



Net Value

Marketing Travel On The Internet

Priceline; bad is good

We ran almost the same headline for our report on Priceline's 2008 results - but this year we have removed the '?'

The bad economic times appear to be good for Priceline and other opaque operations. After all, travel principals desperately want to discount their prices in order to entice what business there is to be had - but not to broadcast those discounts.

Poor results in some recent years led us to question the Priceline business model; it seemed good in theory, but why was Priceline bookings growth (or even fall) unimpressive?

Growth in bookings at Priceline slowed in 2009, see Table 2, but only from those heady figures for 2008. Growth is still rapid for a mature internet company (*and certainly on the basis that 1-internet-year equals 1-dog-year*) and appears to confirm that the business model works, and that bad times can be good for some companies.

In 2009 Priceline's total travel bookings increased 26%, and outside the US (*which Priceline denotes as 'international', forgetting that it is supposed to be an international company, so everything should be 'international'*), 31%. Even Priceline's most-mature sector, air tickets, increased 22% after a stunning 65% in 2008.

Other comments on 2009 results:

- Quarterly patterns have been difficult to analyse. Starting Q4 2008, growth began slowing by a big margin - (only) 23% growth in total bookings, then 11% and 13% in the next two quarters. Yet this could be considered the worst period of the economic crisis. *If Priceline thrives in an economic downturn, then why was there not a substantial boost precisely in these three quarters?*

These results do not support the belief that the opaque business model is best in an economic downturn. But they do not disprove that belief either. It is more likely an indication that Priceline's businessplan is also notably affected by the economic crisis - in other words, growth is slowing, but not tipping into decline.

- Priceline's merchant (negotiated)

Table 1

Priceline results				
Item	2009 number	2009 share,%	2008 share,%	2007 share,%
Gross bookings,US\$m				
Total	9,310	100	100	100
Agency	7,191	77	78	74
Merchant	2,119	23	22	26
US	3,645	39	42	45
Outside US	5,665	61	58	55

Source: company, Travel Business Analyst .

share has increased in the past five years, from 14% to 23%, but may now be reaching a ceiling.

- Growth in air ticket sales is slowing, but at 22% is still twice the average annual growth over most of this decade.

Table 2

Percentage growth at Priceline			
Item	2009	AAGR*,%	2008
Gross bookings,US\$m			
Total	25.8	38	53.2
Agency	25.3	33	60.1
Merchant	27.5	213	33.5
US	18.3	30t	43.0
Outside US	31.2	46t	61.4
Items sold,x1000			
Air tickets	21.8	11	65.3
Roomnights sold	49.2	47	46.9
Rental car days sold	12.4	22	15.8

Notes: *Annual average growth rate, 2002-9.

t2007-9. Source: As Table 1.

- Growth in roomnight sales has been near 50% over most of this decade. In other words, this has remained unchanged in the economic slowdown - which, in turn, indicates that it is air travel that moved most in the economic downturn.

- Car rental sales performed weakly (in relative terms; growth was still 12%). Until now we have assumed

Table 3

Priceline sector sales, x1000			
Item	2009	2008	2002
Air tickets sold	5,909	4,852	2,900
Roomnights sold	60,912	40,814	4,105
Rental car days sold	11,225	9,984	2,828

Source: company.

that this is a travel segment where travellers are ready to bid low and will buy only if the price is half what it was before. Does that slower growth mean our assumption is wrong, or correct but car companies are not lowering their prices enough to attract renters?

- Priceline does not link sector sales (such as number of air tickets sold) to revenue in that sector. So it is not possible to learn pricing trends.

Asean travel online

Aseanta (Asean Tourism Association; a sort-of multi-governmental marketing body for the 10 Asean destinations) has created a new website under a new name, SoutheastAsia.org* (SEA). Currently with 1000 pages, the aim is to increase this to 20,000.

Other elements:

- A booking capability is included on the site, handled by Singapore-based Wego. Revenue earned is split 50/50 between Aseanta and the travel supplier; this is a referral fee, paid whether there is a transaction or not. Sales estimates are not known. Visitation is expected to be at least 1000 monthly - but that would be considered low.

- Travel companies (in Asean only) can get a website for use on the SEA site through Kuala Lumpur-based SOTA (standard online tourism architecture). The work is free, with companies paying for click-through referrals.

- A forum for visitor comments. We presume this will be censored for politically-sensitive comment, and perhaps even negative travel comment deemed unwarranted.

- A competition for travel articles and photographs from the trade and public. Prizes total US\$15,000, with the largest at US\$1750.

- The site will be in English for the first year, then will decide on which languages to add. Target audiences are Australia, Europe, India, and North America.

(*For other marketing and operational analysis of this Aseanta/SEA development, a full report is planned for the Asia Pacific edition of next month's Travel Business Analyst newsletter. Subscribers to any of our newsletters and reports can be sent a copy at no cost.)

An annual subscription to Net Value, costing €100, is delivered via email in PDF format. A small extract from Net Value is normally included in the Asia Pacific and Europe editions of Travel Business Analyst. ISSN-1998-6289.

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