TRAVEL

Payments Study

JULY 2018

THE STRUGGLE IS REAL

WHEN IT COMES TO MANAGING PAYMENT SERVICE PROVIDERS (PSPs).

4 OUT OF 10

travel companies have trouble managing multiple PSPs.

5.4%

Share of global travel sales that go toward paying PSPs

$74.5B

Amount global travel operators spend annually to pay PSPs

PAST AND FUTURE INNOVATION PLANS

15%

of travel companies have attempted new payments innovations in the PAST three years.

81%

of travel companies plan to initiate at least some new innovation projects in the NEXT three years.

Travel operators earning less than $15 million

PAY **HIGHER** FEES

than those earning $100 million to $1 billion.

HIGHEST FEE

TRAVEL AGENCIES	AIRLINES	HOTELS
AVERAGE FEES **7.0%**	AVERAGE FEES **4.7%**	AVERAGE FEES **6.0%**

TRAVEL

Payments Study

ACKNOWLEDGMENT

The Travel Payments Study is powered by Amadeus, and PYMNTS is grateful for the company's support and insight. PYMNTS.com retains full editorial control over the findings presented, as well as the methodology and data analysis.

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EXECUTIVE SUMMARY

The travel industry is at a payments innovation tipping point.

More than two decades after PayPal was founded, and four years since the launch of Apple Pay, the travel industry is taking its first cautious steps into its own payments revolution.

The move was a long time coming.

Travel companies typically team up with third-party payment service providers (PSPs) to deliver seamless payment services. These firms boast specialized, outside talent that can handle the intricacies of international payments with greater expertise, but hiring such firms compounds a travel company's operational complexity. Having to manage multiple PSPs impedes many travel companies' from fostering the innovation initiatives necessary to maintain a competitive edge.

PYMNTS' most recent research revealed that just 15 percent of all travel companies have attempted new payments innovations over the last three years, let alone those that succeeded in implementing them.

This is particularly true in the United States and Europe, as compared to the Asia Pacific region. Asia Pacific-based travel companies — particularly in China, where mobile payment systems like WeChat and Alipay are popular — tend to be more proactive when it comes to innovations than their counterparts in the Occident.

It is not a lack of interest in or recognition of need that gives travel companies trouble when it comes to the development of new technologies, however. They know all too well what the process entails — and how much it costs.

Travel companies, in their inherently international field, understand that being innovative means managing a complex, multichannel and international system that supports not only global card brands and popular digital wallets, but also hundreds of local payment methods. In addition, they must protect customers from fraudsters whose methods grow more sophisticated by the second.

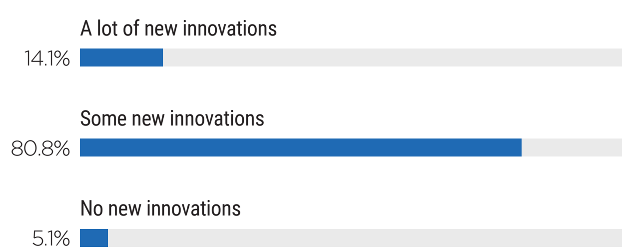
Managing such an overarching system is no easy task, nor is it one that can be done on a budget. In fact, 5.4 percent of global travel sales go toward paying service providers, a sum totaling $75 billion every year. It should be noted that this percentage includes all fees and costs associated with paying third parties, and some companies in the sample chose to add in operational and indirect costs as well.

This is a considerable sum, taking into account how much money the industry generates on a global scale each year. For reference, the global annual revenue for all airlines hovers around $754 billion, and accommodations companies and travel agencies see around $529 billion and $100 billion, respectively.

It should also be noted that paying third-party payment fees is often travel companies' cheapest option when it comes to operating their payments structures. The alternative would be for companies to build their own payment system from the ground up, hire new talent, purchase new equipment and spend more time planning and implementing new structures. Third-party PSPs already have these structures in place.

Yet, even in the face of these enormous costs, travel companies are still looking to kick off payments innovation projects in the near future. As shown in Figure 1, about 80 percent of those in our sample plan to develop at least some new payments innovations over the next three years.

FIGURE 1: TRAVEL COMPANIES' INTENT TO PURSUE PAYMENTS INNOVATION
Percentage planning to initiate innovation projects in the next three years



In short, travel companies are currently poised to begin their innovative payments endeavors. The only question is how they will pay for them, or, alternatively, if there is a way to mitigate the costs.

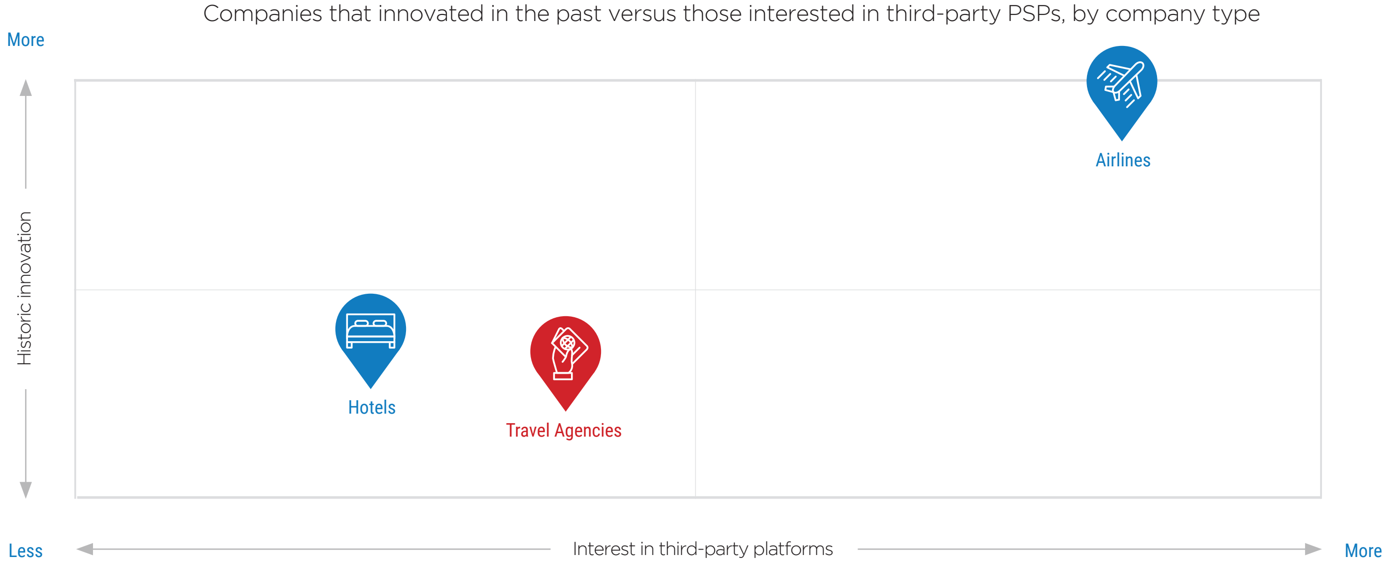
In this Travel Survey Report™, published in conjunction with Amadeus, our research team discerns the motives driving the travel industry's appetite for payments innovation. Though some rely on in-house talent and resources to pursue payments innovation projects, many travel companies are looking to third-party PSPs to lend the support they need and ensure their investments pay off.

We divided the companies in our survey into three broad categories — airlines, hotels and travel agencies — to account for the distinct challenges these different types of companies face. In doing so, we observed a correlation between the types of travel companies in question that had innovated in the past three years and their interest level in hiring third-party payment providers.

Broadly speaking, companies that spearheaded more innovation projects expressed greater interest in hiring third-party PSPs than did those that did not.

The following pages will elaborate on how distinct types of travel companies grapple with the economic demands of innovation, why they are increasingly opting to invest in new payments technologies and who stands to benefit from successful payments innovations.

FIGURE 2: CORRELATION BETWEEN HISTORICAL INNOVATION AND INTEREST IN THIRD-PARTY PROVIDERS
Companies that innovated in the past versus those interested in third-party PSPs, by company type



HOW TRAVEL COMPANIES HOPE TO BENEFIT FROM PAYMENTS INNOVATIONS

Locating the economic pressure points that strain travel companies is a complicated issue, as it entails identifying the source of their demands for change. Are structural inefficiencies and complexities the only reasons behind the travel industry's interest in payments innovation?

To find out more about the specific factors driving travel companies to seek out new payments technologies — including what they hope to gain from doing so — we asked respondents to cite their top reasons for investing in future payments innovations. As shown in Figure 3, the most pressing factor driving investments is the need to respond to customer demands.

FIGURE 3: VERY OR EXTREMELY IMPORTANT REASONS FOR INVESTING IN NEW PAYMENTS TECHNOLOGIES
Travel companies citing select factors as payments innovation drivers

This adds a layer of complexity to our findings, as we have thus far only discussed the internal structural reasons — cited by 62.8 percent of our respondents — why travel companies are seeking innovation. There is yet another factor that has an even greater impact on their willingness to invest in payments innovations, however: customer demand.

Not responding to consumers' demands for different payments systems may even be causing some travel companies to lose customers. This is the second-most cited motivator, coming in at 83.3 percent.

Payments innovations can be expensive, but losing customers is not cheap, either. Today's customers are used to having a wide variety of payment options when dealing with companies in other industries, and they have demands that are not currently being met by many travel operators. It is up to each individual company to decide which has a greater impact on its finances.

This brings companies to what is, perhaps, the most pertinent question in the discussion of payments innovation benefits: Does the revenue to be gained from new payments innovations exceed the costs they incur? More and more often, travel companies are responding "yes."

We asked respondents whether they believed the financial gains to be had from payments innovations would outweigh the costs, and an impressive 96 percent of the sample had a positive outlook. These companies believe that the revenue gained would outweigh its costs, that innovation would have no effect on costs or that it would actually *decrease* costs.

36%

of travel companies believe payments innovations **WILL DECREASE THEIR COSTS.**

FIGURE 4: A COST-BENEFIT ANALYSIS OF TRAVEL INDUSTRY PAYMENTS INNOVATIONS
Respondents believing innovation would have a select impact on their finances

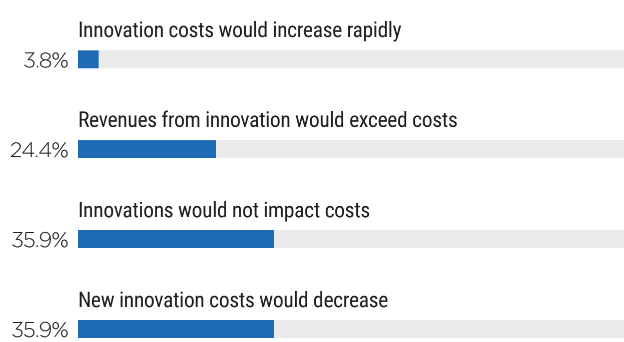
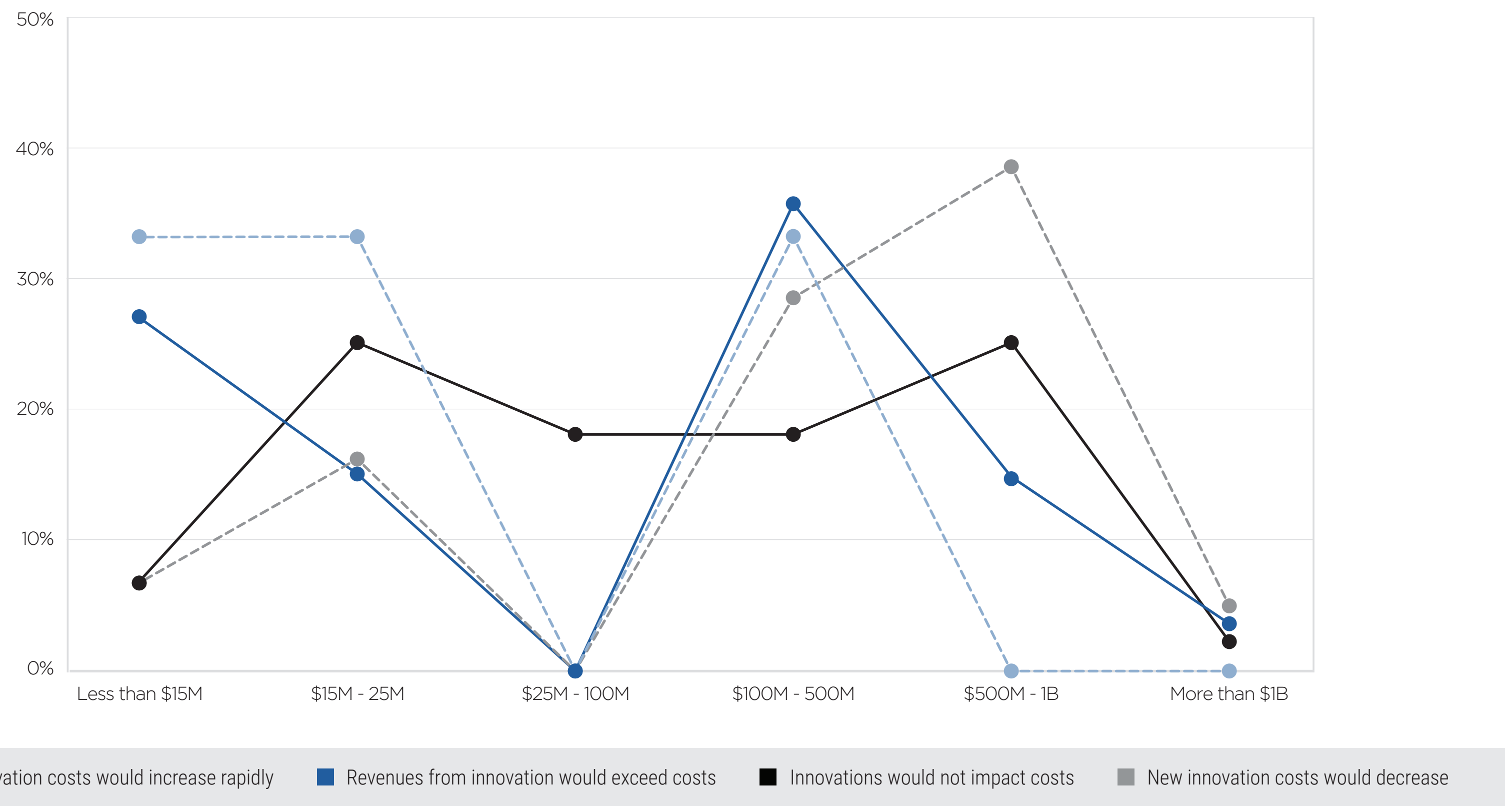


FIGURE 5: A COST-BENEFIT ANALYSIS OF TRAVEL INDUSTRY PAYMENTS INNOVATIONS
Firms' annual revenues, by their impression of innovations' impact on costs



That said, it is necessary to point out that larger companies generally anticipated greater financial gains from payments innovations. For example, 39 percent of our sample that said innovation would decrease costs earned between $500 million and $1 billion in revenue per annum, while only 7 percent earned less than $15 million per year.

Additionally, not one company that earned more than $500 million in annual revenue said innovation would increase costs. Meanwhile, 33 percent that believed innovation would increase costs earned less than $15 million in annual revenue.

The relationship between the perceived financial benefits of innovation and a company's revenue may not be perfectly linear, but the overall trend is clear: Larger travel companies believe they stand to gain more from payments innovations than smaller ones. Smaller companies are less complex, and therefore believe they have less to gain when it comes to innovation.

The belief may lie, in part, in how companies manage their finances. When it comes to balancing a corporate checkbook, there is a distinction to be made between “fixed” and “variable” costs.

Provider and acquiring costs are mostly variable in nature, but incremental employee and indirect capital spending costs are largely fixed. To manage their budgets and increase their profit margins in the short term, companies may choose to focus attention on driving down their variable costs — one of which is the expense associated with processing payments.

Stated simply, larger travel companies, including airlines and hotel chains, have high fixed costs over which they have little control in the short term. Newer, more efficient payments technologies can serve as a relatively low-cost way to drive down the variable cost of payments processing in the long run, thereby boosting a company’s bottom line — especially that of a large firm with large fixed costs wrapped up in its labor force and capital.

In addition, newer, faster and more convenient payments technologies must meet customers’ demands. Modern consumers’ whetted appetites for at-their-fingertips payment methods mean more travel companies are beginning to see payments innovation as a long-term investment rather than a short-term cost. That is the crux of the industry’s payments innovation tipping point.

THE PRICE OF SUCCESS

How much do travel companies pay for payment systems?

Travel companies employ a wide variety of structures when it comes time to receive payments from customers. Some rely heavily on their own employees, and some exclusively on third-party payment providers, but most employ a blend of in-house and outside talent to ensure their payment systems are functioning properly.

Most travel companies in our sample used somewhere between three and 10 outside PSPs, 45 percent used between three and five to handle payments, and 42 percent employed between six and 10. Meanwhile, approximately 5 percent of travel operators in our sample relied on 11 or more PSPs, and only about 8 percent relied on two.

All this structure and complexity comes at a hefty price, as travel companies spend a weighted average total cost of approximately 5.4 percent of their revenues on payment processing.

It is also true that the processing fees travel companies tend to pay vary according to the organization's type and revenue. Larger companies generally devote a smaller portion of their revenues to paying third-party payment provider fees, for example, because they tend to receive greater volume discounts than smaller firms.

Certain types of travel companies tend to pay higher payment processing fees than others. Airlines, which generate more revenue per annum, only devoted between 4.2 and 5.0 percent of their revenues to maintaining their payment systems, according to our research, while smaller companies, like independent hotels, use an average of 6.3 percent of their revenues.

These figures include provider costs, direct acquiring costs and incremental employee costs. Some companies also chose to include capital costs and indirect costs in their valuations.

There are other operational differences across varying travel company types that might have an impact on the costs of maintaining payments structures. Airlines' payments structures are generally more centralized, for example, while those of other companies, like hotels, are more decentralized. Airlines enjoy a uniform global payments structure, but hotels are largely constrained by the country and region in which they are located, meaning they must abide by local regulators' restrictions. They are also generally required to deal in local currencies to a greater degree.

FIGURE 6: PAYMENT PROCESSING FEES PAID BY TRAVEL COMPANIES
Companies' revenues devoted to third-party payment fees, per annum

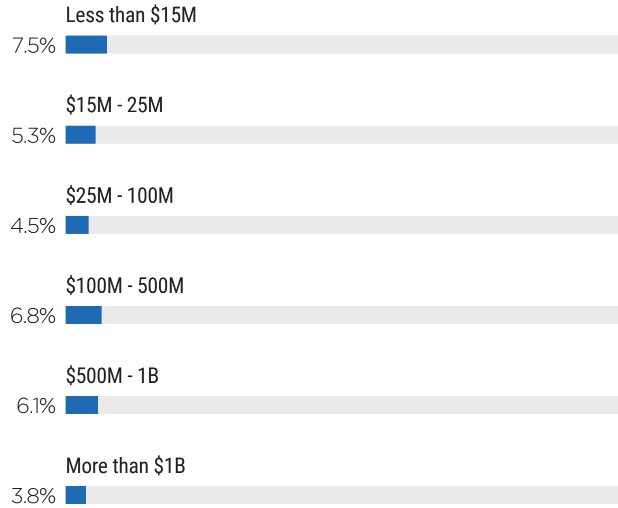
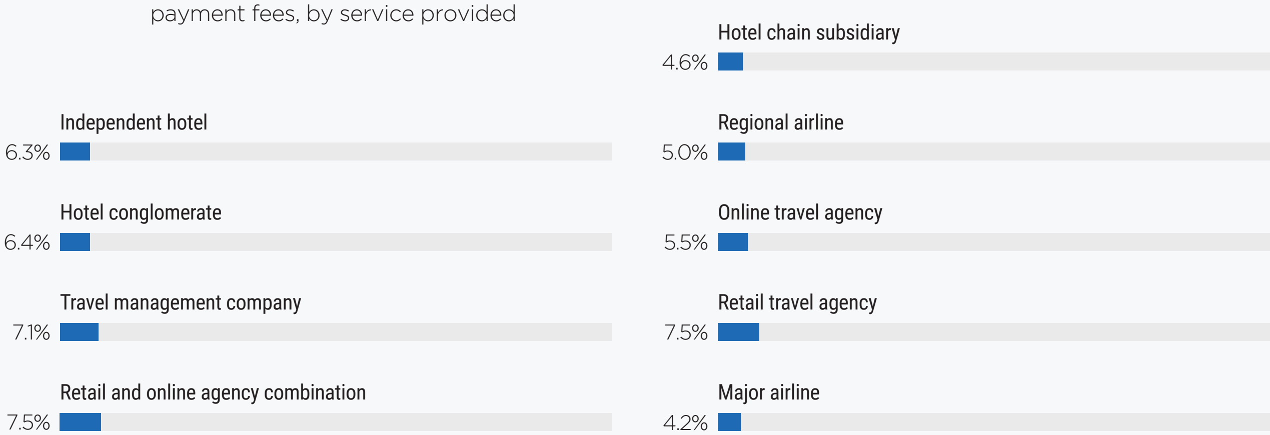


FIGURE 7: PAYMENT PROCESSING FEES PAID BY TRAVEL COMPANIES
Companies' revenues devoted to third-party payment fees, by service provided



The Price Of Success

49%

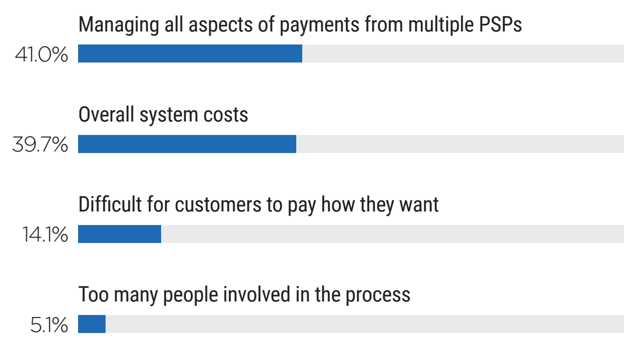
of travel companies cited the complexity of their existing payments system **AS A HINDRANCE TO INNOVATION.**

In total, travel companies around the world spend approximately $75 billion on their payments systems.

TABLE 1: GLOBAL TRAVEL COMPANIES' ANNUAL NUMBERS
Type of travel company, its average annual revenue and its numbers in the sample

	Total revenues	Average fees	Payments spend
Airlines	$754.0B	4.7%	$35.6B
Hotels	$528.9B	6.0%	$31.9B
Travel Agencies	$100.5B	7.0%	$7.0B
TOTAL	**$1,383.4B**	**5.4%**	**$74.5B**

FIGURE 8: THE BIGGEST PAYMENT-RELATED FINANCIAL STRESSORS, ACCORDING TO TRAVEL COMPANIES
Respondents citing select pain points as their most pressing financial concerns



It's true that a company must spend money to make money. Unfortunately for travel firms, these are not the only costs associated with maintaining a functioning payments structure. In fact, most, if not all, suffer costs due to operational inefficiencies.

When we asked the travel companies in our sample to cite their biggest payment-related sources of financial stress, we found that the overall cost of their systems was not the most pressing financial issue — though it was a very close second. As shown in Figure 8, the most-cited stressor was payment systems' complexity.

Given the high price tag associated with payments structures and the costs of inefficiencies, travel companies are understandably eager to capitalize on technological innovations. Those same structural inefficiencies and reliance on legacy payments systems has led many travel companies to use a "patch-up" approach to introducing innovation, however, thereby increasing overall costs.

[1] Travel agencies' gross sales totaled $838 billion, with annual revenues of $100.5 billion.

TRAVEL PAYMENTS AND THE PUSH TO GO MOBILE

As many as 1.3 million people traveled overseas in 2017, according to the World Tourism Organization — the highest number of international travelers ever recorded. That number is projected to increase by 4 or 5 percent this year.

As more travelers head to foreign destinations, the companies that enable these journeys are gearing up to make paying for such trips as seamless as possible, noted André Siegert, global director of hotel finance and accounting at Kempinski Hotels, a luxury chain that operates 75 properties in 30 countries. The demand for new payment methods isn't being driven by companies looking to cut costs or boost efficacy, though, but by consumers in search of a more convenient and compelling payment experience.

"More and more, customers are busy," Siegert told PYMNTS in a recent interview. "They have stressful lives, and you can also see that in the younger generation, which has a very 'focused' life, I would call it. [That] means time is essential, so they don't want to waste it."

It's not surprising, then, that a growing number of consumers around the world are embracing mobile payment methods like Alipay, Apple Pay, WeChat Pay and others, thereby forcing travel companies to keep up with the demand.

"People want to be mobile," Siegert explained. "They want to pay via mobile, [and] they want to be able to do anything they need to do on the go."

Consumers may be driving demand for mobile payment acceptance, but companies in the space seem to be pushing for new payment methods when paying vendors, suppliers or the other companies with which they do business.

Many of these transactions are completed without existing — or at least enforceable — regulations, making cross-border corporate payments more complicated. This, coupled with a lack of competition, means established players like Mastercard have had little reason to innovate or improve their cross-border payments offerings.

"There is no real regulation yet, so credit card providers still have huge power in the market," Siegert said. "There's been no real need to scrutinize themselves, or adjust their fee structure or anything like that, so a change is necessary."

COMING CHANGES

That necessary change seems to be on its way.

Just as consumers have embraced payment platforms like Alipay, companies have begun to use the same tools to make corporate payments. Moreover, regulatory pressure on credit card providers is increasing, forcing these companies to shift their thinking.

As these changes continue, choosing a travel payments provider that can keep up with the latest innovations becomes an important decision for companies in the industry. Siegert recommends that companies ask potential PSP partners how they plan to prepare and adjust to coming evolutions in payments technology.

“Obviously, it’s clear that things can change extremely rapidly — a new technology could pop up that all of the sudden disrupts everything,” he noted. “But, I think that can give a good picture of whether that provider has analyzed the market correctly.”

Analyzing the market and anticipating new developments will be crucial factors in determining which payment providers are most successful, Siegert said. As the world gets smaller and travel becomes faster, only time will tell if travel payments will be able to keep up with the rate of innovation.

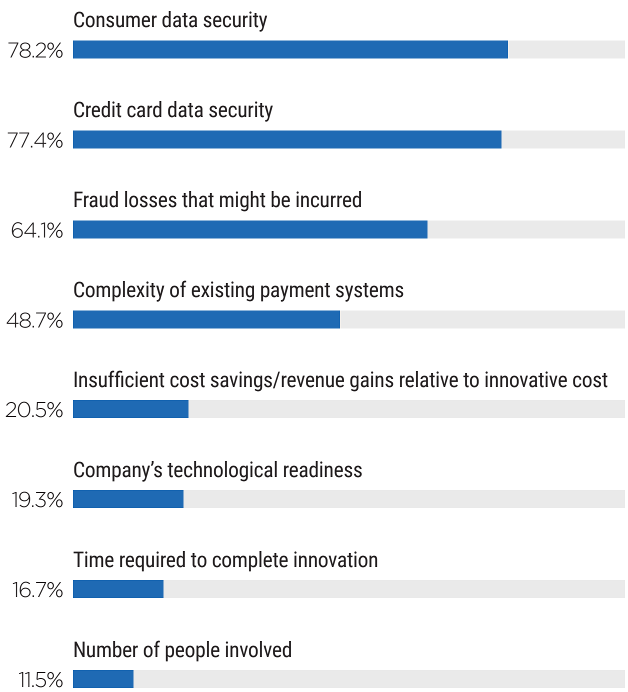
WHY INNOVATION MEASURES RUN INTO PROBLEMS

And what some companies are doing to solve them

Regardless of their annual revenues, most travel players are impacted by the high operating costs associated with their payments systems. This leaves them struggling to alleviate the financial stress induced by said costs, which might cause outsiders to ask why travel companies don't simply bring the services in-house. They might also wonder why they don't innovate their own payment options to avoid paying outside PSPs, or why they don't simply dedicate time and energy to innovate their own new technologies to improve their payments systems.

There is no single, all-encompassing answer to such questions. Travel companies face a host of innovation inhibitors, from logistics to overly complex legal barriers — especially those written in the interest of consumer data protection. We asked respondents to identify and rate their most pressing barriers to innovation, which is broken down in Figure 9.

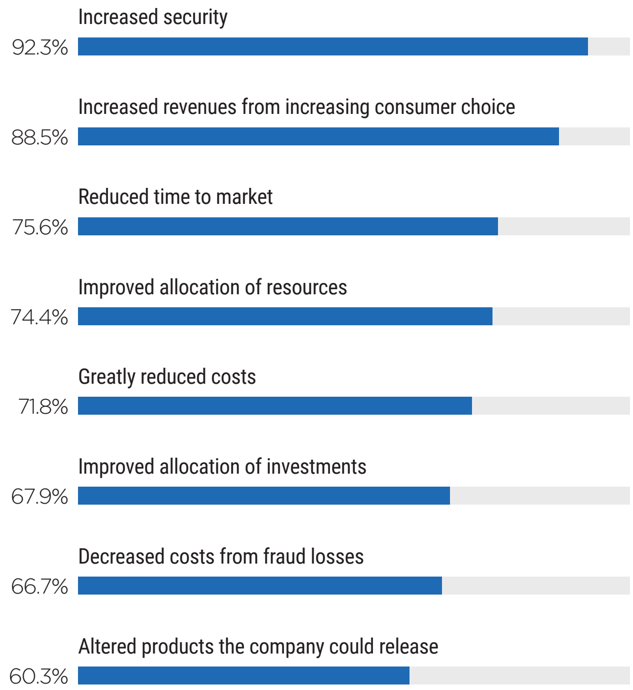
FIGURE 9: WHY TRAVEL COMPANIES' INNOVATION EFFORTS RUN INTO PROBLEMS
Respondents citing select factors as barriers to innovation, by severity



At 78 percent, consumer data security was, by far, the most-cited inhibitor to payments innovation. Following that was credit card data security imperatives, at 74 percent, which were listed as either “very” or “extremely” inhibiting. Incurred fraud losses came third, cited by 64 percent of respondents.

The sheer volume of companies that have difficulty abiding by consumer protection laws while developing innovative payment methods may mean travel companies are tempted to navigate around said regulations. It is important to take a step back and realize that consumer protection laws are not logistical variables, per se, but rather legal and operational imperatives. They also increase the value of a company’s services in the eyes of the customer, a fundamental facet of a travel company’s business model.

FIGURE 10: THE ANTICIPATED BENEFITS OF SEEKING OUT THIRD-PARTY ASSISTANCE
Percentage of respondents who expected select benefits of employing a third-party PSP



89%

of travel companies believe **ENLISTING THIRD-PARTY HELP** with payments innovation will increase revenues due to increased customer choice.

Outside of consumer protection factors, the most pressing innovation inhibitor travel companies face is the complexity of their existing payment systems. They exercise more operational control over this factor, though, making it a logistical variable that can be readily addressed. The issue is how to do so — an answer that often lies in the use of third-party PSPs.

We asked respondents about eight operational factors, and whether they felt third-party providers would be able to improve how these factors operate. Regardless of the factor, most respondents said using a third-party PSP would be beneficial. Increased security, greatly reduced costs and a decrease in overall fraud losses were among the positive effects companies expected to gain.

For cost-conscious companies of all sizes and types — with presumably fewer financial and labor-related resources to allocate to building payments innovation projects or teams from the ground up — using third-party providers can be an appealing alternative.

Not only can it reduce costs, but it can also provide an opportunity for a travel company to gain access to the specialized talents of a payments-centric organization. After all, if you want specialized service, you go to a specialist.

EASING FX PAINS AND PREVENTING FRAUD

When it comes to B2B payments, doing business in more countries means contending with an equal amount of foreign currencies.

That's a problem that compounds quickly for travel services providers doing business in a wide range of jurisdictions and with various vendors. While luxury and full-service airlines typically process payments in the currency accepted wherever the ticket was sold, budget airlines often process them in that accepted wherever the flight departs, creating problems for travel service providers like the Etraveli Group.

"One of the things we see in the travel industry, which impacts us quite significantly, is foreign exchange fees and processes," said Andreas Pousette, director of financial IT for Etraveli. "When selling to both full-service and low-cost carriers, we're now seeing a trend where we're being charged in many different currencies, and foreign exchange has a big impact."

Etraveli is now turning to payment solutions players to "co-innovate" and tackle this issue, he added. This will help to boost foreign exchange (FX) efficiency while also providing a solution that can withstand shifts in payment method acceptance standards.

FIGHTING FRAUDSTERS

Eliminating inefficiencies and unnecessary FX fees aren't the only hurdles companies like Etraveli need to clear, Pousette noted. Consumer payments have their own sets of problems, most notably what happens when the customers making those payments aren't who they claim to be.

According to research from the European Union's Europol law enforcement agency, the airline industry loses nearly $1.3 billion annually as a result of online card-not-present (CNP) fraud alone. Part of the reason for this cybercrime push is the wide range of rules and regulations, with which it can be difficult for travel companies to comply.

What's more, fraudsters are becoming more sophisticated and adept at hiding their identities from security teams and law enforcement, Pousette added.

"On the consumer payment side, I'd say that fraud is the biggest trend," he said. "We've seen that some of these fraud groups are very good at hiding themselves, coming from different countries and markets and finding new ways to commit fraud."

Etraveli is collaborating with industry partners and security providers to combat this reality. The goal is to combine fraud-fighting efforts with Etraveli's customer data to better detect fraudulent purchases before they happen.

These partnerships will likely be important going forward, too — not just when it comes to dealing with FX fees or cybercrime, but in all aspects of the travel payments space. After all, the world keeps getting smaller, and, as it does, travel companies like Etraveli will be forced to eradicate inefficiencies, fight fraud and, ultimately, find success.

CONCLUSION

The travel industry serves customers from around the globe and encompasses large, complex payments systems, meaning the exchange of money is not always simple. Behind each credit card swipe and mobile payment lies an intricate framework ensuring not only the successful transfer of funds, but also the security of its owner's personal and financial information — and travel companies are tasked with paying for all of it.

It is no surprise that some segments have been resistant to changing the deeply entrenched payments systems they have in place. Doing so is costly, after all, both in terms of time and financial investments. However, those that resist the changing tides of consumer demands for more seamless, convenient payments options are liable to lose the very customers that their vast, data-secure payments structures are designed to serve.

It is for this reason that an increasing number of travel companies of all sizes, from airlines to online travel agencies, are gearing up to invest in payments innovations — albeit to varying degrees, and with a wide range of strategies. Some will decide they are best left to internally deal with these innovations, and others will choose to enlist the assistance of outside specialists.

One thing is clear, though: Travel companies must invest in improving their payments structures if they want to maintain a competitive edge. Whether they enlist outside talent or develop structures on their own, all signs point to innovation.

about

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