Whitepaper

FirstPartner

Research undertaken on behalf of WEX

6 WAYS TO OPTIMISE YOUR PAYMENT STRATEGY FOR 2016

LEISURE TRAVEL IN EUROPE — A GROWING BUT DEMANDING MARKETPLACE

Consumer confidence is returning to the leisure market, with European booking values projected to grow by 7% in 2015 and 2016. Package holidays remain an important and growing part of this trend. This is clearly good news for leisure travel retail, but along with the opportunities come increasing challenges. Agents, OTAs, aggregators and tour operators are working harder than ever to build and maintain their share of a market characterised by rising customer expectations, heightened competition and rapid technological change.

Staying ahead of the competition requires a high degree of customer focus and agility. It also demands active adoption of technology and optimisation of business processes and financial management.

This whitepaper summarises the main challenges travel retailers and intermediaries face in the current market. It also offers six practical tips for achieving an edge by using an increasingly popular payment solution: virtual cards.

CONSUMERS ARE SPENDING MORE — AND DEMANDING MORE

According to ABTA (Association of British Travel Agents), UK market growth is being led by affluent travellers. Consumers in this relatively small but important segment are taking more trips and driving demand for luxury and tailor-made packages.

Elsewhere, value for money is a priority and holidaymakers are demanding richer and more varied experiences, incorporating shows and other activities into their trips and taking multi centre, challenge and activity holidays. All of this drives the need for agents and operators to offer more varied packages from a diverse pool of suppliers.

> *"Holidaymakers want their holiday to work hard for them, whether that's by offering new experiences, combining different destinations or simply delivering great value."*
>
> **Mark Tanzer,**
> *Chief Executive of the ABTA*

EVOLVING CHANNELS AND THE NEED TO STAY ON TOP

Not only are travellers becoming more discerning and demanding, their options for planning and booking have never been wider.

CHANGING PATTERNS OF LEISURE TRAVEL

35% of UK consumers think they will take a holiday to a country they have never been to before

4.7 – the number of holidays per person in affluent social class A in 2014, up from **3.6** in 2013

The difference between UK consumers who will spend more on a holiday in 2015 and who will spend less is only **5%**

In 2015, **43%** were planning to take a city break vs **42%** planning a beach holiday

ABTA 2015 Travel Trends Survey

Supplier direct distribution is an ongoing challenge to retailers and intermediaries. Airlines and hotels continue to invest heavily in direct digital channels, with PhocusWright predicting that online direct bookings will rise from 24% of the total European travel market in 2012 to 28% in 2016. With the power to give suppliers greater control over distribution, reduce commissions and facilitate direct relationships with travellers, it's little wonder that online booking is increasingly popular with suppliers.

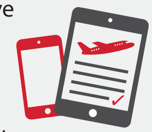
And it's not just about booking. Suppliers are using innovative technology to improve traveller experience in all kinds of ways, from mobile hotel check-in and keyless room entry, to beacons delivering local information in real-time. At the same time they're building a deeper understanding of and closer relationships with the travellers they serve.

Metasearch is another example of a rapidly changing channel dynamic impacting agents and intermediaries directly. Advertising models now target hospitality providers and drive referrals directly to suppliers alongside the traditional OTAs. Meanwhile, some leading metasearch players are offering direct booking through their sites and apps, effectively turning them into OTAs. While recent acquisitions of leading sites by major OTAs mean that these big players will not be side-lined, others must be able to respond.

The single biggest potential disruptor is mobile. Mobile will account for 22% of online bookings by 2016, according to PhocusWright, almost double its 2014 value. But mobile doesn't just impact the pre-travel booking process. Much of its potential is in enabling in-trip discovery, reservation and spending.

As consumers seek richer holiday experiences they increasingly rely on mobile to find and choose restaurants, shows, attractions and taxi ranks. This makes specialist app recommendation and booking players an increasingly important part of the travel mix. It also opens opportunities for OTAs, agents and tour operators who are able to use this technology to expand their relationship with the traveller beyond the initial booking.

HOW IS MOBILE CHANGING TRAVEL?



Mobile is the most disruptive force in leisure travel. It is impacting every stage of the travel experience. Travel Analyst PhocusWright forecasts that 22% of online bookings will be made by mobile in 2016, almost twice the figure for 2014. According to its Travel Technology Report, 69% of travellers now use mobile at some point while planning or booking a trip and 58% of travellers are now comfortable completing bookings on mobile using stored payment information although only 1 in 4 have actually completed a mobile booking.

The biggest prize for the travel industry could however be in-destination services. Euromonitor claims that with a global value of nearly $2 trillion, in-destination tourist spending exceeds both transportation and accommodation. Much of this is accounted for by shopping, food, entertainment and excursions. In the past, it has been hard for travel companies to capture much of this mostly ad hoc local spend. As consumers increasingly rely on mobile apps to discover and book experiences in-destination, wrapping this into the OTA or tour operator offer suddenly becomes possible. Recent acquisitions of some of the leading recommendation and booking app providers by major travel players indicate the potential.

The challenge will be managing the supplier relationships and developing a compelling commercial, commission and settlement model. Solutions such as virtual cards could help to make this possible.

Agents and intermediaries still process the majority of leisure travel bookings. To maintain this position they need to ensure they can add value to the consumer as a trusted advisor and packager of services from a diverse range of suppliers, while delivering exceptional customer service and value for money. How can they do this and keep ahead of the competition?

While much of the focus will be on branding and the development of digital and mobile channels, it is also critical to utilise technology to optimise core business processes, minimise margin erosion and build effective supplier relationships.

THE CHALLENGES OF PROFITABLE SUPPLIER MANAGEMENT

The inevitable consequence of consumer demand for value and competition from direct distribution is pressure on margins. In the worst case, this can lead to business failure. Intermediaries able to find a way to operate profitably on a low-margin model will have an edge on the competition. Those able to manage risk and streamline processes effectively will be in a better position to pass on savings to their customers.

Research into the challenges facing travel companies commissioned by WEX highlights two particular problem areas that, if properly addressed, can help deliver this: cash flow management and excessive administrative overhead resulting from issues such as invoice reconciliation. Failure to deal with these issues can have a material cost.

On the flipside, changes in the market are presenting new opportunities which, if addressed effectively, could offer intermediaries new forms of revenue and sources of growth. Consumer demand for richer, more varied and tailored packages offers new opportunities for those able to build mutually profitable relationships with a diverse network of specialist suppliers.

UK-based accountancy firm Wilkins Kennedy LLP reported that the number of insolvencies amongst travel companies and tour operators increased by **45%** in the year 2014

"I would say you have some kind of query on practically every statement."

A European travel agent on the issue of invoice reconciliation

Managing, and paying, a fragmented supplier base can be challenging and costly in terms of overhead. A strong set of well-managed supplier relationships can help maintain an edge in an increasingly competitive and globalised market. Where higher value, differentiated packages can be offered to travellers, there is an opportunity to earn commission on a range of ancillary services. And when the supplier perceives value and is well treated, for example by receiving prompt payment, there is less of an incentive for them to push direct booking channels.

WHAT IS A VIRTUAL CARD NUMBER (VCN)?

An electronic payment solution designed to pay your suppliers – such as hotels, airlines, car rental agencies or tour operators

- **Single-use card number enabling automatic reconciliation**
- **Secure and controlled payment method**
- **Globally accepted by suppliers through existing terminals**
- **Real-time payments with different funding options**

SIX TIPS FOR GAINING AN EDGE

The following six tips can help you streamline your processes, reduce your costs and risks, and strengthen relationships with suppliers:

Tip 1: *Reduce unnecessary booking and settlement overheads*

Companies that can minimise their admin costs are able to operate profitably on tighter margins.

Reducing the cost of invoice reconciliation is a potential gain for many companies. Suppliers in some sectors still struggle to invoice accurately. Dynamic pricing, guest-requested upgrades and fragmented legacy admin systems all cause problems, especially in hospitality.

Virtual cards link booking information to each payment and make it easy to track and allocate booking costs to individual transactions. Moving to virtual card-based settlement can remove much of the overhead associated with traditional monthly invoicing cycles and can significantly reduce the additional administration associated with invoice querying and reconciliation.

Tip 2: *Improve your cash flow*

Arranging your payment processes to optimise cash flow can help avoid the significant cost of having to find working capital from external sources and minimises loss of interest on working capital balances.

Traditional monthly invoicing often results in significant, and costly, delays in settlement – up to 90 days for services delivered early in the invoicing cycle. Late payments or invoice reconciliation disputes can, in the worst case, extend this even further.

Use of VCNs by smaller intermediaries can reduce the need to provide suppliers with guarantees and prepayment accounts.

Furthermore, the credit line offered by a VCN product can provide a beneficial boost to cash flow management.

THE BENEFITS OF VIRTUAL CARDS

- MasterCard and Visa global supplier acceptance
- Automated reconciliation
- Flexible and comprehensive reporting
- Billing available in up to 22 currencies
- Up to 20 fully customisable data fields per transaction
- Limit usage with merchant category code restrictions
- Full control through credit limit per card
- Ability to set effective start and end date at card level

Tip 3: *Settle promptly*

Maintaining cash flow throughout the business cycle is also critical for your suppliers. By offering them prompt payment, you will be viewed more favourably than slower-paying competitors. Quick settlement also reduces the incentive for suppliers to go direct.

Some suppliers prefer payment by VCN because they avoid payment delays and reduce credit management overheads along with the risk of lost revenue. Consequently, some OTAs have found the adoption of virtual cards to be mutually beneficial, fostering stronger business relationships.

Tip 4: *Close potential fraud loop holes*

Awareness of the risks of fraud and the need to protect personal information is much higher than in the past. Consequently, there are higher expectations of security. Intermediaries able to guarantee their customers peace of mind have a competitive edge over their competitors.

VCNs avoid the need for a customer's card details to be held by you or passed to a supplier, where they may not be held securely. This can still be a significant issue for hotel bookings where, in some cases, customer card details are still faxed.

A further benefit is the reduction in the PCI compliance requirement associated with holding customer card details.

HOW VCNs REDUCE FRAUD RISK

Reducing card fraud is one of the biggest benefits of VCNs because they are unique single-use numbers. A VCN is generated when a booking is made and linked to a specific transaction, enabling automatic reporting and reconciliation.

Additional controls per VCN include: a transaction limit, start and end dates and the transaction being restricted to a certain merchant category, a hotel or airline for example. The additional controls make global supplier payments with VCNs more secure and manageable.

This means that the risk of card details being stolen or misused is very limited. VCNs also eliminate the need to store a customer's card when a booking is faxed to a hotel for example, which offers greater security for customers.

Tip 5: *Help your suppliers control their costs*

Suppliers also face a number of overheads associated with direct billing and monthly invoicing. These include distributor credit management costs, credit risk, and the overheads of invoicing, invoice reconciliation and managing accounts receivable.

Many are realizing that, whilst invoicing may appear to be a low-cost option, the administrative cost of reconciliation may outweigh the cost of the card fees.

By adopting virtual cards, you may well further improve relationships with your suppliers. Indeed, some suppliers, most notably in the US, now require settlement by virtual card.

Tip 6: *Find new sources of revenue*

Smart intermediaries are getting clever at finding additional sources of revenue to improve their levels of profitability. Maximising revenue from existing transactions is an obvious way of doing this.

For many VCN users, the rebate offered by VCN providers is an attractive additional revenue stream. OTAs using VCNs to process large volumes and values of transactions have benefited from the significant extra revenue that they would otherwise have missed out on.

CONCLUSION: MAXIMISE YOUR OPPORTUNITY WITH VCNs

As the leisure travel market continues to grow, increasingly demanding travellers and disruptive distribution technologies proving to be constant challenges. They also offer significant opportunities for those who can stay at the front end of the market in terms of innovation and process management. Agents, OTAs and tour operators need to be increasingly agile and efficient to remain competitive.

New payment methods are helping many players to find their competitive edge.

Solutions such as WEX's virtual cards are helping suppliers and intermediaries minimise pain points like cash flow, risk management and invoice reconciliation while simultaneously strengthening supplier/distributor relationships.

WEX VCN solutions are carefully tailored to each client's needs, optimizing their chances of gaining a competitive edge in the global travel market.

WHY CHOOSE WEX AS A PARTNER?

WEX is a leading provider of virtual payment solutions and counts major travel companies, such as Expedia, Orbitz, Travelliance and Liftopia to its customers. WEX's VCNs are the product of choice for travel companies who have found that virtual payments provide them with the competitive edge necessary to stay ahead of the market.

For more information, contact us at 0845 200 3933 (UK Only), +44 (0) 203 553 5835 (International), sales@wexeurope.com or visit www.wexeurope.com.

About the research: A total of 78 qualitative telephone interviews were conducted with travel agents, intermediaries, suppliers, industry associations and specialists. Interviewees were drawn from a cross-section of intermediary sectors, including OTAs, TMCs, bed banks/ consolidators, tour operators and travel agents, as well as supplier sectors including airlines, hotel, car rental, rail and cruise.