

Travel retailing: the shift to the merchant model that is redefining B2B payments and distribution strategies

WEX is committed to providing exclusive insights and knowledge to our customers. That's why we commissioned proprietary research into the benefits and challenges of indirect distribution models, as the travel value chain rebounds from the impacts of COVID-19 and adapts to changing traveler preferences. Here are six key findings from the research we'd like you to know.



Indirect distribution is a key part of travel distribution.

A significant portion of travel spend globally is booked via travel intermediaries.

The largest travel intermediaries have become so important in the travel distribution ecosystem that, pre-COVID, the top players were each processing in the order of USD100B in total travel volume annually.[†]

Travel agencies deliver value to their supplier partners by extending reach, driving demand, and growing sales. These benefits can be further amplified with fraud reduction and improved payment management when travel agencies use the merchant model.

COVID has caused travel suppliers to re-evaluate the importance of indirect distribution as the travel industry recovers.



Travel agencies operate two distinct business models: merchant model and agency model.

In the 'agency model' the travel agent takes the booking, but does not process the payment from the end traveler.

For hotel bookings, this typically means the end traveler pays the hotel directly on arrival or at check-out. And for airline bookings, the travel agent passes the end traveler's credit card details to the airline.

The 'merchant model' means the travel agent takes the booking and also processes the end traveler's payment, becoming merchant of record on the inbound consumer payment and therefore needing to make separate outbound payments to each supplier in the booking.



Merchant model use has been growing for several years.

Large travel agencies have been progressively increasing their use of the merchant model over the past few years.[^]

Merchant model growth has been fuelled by the benefits it can deliver across the whole value chain.

If anything, COVID has accelerated this trend, given how travel agents have been cited as helping to overcome some of the challenges created by the pandemic.

[†] Pre-pandemic financial reports of leading, listed online travel agencies. [^] Analysis of selected 2017-2021 quarterly financial reports of leading, listed online travel agencies.



Merchant model delivers benefits across the travel value chain.

Travelers can enjoy a seamless online shopping experience, find a greater and more diverse inventory, use a variety of payment options, and easily purchase bundled products when the travel agency uses the merchant model.

The merchant model builds on the core benefits of indirect distribution, such as extended reach, to deliver simpler and safer payment operations, and less fraud for travel suppliers.

Travel agencies can in turn deliver a better booking experience, cross-sell, up-sell, and develop deeper customer relationships compared to the agency model.



Virtual cards (VCNs) are a critical enabler in maximizing the benefits and adoption of merchant model.

An effective B2B (supplier) payments strategy can be as important for travel agencies as their B2C payment strategy, when operating the merchant model.

It is essential that travel agencies have access to B2B payment choice to ensure the benefits also flow through to both travel suppliers and the end traveler.

Having the right B2B payment options enables travel agencies to balance their risks and costs of acting as the merchant of record.

Without such options, those risks and costs impact on both travel suppliers and end travelers.



COVID and subsequent recovery forced a further re-evaluation of business models and payments.

COVID has provided further evidence of the value of indirect distribution and travel retailing via the merchant model for travel agencies, travel suppliers and ultimately end travelers. These include:

- Crisis management and overcoming inherent deficiencies in existing systems and processes.
- Catering for changes in consumer behavior and buying preferences.
- Travel agencies and suppliers working together to navigate the rebound in travel.

Greater awareness of the benefits and trade-offs has increased the number of travel businesses incorporating VCNs into their B2B payment strategies.