

What If? Imagining the Future of the Travel Industry

From the political and economic environment to technology, demographics, and consumer behaviors, an array of trends are triggering a transformation. Four scenarios assess what might lie over the horizon.



An almost dizzying pace of technological innovation has produced a wealth of new business opportunities in the global travel ecosystem, both enriching and expanding the world of travel. The race to develop a driverless car, introduce digital assistants into our homes, or make sense of our online data all promise to change the way we travel.

But at the same time, headlines are full of bad omens. From terrorist attacks across Europe and escalating tensions in the South China Sea to the protectionist instincts of a new US administration and the uncharted territory of Brexit, our familiar world, for good or bad, is unraveling.

“Technology has never held more promise for the travel industry,” says Alex Luzarraga, vice president of Corporate Strategy at Amadeus. “Nevertheless, there is a sense of societies being broken, of unfairness and inequality, and a lack of opportunities for many people. As technology advances, the status quo is being upended. There is mistrust and populism. Things we used to take for granted, such as the right to travel across Europe without passports, may be less likely in the future.”

What conditions would bring about a world without border controls, where security concerns are alleviated and **travelers benefit from perfect, real-time information?**

With an array of new issues on the horizon, Amadeus wanted to identify the trends that could disrupt the travel industry over the next five to seven years. Management consultants A.T. Kearney asked some of the best minds in the technology and travel industries to evaluate the factors that are, or may soon be, transforming the industry. The result is not an attempt to predict the future, but to offer possible scenarios that are the result of a number of factors, including the most relevant global political and economic trends, technological advances, regulation, demographics, social change, and crucially, how they interact. In this paper, we explore these scenarios and discuss the implications for the global travel ecosystem.

To identify the most relevant trends, we conducted dedicated workshops in which we ranked a large set of factors in terms of business impact and level of uncertainty (see sidebar: The Benefits of Scenario Planning for Stress-Testing Company Strategy on page 2). Two themes encapsulate many of the industry’s significant trends:

Seamless travel. The first theme is the potential of seamless travel compared with today’s fragmented service. What conditions would bring about a world without border controls, where security concerns are alleviated and travelers benefit from perfect, real-time information? In part, it would be the result of cooperation between governments and information sharing between businesses, from airports and airlines to hotels, restaurants, ground transportation, and other destination services.

Personalized travel. The second theme considers the power of technology to aggregate consumer data and deliver personalized travel experiences. This is not personalization the way

The Benefits of Scenario Planning for Stress-Testing Company Strategy

Amadeus and A.T. Kearney undertook a scenario-planning project to study the impact of the disruptive trends on various players in the travel industry as well as on Amadeus' own business. Scenario planning allows companies to address uncertainty and take a structured approach to possible outcomes. In today's volatile and unpredictable world, more of A.T. Kearney's clients are using scenario planning to future-proof and stress-test their strategies.

This approach has many benefits. It creates a broad view of the future and allows companies to

uncover organizational blind spots. It tests existing plans against industry outlooks and provides an understanding of "no regret" moves and imperatives in company strategy. And it introduces a more robust strategic risk management conversation that creates alignment within the organization through the use of common language and outlooks.

In this project, we found it particularly valuable to include a team of senior external experts who brought visionary thinking, deeper understanding of the travel value chain and its players, and a creative and provocative view of what the future may look

like. Together, we discussed more than 70 trends that could shape the industry, relying on a deductive approach to create plausible scenarios.

One might ask: "Now that you have described the scenarios, how do you know if a particular future is developing?" One of the most important outcomes of scenario planning is the ability to identify trends that signal the development of a particular scenario. Monitoring these trends and taking appropriate action allows businesses to foresee upcoming disruptions.

we understand it today, which relies heavily on customer segmentation. In the not-too-distant future, personalization will use artificial intelligence to learn from the online behaviors of millions of people, mine data, and meet the needs of each traveler at every moment. The perfectly personalized experience may even be able to preempt a traveler's wishes and deliver it in a way that is more useful to the traveler.

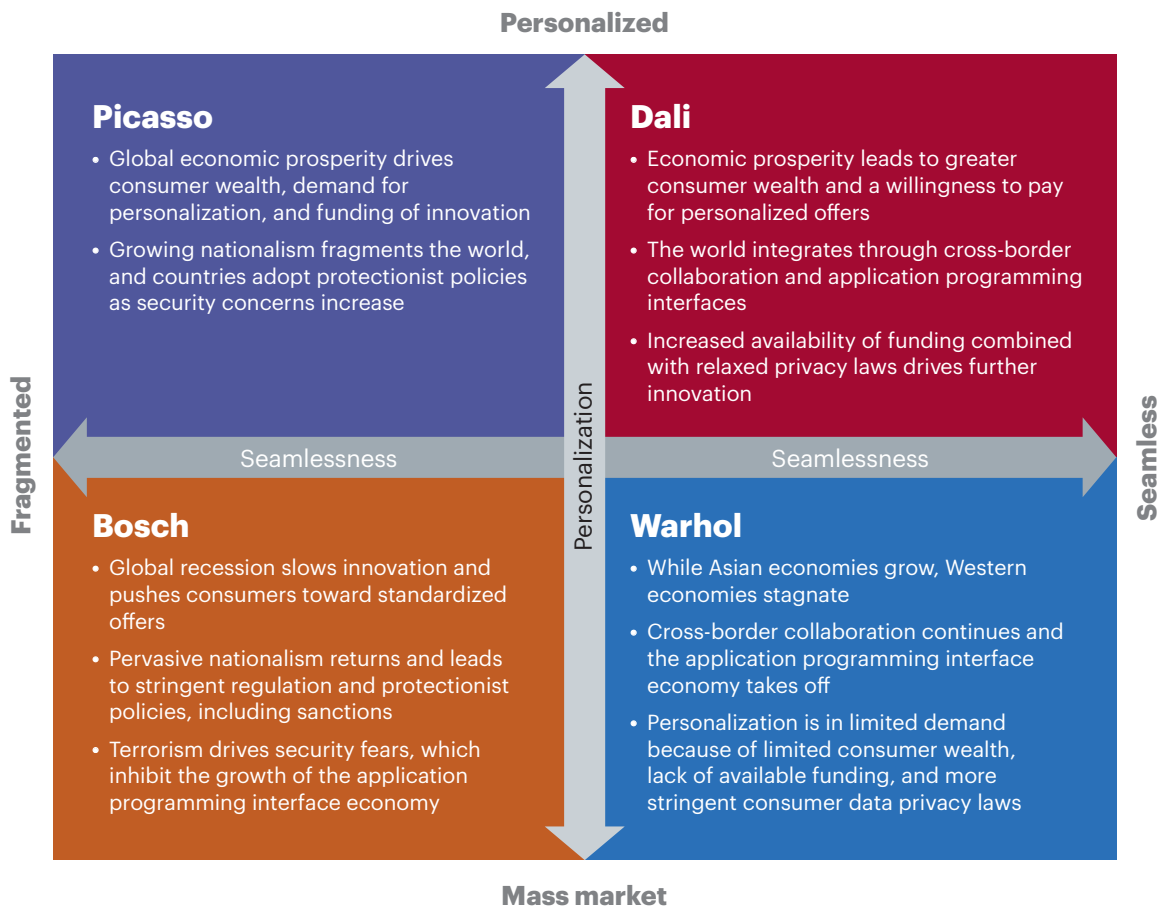
However, even if technology matures, personalization still faces numerous obstacles. Will governments and regulators allow consumer data to be shared between countries or trading blocs? And if they do, will businesses be prepared to give up their proprietary data for the common good? What if personalized travel offers—which by definition are impossible to reproduce for the mass market—prove too expensive for most customers? Will this put a halt to the onward march of technology giants across the travel world?

This paper reflects the most important insights from our scenario-planning exercise. We hope it helps companies across the travel industry begin their own discussions about how they see their businesses developing.

What If?

Our four scenarios shed light on the conditions under which these trends may come about (see figure on page 3). One scenario—the combination of seamless travel and perfect personalization—would allow global travelers to embark on journeys in which every detail, from the mode of transportation to the choice of pillow at their destination, would be matched to their preferences by a software program. At the same time, a more interconnected and collaborative travel industry would act on real-time information to optimize pricing and occupancy rates and reroute travelers around traffic gridlock and bad weather to deliver them safely to their destinations.

Figure
Four possible futures for the global travel industry



Source: A.T. Kearney analysis

How likely is this vision of the future? And how soon might it arrive? It is clear we are not there yet. Our remaining three scenarios examine the industry environments that might emerge, depending on which political, economic, and technological forces hold sway in the near future.

The travel industry, like the world in which we live, is not static. These scenarios are fluid, and the industry will likely move between them in the years ahead. At the same time, the impact of the forces at play will not be uniform. This paper aims to help our many partners in the travel ecosystem identify the challenges that lie ahead in order to be better prepared.

Scenario 1: Picasso

Global economic prosperity drives growth in personalized travel offers. However, growing nationalism and security concerns fragment the world, and the industry develops in a localized way. We call this scenario “Picasso” to reflect its cubist, fragmented, and highly personalized nature.

This scenario is very much like the world in which we now live—marked by rising populism in Europe and the United States and heightened security concerns, which makes more travel

destinations off-limits. It is a fragmented world where the European Union (EU) begins to break up following the rise of anti-immigrant, anti-EU political parties across the continent, while across the Atlantic a protectionist US administration alienates China, institutes an America First policy, and threatens to build a wall along the Mexican border.

Even so, most parts of the world enjoy economic growth. Companies invest in innovation to reach more customers through mobile channels, and this interaction enables businesses to provide more sophisticated personalized offers using artificial intelligence and the Internet of Things. Nevertheless, protectionism in many parts of the world restricts collaboration in innovation and data sharing, limiting the reach of personalized offers to local or regional markets.

In this context, tech companies are attracted by the potential returns from personalization, but only up to a point. A fragmented world limits their interest to the largest markets, such as the United States for Google. Chinese tech groups such as Baidu rise to prominence and become regional players in Asia. For big online retailers, the cost of sacrificing advertising revenue outweighs the benefits of becoming a direct competitor to travel companies that use their platforms.

If destination content becomes an essential, providers that **control the “last mile” will capture the greatest share of the value.**

Global distribution service providers remain relevant because a fragmented world still needs aggregation platforms to compare prices and availability. The demand for IT services, if anything, increases because travel agencies and other service providers need help to make sense of consumer data, protect them from cyberattacks, and build new businesses, such as providing destination content.

Even without the full entry of big tech groups, the personalization trend disrupts the travel industry value chain, beginning with sharing economy platforms that change the way travelers shop, book, and experience a destination. “The sharing economy opens a different dynamic for travelers. They meet more local people and are more integrated into their destination,” says Rafael Hernández, director in Corporate Strategy at Amadeus. “It is what you do on arrival that matters, so the importance and relevance of destination content will increase.”

If destination content becomes an essential ingredient of the travel experience, then providers that control the “last mile” of travel, including online platforms that suggest restaurants, shows, and tours, will capture the greatest share of the value in the travel chain. Destination service providers such as Airbnb will look to attract more businesses onto their platforms to provide a broader menu of personalized offers.

Two sectors of the industry are at risk in this scenario. Travel agencies could lose business if destination service providers offer a broader range of competing services. Airlines risk becoming a commodity—simply a means for getting from point A to point B—rather than, as has been the case up to now, the first step in planning a journey. Faced with this threat, airlines may try to become online retailers—the goal being to become the Amazon of travel, offering a range of branded products and services to compensate for falling yields on the sale of flights.

Can this model succeed? And how will it change the nature of competition in the airline industry? Elena Ávila, director, Airlines Strategy at Amadeus, offers her views (see sidebar: Will Airlines Become Online Retailers? on page 6).

Scenario 2: Dali

Instead of becoming more fragmented, the world becomes more integrated. Governments promote free trade and encourage collaboration among businesses and across borders. We call this scenario “Dali” because it is innovative, futuristic, and somewhat surreal.

Social attitudes about sharing data become more favorable, which brings about more relaxed privacy laws and lighter regulation. As these constraints fall away, investment and innovation in the digital economy take off. Common standards are developed for digital communications and mobile applications, which become the preferred point of contact between businesses and their customers with ominous consequences for high-street shops and purely online businesses.

The world becomes more interconnected with the Internet of Things, which in turn allows personal information to be extracted from an unprecedented number of data points, from the contents of one’s refrigerator to our daily travel habits and every online search and acquisition. Artificial intelligence has real-life applications, including the ability to predict personal preferences and push suggestions for a holiday or business trip. Voice recognition technology is refined, and digital assistants such as Apple’s Siri and Amazon’s Echo replace online search engines as the preferred channel for finding information.

There could, of course, be a backlash against machines knowing everything about us. For example, a tired traveler in an airport lounge may resent being bombarded with special offers from nearby shops. But despite these misgivings, travel becomes faster, cheaper, and safer. People benefit from fewer security controls at borders and have real-time information about unforeseen events such as flight delays. Driverless cars wait at travelers’ destinations to navigate unknown cities, and automatic translation apps give people the power to communicate in languages they do not speak. Destination content, tailored to personal interests and preferences, enriches their stay. Collaboration makes travel providers more efficient by optimizing pricing and occupancy rates as well as rerouting travelers around traffic gridlock and bad weather to deliver them safely to their destinations.

However, despite the efficiency gains and technology advances, this is not a win-win scenario. The explosion of innovation in travel-related technology will be a benefit for IT companies and data driven, offering platforms for the sharing economy and build and operate systems that allow travel providers to connect with each other and to mobile platforms, search engines, and digital assistants. Our growing dependence on the Internet of Things will make cybersecurity companies even more relevant. Global distribution systems will play a role as intelligent platforms that aggregate real-time, price-sensitive data from hundreds of thousands of travel providers and make them directly comparable without the distorting effect of advertising algorithms.

“When you have a cornerstone technology that has already been built, that aggregates so many providers,” says Decius Valmorbidia, senior vice president, Travel Channels at Amadeus, “you do not destroy it. You build upon it.” There is, he says, an additional opportunity to provide aggregated data to new, specialized search engines. For example, Amadeus is already providing this back-office function to the travel search engine Kayak.

Will Airlines Become Online Retailers?



Amadeus Insight
Elena Avila,
director, Airlines
Strategy, Amadeus
IT Group

With yields under pressure, airlines have been trying to cut out the middleman for some time. The digital economy allows carriers to sell directly to customers, but many want to sell more than just seats on flights. They want to sell travel insurance, rental cars, hotel rooms, restaurant reservations, merchandise and much else, in a bid to become online retailers. Ryanair, for instance, has made no secret of its aspiration to become the "Amazon of the travel industry." Another example is SAS, whose strategy is to evolve into a "lifestyle company," leveraging its strong brand for up- and cross-selling.

The search for a new business model is understandable. The cost of air travel has decreased dramatically over the past 20 years, and is set to decline even further as air travel is projected to grow by 5 per cent a year for the next two decades. The cheaper air travel becomes, the greater the incentive to diversify. If the retailing trend continues, airlines will have to learn to interact with an increasing number of service providers, to the point where operating flights may become only a part of the airline business.

To engage directly with customers, airlines will need to develop powerful brands and invest in digital technology where success as an online retailer depends on driving traffic to their website. However, this is an area of heavy competition not only

with other airlines and other travel providers but also with tech giants who are already very successful retailers and will be competing to attract and influence consumers. Nor should we ignore the fast growth of new messaging platforms, such as WeChat, which could soon be aiming to enter this space and together with the tech giants are likely to create a new breed of middleman.

It's clear that brand and marketing power is becoming more relevant day by day. But it's important to ask the question: will that ever overtake the importance of receiving what, as a consumer, you think you've paid for? In the midst of the battle for the retailing skies, airlines' first priority still needs to be the delivery of the committed service.

Of course, diversification and integration of services is also happening in the physical world of airlines. Etihad has acquired airlines and hotels. Others are seeking to broaden their appeal with looser alliances. However, with the exception of the US, the airline industry remains fragmented and under pressure to explore new forms of collaboration to extend market access and influence.

One risk in the physical or online diversification strategy is the blurred lines it creates between businesses. It becomes less clear who is selling what, who is responsible for ensuring a uniform quality of service, who has the fiduciary duty of care. In short, who "owns" the customer. This is bound to cause confusion, not least among users of airline-branded services.

Collaboration will require businesses to share proprietary information about clients. However, the travel industry is not yet aligned over data sharing. Competitors still see consumer data as a repository of value, even if they are not monetizing it yet.

This gives tech giants the upper hand. Google, Amazon, and Facebook command a wealth of personal data from different sources that can build a much fuller picture of a customer's preferences than an airline ever could. This advantage will become insurmountable if personalization takes off. So the travel industry is under some pressure to consider collaboration on data sharing.

Travelers yearn for a seamless experience. This means as little fuss as possible and real-time information, with choice at your fingertips, perhaps with a menu of travel services embedded in your chat or messaging app. It will also pay to be attentive to technology preferences in Asia, which led the leap to mobile devices. What technology will the new travelling tribes from Asia be using? Embedded chips? Google Glass?

The complexity of becoming a full-service travel retailer is not in the technology, but in the delivery of service—at the right place, right time, and right quality. The more services you add beyond the standard flight ticket, whether the airline's own or from other partners, the more choices you give to consumers, the more complex the delivery. So it may all still come down to processes and humans after all.

On the minus side, traditional and online travel agencies will lose business as people rely more on digital assistants to organize their travel plans. This will not happen overnight. Online travel agencies may defend their relevance by buying data. Indeed, companies that offer data intelligence for the travel industry are emerging as important new players. In addition, some tech giants may be reluctant to enter some of the more customer-facing parts of the travel business, lacking the vocation or ability to do so.

Still, this scenario is most conducive to the “colonization” of the travel industry by tech giants—the ones we know today such as Google, Amazon, Baidu, and Alibaba, and the ones that may evolve tomorrow by using their dominance of mobile messaging platforms, such as Line, WeChat, and WhatsApp. They will hold the upper hand thanks to the sheer volume and variety of data they have about people, and their superior data-crunching analytics. This means traditional travel providers such as airlines and hotels will lose their direct relationship with their customers as tech giants become the industry’s gatekeepers.

Artificial intelligence has real-life applications, including the ability to predict **personal preferences and push suggestions for a holiday or business trip.**

Another related trend is the convergence of services onto social media platforms. People are already getting their news, exchanging information, organizing their social lives, and shopping all from one platform. This one-stop shop is convenient for users and is likely to develop further. As a result, the position of tech giants is likely to be strengthened.

How far will this colonization go? Miguel Fernández Díaz, a digital entrepreneur and the founder and CEO of Innovation Strategies, discusses the reach of tech giants (see sidebar: Will Tech Giants Colonize the Travel Market? How Will They Exercise Their Role as Gatekeepers? on page 8).

Scenario 3: Bosch

In the darkest scenario, nationalism and economic recession breed protectionism and distrust. This stifles innovation and keeps the travel industry fragmented. We call this scenario Bosch after the medieval Dutch painter Hieronymus Bosch, who had an unvarnished view of human nature.

Consider the rise of anti-immigrant and anti-EU political movements in Europe, the uncertain outcome of Brexit negotiations, the ambitions of a resurgent and nationalist Russia, and the launch of US President Donald Trump’s America First policies, and our Bosch scenario does not look far-fetched.

The key to understanding what this means for the travel industry lies in the impact of nationalism (or populism) on the global economy and on collaboration in the technology industry. Economic stagnation or recession are the likely result of shrinking global commerce, and overall, the travel industry will shrink, too. There is also a very real risk that data and technology become the arsenal for new trade wars between governments.

Will Tech Giants Colonize the Travel Market? How Will They Exercise Their Role as Gatekeepers?



By Invitation

Miguel Fernández

Díaz, travel and
leisure industry

digital entrepreneur

and founder and CEO of Innovation
Strategies

Tech giants are already present in major areas of the travel value chain, so it is understandable that industry stakeholders have some anxiety about their next moves. Google has been particularly active with a series of product launches and acquisitions related to flights, hotels, and destination services. One question is whether they will take over transactional services. Will they become a super online travel agency? Probably not. Let's explore why.

First, the tech giants already have a good share of the travel business by charging advertising fees to companies that rely on Google and others as marketing channels. Intermediation services, by contrast, have a smaller piece of the pie. And if tech giants began to sell their own travel packages, for example, they would become direct competitors to many travel companies that use their platforms. So adding transactional services would require tech giants to change their business model—for very little extra money. The incentive just isn't there.

Second, intermediation is complicated and involves a fiduciary duty of care to your customers. You have to look after your travelers, assuming liabilities when flights get cancelled or holidays go wrong. By nature, tech giants are not cut out for this

work, and they have given no indication that they want to get this involved.

The real challenge is tech giants' role as gatekeepers. Today, if you are not visible to Google's search function, your business is going nowhere. In the near future, digital assistants such as Apple's Siri, Google's Home, and Amazon's Echo will play an even larger role in organizing people's lives. These conversational agents will know a lot about consumers because they will have access to market data from online interactions, including calendars, emails, search histories, and buying habits. The more intelligent these digital assistants become, the faster they will begin to organize our lives. In the travel industry, they could become travel agents, selecting flights, hotels, and destination services based on past preferences and current needs.

Travel companies will come to depend on how well they connect with these gatekeepers. They will have to invest in technology that allows them to "talk" to the digital assistants—much as advertising does today. Behind the organic and paid searches, an intelligent auctioning system selects the most relevant advertising. The more prepared travel operators are to deal with gatekeepers, the stronger the position they will be in.

Will this compromise the supposed neutrality of search engines? At some point, neutrality will lose its relevance. Consumers will be happy with the time-saving solutions proposed

by their digital assistants. Instead of conducting their own searches for flights and hotels, they will hand this task over to a machine.

Technology is a powerful force behind behavioral and social change. So it is plausible to think that our attitudes about privacy, security, and fairness will change. Already, people appear to be unconcerned about the fact that Google, Amazon, and Facebook sell their information to advertisers in exchange for the free use of their services.

How will the travel ecosystem change under the dominance of gatekeepers? Traditional transactional platforms, such as global distribution systems, will remain important because this is not a business that is easy to replicate. New platforms such as Airbnb will have an enormous impact as they persuade not only homeowners but also businesses to use their platforms. As a result, these platforms will become more attractive to consumers. There will be a need for niche players that provide bespoke services, too.

The biggest risk posed by tech giants is that they unintentionally wipe out your business. Think of what adding cameras to mobile phones did to traditional camera makers. Forward-thinking companies will engage with these gatekeepers and follow what they are doing.

In this environment, there is little collaboration when it comes to data sharing; consumer data is kept within the country in which it is generated. The pace of innovation slows in a world where talent, ideas, and funding cannot be shared across borders. Companies struggle to build and maintain international footprints, and there are few global aggregators. Tech giants and sharing economy start-ups face a regulatory backlash. Protectionism of domestic markets and heavier regulation keep travel markets fragmented and in the hands of big domestic players. Fear of terrorism, including cyberattacks, makes travel more cumbersome and costly.

This scenario is the least favorable to tech giants. Unable to harvest data across borders, stymied by hostile regulation, and with limited opportunities to extract value from personalization, tech players are likely to limit their involvement with the travel industry to their role as an advertising platform.

This is good news for travel agencies, which maintain their role in the industry free from the threat of disruption from technology giants. However, their role as intermediaries could decline as travelers seek comfort in trusted brands and book directly with well-known airlines and hotels. Global distribution systems remain central to the functioning of a fragmented travel industry, but their overall market shrinks because more bookings will be done directly, bypassing the need for an intermediary.

Business costs rise as companies struggle to comply with a mosaic of legal, tax, labor, and data protection laws. IT providers, for example, struggle to navigate the complex and fragmented environment. In some areas, however, demand for their services is greater than ever, particularly in safeguarding systems from cyberattacks.

Scenario 4: Warhol

Asia grows, but the West stagnates. Consumers become more price sensitive and are unwilling to pay for personalized offers. Innovation flourishes, mainly in local or regional contexts because of strict privacy laws. Like Andy Warhol's famous depictions of Campbell's Soup cans, this is a standardized world.

This scenario considers the implications of strong economic growth in Asia, giving rise to a large middle class with more disposable income for travel and leisure. Local and regional tourism grows rapidly, and demand for air travel explodes, resulting in a proliferation of new local and regional airlines.

But this new Asian middle class has less spending power than those in the United States or Europe, and as a result, few families are willing to pay more for personalized travel. Asian travelers' preference for group travel may also act as a deterrent. In response, travel companies in Asia focus on mass-market, low-cost propositions, much as European tour operators did in the 1960s with package holiday offers in the Costa del Sol.

Sluggish growth in the West diminishes the demand for personalized travel, but it could boost the sharing economy, with platforms such as HomeExchange making travel more affordable in this more cost-conscious context. Low-cost carriers also capture a greater market share.

Profit margins come under pressure in this price-sensitive world—an environment that encourages consolidation. Diversified global travel groups with hotels, airlines, airports, and destination services could emerge to capture a bigger share of the value chain, particularly if governments become less protectionist and allow deregulation.

Will Asia and the West Cooperate in the Development of the Global Travel Industry?



By Invitation
Martin Warner,
former senior executive at Carlson Wagonlit Travel and consultant to global and local travel companies

The short answer is yes because developing the global travel industry will be of mutual interest. But the form of collaboration is evolving. Asian and Western travel companies' need for each other is maturing as they size up each other's markets and determine the best way to bridge technological and marketing gaps.

Asia is now the world's largest and fastest-growing travel market, making it a tantalizing yet complex prize for Western travel companies. And as growing prosperity carries Asian travelers farther abroad, Asian travel companies have a clear interest in acquiring or forging alliances with travel service providers in Europe and the Americas.

So how will deeper cooperation happen? Technology will be essential. Mobile search and payment systems are more advanced in Asia than in the United States and Europe, using local languages and systems adapted to cultural preferences and habits that many companies in the West don't fully under-

stand. Because this poses a challenge for Western companies seeking to enter the Asian markets, they will need to forge alliances with local tech groups, particularly in China, Korea, and Japan if they want to reach Asian customers.

Demographics also matter. Travelers' profiles and preferences differ across regions. So it may be that the local capabilities of technology driving the personalization of travel offers will be very relevant in some markets.

As some Western companies have already discovered to their cost, cultural issues mean that collaboration with Asian companies is not easy.

As a result of the explosive growth of Chinese travel overseas—120 million people from China traveled abroad in 2015—Chinese travel companies have a clear incentive to spread their wings. HNA Group, for example, took a stake in Virgin Australia last year and bought the Carlson Rezidor Hotel Group, which includes the Radisson franchise, to add to HNA's investment in Europe's NH Hotel Group. And Ctrip, a large Chinese online travel agent, recently acquired UK-based Skyscanner, an airfare comparison website with a good mobile platform. The acquisition

gave Ctrip access to international capability and scale as well as a foothold overseas. What does this acquisition signal? Chinese companies have a long-term perspective. Skyscanner has relationships with non-Chinese suppliers, from airlines to hotels, which will be useful to Ctrip as overseas travel grows. The industry is likely to see more of these kinds of deals.

Another example of international ambition is TravelSky, a Chinese IT provider. Until recently, the company was focused on the domestic market, but now it is acquiring customers outside China. Whether it grows internationally through acquisition or by forging alliances will be interesting to watch.

There may be regulatory setbacks, particularly if governments become more protectionist over data sharing and acquisitions, but it will not stop collaboration from accelerating in the global travel industry. The need for cooperation will be dictated by the growth of travel from East to West. Although we have yet to see Chinese travel brands succeed globally, they will be household names in the not-too-distant future.

For technology and IT companies, this scenario paints a mixed picture. Mobile payment systems, already the preferred option in Asia, encourage travel companies to develop their own mobile technology. In particular, providers of local content—where to eat and what to do—use mobile platforms to reach customers. These offers, however, are not tailored to individuals based on their known preferences. A more generic offering based on a user's location is the norm. In this price-sensitive scenario, IT providers could play a role in designing innovative pricing models for travel providers, such as auction systems for hotels and airlines.

Tech giants are less interested in this travel world. The lack of opportunity to extract value from personalization discourages their involvement. In particular, it does not make sense for platforms such as Amazon or Google to forgo advertising revenues by competing with traditional travel providers. This offers some protection to traditional and online travel agencies, but their world also changes.

“A consequence of a more standardized world is that travel services become more of a commodity,” Hernández says. “If travelers don’t want to pay for tailored plans, there will be more standard offers. For travel agencies, it will be more difficult to compete with the tour operators and their offer of standardized package tours. Tech giants will find the industry less attractive, and investment in data analytics will be limited. But there would be integration in the industry, and we are seeing some of this today, with China’s HNA Group buying hotels in Europe and Middle Eastern groups such as Emirates acquiring other airlines and hotels.”

In particular, the rise of travel in Asia and of Asian travelers going beyond their borders will create the need for greater collaboration between East and West. How deep will this partnership be, and what forms will it take? Martin Warner, a former senior executive at Carlson Wagonlit Travel, who worked in Asia for more than 10 years, discusses the growing ties between Asian and Western travel groups (see sidebar: Will Asia and the West Co-operate in the Development of the Global Travel Industry? on page 10). In addition, Martin Cowley, a consultant with 30 years’ experience in the airline, travel, and technology sector in Australia and overseas, considers consolidation and vertical integration (see sidebar: Will There Be More Consolidation and Vertical Integration in the Travel Industry? on page 12).

Technology Taking Over the Business Model

Two themes encapsulate the forces shaping the future of travel: a growing expectation that the industry will align its technologies and services to deliver a seamless travel experience and the potential of data analytics and tech companies to create more personalized travel experiences.

However, the ecosystem is not likely to evolve on a straight course. Obstacles lie in the way of data sharing and collaboration, from the misgivings of competitors to the security and data privacy concerns of governments and regulators. Meanwhile, the business case for personalization is not clear-cut and appears particularly vulnerable to economic cycles and cultural traits such as Asia’s preference for group travel.

The events of 2016 crystallize some of the political trends discussed in our scenarios. In particular, the US election and Brexit point to a rise in populism and protectionist forces on both sides of the Atlantic, and the regulatory environment has become more hostile to travel disruptors such as Uber and Airbnb. Meanwhile, the ascendancy of tech giants including Google, Apple, Facebook, and Amazon is being kept in check by concerns over data privacy and security, and battles over tax jurisdiction.

If one actor looms large in all of our scenarios, it is the technology giants. There is widespread unease about the power of companies such as Google to colonize large swathes of the travel ecosystem, to disrupt longstanding relationships between travel providers and their clients, and to act as gatekeepers between companies and consumers. If personalization becomes a realistic business proposition, technology companies will become more involved in travel. In all other circumstances, their impact would be more muted.

Will There Be More Consolidation and Vertical Integration in the Travel Industry?



By Invitation
Martin Cowley,
company director,
consultant and
board advisor

There is a relentless drive for scale and efficiency in the travel industry, as seen in the mergers between US airlines and among hotel groups. Everyone is feeling the heat from new entrants, from low-cost carriers to online platforms such as Airbnb. The common wisdom is that to succeed in the industry, you must be big or get out.

This is a challenge in an industry that is fragmented both geographically and by the immense diversity of businesses in the ecosystem. The problem is compounded by the fact that different regions are at different stages of maturity, with Asia displaying an almost insatiable demand for air travel while other regions grow more modestly if at all.

Another problem is that the travel industry does not have a great record on consolidation. In the 1980s and 1990s, there was a drive to bring airlines and hotels together, particularly in North America, in an attempt to lock in millions of business travelers. But the one-stop-shop strategy didn't work. Mergers created complex companies that proved

impossible to manage. As is often the case, ambition found its nemesis in a failure of execution.

A quarter of a century later, the omens are somewhat more favorable. Airline consolidation in North America has, from some points of view, been a success and could provide a blueprint for what ought to happen in Europe, where only Ryanair has the scale of US airlines. But there are pitfalls to consolidation, particularly across regions. Etihad's attempt to fix Air Berlin and Alitalia is still a work in progress.

Elsewhere in the industry, corporate travel agents in Australia are aggressively buying up companies in the United Kingdom and the United States to provide global services to their clients. Chinese hotel groups have acquired hotel chains across Europe and the United States. Last year Marriott International acquired Starwood Hotels & Resorts Worldwide and this year Hotelbeds Group announced the acquisition of GTA as well as Tourico Holidays. In all these instances, the need for global reach is driving consolidation.

Vertical integration has been less successful. Some online travel agents are buying meta-search companies to broaden their reach, such as Ctrip's recent acquisition of Skyscanner in the United

Kingdom. Travel agency Thomas Cook owns an airline and hotels, and other agencies are buying destination service companies to support their clients upon arrival. But the bolt-on strategies appear to be tactical rather than strategic.

One development to watch is the evolution of online travel platforms into more diversified businesses. TripAdvisor, a big disruptor as an opinion aggregator, is adding hotel booking and restaurant reservation services to its offerings, and Airbnb is trying to attract businesses with destination services such as guided tours. Traditional travel companies must start thinking about how to connect with these platforms.

There is a lot of anxiety in the industry about the encroachment of tech giants. Some of these fears are well-founded as tech groups take over search, booking, and payment services. But much of the anxiety is misplaced and could lead to poor investment decisions. In particular, the power of big data is overstated. There is no competitive advantage in having access to all data; there is only an advantage in having access to relevant data. So expect to see IT companies emerge that can aggregate, segment, and classify data in a meaningful way.

In a world of mass, standardized travel—in developing Asia or an impoverished Europe—technological development may be limited to mobile channels for destination content and mobile payment systems. With personalization, technology becomes much more important for users and for travel service providers.

However, as long as companies such as Google, Amazon, and Facebook derive most of their income from advertising, they will shy away from becoming direct competitors with

travel businesses that pay to advertise on their platforms. Regulatory constraints—where and how technology giants can store information about people—could be a major barrier to personalization, too.

Our scenarios also highlight the magnetic power of digital platforms. Whether for a taxi company, a restaurant, or someone who has a spare couch for rent, services appear to be migrating to digital exchanges that charge a fee to use their technology—the dominant business model of the digital age.

Some airlines are seeking to emulate this model by becoming de facto online retailers, selling a multitude of travel-related services from affiliated companies. There are, however, two difficulties with this strategy: how to drive customers to a branded website and how to guarantee a consistent level of service among affiliates. And if everyone is trying to become a digital platform, how many will survive?

Large platforms come in two types, Luzarraga says: “those specialized in travel, such as Uber, Airbnb, or Expedia, and generalized players such as Amazon, Google, and Facebook. In the future, there will be only eight to 10 candidates to act as platform role models.”

The traditional aggregator for the travel industry—global distribution systems—will remain relevant under all scenarios. The more fragmented the world becomes, the greater the role aggregators will play. IT-focused companies that are reliant and secure, and have good relations with large groups of travel players, governments, and regulators will be needed as trusted intermediaries.

We cannot predict the future, but the industry should prepare to be disrupted. Whether disruption comes in the guise of political events, changing consumer habits, economic prosperity or the lack of it, the evolution of digital platforms, or innovations that have not yet been invented, we hope these scenarios help crystallize the array of consequences for the travel industry.

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Travel powers progress. Amadeus powers travel. Amadeus' solutions connect travelers to the journeys they want, linking them via travel agents, search engines, and tour operators to airlines, airports, hotels, cars, and railways. For 30 years, we have developed our technology in partnership with the travel industry, combining a deep understanding of how people travel with the ability to design and deliver the most complex, trusted, and critical systems our customers need. We innovate and collaborate with customers and partners to move fast, deliver on new possibilities, and solve problems to shape the future of travel.

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