



# Net Value

## Statistics and Analysis on Travel and the Internet

### Independents to hit back?

The theory goes like this:

Hotel groups have a share of only 30% of all hotels in Europe, and 10% in Asia Pacific, compared with 70% in the US; the others are independent hotels. So in the US the groups may have a reasonable chance of controlling distribution and rates. But in Europe and Asia Pacific, they do not.

So if the big online agencies (such as Cendant and Expedia companies, and Travelocity) manage to get a hold on distribution (of independent hotels) in Europe and Asia Pacific, then they should be in a better position to control rates etc, and thus squeeze out the hotel groups. Or prevent the hotel groups squeezing them out.

And if the online travel agencies then decide to introduce loyalty programs (for their own customers, but then also for independent hotels by default) then they will start to provide all the things that group hotels do. So online agencies would be turning independent hotels into, effectively, what we would call an 'independent chain'.

The theory comes from Pricewaterhouse Coopers (PwC) – *although because we have adapted it, PwC might not recognise all these ideas.*

PwC supports its theory by showing the number of merchant hotels signed up by the leading online agencies, see table.

And offers a one-off example to illustrate the potential power of such 'independent chains'. Cendant's Octopus has 50 hotels available in Berlin, including eight at the (so-called) 5-star level. No chain can match such an inventory.

The 'independent chain' was not a factor when independent hotels really were independent (that is, on their own), but if online agencies are changing that reality, there may be some surprises ahead.

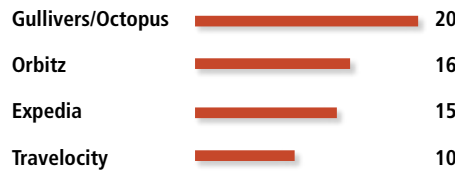
*However, there are still some important spoilers of this theory:*

- *Quality control. Will I get the same service at the 4-star (Expedia) hotel in Shanghai as its 4-star hotel in Paris?*
- *Consistency. I get access to the business lounge at Expedia Shanghai, but not at Expedia Paris.*
- *Customer brand recognition. Is my '5-star' Plaza Palace in Madrid (apologies if there is*

such a hotel) *the same 5-star standard as the Grand Hyatt in Bangkok?*

PwC believes "the brand loyalty that the chains command has overshadowed the ability of independents to compete for the same business". But it thinks that the market that big online travel agencies can provide the independents is beginning to erode that advantage.

### Merchant hotels on online agency sites, x1000



Source: PhoCusWright, Pricewaterhouse Coopers.

Loyalty may be related to awareness and affiliation to the product – or, says PwC, "... it may arise from a lack of easily-available alternatives where the consistency and quality of accommodation can be reliably assured."

With the customer able to make all their travel plans in one place\*, the online travel agency that "provides the right choice, availability, reliability, and quality assurance, seems more likely to retain loyalty... In this scenario, loyalty could shift from the hotel brand to the online travel agency." Sleep with Travelocity.

*(\*A separate matter, but PwC agrees with Travel Business Analyst that the opposite to what the chains say is now happening – preference for their own sites against third-party sites like Expedia – will happen.)*

### Update

The following are comments made during the International Hotel Investment Forum in Berlin in March. Paraphrased comments are from CEOs or department or regional heads.

**City Inn UK:** 13.5-14% of our bookings are on the internet.

**Hilton:** The merchant model is a practical way of distribution to those who want to package something. We won't do merchant rates just for the hotel product.

*Hilton sees online travel agencies as different from regular travel agencies, and says*

*there cannot be an agency rates system for on-line agencies. Presumably Hilton was thinking of the commission model, although it does not have to be that.*

We see a few companies wanting to acquire more companies; they will be big. Corporate and agency rates will become a thing of the past.

We are growing three-times faster through our sites, but with some outlets – Travelocity is one – growth is about 200%. Now 25% of our business comes through an 'electronic pipe' (not just internet); in 2008 it will be 50%.

**InterContinental:** Maybe after 9/11 our hotels in the US needed help to get through those months. Now, sales through intermediaries has decreased, and sales through our own sites will continue to grow fast. The merchant model is still strong, but not naked, more opaque.

**Starwood:** We have found the online companies can bring a new set of customers to us. Growth of sales on our sites is double or triple growth of sales on third-party sites.

**Travelocity:** We are now focussing on Europe and Asia Pacific.

**Travelodge UK:** We are following the booking philosophy of low-fare airlines, so that now 45% of all our business is on the internet.

### Bites

• **On Air** estimates the 'addressable market' for inflight mobile phone calls is over 700mn passengers worldwide by 2009 – once people can use their own phone for calls.

OA is a joint venture between Airbus and Sita formed in February, and which hopes to provide **mobile telephony** on European flights starting 2006. It believes the value for onboard communications will be US\$1.6bn for voice and US\$400mn for data then.

• Germany-based research body IPK says 41% of holiday travel from **Germany** in 2004 involved the internet – 21% for information, and 20% for booking.

• Jupiter Research forecasts US\$62bn online bookings in the **US** this year, but only 10% average annual growth 2005-09.

• **Opodo** has paid US\$78mn (€60mn) to buy France-based tour operator **Karavel**, which also owns online agency **Promovances** (which may have had around 10% of the total of France's top 10).

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