

# Phocuswright Conference

## Company Participants

- Elizabeth Harz, President, Media & CMO
- Oliver Heckmann, VP of Travel
- Rod Cuthbert, CEO
- Unidentified Speaker, Analyst

## Other Participants

- Travis Katz, Analyst, Gogobot

## Presentation

### Unidentified Speaker

From travel search, to ads, to gas, hotel booking, these giant forays into travel have made the power to stoke more industry speculation and trepidation than any other. Please welcome Google's Vice President of Travel, Oliver Heckmann.

### Oliver Heckmann

Hi. everybody. I'm here to talk about what Google is doing in 2016. But to set the stage let's first watch a quick video.

video playing [ph]

Users are on their smartphone all the time, whether they are experiencing those short moments, whether it's the ones that you just saw in the video, or mundane ones, for example, when you are queuing in the supermarket, or during a commercial break on TV, or at home, at dinner, at least when my wife is not watching, or even so nobody admits that when people take a bathroom break. So keep this in mind. I want to give you now a preview of what we are doing for 2016.

Let's start just by looking at some actual user behavior. We did a research study with a third-party research agency and an opted-in panel of users who shared their complete Internet behavior with us for the purposes of that study. And in the two-month study, we observed almost 40,000 digital moments like searching, people looking at websites, consuming online video or using apps. What's remarkable is that 87% of those digital moments were actually happening on a mobile device.

Let's zoom in and look at one of the users, Amy, here. We analyzed her moments in a bit more detail. You see some recurring pattern around dating and you see these

short. But intense bursts of activity before Black Friday and before purchasing an HDTV. What's interesting for us here in this room is looking at her travel behavior and Amy was actually researching a trip to Disney World. And what's very remarkable here is that this is very clearly a high consideration activity for her. She had actually started researching this trip before the study began and two months of study, 419 different digital moments of her trying to plan this trip and she was not finished by the time the study ended two months later. And the behavior that we are seeing here with Amy is a behavior that we see generally happen across the whole Internet.

We just publicly released numbers last month. In October, Google's mobile search traffic across everything globally has surpassed the amount of search traffic that we are seeing on desktop. And if we zoom in and look only at the travel-specific queries on Google, we see a similar pattern. It is still continuing to grow massively fast on mobile with a more than 50% growth of mobile queries on Google in the travel space in the last year.

At the same time as the number of sessions increased, they actually become shorter and shorter. That's why we call them moments. And users are willing to convert on mobile. We have seen an almost doubling of mobile conversion rates in the travel space in the last year. The conversion needs to be frictionless enough for a user to convert on mobile. So what we are seeing is there are more queries and more visits happening on mobile. But they are shorter and users are willing to convert.

So our conclusion is travel planning is increasingly happening on mobile. But it's fractured and split across many more sessions. But shorter ones in different points in time. And we have been saying that for actually quite a long time now at Google. In this new world of mobile traffic and fractured moments, just providing (inaudible) links no longer is going to cut it for our users. Google is becoming a powerful assistant for our users. We have to provide answers to our users at the moment they need them. We need to provide them with the data that they are looking for and then send them to the right partner for the user to convert. And this is the path that we are on and we've made some great progress on that this year. So I am going to talk about that next, give a quick update on flights and hotels. And then I'm going to show you a new product that we have been developing this year.

So let's have a look at Google Flights. First of all, I have to say I love Google Flights. It's an awesome product and I'm not alone in that opinion. We are increasingly getting very, very positive feedback, whether it's from the press or our partners and of course, from our users and even Steve Hafner yesterday mentioned how it is kicking ass. So we are very proud of the product.

What we did this year on Google Flights is we launched a new more beautiful and even faster seamlessly integrated experience in search and we've made a lot of improvements behind the scenes in the back end and we've launched new partners. Furthermore -- and that's for someone coming from Europe, I'm proud of that feature -- we are now also showing you, in the Google Flights search results, trains, at least in those countries where taking a train is a viable alternative to jumping on a plane. And that is saving the user an extra query to find a train connection.

And this is along the same lines of one of the other features that our users love about the product and it's the Tips feature. We've done a lot of improvements in the last year on the Tips feature. What we are doing for Tips in Google Flights search, as the user is searching for a connection, we actually proactively run a number of searches in the background. We check nearby dates automatically. We check alternative airports. We check for you immediately whether an upgrade into business or first class would be quite cheap and if we find anything interesting for you, we proactively show that to the user, saving the user having to do a number of searches looking at the alternative space or looking up some complicated information in a big table, which is not very convenient to do, especially on a mobile phone.

Traffic keeps massively increasing and we are pretty proud of the fact that we have managed to send three times the number of referrals, the number of clicks to our partners in this space. And along similar lines, our hotel product has been continuing to grow. More and more users are using hotel search on Google and, as a result of that, more and more users are seeing the hotel ads that we embed in hotel search.

Similarly as for Flights, we've launched a new beautiful experience that's seamlessly integrated into search and that's making very useful use of Google Maps. Right now, we are working on a number of other features, among them increasing the number of reviews [ph] that are available for hotels. Furthermore, we've grown the number of partners that are using hotel search and we've been talking to many of you partners and we have been listening to your feedback. One of the most requested features in the hotel space has been an alternative pricing model for hotel ads. Traditionally, we run hotel ads using the normal search ad pricing model of CPC. But that's not how many people in the Street are thinking. So we've launched this year for qualified partners a new commission pricing model that can be used as an alternative to CPC.

We've almost quadrupled the number of links, the number of clicks that we are sending to our partners and it's key to our continued success in this space that we are building products that are profitable for our partners. And one of our partners is La Quinta. And as you can see from this quote from Ted, the traffic that we are sending with hotel ads to La Quinta is converting at twice the rate than their other mobile traffic. We've been working with La Quinta for quite a while now on helping them through the shift of user behavior to mobile and it is clearly paying off.

This year, you will probably also have seen us talk more about Google Book -- Book on Google for flights and hotels and I know that some of you are asking themselves is Google slowly becoming an OTA. And as the person who is responsible for the product strategy of Google in travel, I can tell you this is not the case. We are not becoming an OTA.

As you have seen earlier, we are closely analyzing user behavior and in this new world of mobile and short fractured moments, every piece of friction in the transaction process is costing people transactions. So we are actually, with Book on Google, collaborating with our partners to make this conversion process as smooth as possible with the goal of driving conversion rates up.

It works the following way. A user searches for a flight or a hotel on Google and when he has selected his flight, instead of sending the user off to a third-party website, we are actually sending the user to a page that is hosted by Google. So it's in the Google domain. But it is partner-branded. It will say purchase this flight from Lufthansa. For many users, this is very convenient because we are in the Google domain. You are probably already locked into your Google account because you just searched on Google and we can access the address information that the user has and the credit card information they might have on file because they are regularly making purchases in the place, or for other reasons. And so it's much as likely that the user has to go through a sign-up or login or even worse, password recovery process on a third-party website.

Behind the scenes what we are doing is we are passing on the user information and the credit card information via APIs directly to our partner and the partner is the merchant of record. The partner owns the customer relationship and the partner is the one who is sending their own confirmation email to the user and who are then directly also handling all follow-up questions, post-booking questions and so on. So the partner is in full ownership of the traveler relationship.

This is an optional feature. It's available both for flights and for hotels. It helps converting users, especially in these short moments, on mobile. I should also mention that Book on Google for hotels is not coupled to using commission pricing. These are two independent features. You can use one, you can use both, or you can use none of them. We have been seeing great success here and as a result, with a number of partners both on flights and hotels and as a result of that success, you might have seen Lufthansa's press announcement from two weeks ago. Lufthansa is now working with us with Book on Google. We've done this integration with them leveraging the fantastic services offered by peakwork and we are looking forward to integrating many more partners in the flights and hotel space.

So now I announced earlier that I am going to show you a new product. Let me set the stage for that first. So as you all know, travel planning is so much more than just finding a flight or a hotel. It's a long process as we have seen. It can take multiple months. It can be quite cumbersome and we see that especially early on in the travel process, many of our users have a lot of flexibility around the destination. But also around the different dates that they could travel. Our goal with this product that you are going to see in a second is to make the logistics of planning simpler so that people can spend more time in the early phases dreaming about the destination.

So let me invite Derek Coatney, Google Product Manager, to the stage. He is bringing his phone because we are doing a live demo. We launched this product that you are going to see first in October this year. So it is fresh out and it's available in English only right now. And let's have a look.

So since my wife and I moved to the US a few months ago, my wife keeps mentioning that she is missing Europe. So I'm thinking maybe I should just, as a gift, invite her to a trip to Europe. So let's explore Europe vacations on Google search. First thing is -- that's the risk of a live demo. Also shows that it's hard to type on a

mobile phone. Let's switch to the slides. That's the risk when you are doing a live demo. So you might actually want to follow the demo on your own phone. The idea is you search for Europe vacations and you see the new destination experience that looks like this in Google search. You have to search in English for now to see this. Sorry for the hiccup.

So I'm exploring Europe vacations in Google search, getting this and the first thing I do is I -- my wife is an architect. So to have a successful vacation, I want to look at sites, at destinations that are known for their architecture. That's a pretty easy bet to win with my wife. So let's do that. Florence intrigues me. Let me have a closer look at that. I can use beautiful imagery to get a feeling for the place. I can read through editorial descriptions to understand this a bit better. I can browse and swipe through the top sites in Florence to get a bit of a feeling what we would be ending up doing there. I get quick logistical information informing me about the expected costs of traveling there. I can see where Florence actually is in Italy, important for people from the US. And I'm getting weather information for example to see whether weather is actually going to be good enough early next year.

There is also something that you see that's the popularity data there. What we've done here is we've actually analyzed real user behavior, real traveler behavior, leveraging Google location history and we are computing a signal of how popular is this destination through the course of the year.

Furthermore, we want people to dream about the destination, get a feeling for it so the beautiful images -- beautiful videos here that you can watch in line [ph]. And actually if you are doing this later on your phone, this video here, the New York Times video, is really amazing. Anyhow, at the bottom, I can click through and explore other similar destinations and continue dreaming about the different Europe destinations that we want to go through. So this is live on Google even though it just didn't work on our phone. This is live on Google. We just launched this fresh about a month ago.

What we are going to do next is we are going to show you where we are taking this product. So you are seeing a preview of this now. So this is a demo; this is not live. The first thing you notice is that we have added, or we will be adding price information to this product. You will be seeing flight and hotel prices here. We are also recommending you a time period where it is particularly cheap to travel to this destination and that's because many people are actually flexible with their dates.

When I talk about prices here, it's important to clarify we are actually exposing fresh and bookable prices here. So we are using, actually at the time the user is querying, we are looking at all the actually available flights and hotels using the Google speed and accuracy. And this allows us to build some really powerful filters that support the flexibility that we see that people typically have if they are leisure travelers in the early phases of their travel planning.

So let's assume I want to go on that trip with my wife and I want to go sometime in January. Like many people, I'm actually pretty flexible on when to take that week of vacation off. Traditionally, I would have to do a lot of different searches throughout the different possible one-week intervals in January where I could actually go and that's a lot of work and bad user experience, even more so if you are trying to do that from your mobile phone.

So what we do instead is the following. We actually look through all the Europe destinations and for each destination, we look up all the sliding window of seven days -- if I want to travel for seven days -- of date combinations in January and for each of those combinations, we look up actually what's a cheap flight and a hotel available for that date. We do that for all the destinations; we add this up in each destination. We figure out what's the best, meaning the cheapest, week to go to that destination. We expose that. We rank all the destinations and we do all of that at sub-second speed. So here you are seeing that and you will actually notice that we are recommending if you go to Barcelona a different week than Munich in this case.

So as many travelers, I'm a bit budget-constrained. So I want to go with my wife. So it's two of us and let's not spend more than \$2,500 and you see immediately the results are updating. Munich dropped out; it's too expensive to go there. What I can do now is I can look at Barcelona, Dublin and so on using the same experience that we showed you earlier and inform myself about those destinations. Let's just assume I'm doing that and I settle down on Barcelona. Looks interesting. The weather in Spain in January is good enough for this to be a worthwhile trip. I want to get a bit of a better feeling how does such a trip to Barcelona look like.

I can do that with the Plan a Trip feature that we are launching and if you go there, the first thing you'll notice is the price graph that we are showing. That's showing you the actually available flights and hotel prices that we've pre-computed for you in lightning speed using all the different date combinations in January reaching into February. So that gives you a good trade-off for traveling earlier or later, how much more expensive or cheaper that's going to be.

I can also now explore a couple of options. Let's say this is a present for my wife. So maybe we should use a nonstop flight. Let's do that and a good hotel is probably a good idea too. So let's do four stars or better. And you see immediately all the results are updating and we've looked at four-star hotels that are actually still available to book across all the dates that we are looking at.

Let's also explore, if we would stay a bit longer, how much more expensive that's going to be. Let's look at extending the stay to 10 days. And again, you see the information is updating superfast. If I'm scrolling further down, I get more detailed information about the flights and hotels. We are actually pulling the cheapest and, using our algorithms, the best flight for you. In this example, because we are traveling from here to Barcelona, there is only one nonstop flight, thus we only see one nonstop flight. If we are clicking through, we can seamlessly move over into Google Flight search and in Flight search leverage the full power of this awesome

product to explore the exact flight options that I have. And for hotels, the experience is similar.

So you have seen a preview, an early preview of a new destination experience that we have built in Google that is optimized for those short mobile moments where people are snacking for destination content. We are summarizing logistical information for them and we are especially powerful in helping people explore when they are flexible in the destination that they went to go to or/and when they are flexible in the exact date that they could travel to the destination.

That gets me to the end of my talk. I want to wrap up. Our goal here at Google is to work with you, the travel industry, on providing solutions that connect our users with exactly what they are looking for in these short micro moments. And in many cases this is connecting them to the products and services that you built and the more delightful and the more useful we can make the travel experience for the users, the more we all win in the long run. Thank you for your attention.

## **Unidentified Speaker**

Thank you, Oliver. Let's get our talk-backers up on stage -- Rod Cuthbert, Rome2rio and Elizabeth Harz, ADARA.

## **Questions And Answers**

### **A - Elizabeth Harz {BIO 17292189 <GO>}**

Oliver. Good morning. You talked a bit about pulling together all of these disparate assets that Google has to delight the consumer and in moments leveraging the different tools from hotels to flights to Zagat. Can you talk a bit about the monetization strategy? You touched on the commission model on the hotel front. But as you pull all of these together, talk a little bit about how you work with the conflicting interest sometimes between the media model and more of a commission channel model?

### **A - Oliver Heckmann**

So with the new product, the new destination experience that we showed, this is an early product for us still. So we are still flexible on the exact monetization model for that product. We tend to focus on the user first and worry about monetization second. But it is including flights and hotels and it's actually leveraging the products that we have for flights and hotels. So our existing monetization models for flights and hotels continue to work. But I think it's also obvious if you watch closely that there are new opportunities coming from that product, for example, in the package space. These are early thoughts for us. We want to first get this right for the user and then worry about the monetization. But I think there are exciting opportunities.

### **A - Elizabeth Harz {BIO 17292189 <GO>}**

I imagine with your YouTube and shopping experience coming over to the travel vertical, pulling all these assets together is a big ambition of yours. Can you talk a little bit more about that? Today was a little peek into where you are headed. But there are many assets that you didn't lean into as much in that demo.

**A - Oliver Heckmann**

Yes. So I only mentioned a subset of the things that we are doing given there was limited time and I wanted to have enough time to show you the demo and, as Elizabeth mentioned, I've been moving over to the travel space a year ago and I was working on YouTube before -- something I generally feel, by the way, that we are not fully leveraging -- you guys are not fully leveraging in the travel industry is actually the insane power that YouTube has. The amount of content that is there is actually mind-boggling. Every single hotel that I have stayed since I've moved over and work on travel has actually multiple YouTube videos available and there are surprisingly few ads for hotels shown in the context of these videos. So there are clear opportunities there.

**A - Elizabeth Harz {BIO 17292189 <GO>}**

So as a consumer, I certainly see how my United flight data goes from Google Mail to my calendar and I would just love to get Google's perspective on data strategy -- the collection, ownership, privacy. Many of those questions come up when you experience that kind of data movement.

**A - Oliver Heckmann**

Yes, privacy is actually a topic that's important for us and as you know or might not know, there is something that's called the Google Dashboard that is creating transparency over the data that we have and the different services that Google has to the user. And it's using pretty clear language and it's giving the user full control and ownership of the data. And we feel that that's an important thing to do and as the user is in control and ownership of the data, he is more willing to have that data be used for us to create some delightful experiences. If the user is not opting out of those services, what we can do is we can, from the email receipt in his inbox, for example, that's a new version of Gmail, we can show you your travel information more structured so you don't have to -- you are landing in Paris; you are on roaming; you need to find your hotel and then the faster we can actually get you to that information, the more delightful and the less stressful your travel experience is going to be.

**A - Elizabeth Harz {BIO 17292189 <GO>}**

But as you can imagine, from the supplier side and your partner side, there are some issues that are raised around that. Just thoughts for those in the audience that may think of that more as their data and how that is used on the platform?

**A - Oliver Heckmann**

Yes. What we are doing and I showed this earlier when we said Book on Google, what we want to do here is we might actually share the user information with the supplier so that the supplier has the full information they would get if that user



would go directly to their page. The goal here is really to decrease the friction and offer -- the user will have less friction in the actual purchase process. But he will have the same experience because I'm buying the ticket from Lufthansa and Lufthansa has my email address and I'm getting the same email from Lufthansa that I would be getting if I would go to their page, create an account there, sign up manually on my mobile phone, enter all my address information and so on. That would be more friction. But it will lead to the same outcome.

**A - Elizabeth Harz** {BIO 17292189 <GO>}

I have more questions but, Rod, you can't be quiet this long; you are going to --.

**A - Rod Cuthbert** {BIO 4102280 <GO>}

Right. You mustn't hog the floor. I've been waiting for a long time to get on the couch with you, Oliver. I feel, on behalf of at least a portion of the industry, that we need to talk about our relationship. I think a lot of us felt that we were in a committed, exclusive relationship and now with the stuff that you've been doing with flights and hotels and what we saw today, man, it looks like you are playing the field. I guess a lot of us are thinking how is this relationship going to play out now. Are you going to be the sort of partner -- because we felt we had this great partnership -- are you going to be the sort of partner that is committed to making it work and is open and wants to talk about it and find a way to make it work?

**A - Oliver Heckmann**

That's why I'm here, yes.

**A - Elizabeth Harz** {BIO 17292189 <GO>}

Don't interrupt your partner.

**A - Rod Cuthbert** {BIO 4102280 <GO>}

Okay, that sounds good. Because we wouldn't want you to be the sort of partner that just said, well, that's how it is; deal with it. As Douglas so succinctly put it yesterday in his intro, he said maybe Google is biting the hand that feeds it. Is that a discussion that you have inside Google?

**A - Oliver Heckmann**

First, generally, biting the hand that feeds you is not a good business strategy. And that's not what we are doing. Very clear we are not becoming an OTA. Google has actually been in the travel space since the beginning of Google. From the first day that we launched, users came to Google and asked us questions around traveling. And it's not just flights and hotels. They have all kinds of questions that actually only Google and other search engines are answering them. Are there poisonous animals on Hawaii? Until which months can my pregnant wife still fly?? Are there good hospitals close by? Where can I buy camping equipment after I land in Honolulu? Do I need a visa for entering Russia with a German passport? There are all kinds of questions. (inaudible) travel planning just means looking up a flight and a hotel and clicking on the book links.

**A - Rod Cuthbert** {BIO 4102280 <GO>}

That's all well and good. But the industry that you see here before you and I think Phocuswright really demonstrates what a considerable industry it is and a lot of fun too, the Amadeus party last night, I just want to say well done to the Amadeus team.

**A - Oliver Heckmann**

Actually, on that topic, let me add something. I have worked on YouTube for almost nine years. I've been the creator person there so I've been working with the music industry, with Hollywood and with all the YouTube stars. So I have seen a lot of crazy parties in my past nine years. But I have to say you guys beat the music industry in partying and I didn't expect that.

**A - Elizabeth Harz** {BIO 17292189 <GO>}

Oliver, we have a question from the audience. (multiple speakers).

**A - Rod Cuthbert** {BIO 4102280 <GO>}

What I wanted to say was, it's all very well that you've been answering all those questions. But the industry that you see here before you, a large part of it was built by intermediaries, people like Expedia and Booking.com and TripAdvisor and Viator and Rome2rio and all sorts of other people. They are here today. They have spent an enormous amount of money with you and when we look at the things you are doing, we wonder about our place in your view of the future. It doesn't seem as though we have a place. We see you thinking about you and the consumer and we wonder where we are in that. And it's like a lot of people in the industry see Google as an existential threat, a clear-and-present danger to their business.

**A - Oliver Heckmann**

Yes. We are partnering with all of you. The world is changing and that was the common theme across most of the talks yesterday and the day before. The travel industry -- but the same is true for the broader industry that Google is in -- is in a constant state of change and there is a constant amount of disruption going on. Like a few years ago, who would've thought that Uber would disrupt the transportation business or Airbnb would disrupt the hotel business the way that they have done it. So actually probably the next disruption is someone sitting on that side of the stage.

And for Google as the broader search business that we are in as a tech company, we are living in a world that has these kind of similar disruptions that are affecting us on a day-to-day basis. And user behavior today is different. People have moved to shorter and shorter moments. They are on their mobile phone all the time. They have different expectations on what we need to provide them and if we at Google don't move and provide them the answers as quickly as possible as they are looking for it, then they will stop using Google and they will be using something else. (multiple speakers).

**Q - Travis Katz** {BIO 17459732 <GO>}

I'm Travis Katz from a company called Gogobot and I wanted to talk about the user. So one of the founding principles of Google is put the user first and all else will follow and you talked about your goal with travel is to provide users with exactly what they are looking for in the answers. But one of the core tenets of our economic system is what users really want is choice and what's happening with Google is we are seeing what you're doing is the travel product, which is beautiful by the way -- congratulations on all your work -- you are not giving users anymore choice of where they get those answers from and a lot of people think that you are abusing your monopoly in search to drive your things [ph].

So my question for you is, if the product is so good and if you really are providing users the answers that they are looking for, why are you forcing your results to go first in the search results as opposed to letting the core Google algorithm rank them against other competitive sites?

### **A - Oliver Heckmann**

We are not putting -- I'm not sure if you meant the hotel or the flight product or both of them. We are not putting anything up -- the ranking of our services in Google search is strictly following what's good for the user and we measure all kind of metrics for that. So we are not putting for example the hotel search results first if we are not actually scientifically proving using all kind of metrics that that's the best thing for the user looking at short clicks, long clicks and all kind of other stuff, side-by-side comparisons, panels, retention and all kind of other metrics.

The product is much better. The world has changed. If I am searching for a hotel, to stick with that example, 10 blue links are no longer going to cut it. And now users are also not searching for hotels in New York or in Florida, in Miami. The user is not looking for another place where he can search for hotels. The user is trying to find hotels in Miami and our experience is showing you directly much better than 10 blue links where are on the map are the different hotels; what are the prices? This is fresh information. And by the way. And that product that is on the screen right now, the vast amount of the clicks from that product, it's an organic product. The vast amount of clicks here is still organic, meaning unpaid traffic.

### **A - Unidentified Speaker**

Ladies and gentlemen, Rod Cuthbert, Rome2rio; Elizabeth Harz, ADARA; and Oliver Heckmann, Google.

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