From Travel Business Analyst

Net Value

Marketing Travel On The Internet

Expedia's 2008

The Expedia group, the world's leading online travel agency, is no longer an upstart start-up. It is mainstream, and at present, mainstream is down. Most sectors showed growth at Expedia in 2008, but most showed decline in Q4 – a pattern that is expected to spill over into this year.

- **2008**, see Table 1.

Table 1

Gross bookings at Expedia

	2008				2007	2006	2005	2004	2003	
Item,US$mn	No	Gth	AAGR	Sh	Gth	Gth	Gth	Gth	No	Sh
Total	21268	8	17	100	14	10	22	33	9569	100
Expedia	16219	5	15	76	15	12	23	25	7908	83
Hotels.com	2880	10	13	14	16	20	6	13	1576	16
Other brands	2169	35	91	10	30	-11	33	1219	85	1
Agency	12171	8	17	57	13	10	25	30	5637	59
Merchant	9098	9	18	43	21	10	17	38	3932	41
Packages revenue	490	-4	11	2	7	1	16	37	296	3
Transactions,mn	49	2	13	na	17	5	16	27	26	na
per transaction,US$	435	6	4	na	-3	5	5	5	365	na

Notes: AAGR = % annual average growth rate 2003-8, Gth = % growth, Sh = % share. Source: company.

Overall bookings grew 8%, thus an annual average 17% over the past five years. 2008 was the slowest annual growth in that period. The group's Expedia brand suffered most, likely because it is the most mature. Its 5% growth means that it continues to lose share - from 83% of group booking revenue in 2003 to 76% in 2008.

The other well-known brand, *Hotels.com*, has also lost share, from 16% to 14%. This means that the 'other' brands (including Classic Vacations, Egencia, Hotwire, Venere, and China's Elong, see below) increased from 1% to 10%.

The *agency/merchant* breakdown appears steady. The merchant share (meaning negotiated) has moved slightly, but only from 41% to 43%.

Packages revenue, after failing to meet its promise, is now going in reverse – although the idea still seems good. After a 4% fall in 2008, its share has fallen from a start-up 3% to a disappearing 2%.

Transactions – a key figure - increased but only just, by 2%. That is some way below its annual average of 13%. But *bookings per transaction* (which we calculate because OTAs do not think this is an important business indicator) increased at 6% – which is better than the 4% annual average over the past five years.

- **Q4**, see Table 2.

Table 2

Q4 2008 growth at Expedia

Item	Growth,%
Transactions	-17.1
Gross bookings	-11.1
North America	-13.3
Europe	-11.4
Other	4.5
Expedia	-16.2
Hotels.com	-7.8
Other brands	29.0
Agency	-7.7
Merchant	-16.0
Packages revenue	-25.8
Merchant & agency hotel roomnights	9.9

Source: company.

Looking hard for good news and only two show up. First, sales out of North America and Europe still reported an increase. Second, the 'other' brandnames were still reporting an increase, and a sizeable one. If that pattern continues this year, then the 'others' will overtake Hotels.com – a symbolic brand at Expedia.

Expedia now combines merchant and agency hotel roomnights - before they were reported separately. As noted above, the pattern is not changing much. But with a growth in actual roomnights booked – nearly 10% - and a decline in revenue, then room rates seem to be falling. Is this a hotel-business factor (hotels are discounting rates more) or an Expedia one (cutting its margins to hold onto business)?

The rest of Q4 news is bad:

-*Transactions* were down 17%, and *gross bookings* not as much - resulting in a *bookings-per-transaction* increase of 7%. That seems good but in good times, Expedia would want both transactions and BPT to increase.

-Something of a surprise is that *merchant* sales fell twice as fast as agency sales. In theory, merchant rates would be better (ie lower) for the customer. So why would better deals be selling less well?

-Not a surprise – because the figure had already been falling - but *packages revenue* was down a lot, 26%. Although part of the reason for the big fall is that the segment is small, why a faster-fall? Again, in theory a package deal is a better/lower deal, so shouldn't this increase?

Elong's 2008

2008 results of China-based Elong, an Expedia subsidiary, indicate that travel in China is holding out better in the recession than in some other markets. However, Elong is not progressing much as a company; it is a long-way from an Expedia-in-China.

Most of its revenue – currently stuck at 76%, see table – comes from hotel commissions. These grew slower in 2008 than did air commissions, but their size meant the total matched air growth in actual dollars.

Also, although Elong experienced a slowdown in Q4 2008, there was still growth. But in terms of overall corporate revenue, the company was expecting a 4% decline in Q1 of this year.

Elong revenue profile, 2008

Commission	Q4	J-D	
	Growth,%	US$mn*	Growth,%
Hotel	0.8	37.1	5.3
Air	20.9	11.3	34.4
Total	3.2	48.6	9.2

Notes: *Converted at US$1 to Y6.83. Source: company.

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