

THE BUSINESS OF TRAVEL PACKAGING — WHAT OPPORTUNITIES DOES IT REPRESENT FOR MY BUSINESS?

CHAPTER 1

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WHAT IS TRAVEL PACKAGING AND WHY IS IT IMPORTANT FOR MY BUSINESS?

Travel packaging is the process of combining multiple travel products, services and experiences into a complete product that is sold to consumers in the marketplace. By combining multiple elements together, you create a unique intrinsic value for your customers. The actual business value of the package depends on a number of factors such as the consumer's needs, the packaging partners' goals and/or the economic conditions of the marketplace. Any of these factors may drive the development of travel packages.

CONSUMERS

Many consumers look at packaged travel value relative to the price they pay. By combining multiple elements into one ready-made package, there is an expectation that the price of components together will be less than the total of the individual parts. Logical thinking consumers might ask: Why else would I buy the package if the individual features taken together add up to the same price or more? However, you will discover that there are additional reasons for buyer motivation other than price.

The buying behavior of today's travel customers is also influenced by forces that affect their busy, nonstop, "fast forward" lives. These forces, which will be discussed later in this chapter, when addressed in developing packages, create tremendous consumer value.

PACKAGING PARTNERS

Fulfilling the goals of a group of packaging partners may be the reason a package is developed. For example, a seasonal lodging property may be looking to boost midweek leisure business in the Spring and Fall seasons. Weekends are strong during these seasons, but the property needs help midweek. The property or group of partners might take the initiative to create attractive value by packaging their lodging with other products and services. This could be accomplished by establishing rates that are not available during weekends, combined with other valuable features, thus creating a tangible price benefit to consumers.

Similarly, a group of package partners might decide to work together to generate new package products to be offered to consumers by their companies. Taken together, these partners could create unique and different offerings for potential customers.

ECONOMIC CONDITIONS AND NEW PRODUCT DEVELOPMENT

Economic marketplace conditions may drive the creation of packaged travel products. In the economic downturn of 2000 and 2001, business travel began to decline. Travel was even more severely impacted with the tragic events of September 11, 2001. As a result, the travel marketplace was at a complete



standstill. Airline traffic plunged, hotel occupancy declined, and rental car sales were at a standstill. Nobody was moving.

During Q4 of 2001 and Q1 of 2002, the U.S. general public experienced the biggest travel “fire sale” ever imagined. Products and packages were put on the market at never-before-seen rates. Travel suppliers had to motivate people to travel. They were willing to do almost anything through “pulling the price lever” to make this happen.

The impact was direct, and results were immediate. As a general rule, packaging by solely pulling the price lever does little to maintain product price and brand integrity in the marketplace for the long run. Rather, using economic conditions as a gauge, travel suppliers can package products for various market segments. Developed packages may appeal to a wide variety of travelers or niche group of customers.

Travel packaging may also create unique new products when combining valuable elements or interesting product partners. For example, a hotel may sell rooms to customers from their longstanding market segments. However, when rooms are combined with attractions and meals, the same hotel now has a completely different product offering that may appeal in a new way to that existing market segment.

Likewise, new travel packages may open up a new distribution channel or client segments not served by existing products or services. For example, a corporate hotel may try to generate leisure weekend business with a family package. This may open up a lucrative new market for the hotel and fill need periods.

The philosophy of travel packaging is to combine all the various travel elements into a cohesive product that provides business value to all the partners while still protecting their current business and pricing. One all-inclusive price for the package means it is not possible for consumers to discover the price of any individual or combination of components.

Packaging has a synergetic effect. When your products are combined with other partners’, you benefit from the partners’ brand equity. You become known in the marketplace by the company you keep. Your co-branded package partners are now an extension of your sales and marketing force. Instead of merely working to sell your products and services, you and your package partners create brand synergy and added sales opportunity in the marketplace.

WHAT IS THE ECONOMIC IMPACT OF THE TOURISM INDUSTRY?

According to TIA, the Travel Industry of America (the leading private coalition of the United States travel industry), the following data provides the most recent overview of the economic impact of travel and tourism:



- The U.S. travel industry received more than \$554.5 billion from domestic and international travelers (this excludes international passenger fares). These travel expenditures directly generated more than 7.2 million U.S. jobs. The employment figures generated \$158 million in payroll income as well as \$94.7 billion in tax revenue for federal, state and local governments.
- Domestic visitor expenditures were \$490 billion, while international inbound travelers spent \$64.5 billion in the U.S. As a result, a trade surplus of \$2.5 billion was generated.

The table at the right provides a snapshot of the economic impact generated by the travel expenditures in the U.S.

Much to the surprise of people both in and outside the travel industry, the impact of travel and tourism on the U.S. economy is huge. The above figures account for a substantial contribution to the overall economy and a realization that tourism is serious business.

ECONOMIC IMPACT OF TRAVEL IN THE U.S. 2003 (P)	
(Including both U.S. Resident and International Travel)	
Travel Expenditures*	\$554.5 billion
Travel-Generated Payroll	\$158.4 billion
Travel-Generated Employment	7.2 million jobs
Travel-Generated Tax Revenue	\$94.7 billion
Trade Surplus	\$2.5 billion

Source: Travel Industry Association of America, Bureau of Economic Analysis/U.S. Dept. of Commerce

*Includes spending by domestic and international travelers in the U.S. on travel-related expenses (e.g., transportation, lodging, meals, entertainment & recreation, and incidental items)

P = preliminary

WHAT IS THE ECONOMIC IMPACT OF PACKAGED TRAVEL?

In 2001, the National Tour Association, a leading travel industry association for Tour Operators, Motorcoach Companies and Receptive Operators, conducted The Packaged Travel in North America Study. It outlined the impact of packaged travel. NTA polled its 600 members throughout North America to develop a snapshot of the packaged travel industry. This was the first time a national industry group tried to measure the impact of the packaged travel segment of the Industry. (See the Executive Summary from the NTA Package Travel Study in the sidebar.)

Each of the following summary areas from the NTA Packaged Travel Study provides insights and measurements regarding the packaged travel market. When comparing the packaged travel market figures to the overall TIA domestic travel industry figures, you will note that it is a respectable chunk of the entire travel market. Due to a number of demographic and psychographic forces to be further discussed, it will continue to grow.



EXECUTIVE SUMMARY — PACKAGE TRAVEL STUDY

ECONOMIC IMPACTS

- American and Canadian packaged travelers spent about \$166 billion for overnight travel to destinations worldwide in 2001.
- In 2001, North American packaged travelers spent \$99 billion on trips to destinations within the United States, \$13 billion for travel to destinations in Mexico, and \$9.5 billion for travel to destinations in Canada.
- An additional \$45 billion in expenditures was made for trips to destinations outside North America including Europe, the Caribbean and Asia.
- The expenditures made by packaged travelers for trips in the U.S. directly supported more than 1 million jobs (both full- and part-time) in the Travel Industry, with total earnings (wages, benefits, and proprietor income) of just over \$21 billion.
- The expenditures made by packaged travelers for trips in Canada directly supported 174,000 jobs (both full- and part-time) in the Travel Industry, with total earnings (wages, benefits and proprietor income) of over \$3 billion.

PACKAGE TRAVEL MARKET

- A packaged trip was defined as “a prearranged, prepaid trip arranged by a travel professional, which included at least two travel elements and that can be purchased for group or independent travel.”
- Residents of the U.S. and Canada took 129 million packaged overnight trips to domestic and international destinations in 2001.
- Packaged travel was more developed in Canada than in the U.S., accounting for 12% of the overall Canadian market and about 8% of the overall U.S. market in 2001.
- Touring, Casino, Cruise, Beach and Theme Park trips were the largest and/or the most developed trip types for packaged travel in 2001.

TYPES OF PACKAGED TRAVEL

- Both independent and group packages were substantial market segments in 2001, accounting for 56% and 44% of the packaged travel market.
- A package was designated to be a group package when the traveler reported that his or her immediate travel party (which included the traveler and any immediate travel companions with whom at least some of the travel expenses were shared) traveled as part of a larger group.



- Most groups in 2001 did not have prior affiliation (17% of the 44%). Those that did have prior affiliation were typically with a club or church.

PACKAGED TRAVEL COMPONENTS

- Most packaged trips included both accommodations and transportation and at least some meals were generally covered.
- Other elements — especially guide services — were more likely to be included on group packaged trips.
- Packaged trips typically included round-trip transportation between a central point of departure and the trip destination.
- The types of accommodations used on packaged trips were generally higher-end than the overall travel market.

TRIP LENGTH

- In 2001, packaged trips lasted significantly longer than the typical U.S. trip — 6.3 nights compared to 5 for the U.S. norm.
- International packaged trips were significantly longer than domestic trips (8.6 versus 5.2 nights).
- Group and independent packaged trips were identical in length in 2001 (6.3 nights).

PACKAGED TRIP DESTINATIONS – U.S. PACKAGED TRAVELERS

- Destinations for packaged trips taken by U.S. travelers differ markedly by type of trip. Cruises were mostly international; beach and touring trips were split between international and U.S.; and all other trip types were mostly to U.S. destinations.
- Also similar was packaged travel's prevalence on international trips — packaged trips accounted for 30% of all international trips and 7% of all U.S. trips taken by American adults.
- Florida (12%), Nevada (11%) and California (7%) were the leading United States destinations for packaged trips in 2001.

COST OF PACKAGED TRAVEL

- Overall, the average package costs about \$2,775 per travel party.
- For U.S. travelers, the average package cost in 2001 was \$2,094. Independent packaged trips were slightly less expensive than group trips in 2001 - \$2,721.
- For Canadian travelers, the average package cost was \$2,772 for independent, versus \$2,962 for a group packaged trip.
- International packages cost more than double domestic ones (\$4,183 versus \$2,094), but were longer (8.6 versus 5.2 nights).

Source: © NTA 2001



WHAT IS THE EFFECT OF SHIFTING DEMOGRAPHICS IN THE TRAVEL MARKETPLACE?

Based on consumer trends and shifting demographics, we will continue to see large areas of demand for more travel packages in the independent traveler segment of the market. Today's travelers are healthier, wealthier, wiser and better-traveled than previous generations. In many western countries, travel is part of the lifestyle. In the United States, travel and vacations are a "birthright" — no longer an option.

In addition, the demographic shift caused by the population of "Baby Boomers" is changing travel patterns and lifestyle trends as we have known them. Boomers in the United States total 76 million. These individuals, born between 1946 and 1964, continue to shape the marketplace because of their sheer numbers, and opt strongly for independent travel. Their mantra of "individuality" dictates they want freedom, flexibility, options and the ability to make their own choices. One size does *not* fit all.

Boomers will not see themselves hitting their senior years when they turn 60, even 65. According to a recent survey by the American Association of Retired Persons (AARP), most will continue to work well beyond traditional retirement years. Whether this is due to lack of savings, inheritance or a second family manufactured during a midlife crisis, Boomers continue to buck tradition. They will clearly continue to have an enormous impact on the travel industry.

The following three tables provide snapshots of the demographic changes in U.S. population in four defined age groups by the U.S. Bureau of Census. The first table indicates the population shift by percentage for three different decades.

The second table provides three different five-year increments of population change from the years 2000–2010. Notice the shift in percentages in each of the respective categories and where the greatest shifts and changes are occurring.

ADULT AGE GROUP POPULATION CHANGES (% PERIOD CHANGE)

AGE GROUP	1970-1980	1980-1990	1990-2000
25 – 34	49%	16%	(14)%
35 – 44	11	46	25
45 – 64	6	4	32
65 – 74	24	16	0
Total:	20%	18%	13%

Source: U.S. Bureau of Census, Current Population Report
Travel Industry Indicators 1999



ADULT AGE GROUP POPULATION PROJECTIONS (% PERIOD CHANGE)

Age Group	2000-2005	2005-2010	2000-2010
25 – 34	(2)%	4%	3%
35 – 44	(9)	(9)	(18)
Total:	(6)%	(3)%	(8)%
45 – 64	17%	11%	29%
65 – 74	2	15	16
Total:	14%	12%	26%
Total – All Groups:	3%	5%	8%

Source: U.S. Bureau of Census, Current Population Report
Travel Industry Indicators 1999

POPULATION BY ADULT AGE GROUP PROJECTIONS BY AGE GROUP (MILLIONS)

Year	25 – 34	35 – 44	45 – 64	65 – 74
2000	37.2	46.6	61.0	18.1
2001	36.8	44.4	62.9	18.1
2002	36.5	43.9	65.1	18.1
2003	36.4	43.2	67.1	18.1
2004	36.3	42.7	69.1	18.2
2005	36.3	42.2	71.1	18.4
2006	36.3	41.7	73.0	18.6
2007	36.6	40.9	74.8	19.1
2008	37.1	40.0	76.2	19.9
2009	37.7	39.2	77.6	20.5
2010	38.3	38.5	78.8	21.1

Source: U.S. Bureau of Census, Current Population Report
Travel Industry Indicators 1999

The third table provides the U.S. population projections for the four age categories and shifts that are occurring from the years 2000-2010. As you will notice, the largest category of people is in the 45-64 age group. The numbers in



the table reflect the aging and numbers of the Baby Boomers, who have had significant impact on the country's habits and social agenda throughout each major phase of their life. They will continue to have enormous impact and influence on the travel and tourism industries as well.

In response to the shifting demographics, several traditional national U. S. tour operators have adapted their business models and created independent travel brands for these new customers:

- Brennan Tours in Seattle, Washington (a U. S. operator), created a new Canada a la carte package product. Brennan, with a majority of product in Canada, recognized the trend to offer a more independent vacation product to its customers.
- Collette Tours of Pawtucket, Rhode Island, changed its name to Collette Vacations and has added an independent traveler product line to its programs offering flexible vacation packages.
- Globus Gateway-Cosmos created Monograms, a new independent product worldwide that is hosted, not escorted, by a local guide. Clients travel and stay in one location. While there, they have options to do sightseeing, optional excursions or just relax. Travelers create their own personalized "monogram" vacation.

A recent Travel Monitor survey conducted by Yesawich, Pepperdine, Brown and Russell (YPBR) asked whether people would be willing to pay more for customized travel products. Forty percent of the respondents said they were willing to pay 20% more for packages that were customized for them.

The indicators presented in this chapter support the belief that a vibrant independent travel marketplace will continue to exist. Savvy travel suppliers and marketers need to capitalize on these trends with innovative and compelling package travel products in the foreseeable future. This Power of Travel Packaging Toolkit provides you with the tools and techniques to translate these marketplace trends, your destination's strengths and your organization's tourism assets into compelling travel package products for consumers.

CUSTOMER BUYING CYCLES

When introducing new products, the process needs to coincide, whenever possible, with your customers' buying cycles.

While the trend in the past several years has been for customers to book later and closer to departure, thus shortening the booking window, I believe advance research and information gathering are still taking place behind the scenes for a good percentage of customers. Many travel suppliers have not been proactive enough to get in front of customer buying cycles



Even though clients may not be finalizing their plans and purchase decisions until much closer in, I believe there is lots of pre-planning activity taking place. To capture advance bookings and create customer commitment, you need to be in front of your buyers with compelling packages along with a call to action or special offer in your marketing materials.

Travel packagers need to be in front of buyers with products posted on-line in advance. The following are some suggested seasonal guidelines for posting packages on-line to attract customers.

TIME OF YEAR	PACKAGE POSTING BY
Winter (Q1) (Jan, Feb, Mar)	September 1 (previous year)
Spring (Q2) (Apr, May, Jun)	December 1
Summer (Q3) (Jul, Aug, Sept)	April 1
Fall (Q4) (Oct, Nov, Dec)	June 1

To gain insight into your customer buying cycles, look back at your past reservations and booking activity. Determine if there were patterns or cycles to your customers' behavior. Take some time to assess your findings and gain added insights; you may be able to gauge some new opportunities for introducing new packages to your customers.

Also, when planning for a new year or season, look at a calendar to uncover holidays, civic celebrations and possible vacation patterns of your customers. As mentioned earlier in this Toolkit, the trend in vacations is towards shorter, more frequent getaways. This means that when holidays fall at the beginning, end or middle of a week, some people will take additional time to create mini-getaway vacations.

One trend I have noticed over the past five years is when major holidays, such as July 4, Christmas or New Year's Day, fall midweek, especially on a Wednesday, many people are taking either Monday and Tuesday or Thursday and Friday off to create a mini vacation. There are always the fortunate ones that will take a week or two at a time, but most of us just cannot get away for long periods of time.

Use these annual calendar events as opportunities for adding special packages and creating incremental business.



WHAT ARE MARKETPLACE FORCES AFFECTING CONSUMER BEHAVIOR AND PACKAGE TRAVEL DECISIONS?

In today's marketplace, a number of forces influence consumer behavior. These forces impact the way people buy travel and how suppliers sell travel products and services. As you review these forces, ask yourself how you are affected as a consumer. In addition, look at your current customers and assess the impact that each of these forces is having on their buying behavior.

CONSUMER FORCES

These factors affect consumer behavior and packaged travel decisions:

- TIME POVERTY
- INFORMATION OVERLOAD
- THE STRESS AND PACE OF LIFE
- SIMPLE AND SEAMLESS SOLUTIONS
- THE "FRICTION FACTOR"
- ANTICIPATION OF NEEDS
- CONTROL
- CUSTOMER CONNECTIONS

TIME POVERTY

When asked if they have enough time in the course of their day, week, month or year, most people will respond with a resounding "NO!" Time as a commodity in today's society is more valuable than money. Most of us can make more money, but no one can create more time. This has led to the creation of "time poverty," a term coined by YPBR in Orlando, Florida. Everyone wakes up with a 24-hour day, but most people have too much to do and too little time in which to do it.

Offering packaged travel components in an easy, one-stop shopping model saves people time. This is one of the fundamental reasons for success of travel packaging. Saving people time has incredible value! Save me time, and you will own me as a customer for life.

INFORMATION OVERLOAD

I am not sure if this is a real Internet Web address — *www.howcanipossiblykeepup.com*, but it demonstrates how most people are hard pressed to keep up in today's information-overloaded, knowledge-based society.



The Internet has been both a blessing and a curse. The blessing is that access to information about anything worldwide is plentiful. The curse is the time it takes to process the mountains of information. Go to any of the major search engines and plug in a topic. Thousands of pages will appear. Information and choice abound, but time continues to tick away. Being faced with too many options or choices can stop people dead in their tracks and prevent them from purchasing.

As package providers, you must provide information to your customers in the right levels of detail as they need it. People want decision-making information and product knowledge to facilitate their buying experience. Allow them to access more specific, specialized information as necessary. This may include partner Web sites, destination information and other support material on-line or in print that will enhance and support their decision-making process. Information access when they want it and in the level of detail that is easily understood will produce satisfied customers.

THE STRESS AND PACE OF LIFE

Today, most people are on fast-forward! Everyone is in a rush. Several years ago on a Saturday morning in Boston while buying the morning paper, I noticed a pile of Sunday papers. When I asked the clerk about the papers, dated for the next day, he said, “The *Globe* prints a Saturday edition of the *Sunday Globe*. People do not want to wait till Sunday for the real estate, classifieds and employment sections.” I couldn’t believe it — tomorrow’s news today! He said the *Boston Globe* is not the only major metropolitan newspaper in the country to profitably print a Saturday edition.

The other example that indicates the stress and pace of life occurs in the men’s room in airports. Invariably while traveling the country and changing planes, I am amazed at the number of men answering cell phones and having conversations in the men’s room! It seems that nothing is sacred anymore and people just cannot wait.

Travel packaging removes the stress and reduces the pace of life when planning a vacation. By wrapping up different components in a unique and compelling way, travel packagers help consumers benefit through reduced stress in their lives.

SIMPLE AND SEAMLESS EXPERIENCES

Today consumers want simple and seamless experiences when purchasing goods and services. The ability to go to a superstore grocery chain and make a single stop is invaluable. These stores offer the convenience of a pharmacy, branch of your bank, liquor store, card store, books and best sellers, food items, household goods and typically a cooked food section. Who wants to go home and cook after



all those errands? Customers have made just one stop, completed several of life's necessary activities, and saved time seamlessly.

Cell phone minutes are another indication of customers' desire to embrace simple and seamless product experiences. Cellular plans cater to very different lifestyles and travel patterns of customers. Extra minutes, free nights and weekends, free calls to family and friends, network connections, and the absence of roaming and long distance charges are all examples of service providers catering to the creation of a simple and seamless client experience.

Travel packagers need to embrace this market force to create simple and seamless client experiences. Consumers want to obtain research and information, make a buying decision with details taken care of and emotionally get to their vacation as quickly as possible. Simple solutions that move customers seamlessly through the buying process will be marketplace winners with consumers.

THE "FRICTION FACTOR"

The "Friction Factor" is an important marketplace force key to Dell Computer's success with customers. Michael Dell says he wants his customers to have a frictionless experience when they deal with Dell. The entire Dell process, whether "clicks" (on line shopping or support) or "bricks" (traditional customer contact), is predicated on a frictionless experience. Dell knows that this will create brand loyalty. Brand loyalty will be especially important two to three years down the line when clients need a new computer. Michael Dell knows that customers that have a positive, frictionless experience with Dell will be more inclined to purchase another Dell.

So too, travel suppliers and destination marketing organizations must design frictionless customer experiences to win client business and loyalty. When designing packages, look at the process involved for clients when purchasing your product. Is it frictionless? Travelers today have lots of choice, and the destination marketplace is very competitive. The package travel winners are those who create a frictionless travel package experience for their customers.

ANTICIPATION OF NEEDS

In the '60s and '70s it was enough to *meet* client expectations. In the '80s and '90s most people were happy when companies *beat* their expectations. However, in today's 21st Century marketplace, consumers want you to *anticipate* their expectations. The ability to win customer loyalty and own mindshare depends on understanding consumer anticipation.

EXAMPLE ► Amazon.com provides a customer-centric environment that continually tries to anticipate clients' needs. Putting a book in an Amazon shopping cart prompts a customer with five other selections for consideration. They tell the customer that people like them who bought this particular book



also bought five other books. While I don't know their exact sell-through statistics, I know they get great results from me!

Once the customer has made a purchase, Amazon remembers books, tapes, CDs, etc., and will send periodic permission-based e-mails for new anticipated products to the customer. This is the model travel suppliers need to embrace with packaging. Clients may call for air, rental car, lodging, etc., but what they really want is a *vacation*. Anticipate the needs of your customers and see how these might be incorporated into your product and service offerings. Consider also Web site links to partner, destination information and other services or links to traditional print materials and brochures that could be sent to clients before they ask. Anticipating your customers' needs is one of the most powerful forces you can address with your travel packaging activities. It will allow you to *own* customer mindshare.

CONTROL

With the advent of the Internet and Web site search capabilities, today's consumers are in the driver's seat more than ever. The Web has created a marketplace of transparency that will attempt to commoditize goods and service sold to customers.

With these tools in hand, customers feel their destiny and decision-making powers are within their control. They want options, choice and the ability to make their own buying decisions when they are ready. There is an innate belief that they know what's best for themselves and are in control.

For travel packagers, however, control is more about giving clients decision-making power. By providing options, choice and easy navigation to make a buying decision, travel packagers help consumers to feel empowered and in control of their buying experience. Travel packages may possess a number of standard features along with optional add-ons and upgrade choices. All these features will address your clients' need to feel in control while you lead them to the sale.

CUSTOMER CONNECTIONS

Customer connections are an important force to embrace and incorporate into your package process. Today, consumers roam the marketplace with "emotional bank accounts." The interactions of products and service providers on a daily basis put deposits into or make withdrawals from these figurative accounts. For many people, this happens on an unconscious level and these customer connections are incredibly powerful.

Customer connections help to solidify brand loyalty. They impact buying behavior and most important, they drive consumers to create commercials for specific goods and services.



The essence of these customer commercials is “viral marketing” through word-of-mouth advertising. In the cluttered marketplace, everyone is over-hyping and advertising their goods and services. However, the recommendation of friends, relatives or business associates has significant impact and definitely influences buying decisions.

How often have you been with others and heard someone mention pleasure or dissatisfaction with a product, service or company? As the person recounts an experience (good or bad), other people with experience chime in to play their own “commercials” for the product or service at hand. These commercials played by others impact buying decisions.

Consumer travel decisions are impacted to a great extent by the commercials of past clients who have experienced a destination first-hand. Every deposit into a client’s emotional bank account adds to the quality and frequency of the commercials being played in the marketplace.

