



Net Value

Marketing Travel On The Internet

Expedia latest results

• Growth in all operating measures at the Expedia group that we track declined in 2005 – some by a substantial amount.

Growth at the principal brand – Expedia itself – was almost unchanged – 23% in 2005 compared with 25% in 2004, see table. But results at the other brands indicate that the company may need to re-think its business plan.

At Hotels.com, the second-largest brand in the group, growth was 7% in 2005 – a rate that, for an internet company, is almost the same as zero.

And although the percentage growth at the other brands looks an impressive 33%, it is down on 1200% growth in 2004; in dollar terms, that 33% represented US\$400mn.

• Shock for the first quarter this year. Or, rather, the company is shocked – Barry Diller, head of Expedia, “anticipated negative growth in the first half of 2006 [but] our performance this quarter was far below those expectations”.

But results do not seem that bad – from an operating rather than financial viewpoint. Gross bookings increased 14%, even revenue managed 2% growth, although most others fell. And operating profit was down 60%.

The company says it increased costs in some sectors, but revenue did not happen as expected. In fact, it seems that competition was the real reason. Expedia, even if it is the biggest OTA (online travel agency) in the world, has not really faced competition, and seems not to know how

to handle it.

Yet there are actually some encouraging signs in some of the operating data, see table. Non-US bookings continued to increase faster than those in the US (albeit only twice as fast, compared with 3-times faster in 2005, and 4-times in 2004).

Growth rate at Expedia itself was down on the rate achieved in 2005, but Hotels.com grew faster.

Growth in the number of transactions – if there is a figure that is the most important, it is this – was at 12.5%. That is below the 16.2% growth in 2005, and the 27.5% in 2004.

Online majority

PhoCusWright forecasts that online sales will generate more than half of all US travel bookings by 2008, see Table 1. What happens in the US today, seems likely to happen elsewhere in the world tomorrow.

This will include up to an extraordinary

Table 1

Category	2008		2005	
	Online	Offline	Online	Offline
Leisure	64	36	45	55
Un-managed business	82	18	68	32
Managed business	48	52	31	69
Total	60	40	42	58

Source: PhoCusWright.

82% of ‘unmanaged’ (that is, not contracted) business travel. In fact, the share is already well over half, thanks to the online delivery of many capabilities previously reserved for travel agencies to individuals and small businesses.

The total US travel market continues to expand despite the negatives – terrorism/war, global health issues, catastrophic weather events, airline bankruptcies, a waning US political image abroad, visa and passport challenges, and unfavourable

Table 2

US travel booking profile, US\$bn*			
Category	2008	2005	2003
Online			
Leisure	68	40	23
Un-managed business	35	20	15
Corporate	50	25	17
Sub-total	153	85	55
Offline			
Leisure	39	60	65
Un-managed business	7	10	15
Corporate	57	70	60
Sub-total	103	139	140

Notes: *Estimates by Travel Business Analyst on PCW data. Source: PhoCusWright.

currency exchange rate trends.

In 2005, total travel bookings reached US\$224bn, see Table 3, the second year of growth above 7%. This is expected to run at about 5% this year and in 2007, then drop to 4% in 2008.

And annual growth in dollars is expected to fall as well. After adding US\$15bn in 2005, growth is expected to be only US\$11bn this year, then US\$12bn in 2007, and US\$9bn in 2008.

PCW says the two years of 7% growth reflects “renewed corporate confidence in the travel industry, the continuing willingness of consumers to travel, and broader access to content and inventory”. However, growth has also been boosted by higher travel costs, which in turn is largely due to higher fuel prices and city and airport taxes, and increased demand.

At some stage of course, those higher prices will slow growth.

PCW says market expansion is expected to taper off as a result of slower economic growth in general, the possibility of more fuel price hikes, slight declines in the number of travellers, tighter control on corporate travel spend, and security concerns.

Despite this, PCW forecasts that the travel business will grow an average 5% annually to 2008 – which looks on the high side.

Table 3

US travel bookings, US\$bn	
2008	256 (3.6)
2007	247 (4.9)
2006	235 (4.8)
2005	224 (7.2)
2004	209 (7.2)

Notes: (% growth in brackets). Source: PhoCusWright.

Expedia operating profile

Item	Q1 06 growth, %	2005	Growth 2004 %	Growth %
Gross bookings US\$bn				
US	10.2	12.1	15.5	10.5
Outside US	26.4	3.5	50.0	2.3
Expedia	13.2	12.2	23.2	9.9
Hotels.com	20.5	1.9	6.5	1.8
Other brands	9.7	1.5	33.2	1.1
Agency	13.0	9.2	25.0	7.3
Merchant	14.9	6.4	17.3	5.4
Packages revenue, US\$m				
Agency	0.0	472	16.3	406
Merchant	12.5	39	16.2	33
Transactions, mn				
Agency	11.0	35	9.1	32
Merchant				

Source: company.

An annual subscription to Net Value, costing US\$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.

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