

Frictionless Travel Payments

From complexity to competitive advantage
Updated January 2021

amadeus



How to overcome friction points and avoid customer abandonment to deliver a compelling checkout experience.

This report aims to provide travel retailers with clear insight and practical guidance they need to turn payment complexity into competitive advantage.



This report covers

The importance of payments - and getting it right - for travel consumers

Key friction points that buyers experience when making a purchase

The impact of payment issues on their overall experience

Five key payment challenges facing travel retailers

Top tips to help them mitigate challenges, boost conversion and drive loyalty

Executive summary: Retail payments are changing

The digital economy has transformed the retail payment landscape forever.

The rise of ecommerce has overtaken physical sales in many major markets and set new benchmarks for customer convenience. At the same time, regulations such as the Payment Card Industry Data Security Standard (PCI:DSS), General Data Protection Regulation (GDPR) and The Second Payment Services Directive (PSD2) are forcing infrastructure and process innovation to safeguard consumers and their sensitive data.

At the heart of this transformation is the rapid and continuous change in consumer behavior. Gone are the linear sales journeys of the past; today's consumers expect to move seamlessly across channels, with follow-me services and a frictionless user experience - especially at the checkout where sales are increasingly won or lost.

According to Gartner, worldwide retail tech spending was estimated to increase 3.6% to USD \$203.6 billion in 2019 as merchants implement new systems to deliver smoother, richer, and more secure customer journeys.¹

¹ <https://www.gartner.com/en/newsroom/press-releases/2018-10-29-gartner-says-retailers-are-investing-heavily-in-digital-capabilities-to-meet-customer-expectations>

Preparing payment systems for recovery

As the industry moves towards a gradual recovery from the impact of the pandemic, effectively accepting traveler payments will quickly become a priority.

The travel industry is more global, more intermediated and generally more complex than traditional retail sectors such as fashion, food and lifestyle. This means even more attention is needed to re-imagine new and innovative payment systems that remove friction for travelers and deliver value for the industry.

A recent Amadeus survey of travel retailers² shows that while 82.5% of retailers accept that payments are strategically important to their success, three in four are finding it hard, or very hard, to implement a simple and consistent payment experience across all sales channels.

Friction is driving customer abandonment and loss

The tightening of fraud and security regulations is creating new points of payments friction. In particular, Strong Customer Authentication (SCA) which requires two-factor authentication (an extra layer of security that requires not only a password and username as something they know but also something that the user is or has on them) for any purchase over EUR €30 is set to transform how online purchases are made. For many, it will spell the end of one-click checkouts.

Furthermore, booking and paying for a single trip can create payment friction as consumers make multi-party purchases from multiple suppliers, often across borders. At the same time, the purchase itself is highly emotive. A big family holiday or once-in-a-lifetime trip represents a large investment in terms of time, consideration and cost from the consumer.

The emotive nature of travel payments and the high expectations that go with it means that any failure to meet these expectations is likely to result in customer abandonment and even loss.

Travel payments: from complexity to competitive advantage

To help travel retailers accelerate their payment strategies, they need deep insight into the travel payment landscape, fast-evolving consumer demands, and how these should translate to the checkout experience.

To deliver this insight, Amadeus commissioned an independent survey of 5,665 consumers across 10 globally representative markets.

The research provides clear evidence that payments are influencing the choice of provider and reveals why consumers think that travel retailers could do more. It also identifies where current payment experiences are falling short, especially for important sales segments such as last-minute travelers and millennials.

² <https://amadeus.com/en/insights/research-report/travel-payments-guide-2019>

Introduction: why are travel payments important?

Pandemic accelerates digital transformation of travel payments

According to research with 5,000 consumers conducted in September 2020 the global pandemic has accelerated the shift away from cash to digital payments. In fact, if you consider that cash usage typically declines by 1.4% per annum* (IMF) we've actually seen more than four years of digital transformation of payments in just six months.

Travelers confirmed that concerns over the risks posed by COVID-19 were driving adoption of newer methods of payment like contactless and mobile, with 14% stating they would abandon a purchase completely without access to these low-contact payment methods.

However, the data also suggests this trend could be temporary unless the travel industry can overcome historic problems associated with high and opaque fees when paying for travel. In fact, 55% of respondents agreed they plan to return to cash payments when the risk from COVID-19 has significantly reduced with 'better clarity on charges' and 'cards being too expensive to use abroad' as the most cited reasons.

From a payment perspective, the pandemic has increased the urgency of transformation across the

industry as travel companies prepare for significant competition when the recovery takes flight.

For a generation of high spending frequent travelers, payments is a huge part of the decision-making process.

Our findings make it clear: payments can make or break a travel sale.

A staggering 90% of travelers consider the payment experience to be important to the overall travel experience. Three quarters (74%) of travelers that receive a bad payment experience believe it dramatically reduces the enjoyment of their holiday.

Three quarters (74%) of travelers that receive a bad payment experience believe it dramatically reduces the enjoyment of their holiday.

Whether traveling alone, with family or friends, for a special occasion, to fulfill a dream, to cement relations or explore new experiences - travel is 'emotionally charged'. Choosing and booking a trip carries a huge weight of expectation and excitement but also a corresponding fear of disappointment, of missing out or being let down. And these fears can rise exponentially with the costs involved. For over half of those planning a trip (54%), the biggest worry is hidden costs and extras.

It's no surprise that in this heightened state of anxiety, any stress or friction at the point of purchase can turn them off. In fact, 23% of consumers regularly abandon their travel booking without completing it. That's nearly a quarter of sales that travel retailers are missing out on.

The most common reason customers abandon a sale is unforeseen costs at the checkout (41%). But one in four is also likely to abandon the purchase if they can't use the payment method they want or if there are too many steps required at the checkout.

For time-precious, convenience-led digital-first consumers, fast and convenient payments are even more important.

Travelers are spending less time planning and booking their trips with over half (54%) stating that they now leave it until much closer to the date of travel than they would have three years ago.

With planning windows increasingly squeezed, the pressure to deliver a smooth payment journey has intensified. Indeed, 70% of last-minute bookers agree that a good payment experience would make them select one travel provider over another.

Whether high spending, cost-sensitive or time conscious, it's clear that for all consumers, payments is an important part of their trip and that their checkout experiences have a cumulative impact on their overall satisfaction. The 'right' payment experience can therefore not only help secure a sale for travel businesses but also keep loyal consumers coming back for more.

An aerial photograph of a white speedboat with orange accents on its deck, moving across a deep blue ocean. The boat is leaving a white wake behind it. The image is used as a background for the bottom right section of the page.

Hidden costs and extras concern over half of those planning a trip.

54%

Understanding consumers' payment patterns

Before travel retailers can hope to influence consumers' behavior at the payment stage, they must first know what's happening at the checkout.

From our study, it's clear two patterns are emerging:

1. Travelers use multiple payment methods depending on the nature of what they are buying.
2. The timeframes between booking and traveling are shrinking.

Choices are based on the activity, the channel, the potential risk involved, and in some cases, convenience and what is easily at hand. There are also local preferences that come into play with alternative digital payment methods growing in popularity, such as Sofort in Germany.

When paying for travel, over half of travelers (55%) prefer to use a credit card. It is also the preferred method of payment when paying for accommodation (53%). In some countries, however, local payment platforms are the most popular. In China, for example, a staggering 76% of travelers use Alipay.

The average traveler uses at least four payment methods across their travel journey.



Travelers are delaying booking and payment

Even before the pandemic, three quarters of customers left booking to less than two months before their trip.

Late booking was an existing trend even in 2019 but there is evidence the uncertainty surrounding travel during the pandemic has encouraged even later booking of travel. According to Expedia and ARC data the average US traveler booked flights around 35 days before departure in 2019, but that window has now fallen to 29 days on average, breaching the significant 30 day advance-purchase window for the first time*.

If we consider a possible future state for travel, more akin to years before 2020, we may logically expect digital channels to continue fueling the late

booking trend by allowing travelers to browse websites regularly, so that they can monitor and take advantage of late deals from booking agents, hotels and airlines. According to our research, saving money has always been a primary reason for 23% of late bookers.

In terms of payment choice, last-minute bookers are more value-driven and spontaneous. Over two fifths (42%) will use the payment method that gives them the cheapest price. Only a quarter will use one payment method for all their needs, while 14% just use whatever is at hand.

* <https://www.businesswire.com/news/home/20201116005934/en/Expedia-and-ARC-Release-2021-Travel-Trends-Report>



Since the onset of the pandemic, the average US traveler now books just 29 days before departure

What do travelers look for at the checkout?

What constitutes a positive user experience, and what do travelers really want at the checkout?

Our findings provide deep insight into the consumer mindset and the features that will collectively create a compelling payment experience that delivers conversions.

A smooth 'no surprises' experience

Looking at the entire customer journey, the priorities for improving the payment user experience are:

- ✓ Greater cost transparency (47%)
- ✓ Improved security (41%)
- ✓ Choice of payment options (38%)

These are critically important to all payment offerings, not just for the travel sector. Getting these basics right should be the primary goal of all travel retailers – whether they are selling online, instore or on location.

Frictionless digital platforms

With online bookings on the rise, there is more emphasis on convenience-focused booking services for returning customers.

One-click, self-filling data fields and pre-registration are in demand. And consumers are getting more comfortable with trading their personal data for perceived benefits such as more convenient and faster booking and payment. A significant 44% of consumers prefer a travel website that allows them to save their payment information.

Surprisingly, only a quarter of the global travelers researched would welcome more mobile-friendly services. This may be due to the large spending associated with key aspects of travel – such as accommodation and flights. Consumers are less likely to purchase these on their mobile phones spontaneously. This trend, however, is flipped in some markets where demand for mobile services rises significantly. For instance, in China (42%) and India (39%), mobile is the primary online channel.

Nearly half of consumers prefer a travel website that allows them to save their payment information.

Flexible payment options

Since the onset of the global health crisis we've seen a significant shift towards digital, contactless and mobile payment methods. Globally, 84% of respondents to a survey conducted in September 2020 prefer to pay by contactless, mobile payment or non-cash methods when traveling since COVID-19.

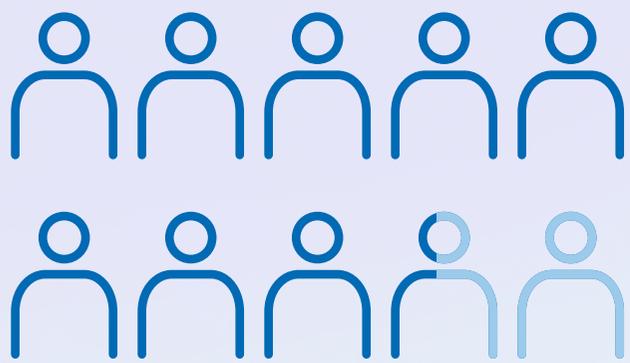
The use of non-cash options when paying for travel has risen across the board, with an 8% increase when paying for food & beverages, and 7% increase for attractions & activities whilst on travels. For cash, we've seen a 6% decrease for people paying for food & beverages, and a 5% decrease for people paying for attractions & activities.

Worthy of note for travel companies is that when contactless payment options are not available, 14% of respondents say they would not make a purchase.

Interestingly, the use of credit options including 'buy now, pay later' has decreased since COVID-19 for most travel payment activities such as paying for hotel and transport for travel. This is perhaps due to uncertainty in the economy, and consumers shift to saving.

Millennials (25-34 year olds) were most likely (27% of this age group) to use 'buy now, pay later' and credit options at check-out to finance a travel purchase compared to just 8% of 55-64 year olds.

When it comes to the type of travel, 22% used 'buy now, pay later' for business in comparison to just 17% for leisure.



During the pandemic, 84% of travelers prefer to pay with non-cash methods. There's been a 6% shift away from cash.

What are the barriers to sales and how can travel retailers overcome them?

Friction point 1

Lack of choice

It's clear that the travel booking journey is no longer linear. It can involve different channels, timeframes and diverse payment choices, including alternative payment methods, payment in installments, subscription and sometimes cryptocurrencies.

The average traveler typically uses more than four payment methods across their travel journey. Sometimes this is driven by preference, but in other instances, it's a precautionary method to avoid being taken by surprise.

A quarter of travelers dislike uncertainty about whether their payment method will be accepted. And, one in four consumers feels irritated if they can't use their chosen method.

Top tip 1

Improve payment choice at the checkout

- ✓ Retailers should audit their payment options regularly and identify the most relevant choices for their target buyers across key markets and different channels.
- ✓ Choose a payment platform that gives you the flexibility to add or remove payment options easily, so you can keep your checkouts relevant and optimized with minimal effort.
- ✓ Include alternative and mobile payment options in countries where acceptance infrastructure supports it, and don't forget to include credit offerings such as pay later or in installments.
- ✓ Often travelers don't carry all their payment options with them. Let them pre-book as many items in advance as possible so they can choose what works best for them.
- ✓ Include loyalty programs that are easy to redeem, especially ones that use tokenization to 'follow' the customer across channels and locations to deliver more personalized options.
- ✓ Contactless payments is now expected at all physical touchpoints, like the airport and hotel. Ensure you can meet traveler demands for low-touch payment.

Friction point 2

Poor transparency

Travelers don't like unpleasant surprises, particularly at the checkout. 42% of travelers state a good payment experience would include transparency of costs. But it seems that hidden costs appear at all stages of the travel journey.

In fact, a lack of transparency was the number one reason that travelers told us they may switch back to cash when the risk from COVID-19 decreases. It's important travel companies reduce hidden fees to lock-in the recent switch to digital payments.

Top tip 2

Boost transparency and avoid hidden costs

- ✓ Travel retailers should spend time analyzing customer journeys and ensuring that ecommerce and mobile sales channels pre-empt the consumers' needs. For instance, show all payment options on the homepage, and ensure all pricing and charges are displayed upfront.
- ✓ For multiple currency purchases, all costs should be included and displayed as a 'total' in the same currency. Dynamic Currency Conversion (DCC) at checkout lets transactions be viewed and made in the customer's local currency.
- ✓ Costs should include all fees at each stage. Don't hide these until the checkout page.
- ✓ Make sure any 'optional' extras are displayed at checkout. Confirm costs and add-ons in the basket and make the 'total' basket clearly visible on every page as the customer browses through their options.

Friction point 3

Security concerns

In an increasingly digital world, data security is one of the biggest concerns for travelers. Many consumers are reluctant to use travel sites they are unfamiliar with or use infrequently. A high proportion is uncomfortable with putting their details on a website (37%).

For all payments - both online and offline - during the travel experience a secure payment is favored over a quick and easy payment; this is more often the case when booking travel or pre-paying hotel rooms.

However, fears are somewhat alleviated if a booking is made with a brand they are familiar with. In this case, as many as 39% are more focused on speed and simplicity.



Top tip 3

Build trust by making security a priority for you and your customers

It's important that payments processes and systems provide users with the confidence they need to proceed with their purchase. Don't sacrifice 'visible' security for 'convenience'.

- ✓ Ensure compliance with PCI, GDPR and PSD2 requirements and use techniques such as end-to-end encryption and tokenization to keep customers safe while improving their user experience.
- ✓ Make it easy to opt in and out of data collection, so your customers can choose what they share.
- ✓ Security and data protection policies need to be easy for customers to find. Any specific security features and logos should be visible to the users (e.g. 3D secure).
- ✓ Where possible offer alternative 'safeguarded' payments e.g. PayPal.
- ✓ Soon retailers will have to adhere to Strong Customer Authentication (SCA) mandate for European transactions across all their digital channels. Talk to your payment provider now to see how you may be affected and find out the options you can offer to minimize potential friction for your customers.

Friction point 4

Addressing airport payments

Looking across the entire end-to-end payment experience from booking to arriving at their destination, travelers found the airport environment one of the most challenging.

For many travelers, the airport experience can be fraught with problems from delays to queues to accessing key services. As such any lapses in the payment experience can be magnified if the traveler is late for their flight or facing delays, for example.

35% of consumers listed “paying for airport excess baggage” as one of the biggest frustrations during their travel experience. Increased pressure for airlines to reduce operating costs and seat prices, mean that additional services like excess baggage are key to protecting margins. So, finding a better way to pay is crucial.

The good news is that many major airlines are already using new payment technology to address this challenge. Mobile payment terminals now allow both airlines and ground handlers to accept payments anywhere in the airport - and integrate them into the Departure Control System, independent of the shared environment. Through this technology, ground handlers and airlines can use a single common payment terminal, helping to improve efficiency and to reduce costs.

In response to the pandemic, airports are rolling out biometric identity at check-in, bag-drop, security and boarding. Contactless payments form an increasingly important component in airport and airline visions for a contactless airport experience.

Top tip 4

Make payments available at the point of purchase, anywhere in the airport

- ✓ Allow mobile payment acceptance in terminals to speed up queues for low-cost extras, and onboard aircraft to make in-flight payments even faster.
- ✓ Make sure you offer pre-book options for common items such as excess and oversize baggage and that all service desks are equipped to accept payment and provide access to on-demand and pre-booked airport services.
- ✓ Allow customers to use 'book-now-pay-later' payment solutions so they can enjoy the experience to the full without having to worry about payment in advance.
- ✓ Offer PayPal as a single-click, secure solution on websites for pre-booking. And allow consumers to pay with contactless, ideally via Alipay, Apple Pay and Google Pay, at the point of sale.

"To bring secure and seamless payment options to our passengers to ease their individual travel experience is a core objective for the Lufthansa Group. Amadeus Airport Pay enables our travelers to choose customized ancillary services for their flight while checking in or at the gate - securely and with a variety of payment options, and without the need for detours."

Kai Schilb - Head of Payment at Lufthansa, Group Hub Airlines

Friction point 5

Last minute frustrations

Many consumers are making travel and accommodation bookings less than 30 days before departure. Most don't plan activities or indeed their location in advance, so are prepared to be spontaneous. As their preferences are not fixed, any unnecessary complexity or friction during planning and booking can cost a sale.

Millennials are twice as likely to book last minute (60%) as those aged 55 and above (33%). Like Gen Z, they are also three times more likely (30%) to ditch their travel basket than travelers over the age of 50.

Top tip 5

Empower last minute buyers (Gen X, Gen Z and Millennials) with faster, more flexible payment options and services

- ✓ Payment platforms and infrastructure must be up to date and able to utilize new technology, including open APIs and cloud infrastructure, to create value-rich, fast and reliable payments.
- ✓ Ensure you can accept mobile payments and look at introducing mobile apps to help target smart-phone natives and encourage more spontaneous purchasing.
- ✓ Look for platforms that help you display different payment options based on the time of travel as well as the demographics of the consumer.
- ✓ Explore how tokenization, data analytics and integrated customer relationship management technologies can help deliver payment services and offers that are personalized to the buyer.
- ✓ Include pay later, in installments and other instant flexible payment options that appeal to cash-strapped younger consumers and that also allows aspirational travelers to upgrade and enhance their holiday packages.
- ✓ Help join the dots and offer end-to-end solutions, ideally from multiple suppliers, that make it ultra-convenient for last minute travelers.

Conclusion

This study set out to better understand travelers' experiences at the point of purchase and identify ways for travel retailers to overcome friction points and avoid customer abandonment by delivering a compelling checkout experience.

We have found that travel payments can be highly complex. Unless choice, transparency and security are addressed, payments are likely to be costly, slow and frustrating, particularly for Millennial and Gen Z travelers.

Payment friction is a potential barrier to sales for travelers

Payment friction is more than a simple inconvenience. If not addressed properly, it is likely to result in lost sales and even lost customers. A poor experience - whether due to transparency, security concerns, inconvenience or lack of choice - can cause potential buyers to walk away.

Travel businesses can do more to make payments easier

- ✓ Irrespective of audience or country, travelers' principal worries are hidden costs and extras when planning a trip, with this also being the main reason that travelers abandon their bookings.
- ✓ Almost half of travelers believe transparency would greatly improve the payment experience across all steps and would even drive them to choose one travel provider over another.
- ✓ Many respondents are apprehensive about saving their details on travel websites, with concerns about the safety of their data. Consumers opt for a secure transaction over a quick and easy transaction regardless of circumstance.

Compelling checkout experiences boost competitive advantage, conversion and loyalty

- ✓ The right payment experience can not only help secure a sale for travel businesses but also keep consumers coming back for more. Consumers that receive a positive payment experience are more likely to refer and recommend that travel retailer to others either in person or via social channels and in reviews.
- ✓ If travel retailers invest in modern payment systems and services as well as work with experienced payment partners, they can create a more convenient, secure and seamless user experience that delivers better, faster and more flexible payment options for customers.
- ✓ From alternative payments, paying in installments and dynamic currency conversion, to one-click and pre-booked options, there's a multitude of payment tools at travel retailers' disposal. This choice aids transparency, facilitates smooth acceptance, and makes life easier for their customers - however and whenever they choose to book.
- ✓ The introduction of SCA means retailers will have to rethink their acceptance processes and seek innovative ways of keeping payments and their authentication frictionless. By doing so, travel retailers can hope to achieve a significant competitive edge.

About Amadeus

Travel powers progress. Amadeus powers travel. Amadeus' solutions connect travelers to the journeys they want through travel agents, search engines, tour operators, airlines, airports, hotels, cars and railways.

We have developed our technology in partnership with the travel industry for over 30 years. We combine a deep understanding of how people travel with the ability to design and deliver the most complex, trusted, critical systems our customers need. We help connect over 1.6 billion people a year to local travel providers in over 190 countries.

We are one company, with 19,000 employees across 70 offices. We have a global mindset and a local presence wherever our customers need us.

Our purpose is to shape the future of travel. We are passionate in our pursuit of better technology that makes better journeys.

Amadeus is an IBEX 35 company, listed on the Spanish Stock Exchange under AMS.MC. The company is also part of the EuroStoxx50 and has been recognized by the Dow Jones Sustainability Index for the last eight years.

Methodology

This survey was conducted by independent research agency Sapio Research in 2019. The online survey was completed by 5,665 leisure travelers from the US, UK, France, Italy, Germany, Spain, China, India, Japan, Brazil and Mexico. To qualify for the survey, participants must have traveled in the last two years and be over the age of 18 to access payment services.

To discover how Amadeus
can help you enrich the travel
payment experience, visit
amadeus.com/payments