



Net Value

Statistics and Analysis on Travel and the Internet

New world, again

The online world looks set to change again, and again in a big way.

First of the next two stories concerns moves by Travelocity on Lastminute and Zuji. The second on what seems a significant appointment at Thomas Cook.

Travelocity-Lastminute-Zuji

After late-2004 moves by Cendant and Expedia – two of the three biggest OTA (online travel agency) groups in the world – it is the turn of the third, Travelocity. See table.

In January, US-based Travelocity said it would probably take up an option to buy the almost-90% of Singapore-based OTA Zuji that it does not already own. Zuji has OTA sites in six Asia Pacific markets.

The sale would take place January 2006, for US\$34.5mn. The delay is to

Recent developments at Big Three OTAs

Company	Comment
Cendant	Late 2004: buys Orbitz, Ebookers, Gullivers/Octopus.
Expedia	Late 2004: formed out of InterActive. Includes Hotels.com
Travelocity	May 05: agrees to buy Lastminute.com. Jan 06: expected to buy balance of Zuji.

Notes: OTA = online travel agency. Source: Travel Business Analyst.

give time for other owners – 15 mainly Asian airlines – to decide. Given current sentiments for airlines to concentrate on ‘core competencies’ – ie, running airlines, not travel agencies – the sale looks likely to go ahead.

In May, Travelocity’s owner, Sabre, announced plans to spend an impressive US\$1bn on buying Lastminute – despite its name, one of Europe’s top-three OTAs, and the last big independent OTA.

We expect the ‘Lastminute’ name will be replaced by ‘Travelocity’, with ‘Lastminute’ used as a division, perhaps with emphasis on products other than

travel – which actually was LM’s original business plan. Similarly, the ‘Zuji’* name will probably go as well.

Travelocity’s interest in Zuji is certainly linked to the markets of China – which Zuji earlier said it would launch by 2005, but which has still not happened – and India.

Customers are likely to benefit. Big buying power will lower rates that Travelocity companies obtain from airlines, hotels, etc. And Travelocity’s product in the LM and Zuji markets will be better. Most Travelocity’s non-US regional sites look like what they are – US implants – rather than home-grown sites.

But there are other factors, including:

- LM, established in 1998, is not successful in that it is not profitable, even after reaching an impressive £1bn (US\$1.9bn) turnover. LM’s own expansion (buying 14 companies in the past three years) in Europe was not yet successful, even if some – such as Degription in France – had been successful.

Zuji, established only in 2002, publishes no figures, but is probably not profitable either. Its turnover is probably still under US\$100mn.

- Expedia now looks strategically the weakest of the Big Three OTAs. It may need to match Cendant and Travelocity in expanding. In Asia there is no other sizeable OTA. It could expand via its China operation, but this would be slow, and Elong might not be the right vehicle.

In Europe, the only sizeable OTA left is airline-owned Opodo, but it is owned by Amadeus a GDS that is unlikely to let Opodo go, or be a takeover target itself, see next item.

(*A derivation of the Chinese word for ‘footprint’.

New head cook, new recipe?

The appointment of Thomas Holtrop to head Thomas Cook, the 50%-Lufthansa-owned travel agency, could indicate TC’s direction for the future. 50-year-old Holtrop came from Deut-

sche Telekom where he was chairman of T-Online, a leading online portal, 2001-04.

This prompts speculation on whether TC will choose to enter fully into online travel – which would make it the first of Europe’s big tour operator groups to do so.

TC could join the world battle for online agency prominence – against the Big Three US-based leaders (see previous story) and Europe-based Opodo.

But TC could become dominant in dynamic packaging, which is probably a better future than selling the separate parts of travel – air, hotel, etc – that up to now has been the concentration of the Big Three OTAs. Plus, of course, tour packaging is what tour operators do best.

But there is a flaw. Holtrop is due to join TC’s board only this September, and not become CEO until November. This is a long wait in the online world – as Holtrop must know. In theory any Holtrop plans for change might not start to be implemented until early 2006, which may not be in time for selling TC’s summer 2006 program.

Priceline; hotels only?

Trends in sales patterns at Priceline.com are difficult to determine, although roomnight sales have grown faster in the past three Q1s than either air tickets or car rental, see table.

Its car rental strategy, however, looks in disarray – 10% decline, 83% increase, 5% increase.

Likewise, there has been different patterns in segment sales since the equivalent pre-9/11 quarter in 2001. Air ticket sales are down 31% on 2001, but hotel roomnight sales (albeit thanks partly to the acquisition of Active Hotels in 2004) increased almost 500%.

With the dominance of hotel sales, Priceline is becoming an online hotel distributor rather than the opaque online travel agency it once was.

Sales growth* at Priceline in Q1, %

Year	Air	Hotels	Car rental
2005	20.2	52.5	5.3
2004	28.4	35.3	83.0
2003	-44.3	35.7	-10.2

Notes: In US only. *Over year-ago Q. Source: company.