

Technology and Independent Distribution in the European Travel Industry



This study has been researched, written, and edited by
Diane Merlino,
Douglas Quinby,
Patricia Rasore,
and Lorraine Sileo,
of PhoCusWright Inc.

It has been commissioned by the European Technology & Travel Services Association (ETTSA).
The authors wish to acknowledge the contribution of ECTAA,
the association grouping the European Travel Agents' and Tour Operators' Associations,
to the research.



Table of contents

01 — Introduction from the Chairman & Secretary General	8
02 — Executive Summary	10
Key Figures	10
03 — Study Background	12
Methodology	13
04 — What Is Travel Distribution?	14
Key Points	14
Introduction	15
Travel Distribution: A Bit of History	16
Direct vs. Intermediated Travel Distribution	17
The Role of Technology	20
The Emergence of Online Travel Sales & OTAs	20
Travel Distribution Chain in Detail: How Flights Are Distributed	23
05 — The European Travel Distribution Value Chain	26
Key Points	26
The Size of the European & Online Travel Industries	27
The Role of the GDSs	29
The Role of Online Travel Agencies	31
GDSs & Online Travel	32
Travel Distribution Dynamics	33
The Economic Impact of Independent Travel Distribution	35
06 — Independent Distribution: Benefits & Challenges	36
Key Points	36
Consumer Benefits	37
Travel Supplier Benefits	39
Travel Agency Benefits	43
Threats to Intermediary Distribution	43
Appendix 01: Glossary	48
Appendix 02: European Travel Market – Detail by Country & Segment	52
Introduction	53
Analysis by Travel Segment	53
Market Analysis: Germany, Poland, and the United Kingdom	55
Appendix 03: Key Segments of Online Travel	58



List of figures

Figure 01	From Supply to Demand – The Travel Distribution Chain	17
Figure 02	The GDSs: Key Facts ¹	18
Figure 03	Worldwide Aggregated Statistics of the GDS Companies in 2008	19
Figure 04	Household Internet Access by Country in Europe, 2007 and 2009	21
Figure 05	European Online Travel Agencies by Home Market, ETTSA Membership, and Estimated Share (%) of All Online Travel Agency Gross Bookings, 2008	22
Figure 06	The Airfare Shopping Process	23
Figure 07	The Airfare Booking and Fulfillment Process	25
Figure 08	European Total and Online Leisure/Unmanaged Business Travel Market and Share, 2006-2011 (€ bn)	27
Figure 09	Western Europe and EU New Entrants ("EU NE 12") Travel Markets and EU NE 12 Share, 2006-2011 (€ bn)	27
Figure 10	Online Penetration of Western and EU NE 12 Travel Markets, 2006-2011 (€ bn)	28
Figure 11	Annual Change for Western and EU NE 12 Total and Online Travel Markets, 2007-2011	28
Figure 12	European Total Travel Market and GDS Share, 2006-2008 (€ bn)	29
Figure 13	Western European and EU NE 12 Travel Markets and GDS Shares, 2006-2008 (€ bn)	29
Figure 14	Total Air Gross Bookings and GDS Shares for Western Europe and EU NE 12, 2006-2008 (€ bn)	30
Figure 15	Total Hotel and Car Rental Gross Bookings and GDS Shares for Western Europe, 2006-2008 (€ bn)	30
Figure 16	Total European Travel Market, Western European OTA Share, and Annual Change, 2006-2011 (€ bn)	31
Figure 17	OTA Gross Bookings for Western Europe and EU NE 12 (€ bn)	31
Figure 18	OTA Penetration of Europe and Key Markets, 2007-2011	32
Figure 19	OTA Gross Bookings and GDS OTA Air Gross Bookings Share for France, Germany, and U.K., 2008 (€m)	32
Figure 20	Gross Bookings for Supplier Websites and OTAs for Western Europe and EU NE 12, 2006-2011 (€ bn)	33
Figure 21	Supplier Website and OTA Share of Online Leisure/Unmanaged Business Travel for Western Europe, 2006 & 2011	34
Figure 22	Supplier Website and OTA Share of Online Leisure/Unmanaged Business Travel for EU NE 12, 2006 & 2011	34
Figure 23	European Traveller Motivations for Using a Particular Website When Purchasing Travel (France, Germany, U.K.)	37
Figure 24	Internet Sites Used in the Shopping Phase of Travel (France, Germany, U.K.)	40
Figure 25	Annual Change in Total Travel Markets and OTAs in Asia Pacific, Europe, and the U.S. in 2009 vs. 2008	40
Figure 26	Average Travel Agency Airfare Difference and Average OTA Fare Sourced via the GDS by Market, 2008	41
Figure 27	Expedia.de and lastminute.com Home Pages with Emphasis on Dynamic Packaging	42
Figure 28	Thomas Cook Home Page with "Tailor-make" Dynamic Packaging Option	42
Figure 29	Optional Services Selection Step in the Flight Booking Process for easyJet and Wizz Air Websites	45
Figure 30	Total Gross Travel Bookings of Major European Markets, 2008 (€ bn)	53
Figure 31	European Travel Market Gross Bookings & Share by Product Segment, 2008 & 2011 (€ bn)	53
Figure 32	Composition of the European Travel Market by Product Segment & Region, 2008 (€ bn)	54
Figure 33	Total Travel Markets of Germany, U.K., and Poland and Online Penetration, 2006-2011 (€ bn)	55
Figure 34	Annual Change of Total Travel Markets of Germany, U.K., and Poland, 2007-2011	56
Figure 35	Total Online Leisure/Unmanaged Business Travel Markets of Germany, U.K., and Poland and OTA Share, 2006-2011 (€ bn)	56
Figure 36	Annual Change in OTA Gross Bookings in Germany, U.K., and Poland, 2007-2011	57
Figure 37	Total Air Gross Bookings and GDS Share for Germany, U.K., and Poland, 2006-2008 (€ bn)	57

01 Intro

"The European Technology & Travel Services Association (ETTSA) brings together the key players in independent travel distribution"



01 — Introduction from the Chairman & Secretary General

Dear Reader,

Independent travel distribution includes sellers and distributors of products from travel suppliers, such as traditional and online travel agencies, travel management companies, global distribution systems, tour operators, and others. Independent travel distribution is a vital element of the travel and tourism industry and brings substantial benefits to millions of consumers – both business and leisure travellers – across the European Union. Independent travel distribution also plays a significant role in promoting tourism, creating high-quality employment, increasing social mobility and cohesion (especially in the newest Member States), enabling rail to take a prominent place in European cross-border transport alongside airlines, and advancing Europe's digital capabilities and footprint. Our industry is therefore supporting and actively contributing to a number of key long-term European Union policy objectives.

The European Technology & Travel Services Association (ETTSA) brings together the key players in independent travel distribution – both the global distribution systems (Amadeus, Sabre, and Travelport) and major online travel agents (Expedia, ebookers, Opodo, lastminute.com, Booking.com, and eDreams). These key players give tens of thousands of travel agents and travel management companies access to a vast range of travel products – flights, rail journeys, hotel rooms, rental cars, cruises, and travel packages – all with one key objective: to provide transparency and choice to consumers across Europe. By bringing these players together, we actively support the entire travel community – not only suppliers, intermediaries, and agents, but also destinations, local economies, and European regions. The first of its kind, this study paints a picture of the size and importance of the independent travel distribution industry in Europe by measuring its contribution to economic growth, social mobility, and employment. It also presents and explains many of the key benefits independent travel distribution brings to suppliers and consumers alike.

Independent travel distribution is an indispensable part of the wider travel and tourism industry in Europe. Our industry provides great benefits to consumers by creating a marketplace where travel and tourism products are displayed in a neutral manner. In this marketplace, online and conventional travel agents are able to continuously compare the offerings of all providers, so that consumers and businesses know at all times exactly what is available and how much it costs. In addition, the reach and sophistication of the global distribution systems and online travel agents give travel professionals and consumers access to very creative and attractive travel packages and an almost endless range of combinations.

Our industry also offers unique value to suppliers. By constantly investing in high-end technology, in our people, and in marketing, the industry provides unmatched market access for travel and tourism providers in a neutral, non-discriminatory, and efficient manner. Typically, close to three quarters of the bookings a European airline receives from outside its home market are made through a global distribution system. This access promotes competition, and particularly helps new entrants and small and medium-sized suppliers. It also provides European travel suppliers with easy, efficient, immediate access to a global market that they could not otherwise reach. Independent travel distribution can and will also play an important role in realizing the full potential of the European rail system, facilitating choice and supporting its competitiveness by offering rail operators the same reach and benefits it offers airlines. This will allow European rail to fully deploy its environmental and societal benefits and support intermodal transportation across Europe. As the recent volcanic ash crisis has shown us, rail will also guarantee that in case of natural disasters or severe travel disruptions, Europe can keep moving. Independent travel distribution is an indispensable tool for making travel and tourism accessible to European citizens and businesses. Without it, a growing, prosperous, and sustainable European transport and travel industry is simply unthinkable.

Tomás Lopez Fernebrand
Chairman



Tom Parker
Secretary General



02 Key Figures

€238 billion / Projected revenue of the European travel industry in 2011

€1.3 trillion, or 10% / Direct and indirect contribution of the European travel industry to the EU's GDP in 2010

€24 billion / Travel sales by online travel agencies (OTAs) in the European Union in 2009

320,000 / Number of professionals employed in the independent travel distribution industry in Europe

20,000 / Direct employment by online travel agencies (OTAs) and global distribution systems (GDSs) in Europe

163,000 / Number of travel agencies worldwide to which global distribution systems (GDSs) distribute travel products

295 million / Number of air, rail, hotel, and rental car transactions processed by the GDSs in Europe in 2008

21% / Percentage of total European travel sales sold through GDSs in 2008

10% / Percentage of total European travel sales sold through OTAs in 2008

02 — Executive Summary

Travel and tourism plays a major role in the European economy, providing direct and indirect contributions totalling €1.3 trillion, or roughly 10%, of the EU's GDP in 2010. The industry provides direct employment to 8.4 million European citizens, representing nearly 4% of EU employment. The European travel industry itself achieved €258 billion in revenues in 2008. The travel economy relies on a sophisticated, efficient, and technology-driven travel distribution ecosystem that ties together travel suppliers, global distribution systems (GDSs), online travel agencies (OTAs), traditional travel agencies, travel management companies (TMCs), and tour operators. This complex network enables suppliers of travel services – airlines, rail operators, hotels, car rental companies, cruise lines, and others – to make available to travellers billions of options, combinations, and prices almost instantaneously. The travel distribution industry enables travellers to efficiently shop and book travel products, complete payment, and manage their travel itineraries.

Independent travel distribution on aggregate accounts for more than 320,000 people in direct employment in Europe and a significant share of the European travel economy. The GDSs accounted for more than one fifth of total European travel sales in 2008, while the OTAs on aggregate represented nearly 10%. The Internet has reshaped travel distribution and consumer shopping and buying behaviour. One third of all travel in Europe will be booked online in 2010, and online travel is growing especially quickly in Central and Eastern Europe. As online travel continues to grow across Europe, so too will its contribution to the economy and employment.

Technologies and services offered by independent travel distribution provide low barriers of entry for all types of suppliers and intermediaries, including small and independent travel agencies, as well as new entrants to the market. This enables suppliers to sell into global markets at a low, variable cost, and allows travel retailers to access and book an expansive array of travel content – thousands of suppliers and billions of potential products and prices – for their customers.

Independent travel distribution provides a marketplace where this expansive array of travel and tourism products is available to travellers transparently. Consumers can shop, compare, and make choices based on their tastes and budgets. The GDSs and OTAs provide a level playing field, where suppliers, including new entrants and small and medium-sized players, can compete fairly and effectively with each other and with larger, more established players. Ongoing technology investments by the independent travel distribution industry have made travel shopping and booking increasingly easy and transparent. One of the key challenges for independent travel distribution remains access to the complete range of fares and services – known in the industry as “full content” – from airlines. While the GDSs have made significant headway in closing content gaps, the goal of full content remains elusive. Travel intermediaries who want to offer the full spectrum of content to their customers must source both GDSs and other channels. There is the threat that airlines will seek ways to restrict their content to intermediaries or increase the cost to independent travel distribution to access such content. This trend could add inefficiency into the distribution chain and increase costs for both intermediaries and the end consumer.

The introduction of airline ancillary services, fare families, and fees has added another dimension to the debate over full content. This change represents a dramatic and sweeping shift in distribution for the airline industry and introduces uncertainty into the outlook for pricing transparency for consumers. As independent travel distribution companies work toward solutions to provide access to this content via travel intermediaries, efficient consumer access to full fare information will become an increasingly important and complex challenge across the EU.

The European Technology and Travel Services Association (ETTSA) commissioned PhoCusWright to undertake this socio-economic study to assess the role and impact of independent travel distribution services and technology across Europe. The influence of GDSs, OTAs, and other intermediaries throughout Europe varies by market. By understanding key trends throughout the region, this paper aims to shed light on the current and future impact of travel distribution and its benefits to Europe's economy. With a focus on GDSs and OTAs, this paper examines marketplace risks and challenges to intermediaries that could change the travel distribution landscape in years to come.

03 Study Background

The European Technology and Travel Services Association (ETTSA) commissioned PhoCusWright to undertake a socio-economic study to assess the role and impact of independent travel distribution services and technology across Europe.

This paper examines the following:

- The size of the European travel industry and its role in the European economy
- Key trends in travel distribution and online travel across Europe
- The position and function of GDSs and OTAs in the travel distribution eco-system
- The role played by the GDSs and OTAs across various segments of the travel industry, such as air, car, hotel, online travel, leisure travel, and corporate travel
- Regional analysis of key travel distribution trends and segments within the European Union
- The impact of the GDSs and OTAs on the European travel marketplace and the benefits for consumers and travel companies



03 — Study Background

Methodology

➤ Research Scope

This study's principal geographic scope is the European Union plus Norway and Switzerland, a total of 29 countries.

For the regional analysis, this study segments Europe into two major regions:

- ➔ **Western Europe:** Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, and the United Kingdom
- ➔ **European Union New Entrants:** Bulgaria, Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, Slovakia, and Slovenia

This paper refers to the latter group as the EU NE 12.

➤ Data Sources

This study derives market size¹ data for Western Europe from *PhoCusWright's U.S. Online Travel Overview Ninth Edition Update: 2009-2010*, *PhoCusWright's European Online Travel Overview Fifth Edition (2009)*, *PhoCusWright's U.S. Corporate Travel Distribution Fourth Edition (2009)*, and other PhoCusWright research. Readers interested in a full discussion of market sizing methodology should consult these reports.

For travel market data on the EU NE 12, this study uses market data from Euromonitor International. Each chart in this study identifies the source of the data.



➤ Market Sizing

PhoCusWright sizes the travel industry by aggregating relevant supplier revenues across the air, lodging, car rental, tour, cruise, and rail industries. Non-travel related revenues such as airline cargo, hotel retail and food and beverage, and cruise line onboard revenues are excluded. Data is sourced through public filings of individual travel suppliers and extensive executive interviews. PhoCusWright also consults a wide range of leading third-party research and data sources to inform and corroborate its own findings. To size the GDS channel within the U.S., European, and global travel industries, Amadeus, Sabre, and Travelport provided PhoCusWright with transaction data and total travel value of those transactions in U.S. dollars from 2006 to 2008 for air, hotel, and car rental bookings. All data presented in this paper regarding GDS channel size reflects the aggregation of this proprietary data from all three major GDS companies. For market size data on the EU NE 12, this study uses data from Euromonitor International, whose market sizing methodology for travel and tourism is comparable to PhoCusWright's. Where significant differences exist, the Euromonitor data is not used. There are some differences and gaps in the data covered:

- ➔ **Tour operators:** PhoCusWright's market sizing for Western Europe includes a category for tour operators and isolates the leisure and package holiday sales of tour operators throughout Europe. Euromonitor International maintains only a "retail travel" category, which includes tour operators, retail travel agencies, and other travel sellers. So, the market sizing data for the EU NE 12 does not include tour operator sales.
- ➔ **Data for Cyprus, Estonia, Latvia, and Malta is limited, especially for the rail segment and online travel agency sales.** Where these segments are addressed for the EU NE 12, the market data will not include these categories for these four countries.

¹ The Role and Impact of Technology and Independent Distribution in the European Travel Industry does not use the term "market size" in any specific technical or legal sense, but rather as a general reference for all sales in a particular sector or industry.

04 — Travel Distribution

Key points

- There are two types of distribution : direct and intermediated. Direct distribution is when suppliers, or owners of the product (airlines, hotels, etc.), sell their products directly to consumers, whether on the phone, in person, or over the Internet. Intermediated distribution involves a third party, such as a travel agency, tour operator, travel management company, or OTA, which sells the travel product to the consumer on behalf of the supplier. Travel agencies, OTAs, and other intermediaries often (although not always) access that supplier content via one of the GDSs.
- The foundations for today's sophisticated travel distribution industry were laid in the 1960s, with the development of the first computerized reservation systems by the airline industry.
- Travel distribution has reinvented itself many times since then, driven largely by both technical and commercial innovations. Technology is now critical to ensuring an efficient independent travel distribution system. GDS technology enables travel agencies and OTAs to offer expansive travel options and competitive prices across thousands of suppliers to a global customer base.
- The last decade has seen explosive growth in online travel sales in Europe, and online is now a predominant form of travel shopping and purchasing. OTAs are investing heavily in bringing travel services to online consumers across Europe, and the EU's clear priority to boost citizens' online access will help this effort.



04 — What Is Travel Distribution?

Introduction

The travel and tourism industry is critical to the global economy. The industry is projected to have a direct and indirect contribution of €4.3 trillion in 2010, accounting for 9.2% of worldwide GDP. The industry holds similar importance in the European Union economy, producing nearly 8.4 million jobs and providing €1.3 trillion in direct and indirect contribution to regional GDP in 2010².

A significant part of travel, as with many industries, is distribution: how suppliers of travel products and services deliver them to their end customers. But distribution in travel is also a distinct industry in its own right, and is highly specialized to meet the unique requirements of travel. For most industries – from automobiles to consumer packaged goods – distribution is about the delivery of physical goods, and extensive transportation networks and storage facilities governed by logistics management processes are needed to ensure efficient distribution.

But travel distribution is different. Rarely do physical goods change hands. It is fundamentally an exchange of information about the promise of a service to be delivered in the future – a flight, an accommodation, an experience to enjoy, an expectation to fulfil. This section endeavours to explain distribution in the travel industry, provide historical context, illuminate the critical role of technology in travel distribution, and identify the types of organizations principally responsible for driving commerce in the world's largest industry.

04 — Travel Distribution: A Bit of History

The seeds of today's electronic travel marketplace were planted more than four decades ago in 1964³, when the Semi-Automated Business Research Environment (SABRE) first came "online." The joint creation of American Airlines and IBM, SABRE was the first of what were to be many airline-owned and -operated computerized reservation systems (CRSs) designed for use in the airlines' own internal reservations centres.

The airlines soon realized that deploying their systems in travel agencies would deliver accurate schedules, fares, availability, and booking capability instantly at the point of sale, thus extending the same CRS efficiencies gained internally to the travel agency distribution channel. Airlines gained desktop influence with their primary distribution channel, and agents gained a powerful new electronic booking tool.

By the mid 1980s, the technology systems powering the early era of electronic travel commerce had evolved from CRSs into larger, more complex companies known as global distribution systems (GDSs). The emergence of electronic data interchange (EDI) standards promoted real-time communications between GDSs and airlines' internal reservation systems, enabling the GDSs to offer content from multiple airlines in a single system. This enabled travel agents to access and compare fares and schedules across multiple suppliers and get near real-time confirmation and availability for seats.

A period of intense growth and transformation ensued. By the late 1990s, four major GDS companies ran the world's five major global travel distribution systems:

- Amadeus was formed through a consortium of major European airlines and System One, the original CRS of Eastern Airlines.
- Galileo evolved from the merger of the Apollo CRS (created by United Airlines) and the Galileo CRS (founded by a competing consortium of European airlines); it is now a part of Travelport.
- Sabre emerged from the original SABRE CRS and other technology divisions within American Airlines.
- Worldspan resulted from the merger of the TWA PARS CRS and the Delta Air Lines DATAS II system; it is now a part of Travelport.

The GDSs expanded significantly beyond their airline founders' original mandate of enabling distribution for their owner airlines. By the 1990s, they provided travel agents with access to content from nearly all major airlines and from other supplier segments including hotels, car rentals, package tours, and cruises. The GDSs defined electronic travel distribution and served as a central nexus of supply (thousands of travel suppliers) and demand (hundreds of thousands of travel agents).

The Internet unleashed a revolution in travel distribution, spawning a period of unrivalled innovation in technology, retailing, and commercial models that continue to transform the travel industry today. New OTAs emerged, such as Expedia, Priceline, Travelocity and TravelWeb, among others, aiming to bring a 24/7/365 electronic travel marketplace to the Internet. Travel suppliers – airlines and hotels in particular – quickly got into the act, recognising both the pending shift in consumer behaviour and the opportunity to interact directly with customers online.

The explosive growth in e-commerce, initially in the U.S. in the second half of the 1990s, quickly caught on in Europe. While U.S.-born OTAs began eyeing international expansion, home-grown start-ups such as lastminute.com and ebookers began to make their mark in the European travel distribution landscape. By 2009, more than one third of all travel sold in Europe was booked online⁴ – quite an achievement for a distribution channel that in Europe is barely 10 years old.

³ McDonald, Michele (May 1, 2004). "Selling Seats," Air Transport World .

⁴ PhoCusWright's European Online Travel Overview Fifth Edition (2009)

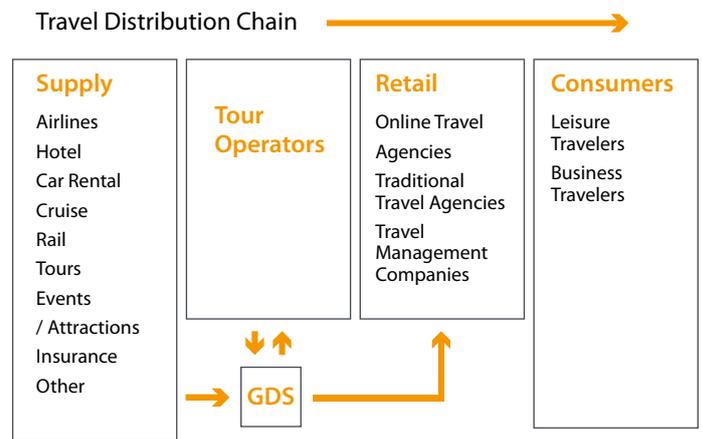
Direct vs. Intermediated Travel Distribution

Travel distribution involves a complex web of relationships; in some segments, multiple levels of intermediaries can sit between travellers and travel suppliers. Travel suppliers are the owner/operators of a travel service – for example, airlines, hotels, cruise lines, and rail companies. They have the option of selling directly to travellers, either online, in person, or over the phone. They can also try to sell their products via intermediaries such as tour operators (wholesalers) and travel agencies (retailers) (see Figure 1). Several types of intermediaries are active in travel distribution today:

- Traditional travel agencies are storefront or office-based retail businesses, generally selling a mix of business and leisure travel products to consumers, although some models are based on an exclusive focus on either business (see TMCs below) or on vacation travel.
- Online travel agencies (OTAs) have primarily online branding and conduct most of their business online (at least 50% of total sales). There are several hundred OTAs across Europe, ranging from large pan-European brands such as Booking.com, ebookers, eDreams, Expedia, lastminute.com, and Opodo to smaller regional players such as Go Voyages, Rumbo, and HRS, which focus on just a few markets within Europe.
- Travel management companies (TMCs) are a type of travel agency that provides management and consulting services for corporate travel programmes, which may include contract management and procurement, expense reporting, and programme development and oversight, as well as more conventional travel agency services such as booking and fulfilment of travel.
- Tour operators essentially straddle the two worlds of suppliers and intermediaries. This segment includes a variety of business models, the most fundamental of which is assembling, or packaging, various components from other travel suppliers (e.g., hotels, airlines, ground transportation, activity providers) into a single leisure travel experience for the consumer. Volume contracting power and long-standing business relationships with suppliers and destinations enable tour operators to develop holiday packages that cost less than the sum of the elements if purchased individually by the traveller.

Figure 1 presents a simplistic overview of the travel distribution chain from supply to demand. Each link in the chain may and often does interact with other elements of the chain. Suppliers will sell directly to tour operators, retailers, and consumers alike. Some suppliers, especially many low-cost airlines, sell almost exclusively to travellers directly and do not make their fares available for sale by any intermediaries.

FIGURE 1 - From Supply to Demand – the Travel Distribution Chain



Source: PhoCusWright Inc.

04 —

➤ The Global Distribution Systems

What Figure 1 does not show, however, is the critical functions GDSs perform for a significant part of the travel distribution chain. GDSs are the key technology infrastructure connecting suppliers, tour operators, and retailers. Just as travel intermediaries play a key role in travel distribution, GDSs play an important role for intermediaries. The GDSs aggregate the billions of possible airfares, schedules, hotel and car rental rates, availability information, and other content, and present these options in a real-time shopping and booking environment for travel intermediaries.

FIGURE 2 - The GDSs : Key Facts¹

	Amadeus	Sabre	Travelport
Owned & Operated GDSs	Amadeus	Sabre (Ownership stake in Abacus, GDS in Asia)	Apollo Galileo Worldspan
Net Revenue 2009 (millions)¹	€2,461	N/A	€1,616
Employees (approx.)²	9000	9,000	5,300
Ownership	BC Partners Cinven Air France Iberia Lufthansa, and publicly listed on select European exchanges (AMS)	Silver Lake, Texas Pacific Group	Blackstone Group, One Equity Partners, Technology Crossover Ventures, and Travelport management

¹ Information sourced from company websites and public financial filings. There are other, regional GDSs, including Axess, Infini, Topas and TravelSky, which operate principally in Asia and the Middle East. Since this paper is primarily concerned with Europe, it does not address the regional GDS companies.

² Figures for the three GDS companies include revenues and headcount for all business units and not just the GDS business.

There are currently six major global distribution systems and three GDS parent companies, each owned by private equity investors (see Figure 2). Today's GDSs generate and process an extraordinary volume of business, in both transactions and revenue. Globally, the GDSs processed more than 1.1 billion transactions⁵ in 2008. That equates to just over 2,100 transactions per minute (although the infrastructure of each GDS can support volumes far greater), representing more than €183 billion in total travel transaction value and 8% of the €2,195 billion in total personal and business travel consumption in 2008, according to the World Travel & Tourism Council.⁶

In Europe – the world's largest regional travel market in gross bookings – GDS companies processed nearly 295 million air, hotel, and car rental transactions and €55 billion in gross travel bookings in 2008. This accounts for more than one fifth of the total European travel market.

Today's GDSs also function as the primary distribution source for inventory across all major travel supplier segments. Airlines remain a core product: More than 550 airlines and the overwhelming majority of airline fares and inventory are accessible via the GDSs. However, GDSs also deliver an ever-expanding array of content to travel agencies through their agency software solutions. More than 90,000 hotel properties, the world's largest car rental companies, hundreds of tour operators, and the major cruise lines all distribute their products to travel agencies via the GDSs.

The GDSs have become central to travel distribution because they enable travel suppliers to reach an expansive global marketplace of retailers and their millions of customers more efficiently than if retailers had to do so on their own. The GDSs place the products of thousands of suppliers on the desktops of nearly half a million travel agents almost instantaneously for shopping and booking. In effect, the GDSs function as an efficient gateway to new points of sale. Travel suppliers do not need to open sales offices or invest in expansive technical infrastructures in each market to receive bookings from travel agents. Instead, the GDSs charge a variable fee per transaction.

Nor do suppliers necessarily need to maintain commercial relationships with all travel agents. The GDSs manage contractual, commercial, and technical relationships with travel agencies – the vast majority of which are small businesses. If an agent has a technical problem with a booking via a GDS, it is the GDS's support line she calls and it is the GDS that ensures the booking is completed successfully.

⁵ Total global transactions of 1,103,918,338 for 2008 refer only to air, hotel, and car rental segments, and do not include tour, cruise, rail, and other transactions.

⁶ Travel & Tourism Economic Impact 2009 : European Union ; WTTC ; PhoCusWright Inc ; US\$3,212B converted at 0.68341 based on aggregate average exchange rate for the full year 2008 (OANDA).

As more and more travel is booked online, the GDSs also act as technological “buffers” for suppliers.

As more and more travel is booked online, the GDSs also act as technological “buffers” for suppliers. The rise of online travel and increased ease for consumers to check prices and options has led to an exponential increase in the volume of queries on reservation systems. The GDSs have invested significantly in caching technology to manage the stress this would otherwise place on supplier reservations systems.

In addition to providing access to travel content, the GDSs equip travel agencies with a range of technology and services, including front- and back-office technology to handle the reservation life cycle (search, quote, book, support, fulfil), settlement processing for suppliers and agencies, and marketing and data services. The three major GDS companies together power the critical reservations and technology infrastructure of more than 163,000 travel agency locations and enable bookings by nearly half a million travel agents⁷ around the globe.

As a result, the GDSs significantly lower the barriers to entry into the retail travel business and enable the commercial activity of thousands of travel agencies large and small. The GDSs are indirectly responsible for the important economic benefits travel agencies provide through employment and other economic contributions. The GDSs’ efficient, cost-effective technologies provide travel agencies with instantaneous access to comprehensive travel supplier content, which enables these agencies to offer competitive retail travel services to consumers.

Many OTAs also depend on GDSs for access to shopping, pricing, booking, and ticketing services. Today, each of the three GDS companies owns or has an ownership stake in one or more online travel agencies, provides one or more online booking tools to the corporate travel market, and offers a range of e-commerce services (from booking engines to fulfilment processes) to travel intermediaries and suppliers alike.

FIGURE 3 - Worldwide Aggregated Statistics of the GDS Companies in 2008

	Worldwide
Transactions ¹	1.104 bn
Travel Agency Locations ²	c. 163,000
Users ²	c. 490,000
Airlines	More than 550
Hotel Properties	More than 90,000
Car Rental Locations	More than 30,000

¹ Includes air, hotel, and car rental transactions only

² Data provided by Amadeus, Sabre, and Travelport

Source: PhoCusWright Inc.

⁷ The term “travel agents” throughout this paper refers to professional travel agents who sell and book travel, and does not include those who do not directly sell travel or use a GDS (e.g., administrative staff).

04 — The Role of Technology

Travel distribution is fundamentally about the exchange of information, and technology enables this exchange. Indeed, advancements in information technology have gone hand-in-hand with the growth of the travel industry. As airlines expanded from simple, line-based route structures (inspired by the railways) to large operations with multi-jet fleets and complex flight schedules over the course of the 20th century, reservation management shifted from manually processed ledgers to automated, mainframe-based computer systems. Indeed, airlines that adopted new technology quickly outperformed competitors that did not.⁸

When the airlines first placed their CRSs on travel agent desktops in the U.S. in the mid-1960s, they strengthened their position to influence flight selection and move market share. But CRS technology also boosted travel agents' prosperity dramatically. By 1985, U.S. travel agency sales had risen to \$54 billion. More than nine in 10 agencies with sales greater than \$1 million had a CRS (versus just 6% less than a decade earlier). Agency revenue surged 400% over the same period, while agency employment increased by only 20%.⁹

Another major innovation was yield management – the idea of offering different types of fares with different conditions and restrictions for seats on the very same flight. Decisions about how to price those fares and how much inventory to make available for sale for each fare class were based on sophisticated computer modelling that analyzed historical reservation data. When American Airlines first introduced this in 1985, it wreaked havoc on the airline industry – but it eventually heralded a new standard for pricing and inventory management that is now widely adopted across all sectors of the industry, including aviation, hotels, car rental, cruise lines, and tour operators.¹⁰

Today, technology forms the backbone of every major travel organization. The acronym CRS, once synonymous with airline reservations systems, is now the common term for central reservation systems for hotels and car rental companies. These systems manage inventory, reservations, and often yield. Technology is now central to travel agencies. GDS technology enables travel agencies and OTAs to offer expansive travel options and competitive prices across thousands of suppliers to their customers. GDSs also commonly use complementary technologies, such as back-office accounting systems, to manage all financial records of transactions and generate invoices and other documents.

The Emergence of Online Travel Sales & OTAs

The remarkable growth in online travel sales has given rise to a new era in travel technology that enables travellers to shop for and purchase travel online. And booking travel online starts with online access. The number of households with Internet access has continued to grow steadily across the 27 EU member states, an extremely positive indicator for the expansion of the online travel industry. In 1Q09, two thirds of Europeans (65%) could access Internet from their homes, compared with 60% in 1Q08, according to Eurostat (December 2009). Almost 40% of individuals age 16-74 in the EU27 purchased something over the Internet in the last 12 months.

Household Internet access varies significantly by region and country within the European Union, ranging from just 30% in Bulgaria to 90% in the Netherlands in 2009. As Figure 4 shows, there are clear regional trends in Internet access – countries in Northern and Western Europe have much higher Internet penetration, while countries in Eastern and Southern Europe have far lower penetration rates.

Online travel penetration of the total travel markets across Europe display a similar pattern to that of general Internet access. The Scandinavian and U.K. travel markets have the highest online penetration rates (at or near 50%), while online travel comprises a much smaller share of travel sold in countries in Southern and Eastern Europe, such as Spain, Italy, and Poland. (See "The European Travel Distribution Value Chain," page 27, for more information.)

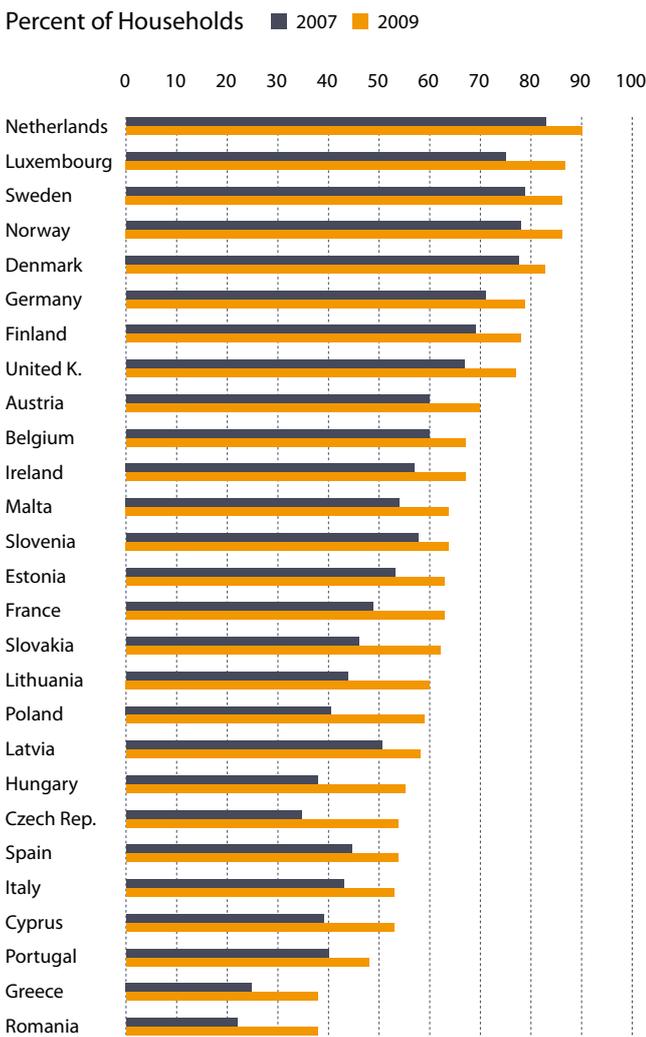
The Internet is now the predominant means of travel shopping in the three largest national markets in the EU. More than 70% of French travellers and nearly 80% of German and U.K. travellers typically use the Internet (at least as a source of information) when shopping for travel, according to PhoCusWright's European Consumer Travel Report (2010). The second most common source of information in travel shopping, personal recommendations from family and friends, is cited by far fewer travellers (just over 40% in Germany and the U.K., and under 40% in France).

⁸ Petzinger, Thomas, Jr. (1996). "Network Warriors," Hard Landing, Three Rivers Press.

⁹ Fitzgerald, Chicke (2000). Global Distribution Systems: Outlook for the 21st Century, Garrett Communications Inc., MTech Strategies Inc.

¹⁰ Petzinger, Thomas, Jr. (1996). "Nosedive," Hard Landing, Three Rivers Press.

FIGURE 4 - Household Internet Access by Country in Europe, 2007 and 2009



Source: Eurostat

The Internet is now critical to the travel industry, as it provides essential infrastructure and is a principal information source during travel planning, research, shopping, and booking for travellers across Europe. More than one third of all travel in Western Europe and one fifth of travel in the EU NE 12 will be sold online in 2010 (see Figure 10).

➤ The Online Travel Agencies

Online travel agencies have been key drivers in the growth of online travel in both Europe and North America and represent a diverse mix of pan-European and local market brands across the region. OTAs have grown their total gross bookings from less than €3.6 billion in 2002¹¹ to more than €22 billion in 2008,¹² representing 7% of the €258 billion European travel market.

The six largest OTAs in Europe (Expedia, Travelocity, Priceline, Opodo, Orbitz/ebookers and eDreams), all members of ETTSA, account for just over half of all OTA gross bookings in Western Europe (see Figure 5). However, the OTA landscape is still very fragmented, with a large number of regional and local market players that command a significant share of the segment.

11 PhoCusWright’s European Online Travel Marketplace (2003)
 12 PhoCusWright’s European Online Travel Overview Fifth Edition (2009)

04 —

FIGURE 5 - European Online Travel Agencies by Home Market, ETTSA Membership, and Estimated Share (%) of All Online Travel Agency Gross Bookings, 2008

ETTSA Member OTAs	Country	2008
Expedia / Hotels.com / Venere	U.S.	51%
Priceline Europe (Booking.com)	U.S./Holland	
Travelocity Europe (lastminute.com)	U.S./U.K.	
Opodo	Spain	
Orbitz Worldwide Europe (ebookers)	U.S./U.K.	
eDreams	Spain	
Other OTAs	Country	
Go Voyages	France	49%
Karavel/Promovacances	France	
Rumbo	Spain	
HRS	Germany	
ab-in-den-urlaub.de	Germany	
ETI (Seat24)	Scandinavia	
Schmetterling (schmetterling24.de, buche24.de)	Germany	
Voyages-SNCF.fr (excl. rail)	France	
Travelzest	U.K.	
HolidayCheck	Germany	
Terminal A	Spain	
RTK-Gruppe	Germany	
Atrapalo	Spain	
weg.de (ferien.de, fly.pl, ...)	Germany	
Travelstart	Scandinavia	
Muchoviaje	Spain	
L'TUR	Germany	
Viajes ECI	Spain	
hotel.de	Germany	
youtravel	U.K.	
Switch/Partir Pas Cher	France	
VIA Travel (Gotogate, Flybillet)	Scandinavia	
Travelchannel	Germany	
Onlineweg (TSS)	Germany	
Logitravel	Spain	
Marsans.com	Spain	
TravelPartner	Scandinavia	
Viajar.com	Spain	
Barcelo Viajes	Spain	
Travianet/Touristikboerse	Germany	
fly.de	Germany	
Todomondo	Italy	
Others		
Gross Bookings		€21.8B

Like the GDSs, which provide efficient access for suppliers to travel agents worldwide, the OTAs enable suppliers to present their products and services to millions of travellers without investing heavily in local market advertising and selling infrastructures. The OTAs provide a consumer-friendly online environment for shopping and comparing travel options – schedules, airfares, hotels, rates, etc. – across thousands of suppliers. Travel suppliers pay a fee or commission to the OTA for each sale, or they may provide a lower net rate and allow the OTA to add a mark-up for resale to the consumer.

Travel Distribution Chain in Detail : How Flights Are Distributed

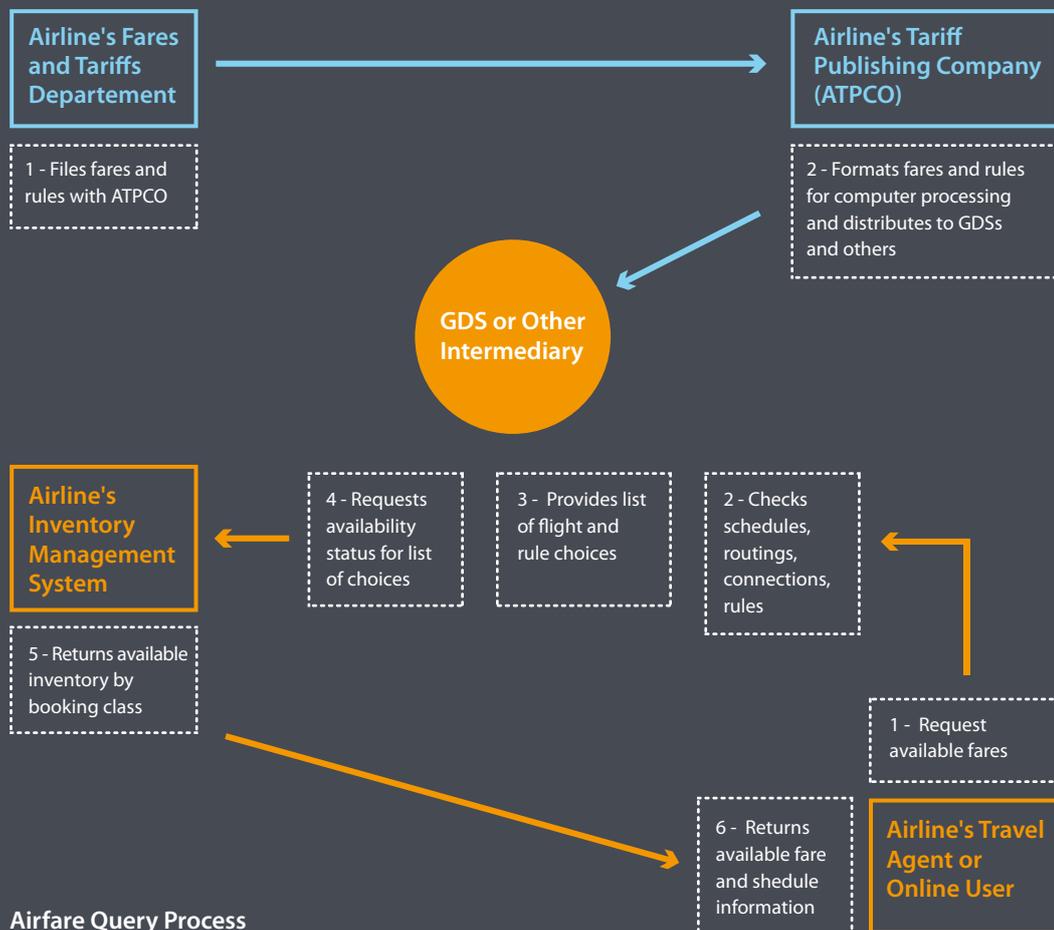
With the plethora of online travel agencies and other services that make shopping for and booking flights so easy today, most travellers take this convenience for granted. But as anyone with experience in the travel distribution industry knows, flight distribution is anything but simple.

Consider that well over 500 airlines participate in global electronic distribution, many offering thousands of flights each day. Flights are usually bookable up to one year in advance, and with thousands of transactions happening every day – even every hour – airline reservation systems and the distribution systems must continually update availability information.

Routing for an itinerary is no simple matter. While most travellers may prefer a direct, nonstop flight, it may be far less expensive to connect or to change airlines (an “interline” ticket). Airfare shopping systems must sort through an almost limitless number of possible routing combinations to serve up the most logical option for a specific search request. Then there is pricing, which is determined by a number of factors, such as competitor fares on the same route, the number of days before departure, the amount of available inventory on the flight, and the point of sale.

One fares specialist at a GDS company estimated that there are some 4.3 billion possible fares available within the GDS. This section briefly describes the distribution process from a traveller’s initial flight query to booking.

FIGURE 6 - The Airfare Shopping Process



04 —

The process begins when an airline originates fare rules and conditions of service, and then distributes these to the various faring systems (e.g., the GDSs and select third parties such as ITA Software) through the Airline Tariff Publishing Company (ATPCO) (see Figure 6). Fares are loaded from an airline's CRS into each GDS several times per day. While innovation in GDS and online technology has simplified this procedure over the last three decades, there are still more than 500 airlines and millions of possible flights, each with multiple fare classes and fares that can change several times a day.

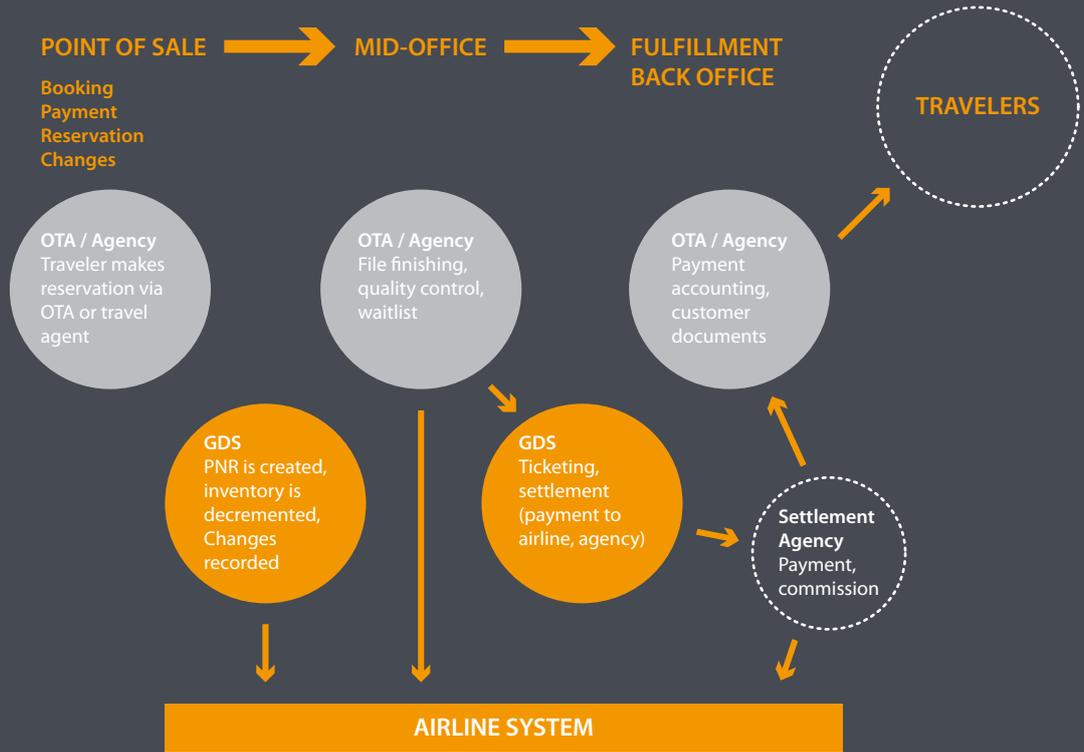
The GDSs and other electronic intermediaries make these fares available via their agency desktop applications and interfaces to online points of sale, so travel agents can shop for fares on their desktops and online travel shoppers can query websites. This is the heart of the network that allows a traveller to access an OTA or supplier website to shop and book up-to-date information according to airline preference, destination, schedule, fare, and/or flight availability. A traveller enters search data criteria according to needs and preferences, evaluates the first-screen results, and either proceeds to booking or enters additional search parameters to continue shopping.

Once a product is selected, the supplier or OTA quotes a price and the traveller makes a reservation, removing the product from inventory. This begins the fulfilment process (see Figure 7). Usually booking involves prepayment to secure the reservation: Funds are validated and distributed. Afterward, the trip itinerary, as well as all relevant information about the trip (including payment information), is stored in the passenger name record (PNR), which is effectively the "purchase order" for the trip. This reservation record is shared across all parts of the distribution chain (agency, GDS, and airline).

Post-booking begins when the booking is "ticketed." This step triggers a series of procedures that are collectively referred to as "mid-office." These processes may vary among travel agencies and can be especially complex in the managed corporate travel market, but in effect, they verify the accuracy of reservation records, handle any waitlist requests to suppliers, ensure validation of the booking with any specific supplier-contractor compliance, and initiate the production and distribution of documents (or communications) to the traveller and travel supplier.



FIGURE 7 - The Airfare Booking and Fulfillment Process



Source: PhoCusWright Inc.

05 The Value Chain

Key points

- Independent travel distribution provides substantial high-quality employment across the European Union. The GDSs employ about 6,000 people in Europe, and the OTAs about 13,000. Traditional travel agencies, which rely on GDSs for accessing and booking travel products, employ approximately 300,000 travel professionals across the 27 member states. At the GDSs and OTAs, one quarter of employment qualifies as high-tech.
- The economic impact of independent travel distribution extends far beyond direct employment and reaches across the European travel economy. Independent travel distribution indirectly supports growth and employment in airlines, railways, hotels and resorts, car rental companies, and the wider European tourism industry.
- Western Europe represents about 90% of total travel sales in the EU, and the EU NE12 (Member States that joined in 2005 and 2007) represent 10%. Central and Eastern Europe have experienced stronger growth than Western Europe, however, in both total travel sales and online travel sales.
- Although the European travel industry saw a 10% decline in revenues in 2009 due to the global economic recession, a restrained recovery is expected for the years to come, with 1-2% growth predicted for 2010 and 2011.
- Online travel sales have grown significantly in the last decade, and their market share is now one third of all travel sales in the EU.
- The GDSs represent one fifth of total travel sales in Europe. This is a slight decrease over recent years, mainly attributable to the growth in direct sales on airline websites.
- OTAs have been star performers, with 6% growth in 2009 despite the recession. They are expected to nearly double their share of total travel sales to 11% by 2011 (from 6% in 2006).
- The OTAs are growing particularly fast in the emerging economies of Central and Eastern Europe, and will become even more important as travellers broaden their demand for regional and international travel.
- The GDSs are integral to the OTA business model. Most OTAs today rely on a GDS to access and book flights, rail, hotels, cars, packages, and cruises.

This section examines the size of the travel industry in Europe and the role of independent travel distribution. It also examines key trends in travel distribution and potential implications for the broader European travel economy.

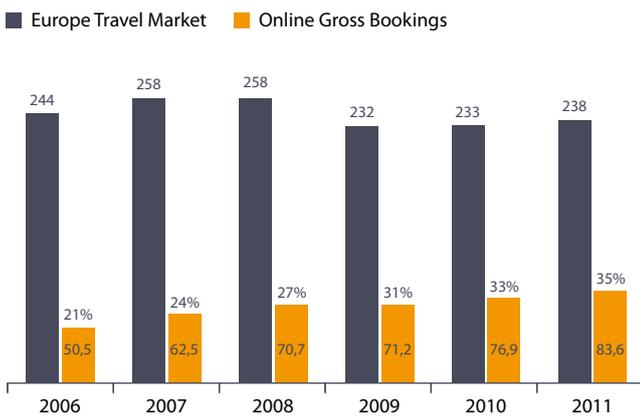


05 — The European Travel Distribution Value Chain

The Size of the European & Online Travel Industries

The European travel industry represents a large and dynamic marketplace, even amidst the global economic challenges of 2009 and 2010. The total travel market across the entire European Union grew a robust 6% in 2007 to €258 billion, and would have continued to grow in 2008 were it not for the economic headwinds that posed an increasing challenge over the course of the year (see Figure 8). Total travel sales declined just slightly and remained relatively steady at €258 billion.

FIGURE 8 - European Total and Online Leisure/Unmanaged Business Travel Market and Share, 2006-2011 (€ bn)



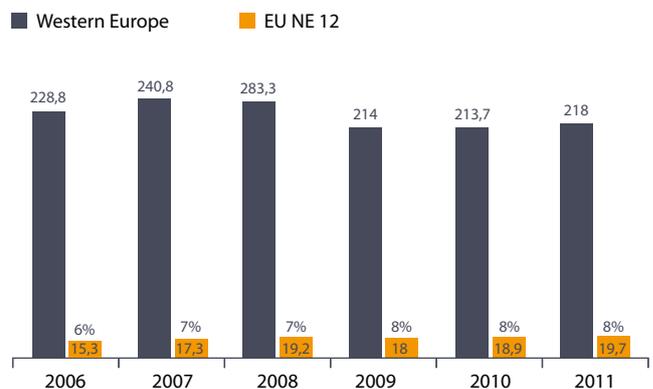
Source: PhoCusWright Inc. and Euromonitor International

During the dramatic global recession of 2009, the European travel industry experienced a steep 10% decline in gross revenues, shaving some €26 billion off of 2008 sales and ending the year at €232 billion. The European travel market will experience a restrained recovery through 2011 as the region gradually emerges from the economic malaise. Single-digit growth (at best) is anticipated through 2011: The market is expected to post €233 billion in gross sales in 2010, a €1 billion (<1%) increase, followed by a more promising €5 billion (2%) gain in 2011.

Online travel represents a relatively bright spot on the European travel landscape. Internet booking channels markedly outperformed the broader industry from 2006 through 2009, posting sales gains every year as more consumers turn to the Internet for shopping and booking. Total online sales even grew slightly in 2009. Year-over-year growth is expected to continue through 2011, although the rich double-digit increases of 2007 (up 24%) and 2008 (up 13%) may be a thing of the past. Online growth rates are expected to reach high single digits (9% in 2011) as the European economy and travel industry regain their health.

Online travel has continued to make significant gains in penetration, especially during the recession in 2009. Bargain-hungry travellers sought discounts via the Web and travel suppliers used online channels to push special offers and sales amid the falloff in demand. Online penetration for all of Europe will reach the one-third threshold in 2010.

FIGURE 9 - Western Europe and EU New Entrants ("EU NE 12") Travel Markets and EU NE 12 Share, 2006-2011 (€ bn)



Source: PhoCusWright Inc. and Euromonitor International

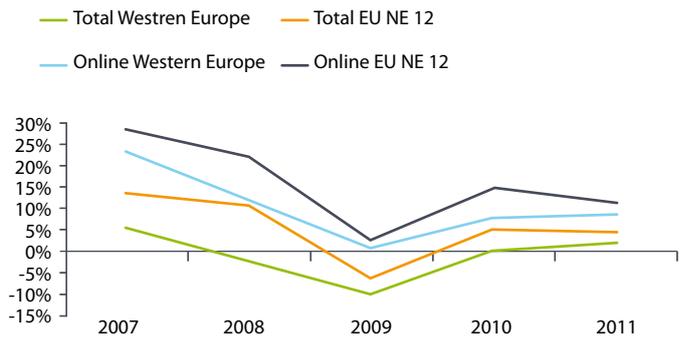
05 —

There are significant differences in market share, growth rates, and trends among the more mature travel markets of the 17 Western European countries and the emerging travel markets of the EU NE 12. Western Europe represents well over 90% of the total European travel market in terms of supplier revenues – its regional travel market posted gross sales of €214 billion in 2009, versus the EU NE 12's €18 billion (see Figure 9).

The travel market of the EU NE 12 may be relatively small compared to that of Western Europe, but it has been growing at a faster pace (or, in 2009, declining at a slower pace). The EU NE 12 is steadily gaining share of the total European travel market, from 6% in 2006 to a projected 8% in 2011, reflecting the faster growth rate expected in an emerging market. While travel in Western Europe is expected to slip slightly to €213.7 billion in 2010, the EU NE 12 is projected to see a 5% increase in gross travel sales to €18.9 billion.

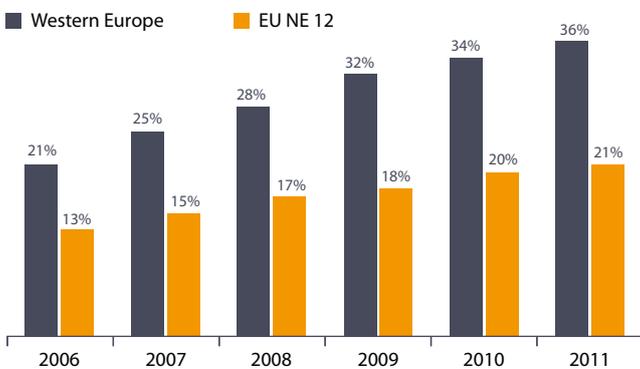
Online travel is making steady and significant gains across the European travel landscape. Online penetration will surge from just 21% of all travel in Western Europe in 2006 to 36% in 2011 (see Figure 10). Online penetration in the EU NE 12, while much lower at just 18% in 2009 (versus 32% for Western Europe), is also making steady gains. In 2010, one fifth of all travel sold in the EU NE 12 will be sold online. Growth of online travel sales in both regions will continue to outperform the total travel markets through 2011 (see Figure 11).

FIGURE 11 - Annual Change for Western and EU NE 12 Total and Online Travel Markets, 2007-2011



Source: PhoCusWright Inc. and Euromonitor International

FIGURE 10 - Online Penetration of Western and EU NE 12 Travel Markets, 2006-2011 (€ bn)



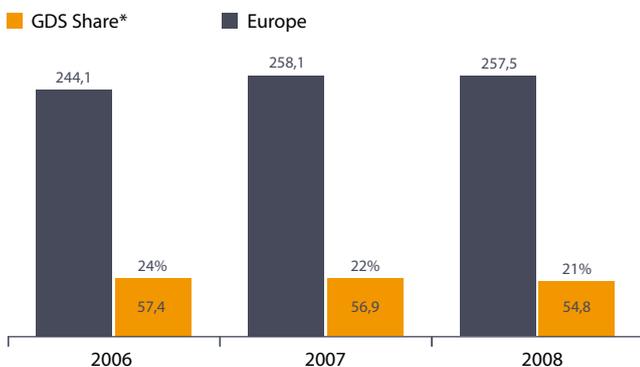
Source: PhoCusWright Inc. and Euromonitor International

The Role of the GDSs

The GDSs are a critical part of the European travel and tourism marketplace. In 2008, the three major GDS companies together processed nearly 295 million air, hotel, and rental car transactions.¹³ And this does not include other product segments distributed by the GDSs, such as tour operator packages, cruises, and other services. However, air still represents a significant majority of the travel processed by the GDSs in Western Europe – 95% of transactions and 93% of total travel value.

Those 295 million transactions amounted to €54.8 billion in 2008 – more than one fifth of the total European travel industry (see Figure 12) and 6% of the €857 billion in total personal and business travel consumption in Europe.¹⁴ GDS share has slipped three percentage points since 2006, when it accounted for 24% of the total market. This is attributed to an increase in direct bookings, principally with airlines via their websites (see "Travel Distribution Dynamics," page 33).

FIGURE 12 - European Total Travel Market and GDS Share, 2006-2008 (€ bn)



* GDS share for EU NE 12 includes only total gross bookings value of air segments. Non-air travel value data not available. GDS share for Western Europe includes air, hotel, and car rental only.

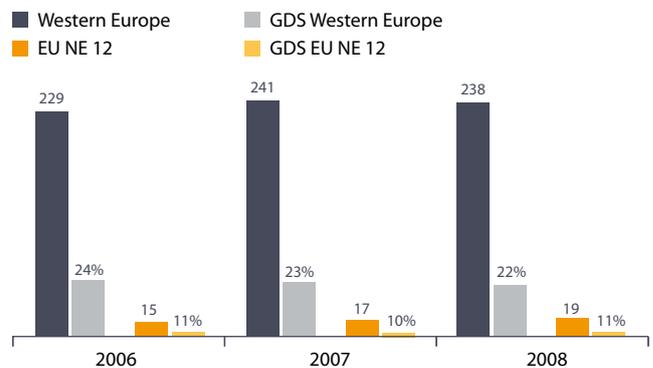
Source: PhoCusWright Inc. and Euromonitor International

GDS penetration varies significantly by region within Europe. In Western Europe, GDS share was 22% in 2008, representing €52.4 billion in total travel value (see Figure 13). In 2008, GDS air share of the EU NE 12 total travel market stood at 11%, or €2.1 billion. The GDS data available for the EU NE 12 includes only total gross bookings value of air transactions, while the GDS share for Western Europe includes air, hotel, and car rental.

The much lower GDS penetration in the EU NE 12 market reflects the very different market dynamics in Eastern Europe and other member nations of the region:

- Lower penetration of credit cards and electronic payment methods inhibit electronic commerce, as consumers in emerging markets are still more comfortable using cash. Although use of electronic payment cards is growing fast, there are still less than half as many cards per adult in Eastern and Central Europe as there are in Western Europe, and only 15% of those cards are credit cards¹⁵.
- Incidence of direct supplier bookings via phone (by both travellers and travel agents) is higher, especially for domestic travel and hotel bookings.
- A significant amount of air travel in the EU NE 12 is booked through tour operators, which primarily use charter air, and low-cost carriers (LCCs), which have grown dramatically in Eastern Europe. Most charter and LCC bookings are not made through GDSs, but directly with tour operators and airlines.

FIGURE 13 - Western European and EU NE 12 Travel Markets and GDS Shares, 2006-2008 (€ bn)



* GDS share for EU NE 12 includes only total gross bookings value of air segments. Non-air travel value data not available. GDS share for Western Europe includes air, hotel, and car rental only. Source: PhoCusWright Inc. and Euromonitor International

¹³ Transactions = segments

¹⁴ World Travel & Tourism Council

¹⁵ "Payment Cards Central and Eastern Europe 2010" (October 2009). Retail Banking Research.

05 —

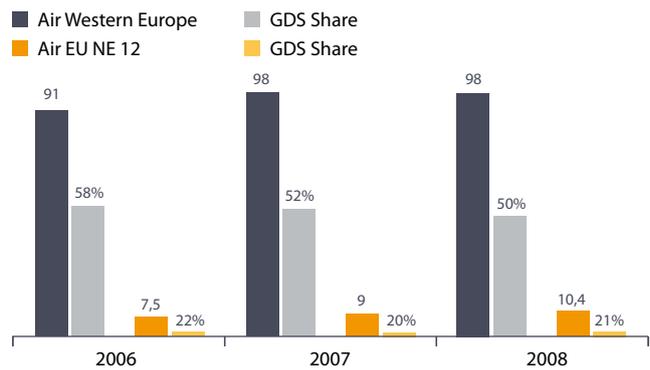
GDSs processed €48.9 billion in flight bookings in Western Europe in 2008, representing half of the total air market (see Figure 14). This is down from 52% in 2007 and 58% in 2006, principally due to the growth in LCCs and traveller direct online bookings with traditional carriers. GDS share of the total air market in EU NE 12 is much smaller at 21% and has remained relatively stable, growing with the overall air market in that region.

As the economies of the EU NE 12 mature and the spending power of their citizens increases, longer-term opportunities will emerge in the European travel industry. Increased Internet access and an expanding appetite and capacity for travel – especially abroad – will increase demand for providers of independent travel distribution services. GDSs, OTAs and travel agencies will serve as important points of entry as travel suppliers seek to capture the opportunity in these growing markets.

The GDS share of the total hotel and car rental markets in Western Europe is well below that of air. The hotel market is relatively fragmented across the region, with a majority of hotels operating as independent and not affiliated with a chain. Independent hotels are less likely to participate in the global distribution eco-system, and as a result, most hotel bookings throughout Europe take place with individual hotel properties.

However, this is changing as online travel grows and hotels increasingly perceive the value of participating in electronic distribution systems (mostly driven by corporate demand). The volume of hotel and car rental bookings handled by the GDSs increased significantly from 2006 to 2008. The GDSs processed nearly 15.5 million hotel and car transactions in 2008, representing €3.6 billion in sales. This is up from 13.8 million transactions, or €2.8 billion, in 2006. GDS hotel and rental bookings represented 4% of sales for those combined markets in 2008 (see Figure 15).

FIGURE 14 - Total Air Gross Bookings and GDS Shares for Western Europe and EU NE 12, 2006-2008 (€ bn)



Source: PhoCusWright Inc. and Euromonitor International

FIGURE 15 - Total Hotel and Car Rental Gross Bookings and GDS Shares for Western Europe, 2006-2008 (€ bn)



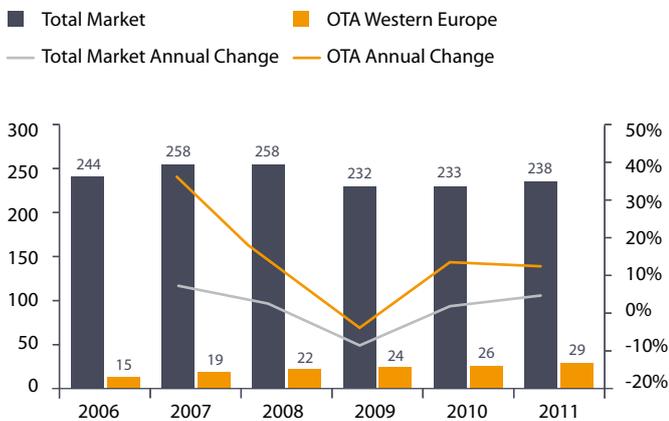
Source: PhoCusWright Inc.

The Role of Online Travel Agencies

OTAs have been star performers in the European travel market – both contributing to and benefiting from growing consumer use of the Internet for travel planning and booking. While OTA growth has slowed from the marked double-digit upticks earlier in the decade (the segment grew 26% in 2007), OTAs continue to outperform the broader European travel market. OTAs grew a still impressive 17% in 2008 while the total travel market was essentially flat. They recorded 6% growth in 2009, a remarkable performance considering the recession forced a 10% contraction in the travel market overall (see Figure 16).

OTAs will continue to gain overall market share. Their share of all travel sales will double to 11% by 2011, versus 6% in 2006. Total OTA gross bookings are expected to reach €29 billion by 2011, up from €24 billion in 2009 and €15 billion in 2006.

FIGURE 16 - Total European Travel Market, Western European OTA Share and Annual Change, 2006-2011 (€ bn)



Note: Data for OTA bookings are not available for Estonia, Latvia, Lithuania, Cyprus, or Malta.

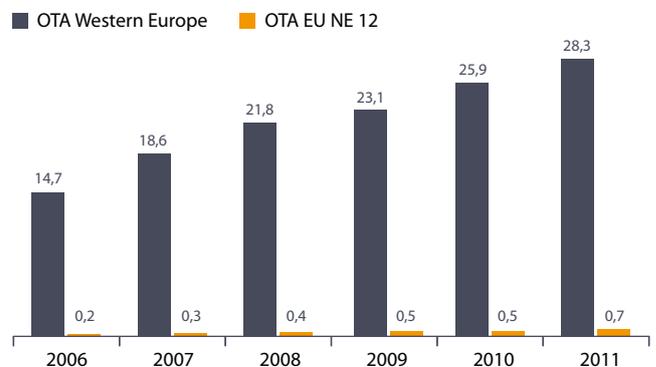
Source: PhoCusWright Inc. and Euromonitor International

OTA revenues in the EU NE 12 are modest compared with OTA sales in Western Europe markets. At just €500,000 in 2009, online intermediary sales represent 2% of the total travel market in that region (see Figures 17 and 18). While the segment is growing faster than the overall EU NE 12 travel industry, it faces obstacles to online adoption, including lack of online payment handling, low penetration of credit card use, and low overall Internet use compared to Western Europe. Most travel in the EU NE 12 markets is domestic or intra-regional, and OTA penetration is also hampered by the fragmented hotel marketplace dominated by independent hotels that are accustomed to direct-to-property bookings and do not participate in OTA distribution.

But the smaller, less mature economies of the EU NE 12 are also expected to grow more robustly than Western Europe, creating an important longer-term opportunity for growth. OTAs will play a more important role in these markets as travellers broaden their demand for regional and international travel and migrate toward the Internet for travel planning and shopping.

Within Western Europe, OTA penetration and growth rates vary significantly. In more mature markets where penetration has reached or is near 15%, such as France, Scandinavia, and the U.K., growth has slowed, although the OTA category has enjoyed a significant countercyclical lift in penetration due to recessionary forces in 2009. Spain is experiencing the most rapid growth in OTA penetration, from 7% in 2006 to 16% by 2011.

FIGURE 17 - OTA Gross Bookings for Western Europe and EU NE 12 (€ bn)



Note: Data for OTA bookings is not available for Estonia, Latvia, Lithuania, Cyprus, or Malta.

Source: PhoCusWright Inc. and Euromonitor International

05 —

FIGURE 18 - OTA Penetration of Europe and Key Markets, 2007-2011

Region Country	2007	2008	2009	2010	2011
Europe	6%	7%	9%	10%	11%
France	11%	12%	14%	15%	16%
U.K.	11%	12%	14%	15%	15%
Scandinavia	8%	10%	12%	14%	15%
Germany	7%	9%	11%	12%	13%
Spain	7%	10%	12%	14%	16%
Italy	4%	5%	6%	7%	8%
EU NE 12	1%	2%	2%	3%	3%

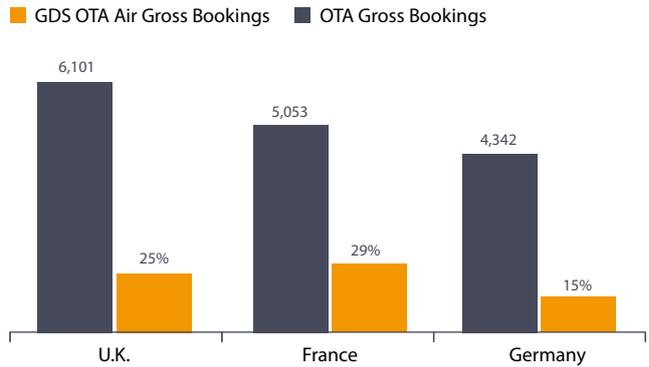
Note: Data for OTA bookings is not available for Estonia, Latvia, Lithuania, Cyprus, or Malta.

Source: PhoCusWright Inc. and Euromonitor International

GDSs & Online Travel

While the GDSs are commonly associated with traditional travel agencies, their role in online travel distribution and with OTAs is less well known. The GDSs are an important part of the OTA business model. Most OTAs today rely on a GDS to access and book flights, rail, hotels, cars, packages, and cruise. A quarter of OTA gross travel bookings in the U.K. in 2008 were processed by a GDS; in France the GDSs handled nearly 30% (see Figure 19). Each GDS also has an ownership interest in one or more OTAs. Sabre Holdings owns Travelocity and lastminute, Travelport has a stake in Orbitz Worldwide and, by extension, ebookers, and Amadeus has a majority position in Opodo.

FIGURE 19 - OTA Gross Bookings and GDS OTA Air Gross Bookings Share for France, Germany, and U.K., 2008 (€m)



Source: PhoCusWright Inc



Travel Distribution Dynamics

Travel suppliers are constantly grappling with the competitive struggle of selling directly to consumers versus supporting intermediary channels, such as traditional and online travel agencies, tour operators, and travel management companies. Today's global travel industry demands that most suppliers have a diversified distribution strategy in which they leverage a mix of direct and indirect channels.

This section examines travel distribution dynamics in Europe and the role of direct and indirect distribution channels with a focus on the growing online travel market.

For decades, travel suppliers could sell their products in one of two ways: directly to consumers through sales offices or call centres, or via traditional retail travel agencies, to whom they historically paid a commission on each sale. Both points of sale are still important in travel today, but the Internet and ensuing rush of technology and commercial innovation ushered in a new world in travel distribution.

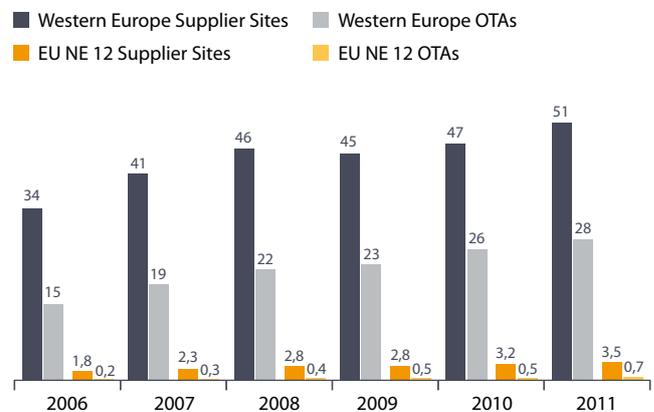
First out of the starting gate in online travel were OTAs, which took the lead in enabling booking via the Internet and set the standard for the online customer experience, or travel "e-tailing." But travel suppliers hardly sat still. As the online travel revolution unfolded, travel suppliers – led largely by airlines – saw in the Web a much more cost-effective means of serving their customers directly. They could greatly expand their volume of direct sales without adding significantly to call centres and sales offices. Indeed, the Internet has enabled most travel suppliers to reduce their call centre and sales office operations significantly.

OTAs were also growing rapidly and were poised to capture significant market share of leisure travel distribution. Travel suppliers certainly pursued direct online distribution as a counterweight to the potential competition of large OTAs. In fact, consortia of airlines in the U.S. and Europe established joint ventures to create airline-owned OTAs (Orbitz and Opodo) to compete against – and hence diminish the market power of – the leading OTAs of the time. Travel suppliers also saw an opportunity to reduce their distribution costs through direct distribution. By encouraging travellers to book directly with them as opposed to booking via an intermediary, they could avoid paying commissions and other distribution fees.

Supplier-direct distribution has grown significantly in both the mature and emerging European travel markets. By 2008, gross bookings from supplier sites in Western Europe reached nearly €46 billion, more than twice the gross travel sales of OTAs at €22 billion (see Figure 20).

In the emerging markets of EU NE 12, gross bookings from supplier sites stood at €2.8 billion, versus a comparatively modest €399 million in online intermediary bookings.

FIGURE 20 - Gross Bookings for Supplier Websites and OTAs for Western Europe and EU NE 12, 2006-2011 (€ bn)



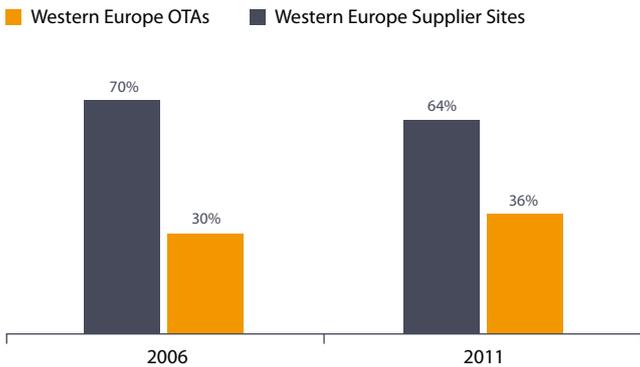
Note: EU NE 12 data does not include tour operators; EU NE 12 OTA bookings do not include Estonia, Latvia, Lithuania, Cyprus, or Malta.

Source: PhoCusWright Inc. and Euromonitor International

05 —

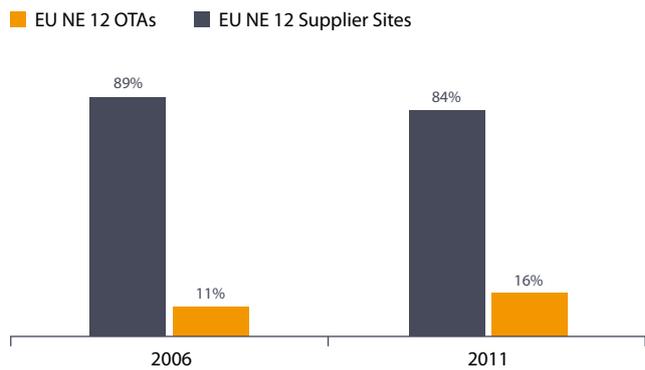
The OTA channel may be smaller than supplier websites in aggregate, but it is also growing faster. OTA share of online travel in Western Europe is projected to grow from 30% in 2006 to 36% by 2011 (see Figure 21). In the EU NE 12, OTA share is projected to climb from 11% to 16% over the same period (see Figure 22). The key drivers behind this shift are the countercyclical lift from the recession (when demand falls, suppliers provide more content and lower rates to larger intermediaries) and removal or reduction of booking fees for flights and hotels in several markets. The larger, pan-European OTA brands are also expanding their presence in less penetrated markets.

FIGURE 21 - Supplier Website and OTA Share of Online Leisure/Unmanaged Business Travel for Western Europe, 2006 & 2011



Source: PhoCusWright Inc.

FIGURE 22 - Supplier Website and OTA Share of Online Leisure/Unmanaged Business Travel for EU NE 12, 2006 & 2011



Note: Data for OTA bookings is not available for Estonia, Latvia, Lithuania, Cyprus, or Malta.

Source: PhoCusWright Inc. and Euromonitor International

The Economic Impact of Independent Travel Distribution

➤ Direct Employment

There is currently no comprehensive and definitive resource of statistics on employment at GDSs, OTAs, travel agencies, TMCs and tour operators across Europe. However, extensive – albeit partial – evidence gathered for this study suggests that the impact is significant. The GDS companies currently employ more than 6,000 people in Europe. Interviews with several OTAs indicate that larger OTAs have one employee for every €1.7 million in gross bookings. This would indicate direct employment of at least 13,000, but probably significantly greater, as the employee-to-gross bookings ratio would likely rise among smaller OTAs.¹⁶

The retail travel agency, TMC, and tour operator sectors of the independent travel distribution industry are highly fragmented and difficult to measure accurately. ECTAA, the association grouping the European Travel Agents' & Tour Operators' Associations, tracks some figures for travel agents on a national level. ECTAA estimates that there are nearly 50,000 travel agencies and tour operators in Europe as of 2008.¹⁷ However, this does not include some major national markets, such as France, Greece, Poland, and some Scandinavian countries, so the final number is likely to be substantially higher. ECTAA tallies total employment across travel agencies and tours in excess of 300,000. However, this statistic also lacks agency and tour operator employment data for some key European markets.

This data, while incomplete, shows that the independent travel distribution landscape contributes significantly to employment in Europe, providing at least 320,000 jobs, and likely far more. The GDS and OTA industries in particular also offer a significant amount of higher-paying positions in technology. Interviews with several GDSs and OTAs indicate that at least one quarter of the nearly 20,000 employees are in "high-tech" positions. These positions involve software development and design, management of technology hardware and infrastructure, and related responsibilities.

➤ Other Indirect Impacts

The economic impact of independent travel distribution extends far beyond its direct employment and reaches across the European travel economy. Independent travel distribution is responsible for a significant portion of travel sales, especially flights, holiday packages, and corporate travel.

➤ Airlines

Air transport is, of course, indispensable for tourism, and indeed a critical linchpin facilitating commerce across virtually every industry in the global economy.

In 2009, the Association of European Airlines (AEA) – with 36 European scheduled network carriers – transported 246 million passengers within Europe and 326 million over a worldwide network spanning 162 countries. For the year ending June 2009, member airlines of the European Low Fares Airlines Association (ELFAA) carried 149.1 million passengers.

An economic impact study by the Air Transport Action Group estimated that the aviation industry contributed to the employment of some 3.2 million people in Europe in 2006 and made a €110 billion (direct, indirect, and induced) contribution to the GDP.¹⁸ By facilitating nearly half of all airline distribution (47% across Europe in 2008, or €51.1 billion), the GDSs, travel agencies, and OTAs play a major role in the massive economic engine of commercial aviation.

➤ Direct Tourism Promotion

The OTAs are also significant contributors to tourism marketing and promotion. PhoCusWright estimates that average OTA direct spend on marketing and advertising to promote travel and related services is equivalent to 2% to 3% of gross travel bookings. OTAs' gross travel bookings in Europe for 2009 exceeded €23.5 billion; assuming a marketing-to-gross booking ratio of 2.5%, OTAs would have directly spent nearly €600 million on the promotion of travel and tourism in Europe in that year.

¹⁶ PhoCusWright assembled this estimate from interviews with several of the larger OTAs and believes it to be very conservative. The employee-to-gross bookings ratio is based on the largest OTAs, which also likely have a higher degree of automation. For smaller and regional OTAs that may be more active in countries in Southern and Eastern Europe, where more bookings are handled over the phone, the employee-to-gross bookings ratio may be significantly higher.
¹⁷ <http://www.ectaa.org/Home/FactsFigures/tabid/68/language/en-US/Default.aspx>
¹⁸ Air Transport Action Group (2008). The Economic and Social Benefits of Air Transport. Converted from US\$ by average historical exchange rate for 2006 via OANDA.

06

Independent Distribution

Key points

- A key consumer benefit of independent travel distribution is multi-supplier shopping. Travel agencies (including OTAs), leveraging GDS technology, enable consumers to shop and compare products, schedules, and prices across the full range of travel suppliers and product options available.
- A key supplier benefit of independent travel distribution is efficient access to global markets with thousands of travel agents and millions of consumers. Independent travel distribution enables new entrants to compete on a level playing field with established players.
- OTAs are clearly a preferred channel for online travel shopping. PhoCusWright's European Consumer Travel Report (2010) reveals that European online travel buyers are significantly more likely to shop for travel via an OTA versus any other type of website, with the exception of general search engines.
- The increase in travellers who book holidays and dynamic packages directly with travel suppliers has raised new questions about the consumer protection currently afforded under Air Travel Organisers' Licensing (ATOL) bonding in the U.K. and the Package Travel Directive across the EU. Travellers who book travel components directly with suppliers or unlicensed resellers may not have comparable protection. ETTSA has proposed expanding the consumer protection currently afforded under the Package Travel Directive.
- Some airlines have either never supplied or have withheld content from GDSs or added fees to certain fares booked via GDS. This can reduce the ability of OTAs, traditional travel agencies, and travel management companies to present consumers with a comprehensive view of available travel offerings. Constraints and added costs on content present a potential threat to transparency and could increase cost for consumers.

- Airlines are pursuing a new product model: unbundling the component services of airfares and offering them as fee-based ancillary services separate from the base fare. If GDSs, OTAs, travel agencies, and travel management companies do not have access to this ancillary content, the true cost of a flight will not be transparent to consumers.

Not infrequently, some airlines and media cast intermediaries in the travel industry – such as travel agencies and the GDSs – in a negative light. From the outspoken CEO of Ryanair to travel insurance provider iTrek's "The Travel Agent is Dead" online video contest, more than a few travel providers have suggested that the value intermediaries add in the distribution chain is not commensurate with their compensation. The CEOs of two of the world's largest airlines, Delta Air Lines and American Airlines, intimated in analyst calls in 2009 that a day may come when travel intermediaries would be paying airlines for access to content.

However, comparatively little mention is made of the inherent value and benefits provided by effective travel intermediaries. This section examines some of the important – if lesser acknowledged – efficiencies that intermediaries have introduced into travel distribution, the benefits that GDSs and OTAs provide to the European travel economy, the potential threats to those channels and the risks those threats pose to consumers.



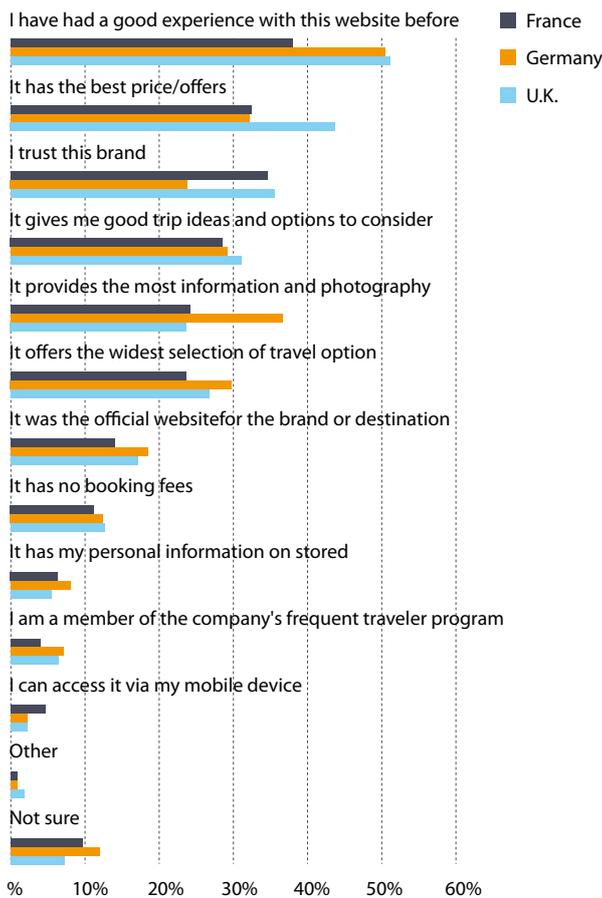
06 — Independent Distribution : Benefits & Challenges

Consumer Benefits

➤ The Leisure Traveller

Intermediaries and OTAs offer travellers an obvious benefit: the ability to shop products, schedules, and prices across many suppliers and to efficiently compare all the different options. This dynamic helps drive competition and enables consumers to shop efficiently by their most important purchasing criterion: price. Not surprisingly, consumers value access to lower prices and comprehensive product information in the travel shopping and booking process (see Figure 23).

FIGURE 23 - European Traveller Motivations for Using a Particular Website When Purchasing Travel (France, Germany, U.K.)



Base: Online travel shoppers in France (N=638), Germany (N=598), and the U.K. (N=638)
 Source: PhoCusWright's European Consumer Travel Report (2010)

OTAs have also introduced several major innovations in online travel retailing that have significantly improved convenience and efficiency for travellers and quickly become standard.¹⁹ These innovations, some of the most important of which are listed below, have been successful and widely adopted for one simple reason: consumers like them. The developments have enabled travellers to compare and choose travel options more efficiently, as in the case of the matrix display, or provided access to lower prices, as in dynamic packaging and opaque fares.

- ➔ **Airfare matrix display:** First introduced by Orbitz (based on technology from ITA Software) and now standard throughout online travel, the matrix display allows consumers to click on any cell within the matrix to sort airfare search results by price, airline, and number of stops.
- ➔ **Dynamic packaging:** This allows travellers to shop for multiple components in a single search, such as "Flight + Hotel." This feature generally provides a lower overall price than if the two components are purchased independently.
- ➔ **Flexible and alternative date search:** This feature allows travellers to compare flight options across multiple departure and return dates to find the lowest possible fare. Some have also expanded this concept to calendar-based search, enabling travellers to compare product prices over a range of dates in a calendar window.

Other innovations include alternative airport search, low-fare notifications, and major improvements in hotel searches and results display, such as map- and address-based searches and the ability to sort results by price, brand, proximity to specific address, hotel features, and other criteria.

Widespread consumer interest in accessing and comparing travel product and pricing information, particularly for air travel, is also driving the growing popularity of travel metasearch. Introduced initially in the U.S. through entities such as SideStep and Kayak, travel metasearch sites search across multiple websites – in some cases hundreds – to deliver results in a single, consolidated display for convenient comparison.

¹⁹ Quinby, Douglas (Jan. 18, 2010). "The Best OTA Innovations," PhoCusWright Connect: <http://connect.phocuswright.com/2010/01/the-best-ota-innovations/>



Metasearch is gaining ground in Europe with Kayak's expansion into the market and the introduction of several new entrants such as Dohop, Skyscanner (which reported triple-digit growth in 2009), and Travelsupermarket. Some established online travel entities such as Travelzoo and TripAdvisor have also joined this trend by establishing new metasearch engines in North America and the U.K. in 2009.

Another important consumer benefit is ATOL bonding on packaged travel in the U.K. Many tour operators and OTAs that sell packages in the U.K. comply with ATOL bonding requirements, a financial protection scheme administered by the Civil Aviation Authority to protect customers should the firm fail. ATOL has become an important consumer protection service in the U.K. because of the extreme volatility of the tour operator marketplace and the relatively high incidence of failures, some of which have left thousands of travellers stranded while on holiday.

The Package Travel Directive (Council Directive 90/314/EEC) also provides a set of protections across the EU. The Directive delineates the obligations of package travel providers with regards to presenting information and pricing to consumers. It also imposes rules on price changes and cancellation terms and establishes a measure of consumer protection against provider insolvency.²⁰

Changes in travel distribution and in the ways U.K. and EU travellers organize their holidays have raised new questions about bonding and consumer protection. As more travellers arrange their holidays independently through dynamic packages self-booked directly with travel suppliers – which are not bonded under ATOL and not covered under the current Package Travel Directive – the volume of consumers taking holidays abroad without coverage has increased. ETTSA has supported proposals to the European Commission, including the expansion of the consumer protection currently afforded under the Package Travel Directive, to include self-booked dynamic packages.²¹

➤ The Business Traveller & Corporate Travel Manager

Travel agencies and the GDSs are essential to the distribution and management of business travel. Although exact figures are unavailable, PhoCusWright estimates that the GDSs account for a significant share of managed corporate travel in Europe, and GDSs power much of the air, hotel, and car rental content for online corporate self-booking tools like Amadeus' e-Travel Management, KDS, Sabre's GetThere, Travelport's Traversa, and others.

But the GDSs represent far more than a booking mechanism for corporate travel. They perform other valuable functions across the reservation life cycle of most corporate travel transactions and assist with the complex eco-system of technology services among corporate agencies and corporate travel departments. Travel managers within corporations must often grapple with a complex array of issues, business rules and processes, and disparate technology systems to manage their company's travel programmes effectively.

For example:

➔ Supplier contracts and corporate policies

A corporate booking system or travel agent desktop application must be able to search for available products, just as a leisure booking engine would. But it must also take into account the complex business rules of the company's travel policy, such as preferred suppliers, policies on allowed classes of service for different types of flights (e.g., by flight length) and for different levels of employees (e.g., seniority), and policies about when it is permissible to book outside these rules. So, corporate travel management systems must serve not necessarily the lowest fare, but what is often referred to as the "lowest logical fare" for that trip.

➔ Quality control (mid office)

Corporate travel agencies and TMCs typically have extensive mid-office processes to ensure the accuracy of each reservation, compliance with corporate travel policies, and attention to the lowest logical fare. GDS integration with mid-office systems (by passing reservation data to them in an automated process) is critical to efficient corporate travel management.

➔ Security and risk

An increasingly important issue in corporate travel programmes is risk management, whereby companies can track the locations of their employees or ensure that too many critical employees are not traveling on the same flight. Tracking employee travel in real time requires tight integration between GDS profile systems, booking systems, and company employee databases.

²⁰ "Overhauling EU Rules on Package Travel: Frequently Asked Questions" (Nov. 26, 2009). Europa: <http://europa.eu/rapid/pressReleasesAction.do?reference=MEMO/09/523>

²¹ "ETTSA Offers Solutions for Package Travel Dilemmas" (Feb. 10, 2010). ETTSA: http://www.ettssa.eu/index.php?mact=NewsEvents,cntnt01,detail,0&cntnt01orderby=date%20DESC&cntnt01item_id=11&cntnt01returnid=59

→ Expense management and reporting (back office)

Comprehensive and efficient expense management is becoming more important for corporations, and that translates into tighter integration of purchasing, accounting, and reporting systems. In travel, the TMC and even the online self-booking tool provide essential reporting of their corporate clients' purchasing. Increasingly, corporate travel systems are providing data feeds directly to client expense management and accounting systems, depending on the level of integration. This process improves visibility into travel expenses, reduces the chance that errors might occur with manual reporting, and improves employee productivity.

These functions help optimize travel programmes, maximize use of corporate contracts and preferred suppliers, ensure policy compliance, and maximize the amount of spend under management control. Bookings that fall outside the GDS have a higher likelihood of going uncaptured or requiring manual intervention to push through mid- and back-office processes. This detracts from efficiency in the corporate travel programme and adds cost to the TMC and the corporation.

Travel Supplier Benefits

➤ Efficient Market Reach

The reach of independent travel distribution is global and significant. Online travel agencies accounted for more than €59 billion²² in 2008 global travel sales (North America, Europe, and Asia Pacific). PhoCusWright projects that by 2011, OTAs will account for 16% of the total North American travel market, 12% in Asia Pacific, and 11% in Europe.

Although comprehensive data on global sales of traditional travel agencies is not available, the GDSs provide some indication of the likely scope. As previously discussed in this paper, GDSs maintain contractual and technical relationships with some 163,000 travel agencies worldwide. GDSs mitigate the impact of rising online searching and queries from consumers on supplier reservations systems through their investments in shopping, caching, and other technology. Collectively, the GDSs handled more than 1.1 billion transactions for airlines, hotels, and car rental firms (over €183 billion). These figures do not include the substantial volume of travel agency business that is not booked via the GDSs, such as hotels, holiday packages, cruises, and other products.

Independent travel distribution enables suppliers to make their products available globally; suppliers can reach markets where they might not otherwise be able to achieve cost-effective penetration through direct marketing efforts. For example, say a GDS enables a European airline to have its flights, fares, and availability presented for shopping and booking on travel agency desktops as far flung as Cape Town, Chicago, and Chennai. Travel agents with GDS access can book flights and issue tickets on the carriers at a variable per-transaction cost to the airline.

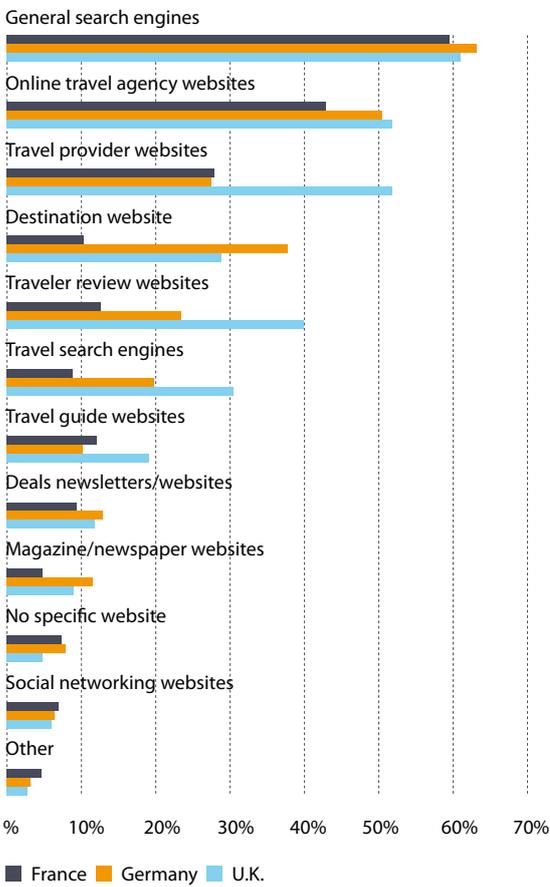
OTAs perform a similar function. Europe is home to many strong national airline brands, including Air France, KLM, Lufthansa and British Airways. While these airlines each have a strong brand presence and traveller awareness in their home countries, marketing their products in other countries can be more expensive on a per-customer basis – for example, persuading a German traveller to consider BA when flying to London. OTAs, leveraging GDS technology, present multiple carriers to customers based on price, schedule, and other criteria as selected by the traveller, enabling suppliers to compete more efficiently on price and other services.

In Europe, OTAs are clearly the preferred channel for shopping (along with general search engines). PhoCusWright's European Consumer Travel Report (2010) reveals that European online travellers are significantly more likely to shop for travel on an OTA than on any other type of website, with the exception of general search engines.

06 —

More than 40% of French travellers and 50% of German and U.K. travellers cite OTAs as the type of website they typically use (see Figure 24).

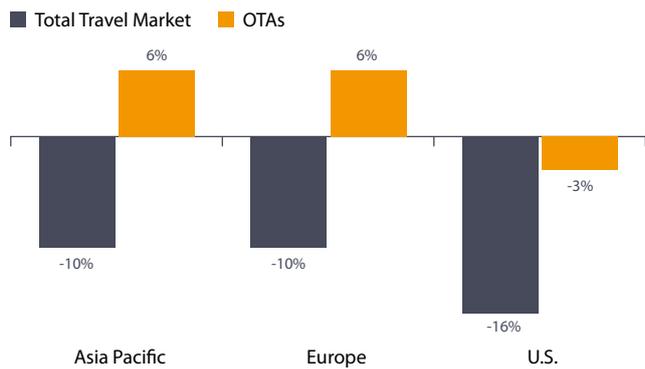
FIGURE 24 - Internet Sites Used in the Shopping Phase of Travel (France, Germany, U.K.)



Base: Online travel shoppers in France (N=638), Germany (N=598), and the U.K. (N=638)
 Source: PhoCusWright's European Consumer Travel Report (2010)

OTAs have also shown themselves to be a potent countercyclical force amid the recession. Expert in marketing to budget-conscious travellers who are increasingly shopping online for lower rates and deals, OTAs have helped deliver demand to suppliers during an unprecedented falloff in leisure and business travel demand in 2009. While the total travel markets in Asia Pacific, Europe, and the U.S. experienced double-digit declines, OTAs were the best-performing channels in each region (see Figure 25).

FIGURE 25 - Annual Change in Total Travel Markets and OTAs in Asia Pacific, Europe, and the U.S. in 2009 vs. 2008



Source: PhoCusWright Inc.

➤ Market Value : Corporate Travel

Business travel is a major contributor to the European economy, projected to account for some €175 billion²³ in 2010 despite the recession in 2009 and the consequent downturn in corporate travel. Travel agencies and TMCs play a major role in corporate travel distribution, and so by extension do GDSs, which provide a significant source of corporate travel demand for suppliers.

The corporate travel market is fundamentally different from the leisure travel market in several ways. For personal and holiday travel, the primary drivers of product and channel selection for travellers is price. But for business travel, other considerations factor in, such as schedule (a business traveller will not risk missing a meeting for a lower fare), convenience, and the company's travel policy.

As a result, the corporate travel market has more complex demands of travel suppliers, but also provides a higher yield. Business travellers are willing to pay higher airfares and hotel rates for booking at the last minute, and will purchase additional services and benefits, such as premium classes of service, flexible travel plans, lounge access, and preferred seating and boarding. These travellers also require much higher levels of service for their reservations, since they may change their travel plans more frequently, have more complex requirements, and need additional servicing that many price-sensitive leisure travellers would do without.

Travel agencies and TMCs account for a significant portion of business travel bookings. Corporations turn to corporate agencies and TMCs to manage their travel programmes and service their travellers. This is clearly evident in the significant discrepancy between the average fare booked through traditional travel agencies (includes TMCs) and that booked through OTAs. As shown in Figure 26, the average price of an air ticket booked through a travel agency in the U.K. in 2008 was 83% higher than a ticket booked via an OTA. The travel agency ticket was 66% higher in Germany and 50% higher in France.

FIGURE 26 - Average Travel Agency Airfare Difference and Average OTA Fare Sourced via the GDS by Market, 2008

Country	Difference (Average OTA Fare equals 100%)
UK	183%
Germany	166%
France	150%
Poland	95%

Source: PhoCusWright Inc.

Poland, the largest individual market in the EU NE 12, is the exception to the rule – the average GDS fare booked via an OTA is higher than the average travel agency fare. Travellers in Poland are more likely to book through travel agencies or directly with suppliers, while OTAs cater more to Poland's more affluent travellers (who are flying internationally and are more comfortable using credit cards). In this instance, and in what could be a short-lived characteristic of the emerging travel markets of the EU NE 12, OTAs are delivering (slightly) higher-yield travellers to suppliers.

➤ Opaque Distribution

Airlines and hotels are in a constant quest for perfect yield management (i.e., charging the optimal price for each flight and hotel room booked). The GDSs and OTAs both contribute to supplier yield management by offering opaque distribution, where the price of the product is concealed within a package or in a stand-alone opaque offer. Hiding the price of a flight or hotel room within a package or other opaque channel enables the supplier to further segment the market and sell the exact same inventory to different markets at different prices. This also provides suppliers with some brand insulation with their higher-paying customers, who do not see the same inventory available for a lower price.

The classic opaque distribution channel is tour operators. Tour operators create travel packages from wholesale hotel rates and net fares²⁴ from airlines. OTAs have also become extremely active in packaged travel and have, in effect, become "online tour operators" as much as they are online travel agencies. OTAs, led by Expedia, introduced dynamic packaging, whereby travellers can choose their own flight, hotel, and/or rental car to create their own package with a price that would be lower than booking each of the components separately (see Figure 27). In fact, OTAs have been so successful with dynamic packaging that many tour operators have tried to implement a similar type of product and user experience (see Figure 28).

Priceline introduced an innovative, bidding-based "Name Your Own Price" product that hides the name of the hotel until the traveller books. Other sites such as Hotwire and Travelocity ("Top Secret Hotels") offer similar opaque models. However, while tours and packages are major parts of the European travel market (€51 billion in 2009), the opaque models made popular by Priceline and Hotwire in the U.S. have not penetrated the European online travel landscape to the same degree.

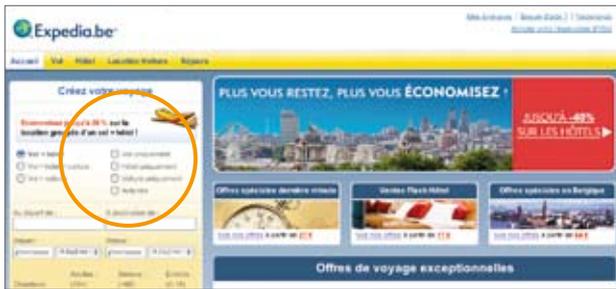
²³ Travel & Tourism Economic Impact 2010 : European Union ; WTTC. Converted from US\$226B.
²⁴ Airlines load their net fares via ATPCO (with unique designations). The GDSs facilitate the distribution of these fares (a "net" fare is a fare that the seller may mark-up, as opposed to a published fare, where the retailer must display the full published fare) through their platforms. Tour operators or travel agencies must have a contract in place with the airline to book those particular fares.

06 —

FIGURE 27 - Expedia.de and lastminute.com Home Pages with Emphasis on Dynamic Packaging



OTA Dynamic Packaging



Source: Expedia.de and lastminute.com

FIGURE 28 - Thomas Cook Home Page with "Tailor-make" Dynamic Packaging Option



Source: ThomasCook.com

➤ Distribution Efficiencies: Pricing and Reservation Handling

The GDSs provide a range of automated processes for travel agencies and airlines that significantly reduce reservation errors and manual handling for both.

- ➔ **Pricing:** All of the GDSs provide pricing tools, which enable agencies to accurately price out itineraries, including taxes and fees, even for multi-carrier itineraries.
- ➔ **Debit memo procedures:** When pricing errors do occur, the GDSs facilitate debit memo handling and enable the necessary communication with the airline host system.
- ➔ **Booking management:** The GDS APIs support change functions for existing reservations – including changes, cancellations, re-pricing, and rebooking – to reduce manual processing for agencies and airlines.

Travel Agency Benefits

GDSs enable their travel agency and OTA customers to function as intermediaries between travel suppliers and consumers, aggregating and providing access to comprehensive supplier and product information and enabling fulfilment of customer travel orders through interline ticketing. Ticketing through the GDS triggers a number of activities related to the mid- and back-office systems that are crucial to agency business operations. These activities are routinely integrated, automating the entire life cycle of the travel reservation. By furnishing agencies with accurate reservation records and the technology to handle waitlist requests, schedule changes, and ticket reissuance, and cancellations, GDSs also provide quality control.

Time savings achieved by GDS technology is a key efficiency for both online and traditional travel agencies. A 2008 Amadeus study found that booking via the GDS for an independent travel agent took less than two minutes, while booking via a screen scraper application or airline website each took well over three minutes. Similarly, the average time for independent agents to modify a PNR via the GDS was 1.6 minutes, versus more than five minutes via an airline website or screen scraper.²⁵



Threats to Intermediary Distribution

Travel distribution is undergoing constant change amid continuous advances in technology and commercial models. This section addresses key threats to independent travel distribution that have emerged from this evolution and the potential impact of these threats on the travel industry and travellers.

➤ Full Content: Fares

Airlines and intermediaries have been debating the concept of “full content” for more than a decade. The concept, on the surface, is simple – that all inventory and fares of an airline are available through GDS and travel agency distribution. But the realisation of full content is far from simple.

The first major challenge to full content was the low-cost carrier model. LCCs such as Southwest Airlines in the U.S. and easyJet in Europe have historically pursued a direct distribution strategy, with no or limited participation in GDS or travel agency distribution. Some, including as easyJet and Ryanair, have incorporated “anti-travel agent” positioning in their branding and marketing to appeal to travellers. The Internet provided a powerful and enabling medium for LCCs to expand their retailing capabilities and reach more customers more efficiently. In 2008, travellers booked 69% of the €18 billion in air travel sold by European LCCs on the airlines’ websites.

The second challenge to full content came from traditional network airlines. In the second half of the 1990s, several airlines introduced discounted fares available only through their websites. Known as “Web fares,” these fares were intended to drive travellers directly to airlines to book and caused havoc across the distribution chain. Travel agencies, TMCs, corporate travel managers, and tour operators found that Web fares often undercut their negotiated discounted rates and had a significant, negative impact on their operations.

The GDSs, OTAs, and airlines have come a long way in stemming fragmentation and closing content gaps. In recent years, several LCCs have made meaningful shifts in their distribution models that acknowledge the value of travel agencies and GDSs. Most notable in Europe is easyJet, the large U.K.-based LCC, which in 2007 began working with GDSs to expand its reach into the corporate travel market. The GDSs and some OTAs have invested in new interfaces to support easyJet’s XML-based specification.

In North America, JetBlue, Southwest, and WestJet have each upped their participation with GDSs to expand distribution to both the corporate and leisure travel markets.

²⁵ Dunn, Jerry (February 2009). “EasyJet Distribution on GDS,” presentation at Business Travel Show Innovation Awards : <http://www.centaurexhibitions.com/Libraries/Business%20Travel%20Show%20Innovation%20Awards%20Presentations/easyJet.sflb>

06 —

The GDSs, OTAs, and airlines have also closed some gaps in content through new financial models. Widely implemented in 2006 and known as GDS “opt-in” agreements, these new models ensure GDS access to full airline content in return for a significant reduction in the distribution costs paid by airlines to GDSs. While these agreements have ensured travel agencies access to all participating airlines’ fares and inventory, they have come at a price: GDSs have reduced the incentive payments they have historically made to travel agencies, and agencies have seen a continued decline in what had been a meaningful revenue stream.

These agreements are not industry-wide and do not necessarily cover all content. Southwest and easyJet do restrict which fares are available via GDSs, and in some cases limit which agencies may book them. Ireland-based LCC Ryanair, one of Europe’s largest airlines, does not participate in any GDS channel. The goal of truly full content remains elusive, and travel intermediaries that want to offer the full spectrum of content for their customers must source both GDS and online channels, adding inefficiency into the distribution chain for intermediaries and consumers.

➤ Full Content: Ancillary Services

Schedules and fares are not the only considerations in the full content debate. The introduction of airline ancillary services, fare families, and fees has added another dimension to the discussion. Indeed, the changes playing out in airline product merchandising are forcing a complete reconsideration by suppliers and intermediaries of the very meaning of “full content.”

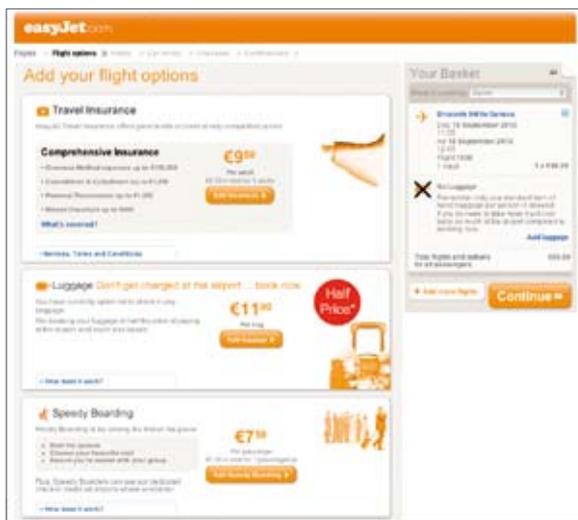
Earlier this decade, airlines began introducing new product strategies to increase revenues:

- 1 – Unbundling services within the airline offering, such as baggage fees, preferred seating (e.g., exit rows), and in-flight services (e.g., pillows, blankets, food) and selling them on an à la carte basis. Ryanair is certainly the most aggressive and flamboyant in its pursuit of ancillary service fees, even proposing fees for access to the lavatory while in flight.
- 2 – Bundling services, or grouping products and services into a package-like shopping and purchasing experience (fare families). Air Canada was among the first to pursue this model when it introduced its Tango and Latitude fares, which offered different options (e.g., seating, onboard services, schedule changes) for each fare class.

This evolution in airline retailing poses significant challenges to independent distribution channels.

This change represents a dramatic and sweeping shift in distribution for the airline industry, but it is clearly here to stay. Most travellers have already been introduced to ancillary services, and these services have since become the airline industry’s grand new product and revenue model. Globally, airlines generated some €7.7 billion in ancillary revenue in 2008, up from €1.7 billion just two years earlier.²⁶ Figure 29 shows how two LCCs in Europe are offering these services on their website shopping paths.

FIGURE 29 - Optional Services Selection Step in the Flight Booking Process for easyJet and Wizz Air Websites`



Source: easyJet.com, WizzAir.com

This evolution in airline retailing poses significant challenges to independent distribution channels. Ancillary services require entirely new ways to display and sell products, and this change touches every link in the travel distribution chain, from shopping and booking to payment and day-of-travel fulfillment (see Figures 5 and 6):

- GDSs and travel agencies must have new interfaces to access, book, and display the content.
- Settlement systems and agencies must implement new standards to facilitate payment across agencies and suppliers.
- Travel agency mid- and back-office systems, as well as corporate expense management tools, must have new capabilities to capture and report on these products.



➤ Full Content: The Challenges

The threats of withheld content and the rise of airline ancillary products and services present two major risks to independent travel distribution and travellers:

1 – Price-driven comparison shopping

First is the serious potential for the erosion of a consumer's ability to derive an apples-to-apples comparison of prices and services. Travellers clearly value the ability to comparison shop across the widest possible range of products and options (see Figure 23). However, having less content available within the distribution system limits travellers' ability to shop for and compare fares across multiple airlines in a single, convenient online display. The expanding array of ancillary services that are excluded from the base fare (the base fare is typically what travellers see in initial fare search results) also limits travellers' ability to make comparisons and evaluate prices. At worst, this lack of access could result in a scenario where the consumer does not know the full price until the day of travel. Additional fees – which can be considerable, and even more than the base fare – are often not presented until after the initial fare quote.

Through multi-supplier shopping, OTAs and GDSs enable real-time price arbitrage and empower consumers to source their preferred product at the lowest possible cost. Fares and ancillary services excluded from the distribution system pose a risk to the consumer-oriented efficacy of multi-supplier shopping and, by extension, result in higher costs for consumers.

2 – Corporate Travel Inefficiency

This development also poses a serious risk to the business travel market, which is a source of significant demand not only for airlines' higher-yield full and business class fares, but also for many of the now unbundled ancillary services. If these services are not available through the intermediary channels that service corporate travel managers and TMCs, spend may not be visible in advance (during the shopping process) and may not be efficiently captured in the corporate travel programme's expense management processes. Lack of full content also erodes the ability of TMCs and corporate travel managers to accurately assess their organization's full travel spend and manage their travel programme effectively.

➤ Response of the Independent Distribution System

The incorporation of ancillary services into the independent travel distribution system requires three things:

1 – Standards

Common standards that would enable airline and distribution systems to communicate about the shopping, booking, and fulfilment of ancillary services.

2 – Technology innovation

Advances in technology across the distribution chain to enable the efficient display, booking, fulfilment, and reporting of ancillary services.

3 – Cooperation

Agreement among suppliers and distributors about the technical and economic models that facilitate independent distribution of airline ancillary services.

There has been some development in each of these areas. ATPCO has introduced new messaging sets to facilitate the distribution of ancillary services between airlines and distributors, which, if broadly adopted by the GDSs and airlines, could address consumer demand for an apples-to-apples comparison shopping process. Some settlement services have introduced new options to enable settlement of ancillary services. However, it is unclear to what extent airlines will adopt them. Some airlines have indicated that these standards do not meet all of their needs.

The GDSs are doing extensive work on enabling the distribution of bundled fares and ancillary services. Amadeus, Sabre, and Travelport have all introduced new travel agency desktop tools to facilitate agency shopping and booking of ancillary services, and these GDSs are continuously introducing enhancements.²⁷

However, advances in technology can only go so far without cooperation among travel suppliers and distributors. Airlines have adopted a range of approaches with regard to cooperation around ancillary services and making these new products available to downstream points of sale. But without full participation across the travel distribution chain, the independent travel distribution industry will have difficulty making the full range of travel options and costs easily accessible to its consumers; this could mean travellers will not have efficient, convenient access to all suppliers and products.

The incorporation of ancillary services into the independent travel distribution system requires three things: standards, technology innovation, cooperation.



Appen- dix 01

Glossary



Appendix 01: Glossary

➤ ADR (average daily rate)

A statistical metric used in the lodging industry to measure the daily rate per room. The ADR is calculated by dividing the room revenue by the number of rooms sold.

➤ Ancillary services (for airlines)

Services sold by airlines to generate revenue in addition to the airplane ticket, such as frequent flyer or loyalty programmes, baggage fees, change or cancel fees, preferred seating, onboard sales, and complementary travel products (e.g., hotels, rental cars, trip insurance). Ancillary services have taken two forms: unbundled and bundled. Unbundled content (referred to as à la carte or ancillary services) are services or products offered separately from the base fare, such as separate baggage fees, onboard Wi-Fi, etc. Bundled content (referred to as fare families or branded fares) refers to the recombining or packaging of an airline ticket with select airline services, such as advanced seat assignment, ticket change flexibility or refundability, etc.

➤ ATPCO

Airline Tariff Publishing Company. Owned by 24 airlines, ATPCO provides the standard structure and process for collecting airfares and the rules and conditions of service for airlines. ATPCO adds in local charges such as airport taxes and distributes the resulting fare to GDSs and other intermediaries.

➤ Back-office

The financial accounting functions and processes of travel intermediaries, which include tracking commissions, managing the disbursement of funds, provisioning management reports, reconciling accounts with accounts receivable, and printing tickets, invoices, and itineraries.

➤ Computerized reservation system (CRS)

A computerized system originally developed for airlines to manage reservations and inventory and later adapted for use by travel agencies. CRSs are the precursors of GDSs and also became widely adopted by hotels, car rental firms, and other travel companies.

➤ Dynamic packaging

The dynamic or “on the fly” bundling of two or more travel components to create a customized package with a single price.

➤ EU NE 12 European Union New Entrants

This paper uses the term “EU NE 12” to refer to the group of 12 nations that joined the European Union after the original formation of the EU15. These 12 countries are Bulgaria, Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, Slovakia, and Slovenia.

➤ Global distribution systems (GDSs)

Electronic travel distribution networks that facilitate connectivity, shopping, and booking among thousands of travel suppliers and more than 163,000 travel agencies around the world.

➤ Interline ticket

In its simplest form, this refers to a multi-carrier ticket, or a flight itinerary where two or more carriers operate different segments. Interline or “interlining” also refers to code sharing among airlines, which enables airlines to cross-sell other airlines’ flights.

➤ Intermediary

An entity such as a traditional retail travel agency, tour operator, or online travel agency that sits between supply and demand in the travel distribution value chain and aggregates, markets, and sells content from travel suppliers to travellers.

➤ Lowest logical fare

A concept in the corporate travel market whereby travel agents and corporate travel booking systems must calculate which flights and fares to offer a business traveller based not only on the lowest available fare, but also on business rules of the company’s travel policy, such as preferred suppliers and allowed classes of service for different types of flights (e.g., flight length) and different levels of employees (e.g., seniority).

➤ Low-cost carrier (LCC)

Also referred to as no-frills or budget carriers, LCCs have historically offered lower fares than traditional network carriers, but they also offered fewer services. The term originated within the airline industry to refer to airlines with a lower operating cost structure than their competitors, including lower labor costs, single-aircraft model fleets (to streamline crew training and maintenance), the use of secondary airports on routes, high seat density, limited travel agency distribution, and fast “at-gate” aircraft turnaround time. Today, airline business models are blurring. Low-cost carriers are adding more “network carrier” features, while traditional airlines are trying to strike a balance by maintaining select service offerings.

➤ Managed business travel (corporate travel)

Managed or corporate travel refers to all air, car, and hotel expenses where purchases are governed by a formal corporate travel policy. A travel policy can include a preferred travel management company, supplier, online booking tool, negotiated rates, and/or booking channel. Managed travel also includes rogue, or out-of-policy, purchases that are captured as part of a company’s corporate travel budget.

01 —

➤ Mid-office

Ticketing triggers a number of activities known as “mid-office.” Directly related to the booking, these processes ensure the accuracy of reservation records, enable handling of waitlist requests, support customer service initiatives, manage supplier-contractor compliance, and provide overall quality control. The processes that support the entire travel distribution value chain, customer data, and customer marketing programmes are also considered mid-office.

➤ Online corporate booking tool

Also referred to as a self-booking tool, SBT, or CBT, corporate self-booking tools are online reservation tools for business travellers that automate the booking of corporate travel reservations for travellers and traveller assistants within a managed travel programme.

➤ Online travel agency (OTA)

An entity whose branding is oriented online and that principally conducts business online. There are several hundred online travel agencies in the U.S. and Europe (defined as a travel agency for which at least 50% of sales are derived online).

➤ Opaque distribution

Opaque distribution shields certain information about a travel product from a traveller. It generally takes two forms: 1) packaging, where the price of the product is concealed within the total price of a package, or 2) a stand-alone opaque offer where some information, such as a hotel name and location or flight schedule and airline, is withheld from the traveller until after the purchase. The benefit to travellers is typically deep discounting – opaque offers enable the supplier to sell the exact same inventory to different markets at different prices. This provides suppliers with some brand insulation with their higher-paying customers, who do not see the same inventory available for a lower price.

➤ PNR

The passenger name record is the file stored in the GDS and airline reservation systems that contains the essential information about a travel itinerary. The standard PNR format was developed to facilitate sharing among airlines and GDSs. PNRs typically contain traveller information and flight and ticketing details, but may also include a range of other information, including different travel components on the same itinerary, frequent flier data, special requests, and other details.

➤ Segment

The base component of a booked transaction as measured by a GDS, a segment represents a flight from point A to point B for a single passenger. For example, a roundtrip plane ticket where each leg of the flight was nonstop would consist of two segments if only one passenger was included in the itinerary; if the flight legs each included one stop, the flight would have four segments. GDSs charge suppliers a “segment fee” for each segment booked.

➤ Supplier (or travel supplier)

An owner/operator of a travel service, such as an airline, hotel, car rental company, or cruise line (as opposed to an intermediary or retailer, such as a travel agency, that resells suppliers’ products).

➤ Transaction

A transaction in travel distribution can have several meanings depending on context. Transaction generally refers to a booking – when a traveller reserves a travel product, such as a flight, and submits payment. Transactions can also refer to GDS segments. Where this paper refers to “transactions” as a measurement of volume processed by the GDSs, a transaction is equivalent to a segment.

➤ Travel agency

A retail storefront or office-based travel agency business. PhoCusWright uses this term to the exclusion of online travel agencies.

➤ Travel “e-tailing”

The selling of retail goods on the Internet. Short for “electronic retailing,” e-tailing refers to the creation of a rich and engaging consumer shopping experience online, just as physical retail stores invest in the atmosphere and design of their stores to deliver a high-quality experience that fosters consumer purchasing.

➤ Travel management company (TMC)

A type of travel agency that provides management and consulting services for corporate travel programmes, including contract management and procurement, expense reporting, and programme development and oversight, as well as more conventional travel agency services, such as booking and fulfillment of travel.

➤ Tour operator

Tour operators procure inventory from travel suppliers, such as flights, hotel rooms, and other services, and create travel packages for resale to travellers directly or via travel agents. Most tour operators also add their own value or service into a package, such as a travel guide, receptive services in destination, or premium access to events and attractions. There are a wide variety of tour operators and tour operating models, from price-driven packagers offering many destinations and packages to highly specialized operators that may specialize in distinct destinations or types of travel.

➤ Unmanaged business travel

All air, car and hotel expenses associated with business travel in firms that do not have a travel policy dictating the channel, type of travel, supplier or fare/rate used. PhoCusWright's sizing of the online leisure travel market includes unmanaged business travel.

➤ Western Europe

This paper uses "Western Europe" to refer to the following 17 countries as a single region: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, and the United Kingdom.



Appen- dix 02 *Market*



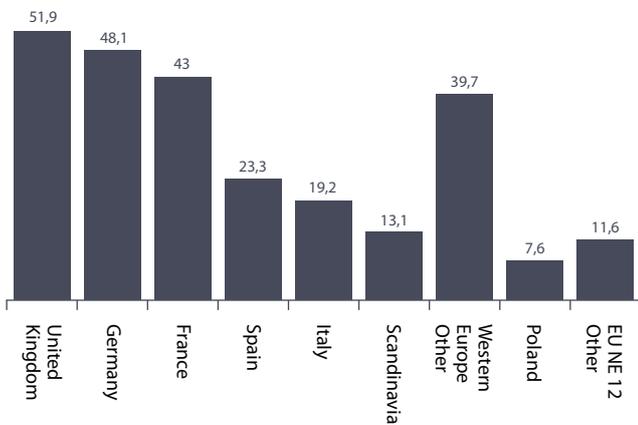
Appendix 02: European Travel Market – Detail by Country & Segment

Introduction

The United Kingdom, Germany, and France are the three largest travel markets in Europe, accounting for more than half (56%) of gross travel sales. In 2008, the United Kingdom generated €51.9 billion in travel sales (20% of the market); Germany accounted for €48.1 billion (19% of the market); and the French travel market reached €43 billion, (17% of the market) (see Figure 30).

Poland is the largest market in EU NE 12, with €7.6 billion in gross sales in 2008. While the Polish travel market is three times as large as the Czech Republic's and Bulgaria's, it is still relatively small compared to those of Western countries, accounting for just 3% of the total European travel market. Gross travel sales in all the EU NE 12 countries totalled €19.2 billion in 2008, equivalent to the entire Italian travel market.

FIGURE 30 - Total Gross Travel Bookings of Major European Markets, 2008 (€ bn)

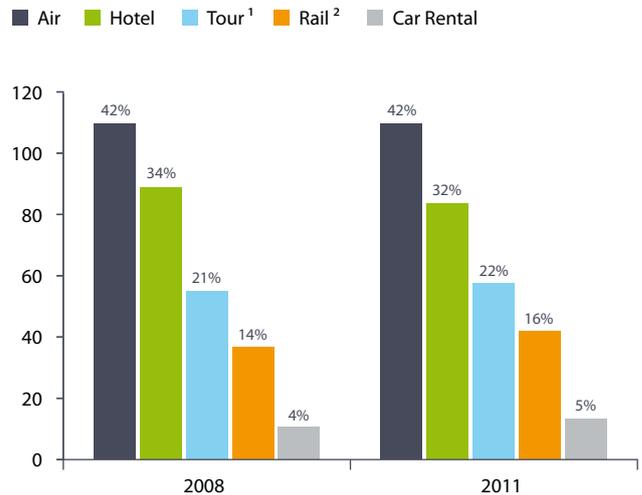


Source: PhoCusWright Inc. and Euromonitor International

Analysis by Travel Segment

No segment of the travel industry – airlines, hotels and lodging, rail, or tour – escaped recessionary declines in 2009. However, the pace of recovery will vary by segment. Gross sales for air, hotel, and tour verticals will not regain their 2008 levels by 2011, while rail and car rental sales are expected to increase only slightly from 2008 through 2011 (see Figure 31).

FIGURE 31 - European Travel Market Gross Bookings & Share by Product Segment, 2008 & 2011 (€ bn)



¹ Tour figures do not include tour sales from EU NE 12; percentages exceed 100% because of tour operator overlap with air, hotel, and car rental bookings.

² Rail data not available for Estonia, Latvia, Lithuania, Cyprus, or Malta.

Source: PhoCusWright Inc. and Euromonitor International

02 —

→ Airlines

The last few years have been brutal for airlines worldwide. Astronomical fuel prices in 2007 and 2008 pushed many carriers to the brink (and several over it), while the sharp falloff in demand from the global economic recession was simply salt on an already deep wound. Western Europe's traditional airline passenger revenues sank 14% in 2009 to €68.5 billion. LCCs, by comparison, fared relatively well. Far less reliant on the premium business travel market (whose pullback was especially far-reaching in this recession), LCC passenger revenues in aggregate declined just 3% to €17.9 billion and are projected to grow faster than the total airline market in 2010.

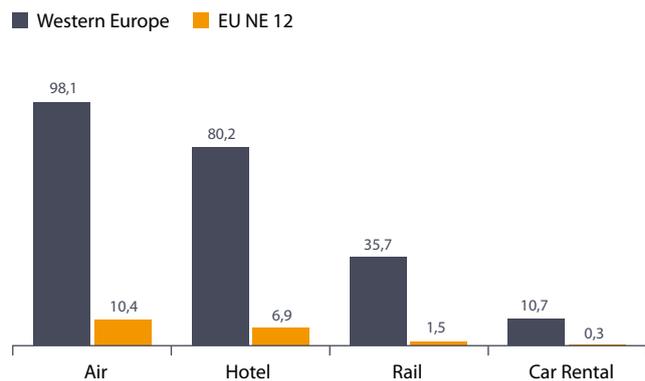
In the EU NE 12, airline declines were milder. The region's carriers saw a 5% drop in 2009 to €9.9 billion, accounting for 10% of the total European air market. The near-term outlook is positive, as EU NE 12 gross air sales in 2010 are projected to surpass 2008 levels and to grow by another 6% in 2011, reaching €11.2 billion.

→ Hotels

The fragmentation and lack of supplier concentration in Europe's hotel industry makes it difficult for hotels to hold their rates amid a downturn. Consequently, recovery for hotels will be slower than for other verticals. The damage of the recessionary declines will be deep and long-lasting for the European hotel industry overall. In aggregate, hotel share will drop from 34% in 2008 to 32% as the hotel industry struggles with expected pressure on ADR and demand through 2010 and possibly into 2011.

There are considerable structural differences between the travel markets of Western Europe and the EU NE 12 (see Figure 32). At €10.4 billion in 2008, air comprises a much larger share of the EU NE 12 travel market (54%) (excluding tour operators) than of the Western European market (44%). Hotel share (36%) is consistent across both regions, while rail and car rental play a much smaller role in the EU NE 12. Rail and car account for just 8% and 2% of the region's market, respectively, versus 15% and 5% for Western Europe.

FIGURE 32 - Composition of the European Travel Market by Product Segment & Region, 2008 (€ bn)



Source: PhoCusWright Inc. and Euromonitor International

Market Analysis : Germany, Poland, and the United Kingdom

The U.K. travel market grew by a healthy 6% in 2008 to £41.3 billion (€51.9 billion), driven by strong performance in the early part of the year. The recession began to take its toll in the latter part of the year, and in 2009, the total market declined 9% to £37.6 billion (€42.4 billion), due in part to the devaluation of the pound.

Germany was better off than many of its neighbours in 2008; total gross bookings grew by 4%, reaching €48.1 billion for the year. In 2009, German travel companies suffered the least compared to other European nations, with a decline of 6%. A combination of factors helped keep demand from plummeting, including Germany's relatively small reliance on inbound tourism, its cultural appreciation for travel, and its labour programmes and social policies that protected jobs during the recession. Germany is expected to overtake the U.K. in gross travel bookings in 2009 and to see continued growth through 2011 and beyond, putting it ahead of the U.K. in total market size for the foreseeable future.

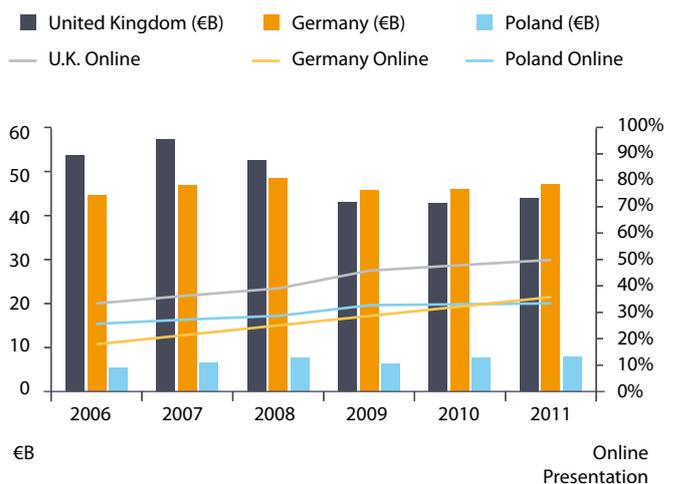
Poland's travel market grew by an extraordinary 17% in 2007 and 16% in 2008 amid strong overall economic growth for the country. But the economies in the EU NE 12 also suffered more during the recession, and travel demand fell more sharply. Gains were erased by the recession in 2009, when gross travel bookings dropped 15% to €6.4 billion. The country experienced a significant rise in unemployment and an erosion in consumer confidence that led to cancellation of vacation plans and a shift away from long-haul travel to shorter domestic trips. The Polish travel market is projected to show a strong recovery through 2011, growing by 14% to €7.3 billion in 2010 and by a more modest 7% in 2011 to reach €7.8 billion.

Online Travel

The U.K. is home to the largest online travel market in Europe and one of the most mature online travel markets in the world. Nearly €21 billion in travel was booked online in 2008, accounting for 40% of the total market (see Figure 33). Despite the strength of the online channel in the U.K., the country continues to represent less and less of the total European online market as other countries catch up in online adoption.

Online travel got off to a slow start in Germany but has been gaining ground in recent years. Online travel sales increased 25% in 2008 to €11.8 billion. Both supplier sites and OTAs are maintaining solid gains and grew another 9% and 13%, respectively, in 2009. Poland's online penetration is relatively high within the EU NE 12, but moderate relative to Western European markets. Online travel in Poland grew 29% and 22% in 2007 and 2008, respectively, reflecting the strong growth of a younger, less penetrated market. Online channels outperformed the market in Poland as in other countries, falling just 4% versus the 15% decline for the total Poland travel market in 2009.

FIGURE 33 - Total Travel Markets of Germany, U.K., and Poland and Online Penetration, 2006-2011 (€ bn)

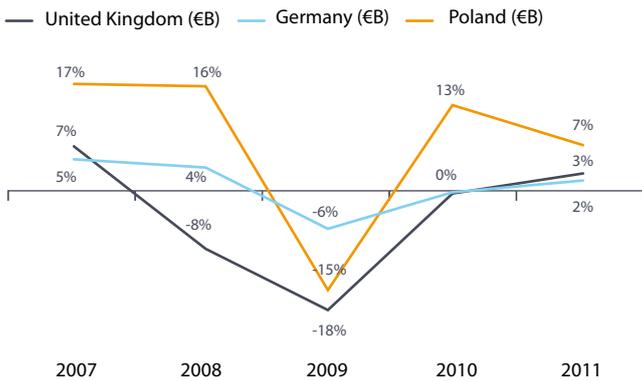


Note: Poland data does not include tour operators; Poland and U.K. currencies converted to Euros based on OANDA annual conversion rate averages.

Source: PhoCusWright Inc. and Euromonitor International

02

FIGURE 34 - Annual Change of Total Travel Markets of Germany, U.K., and Poland, 2007-2011



Note: Annual change for U.K. and Poland based upon market size in local currencies (pounds and zloty) to reflect real growth rates.
Source: PhoCusWright Inc. and Euromonitor International

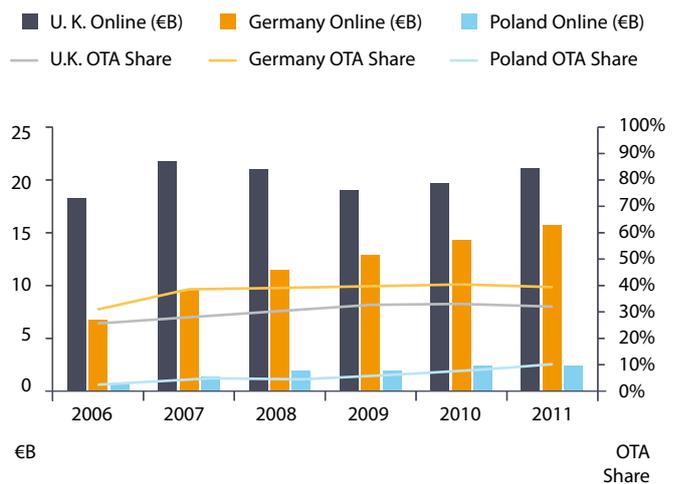
➤ Online Travel Agencies

OTAs in the U.K. generated gross bookings of £4.8 billion (€6.1 billion) in 2008, representing 29% of the total U.K. online travel market (see Figure 35). Five major OTAs – Booking.com (Priceline), ebookers (Orbitz Worldwide), Expedia, lastminute.com (Travelocity), and Opodo – collectively control nearly 70% of OTA sales. As in other markets, OTAs have leveraged their strong reach among price-conscious leisure travellers and have significantly outperformed the broader market amid the recession. The OTA channel in aggregate declined just 3% in 2009 versus an 8% decline for the total U.K. travel market.

OTA performance in Germany has been exceptionally strong. Gross bookings grew by 28% in 2008, reaching €4.3 billion. The channel also grew a striking 13% to €4.9 billion in 2009, a remarkable showing of the countercyclical strength of OTAs as the total German travel market declined 6%. OTA penetration has been experiencing significant gains as a result, reaching 11% in 2009 from 7% just two years earlier. German OTAs like HRS and ab-in-den-urlaub.de are giving global heavyweights like Expedia and Priceline (Booking) stiff competition, which is creating a less concentrated OTA landscape.

OTAs represent just a small piece – less than 10% – of the relatively young online travel market in Poland. While some global OTAs such as Booking.com and Hotels.com offer Polish language sites for the market, providing local-language reservation centres and even physical retail shops remains key in EU NE 12 countries, where consumers still prefer to pay in cash and in person, especially with larger leisure travel expenditures. Local players such as travelplanet.pl and eSKY.pl have the upper hand in the market today.

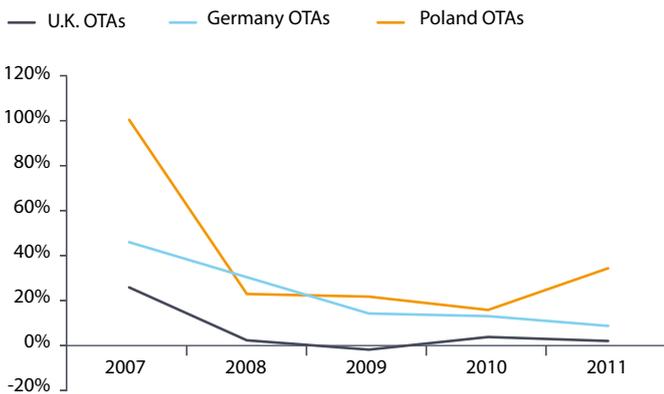
FIGURE 35 - Total Online Leisure/Unmanaged Business Travel Markets of Germany, U.K., and Poland and OTA Share, 2006-2011 (€ bn)



Note: Poland data does not include tour operators; Poland and U.K. currencies converted to Euros based on OANDA annual conversion rate averages.
Source: PhoCusWright Inc. and Euromonitor International

The role of the GDSs varies significantly by country throughout Europe.

FIGURE 36 - Annual Change in OTA Gross Bookings in Germany, U.K., and Poland, 2007-2011



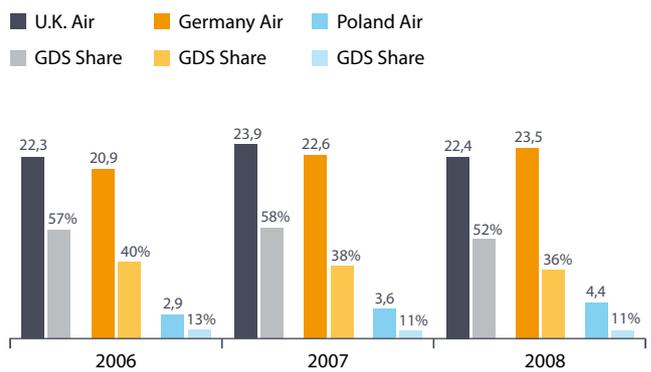
Source: PhoCusWright Inc. and Euromonitor International

Global Distribution Systems

The role of the GDSs varies significantly by country throughout Europe. In the U.K., over half of all air sales were processed via the GDSs in 2008, while in Germany just over one third (36%) of the €23.5 billion air market was booked through this channel (see Figure 37). In both Germany and the U.K., GDS share has been declining due to the strong growth of LCCs – which generally pursue a direct-to-consumer distribution strategy – as well as growth in website sales for traditional airlines. Both the U.K. and Germany are home to Europe’s largest package holiday markets, which make extensive use of charter flights. This portion of the air market is also typically processed outside GDSs.

In Poland, GDS penetration of the air market is smaller at just over 10%. Much of leisure air travel is booked through LCCs and charter operators such as Itaka. These trends, along with traveller and travel agent preferences to book over the phone with suppliers, have limited GDS penetration of the air market in Poland. However, despite these obstacles, aggregate GDS air volume has increased by 35% in Poland over two years – from €370 million in 2006 to nearly €500 million in 2008.

FIGURE 37 - Total Air Gross Bookings and GDS Share for Germany, U.K., and Poland, 2006-2008 (€ bn)



Source: PhoCusWright Inc. and Euromonitor International

Appen- dix 03

*Key
Segments*



Appendix 03: Key Segments of Online Travel

The Internet is now essential infrastructure in the travel industry. It is a principal source for travel planning, research, shopping, and booking for travellers across Europe. More than one third of travel in Western Europe and one fifth of travel in the EU NE 12 will be sold online in 2010 (see Figure 10).

The following major domains of online travel are described briefly below:

- Online travel agencies (OTAs)
- Supplier websites
- Online tour operators
- Online corporate booking tools
- Non-transactional / media travel sites
- Emerging media and channels

➤ Online travel agencies

OTAs are online retailers, typically offering a range of travel products for purchase, including flights, hotels, car rentals, tours and packages, cruise, activities, and other services. OTAs led the evolution of online travel from its infancy and today represent a significant portion of the total European travel market (see "The European Travel Distribution Value Chain" on page XXX for more detail). Types of OTAs vary significantly in Europe, from large pan-regional brands to small, local market players.

Commercial and product models also vary. Some offer a full range of travel services, such as Expedia and lastminute.com, while others, such as Booking.com and Hotels.com, focus on hotels and accommodation. Most OTAs, like traditional travel agencies, rely on GDSs for access to travel supplier content.

➤ Supplier direct websites

The travel industry in Europe is nothing if not competitive, and travel suppliers – airlines (both traditional and low-cost carriers), hotels, car rental companies, rail companies, and traditional tour operators – are aggressive competitors in the online travel marketplace. Direct sales via travel supplier websites have evolved differently in each segment: Low-cost carriers have been among the most aggressive, and as a category booked more than 70% of their passenger revenue via their own websites in 2009.²⁸

Other segments, such as hotels and car rentals, are more fragmented and have historically relied on decentralized distribution (i.e., direct to an individual hotel property or car rental location). Consequently, these segments have achieved lower rates of online direct sales (7% and 16% for hotels and car rentals, respectively, in Western Europe in 2009).²⁹ Suppliers and OTAs will continue to compete for their shares of the online travel market. PhoCusWright projects that both channels will continue to grow faster than the total European travel market for the foreseeable future.

Independent travel distribution through GDSs, OTAs, and travel agencies provides a counterweight to supplier-direct distribution. By creating an environment where travellers can shop and compare options and prices in unbiased displays, GDSs and travel retailers foster a competitive landscape where suppliers must compete aggressively on price to capture travellers' business.

➤ Tour operators

Tour operators play a distinct and significant role in the European travel marketplace, especially in Northern European countries, where an annual or semi-annual vacation to warmer destinations is part of the cultural fabric. Tour operator gross packaged travel revenue reached nearly €60 billion in 2009³⁰ in Western Europe (more than half of which was generated in Germany and the U.K.), and 17% of that revenue was booked online.

Tour operators in particular compete head-to-head with online travel agencies for vacation travellers, as well as with suppliers, which are increasingly offering city breaks and packaged travel options via their own websites. Although tour operators' online bookings amounted to just over a quarter of the aggregate OTA market in 2009,³¹ some operators are attempting to position themselves strategically as competitors to OTAs in the online arena.³²

³⁰ PhoCusWright excludes tour operator airline revenues here; these are assigned to the airline segment.

³¹ PhoCusWright's European Online Travel Overview Fifth Edition (2009)

³² May, Kevin (Apr. 27, 2010). "How Will Thomas Cook Become a Top European Online Travel Agency?" Tnooz : <http://www.tnooz.com/2010/04/27/news/how-will-thomas-cook-become-a-top-european-online-travel-agency/>

03 —

➤ Online corporate booking tools

Also referred to as corporate self-booking tools, these solutions deliver online booking services within a corporate intranet to help corporations and corporate travel agencies manage travel more efficiently. Solutions from companies such as Amadeus, Concur, Egencia, KDS, Sabre, Travelport, and others offer an OTA-like travel shopping and booking experience for company employees within a private booking site. Typically corporations and their travel management companies implement these solutions with customized business rules to align employee travel arrangements with the corporation's preferred suppliers and company travel policies. Online corporate travel bookings represent a relatively small piece of the total European travel market (estimated at just 3% in 2009), but this channel is expected to grow significantly as online adoption increases within corporate travel programmes across Europe.

➤ Non-transactional / media travel sites

The last several years have seen an explosion in innovation in non-transactional services, with the goal of facilitating and enriching the online travel planning, shopping, and sharing experience.

- Review and trip planning – Sites such as Lonely Planet, NileGuide, TripAdvisor, and WAYN (Where Are You Now) enable travellers to explore destinations, read and create traveller reviews and opinions, and share trip experiences and ideas.
- Metasearch and lead generation – Sites such as Cheapflights, Kayak, Skyscanner, and Travelsupermarket offer comparison searching and shopping across hundreds of other websites, including suppliers and OTAs, and are gaining ground in some European markets, such as the U.K. and Scandinavia.

➤ Emerging media and channels

Online travel continues to evolve. The growing use of social networking services such as Facebook and Twitter, increased consumption of online video, and expanding adoption of smart phones are fostering new ways for travel companies – whether suppliers or retailers – to connect with travellers. This is prompting innovation in electronic travel marketing and distribution, from booking engines on the Facebook application platform to mobile applications that allow travellers to change a reservation or find the perfect hotel nearby. As technologies and commercial models continue to change, all players in the travel distribution chain will be challenged to innovate and meet the changing demands of travellers in Europe and around the globe.





ET TSA / European Technology & Travel Services Association
Rue Defacqz 52 / 1050 Brussels / Belgium
T +32 2 645 79 91 / F +32 2 645 79 99
E-mail : secretariat@ettsa.eu / Website : www.ettsa.eu