



From Travel Business Analyst

# Net Value

## Marketing Travel On The Internet

### Travelocity buys Zuji

As we predicted in 2005, in January Travelocity bought the 86.4% of Zuji, the Singapore-based online travel agency that it did not already own.

Sellers were Abacus International and AGC Holdings, a consortium of 15 airlines in the region.

Not much new information about secretive Zuji has been revealed as a result of this transaction. Travelocity says Zuji is "the leading" OTA in Asia Pacific, but provides no data on Zuji or others – so this must be unsubstantiated humbug.

The purchase price was believed to be US\$34.6mn – a price that is tiny compared with other recent OTA sales, which include:

- Sabre, which owns Travelocity, paid US\$1bn for UK-based/Europe-operating Lastminute, in 2005.
- Cendant, US\$404mn for UK-based/Europe-operating Ebookers, in 2004.
- Cendant, US\$1.1bn for UK-based/world-operating Gullivers Travel/Octopus Travel, in 2004.
- Cendant, US\$1.25bn for US-based/US-operating Orbitz, in 2004.

A crude calculation based on the cost/revenue of Sabre's purchase of Lastminute indicates Zuji's annual turnover is around US\$76mn. Earlier, we put the Asian OTA's turnover at "probably under US\$100mn".

In some respects, Zuji failed. It has operations in Australia, Hong Kong, Korea (as Nextour), New Zealand, Singapore, and Taiwan (as Zuji Buylow). (The New Zealand site is powered by Zuji, but managed by Gullivers Pacific which now, ironically, is owned by rival Cendant – and something that will likely change quickly.)

But nothing in the markets that have become Travelocity's prime targets - China and India. Observers assume that Travelocity wants to push Zuji\* into those two markets, although this may prove more difficult than Travelocity expects.

(\*A derivation of the Chinese word for 'footprint'.

### Bites

- Travelclick's Emonitor results show electronic roomnights sold in the year through September 2005 increased 5%, revenue 12%, and average room rate 6%, see Table 1.

Average length of stay was 2.19 nights, up from 2.12. Consumer online internet

roomnights increased 2%, ARR was down 1%, but revenue was up 2%.

In market segments (Q3, GDS only), there was no clear pattern change, see Table 2.

Main destination (Q3, GDS and internet) was New York, where average rate increased 16%. Overall, there was only slight growth in sales (compared with usual growth in traditional bookings; but for internet growth standards, this rate of growth was miniscule).

- **Travelocity** was expecting its 2005 revenue growth to be 65% - original expectations were 25-30%. In fact this is

Average room rate in US\$, Jan-Sep 05			
Travel agency		140	(7.5)
Consumer internet		100	(-0.6)
<b>Total</b>		<b>132</b>	<b>(6.3)</b>

Notes/Source: (Growth in brackets), then as Table 1.

Table 1

Roomnight sales*, Jan-Sep 05		
Item	Roomnights mn	Growth %
Travel agency	74	5.5
Consumer internet	18	2.2
<b>Total</b>	<b>92</b>	<b>4.8</b>

Notes: In the US. \*From Amadeus, Galileo, Sabre, and Worldspan GDSs, and hotel bookings made through third-party travel internet websites powered by Pegasus Solutions. Source: Travelclick.

Table 2

ARR in leading destinations, Q3 2005		
Destination	US\$	Growth,%
New York	231	15.8
Los Angeles	139	7.4
San Francisco/area	143	6.1
Washington/area	157	9.6
Chicago	141	9.0
London	227	0.0

Notes/Source: Others were Dallas, Atlanta, Boston, Houston, then as Table 1.

Table 2

ARR in room categories, Q3 2005		
Market	US\$	Growth,%
Luxury	322	5.5
Upscale	162	7.2
Mid-Scale	107	6.2
Economy	78	7.4

Notes/Source: GDS only, then as Table 1.

misleading because the new figures includes Lastminute, which TC's owner Sabre bought in 2005.

Rival Cendant also got its projections wrong – but the wrong way round. It expected international sales to increase 30% in 2005 and another 30% this year. Instead, they remained stuck at US\$1bn.

And they are expected to remain the same again this year. That would be a disaster, but we believe even if troubled, sales of Cendant's new acquisitions such as Ebookers will increase this year – even if profits are still not there.

We presume the no-growth projected is one way to make it more likely that it will better its forecasts this year – and please stock market investors.

- **PhoCusWright** is still looking at the world through US eyes.

It gives Expedia a 50% share of internet travel sales, Cendant with 22.5%, and Travelocity with 21.5%.

That would leave other OTAs (online travel agencies) with just 6% - which we think is an obscene misunderstanding of the world market.

We estimate other OTAs have a 45-55% share of the world market.

- **Amtrak's** internet bookings reached 17,269 in one pre-Thanksgiving day last November.

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For more information, contact Raymonde Perpignani at Travel Business Analyst, TBAoffice@gmail.com

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