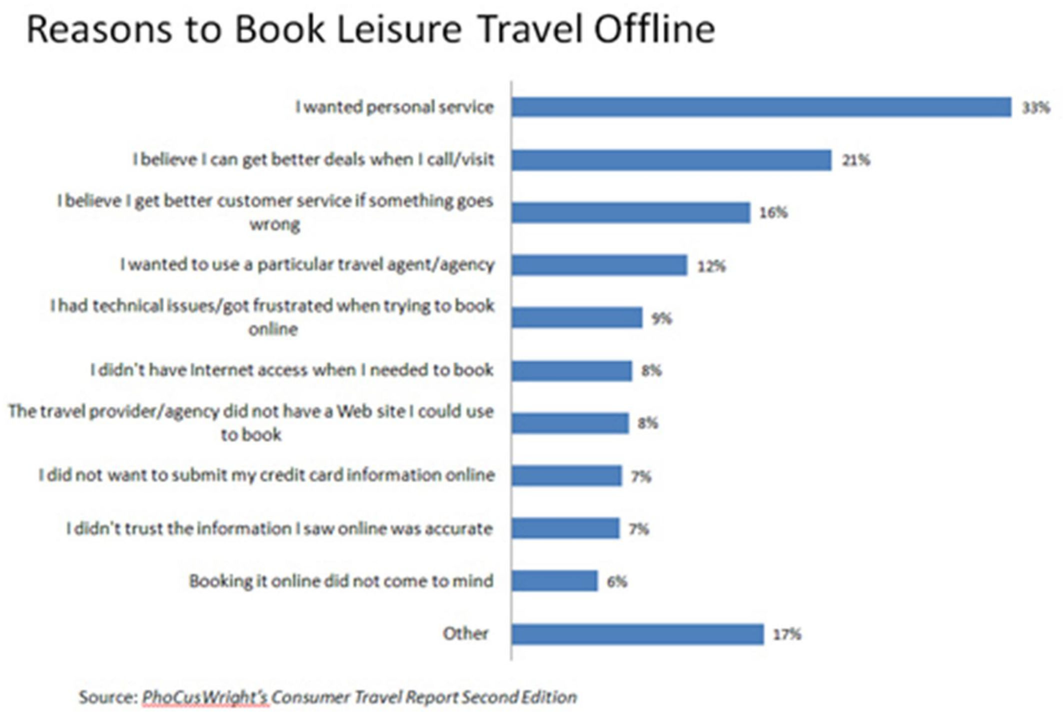
Figure 29 Travel Website Selection Criteria



While comparing the results to the same question as to why people choose to book leisure travel from *offline* channels in Figure 30, the reasons were quite different. Personal service was the most appreciated, in case something goes wrong. Also high on the list were problems using internet sites and the trust towards websites with regards to either payment or the information about the travel provided.[83]

[83] PhoCusWright's Consumer Travel Report Second Edition, May 2010, www.phocuswright.com

Figure 30 Reasons to Book Leisure Travel Offline



When asked what the OTAs are lacking the most and where should they improve, over one third of the respondents complained the usability of the websites is not up to standards, and especially when it comes to not having any hidden fees or having real time data.[84]

7.3 How to improve usability in the online travel agencies?

The usability of the service is one of the most important factors for buyers to make business with travel websites as shown in the previous section above. However what exactly goes wrong in the usability of these websites?

There have been various studies done towards OTA websites. According to a research, it is a combination of little things that give the overall quality and ease-of-use feeling[85] [86] [87]. Some problems that European OTAs have experienced before include issues as below:

[84] Own online research with 39 respondents to the open question
[85] Journal of usability studies, usability study of travel websites, Issue 1, Vol 1, November 2005, pp. 47-61

Website:

- A simple URL
- Website loading time
- Easy on eyes (for example color balance)
- Website integrated search engine, if it finds what you are looking for (e.g. answer to a question of baggage restrictions).

Search:

- Easy, consistent navigation (clear path where to book flight, hotel, car etc.)
- Flight search engine misspell auto-correction
- Fast search, especially if error result
- Search results show necessary information about a flight and a hotel
- Auto refresh (to prevent searches not saved across sessions and too fast website time-out if checking other pages at the same time)
- Displaying continuously a contact number if a user wants to ask something during the booking process, or pay offline
- Up-to-date fare information
- Clear show of final price and items not included

Content:

- Information about the hotels with real, representative pictures
- Clear instructions how to carry out the purchase
- Website should not be cluttered with advertisements

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[86] Webcredible, Flights Online: Ensuring Your Site Takes Off, 2008, http://www.webcredible.co.uk/user-friendly-resources/white-papers/travel-usability.shtml, as visited 15.5.2011

[87] Xperience consulting, Usability and user experience sectorial report: Online travel agencies and hotel websites, January 2009, http://www.uxalliance.com/sites/default/files/publication/pdf/Xperience_Consulting_Travel_Industry_Study.pdf, as visited 15.5.2011

As can be seen even from this not comprehensive list, the user experience of an OTA site comes from many factors, which alone might not be critical, but overall determine the quality of the website. It is recommended for Travellink and other OTAs to conduct own study how their customers see the usability of the website, keeping the mentioned items in mind.

7.4 Customer service in an OTA

As seen earlier in Figure 30, the number one reason for travelers to turn into offline agents is the personalized service they are expecting. Online travel agencies are not even expected to reach the same kind of service, but it can do some 'damage control' towards this weakness. First of all OTA should have an email address for any queries with a fast response time, for example within 48 hours.

The advantage of an email towards customer service line is that it doesn't require personnel constantly behind a telephone. Also long hanging time over the telephone can be frustrating to the buyers, which can make them abandon the transaction.

However, if the OTA has enough resources it should consider a constant telephone support. The line should also not include extra charges which can scare buyers.

A third way an OTA can provide service is introducing direct chat to their website, where the agent can provide information and help the customer in solving a problem. These applications are already available for the agencies.[88]

7.5 Other ways to improve the customer experience in order to boost loyalty

7.5.1 Mobile Service

As mentioned already in Chapter 3, there is increasing number of smartphone users in the market and more and more people are searching travel options through mobile devices. Traditionally OTAs have relied on buyers to access their service through personal computers, stationary or laptops.

However the opening mobile front brings a completely new channel to distribute travel services. According to study, 74% of smartphone shoppers make a purchase as a result of using their phones in

[88] http://www.etalkup.com/travel-agent-customer-service.aspx, as visited 15.5.2011

shopping activities[89]. Many larger travel companies have already realized the immense growth and opportunity of mobile internet browsing and looking for ways to engage and sell through them[90]. Even though the Eyefortravel news item suggests that mobile is only for large OTAs and travel companies, there is nothing preventing a smaller or medium size OTA to create an app for searching and booking travel through mobile phones. App is an application (small piece of software) specifically designed for portable devices, which offers better usability or new function than what the original website could offer considering the limitations of small screen and lack of keyboard in mobile phones.

Mobile websites are especially designed websites for mobile devices which consider the smaller screen and user interface, and often they are just tweaked original websites which lack features of the original website. The benefit of an app is that unlike mobile websites, it doesn't lack any features, moreover it can bring new functions. However they require the user to search for the app and download it, whereas mobile website is ready to use instantly. However research shows that travel companies that have invested both in apps and mobile websites are seeing increasing traffic.[91]

The mobiles front is definitely a future frontier for OTAs to offer travel services. For customer loyalty, providing user friendly mobile application can be as much important as providing a user friendly internet page through computer.

7.5.2 Mobile Services beyond searching and booking

The mobile possibilities do not end in just searching and booking. There is a possibility for an OTA also to create their mobile apps further to bringing extra value and reason for customers to get a certain app for instance. Travel companies have started thinking or have already created applications that could for example, wake you up for your morning flight, check weather and remind you to take an umbrella. During a trip it could also know where the nearest pharmacy is, give suggestions for sightseeing, restaurants and other services. It could also know if you have a friend or colleague aclose

[89] IPSOS OTX, Google, The Mobile Movement: Understanding Smartphone Users, April 2011, http://www.eyefortravel.com/news/marketing/nine-out-10-smartphone-searches-results-action-google-survey, as visited 16.5.2011
[90] Eyefortravel news, Mobile is just for the big guns with the big budgets, 26 April 2011, http://www.eyefortravel.com/news/europe/mobile-just-big-guns-big-budgets, as visited 16.5.2011
[91] Eyefortravel news, Mobile websites beat mobile apps for selling travel, 27 April 2011, http://www.eyefortravel.com/news/europe/mobile-websites-beat-mobile-apps-selling-travel, as visited 16.5.2011

by and suggest a dinner get-together. The possibilities are almost limitless what an OTA could bring to their traveller.[92]

An OTA could also start offering useful and interesting content to travellers through smartphones, and newly interested tablet-devices, for example iPad. Tablet-devices are small computers with only touch screens, but much bigger than smartphones. This is what Air Baltic started to do spring 2011, where they introduced an online newspaper/magazine on iPad devices, where the reader user can read articles on Air Baltic's destinations, interviews, reviews and more[93].

7.5.3 Providing Platform for Travellers to See and Share Experiences

Other people's previous experiences on the social websites and word-of-mouth communication can influence the purchase of travel. In Europe, a large amount of people also enjoy sharing their travel experiences as seen in Figure 31. The way an OTA can utilize this opportunity is to offer travelers platform to share their experiences. Not only it is useful for giving the company valuable feedback on the OTA's products, but also for providing useful content for any possible buyer. The larger OTA's, make a platform accessible to travelers to write about their trips, e.g. Travelocity has created a column called ExperienceFinder where people can find photos and videos of their destinations. They can also search by selecting themes, such as history, adventure, or romance which gives the relevant travel destinations[94].

Figure 31 Enjoyment of Discussing Travel Experiences

92 Kauppalehti, Älypuhelimesi kasvaa matkaoppaaksesi, 1.5.2011, as translated and visited 16.5.2011
93 Rantapallo, Air Balticilta iPad-versio asiakaslehdestä, May 2011, http://www.rantapallo.fi/matkailu/air-balticilta-ipad-versio-asiakaslehdesta/, as visited and translated 16.5.2011
94 http://www.travelocity.com/experiencefinder/#section=Main

Chapter 8
Conclusions & Recommendations

8.1 Introduction

Customer loyalty is a fickle thing and as seen so far, there are various factors that can affect it. The previous chapters have given detailed background information linking to the aspects that create online loyalty and also how OTAs operate. This chapter pulls all that information together and focuses on giving practical, actionable recommendations for OTAs on how to improve their services and marketing in order to enhance customer loyalty.

8.2 The customer loyalty programs, are they worth it for an OTA?

8.2.1 When to go for a loyalty program?

Switching costs as discussed in Chapter 2 can affect greatly for customers to stay with an OTA. Also an attractive offering lures customers to the business and this is where a customer loyalty programs can help.

However customer loyalty programs are expensive, especially in the beginning as the return for investment comes in the long term. They require a lot of planning, man power, budget and patience, even if they are done with a partner. As their success is neither guaranteed, going for a loyalty program is recommended only for stable OTAs which are doing already healthy profit. Even though an OTA is in a position to go for a customer loyalty program, it is recommended to make sure the company has the experience and willingness to endure the whole process.

In the end however, the possibilities for customers returning to the business can be great as almost 80% of the online survey respondents said that if receiving reward points for purchases, they would definitely or maybe return again to the same OTA.

8.2.2 What type of loyalty program?

Based on the online survey, over 2/3 would prefer a loyalty program that is free to join by everyone. This is a logical approach, as an OTA does not necessarily want to have barriers to entry. As the customer base is large, an open membership offers a good way to gain an extensive customer database. During the evolvement of the program, it is possible to consider the extension where some customers receive higher status as premium members, or perhaps where introducing a fee to the membership one can have higher rewards.

8.2.3 Which benefits?

As research showed, price is one of the top factors that make consumers buy travel. Therefore in the beginning the loyalty program should attract customers by offering instant financial benefits. Even though this is costly; it can be an unfavourable deal for unstable travel companies, who cannot afford to give high instant discounts for their offerings.

8.2.4 To whom?

The loyalty program should be flexible, but the key emphasis should be in the main customer group of every single OTA. If an OTA doesn't know who their main customer group is, in that case there is a serious need for them to conduct a research which would provide them with a proper idea for customer segmentation and then plan a customer loyalty program which would be more targeted as per the age, income level, favourite destination and then for OTAs to expect better ROI from these programs. E.g. in the Chapter 3, this particular research conducted showed that adult travellers over 45 years of age are the most profitable customer group and beach and city holidays are the most popular destinations. These kinds of results would certainly help the OTAs on loyalty programs.

8.2.5 Customer loyalty program key recommendations

- For stable OTAs that can afford the long term budget, man power and planning which have the expertise
- An open, free to join membership
- Start with emphasis on financial benefits
- Define customer segmentation

8.3 What can OTAs do with their brand?

8.3.1 Find out where the brand needs improvement

Based on the results of the online survey shown in this study, while searching and booking for travel, 32% visit OTA sites first. However, almost the same amount of people would start their travel planning with search engines such as Google. This indicates that there is a great deal of improvement opportunities to direct these people to the OTA sites. In any case each brand is different, and each OTA should find in which area does their branding needs improvement, whether it is brand awareness, perceived quality, brand association or brand loyalty.

8.3.2 Differentiate the brand

Evidently, if the OTAs do not have much differentiation in their brand, from the consumers perspective static brands do not create enthusiasm, and not all OTA brands can claim the “cheap or cheapest” quality.

One possibility the OTAs is the growing trend where travellers look also for security. An OTA can create a key message around how they have a wiser choice, and thus compete better against for example airliners, which are not that strong from the security point of view.

Therefore creating a message that reaches to the consumers is important. It can be as simple as creating a mascot for the brand which the consumers can easily recognize and relate to. For example Travelocity has mastered the use of mascot in their Facebook site which has been very successful to engage customers which is popularly known as Travelocity Gnome.[95].

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[95] https://www.facebook.com/travelocity

8.3.2 Branding key recommendations

- Execute a well-planned brand study with your customers to identify the strengths and the weaknesses
- Consider differentiating the brand, add another key message than only cheap, i.e. security
- Personalize the brand, e.g. a mascot

8.4 Marketing efforts

8.4.1 Online marketing channels

While considering which marketing channel to give emphasis on, the fact that Europeans use search engines a lot for travel search mean this channel cannot be ignored. As discussed before, it is an important channel for every OTA, especially for the less known in order to create brand awareness.

Affiliate websites can be a major source for traffic generation and should be one of the main channels next to search engines. Meta-search sites have a dilemma, even though they create a lot of traffic, from the loyalty point of view they are only concerned with the price. If an OTA has proven cheap prices, then meta-search sites can be an effective weapon. Banners do not offer much traffic however they provide a good conversion rate, which makes them optimal to support campaigns and promotions.

8.4.2 Should OTAs use offline marketing?

Often online searches are triggered by offline channels, and a large proportion also makes a purchase offline in the end as discussed in chapter 6. This indirect effect is often dismissed and many OTAs focus mainly on online marketing. In order to especially create brand awareness, offline marketing can be very effective. TV and radio even today are the most used media.

8.4.3 To what extent should OTAs focus on social media?

Social media reaches highly large proportion of travellers, also older people above 55 years of age as seen in chapter 6. 90% also use social media such as Facebook more than once a week. However communicating with customers on social media needs constant attention, just few updates here and there are not enough.

Advertising in social media is still relatively cheap which can create massive amount of impressions. Moreover it is highly targeted which makes it extremely attractive for campaigns aimed towards certain customer type.

8.4.4 Marketing efforts key recommendations

- Focus on search engine & affiliate marketing, especially if your brand is not that known
- If possible, reduce focus on meta-search sites unless your fares rank constantly cheap
- Banners are a good marketing method especially for campaigns and promotion
- Increase the use of offline marketing channels, such as TV and radio
- Dramatically increase social media marketing and make your company available there “24/7”

8.5 Product offering

8.5.1 Make sure your products cater to the current trends

Especially during the financial crisis, the travelling habits have experienced some change as discussed in chapter 3. Therefore for an OTA it is important to follow these trends and make sure the product offering is fully tailored to consumers needs.

End minute bookings are becoming more popular, and OTAs should have a clear section for quick take-offs. Another example, Sun & beach destinations are the most popular as per the study we have seen and OTAs should make sure these are offered sufficiently. An OTA could also focus on giving ideas and travel to close by destinations which are also popular as seen earlier in this study. A wide selection of car booking or train travel can attract travellers going along this trend.

8.5.2 Product offering key recommendations

- Clear category for end minute booking offers
- Make sure popular destinations are well represented in the product mix
- Cater to budget travelling to neighbouring countries by offering car or train deals

8.6 OTA service quality

8.6.1 Usability of the website

As discussed more in detail in chapter 7, there are several details which create the website the user experience. Travellink as well as other OTAs should re-evaluate their website, and see if they conform to the main “check list” introduced in the previous chapter on website usability and take corrective action if required.

8.6.2 Customer service

Travellers who prefer offline travel agencies often look for personalized service. For OTAs this is hard thing to do, but they should make sure they are available for customers, toll free telephone lines open if the customers need assistance or want to pay offline after finding a travel option online. A quick response email address or tools in order to be able to communicate in real time with the travel agent on the website are ways to consider if OTAs plan to improve the customer service.

8.6.3 Mobile possibilities

Travellers are using smartphones more and more and for a customer having a user friendly mobile access to the OTA service, through mobile website or app, can be as important as the access at home through a computer. It is also possible to develop additional service for the traveller through mobile, such as automatic travel information or information about travel destinations. The mobile medium can also travel to other direction where travellers could post directly reviews and comments during and after their trip.

8.6.4 Future technologies to increase customer satisfaction

In addition to what has been discussed in the earlier chapters, OTAs should always keep an eye on future technologies to improve their service. One perfect example is a product from Amadeus, where the travel searches has been taken further than just typing date and destination to look for the availability. E.g. the Affinity search engine can be called as an intelligent search engine which gives you maximum search results with the minimum input. A traveller, who only has an idea about his budget or preferred season to travel, can get a wide search result including destinations, modes of travel etc. making its travel decision easier and giving a huge opportunity for a company to sell.[96].

These kinds of search engines would greatly help to increase the customer loyalty, adaptation to the ever changing technologies could be the key to success.

8.6.5 OTA service quality key recommendations

- Review the website and make sure it complies with modern standards
- Make sure the customer service is fully available through phone and email
- Consider real time customer service chat directly on the website
- Make search and booking possible through mobile devices and add interesting content
- Constant adaptation to the future technologies

[96] http://www.amadeus.com/amadeus/x163551.html, as visited 21.5.2011

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Appendix A
Research Proposal

Research Proposal

HOW TO IMPROVE CUSTOMER LOYALTY IN EUROPEAN ONLINE TRAVEL AGENCIES IN THE LEISURE SEGMENT?

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2.3.2011

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Background

The travel industry is one of the most competitive industries at the moment, as well as being one of the biggest. The market place is also different now than what it was 20 years ago as the internet has changed the business. Before internet, you had to leave your travel plans mostly on the hands of an agent who will be in charge for finding you a good itinerary, and there was little room for self booking.

Now as we move already to the second decade of 21st century, you can shop nearly everything you want from online. One business model was to transfer the traditional travel agency solely online and still offer the same services as the traditional agencies, without human contact. This allowed the online travel agencies to save money in personnel and hence made them able to offer better deals for the buyers than the traditional offline agency.

Even as the internet penetration in nowadays Europe is significant, the traditional travel agency is still there, doing well and surprisingly even better than the online agent who was supposed to take over. Not only that, now also the airlines have stepped up their game and offering similar services as travel agencies, including hotels, insurances, cars, etc. On top of that there are the meta-search sites which roam the internet, scanning for the cheapest price from various providers.

There is so much offering now and because of the internet, the buyers can easily check for the cheapest price and book straight from their home or even mobile phones. There is little incentive for the single leisure traveler to stick with one agent or provider.

The purpose of this thesis will be to look at the modern day travel industry, and from the point of view of an online travel agent, trying to identify how they could better secure a loyal customer base and stop the buyers running behind the cheapest fare. The scope of this thesis will remain within Europe as many of the online travel agencies are suffering from similar problems in this region. In addition the thesis recognizes the fundamental differences between a business and leisure traveler and will therefore focus only one of them, the leisure area.

The approach of the thesis will be looking firstly into the theoretical approaches of buyer behavior and how to create loyalty. Then it will try to make sense of the market place and the competition, how is it working, who is winning, how and why. As these basics have been understood, we will be looking on different methods through online marketing to loyalty programs, trying to identify their benefits and risks and how can the OTA successfully utilize them. However this thesis will not focus too much on the technology side of things, but more on business operations.

The aim of the thesis is not necessarily to find one perfect way to enhance the customer loyalty, more it is to identify where do the OTAs stand now and what kind of opportunities and risks exist with the current solutions.

Problem Statement

The client for this particular thesis will be Travellink (www.travellink.fi). Travellink is an Online Travel Agency (OTA) operating in Finland, Sweden, Norway and Denmark, offering travel services for leisure and business. Travellink was founded in 2000 and in year 2005 it became part of Opodo, one of the largest Online Travel Agents in Europe.

Travellink, as almost every other OTA in Europe, are faced with tough market conditions. There are a large amount of offline travel agencies (travel agents with offices and human service), OTAs, airliners, meta- search sites, all trying to get their piece of the market. As internet has made price comparison for the buyers easy, and there are a lot of sites to choose from, there is little incentive for the buyer to stay loyal for an OTA, especially if the next time someone else has a cheaper offering.

There for the theme for this thesis will be trying to identify what can the European OTAs do in order to improve their business to enhance the loyalty of their leisure customers without competing only with lower prices. The aim is to identify methods this loyalty can be retained, analyzing different approaches to loyalty generation and identifying opportunities but also risks and challenges.

The scope of the thesis will remain in business applications and not to go extensively how improved technology can bring benefits. Otherwise the span of the thesis will be kept in a European level rather than organization specific, as the problems are more or less universal in European region.

Hence, the problem statement for this thesis will be "How to improve customer loyalty in European online travel agencies in the leisure segment?"

The sub-questions this thesis will try to answer include:

- What is the market environments, who are the biggest competitors, best customers? In other words, where are the opportunities?
- What are the OTAs lacking from the point of view of the buyers which makes them to switch providers easily?
- How can the customer experience be improved through e-commerce methods?
- How can OTAs improve their branding in order to create attitudinal loyalty?

- What loyalty methods could be used to increase switching costs for the buyers?

Answering these questions we will help Travellink, and consequently other OTAs within the European region to understand the opportunities of the common market place, and provide them with a roadmap for improvements which can be then adjusted to their individual desires, budgets and current strategic focuses.

Methods

In order to find answers to the presented research questions above, we need different methods of research.

Secondary research:

There are several aspects of this thesis which will need to rely on secondary research. These will involve mainly:

1. The theoretical aspects of customer loyalty
   A deep browsing to relevant (and up-to-date) literature concerning loyalty, retention, customer relationship management and other buying behavior literature.
2. Market environment
   For the pure size of the market, we need to rely on existing information. Main source will be PhocusWright (www.phocuswright.com), the leading research organization to travel trends.
3. Branding & Marketing
   What are the experts and literature saying about these at the moment? Research will be conducted through travel communities online, news articles, literature, blogs etc.

Primary research:

We will also use primary research as a method to gather customer insight when it comes to loyalty and reward programs. We want to know what kind of rewards would the buyers expect to have and what will be enough to start creating value for the possible reward program. The respondents can be any individual with opinion to travel services, through different age groups. This survey will be promoted through school channels, social media and word of mouth in order to receive a decent amount of respondents, which would be above 50.

Case studies:

Thirdly we will try to come across with various recent examples what has happened in the industry, what kind of attempts have the travel agencies, or other providers, done in order to increase loyalty, and to better understand what works and what not. One source for this will be online communities between travel professionals, such as LinkedIn.

Survey timeline:

Send out: End of March

Response time: Till end of April

Survey analysis: Beginning May

Thesis timeline:

Draft Thesis to be sent for the tutor: Mid April

Thesis completed: Early May

Preliminary Table of Contents

1. **Introduction to the subject**
   1. The research problem
   2. The client
   3. Rationale to focus on customer loyalty
2. **Theoretical approach to customer loyalty**
   Defining the theoretical concepts and models to customer loyalty
3. **The market environment**
   1. Industry
   2. Competition
   3. Buyers (customer base)
4. **Branding**
   1. The importance of branding
   2. Methods for improving branding
5. **Loyalty / reward programs**
   1. Are they useful
   2. What should they look like
   3. Analysis of survey results, what the buyers would like to see in a reward program
6. **Marketing effectiveness**
   1. The marketing methods, traditional and online
   2. Social media marketing
   3. Methods to improve personalized service towards individual buyers
   4. After purchase methods, how to create loyalty by engaging customer even after the travel
7. **Conclusions & Recommendations**
   The main actions recommended for Travellink to undertake to improve customer loyalty

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Appendix B The Literature Review

Profitability Problems of European OTAs

Most of the online travel agencies in Europe are facing similar problems as the research done by Hermes Management Consulting, Understanding Online Travel Agencies' Cost Drivers and Ways to Optimise Business in Europe July 2010, suggests. This was a study that measured five mid-ranged OTAs from Norway, Sweden, Germany, The Netherlands and France, which represent local, regional and pan-European OTA players of the whole Europe.

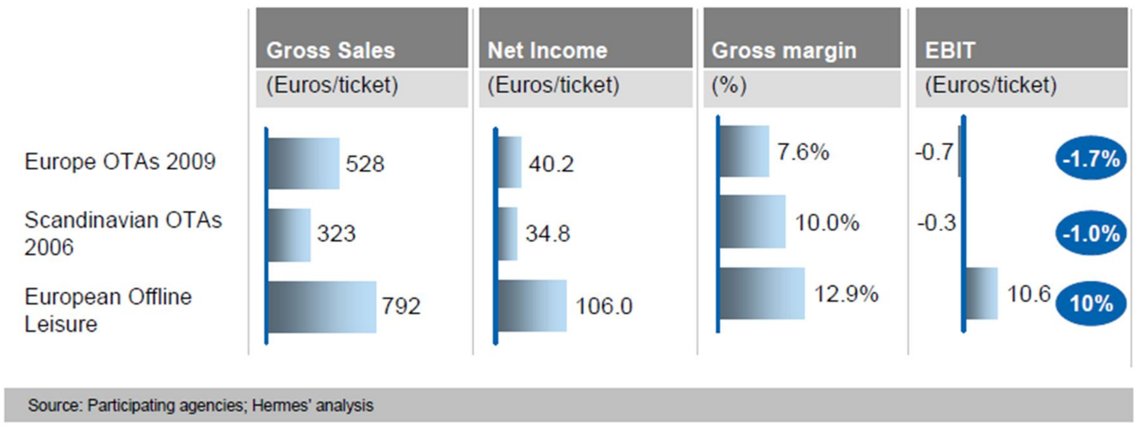
What the study discovered was that many OTAs when selling leisure in Europe are mainly focusing on selling air tickets, which count for 86% of their sales, but also holds the lowest profit margin of 6,6%. However all the other non-air sales (such as insurance, rented car, hotel etc.) accumulate on average almost the double profit margin of 12,8%, but these represent only 14% of total sales.

The difference in sales regarding to offline agencies

Interestingly the study also discovered that traditional offline travel agencies have an opposite situation on their leisure side, where 76% of their sales come from non-air products. This proposes one aspect of this study, to discover what is fundamentally different with online and offline agencies and could the online agencies try to mimic some solutions in order to increase its non-air sales. From figure 1 below, we can see the alarming situation in terms of earnings when comparing online and offline travel agencies. There is a need for measures to be taken to improve OTAs profitability as a negative EBIT will not be sustainable in a long term.

Figure 1

ONLINE AND OFFLINE TRAVEL AGENT PROFITABILITY



The internet is full of articles why some people prefer offline to online[97] [98] and one of the main reasons seems to be that the more expensive and complicated the trip is, the more you want to have a professional handling behind your trip and having someone to who you can talk to. This statement is supported by the fact that the average ticket sold by an OTA in Europe is €528, where as the offline agencies average on €792, according to the Hermes study. This shows exactly that the more expensive (hence usually more complicated itinerary), more often it's booked from offline agency and simpler itineraries left for online agencies.

Especially experienced travelers value this as they have experienced delays and cancellations and this is where a travel professional will handle it for you, but the online computer will not. This is bad news for online agencies, as the frequent travelers shop more, and those are the ones you want to have as a loyal customer. In the thesis we will have more detailed comparison and try to discover would it make sense for online agencies to go hybrid, incorporating at least some services what offline agencies offer, taking the best out of both.

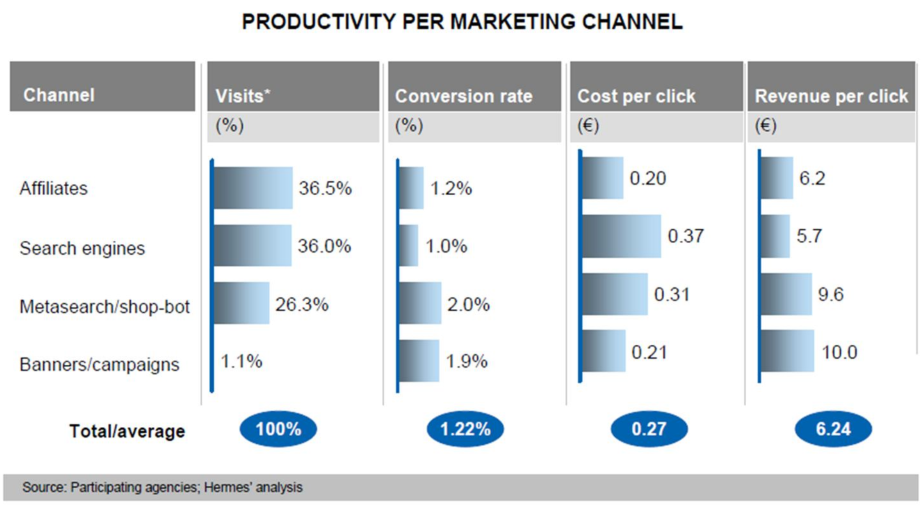
[97] Clemie Nye , Online Travel Agents Vs. Offline Travel Agents, April 25, 2010, http://www.ehow.com/about_6385114_online-vs_-offline-travel-agents.html
[98] Michael Valkevich, Work/Life: Offline Is the New Online, May 28, 2010 http://www.fastcompany.com/1653587/worklife-offline-is-the-new-online

Cost structure of European OTAs

The Hermes study also found that marketing is the biggest cost for OTAs in Europe, counting for 54% of total costs of an agency. Interestingly, from the total marketing budget 86% were used in online marketing and only 14% for offline. However a study from iProspect[99] [100] shows that nearly 40% of online searchers purchase after being influenced by offline channel (radio, TV, newspaper etc). The study was a general investigation on online marketing and not a specific look on travel agency business, but provides a clue that a balanced marketing between online and offline could result in a more desired outcome. Offline channels would be especially important to create brand which would be valuable asset on a long term period.

Even as OTAs are using most of their efforts on marketing online, the Hermes study revealed that the conversion rates of these are rather low as seen in the figure 2 below. Even a great deal of visits are all these means combined, only a minority will actually shop anything.

Figure



The fundamental problem of OTAs?

This has brought us to the one of the biggest problems the OTAs have been struggling with, and are still struggling with today. This is the fact that internet has made it so easy to compare prices that the

[99] iProspect study, Search Engine Marketing and Online Display Advertising Integration Study (May 2009), http://www.iprospect.com/about/researchstudy_2009_searchanddisplay.htm

[100] Richard Walker, How offline marketing boosts online effect by 40%, February 11 2010, http://econsultancy.com/uk/blog/5416-how-offline-marketing-boosts-online-effect-by-40

price itself has become the only differentiator in this booking process. The PhoCusWright European Consumer Travel Trends Survey 2010 showed that consumers use roughly 4-5 websites before making a booking.

Hence we can clearly see the need for OTAs to develop methods to create a loyal customer base for their business. They need ways to differentiate themselves from the competition with better service or with other selling points, to reduce the low-price dependency and offer other value. Only then we can enhance customer loyalty in order to increase the price elasticity of thei[...]nd ultimately be more profitable.

Figure

Online Loyalty Defined

Online loyalty is the process of attracting, converting, and maintaining existing customers in an e-commerce medium. It includes such functionality as:

- √ Shopping loyalty / rewards programs
- √ CRM systems
- √ Online merchandising
- √ Online marketing
- √ Post-purchase support

What is Online Loyalty?

If we are to tackle the problem of loyalty, we need to define what we will be looking at. There are many similar definitions what customer loyalty is, one suggested by Customer Insight Group[101]: "Discipline of identifying and nurturing the yield of best customers through a long-term, reciprocity, value-added relationship". Also a study of online customer loyalty by Aberdeen Group[102] defined Online Loyalty as in figure 3, and both of these views seem to be valid definitions. If we look at the categories suggested by Aberdeen, we will mainly focus on the themes of shopping loyalty/reward programs and online/offline marketing, how we can create loyalty through these means, and is it even worthwhile the effort. Otherwise we will pay less attention to CRM systems and some aspects of online marketing such as search engine marketing and optimization, as these fall more on the technology side.

Shopping loyalty / reward programs

Is a loyalty program actually worthwhile to create loyalty? A study by Grahame R. Dowling and Mark

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[101] Sallie Burnett, How do You Define Customer Loyalty, December 17 2008, http://www.customerinsightgroup.com/loyaltyblog/?p=3, as visited on 9.12.2010

[102] Aberdeen Group, Gregory Michael Belkin: Online Customer Loyalty – Converting Occasional Shoppers into a Loyal Customer Base, October 2009, http://www.aberdeen.com/

Uncles[103] suggests that not necessarily. Sure it can increase the product's or service's value proposition but the study suggests also that it has little to do with your actual brand image and the program can be more of a cost with little affect to increase loyalty. Also in a highly competitive market, as travel is, it is not that hard for competitors to come up with similar solutions, making your approach again less unique. In addition, the competitors can easily give instant offers which can easily seem more attractive than a promise for reward sometime in the future. It needs to be investigated further if this study still holds true, and does it differ as we are now talking about online loyalty specifically.

[103] Grahame R. Dowling & Mark Uncles, Do Customer Loyalty Programs Really Work? 1997, http://royalloyalties.com/Case_Study.pdf

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