

Skift Research E-Book: The Amazon Factor in Travel

Lessons, Threats, and Opportunities



Skift Research

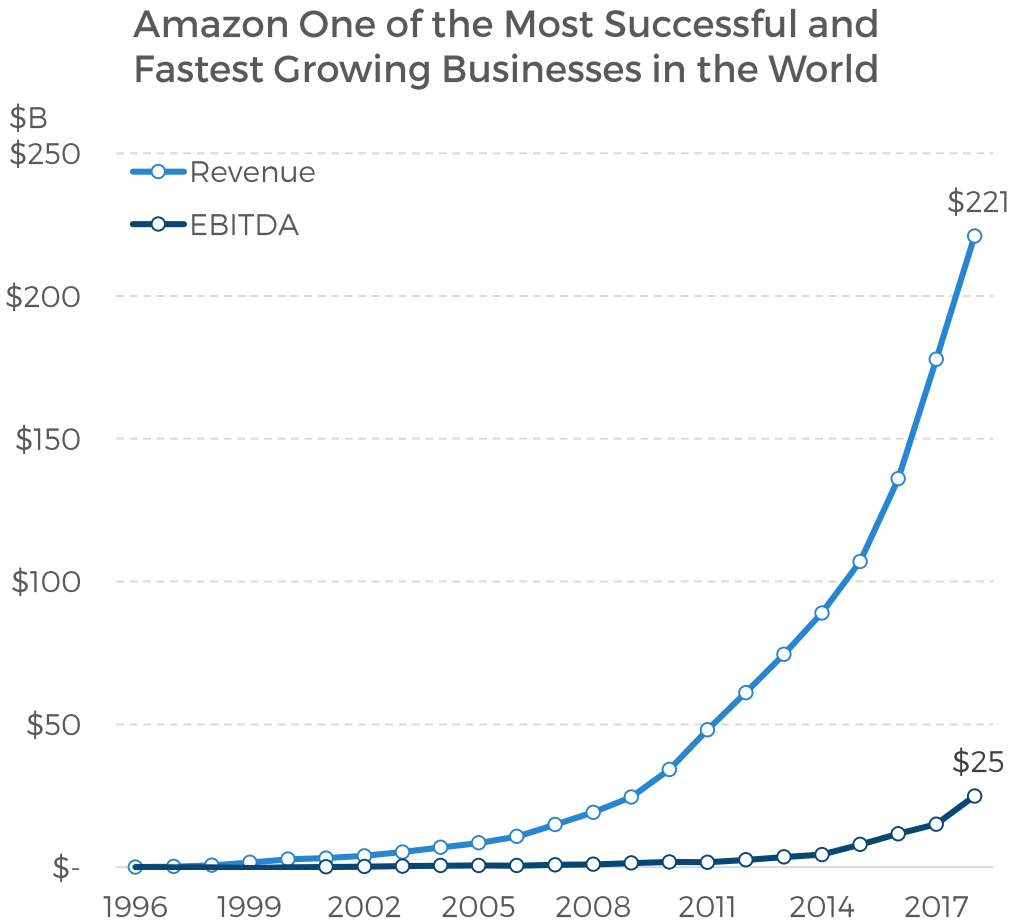
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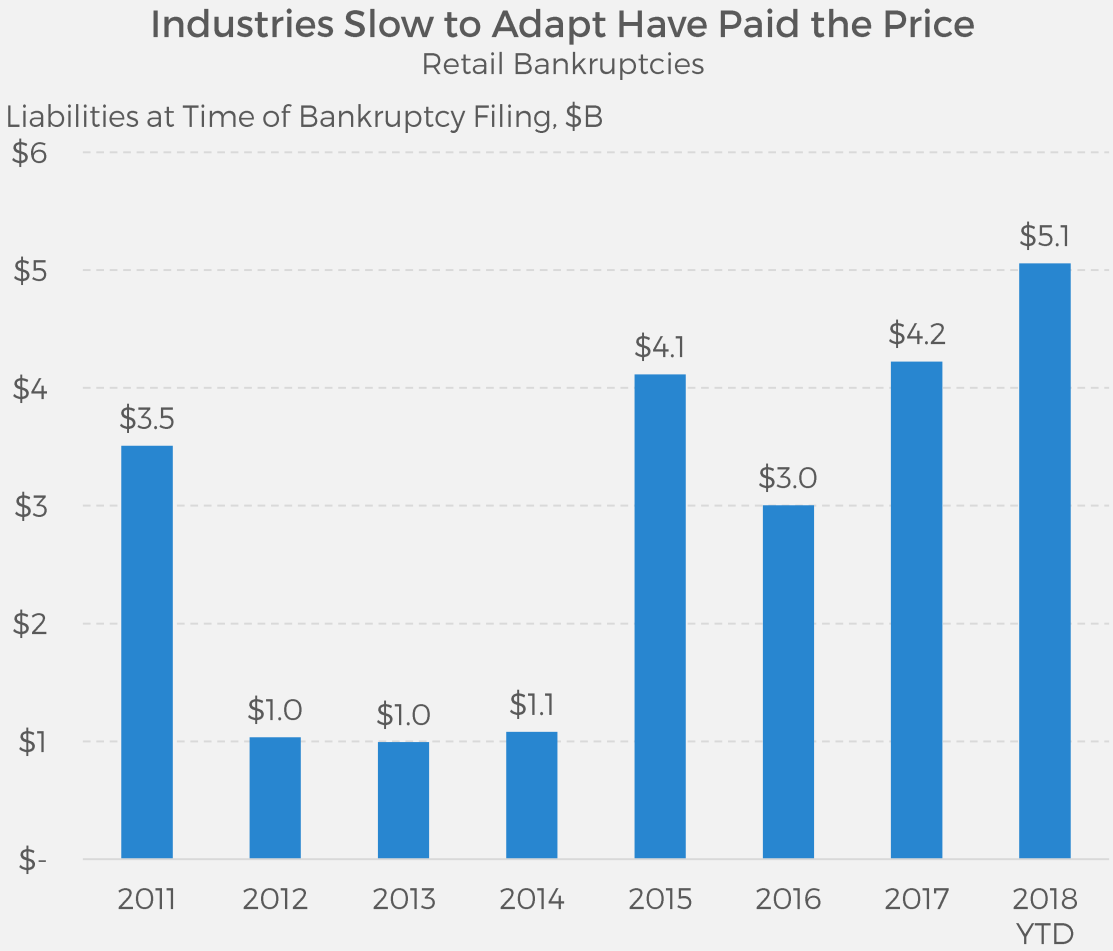
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Why Should Travel Learn From Amazon?

- There are many lessons to be learned by studying Amazon’s business model.
- Amazon has been able to consistently delight customers since its launch. This shows up in customer satisfaction scores which are well above the broader travel sector.



Source: CapitalIQ as of November 2018 (lhs & rhs).



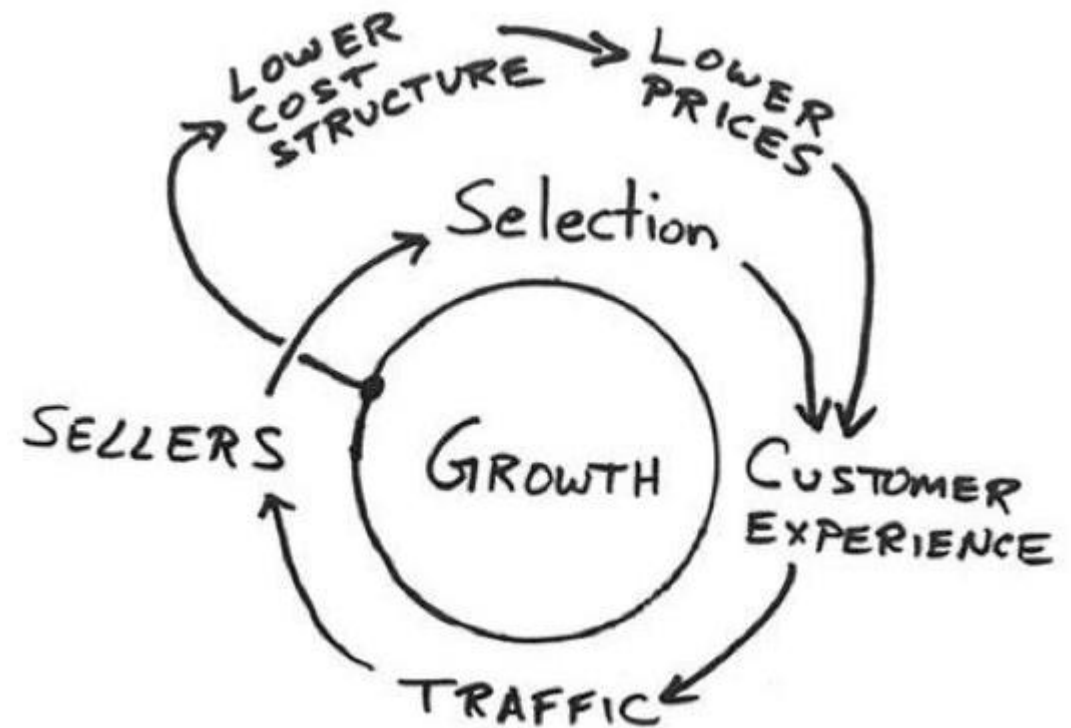
Lesson #1: Find Your “Flywheel”

Structure your business model so that each component of the company can build upon its own positive momentum and reinforce the growth of other divisions

- In the Amazon flywheel, a good customer experience drives higher sales traffic, brings more sellers onto its platform, and increases its product selection, which converges back into a better experience for new and returning customers. In a separate loop, cost structure allows for lower prices and a better customer experience. Customer experience will merge back into the original pattern of traffic, sellers, and selection.
- As platform companies, like Expedia and Booking, grow their user bases, their marketplaces become more attractive to suppliers, which in turn attracts even more users. This scale can then be used to negotiate pricing power with suppliers and advertisers.
- An independently branded hotel might create momentum for itself through its restaurant/bar or by partnering with local retailers and attractions.
- Let momentum do as much of your work as possible. Minimize transactions where the customer must be reacquired from scratch, aim to build infrastructure that creates scale advantages, and keep an eye out for potential partnerships.

The Original Amazon Flywheel

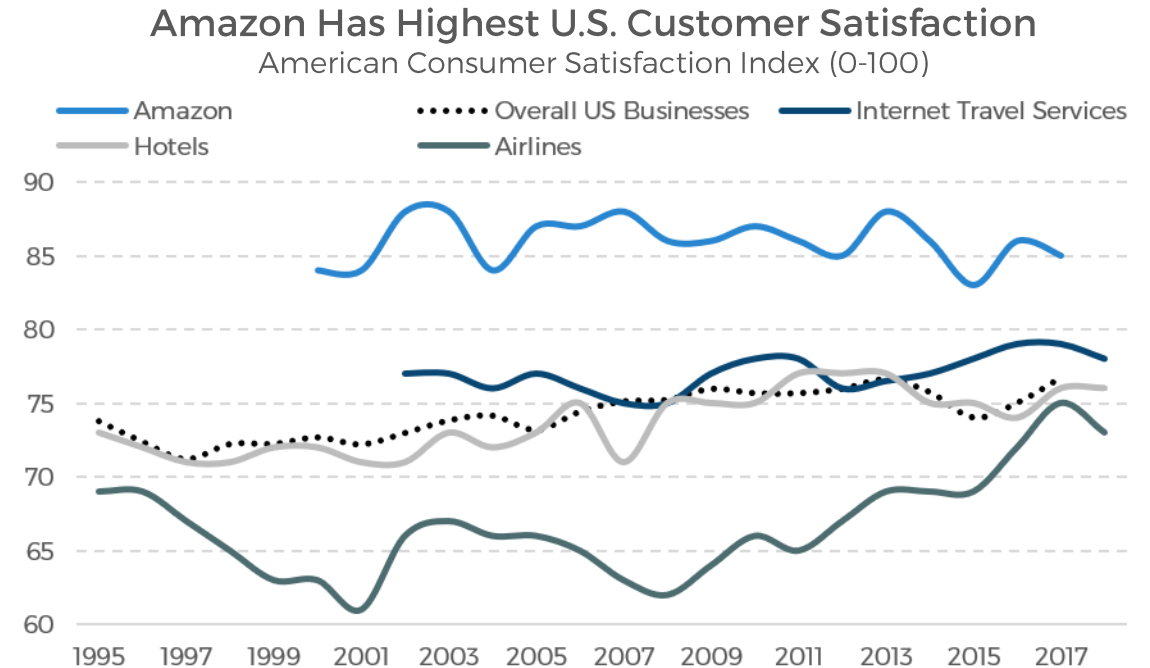
Success in Each Segment of the Business Reinforces the Another;
How Can Your Model be Structured to Create a Flywheel?



Lesson #2: Obsess About Your Customer, not Your Competition

Ruthlessly eliminate customer pain points throughout the entire shopping experience

- Amazon is well-known for its customer focus and has been able to consistently delight customers since its launch.
- CEO Jeff Bezos: “it’s OK to be afraid, but don’t be afraid of our competitors, because they’re never going to send us any money. Be afraid of our customers. And if we just stay focused on them, instead of obsessing over [a] competitor, ... we’ll be fine.”
- The industry standard is reassuring, but not good enough. Aim for perfection from the end-consumer’s perspective.
- Analyze and anticipate pain points, then be ruthless about eliminating those sources of customer friction. Hospitality and user experience are the table stakes.
- Travel faces unique challenges. Customers have fewer chances to interact with travel brands and there is a confusing web of distribution, transportation, and in-destination providers. That makes it easy to pass the buck when one part of the system – one which you are not responsible for – fails. The travel industry should not hide behind those excuses.



Lesson #3: Loyalty Is an Emotion, not a Points Program

Strive to create true value for the customer, and don't be afraid to ask for something in return

- Amazon Prime functions as a loyalty program. As opposed to a focus on accruals, Prime delivers instant gratification by providing immediate and tangible benefits to its subscribers (see estimate at right).
- Miles or points are supposed to approximate the emotional loyalty that a customer feels toward a product or service. Emotional loyalty was the original goal but instead, these programs can devolve into an end unto themselves, encouraging users to game the system.
- These programs drive traffic, but many loyalty programs are overly transactional and complex.
- Contrast this with Amazon's approach to consumer loyalty which boils down to delighting the customer in any way possible. If you deliver an exceptional experience that creates loyalty, you don't have to be afraid about asking the customer for something in return (e.g., a Prime membership fee).

Amazon Prime Bundle Gives Buyers Immediate Return on Investment

J.P. Morgan Estimates

Prime Service	Estimated Value
Prime Delivery	\$ 110
Prime Now	\$ 120
Prime Video	\$ 108
Prime Music	\$ 108
Prime Photos	\$ 24
Kindle Lending Library, Prime Reading	\$ 108
Audible Channels for Prime	\$ 59
Twitch Prime	\$ 60
Estimated Value Within Prime:	\$ 697
Actual Prime Cost	\$ 99
Return on Investment	6.0x

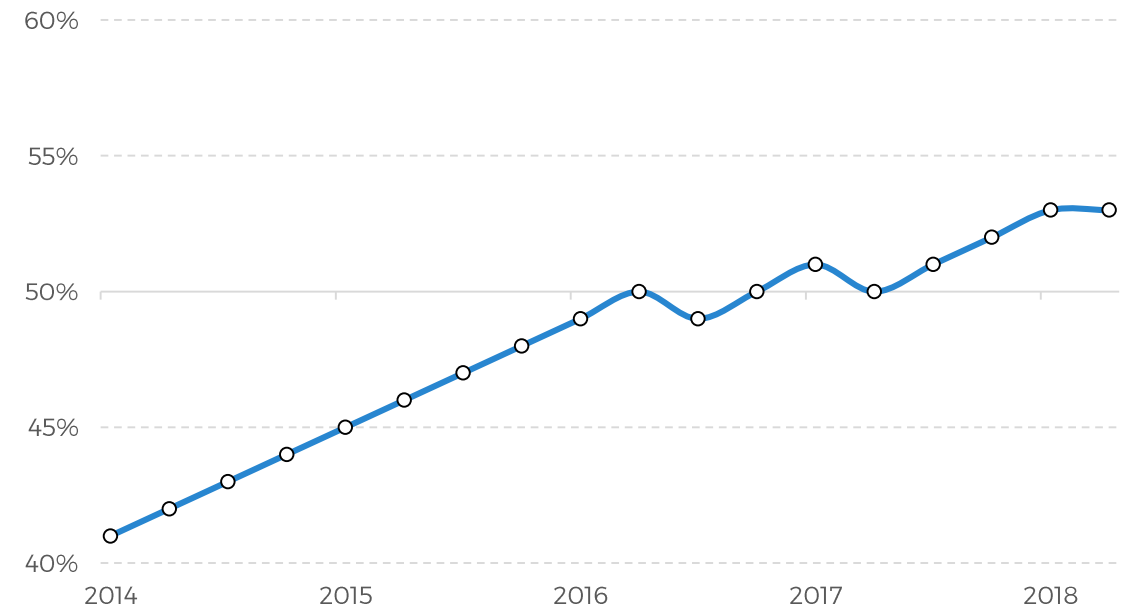
Lesson #4: Invest in the “Unsexy” Parts of Your Business

Don't neglect back-end infrastructure and supplier relationships

- Amazon has achieved amazing success by putting logistics at its core. Investments in both its infrastructure and supplier relationships have helped drive a below-market cost structure and broad selection of inventory.
- Back-end travel tech has lagged the times, sometimes by decades. Not just a pain for staff, it also affects top line when it creates a poor customer experience or when outdated systems prevent integrations of new tech, such as revenue management systems.
- Supply chain improvements provide an opportunity for travel in particular, as just a single trip can involve multiple transactions and a long list of suppliers and intermediaries.
- Bottom line is you can't neglect the back-end just because the customer doesn't see it. Tech infrastructure and supplier partnerships are crucial to running the core business smoothly and present an opportunity to drive new businesses opportunities. This is especially true for platform companies.

Amazon as a Logistics Platform:
3rd Party Sellers Now More Than Half of All Units Shipped

Percent of Amazon Units Sold by Third-Parties



Is Amazon a Threat to Travel Incumbents?

- Travel is one of a few large consumer expenditure categories without an Amazon presence.
- Amazon participates in categories that form an addressable market representing 25%+ of U.S. consumer spending. Most missing categories are non-discretionary spend like housing, vehicles, and utilities.
- That leaves travel, which represents 3% of U.S. consumer spending, as one of the only major discretionary categories where Amazon does not have an offering.

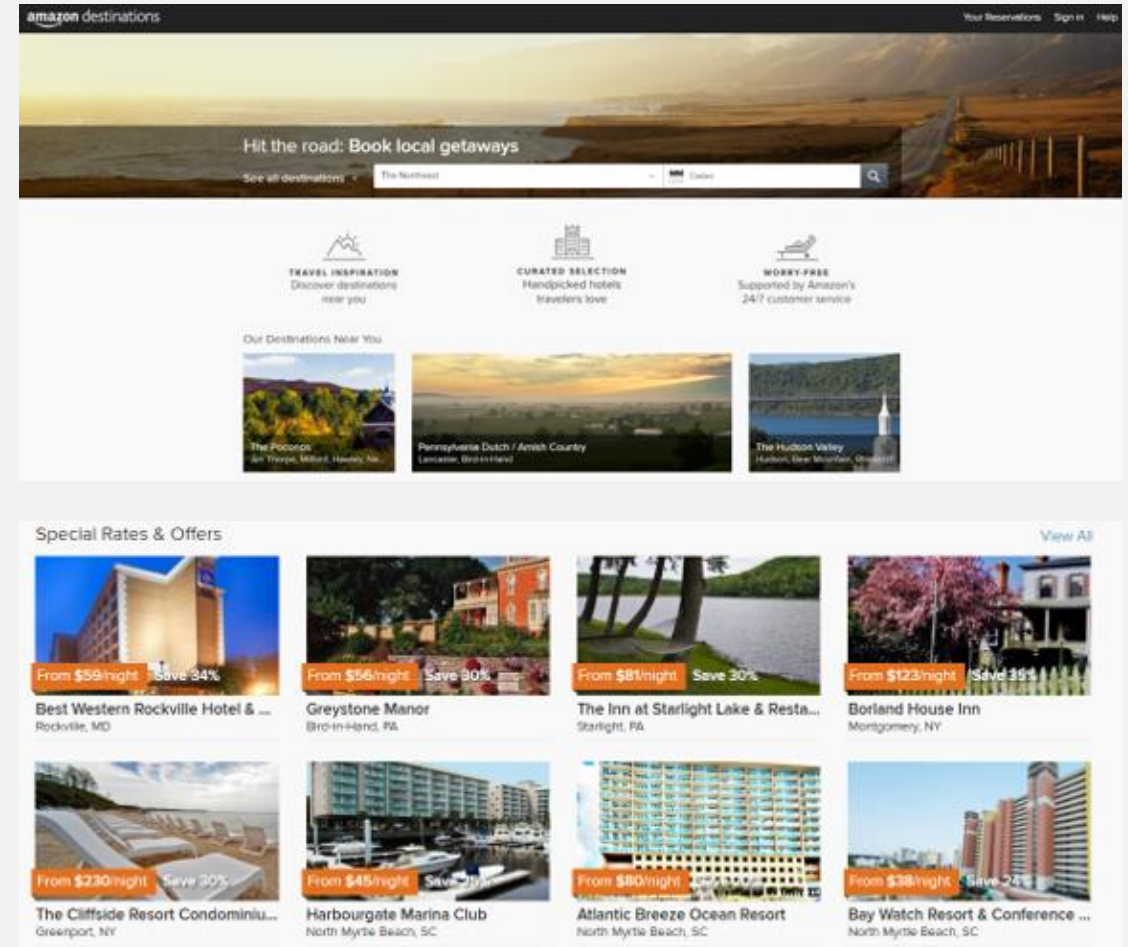
Consumer Category	% of US Consumer Expenditures	Amazon Presence	Notes
Healthcare	8%	✗	Limited offering. Recently entered into HC partnership JPM and BRK. Long-rumored to be entering prescription drugs
Groceries	7%	✓	Acquired Whole Foods for \$13.7B in summer 2017
Restaurants	6%	✓	Offers restaurant delivery services and has delivery partnership with Olo
Household furnishings, appliances, & equipment	3%	✓	Partnering with Sears, Best Buy Kohls, and others
Other Entertainment (e.g. video games, sports, & exercise equipment)	3%	✓	
Apparel and services	3%	✓	Amazon Fashion and Prime Wardrobe. Partnerships with Nike & others.
Travel	3%	✗	Amazon Destinations Pilot in 2015
Education	2%	✗	Limited Offering
Television, Movies, & Music	2%	✓	Amazon Studios, Amazon Music, etc...
Personal care products & services	1%	✓	
Housekeeping supplies	1%	✓	
Reading	0%	✓	This is where it all started!
Subtotal	40%		Amazon participates in 25%+ of consumer spending and growing
Non-discretionary spending incl. housing, vehicles, insurance, & utilities	53%		Limited offering in most of these categories. Some vehicle products
All other	7%	n/a	

Amazon Has Tried to Enter Travel in the Past

Amazon destinations represents the company's largest travel effort to date

- Amazon launched Amazon Destinations, a retail hotel booking site in April 2015. The product focused on weekend leisure escapes within driving distance of six U.S. metro areas.
- For several years prior to 2015, Amazon Local had offered deeply discounted hotel deals.
- Six months later, in October 2015, Amazon shut down Amazon Destinations, saying it had learned a lot.
- Amazon salespeople signed up hotels, often one at a time. We believe the logistics involved with this process was one of the main hurdles that caused the experiment to be shut down.

Amazon Destinations
(b. Apr 2015 – d. Oct 2015)

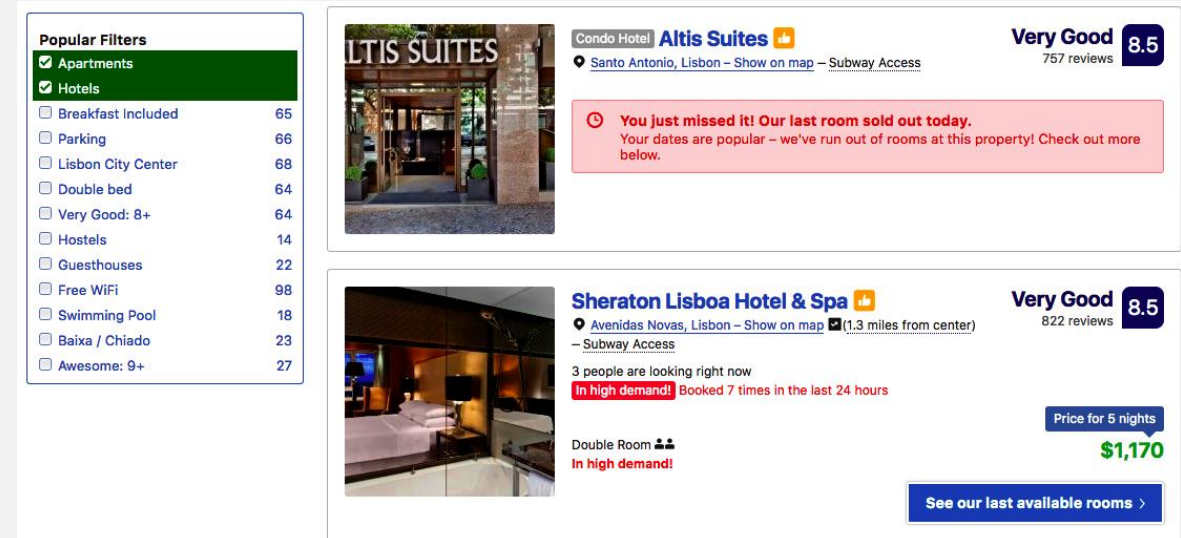


Will Amazon Resume Travel Operations?

Never say never but ...

- Hotel and other travel bookings are not easy to sell online.
- Booking.com continually tests and updates its platform which incorporates sophisticated calls to action (“Booked 7 times in the last 24 hours”), reviews, and filters (See screenshot at right).
- 22-year-old Expedia will spend \$50 million in 2018 to bring on new accommodations.
- Travel itineraries are very complex with multiple suppliers and intermediaries, which could make it hard for Amazon to live up to the standard of customer service that it delivers in other categories.
- Experiential travel a stumbling block – Amazon is good at selling *a lot* of items, but with travel, many customers want a *unique* experience.

Booking.com Has Designed a Sophisticated Hotel Shopping Experience That Incorporates Calls to Action, Reviews, and Filters
Is Amazon Willing to Spend the Time and Money Required to Build a Similar Booking Flow?

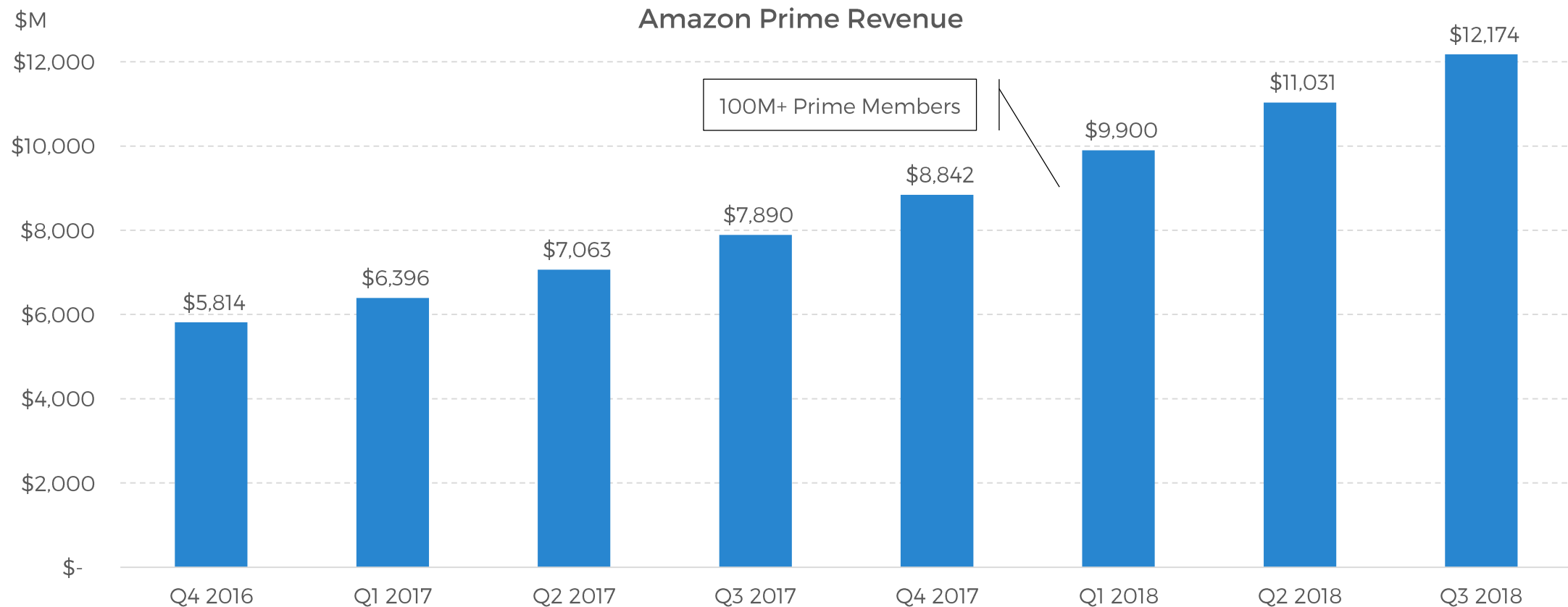


The screenshot displays the Booking.com interface. On the left, a 'Popular Filters' sidebar lists various amenities and their counts: Apartments (checked, 65), Hotels (checked, 66), Breakfast Included (65), Parking (66), Lisbon City Center (68), Double bed (64), Very Good: 8+ (64), Hostels (14), Guesthouses (22), Free WiFi (98), Swimming Pool (18), Baixa / Chiado (23), and Awesome: 9+ (27). The main content area shows two hotel listings. The first is 'Altis Suites', a Condo Hotel in Santo Antonio, Lisbon, with a 'Very Good' rating of 8.5 from 757 reviews. A red banner indicates 'You just missed it! Our last room sold out today.' The second listing is 'Sheraton Lisboa Hotel & Spa', located on Avenidas Novas, Lisbon, also with a 'Very Good' rating of 8.5 from 822 reviews. It features a 'Double Room' for \$1,170 for 5 nights, with a red banner stating 'In high demand! Booked 7 times in the last 24 hours' and '3 people are looking right now'. A blue button at the bottom right says 'See our last available rooms >'. A blue bar at the top right of the page contains the word 'Threats'.

Amazon as a Direct Travel Competitor: Strengths

Amazon Prime Membership Base

- Fees give a cash cushion to offer products at lower profit margin than otherwise possible.
- Prime gives Amazon an opportunity to interact with customers via daily transactions, an advantage over others which only receive consideration when user is shopping for travel, a low frequency purchase.

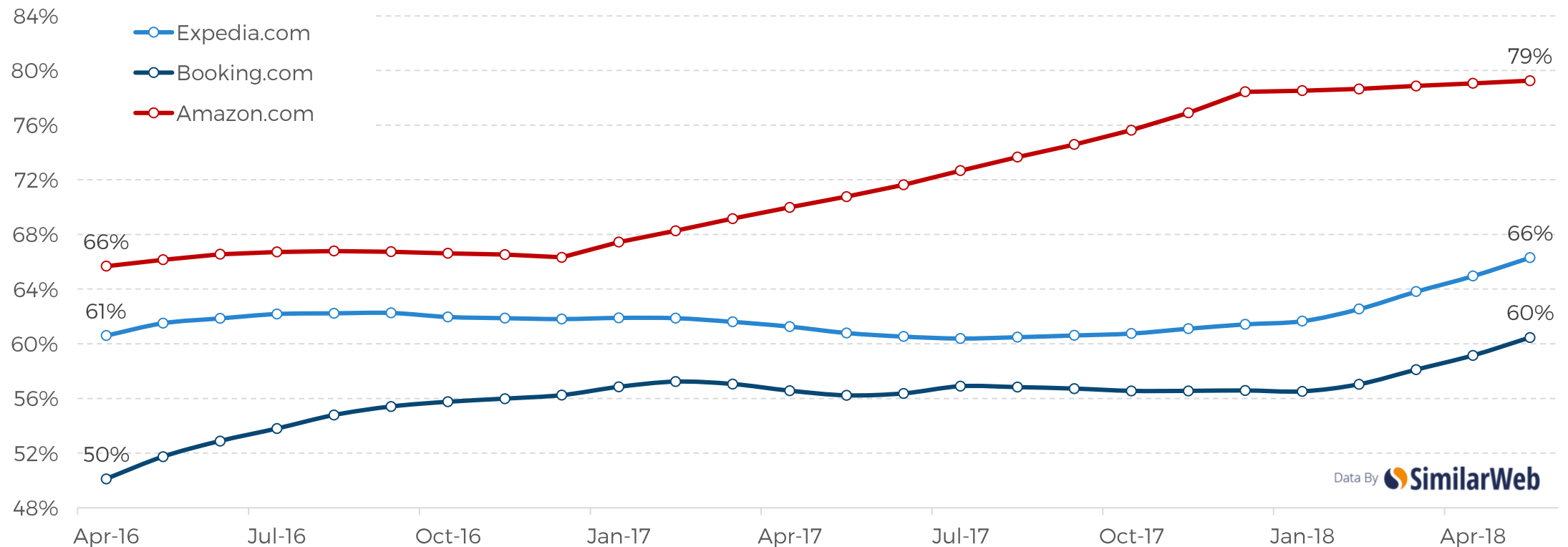


Amazon as a Direct Travel Competitor: Strengths (Cont'd)

Direct Online Traffic Advantage

- Amazon generates 79% of its U.S. website traffic from free (direct or organic search) sources versus 66% at Expedia and 60% at Booking.com. This creates a significantly cheaper cost of customer acquisition.
- Booking Group and Expedia are the two largest travel marketers in the world, each spending about a third of revenues on advertising each year.

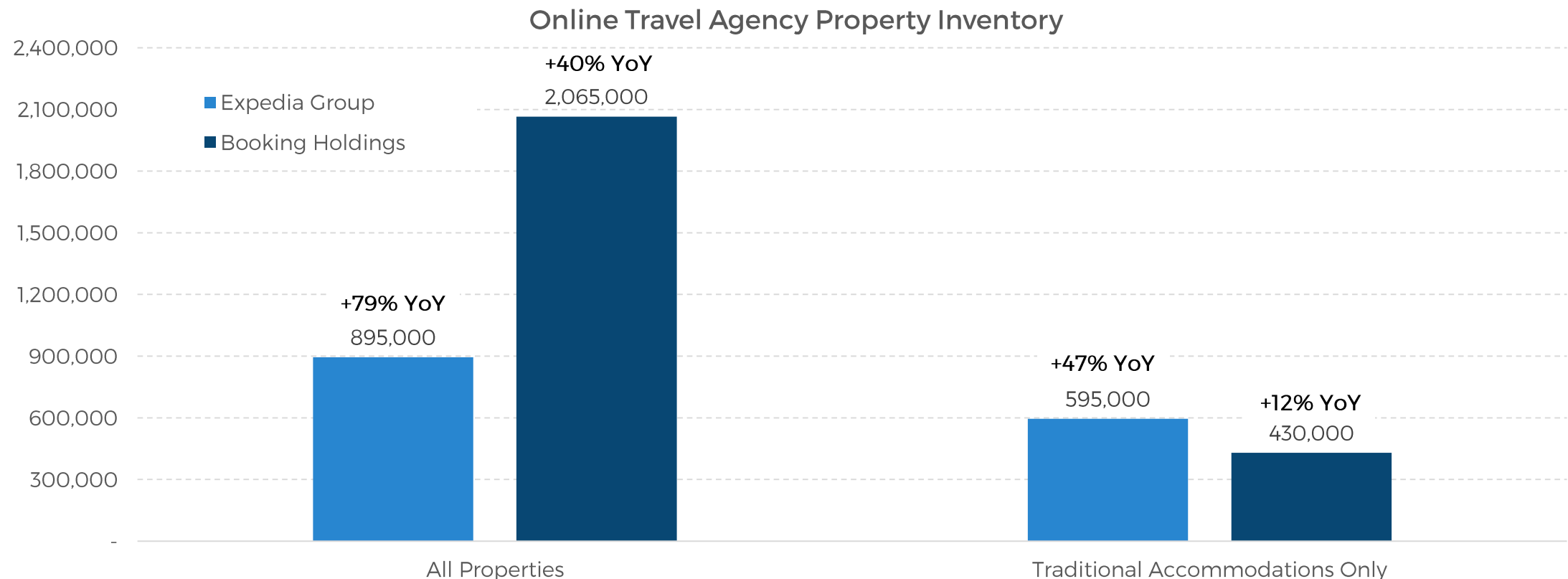
Direct and Organic Search as a % of U.S. Site Traffic



Amazon as a Direct Travel Competitor: Weaknesses

Amazon lacks supplier relationships and travel domain expertise

- Incumbent online travel agencies list hundreds of thousands of accommodations and still have room to expand. Booking Holdings and Expedia Group are driving hard to grow their supply even further.
- Even the largest and wealthiest companies in the world (e.g. Amazon, Google) would need to invest vast amounts of time and money to replicate existing online booking site supply from scratch.



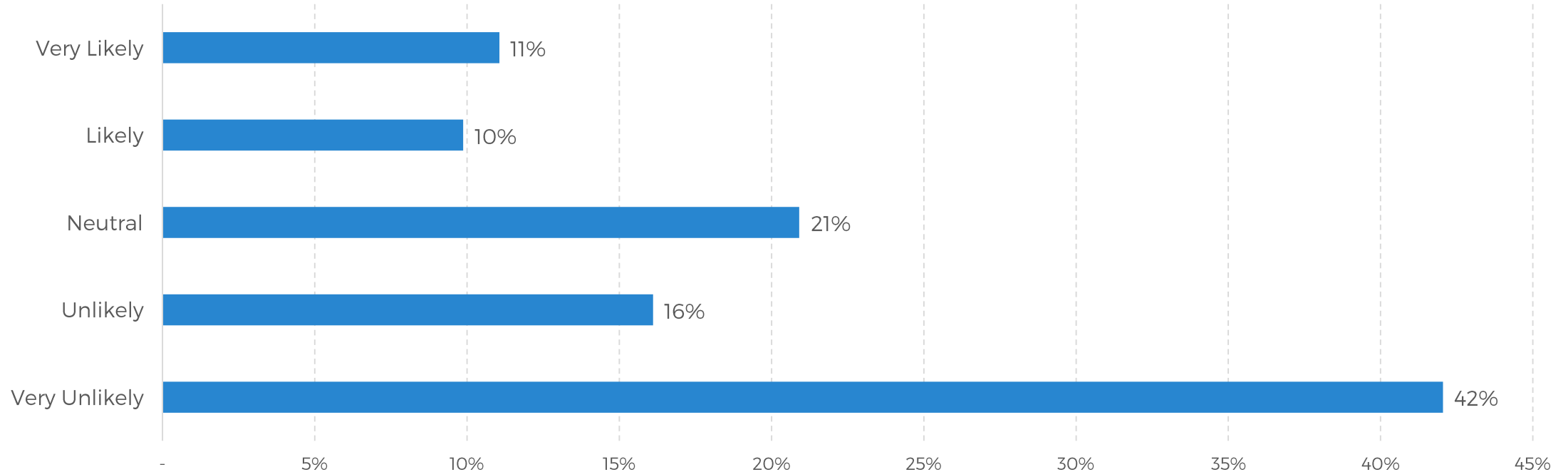
Amazon as a Direct Travel Competitor: Weaknesses (Cont'd)

Consumers may not be willing to trust Amazon with travel purchases yet

- There is a high threshold for trust that any travel brand must establish before customers will book with it. Our survey data indicates that many consumers would be skeptical of an Amazon travel offering.
- Amazon does a good job of refunding defective merchandise, but if something goes wrong on a trip, travelers cannot get the vacation time back, even if they receive a monetary refund.

Amazon Faces Hurdles in Building Customer Trust for Travel

How likely would you be to purchase some or all parts of your future travel on Amazon (e.g. flights, hotels, or activities), if it was offered



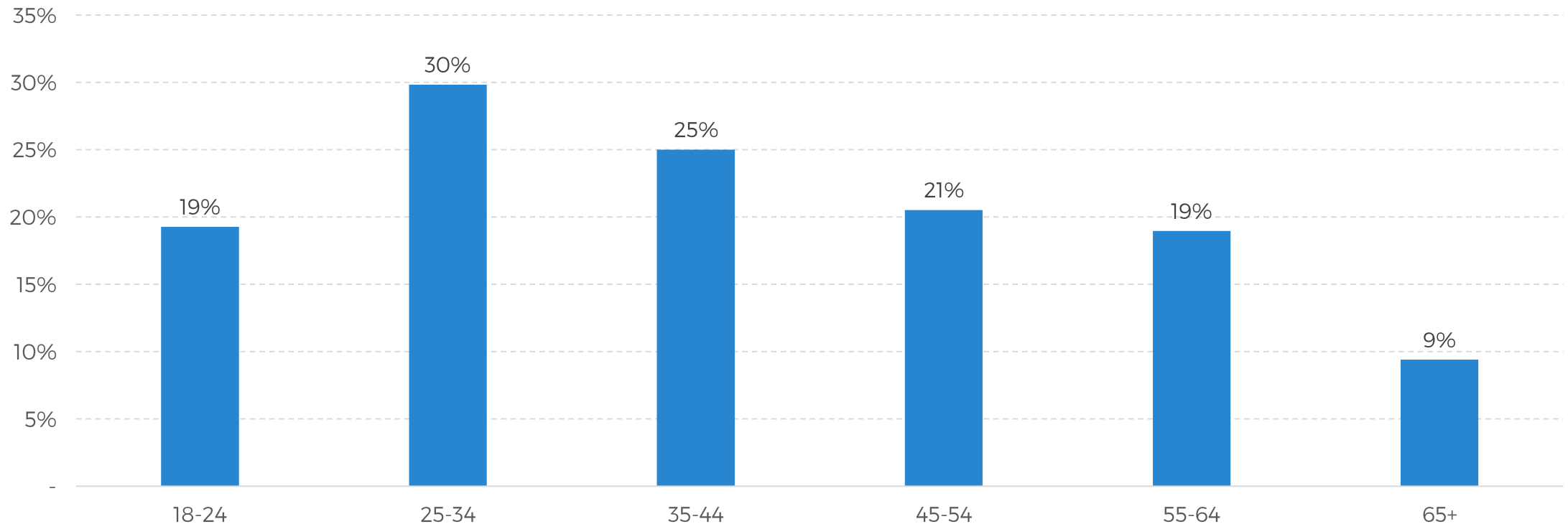
Amazon as a Direct Travel Competitor

But our survey data is not all bad news...

- Though the general public is broadly skeptical of an Amazon travel offering, Millennials are the age demographic most likely to trust Amazon.
- This is a potential tailwind as that generation ages into peak spending power.

Younger Generations, Especially Millennials, Show Greatest Potential for Amazon in Travel

Very Likely or Likely to Purchase Travel on Amazon, by Age Demographic



Concluding Thoughts on Amazon as a Competitor

First party competition poses a great threat to the online booking sites, not suppliers

- Realistically, Amazon would only be able to capture a small share of the travel market, perhaps less than 10%, in the short term.
- However, Amazon is known to be fiercely competitive on price and is willing to run new businesses at a loss to gain share, which could put pressure on booking site commissions.
 - Even a 0.5% change in effective take rates would cost the big-two OTAs \$1 billion in revenues.
 - A more competitive commission environment would be a boon to hotels and other travel suppliers.

Amazon likely would buy or partner rather than build

- If Amazon were to try its hand at travel again, we suspect it would likely buy its way into the business or go the partnership route.
- Amazon has the cash means to acquire a major travel player, though it would be costly.

Could Amazon build a review / metasearch platform?

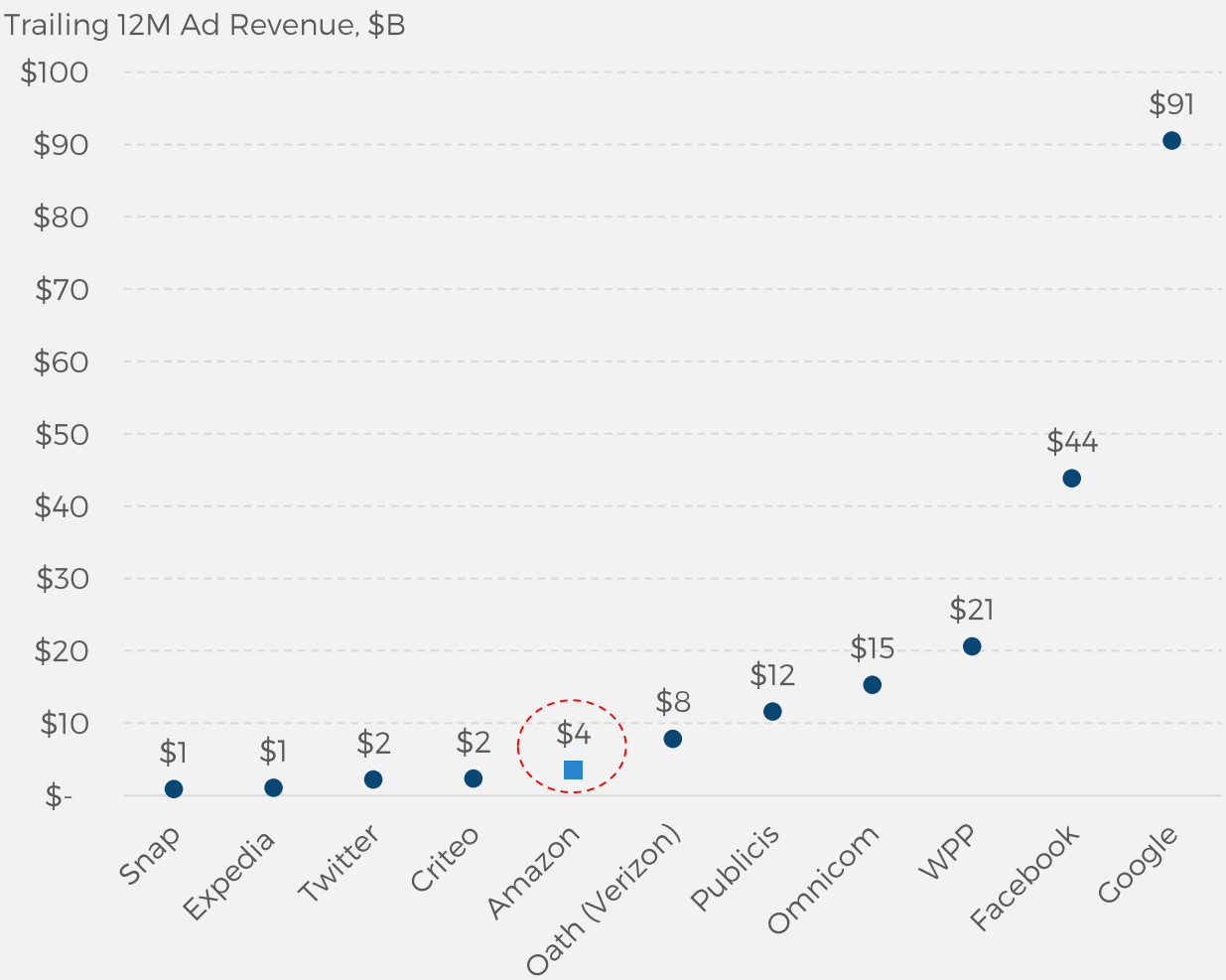
- Amazon could use the approach it takes in vehicles, where rather than sell directly, it has a “research destination” with prices and specifications. Substituting cars for travel destinations would effectively create a metasearch competitor to TripAdvisor.
- Similar to travel, cars are a high-ticket, low-volume purchase that involve extensive consumer research.
- A comparison platform would also allow Amazon to better sell ancillary products they already carry, such as luggage or guidebooks, and create further opportunities for advertising partnerships.

Amazon Creates Opportunities for Travel Businesses: Ads

Amazon has stealthily built one of the world's largest advertising businesses

- Amazon now runs a larger advertising business than Twitter, Snapchat, or Criteo.
- Amazon has detailed (re-)targeting info, given the transactional nature of its core business.
- Travel is one of the largest advertising industries in the world, making it increasingly beholden to the online power of Google and Facebook.
- The entrance of Amazon into the online advertising world could help travel break free of the GOOG/FB duopoly
- The introduction of additional inventory should help drive down cost-per-click (CPC) prices.
- However, most Amazon ads today are optimized for transactions on its own platform. There is still limited inventory for brand ads or referral traffic.

Amazon, though still small, is emerging as a challenger to Google and Facebook. Is the enemy of my enemy, my friend?

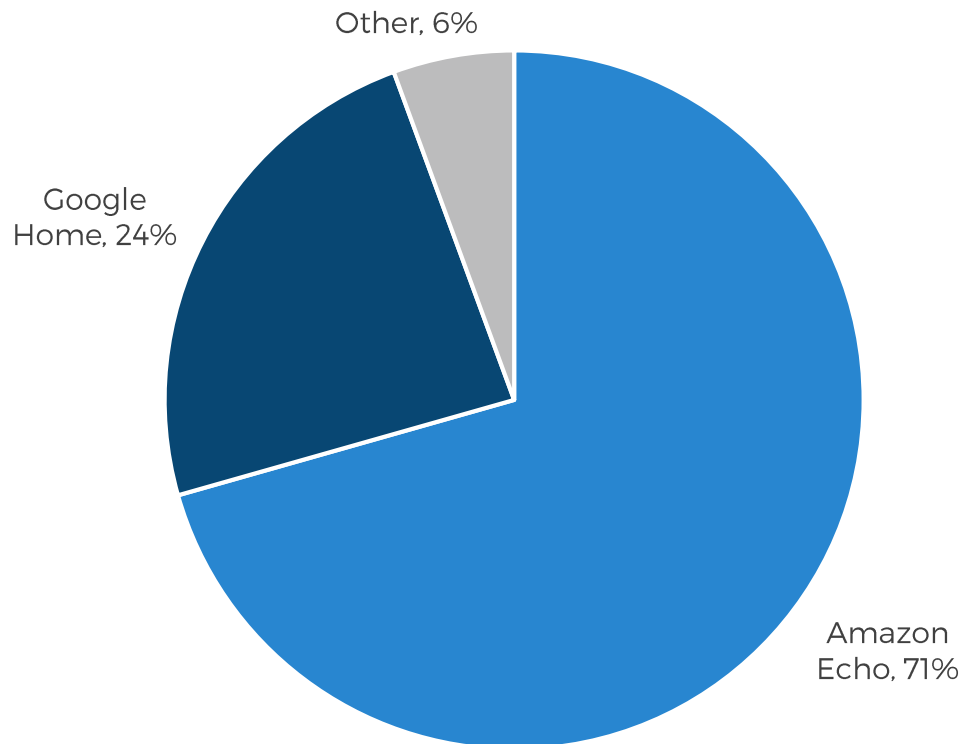


Source: Skift Research, respective Company Filings. Data as of May 2018.

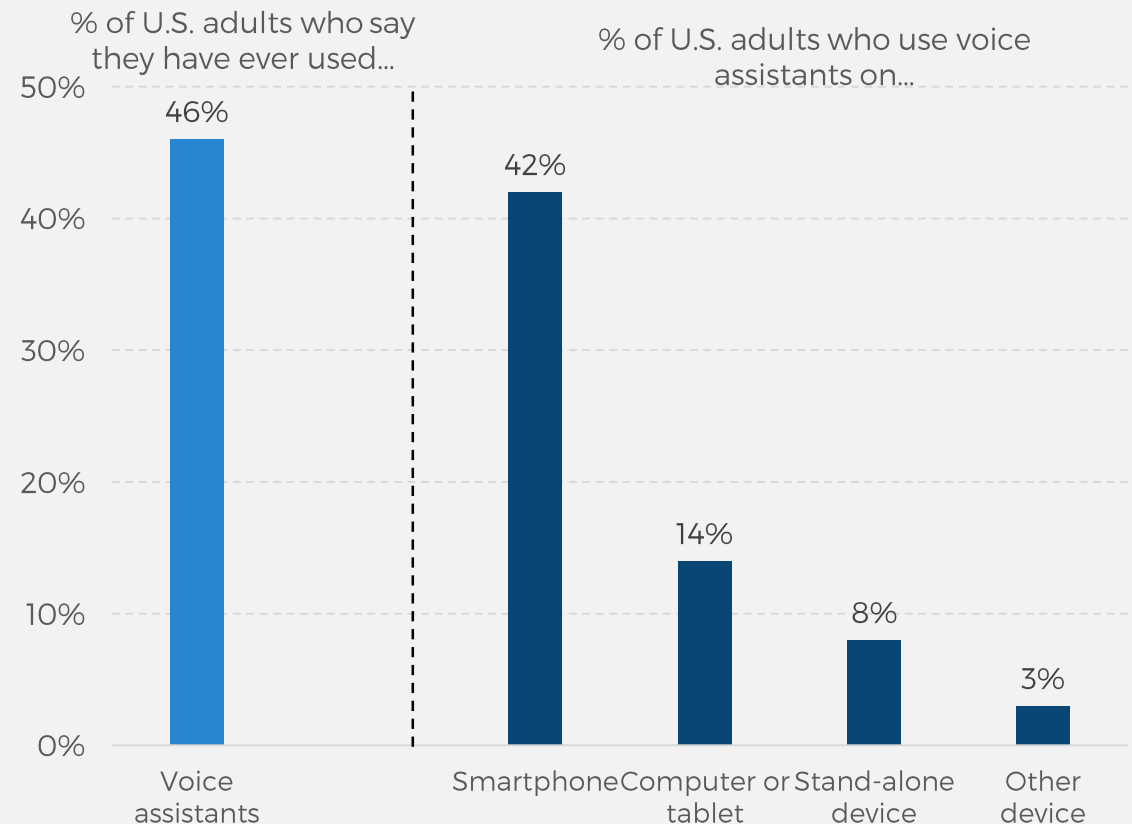
Amazon Creates Opportunities for Travel Businesses: Voice

- Speech recognition now meets conversational thresholds, presaging an explosion of new use cases.
- Americans are growing familiar with voice assistants in their phones, but stand-alone device use is rarer.
- Amazon has leading market share in the voice speaker category.

U.S. Voice Enabled Speaker User Share, 2017



Adoption of Voice Technology Gaining Pace



Smart Device Use Cases Extend Beyond Voice and Across Many Travel Segments

Hotels

- Customer-facing experiments with smart devices include in-room Alexa devices, smartphone-based locks, and smart thermostats that automatically adjust to loyalty member preferences.
- From a back-of-the-house perspective, pilots with smart devices have allowed staff to request room specific maintenance or communicate among team members, for example.

Alternative Accommodations

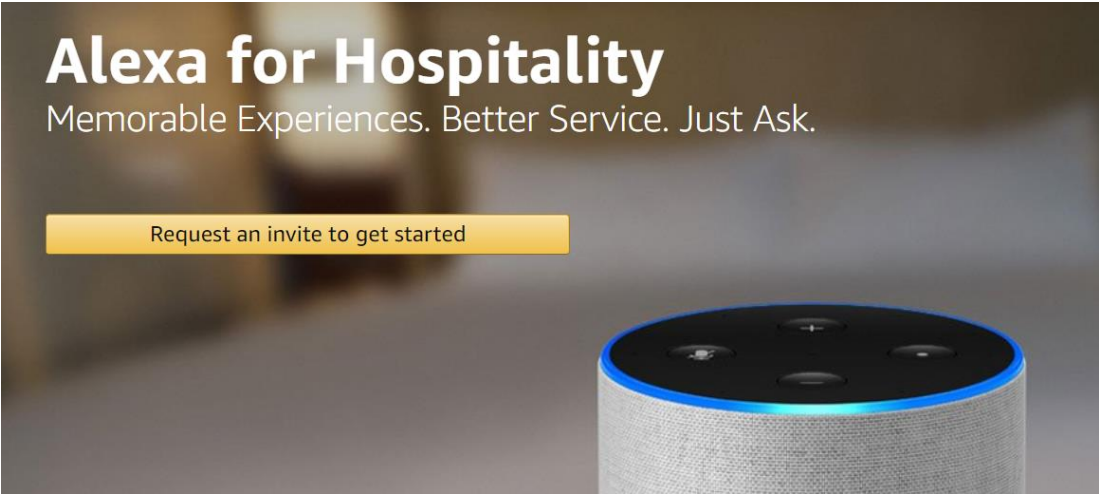
- Smart doorbells can help with guest check in and eliminate the need for inconvenient key exchanges (Amazon owns smart home security company, Ring).
- Virtual guidebooks and/or concierge services can mimic some hotel front-desk functionalities.
- Sound recorders alert rental home owners to unauthorized parties, extra guests, and/or property curfew violations based on volume.

Challenges

- How will hospitality and tech companies assure guest privacy and overcome the “ickiness” factor?
- Who owns the data that these devices generate? Is it the tech or hospitality company (reminiscent of OTA versus hotel conflicts)? What about guests’ rights to their own data?
- Will these smart devices create true innovation, or will they wind up just being the next in-room iPod docking station?

Smart Devices Need to be Designed for Hospitality Enterprises; Experiments Will Help Pinpoint Needs

Who's experimenting with Alexa?



“We’re eager to learn how guests interact with Alexa — and what hotel amenities they request by asking Alexa,” Hsieh said. “In terms of connecting Alexa for Hospitality with our loyalty programs, or future tie-ins between our loyalty programs and Amazon Prime, we can’t speculate, but we are excited for our guests to experience Alexa in-room.”

-Jennifer Hsieh, Vice President of Customer Experience Innovation for Marriott International
[Amazon Wades Into Travel as Hotels Turn to Alexa in Rooms](#), Skift.com, June 19, 2018



SKIFT'S PREMIUM PAID
SUBSCRIPTION PRODUCT
QUANTIFYING THE FUTURE OF TRAVEL

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