A Tale of Two Industries: How **Online Travel** and **Business Process Management Have Grown Synergistically**

WNS
Extending Your Enterprise

Introduction

Change has been the only constant for the online travel business. Unrest in tourist hotspots, a hard-hitting recession, mergers and acquisitions, and a complete transformation of consumer behavioral patterns … the industry has seen and suffered it all.

Most Online Travel Agencies (OTA) have leveraged the expertise of Business Process Management (BPM) partners to stay afloat amidst the changes and challenges. BPM providers have added value to the online travel industry and contributed significantly to its evolution. As OTAs continue to face sweeping changes in the business landscape, the need to have a mature BPM partner on board is felt more sharply than ever before.

This whitepaper traces the history of the OTA industry and how BPM became an integral part of an OTA's business strategy. *The WNS BPM Partner Selection Index*, which you will find in the last section of this paper, will guide OTAs towards identifying the ideal BPM partner for their business.

Partners in Growth – OTA and BPM

The Internet heralded the rise of the Online Travel Agency (OTA) in the mid-nineties. The sudden freedom from prying travel agents, the ease-of-use options on the OTA website, and convenience to book tickets, hotel stays and luxury packages from the comfort of one's home, made OTAs popular among consumers. Soon, OTAs became a force to reckon with in the global travel and leisure industry.

The rise of the OTA industry coincided with the growth of another industry. The Business Process Outsourcing (BPO) industry, now called Business Process Management (BPM), like the online travel industry, challenged conventional business ideas and took the world by surprise. BPO offered business enterprises the option to run their back-office and non-core business processes from cost-effective offshore locations and freeing up organizations to focus on core activities. This model offered the obvious advantage of cost reduction not just because of the labor arbitrage, but other factors such as lower real estate cost. Many businesses jumped on to the BPO bandwagon and reaped rich dividends in terms of cost efficiencies. The OTA industry was one of the early adopters of the BPO model.

The OTA-BPO Relationship That Was: Managing the Transactional; Focusing on Cost Savings

Like other industries that were early adopters of BPO, OTAs too, got into the outsourcing bandwagon with cost reduction in mind. In that era, the engagements were in nascent stages and were rather tactical and transactional in nature. The offshore partner would manage the OTA contact center and process transactional documents and data. OTAs engaged with BPO providers for managing reservations, fulfilling ticketing requirements associated with those reservations, and providing customer service, as shown in fig. 1. This allowed OTAs to focus on their core competencies.

Fig.1: The typical OTA business cycle. Red circles indicate the circle of influence of a third-party BPO provider on the OTA business in the past.

The OTA industry has met with astounding success. The industry touched the USD 100 Billion mark recently, representing almost one third of the global e-commerce pie, according to a recent *McKinsey* report. This success story, however, has had its share of challenges.

The OTA model gained popularity after the late-nineties, and competition heated up. A number of players emerged, fueling stiff competition on the 'best price guarantee'. Competition was not just between OTA players. Online agencies also had to contend with travel providers, particularly those airlines that floated their own online agencies or revamped their Websites to mimic that of an OTA's. Some airlines even withdrew their inventory from OTA sites. Online Travel Agencies retaliated by removing listings of some airlines from their sites. The dust appeared to settle on the conflict by the late 2000s when OTAs were hit by the recession that led to a substantial dip in sales. As the economy recovered, online agencies became profitable again. But now they had other issues to deal with — tighter competition, rampant mergers and acquisitions, and the unprecedented growth of digital technology.

The OTA-BPO Relationship That Is: Customization of Solutions with Focus on Business Outcomes

Technology convergence has completely transformed customer behavior and expectations. The naïve, easy-to-please customer has suddenly morphed into someone who is erudite, and hard-to-please.

Customers today are more demanding than ever before, and expect superior experience — be it in terms of comprehensive air / cruise / car / hotel bookings / packages or when interacting with travel domain experts who have a strong understanding of the product and destination, and can make valuable suggestions to guide them. Customers also expect customized packages that complement their tastes and choices, and more importantly, fit their budgets. OTAs, therefore, seek to provide proactive services to their customers by trying to gauge

their needs, requirements and expectations. For an OTA customer, satisfaction is a function of convenience, comfort and value for money.
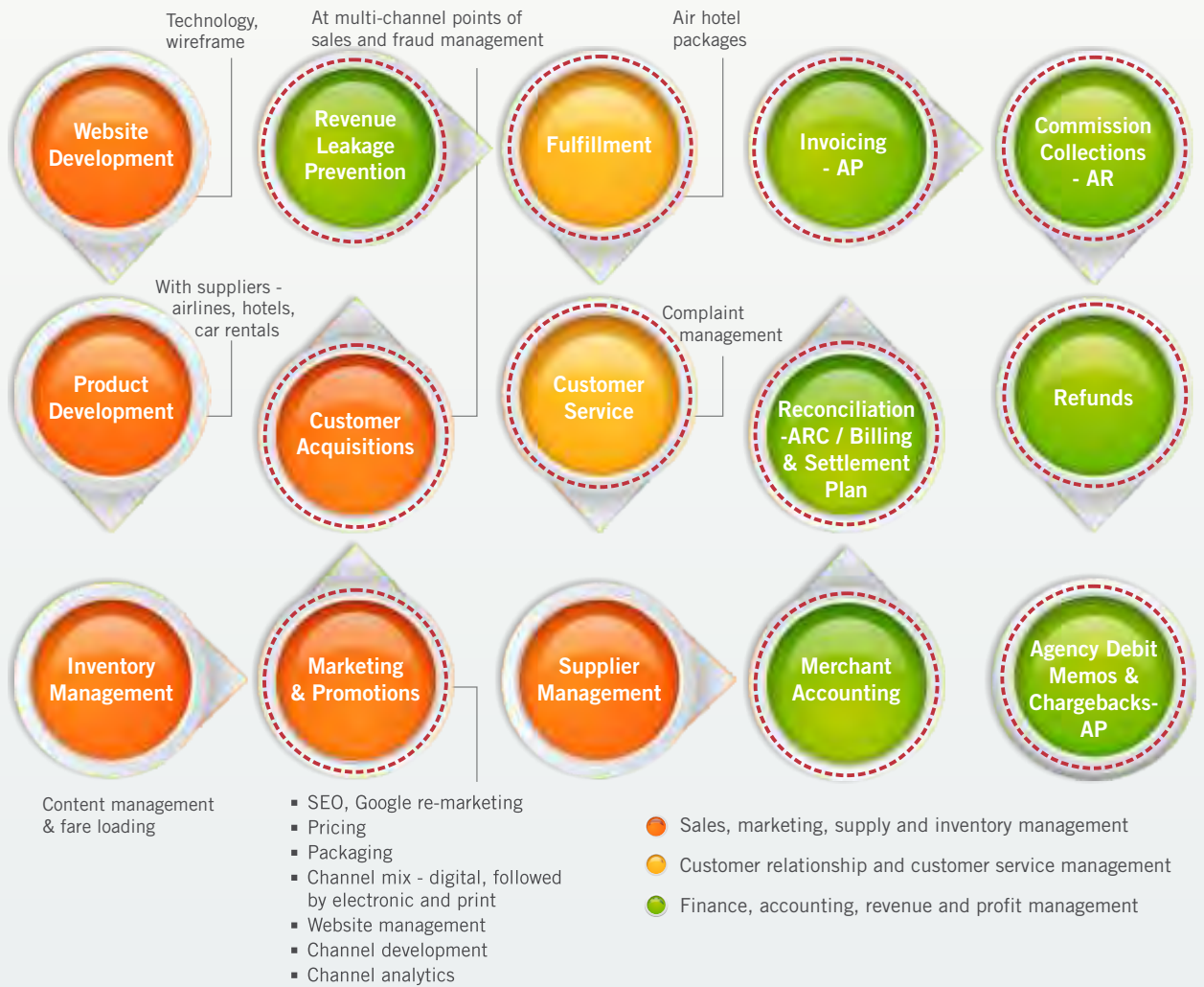
This change in the business environment and customer behavior has impacted the solutions delivered by BPO providers. Along the years, as BPO providers continued to work closely with their OTA clients, they gained a deeper understanding of their clients' businesses, with the result that providers developed a flair for developing customized solutions that impact business outcomes for their OTA clients.

Today, the scope of services offered by a BPO provider has widened substantially and solutions are far more sophisticated than they were in the past.

Seasoned travel outsourcing service providers are delivering the full range of front, mid and back-office processes, in addition to managing large parts of the OTA's finance and accounting function, through a blend of offshore, nearshore and onshore delivery model. The straightforward contact center has made way for the multi-channel customer interaction center, which providers are managing efficiently with the implementation of high-end technology.

Providers have also graduated to the position of guardians for training and quality processes, generating further benefits such as waste reduction and providing analytical insights to product teams within online agencies. Providers are actively leveraging the power of analytical models to help OTAs segment customers based on common demographic and psychographic patterns. Analytics is helping gauge customer behavior and needs, thus allowing OTAs to customize products and services that aptly fit the customer's expectations. Providers today are really 'managing' large parts of the OTA business, as shown in fig. 2.

As the industry evolves, OTAs expect outsourcing providers to deliver much more than cost savings and infrastructure excellence. Mature providers are at an advantage as their capabilities have evolved to address their OTA clients' needs.

Key elements of the OTA business cycle

Website Development — Technology, wireframe

Revenue Leakage Prevention — At multi-channel points of sales and fraud management

Fulfillment — Air hotel packages

Invoicing - AP

Commission Collections - AR

Product Development — With suppliers - airlines, hotels, car rentals

Customer Acquisitions

Customer Service — Complaint management

Reconciliation -ARC / Billing & Settlement Plan

Refunds

Inventory Management — Content management & fare loading

Marketing & Promotions
- SEO, Google re-marketing
- Pricing
- Packaging
- Channel mix - digital, followed by electronic and print
- Website management
- Channel development
- Channel analytics

Supplier Management

Merchant Accounting

Agency Debit Memos & Chargebacks- AP

- Sales, marketing, supply and inventory management
- Customer relationship and customer service management
- Finance, accounting, revenue and profit management

Fig. 2: The typical OTA business cycle. Red circles indicate the circle of influence of a third-party BPM provider on the OTA business currently

These providers are able to provide a diverse mix of process excellence, a readily available global talent pool, a global network of delivery centers, technology platforms, and other physical resources to OTAs. For OTAs, outsourcing is no longer leveraged just for pure bottom-line impact. It has in fact evolved as an option to create an impact on the top-line as well.

Outsourcing providers have ably supported the growth of the OTA industry. Today, providers have graduated to the level of being known as Business Process Management (BPM) partners, impacting business outcomes for OTAs. Some of these outcomes are:

- Reduced cost of ownership
- Revenue enhancement
- Improved customer experience and loyalty

Customization of Solutions with Focus on Business Outcomes

See how some OTAs have benefitted from engaging with WNS:

- A leading North American Online Travel Agency was witnessing a dip in its online sales vis-à-vis competition. WNS worked with the client to integrate its Customer Interaction Center with its primary Point of Sale (the brand Website) by deploying proactive 'call' and 'chat' functionalities at potential customer bounce / exit points. This was a smart strategy for customer acquisition and customer containment, and resulted in the increase of offline sales by 50 percent

- A leading Online Travel Agency saw a marked improvement in some of its key business

outcomes with WNS as its BPM partner on board — its fare filling accuracy levels went up from 88 percent to 94 percent and TAT compliance from 90 percent to 99.5 percent

- With WNS as its BPM partner on board, a leading OTA improved its Fraud Caught Ratio and reduced liabilities significantly (7-9 percent of total fraud queries). Effective and stringent fraud detection controls led to an exponential decrease of approximately 79 percent in fraudulent booking

- WNS enabled a leading European Travel Agency significantly increase collections from credit agents by 5 percent

- A tour operator improved its payment processing accuracy by 6 percent with WNS's solutions

The OTA-BPM Relationship That Will Be: Create High Impact on Business

What are the trends shaping the OTA industry and where is the OTA-BPM relationship headed from this point? We take a look at the trends shaping the OTA industry.

Despite flat growth in the mature U.S. travel market, the opportunities are stronger in Europe and Asia, according to research by *PhoCusWright*. In Europe, the analysts forecast that the online travel market will grow at an average rate of 8 percent through 2015. Some of the key trends that are shaping the OTA business are:

Compressed revenue growth calls for adoption of new pricing models: The OTA market is facing challenging headwinds and the increasingly critical imperative is to do more with less. Consolidation and price cuts among OTAs have compressed margins and revenue growth. These factors continue to shape the market, even during the global economic recovery. With a global drop in commissions, more and more online travel agencies are adopting new pricing models that will help them protect their revenues.

Realignment of traditional business: There has been a widespread emergence of value-added services such as promotions and corporate packages to attract customers and gather a large market share. OTAs are following a hybrid model constituting online and offline stores to penetrate the market even further. OTAs are focusing more on the high margin package and hotel business while alternative accommodations (villas and vacation homes) are evolving as a substantial new growth category for OTAs.

Reduced spends: Reduced spending and the pressure to cut costs is probably the most important challenge for the majority of travel agencies globally. Some of the major initiatives undertaken by such companies include closure of brick-and-mortar agency branches, reducing various overhead expenses, controlling goodwill gestures to customers, and restricted spends on marketing and promotions.

Focus on newer / growth markets and localized business models: For the OTA industry, the biggest opportunity currently is in the Asia-Pacific (APAC) belt. There are a billion Middle Class passengers waiting to discover the world. Cultures in the APAC region are way too diverse and so are customer choices and preferences. To tap the potential of this part of the world, OTAs are moving toward a 'glocal' strategy – going global while retaining a 'local' flavor of business.

Intensifying competition: The top OTAs, once viewed as market-transforming innovators, are now are facing intense competitive pressure from new entrants who focus on fewer products, possess the latest technology, leverage the omni-channel model for customer engagement, and use approaches like keyword purchase to attract desired traffic.

The disruption called 'convergence': At a time when OTAs face growing global competition and a shrinking workforce, one disruptive keyword rules all: 'convergence'. Indeed, convergence is driving

a lot of action in the online travel market. The convergence is being driven in many ways:

- Devices – Customers are now accessing services from smartphones, tablets, laptops and what have you

- Loyalty points and real money – Hotel chains are allowing mixing loyalty points and cash while flashing tariffs to customers

- Pre-travel research and actual booking – Meta-search engines now give consumers a single view of travel products across OTAs so that they get the information they are looking for while they are shopping for travel services

Although the travel industry has rebounded over the past couple of years, OTAs must come to terms with continuing high costs and price pressures, demanding web customers, the growth in mobile bookings, and the competitive threats to their market share and profitability. The rapid adoption of smartphones and tablets – projected to handle one-fifth of online travel gross bookings by 2015 – will play a key role in fueling future OTA gains.

Since even market-leading OTAs are grappling with a decline in online revenues in today's highly commoditized travel market, they need solutions that can optimize all of their revenue generation channels, improve their business processes and make them more productive and efficient, enhance customer loyalty, and finally, make the most of their data with technology and analytics.

Redefined Expectations from BPM Partnerships

OTAs keen on sharpening their edge in the market would expect the following from their BPM partners:

Revenue Augmentation at the Contact Center
Airline products yield the lowest margins, but are the largest volume drivers for all OTAs. Being

able to convert inbound calls into opportunities to sell packages is really the need of the hour for the OTA business. OTAs, therefore, need BPM partners with expertise in managing cross-selling and up-selling, and sales through service. BPM providers have to change the way a sales contact center is set up and managed. Apart from training and coaching advanced mechanisms like Speech Analytics and personality-based routing can be used effectively to help augment revenues at the OTA's contact center.

Taking on the Roles of a 'Revenue Partner' as well as a 'Cost Partner'
A large percentage of the OTA's work is related to back-office interventions for the airlines — mostly for the tickets that it sells for its airline partners. With rampant mergers in the airline industry and unpredictable weather conditions disrupting flights, the workload per transaction has gone up significantly for OTAs. Today, one of the prime needs of the OTAs on the cost front is to have a BPM partner who can take on this additional workload at lower costs. Mature BPM players with experience in managing high volumes of back-office work are able to cater to this need by introducing robotics or customized automation such as ticket exchange and disruption management tools.

Strong Abilities in Analytics and Technology Integration
To remain ahead of the curve, OTAs need to keep improving operational performance and get regular insight into customer behavior, needs and preferences. Analytics and technology integration are critical success factors for OTAs today, as they equip OTAs to provide their consumers with the right offer at the right time through the right channel. Analytics and technology integration also help OTAs improve productivity, efficiency and effectiveness of their process. BPM providers with advanced capabilities to leverage analytics and technology will be best suited to support OTAs at this stage.

Ability to Efficiently Assess and Meet Customer Needs

Customer needs are changing very rapidly. For most traveling consumers it's the overall travel experience that really counts. Triggers of travel are very different these days. It could be as diverse as a short business travel to a long leisure travel to a faraway destination to try out organic farming. Conventional and standard packages just don't make a mark on the consumer who's in the pursuit of the ideal travel experience. It becomes imperative for OTAs and travel management companies to offer customized solutions. OTAs need BPM partners that can help them design and implement strategies that ensure higher customer satisfaction, higher net promoter scores and eventually a higher lifetime value.

How Should a Travel Company Choose its BPM Partner?

In an environment ruled by uncertainty and cut-throat competition, traversing the path alone can be a daunting task, particularly when it comes to analyzing huge volumes of data and making sense of those data mounds. It is clear that OTAs can benefit greatly from a BPM partner that can offer advanced product and service capabilities and broad expertise in the travel and leisure marketplace.

If you are an OTA, how do you select your BPM partner? Are there any specific parameters that you should consider? Which are the most important parameters to look at?

Presenting the **BPM Index for OTAs**:

The **BPM Index for OTAs** factors in two critical parameters — **OTA delivery capability and OTA market success.**

OTA delivery capability is a function of *scale, scope*, and *delivery footprint*.

Scale should be a measure of:

- The number of FTEs working for OTA clients

- OTA clients or logos being managed by the BPM provider

- Volume of front-office transactions being managed by the BPM provider

- Volume of mid-office transactions being managed by the BPM provider

- Volume of back-office transactions being managed by the BPM provider

Scoring Mechanism	
FTEs	
Less than 1000	0
1000 to 2000	5
More than 2000	10
Logos	
Less than 3	0
3 to 5	5
5 to 10	10
Total Revenue	
USD 0 to 30 Million	0
USD 30 Million to 50 Million	5
More than USD 50 Million	10
Transactions	
Less than 0.5 million	0
0.5 to 1.5 million	5
More than 1.5 million	10

Scope should be measured by the capability to deliver the full range of business process management services across the value chain of the OTA business. OTAs should make an attempt to understand if the BPM provider offers

- Customer Service

- Sales Contact Center

- Finance and Accounting

- Research and Analytics
- Human Resource Outsourcing
- Legal Service Outsourcing
- Procurement Supply Chain solutions

Scoring Mechanism	
Yes / No	
Yes	10
No	0

Delivery Footprint traces the BPM provider's presence in important global geographies. Before engaging, OTAs should ask BPM providers if they have a presence in:

North America
Europe
Asia
South America
Africa
Australia

Scoring Mechanism	
Yes / No	
Yes	10
No	0

The weightage given to Scale is **20 percent**

The weightage given to Scope is **15 percent**

The weightage given to Delivery Footprint is **10 percent**

OTA market success is a function of *impact generated, buyer satisfaction, pricing & accountability and innovation leadership.*

Impact Generated covers the following:

- 5 year revenue CAGR

- New logos per year
- Average Annual Contract Value (ACV)
- Sales conversion rate
- Annual Cost Out year-on-year
- Client revenue upliftment year-on-year
- C-SAT improvement

Scoring Mechanism	
Revenue CAGR, Cost Out, Revenue Upliftment, CSAT	
Less than 0	0
0 to 5 %	3.333
5 to 10 %	6.666
More than 10 %	10
New logos per year	
0 to 2	0
2 to 4	5
More than 4	10
Average Annual Contract Value	
Less than USD 2 Million	0
USD 2 Million to 5 Million	5
More than USD 5 Million	10

Buyer Satisfaction is a combination of Voice of Customer (VOC) and Voice of Transition (VOT) scores:

- VOC Score
- VOT Score

Scoring Mechanism	
VOC, VOT	
Below 5	0
5.1-7.0	2.5
7.1-8.0	5
8.1-9.0	7.5
9.1-10.0	10

Pricing and Accountability will give a sense of the ROI from the BPM engagement. The various parameters to look for here are:

- Gain-share pricing
- FTE-based pricing
- Transactional pricing
- Fee at risk

Scoring Mechanism	
Yes / No	
Yes	10
No	0

Innovation Leadership parameters give an insight into how well-placed the BPM provider is to help you tackle challenges in the environment and counter competition:

- Technology Investments
- Analytics Investments
- Domain Investments
- Partnerships
- Planned Mergers and Acquisitions
- New Global Delivery locations

Scoring Mechanism
Rate on a scale between 0 and 10

The weightage given to Scale is **30 percent**
The weightage given to Scope is **15 percent**

The weightage given to Delivery Footprint is **10 percent** Sample scoring using the index:

OTA DELIVERY CAPABILITY

Scale	
FTEs	More than 2000
Logos	5 to 10
Total Revenue	More than USD 50 Million
Front Office Transactions	Less than 0.5 million
Mid Office Transactions	More than 1.5 million
Back Office Transactions	More than 1.5 million
50	
WEIGHTAGE: 20 %	

Scope	
Customer Service	Yes
Sales Contact Center	Yes
Finance & Accounting	Yes
Research & Analytics	Yes
Human Resource Outsourcing	Yes
Legal Service Outsourcing	Yes
Procurement & Supply Chain	Yes
70	
WEIGHTAGE: 15 %	

Delivery Footprint	
North America	Yes
South America	Yes
Europe	Yes
Asia	Yes
Australia	Yes
Africa	Yes
60	
WEIGHTAGE: 10 %	

Scoring Mechanism	
FTEs	
Less than 1000	0
1000 to 2000	5
More than 2000	10
Logos	
Less than 3	0
3 to 5	5
5 to 10	10
Total Revenue	
USD 0 to 30 Million	0
USD 30 Million to 50 Million	5
More than USD 5 Million	10
Transactions	
Less than 0.5 million	0
0.5 to 1.5 million	5
More than 1.5 million	10

Scoring Mechanism	
Yes / No	
Yes	10
No	0

Scoring Mechanism	
Yes / No	
Yes	10
No	0

OTA MARKET SUCCESS

Impact Generated

5yr Revenue CAGR	More than 10 %
New logos per year	2 to 4
Avg Annual Contract Value	USD 2 Mn to 5 Mn
Sales Conversion Rate	More than 35 %
Annual Cost Out YoY	More than 10 %
Client Revenue Upliftment YoY	0 to 5 %
C-SAT Improvement	More than 10 %

53.333
WEIGHTAGE: 30 %

Buyer Satisfaction

VOC Score	8.1-9.0
VOC Score	8.1-9.0

Pricing & Accountability

Gain-share pricing	Yes
FTE-based pricing	Yes
Transactional pricing	Yes
Fee at risk	Yes

55
WEIGHTAGE: 15 %

Innovation Leadership
(Rate out of 10)

Technology Investments	8
Analytics Investments	8
Domain Investments	8
Partnerships	7
Planned M & A	9
New Global Delivery locations	9

49
WEIGHTAGE: 10 %

Scoring Mechanism
Revenue CAGR, cost out, revenue upliftment, CSAT

Less than 0	0
0 to 5 %	3.333
5 to 10 %	6.666
More than 10 %	10

New Logos Per Year

0 to 2	0
2 to 4	5
More than 4	10

Avg Annual Contract Value

Less than USD 2 Million	0
USD 2 Million to 5 Million	5
More than USD 5 Million	10

Scoring Mechanism
VOC / VOT

Below 5	0
5.1-7.0	2.5
7.1-8.0	5
8.1-9.0	7.5
9.1-10.0	10

SAMPLE OUTSOURCING INDEX SCORE

55.6499

Conclusion

The travel and leisure industry is a high-touch, customer service-oriented sector that is hyper-competitive. OTAs, whose powerful Web presence once gave them an edge, are being challenged by hotel and airline sites. As a result, profit margins are extremely thin in a market dominated by multiple players, and where the proliferation of brands and choices in the industry offers travelers many options.

The accelerated pace of change in both, the OTA sector and leading-edge technology, has been driving organizations to outsource more strategic tasks, moving from transactional functions to transformational processes. The emergence of social media, mobile booking channels and other trends inject even greater complexity into OTAs' operational strategies.

To optimize the channel strategy, OTAs must be able to apply analytics to their channel strategy so that they can measure the impact of various channels. OTAs can analyze deep variables on how customers are acquired, and the cost and impact of those channels. Fulfillment and customer service — and managing customer complaints and relationships with air, hotel or other suppliers — are important considerations as well.

On the back-end, merchant accounting, invoicing, commission collections, refunds and chargebacks are critical elements of the OTA business cycle – all of which must be managed extremely well. Other capabilities, such as revenue partnerships, embedded analytics, technology integration, and process improvement, are also important in enabling OTAs to compete.

It's clear that OTAs can benefit greatly from a BPM partner that can offer advanced product and services capabilities and broad expertise in the travel and leisure marketplace.

The **BPM Index for OTAs** is a comprehensive tool that OTAs can easily leverage for selecting their BPM partner. It takes into account all the parameters that should be considered to select a capable BPM partner.

About WNS

WNS (Holdings) Limited, is a leading global business process solutions company. We offer industry-specific solutions to nine, including Banking and Financial Services; Healthcare; Insurance; Manufacturing; Retail and Consumer Products; Shipping and Logistics; Telecommunications; Travel and Leisure; and Utilities. We also offer horizontal solutions, including Finance and Accounting; Research and Analytics; and Contact Center. We have professionals working across delivery centers in China, Costa Rica, India, the Philippines, Romania, South Africa, Sri Lanka, UK and USA.

WNS is the world's largest travel BPM Company, with a legacy of having started out as a captive for British Airways. Today, WNS is a BPM partner for some of the leading global airlines across the globe. WNS provides the airlines industry with the latest, top-notch solutions to create opportunities from challenges. Whatever the business trend, WNS has a solution for your business.

Write to us at **marketing@wns.com** to know more

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