

# Net Value

## Marketing Travel On The Internet



From Travel Business Analyst

### Expedia's first half

All key results for Expedia, the world's largest OTA (online travel agency), show a recovery in the first half of this year. That is when compared with 2009; when compared with earlier years, there is sometimes still a gap.

In addition, Expedia has stopped publicising some measures – notably results by brand (such as Expedia itself, Hotels.com, and Venere). This makes it hard to determine which segment of the internet sales business is stronger.

We assume that one change in reporting – packages-sold – which is no longer separated, indicates that the business sector has failed to warrant a separate designation. Its peak year was 2007, but even then it was less than 1% of Expedia's total revenue. Customers appear not to have taken up the packages offer, once the great hope for OTAs. Is that because of market sentiment, or the online software?

In terms of geography, Expedia now separates only 'domestic' (odd for an international company, but Expedia means 'US') and 'international'. The previous split was slightly-more-helpful – 'North America', 'Europe', and 'others'.

Other findings, see Table 1:

- The number of transactions increased at almost the same pace as in 2008 and 2007. At a time when there was supposed to be economic recovery, albeit weak, this result does not seem encouraging.
- Gross bookings increased strongly, 23%, resulting in growth in our calculation for bookings-per-transaction – but growth of only 8% to US\$407, which is still below the peak US\$462 in 2008.

Does this indicate that during and after the economic slowdown, more people are turning to OTAs, but buying only if they find lower prices? Or there are more lower prices on OTAs, because travel principals are cutting prices, and

they can disguise price-cutting better if they sell through an OTA?

- In 2009, we wondered if the change

fell faster (9%) than agency (7%).

This is probably because Expedia's negotiated rates in this fast-moving market are out-of-sync with the market. Some negotiated rates could be higher than market ones.

- Revenue data is less indicative of market progress because it includes Expedia's market negotiations. Nevertheless, this shows a faster increase outside the US (+18%) than in (+7%).

We also show growth in air tickets and hotel room-nights sold, together with dollar rates for these. See Table 2:

- For air travel, the correlation between tickets sold and air fares was the closest in five years – numbers up 14%, revenue up 13%. However, this indicates that airlines have not been able to increase ticket prices even though the market is recovering – bad news for them, but good news for

travellers.

- For hotels, generally considered to be doing better than airlines, Expedia data indicates the opposite – for three years' running now. In H1 2009, Expedia sold 20% more roomnights, but rates were down 19%. And this year there was 15% growth, but rates were up only 1%. Note, however, that some of this could be related to Expedia's own business activities, and not necessarily to do with market moves.

Table 1

Results at Expedia, first half										
Item	2010	+/-,%	2009	+/-,%	2008	+/-,%	2007	+/-,%	2006	+/-,%
Transactions,mn	33	13.5	29	12.5	26	12.3	23	6.5	21	8.6
Gross bookings,US\$bn	13.3	22.7	10.8	-8.3	11.8	17.7	10.1	10.9	9.1	10.3
US	8.7	17.1	7.5	-7.5	8.1	NA	NA	NA	NA	NA
Non-US	4.6	35.1	3.4	-10.1	3.8	NA	NA	NA	NA	NA
Agency	7.9	28.9	6.2	-7.4	6.7	14.6	5.8	9.1	5.3	11.4
Merchant	5.4	14.7	4.7	-9.5	5.2	22.0	4.2	13.4	3.7	8.9
per transaction,US\$	407	8.1	377	-18.5	462	4.9	441	4.1	424	1.6
Revenue by segment,US\$m										
US	1001	6.6	939	-5.6	995	NA	NA	NA	NA	NA
Non-US	551	18.0	467	-4.3	488	NA	NA	NA	NA	NA

Notes: NA = not available; breakdown in those years was for North America and Europe; see text. Source: company.

in geographical breakdown was to hide a big fall outside the US. Although the US travel economy fell greatly in the economic downturn (10%?), Expedia showed what may have been a relatively-better result in H1 2009 – down 8%. But its non-US bookings were down by a greater 10%. This should not have happened; was the fall in Europe or Asia Pacific?

This year, we have the same geographical question, but this time, where is the growth, as non-US bookings increased 35%? But because of the ups-and-downs for this measure, this year's growth may not necessarily be a trend.

Notable is that the growth in non-US bookings is now more than half US revenue. Yet we regard this as an Expedia weakness; the company has not expanded outside the US as fast as it should have.

- Merchant (ie, negotiated) bookings grew at only half the rate of agency bookings (15% against 29%). That is a similar pattern to 2009 – when merchant

Table 2

First-half results at Expedia, % growth					
Item	2010	2009	2008	2007	2006
<b>Air</b>					
Tickets	14.0	4.5	7.5	9.5	-1.0
Fare	13.0	-17.5	10.0	-1.0	11.0
<b>Hotel</b>					
Roomnights	15.0	19.5	16.0	4.0	NA
Rate	0.5	-18.5	3.0	8.5	NA

Notes: All estimates by TBA from Expedia data. Source: Expedia, Travel Business Analyst.

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