Online Travelling
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Bob Crandall, the famous boss of American Airlines, often complained that airline companies hindered the only thing of interest to the business passenger: travelling. So it is no wonder that a system such as online booking has produced a small revolution which consumers have received with relief. However, who will we contact in future if we wish to make an online booking?

Bookings for flights, and for trips in general, have a series of particularities which seemed to be calling out for the Internet. It is a pure service (there is no manufacturing stage) with high value, and it is a perishable product within an industry with advanced information technology. This can equally be applied to flights, car rentals, accommodation and cruises. Flights represent 77 percent of all online transactions, followed at some distance by accommodation with 12 percent. The sector anticipates turnover, in Europe alone, of 12,000 million euros (two billion pesetas) during the year 2002, and has large possibilities to continue evolving, given the large growth experienced in recent times. And since the market is so profitable, it is not surprising that a large number of players are trying to attract the consumer's attention.

These players can be classified in three groups: start-ups, airline companies and traditional intermediaries such as bookings agencies (GDS) and travel agents. Up to today, it has been the start-ups, with the backing of the capital markets, that have been most successful. Normally these companies simply placed last minute tickets on the market at a greatly reduced price, something which was highly welcomed on a market where prices were famously high.

AGiven the success of this formula, the airline companies have set about trying to reduce the power and fame of webs such as lastminute.com, and have even, in certain cases, eliminated sales commissions completely. In any case, the stock market downturn and the maturity of the Internet are bringing about a consolidation process through the takeover or winding up of companies. This, without taking into account the arrival of players such as expedia.com, which has the backing of Microsoft. The airline companies' relations with the Internet are somewhat cautious. They are aware that direct sales over the Internet allow them to cut distribution costs for an average ticket by 75 percent. This has meant that low-budget airline companies such as Ryanair, Easyjet or Southwest, completely immersed in the Internet whirlpool, have achieved exceptional returns on investment by channelling the largest part of their sales through the net. Meanwhile, more traditional airline companies are spending time getting to know the means, educating consumers about the new channel and examining how to reduce structural costs which, obviously, do not always need to be forwarded onto consumers.
The GDS and the travel agents are victims of the process of disintermediation. The travel agents, which until not long ago were a bridge between supply and demand, appear to be redundant in the new technological environment. Since they have databases and are market creators, almost all are developing projects, of which we shall highlight Travelocity backed by Sabre. But channel conflicts with their traditional customers may come about.

Although nobody is sure which way the Internet will head in the future, certain movements with regards to the net are of great interest. Firstly, the change to the new channel by consolidated companies which little by little are beginning to asphyxiate the start-ups by flexing their greater financial muscle. Moreover, the airlines are integrating themselves in large groups with global coverage, such as StarAlliance or OneWorld, and are creating common loyalty programmes which provide them with unparalleled future negotiating power.

On the other hand, it is possible that when the Internet becomes more important, giants such as AOL-TimeWarner or MSN-Passport takeover the whole business. Whoever ends up selling the tickets on the Internet, the biggest surprise could be the net itself. Videoconferencing as an alternative to late and cancelled flights seems to be a much more attractive option for many executives.

The Question

Will the start-ups be able to take over the online bookings market whilst they are faced by the traditional companies?

Pedro Alberto Gómez, Manager, PricewaterhouseCoopers

It will be difficult for the start-ups to replace the traditional companies that complement their traditional offer by way of the Internet. The entry barriers to the online ticket booking market are very low for travel agents and even lower for companies rendering services of transport, accommodation or leisure, with a well-known brand, and favoured by the process of disintermediation brought about by the Internet boom. The industry of ticket bookings for individual clients (B2C) will have the Internet as its main channel. However, its main restriction will be due to the penetration of access devices such as the PC or interactive televisions and the lack of trust in the security of transactions over the net. Corporate customers (B2B) will continue with their current model of making reservations through large institutional bids (although their subsequent execution shall take place over the Internet), in which the start-ups currently have few possibilities to compete.

Marco Bertini, IESE Profesor

The best way to consider this situation is not in terms of winners and losers. The opportunities in the online travel sector are very wide-ranging. Whilst in other businesses the result of both start-ups and traditional companies has not been completely successful, the online travel industry is going to gamble on two types of business. The start-up recipe has not changed too much. Firstly, they need sustainable business models. One strategy would be to focus on added value strategies which established companies do not have and do not want. Secondly, they would guarantee
cash flow by converting themselves in an indispensable link which offers products to customers in a trustworthy manner. The possibilities of achieving both in this sector are high. Lastminute.com and expedia.com are two examples of this. These companies use different proposals to add value by taking advantage of certain deficiencies inherent to this market: yield management and a service to the global customer.