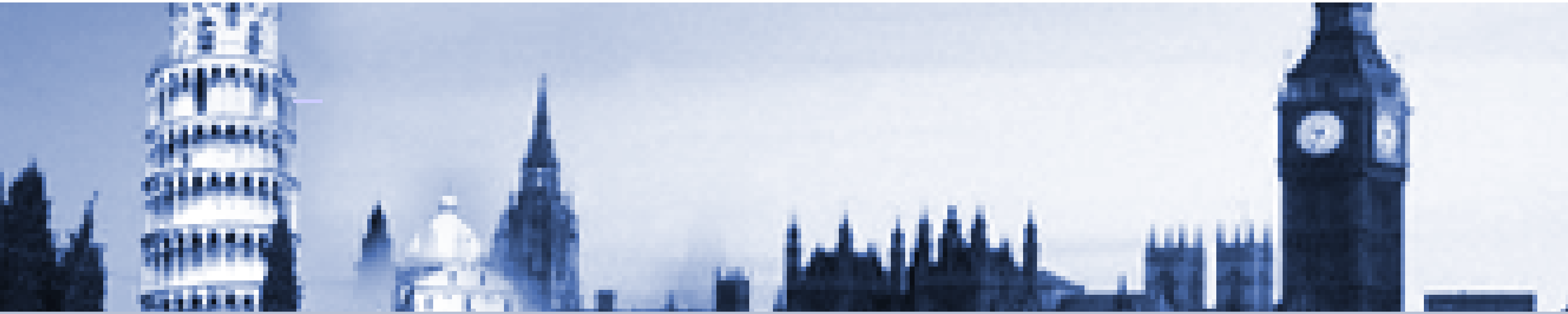
A strategic analysis of the Western European online travel market



June 2006

Table of contents

Table of contents

Acronyms

RMS	Revenue management system
CMS	Channel management system
LCA	Low cost airlines
OTA	Online travel agencies
GDS	Global distribution system
CRS	Central reservation system
CRM	Client relationship management
EM	Email marketing
OM	Online marketing
ACAP	Alternative content access platform

The objectives of the report

The report provides an overview of the online travel market in Western Europe, along with market size estimation and future prospects. It underlines key trends in revenue management, channel management, e-commerce and distribution technologies with respect to different industry segments. The report also highlights opportunities in the Western European travel market for American and Asian travel companies and technology solutions companies providing RMS, CMS, e-commerce and distribution technologies.

Primary and secondary research

Primary data was collected through interviews with 10 suppliers (travel companies) in each segment including airlines, hotels, online travel agencies (OTAs), low cost airlines (LCAs) and tour operators. The short-listed travel companies were categorised as small, medium and large, based on their revenue and overall operations. Primary interviews were focused on understanding their approach towards online booking and identifying their standpoint towards adoption of technology to scale up operations. Secondary research was based on research technologies used by each company in terms of RMS, CRM, email marketing, distribution technologies and channel management systems. Data was collected from hotels, airlines, tour operators and OTAs in Western Europe.

Structure of the report

The report separately groups key analyses and information for each segment. It consolidates the key trends in RMS, CMS, online and offline bookings, e-commerce initiatives and integration with the distribution technologies for each segment. The report provides consolidated and individual market sizes by segment, region and channel.

Market size

The total travel market size has been estimated by analysing growth trends in the international visitors arrivals (IVA) for each region up to the month of December, 2005. The report analyses the offline travel market along with the growing Internet population. Market sizes by segments and their growth trends were taken into consideration. The breakdown for direct and indirect online bookings was estimated on the basis of the secondary research and weighted rankings of the channels in the primary interviews. The same was verified with the overall trends in offline and online bookings and direct and indirect online bookings. These estimates were further verified by totalling the revenues of the top eight suppliers and confirming the same with them. However, no player leads the OTA segment and the total revenues of the eight agencies do not constitute the entire market size, indicating that there are more players in this market. The OTA market has been estimated by evaluating the total number of indirect online bookings, as a majority of these bookings are attributed to OTAs.

Methodology

Opportunity analysis

The report identifies opportunities for travel companies to invest in Western Europe in terms of technology support, increasing distribution power and global brand awareness. It also analyses the possible opportunities for consolidating the Western Europe travel market and highlights opportunities for technology solution providers for RMS, CMS, CRM, e-commerce and distribution systems.

Analysis approach

The report analyses key trends in revenue management systems, channel balance, online and offline bookings, e-commerce and overall travel distribution. It identifies the current status of the implementation of advanced technology solutions by Western Europe travel companies mentioned in this report.

Profiles

The report profiles the top 10 companies by revenues in each segment, along with their technology solution providers in RMS and distribution technologies. The companies are profiled with their operational and financial facts and figures for the year 2004 (2005 for the OTAs for which data was available).

Introduction

In Europe, the Internet is vastly used in the tourism industry and its research. Internet penetration is increasing faster in Western Europe as compared with Central and Eastern Europe. By 2005, the Internet became the preferred mode to obtain travel information in Western Europe. The UK, Germany and France account for more than 50 per cent of the online travel market in Western Europe.

Online bookings are increasing every year for airlines, hotels and OTAs. PhoCusWright estimates that currently one in 10 hotel bookings for larger properties are made online, with these major chains also reporting the highest year-over-year growth of 60–70 per cent. Some small regional chains and independent properties that have successfully embraced the Internet recorded that 15 per cent of their bookings come from online channels. A major proportion of properties in Europe are small, local and independent (and not actively online). PhoCusWright estimates that in 2004, just six per cent of European hotel bookings were made online. Even today, airlines still account for more than 40 per cent of online bookings in Western Europe.

GDSs are increasing their share of online hotel bookings by acquiring distribution and channel management solution providers and targeting their service set to small chains and independent groups. Examples include the Amadeus acquisitions of Optims and a majority stake in Opodo, and Sabre's purchase of SynXis.

Amadeus, whose airline owners recently agreed to sell controlling interests to private equity firms Cinven Group and BC Partners, will still be partially owned by national carriers Iberia Airlines, Air France and Lufthansa (which will collectively retain something close to their pre-transaction stake of 47 per cent). The public-to-private transaction has cleared European regulators and a tender offer is pending.

US-based intermediaries are increasing their presence in Western Europe. US companies are acquiring their European counterparts and increasing their market share in Western Europe. Expedia, Sabre, via Travelocity Europe and its recent acquisition, lastminute.com, and Cendant, through ebookers and Octopus Travel, hold a combined share of nearly 60 per cent of the European online travel agency market.

Dynamic packaging, whereby the consumer combines individual travel components online to create a customised package, is quickly replacing both online and offline purchases of traditional vacation packages. The flexibility, ease and appeal of creating customised, flexible vacations are challenging major tour operators to change the way they do business.

The use of mobile portals, SMS messaging and advanced email marketing campaigns are the emerging e-commerce trends; and suppliers and intermediaries are focusing on these channels for lower cost and wider reach. Travel industry players will have to integrate RM with CRM to increase revenues in a dynamic and competitive marketplace.