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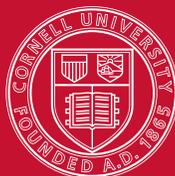


Cornell Hospitality Report

Travel Packaging: An Internet Frontier

by William J. Carroll, Ph.D., Robert J. Kwortnik, Ph.D., and Norman L. Rose

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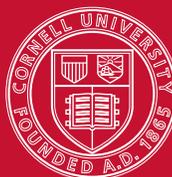
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EXECUTIVE SUMMARY

The internet has revolutionized travel packaging, in terms of both travel package development and distribution. Although tour packages are still assembled and sold in the traditional fashion by tour operators, customers who use the web have access not only to assembled tour products, but also to an array of travel-element bundles. These offers take various forms, depending on the approach of the many suppliers and intermediaries who sell directly to customers via the internet. Packaging travel elements benefits suppliers by reducing the price transparency created by the internet, because the prices of those individual travel elements are bundled and therefore difficult for the package buyer to discern. Moreover, with the growth of online communities, suppliers can observe consumers' stated desires for travel and make proposals for travel packages, rather than wait for consumers to search out the packagers. A notable development is consumers' creation of their own packages in real time, based on changes in vendors' inventories and revenue management pricing. The efficacy of this process depends on the connectivity and computing power of the suppliers, packagers, and intermediaries. A framework presented here assesses value-creation aspects of the following package value drivers: component quality levels, reductions in the opportunity cost of time, flexibility of time and destination choice, and risk management. Based on the value-creation assessment, the report suggests a research agenda and a checklist for package value creation.

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Norman L. Rose, a 25-year travel industry veteran, is founder of Travel Tech Consulting, Inc., a leading authority on emerging travel technologies and travel related e-business (norm@traveltechnology.com). Travel Tech Consulting's focus is on identifying emerging technologies and understanding their impact on travel industry business practices. He is the author of a number of studies focused on travel related technology. These include *Corporate Travel Technology Today and Tomorrow* (September 2007), *Selling Complex Leisure Travel Online: Focus on Dynamic Packaging Technology* (December 2004), *Emerging Trends in Wireless Technology and The Global Travel Industry* (October 2003) and *Corporate Travel: Technology Trends and Market Analysis* (Spring 2002). He has an extensive background in both the corporate and leisure travel markets includes sales and marketing management positions at United Airlines and corporate travel management for Sun Microsystems.

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Sales of travel packages are large and growing, both through traditional channels and via the internet. We conservatively estimate that one-third of travel spending in Europe and the United States involves travel packages. Much of this growth is advanced by the remarkable change in packaged-travel distribution made possible by the internet. Instead of relying on travel agents or tour operators to market packages, consumers can themselves efficiently search for, compare, assemble, and book travel packages.¹ The other side of the IT innovation coin is that suppliers and intermediaries can assemble, price, and describe package content and manage inventory more effectively. Although we do not foresee the demise of traditional tour-package marketing or sales, the internet clearly has revolutionized and vastly expanded the possibilities for the distribution of travel packages.² Search engine, intermediary, and supplier website developments allow consumers to respond not only to entire packages but to package elements, while suppliers simultaneously address thorny pricing and inventory management issues.³

¹ Forecasters predict that in 2007, U.S. tour operators' sales will exceed \$200 billion; European tour operator sales will exceed €250 billion. It is estimated that in the United States in 2006 nearly \$7.6 billion of travel packages (including both tour operator packages and independent travelers' combination purchases of air, hotel, or car services) was booked online, representing ten percent of all online travel bookings. In Europe, tour operators like TUI and Thomas Cook are increasing their online bookings. See: PhoCusWright, *Online Travel Overview*, 2007.

² Cindy Estis Green, *The 2007 Travel Marketer's Guide to Social Media and Social Networks*, HSMIAI and TIA, Fall 2007; and Norm Rose, "Selling Complex Leisure Travel Online: Focus on Dynamic Packaging Technology," PhoCusWright, August 2004.

³ PhoCusWright, *Online Travel Overview*, October 2007.

To facilitate the study of the changes in packaged-travel distribution, this report offers an analytical framework developed from the perspectives of traditional economic theory of consumer demand, marketing theory and research related to service bundling and consumer choice, and IT innovation. The objectives of this report are to: (1) link research on product bundling to developments in online travel packaging; (2) provide conceptual consistency regarding this emerging travel phenomenon; and (3) offer a checklist for management of packaging features and benefits.

This paper is organized into five sections. The first provides a background of travel packaging. The second lays out the economic and marketing dimensions of packaging and related research. The third addresses evolving internet and IT trends affecting packaging. The fourth offers an analytical framework for researching travel packaging. The fifth and concluding section suggests areas for future research, and proposes a travel-packager value-creation checklist.

Packaged Travel: Industry Context

Packaged (or bundled) travel services constitute a set of two or more different travel services that could be purchased separately but are combined for sale, usually at a single price.⁴ Prior to the internet, travel packages or tours were developed by tour operators and other travel wholesalers, who negotiated rate and inventory contracts with hotels, transportation providers, and other travel-services suppliers.⁵ Combining these travel services into a single-price package, these travel marketers sold their products to consumers primarily through travel agents.

In contrast, the internet allows travel suppliers and intermediaries to offer entire packages or pieces of packages directly to consumers. Would-be travelers can still purchase a predetermined package that contains several travel-service components, or they can assemble their custom package

à la carte. Such custom packages might comprise just two travel elements (typically, air travel and lodging) or any other travel and destination services. Custom packaging may occur through intermediaries or through evolving search technology (often called web 2.0) that meshes consumers' wants, as revealed by online conversations and search records, with commercial services. Internet distribution has also allowed the service providers themselves to become packagers. As a consequence, consumers now have a wide variety of sources for creating and booking packages. Some packagers state their suppliers' brands, while others hide the brand identity for some or all suppliers, as occurs on Hotwire.com, for instance. In contrast to that approach, hotel chain, airline, car rental, and other travel suppliers' web sites offer packages featuring the companies' brands, as found, for instance, on Marriott.com or Delta.com. Some intermediaries are well enough known to constitute their own brand for tours (e.g., Orbitz.com, Expedia.com). Travel agencies sell packages on their sites (e.g., Carlsontravel.com), as do destinations (e.g., Lasvegas.com), and meta-search or search engines (e.g., Kayak.com and Yahoo.com). Even with the plethora of electronic distribution channels, tour operators and travel agencies still offer pre-set travel packages that are sold in the traditional fashion and made available to the agents via global distribution systems, such as Amadeus and Sabre or through agency consortia (e.g., Vacation.com and Virtuoso.com), as well as third-party vendors, such as EzRez, The Neat Group, and Datalex.

Since they deal directly with consumers, online travel intermediaries are systematically expanding offerings beyond air, hotel, and car rental services to include destination activities, bed-and-breakfast inn reservations, trip insurance, and other services, often called "long-tail services," offered by traditional tour operators. Expedia's parent company, for example, owns a tour operator, Classic Vacations, in addition to Expedia's core business in which consumers package their own trips. Despite the competition from the internet, selling complex, full-service tour packages remains a growth opportunity for travel agencies. Often the unbundled travel-service bookings that are migrating online produce low or no commissions. On the other hand, selling complex packages adds value for travel agents who can earn 10- to 15-

⁴ Stefan Stremersch and Gerard J. Tellis, "Strategic Bundling of Products and Prices: A New Synthesis for Marketing," *Journal of Marketing*, Vol. 66, January 2002, pp. 55-72.

⁵ Tour operators typically function as wholesalers (middlemen) in the travel distribution chain by purchasing products and services from suppliers, bundling them to create packages, and then selling the packages through retailers such as travel agents.

The lines between tour operators and online intermediaries have blurred, and former partners are finding that they are sometimes competitors.

percent commissions or obtain additional fees from consumers for packaging services. This is one reason that traditional travel agencies which focus on leisure customers have made efforts to increase their share of travel-package and cruise sales.⁶

Through all of this change the lines between tour operators and online intermediaries have blurred, and former partners are finding that they are sometimes competitors. Indeed, sites like Expedia and Travelocity are perhaps best described as a hybrid of a travel agency and a tour wholesaler. At the same time, packages are increasingly important in protecting price points and retaining customers. Because the internet often renders pricing relatively transparent, given that consumers shop multiple sites for a trip, traditional tour operators and online intermediaries are using packaging as a way to limit consumers' ability to compare prices of individual components and to preserve the underlying markups. Packaging also becomes a way to increase website "stickiness"—that is, to encourage the consumer to stick with a particular supplier's site to conduct as much as possible of the travel transaction. One other benefit of packaging for the hospitality industry is the possibility of selling hotel activities prior to the guest's arrival. This approach is most common at resorts, where golf, ski lessons, or spa facilities have long been bundled in a package.

The strength of online search and social networking sites has further altered the way consumers shop for and select travel packages.⁷ Sites such as Facebook and MySpace allow consumers to examine and evaluate travel packages through online social networks and peer-to-peer evaluations. Social media make it easier for consumers to envision and compare packages. This is facilitated by rich media that are peer- or provider-produced, including virtual experiences for a potential package (e.g., through "second life"-type applications). Refined search processes such as real simple

⁶ See: "2005 Travel Weekly U.S. Travel Industry Survey," January 1, 2006, www.travelweekly.com/research.aspx.

⁷ Green, *op.cit.*, pp 1-2; Bob Offutt, "Next Generation Social Networks," PhoCusWright, Inc. June 30, 2007; and Cathy Schetzina, "Better, More Profitable or First: Travel 2.0 Tech Tactics for 2007," PhoCusWright, January 31, 2007.

syndication (RSS) allow consumers to specify their package content and cost desires so that they can receive proposals from vendors that meet those specifications. These and similar package applications are in the early stages of development and use, but are expected to further revolutionize the distribution system.

Theoretical Foundations of Product Packaging

The economic rationale for packaging hinges on the benefits derived from cost economies and demand generation when separate products are sold as one value offer.⁸ By offering services as part of a bundle sold for one price, marketers potentially capture greater economic rent by encouraging consumers to buy products they might not otherwise have purchased (e.g., breakfast served in the hotel restaurant) or that they might have purchased, but not from the package supplier (e.g., breakfast served somewhere other than the hotel). In this way, the packager captures the consumer surplus—that is, the excess amount a consumer would pay above the offered price (the reservation price)—because the value of the sought-after product (in this instance, the room) is transferred to other elements in the bundle that are less desired (e.g., the breakfast), and those ancillary services gain in value due to the complementary relationship with the desired elements in the bundle.⁹ This consumer surplus can actually be enhanced when the consumer's reservation price for a bundle exceeds the summed reservation prices for the separate elements due to the planned integration of complementary items.

Marketing scholars and practitioners typically conceptualize bundling as a single strategy, although important distinctions exist in form and focus (as summarized in Exhibit 1). With a pure or full bundling strategy, a package is made available only in the bundled form and individual package elements are not sold separately. A true all-inclusive resort package is an example of a pure bundling strategy. However, most resorts and cruise lines use a mixed strategy, in which

⁸ Joseph P. Gultinan, "The Price Bundling of Services: A Normative Framework," *Journal of Marketing*, Vol. 51 (April 1987), pp. 74-85.

⁹ *Ibid.*

Bundling strategies

Strategy	Definition	Examples
Pure bundling	The firm sells only the package, but not the package elements separately	All-inclusive resort package
Mixed bundling	The firm sells both the package and the individual elements in the package separately	Resort packages with <i>à la carte</i> options (e.g., dining plans, spa treatments)
Price bundling	The sale of two or more separate products or services as a package at a discount, without any integration of the package	Hotel package (lodging, rental car, and attraction tickets)
Product bundling	The integration and sale of two or more separate products or services at any price	Cruise or escorted group-tour

Adapted from: Stefan Stremersch and Gerard J. Tellis, "Strategic Bundling of Products and Prices: A New Synthesis for Marketing," *Journal of Marketing*, Vol. 66, January 2002, p. 57.

they offer packages but also provide some services for separate purchase (e.g., certain meals, activities, or beverages). The most appropriate package form depends on such factors as consumers' reservation prices for elements in the bundle, consumers' perceptions of bundles, competitive structure in an industry, and the firm's objectives and costs.¹⁰

Researchers have expanded the analysis of bundling to focus on the underlying strategy—that is, a focus on either price or product.¹¹ Price bundling (line three of Exhibit 1) is a promotion-oriented tactic in which the package elements are not necessarily integrated in a way that adds value for the consumer (outside of the price discount and the opportunity cost of time). Instead, the focus is on price as a purchase motivator. For example, an online intermediary might market a promotion-priced package that includes hotel, air transportation, and car rental—elements that the consumer could purchase separately. Such price bundling reduces the internet's price transparency, while at the same time encouraging the consumer to, say, reserve a particular rental car that might otherwise not be under consideration. In contrast, a product-bundling strategy (line four in Exhibit 1) focuses on integrating elements in a way that adds value for the customer, for instance, by providing a seamless experience or assuring a particular quality level. By carefully planning an itinerary that includes transportation, meals, a guide, and attraction tickets, for example, an escorted-tour operator could configure a package in which the assembled whole is an altogether different experience than anything a

¹⁰ *Ibid.*

¹¹ Stremersch and Tellis, *op.cit.*

traveler could purchase separately. Again, the internet's pricing transparency is mitigated—this time because a consumer would have difficulty making comparisons with a similar-appearing package.

In addition to addressing price transparency, the nature of a bundling approach also depends on the strategic objectives of the firm, the complementarity of elements to be bundled, and consumers' perceptions of value in the bundle compared to that of the individual elements. For example, bundling offers strategic benefits when a new product or service can be launched as part of a package. Dining at a new restaurant, for instance, can be tied to a stay at an established resort. Another considerable benefit of bundling is its ability to smooth imbalances in supply and demand (e.g., bundling tickets for a sporting event with a lodging stay during a shoulder season). Packages also can facilitate cross-selling of services to customers who typically buy one element of the bundle, but not others. These tactics assume, however, that buyers' reservation prices for the bundle exceed reservation prices for the individual elements.

We see the degree of complementarity of a package's elements as an essential factor that influences buyers' preferences for that package. In general, the greater the complementarity, the more likely that the consumer surplus will be transferred among elements and the package will fetch a higher reservation price.¹² For example, a casino that bundles lodging, meals, entertainment admissions, and airport shuttle services not only offers an integrated experience, but

¹² Guiltinan, *op.cit.*

also reduces consumers' search costs and increases their convenience. In such an instance a pure bundling strategy may be optimal. Research shows that consumers do perceive bundles as having transaction utility (deal value), and that this perception of the value of a package may exceed that found for discounts of an equal amount offered on the individual elements when sold separately.¹³ This highlights the strategy of offering pricing bundles (i.e., non-integrated packages), where a discount or price concession is the chief motivation to purchase the bundle. When a discount is the main purchase motivator, consumers may perceive the savings on the bundle as more believable than equivalent savings off the retail price of the bundled elements. Furthermore, additional savings offered on the bundle may be perceived as a "bonus" that enhances the perceived value of the total offer. As we discuss below, more research is needed to better understand consumer perceptions of value in travel packages, whether pre-set or *à la carte* and whether product focused or price focused.

Technology Evolution: Implications for Travel Packaging

Just as the internet and related technologies like search, social networking, and mobile communications give consumers access to travel information in many forms, so has information technology given intermediaries and suppliers the opportunity to organize information to create and present customized travel packages.¹⁴ In effect, the internet's interactivity means that consumers influence the distribution chain directly. Consumers' information-search and buying activities augment the compelling economics of direct distribution; by some estimates, a direct hotel booking can save a hotel an average of 5 to 20 percent of room revenue compared to the cost of a traditional booking.¹⁵

As distribution and search options expand and the number of consumers using the internet increases, distributors find themselves in greater and more direct competition. At the same time, they must also find ways to cooperate and differentiate, while they diversify their offerings to add value in any prospective package. The increase in consumers who create their own packages (often in conjunction with others in their social network) means that purveyors must make dynamic packaging possible. A further complication is that as functionality increases, so does the need for supporting IT systems. To support dynamic packaging, the travel packager

must be able to offer real-time inventory of each package component. This is a radical departure from having suppliers update a collection of separate static databases. Static packaging is typically easier to implement than dynamic packaging, but it's less attractive to suppliers, who still have to commit inventory and prices ahead of time. By contrast, dynamic packaging starts with a real-time check on inventory and prices for each service category, assesses the supply, and then prices the whole package in response to a consumer's requests (in conjunction with revenue management targets). Although this process requires substantial system and computer horsepower for real-time interfaces between the packager and all the suppliers involved, this option is attractive to suppliers as it allows them to retain control of their inventory and pricing.¹⁶ The growth of dynamic packaging systems has spawned a new way to sell perishable travel inventory through direct connections between suppliers and vendors. One example is inventory and price connections through switches or aggregators such as Pegasus.¹⁷

Dynamic packaging also presents the opportunity to bid up package prices by offering customers added activities, such as admission to attractions, water sports, tours, and show tickets. The chief difficulty in developing electronic connectivity to such service providers is that typically they are small, independent operators who lack sufficiently robust computer systems to maintain real-time inventory access. The traditional approach to packaging such inventory is either to allocate a set number of units that may be sold, or to set no inventory management constraints and freely sell the service. Some online intermediaries have developed their own databases of such travel

¹⁶ The current pricing model for electronic distribution was developed before the internet increased look-to-book ratios (the number of availability requests made per actual booking), which had been a manageable 12:1. Traditionally, intermediaries like GDSs, switches, and CRS providers, charged per reservation, and not per transaction. This model allowed them a sufficient return to finance the operation of their computer systems. As consumers began doing their own online shopping and as travel search sites sent shopping bots to multiple sites, the look-to-book ratios skyrocketed to 500:1 and beyond. For suppliers, the paradox in internet packaging is the opportunity to compress the electronic value chain for booking packages while balancing the need for a robust application server able to handle the large number of queries.

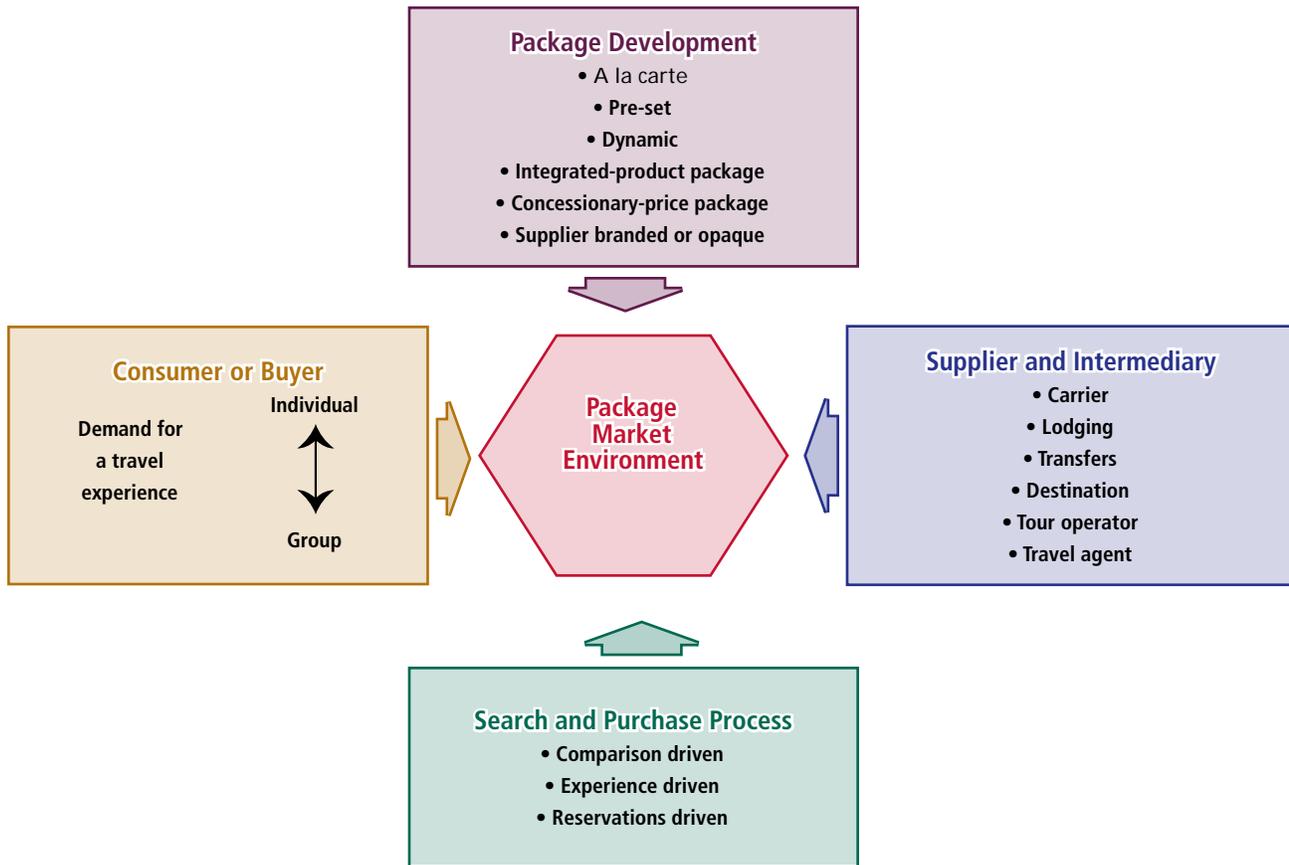
¹⁷ Seamless integration with packaging technology by hoteliers is evolving. Connectivity with GDSs is well established among major chain properties and provided by reservations service providers like Pegasus, iHotellier, and EzRez for independents. Online intermediaries have used extranet interfaces for inventory allocations that are typically stored in the intermediaries' internal systems. Unfortunately, this type of connectivity does not allow hotel suppliers to control inventory through traditional yield management systems. Chain- and intermediary-developed software plus software from a variety of vendors is now being made available that allows hoteliers to manage inventory when packaged through various distribution channels. Some of those applications actually provide direct interfaces to hotel CRS and PMS systems.

¹³ Manjit S. Yadav and Kent B. Monroe, "How Buyers Perceive Savings in a Bundle Price: An Examination of a Bundle's Transaction Value," *Journal of Marketing Research*, Vol. 30 (August 1993), pp. 350-358.

¹⁴ Bill Carroll and Judy Siguaw, "The Evolution of Electronic Distribution: Effects on Hotels and Intermediaries," *Cornell Hotel and Restaurant Administration Quarterly*, Vol. 44, No. 4 (August 2003), pp. 38-50; and Green, *op.cit.*

¹⁵ John Hach, TravelCLICK customer presentation, August 2006.

Travel packaging analytical framework



services, or they work with companies that facilitate access to such inventory, such as Viator, an independent destination-services inventory management company. In most cases, destination activities are sold on a free-sell basis, with the exception of tickets for specific shows or sporting events, which typically can be provided only on a limited-allocation basis. In cases where free-sell arrangements prevail, sales are being reported by email, rather than by fax. That improves inventory control, but is not truly a real-time solution.

Beyond the process of assembling package components in response to consumer requests, dynamic packaging must also allow consumers to register their personal information and preferences, so that packagers can respond by making offers that fit specific consumer requests, or allow consumers to respond when suppliers and intermediaries offer packages that align with their registered desires. The evolution of social marketing—the combination of social networking, syndicated information, and social media in search—will allow suppliers and packagers to monitor, edit, respond to, and

serve up packages based on consumers' online searches.¹⁸ Such functionality is in the early stages of development.

Analytical Framework for Travel Packaging

While there is a rich literature on packaging strategies, we find little research about the evolving online search environment, IT innovation, and new forms of reservations functionality in travel. Accordingly, we propose a framework on which future research and strategy can be based, by exploring package distribution, alternative forms of reservations, and interactive search and shopping. We ground our framework on traditional marketing theory about value perceptions, which suggests that consumers choose among product offerings based on their expectations of those offerings' utility, or value.¹⁹ This allows for variation in the value

¹⁸ Green, *op.cit.*

¹⁹ Valerie A. Zeithaml, "Consumer Perceptions of Price, Quality, and Value: A Means-End Model and Synthesis of Evidence," *Journal of Marketing*, Vol. 52 (July 1988), pp. 2-22.

that different consumers might place on a particular bundle of products or services at a particular time. As shown in Exhibit 2, we suggest the following four interactive elements that form the package market environment: (1) consumers or buyers; (2) suppliers and intermediaries; (3) the package creation process; and (4) the search and purchase process. (Terms in *italics* are found in the framework.)

Consumer or buyer demand. In seeking a *travel experience*, buyers consider their preferences, but are limited by prices, budgets, and schedules, among other constraints. Fulfillment of consumer demand involves an interplay of travel-service providers and packagers and members of the buyer's group. Internet and IT applications augment the already existing interdependence of buyers and providers, especially with the rise of social networking and social media, as well as evaluation of the experience (e.g., through sites like TripAdvisor and IgoUgo). One consequence of the social-networking phenomenon is that traditional distinctions between *individual and group buyers* are blurring. Travel marketers must consider not only the preferences of individual travelers, but also how preferences are aggregated by the consumer's social or group network.

Suppliers and intermediaries. A range of travel-service suppliers strives to satisfy group and individual travel demand with services that may be purchased individually or as part of a package. Suppliers include virtually all hospitality businesses, plus common carriers, destination services, and transaction service providers. In addition, intermediaries such as travel agents and tour operators themselves become suppliers when they develop and sell travel packages.

Package development. Travel-package development is affected by a number of factors, including package structure, degree of component integration, and consumers' willingness to pay. An *integrated-product package* that transports customers to and from the travel destination and provides a set of coordinated experiences typically commands a higher price than when the components are assembled and priced individually. The idea is that the consumer willingly pays a premium for the integrated-product package because

there is perceived value in the convenience of the bundle purchased as one product for one price, due to the reduced information-search costs, the complementarity of services in the bundle, and the expertise of the packager who assembles an ideal product.

Consumers who are price sensitive or willing to accept some degree of risk or inconvenience concerning the timing or value of a package may forgo the expertise of a travel planner to gain price concessions. Consumers who are willing to travel at an inconvenient time (e.g., off-season or last-minute) or be uncertain about the quality of the experience (e.g., accept an opaque hotel reservation) could purchase a travel package at a price less than the sum of its components' prices, which we label a *concessionary-price package*. Off-peak resort vacations and self-packaged, non-integrated travel bundles are common forms of concessionary price package.

Opaque reservations. Priceline.com was early to offer a hotel room or airline seat without mentioning a brand, even as hospitality companies continued to invest heavily in their brands. Just as an integrated package commands a premium due the packager's expertise, branded package components can fetch higher prices because they reduce economic and satisfaction risk. Analogous to a concessionary price package, internet intermediaries have been able to offer price reductions when brands are not identified. Like Priceline.com, Hotwire.com takes this approach. The result is three types of packages: *supplier branded*, when the package has components solely provided or arranged by a single service supplier (e.g., Marriott's Escape Packages or Funjet's tours); *supplier partially branded*, when the package contains both branded and opaque components from different service suppliers; and *supplier opaque*, when none of the specific package components is identified by brand.

Group packages have long been organized by tour operators for specific groups, such as community organizations and affinity groups (e.g., a religious organization or a hobbyist group). Group travel packages are usually of the integrated-product type. On the other hand, when consum-

Dynamic packaging presents vendors the opportunity to bid up package prices by offering customers added activities.

ers purchase packages as individuals (often called independent packages) these typically do not feature itineraries of preplanned activities, unlike commercially developed tour operator or supplier-developed packages. Independent packages are often of the concessionary-pricing type, except when the package includes scarce inventory (e.g., tickets to a major sporting event). A hybrid form of package, which we call the independent-group package, is a product for small groups, such as several families or households, where lodging, food and beverage, activities, and so forth are purchased individually by people who usually are not strangers. Common examples of the independent-group package are spa or golf packages. This package form is gaining more attention in a web 2.0 environment that fosters communities of interest among individuals for such things as travel and entertainment. Independent-group packages may take an integrated-product form if the packager plans and bundles travel elements to add value.

In Europe, where packaged travel has been the norm, some tour operators and online intermediaries offer the option of self-designed travel packages rather than pre-set package offers. These self-packaged products may be *à la carte* selections of static travel elements or dynamic-packaged elements. At one extreme, in static packaging the traditional tour operator arranges a package where prices are fixed for individual components and then marked up by the tour operator for a total package price. At the other end of the continuum, *dynamic packaging*, consumers state their preferences for services and then individual suppliers' real-time bids for that business are combined, marked up, and displayed. Written descriptions, pictures, and video are presented contextually. To satisfy the goal of a dynamic package, all systems require real-time integration. The front-end systems should reflect the consumer's preferences, equating to the total value of the package, while the back end of the process needs to deliver "just-in-time" inventory.

Throughout the dynamic packaging process, vendors and packagers can learn ever more about their customers. By tracking the customers' expenditures, hoteliers can make

more appropriately priced and targeted offers. By building a relationship through direct supplier-buyer interaction, consumers can see the value of the package (and brand) beyond a simple price guarantee. As part of a dynamic approach, prices should change as the guest builds a package and as revenue management software adjusts component prices and availability. Major travel websites already use sophisticated analytics to evaluate their customers' behavior. Bringing this knowledge into the dynamic-packaging process can change a customer from a buyer of concessionary-pricing packages to a loyal purchaser of integrated-product packages and a buyer who sees benefits from a bundled travel experience (while at the same time allowing suppliers to optimize yield).

Package search and purchase. Consumers who shop for travel online typically consult several sites before making a booking.²⁰ Consumers' practice of repeatedly comparing offers for leisure travel packages is abetted by some online intermediary sites that allow consumers to enter and revise the characteristics they want in a travel experience. In this process, consumers apply either a comparison-driven approach or an experience-driven approach (or some combination of the two). A *comparison-driven approach* invites packagers or suppliers to respond to the characteristics set by the consumer, usually based on key words, travel dates, or hotel-quality levels. The results are valuable to the consumer to the extent that the suppliers' responses contain numerous options that are comprehensive, truthful, properly connected, and responsive to the characteristics specified by the consumer. We see this concept of connection as essential; the greater the connection of the consumer, packager, and supplier, the higher should be the consumer's satisfaction with the process.²¹

In contrast, an *experience-driven approach* requires vendors to pay attention to consumers' conversations about

²⁰ PhoCusWright, *Consumer Travel Trend Survey*, 7th edition, April 2004, and 6th edition, April 2003.

²¹ Google's mission statement, for instance, is to "organize the world's information and make it universally accessible and useful." See: www.google.com/intl/en/corporate/index.html, August 17, 2007.

the type of travel experiences they want. This process can be accommodated formally (and commercially) online with sites like www.travelocity.com/experience or face-to-face through travel clubs and consumer or business associations. Blogs, search engine interactions, click-stream patterns, and other online records can be a means for travel suppliers to understand the experiences consumers want and form a basis for suppliers and packagers to create appropriate offers. The more effective packagers and suppliers become at monitoring or engaging consumers in conversation and in responding to those conversations with packages that supply the desired experiences, the more successful they are likely to be. This could include conversations with a packager's satisfied customers or prospective customers.²²

Coincident with the process of shopping for a travel package is the means by which the purchase may be made—as a standard reservation or an options reservation. A series of *reservations-driven options* are possible. Some exist today and some may evolve in the future:

- A standard, non-binding reservation (i.e., without a purchase price or cancellation penalty);
- A standard, binding reservation with a full and irrevocable payment required;
- Branded or opaque packaged components provided at a guaranteed (maximum) price with an option to pay a lower price if the package price falls before fulfillment. Expedia, Travelocity, and many tour operators offer a variation of this through “trip insurance programs”;
- A reservation that allows selection of alternative package elements prior to the trip for the same or a lower price (for example, being offered a ski holiday with same duration and quality of lodging at an alternative destination for a lower package price); or
- A reservation that includes the right to cancel, trade, or exchange the reservation at various points prior to fulfillment for a fee.²³

The advantages of offering options to change reservations accrue to consumers, suppliers, and packagers alike. Because of the long lead time between reservation and fulfillment, conditions surrounding the original reservation can change, sometimes unexpectedly. For example, if the vendor can increase yield by offering a customer a substitute for the original ski package, that customer might find greater value in the substitute package—perhaps trading a prime time slot for reduced cost or additional benefits. By the same token,

²² Green, *op.cit.*

²³ For example, see: Daniel C. Quan, “The Price of a Reservation,” *Cornell Hotel and Restaurant Administration Quarterly*, Vol. 43, No. 3 (Jun 2002), pp. 77-86; and Steven A. Carvell and Daniel C. Quan, “Low-price Guarantees: How Hotel Companies Can Get It Right,” *Cornell Hospitality Reports*, Vol. 5, No. 10 (September 2005).

we argue that some consumers would be willing to pay for the right to cancel or amend a package reservation to accommodate potential changes in personal financial circumstances. Already, many consumers purchase trip insurance, which is a type of option.

Implications for Future Research and Packaging Strategy

We anticipate that an increasing number of consumers will seek travel packages. Those packages will become more complex as purveyors seek to add value (to forestall price-oriented purchases) and as consumers seek ways to reduce the opportunity costs of their searches and shopping. Even as travel suppliers attempt to use packaging as a way to protect brand image and avoid price wars, price competition may increase for specific package options, particularly as package assembly, display, and booking functionality improves. Continual enhancement in functionality will foster more shopping, as consumers gain confidence in intermediaries and travel suppliers to deliver the packages as promised. We also expect that the notion of a reservation as an option will evolve and become a vital part of package pricing, because component services are subject to extensive inventory and price variability.

Based on our discussion here, we see the following questions for future research:

- How do consumers assess brands in packages? What constitutes the brand: the intermediary, the tour operator, or the supplier (or some combination)? What is the effect on value and price of having all or part of the package branded or opaque?;
- Is there a shift in booking among *à la carte*, dynamically packaged, and static packaged travel? If so, by which consumer segments, and for what reasons?;
- What changes in IT will enable a shift in booking packages from static to dynamic?;
- Are consumers more interested in the concessionary or the integrated aspects of packaged travel, and what influences their preferences?;
- What are consumers' perceptions of the different forms of travel packages, and do consumers perceive value in the bundles?;
- What aspects of packaging and the packaged-travel shopping experience limit consumers' acceptance of these products? What can travel packagers do to facilitate consumers' purchase of packaged travel?;
- Do people in different countries or cultures show differences in the form or brand of package that they purchase?;

Packager–consumer value checklist

Value Drivers	Package Experience Searching and Shopping	Package Experience Consumption	Package Experience Value Creation
Package Service Component Quality Levels	<ul style="list-style-type: none"> • Individuals and groups can dynamically search out, combine, and price components. • Individuals and groups can search for and compare pre-packaged options. 	<ul style="list-style-type: none"> • Reserved individual and joint experience related services are fulfilled as promised. • Opportunity for joint consumption is accommodated. • Individual and joint service delivery is monitored and issues resolved. 	<ul style="list-style-type: none"> • Consumption experience satisfaction is solicited. • Opportunity for future experiences is solicited. • Opportunities for “savoring” (merchandising) the experience are provided.
Reduced Opportunity Cost of Time	<ul style="list-style-type: none"> • Individuals and groups can search and shop based on package attributes and characteristics. • Individual and joint package options appropriately meet individual and joint experience descriptions when requested. • Web 2.0–based behavioral targeting suggests packaged experiences (based on search context). 	<ul style="list-style-type: none"> • Joint and individual common carrier departures and returns are arranged. • Transfers are convenient and timely. • Destination services and activities are organized to optimize individual and joint need satisfaction. 	<ul style="list-style-type: none"> • Group and individual experience-related services can be repeated or modified for a joint or individual future experience. • Identified and reserved services are retained (filed) for future use. • Joint and individual experiences and evaluations can be easily shared via social networking.
Flexibility of Time and Destination Choice	<ul style="list-style-type: none"> • Time and destination options are evaluated and compared easily both individually and jointly. • Individual and joint experience value descriptions are met with alternative and equivalent package options presented when requested. 	<ul style="list-style-type: none"> • Service component options are delivered at a lower price or with greater component value (e.g., upgrade or length of stay). • Timing and destination accommodates a value-added joint experience. 	<ul style="list-style-type: none"> • Experience-related services can be repeated or modified for a joint or individual future experience, including reduced cost or enhanced value based on future time and destination choices.
Risk Management	<ul style="list-style-type: none"> • Package price can be guaranteed. • Cancellation or rescheduling rights can be purchased. • Experience satisfaction is guaranteed. 	<ul style="list-style-type: none"> • Service providers reduce price; extend duration; or add value individually and for groups in response to yield opportunities. 	<ul style="list-style-type: none"> • Individual and group risk management profiles are retained (filed) for future use. • Risk management profiles can be repeated or modified for a joint or individual future experience.
Evaluation Prior to and Following the Service	<ul style="list-style-type: none"> • Rich media content is available. • Credible peer and professional evaluations are available for search and consultation. 	<ul style="list-style-type: none"> • Individual and joint service fulfillment is monitored and improved; issues are resolved. 	<ul style="list-style-type: none"> • Post-experience service issues are resolved to individual and joint group satisfaction—a guarantee!

- How do consumers search for and compare packages?; and
- What new forms of reservations options will allow a consumer (or a group of consumers) to reserve, cancel, amend, or trade a package? Alternatively, how can reservation instruments facilitate better service and asset management by suppliers and intermediaries?

Packager–Consumer Value Checklist

In addition to these research questions are ideas that we have developed into a practical package evaluation checklist (see Exhibit 3). This framework assesses the value a package offers a consumer, with the idea that packagers could adjust their value proposition and influence consumer choice. The

The number of packages purchased via the internet is certain to grow—and those packages will become ever more complex.

checklist could also be used by consumers, intermediaries, and suppliers to evaluate packages. As an illustration of the framework, consider a sample of likely consumer-value drivers for packages like those shown in column one of Exhibit 3:

- Quality levels of package service components such as airline seating class (first, business, or economy) or hotel scale (luxury, upscale, midscale, or economy);
- Reduced opportunity cost of time involved in searching and purchasing package elements or the reduced time waiting for transfers between carriers and properties;
- Value creation in exchange for flexibility of choices, such as trading consumer willingness to pay for destination or date changes in exchange for a lower price or other value added to the package;
- Risk management or reduction associated with receiving the expected experience or the effect of changes in financial circumstance in the face of uncertainty (in particular, when the time period between reservation and fulfillment is long); and
- Assurance of expectations-performance equivalency between prior representation of a package experience and the actual fulfillment.

The checklist covers the three main categories in the packaged-travel experience, as shown in the column

headings of Exhibit 3: (1) the process of searching for and purchasing a package; (2) the process of actually consuming the package; and (3) the process of evaluating the travel experience. The checklist shows attributes of packaging that we believe are likely to influence consumers' perceptions of value at various stages of the process, whether shopping, traveling, or evaluating. For example, the value found in the search process may come from dynamic searching, the opportunity to combine, price, and compare components or entire packages (row one, cell one). Attributes that are likely to add value during the trip involve such matters as reliable delivery of purchased package components (row one, cell two). The final, important step is for the packager to find out the extent to which the customer is satisfied with the package, with the idea of offering greater value with a future package (row one, cell three). None of the items included here has been empirically tested, but we hope to see research to determine what is and is not valued by the consumer.

Concluding comment. The global packaged-travel market accounts for more than half a trillion dollars. The internet has made shopping for and buying travel packages easier for consumers. Despite all the changes we have discussed here, research on packaging remains limited, especially given its financial importance and complexity. We hope that the ideas presented in this report will frame research questions and help practitioners to make better investment and marketing decisions regarding travel packages. ■

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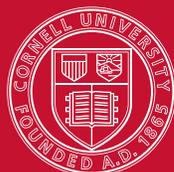
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