

## Editor's comment from *Travel Markets* Issue No. 24

**Dynamic packaging  
drives tour operators'  
online sales ...**

The jury is still out on whether online intermediaries are continuing to gain ground over suppliers, in terms of online travel sales. But recent evidence suggests that, as more suppliers take action to try to regain control of their distribution system, the pendulum is swinging back again in favour of suppliers.

Take the case of InterContinental Hotels (IHG) which, since it stopped selling its hotels through Expedia, has seen revenues through its own websites soar. In 2004 86% of IHG's online sales came directly through these sites, with only 14% through third-party sites, and the share for this year to date is 96%.

Nevertheless, few would have thought a couple of years ago that tour operators would be among those suppliers fighting back – and managing to regain share. Much of this is due to the emergence of dynamic packaging technology, which has been a main driver of growth in combination purchases by online travel buyers, according to US research group PhoCusWright. While the proportion of pre-packaged holidays sold online declined to 13% (of total packages sold) last year, from 19% in 2003, one-third of online travel buyers made a combination purchase of travel components using dynamic packaging technology, up from 24% in 2003.

True dynamic packaging, based on customer-driven customisation, is defined as a package for which the overall price offers a significant discount on the sum of the individual components (airline ticket, hotel room, car rental, etc). Since the real price of each component is hidden in the final package price, suppliers are more willing to offer heavy discounts than if the pricing were transparent – ie if one or more components were purchased separately.

**... and could give them  
the edge over online  
intermediaries,  
as TUI shows**

For online travel agencies, package sales have become a significant driver of growth. Travelocity says that 24% of its 2004 gross bookings were packages – double the share of sales in 2002. Meanwhile, at least 20% of Expedia's bookings are accounted for by packaged sales, and packaging is also being touted as a significant growth area by Orbitz and Priceline.com.

Recent figures from the German travel and tourism giant, TUI AG, have shown that – contrary to common opinion – tour operators also have the opportunity of fighting back to ensure that their traditional role is not eroded by the new players. Success is not just dependent on selling a combination of components and bundling them into an attractively priced package, TUI maintains. It is about understanding and being responsive to customer needs. It is about providing value added, to support the customer through the whole holiday experience – from the planning and booking phases to the actual holiday and the post-trip reliving of the experience.

Research by TUI among its customer base suggests that holiday satisfaction depends on content – not on the sales intermediary. The hotel experience is rated as key for 64% of customers, compared with 22% for destination services, 7% for the flight and 7% for the travel agency/distribution channel.

With a few exceptions – ebookers is reportedly working on developing customer relationship management, not just to stimulate repeat business, but also to harness the lifetime value of its customers – the new players offer no real customer support. In contrast, tour operators – especially vertically integrated ones like TUI – know their customers and can provide differentiated products and services to meet their needs, strengthening the importance of the brand in the selling process.

Admittedly, TUI is not typical of tour operators generally. For a start, its own content – hotels and airline seats – accounts for 50% of the product it sells online, which makes it easier for TUI to manage the total customer experience and provide added value. But the fact that its online bookings have more than doubled in the first three months of this year reflects well on its strategy.