



Phocuswright White Paper

THE TRAVEL MARKETER'S GUIDE TO THE U.S. DIGITAL TRAVEL LANDSCAPE

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Prepared for



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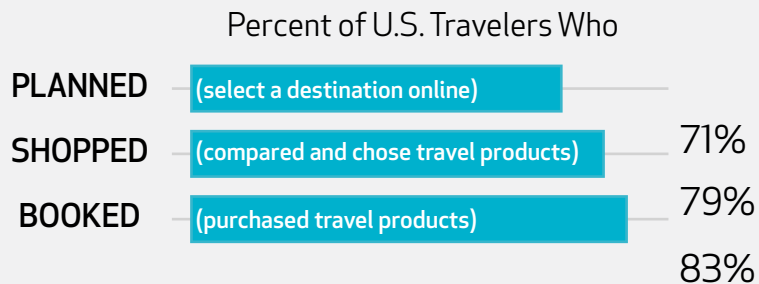
Digital Travel Is Travel

As online travel in the U.S. enters its third decade, the distinction between online and offline travel is blurring. Speak to any travel marketer today and they will almost certainly agree: there is no more "online" vs. "offline" travel marketing. There is only travel marketing. The overwhelming majority of travelers – well over nine in 10 – engage with digital in some form when planning, booking or experiencing a trip.

Online channels are especially influential as travelers work their way down the travel booking journey. Nearly 80% of travelers turn to digital to compare travel products and pricing, and slightly more (83%) have purchased travel online (see Figure 1).

Figure 1:

U.S. Traveler Use of Digital for the Travel Booking Funnel



Base: U.S. travelers with online access (N = 1,662)

Source: The Travel Marketer's Guide to the U.S. Digital Travel Landscape



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As travel brands look to build their marketing strategies for 2018 and beyond, digital must consume a substantial and yet still growing share. The online travel marketing landscape – along with online travel booking – has grown rapidly in the ability to reach and engage new customers. However, it has also grown far more complex and demands even greater sophistication from travel marketers. Along with more demand and more opportunity for both performance and brand marketing, there are also more channels, more tools, more approaches for measurement and attribution, and certainly more challenges.

This paper, based on new, proprietary consumer and industry research conducted by Phocuswright and commissioned by Bing, provides a map of the digital travel landscape with the modern travel marketer in mind. This analysis outlines the essential trends of online consumer behavior across travel shopping, booking and advertising engagement. It also provides key perspectives from travel marketers on the state of online travel ad spend and top marketing priorities and challenges facing travel brands today.

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About Phocuswright

Phocuswright is the travel industry research authority on how travelers, suppliers and intermediaries connect. Independent, rigorous and unbiased, Phocuswright fosters smart strategic planning, tactical decision-making and organizational effectiveness.

Phocuswright delivers qualitative and quantitative research on the evolving dynamics that influence travel, tourism and hospitality distribution. Our marketplace intelligence is the industry standard for segmentation, sizing, forecasting, trends, analysis and consumer travel planning behavior. Every day around the world, senior executives, marketers, strategists and research professionals from all segments of the industry value chain use Phocuswright research for competitive advantage.

To complement its primary research in North and Latin America, Europe and Asia, Phocuswright produces several high-profile conferences in the United States, Europe and India, and partners with conferences in China and Singapore. Industry leaders and company analysts bring this intelligence to life by debating issues, sharing ideas and defining the ever-evolving reality of travel commerce.

The company is headquartered in the United States with Asia Pacific operations based in India and local analysts on five continents.

Phocuswright is a wholly owned subsidiary of Northstar Travel Media, LLC.

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Digital Travel Is Travel

Research and Methods

The research, data and insights presented here are based on Phocuswright's syndicated research work across the travel industry, as well as two new proprietary surveys commissioned by Bing and conducted by Phocuswright.

01 U.S. online travelers: Phocuswright fielded an online survey in September 2017, with responses from 1,662 qualified leisure and business travelers.¹

02 U.S. travel industry marketers: Phocuswright fielded an online survey between September and November 2017 to travel executives with marketing and ad spend responsibility, and received 173 qualified responses.²

Terms & Definitions

Corporate travel refers to all air, car and hotel expenses associated with business travel in firms that have travel policies dictating the channels, types of travel, suppliers or fares/rates used. Corporate online booking systems such as Concur are included in that segment.

Unmanaged business travel (UB) refers to all air, car and hotel expenses associated with business travel in firms that do not have travel policies dictating the channels, types of travel, suppliers or fares/rates used.

OTA, or online travel agency, refers to travel companies (e.g., Expedia Inc. and The Priceline Group) whose principal business is selling travel online.

Metasearch refers to travel sites that display product and pricing information from a range of other travel sites and typically refer their visits to those sites for an advertising fee. Examples include KAYAK, TripAdvisor, and Trivago.

¹ The results are projectable to the U.S. adult online traveler population with a margin of error of 2.5% at the 95% confidence level.

² The results are projectable to the U.S. travel industry with a margin of error of 7% at the 95% confidence level.

The Travel Marketer's Guide to the U.S. Digital Travel Landscape

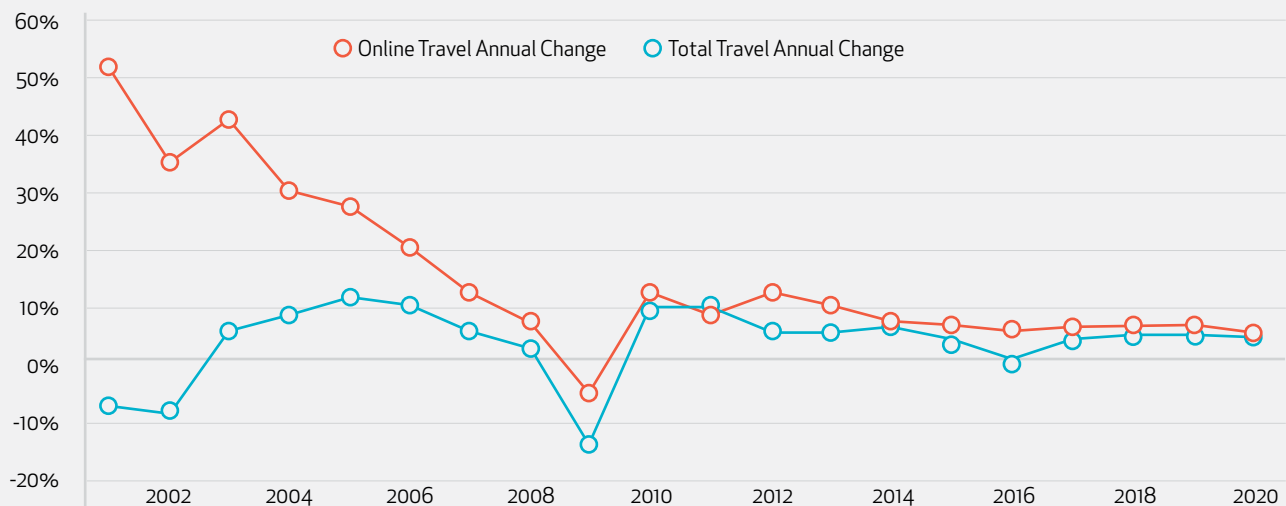
The Digital Traveler Journey

Digital Travel Is Behaving More Like All Travel

Online leisure and unmanaged business travel now account for nearly half of all travel booked in the U.S. When including online corporate travel, the total online share exceeds two-thirds. As online travel has grown, and more travelers shop and book via digital channels, online trending moves in line with the total travel market (see Figure 2). Almost impervious to the recession in 2001 and 2002, U.S. online travel had a dip of its own during the last recession in 2009 (although that dip wasn't nearly as severe as what happened in offline channels and corporate travel).

Figure 2:

Annual Change of U.S. Total & Online Travel Markets by Gross Bookings, 2001-2020

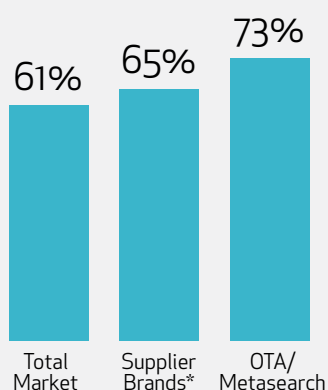


Source: Phocuswright's U.S. Online Travel Overview Sixteenth Edition



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Figure 3:
Percent of Advertising Budget
Spent Online



* Supplier brands include airlines, hotels, car rental companies, cruise lines and vacation rental management companies.

Base: Travel Companies: (N=173)
Source: The Travel Marketer's Guide to the U.S. Digital Travel Landscape



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This market may have matured and overall growth may have slowed, but the size of the pie is still enormous. Online leisure and unmanaged travel will surpass \$170 billion in the U.S. in 2018, accounting for 47% of total travel gross bookings. Travel's digital purchase journey is still as dynamic and competitive as ever. Online travel agencies (OTAs), metasearch sites and supplier brands (airlines, hotels, car rental and cruise operators) battle ferociously to capture each booking.

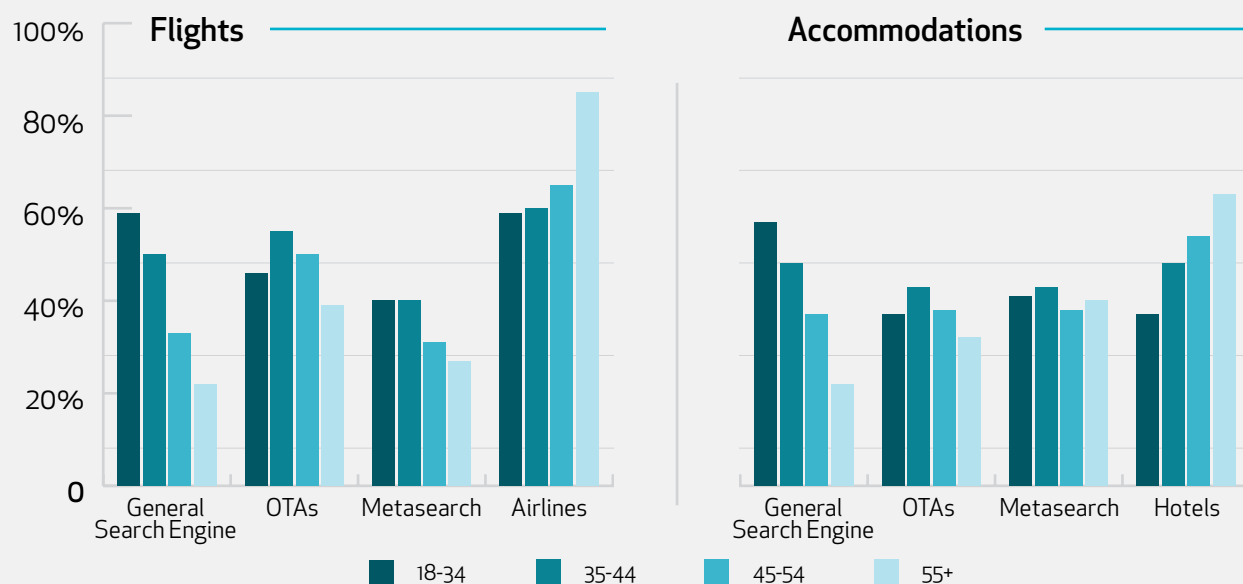
Digital Share of Travel Ad Spend

As online booking has grown, so has digital ad spend. Well over half of all travel marketing spend is now going to online channels. The industry-wide average for the U.S. travel market is 61% (see Figure 3), which includes all supplier segments (airlines, hotels, car rental, cruise, etc.) as well as OTAs, metasearch, tour operators and traditional travel agencies. But certain segments, such as supplier brands and online travel companies, have moved their ad spend into digital much faster and are leading the industry. Online travel brands, not surprisingly, allocate more of their spend to digital, at 73%.

Travel Sites and Devices Online Travelers Use

Airline brands are relatively competitive and are the most common way travelers shop for flights. More than three in five travelers – and well over 80% of fliers 55 or older – typically use airline websites and apps (see Figure 4). But OTAs and search intermediaries are more popular in aggregate, especially with younger fliers. Search and OTAs are even more popular among accommodation shoppers. Hotel branded sites and apps trail online travel intermediaries, especially among the coveted millennial age group.

Figure 4:
Websites Used for Choosing Flights & Accommodation by Age



Base: U.S. travelers with online access (N = 1,662)

Source: The Travel Marketer's Guide to the U.S. Digital Travel Landscape

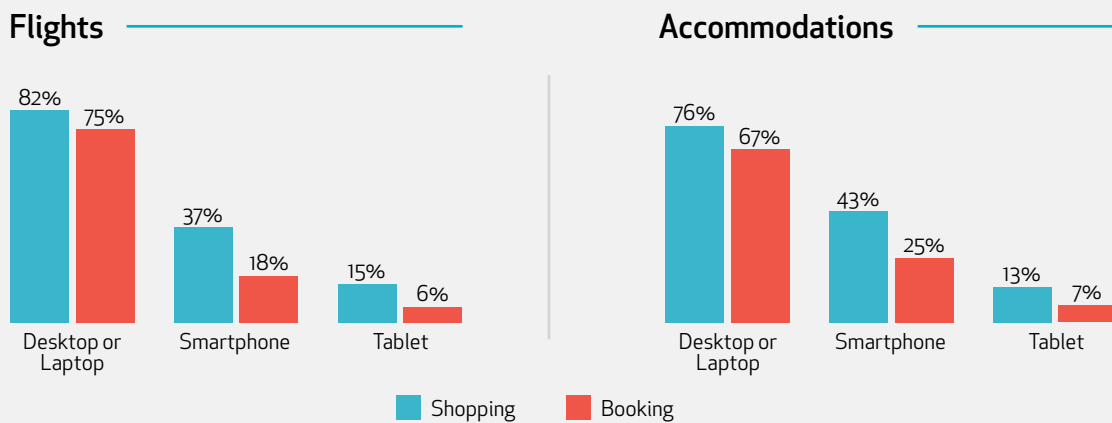


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There continues to be enormous excitement across the travel industry around the rise of mobile and the impact of the channel on consumer behavior from planning to booking and even during the trip. More and more travelers are using mobile devices to explore travel destinations and shop for travel products. Some 37% and 43% of travelers have used their smartphone to shop for flights and accommodation, respectively (see Figure 5).

However, when it comes to booking on mobile, it's a very different story. U.S. travelers have long been trained on desktop and appear to be less comfortable making that leap to purchasing on the smaller screen. Less than half of mobile flight shoppers and slightly more than half of mobile hotel shoppers ultimately booked on their phones. This is certainly changing, driven by improvements in the mobile booking experience by travel brands and the rising importance of younger travelers (millennials and the younger half of generation X, or 18- to 44-year-olds), who account for the overwhelming majority of mobile bookings.

Figure 5:
Devices Used for Shopping/Booking Flights & Accommodation



Base: U.S. travelers who shopped or booked flights online (Shopping N = 668, Booking N = 661)

Question: What devices did you use to shop for accommodation? Select all that apply. What device did you use to book your accommodation? Select only one.

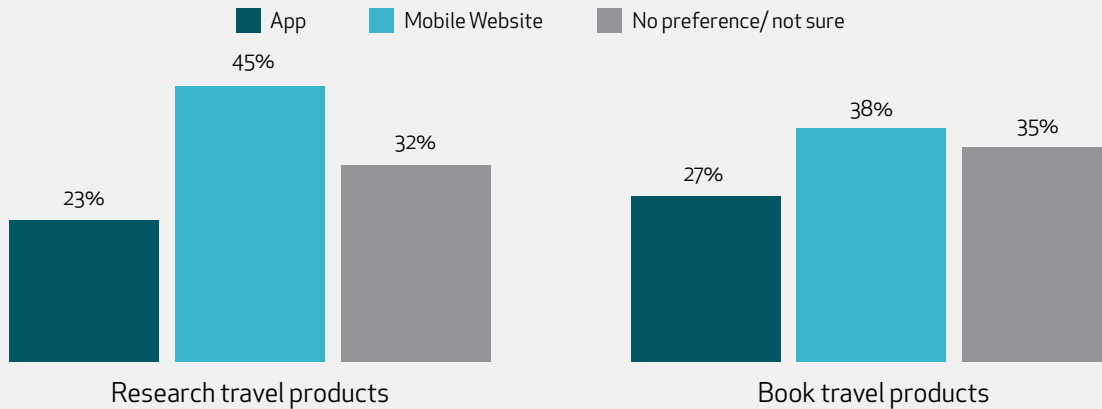
Base: U.S. travelers who shopped or booked accommodation online (Shopping N = 1,323, Booking N = 1,287)

Source: The Travel Marketer's Guide to the U.S. Digital Travel Landscape



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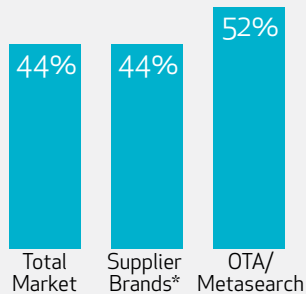
Travelers continue to use a mix of both mobile apps and websites when planning and booking travel, indicating that travel brands need to compete across both platforms. About one in four U.S. travelers who own smartphones typically use a mobile app, while a significantly larger percentage use the mobile web when researching and purchasing travel products (see Figure 6). Approximately a third of travelers are unsure or do not have a typical method.

Figure 6:**Typical Use of Apps and Mobile Web Based for Travel Shopping and Booking**

Base: U.S. Smartphone owners (N=1,574)
 Source: U.S. Traveler Technology Survey 2016



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Figure 7:**Percent of Digital Ad Spend on Mobile**

* Supplier brands include airlines, hotels, car rental companies, cruise lines and vacation rental management companies.

Base: Travel Companies: (N=173)
 Source: The Travel Marketer's Guide to the U.S. Digital Travel Landscape



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Device Share of Digital Travel Ad Spend

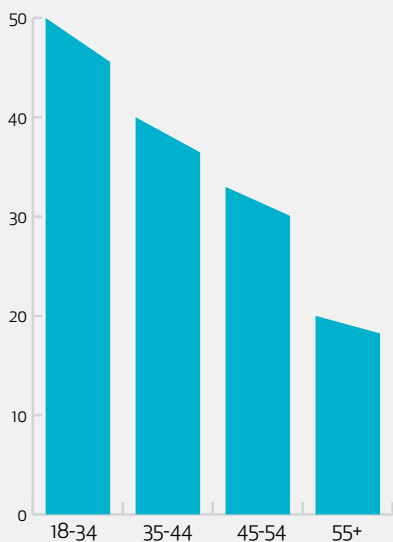
Some travel brands are closely monitoring the digital travel planning and booking shift to mobile and moving more of their ad spend to mobile-specific platforms and media. On average, travel companies are allocating just under half of their digital marketing budgets to mobile-specific platforms and media (see Figure 7). However, with the vast majority of shopping and booking still taking place on desktop or laptop (see Figure 5), digital marketing on those devices continues to be very important – if not of primary importance.

The Impact of Online Advertising

Digital media, whether via desktop or mobile, plays a significant and growing role in the traveler decision. Online travel ad recall is very high: 71% of U.S. travelers recalled seeing an ad online when planning their last trip. Search ads have the highest recall and click-through rates, especially among millennial travelers under 35, followed by ads on travel metasearch and OTA sites (see Figures 8 and 9).

But not all advertising is created, or recalled, equally. Price – deals and discounts – always figure prominently in advertising; some 41% of travelers who recalled an ad cited price as a memorable factor. Travelers clearly recall and respond better to advertising that is visual and relevant. Nearly half of travelers who recalled seeing an online ad specifically cited recalling a visual element or picture (see Figure 10).

Figure 8:
General Search Travel Ad
Recall by Age

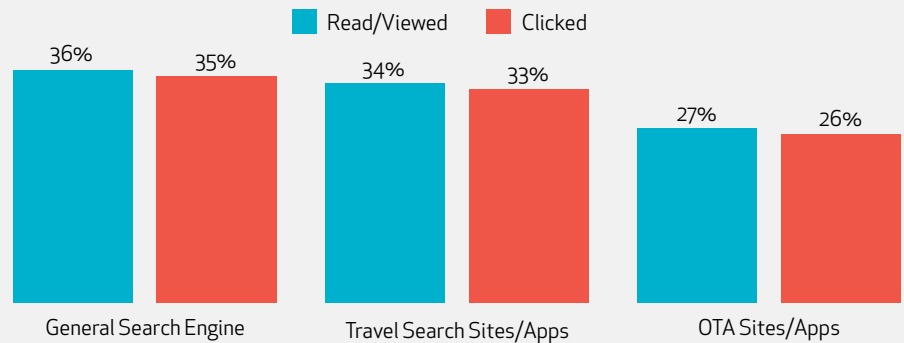


Base: U.S. travelers who read or viewed travel-related ad online (N = 1,662), U.S. travelers who clicked on the online ads (N = 1,183)
Source: The Travel Marketer's Guide to the U.S. Digital Travel Landscape



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Figure 9:
Ad Recall and Click-Through by Platform



Base: U.S. travelers who read or viewed travel-related ad online (N = 1,662), U.S. travelers who clicked on the online ads (N = 1,183)

Source: The Travel Marketer's Guide to the U.S. Digital Travel Landscape



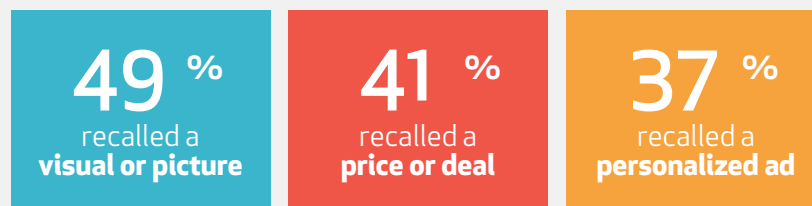
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Travel Ad Relevance, Influence & Effectiveness

The third most recalled online ad element was a personalized feature. Thirty-seven percent of travelers recalled an ad that was personalized – an ad that promoted a brand, destination or set of travel dates of specific interest to the traveler. The high recall of personalized ads suggests that the increased targeting capabilities of digital marketing platforms as well as the rise of programmatic advertising are having an impact on the digital traveler journey.

More than half of travelers who recalled online ads said those ads were both helpful and influential, but there are important differences across platforms. Social media platforms whose primary communication medium is visual (e.g. sharing photos or videos) appear to have the most influence among travelers who use them. More than half of all travelers who recalled seeing travel ads on Snapchat, Instagram, YouTube and Pinterest said those ads were very or extremely influential (see Figure 11). General search platforms Bing and Google also rated relatively high, with 56% and 46% of respondents, respectively, citing ads on those platforms as influential.

Figure 10:
Most Memorable Advertising Elements



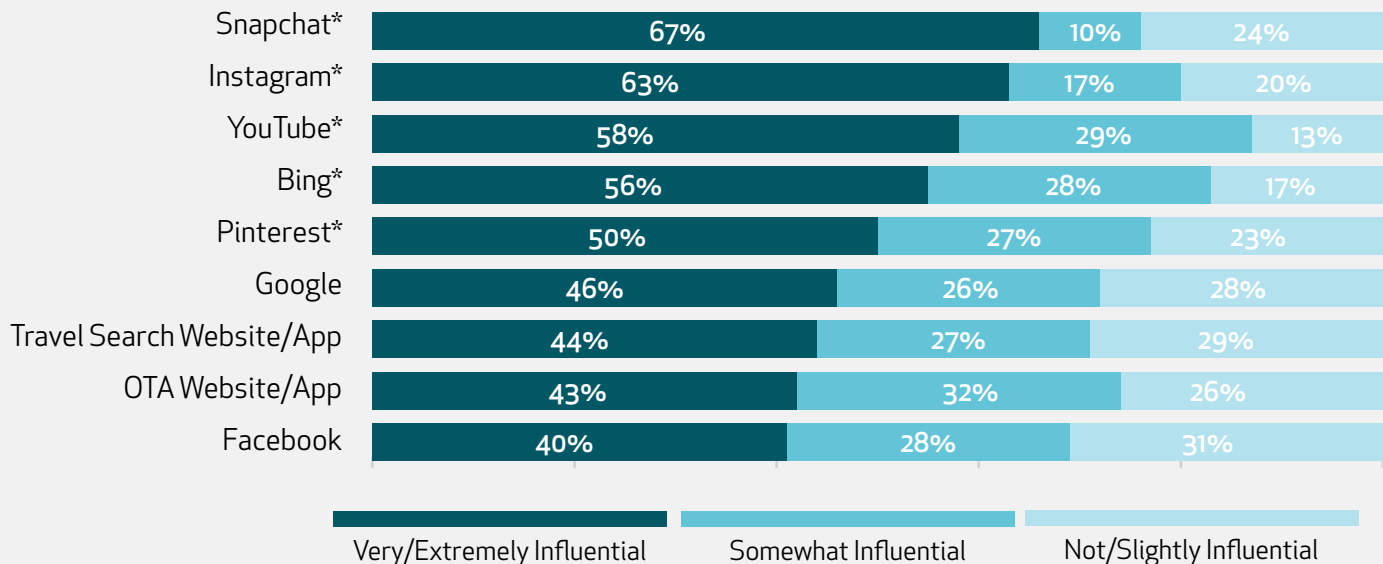
Question: What do you remember most about the travel advertising you saw online? Please select up to three.

Base: U.S. travelers with online access (N = 1,662)

Source: The Travel Marketer's Guide to the U.S. Digital Travel Landscape



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Figure 11:**Influence of Travel Advertising Platforms**

Base: U.S. travelers who clicked ads online access (N = 1,183);

*Small sample: Bing (N=36), YouTube (N=86), Instagram (N=60), Pinterest (N=30)

Source: The Travel Marketer's Guide to the U.S. Digital Travel Landscape



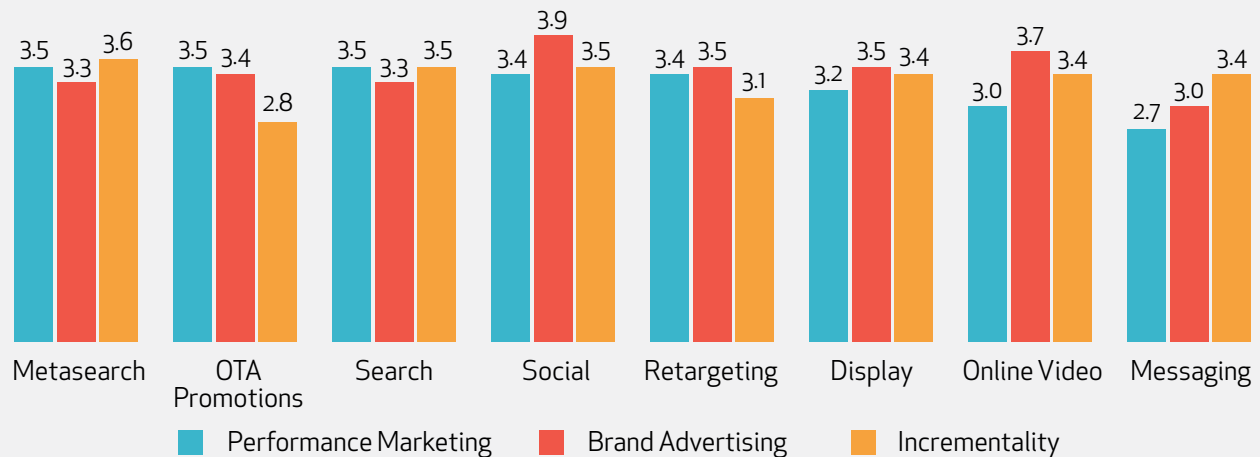
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Travelers may have higher recall with ads of more visual and social platforms, but brand marketers see clear value across a range of digital media channels – and for different objectives. For performance marketing (also referred to as direct response advertising), travel marketers rate ads on metasearch, OTAs and general search as the most effective, while rating social and video platforms (e.g. Facebook, Instagram, Pinterest and YouTube) as the strongest for brand marketing and awareness (see Figure 12).

Incrementality, or the acquiring of new customers not currently in a travel brand's loyalty or existing customer marketing programs, is a top priority for every marketer, and is also a challenging metric to measure. Travel marketers rate metasearch, general search and social platforms as among the most effective for bringing new customers into their funnel. Messaging platforms such as Facebook Messenger and Snapchat are still relatively new channels for advertising. Although fewer marketers are using those platforms for advertising those that do, rated messaging as an effective channel for incremental customer acquisition (see Figure 12).

Figure 12:

Influence of Travel Advertising Platforms



Base: Travel Companies: (N=173)

Source: The Travel Marketer's Guide to the U.S. Digital Travel Landscape

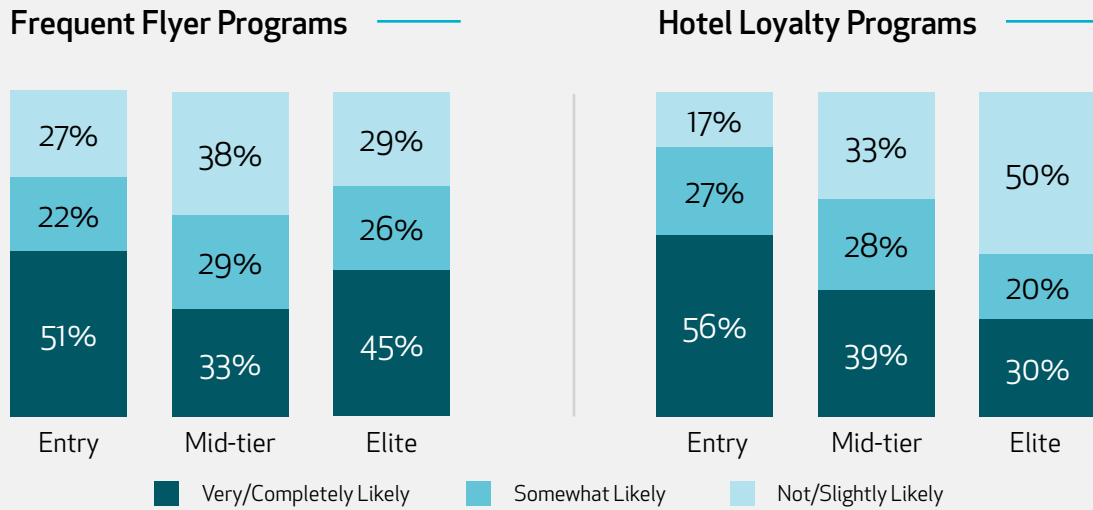


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The Role of Loyalty

Loyalty has been a central weapon in the supplier arsenal for airline, hotel and car rental brands to compete with OTAs. Hotels in particular have ratcheted up the battle by introducing loyalty rates and free perks such as Wi-fi for travelers who book directly with hotels. This has indeed brought more travelers into the hotel loyalty funnel. The launch of loyalty initiatives by the major U.S. hotel chain brands helped drive the growth of loyalty memberships from 47% in 2015 to 63% by 2017.

However, has this significant expansion of hotel loyalty program membership created truly loyal customers? The answer is not so clear. But true customer loyalty – the intent of customers to come back directly to a brand and book again – is hard to come by. Many loyalty program members – even those with mid-tier or even elite status – say they would book with another brand or channel if certain conditions – such as price, schedule or location – were even slightly more preferable (see Figure 13).

Figure 13:**Loyalty Program Member Likelihood to Book Outside a Loyalty Program**

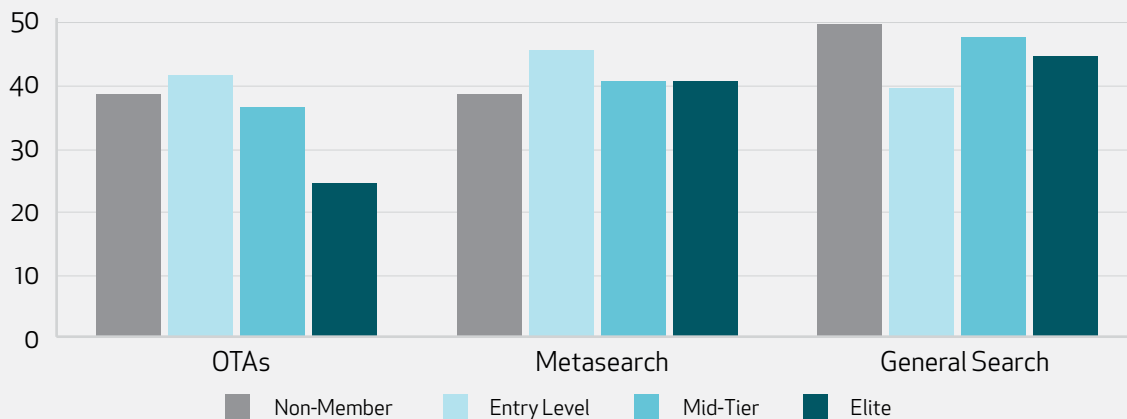
Base: U.S. travelers who belong to a loyalty program (Air N = 988, Hotel N = 992)
 Source: The Travel Marketer's Guide to the U.S. Digital Travel Landscape



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Don't Take Your High-Status Members for Granted

In fact, travelers of all stripes – older and younger, more affluent and less so, elite loyalty program members and non-members – are just as likely to shop around for all of their trips. Mid-tier and elite members of hotel loyalty programs are nearly as likely than non-members to search across metasearch sites, general search and OTAs (see Figure 14).

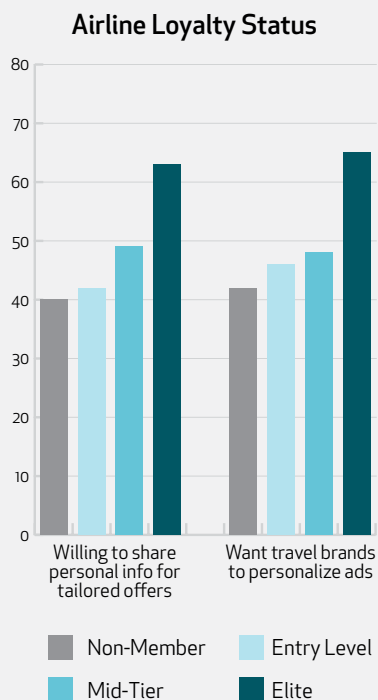
Figure 14:**Sites/Apps Used for Hotel Shopping, by Hotel Loyalty Status**

Base: U.S. Travelers with online access (N=1662)
 Source: The Travel Marketer's Guide to the U.S. Digital Travel Landscape



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Figure 15:
Traveler Attitudes on
Personalization & Sharing Data
by Loyalty Program Status



Base: U.S. Travelers with online access (N=1662)

Source: The Travel Marketer's Guide to the U.S. Digital Travel Landscape



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Loyalty Engagement & the Power of Personalization

But loyalty program marketers should not be too discouraged. Program members with more status are more frequent travelers and are more engaged with travel brands and online advertising. Mid-tier and elite program members are more likely to recall online ads, and they are more open to sharing their personal data with brands in order to receive more personalized offers (see Figure 15).

Smart travel brands have a clear opportunity to re-engage these coveted frequent travelers and elite program members and bring them back to the fold through the right marketing. But this opportunity comes with challenges. These travelers also have high expectations and want brands to personalize offers and deliver ad messages that are relevant to them.

The State of What's Next

Messaging, Voice, A.I. and Virtual Reality

The process of planning and booking a trip is so information-intensive, it is especially dependent on technology and susceptible to reinvention through technological innovation. Just as the advent of the Internet upended traditional travel retailing and booking, newer technologies are poised to bring still more change to this industry. Some of the technologies at the forefront of travel reinvention today include:

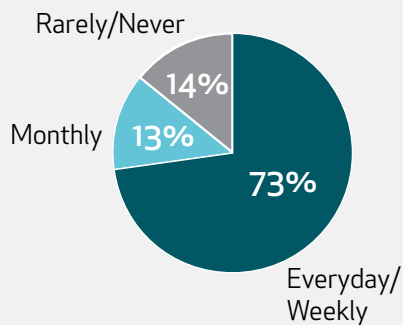
Messaging and chat – using the increasingly popular platforms to provide personalized customer service, engagement, marketing and even booking through instant messaging or chat applications. These may include automated messaging applications such as chatbots, live human agents or a mix.

Personal digital assistants – digital assistants now widely available on smartphones, personal computers and in-home assistants, such as Siri, Cortana, Google Now and Alexa, that handle a range of tasks for users typically (but not exclusively) through voice activation. Increasingly, those tasks include travel planning and even booking.

Artificial intelligence and machine learning – a growing field of “self-learning” software that enables computer systems to adapt their processes without explicit new programming. Machine learning is enabling organizations across a range of fields in addition to travel to undertake deeper and faster analysis of large data sets and power breakthroughs in personalization, predictive analytics and much more.

Augmented and virtual reality – applications that provide fully immersive, 360-degree experiences (virtual reality) or layer virtual, computer-generated elements on an existing virtual reality (augmented reality). Virtual reality could give travelers a fuller sense of what it might be like to experience a destination, tour or cruise. Several innovative startups are already offering augmented reality to enhance travelers' experience in a destination through virtual walking tours and museum guides.

Figure 16:
Smartphone Personal Digital Assistant Usage Frequency



Base: U.S. travelers with smartphones (N = 1,410)

Source: The Travel Marketer's Guide to the U.S. Digital Travel Landscape



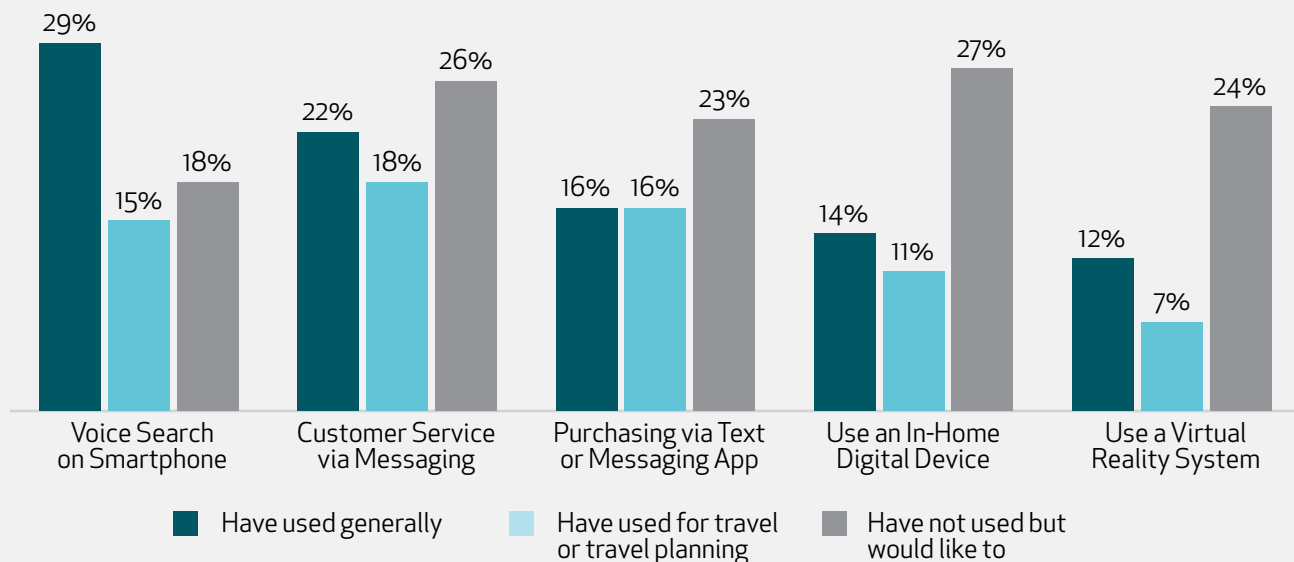
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Not surprisingly, the vast majority of travelers – well over eight in 10 – own a smartphone and already more than one in 10 own an in-home digital assistant such as the Amazon Echo. These travelers are fairly frequent users of the digital assistants on their phones. More than seven in 10 say they use their personal digital assistant weekly, if not more frequently (see Figure 16).

From digital assistants to virtual reality, these technologies are still in the very early stages of their evolution, but there is clear traveler appetite and interest to use and experience these services for travel, as well as generally. Voice-activated search and using messaging apps for customer service are the technologies mostly commonly used today, both generally as well as for travel-related purposes (see Figure 17).

But it is the interest level among travelers that is most telling. Approximately one in four travelers are interested in using messaging, an in-home digital assistant and virtual reality for travel planning. Smart travel brands are already actively investing in, offering or testing ways to serve their customers and reach new travelers through these technologies. Three in five travel brands report offering customer service via chat, 28% are leveraging or experimenting with artificial intelligence, and one in four are engaging significantly in voice search (see Figure 18). Augmented and virtual reality seem to be the lowest priority for travel companies among these emerging technologies.

Figure 17:
Traveler Use of Next-Gen Technology



Question: Which of the following have you done generally, and specifically in relation to travel or travel planning?

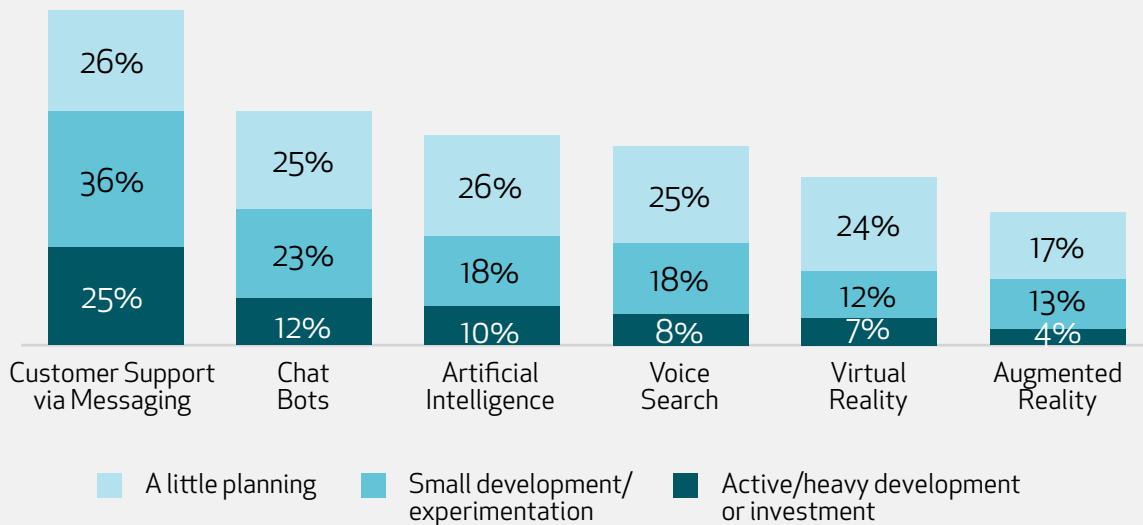
Base: U.S. travelers with online access (N = 1,662)

Source: The Travel Marketer's Guide to the U.S. Digital Travel Landscape



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Figure 18:
Planned Tech Investments



Base: Travel Companies who spend on online advertising: (N=165)

Source: The Travel Marketer's Guide to the U.S. Digital Travel Landscape



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Key Takeaways for the Modern Travel Marketer

The technology-powered changes sweeping through travel and marketing have transformed how travelers search, shop and buy their travel. And this change shows no signs of slowing as emerging technologies continue to compel travel brands to reinvent their services and marketing to stay in front of today's travelers. Here are 11 (not 10) key takeaways every travel marketer should memorize for 2018 and beyond:

01. **Digital travel IS travel.** Digital is the dominant means through which travelers plan, choose and purchase travel. As travel brands look to build their marketing strategies for 2018 and beyond, digital must consume a substantial and yet still growing share of marketing spend and management focus.
02. **Benchmark your digital dollars.** Travel marketers should benchmark their digital spend as a share of their total budgets against the industry-wide average of 61% as well as their competitive set. Are you ahead of – or behind – your competitors?
03. **Mobile conversion will take time** to catch up to desktop. Most travelers who shop on mobile still book on desktop. Mobile marketing spend must be measured carefully and integrated with cross-device tracking and attribution.

04. **The battle between OTAs and supplier brands continues.** Airline, hotel and car rental brands' strategic imperative to become more competitive up (and down) the funnel is driving a shift across all marketing initiatives to build brand awareness, loyalty and retention without losing focus on conversion. Brands that drive true customer loyalty – a customer's desire to come back and book directly with a brand – through guest experience and personalization as well as price will win the traveler.
05. **Different travelers prefer different channels.** OTAs and search intermediaries are more popular in aggregate, especially with younger travelers. Understanding demographic differences is key to acquiring the customers you seek.
06. **Develop distinct channel strategies for performance marketing and brand advertising.** Travel marketers clearly view some channels as better for direct response, such as search, metasearch and OTA promotions, while other platforms are more effective for driving brand awareness (social and video). Still other channels – such as search and metasearch – are seen as more effective for driving incrementality – bringing new customers into their funnel.
07. **Online travel advertising has an impact.** Online ad recall is high at 71% of online travelers in the U.S. Ads on search, metasearch and OTAs have the highest recall and click-through rates, especially among millennial travelers under 35.
08. **Increase ad recall with pictures and pricing.** Travelers have higher recall of online ads that include feature visuals or some price-oriented message. More than half of all travelers who recalled seeing travel ads on highly visual platforms such as Snapchat, Instagram, YouTube and Pinterest said those ads were very or extremely influential. General search platforms also rated relatively high.
09. **The power of personalization.** Travelers also had higher recall of online ads that were relevant to them, featuring a brand, destination or set of travel dates they were interested in.
10. **Membership does not equal loyalty.** Travelers of all stripes – older and younger, more affluent and less so, elite loyalty program members and non-members – are just as likely to shop around for the best deal. Loyalty program marketers cannot take even their most loyal customers for granted and must continually drive loyalty engagement by delivering personalized offers and ads that speak to each member's interests.
11. **Don't wait for emerging tech to grow up.** Although emerging technologies such as artificial intelligence, voice-activated assistants and user interfaces, messaging, and virtual and augmented reality are still in the very early stages in their evolution, there is clear traveler appetite. Smart travel brands are already actively investing in, offering or testing ways to serve their customers and reach new travelers through these technologies.