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Hotels fastest growing segment online, surpassing air travel

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According to a new report from PhoCusWright Inc., next year for the first time transactions on the Internet will account for over half of all U.S. travel bookings. Hotels will be the fastest growing segment online, surpassing air travel, which until 2006 had long been the fastest growing product segment.

According to a new report from PhoCusWright Inc., next year for the first time transactions on the Internet will account for over half (54%) of all U.S. travel bookings. The report, PhoCusWright's U.S. Online Travel Overview, is now in its sixth edition and is used by members of the travel, tourism and hospitality industries to assess the domestic leisure/unmanaged business online travel market. It analyzes this market by segment, channel and major players, projecting trends through 2008.

Suppliers (e.g., airlines, hotels and car rental agencies) have been outperforming online travel agencies (e.g., Expedia, Travelocity, Orbitz and Priceline) since 2000, but growth rates for the two channels will converge by 2008. For years, suppliers have enjoyed an advantage over online travel agencies, due to their control over their own inventory and the relatively inexpensive task of acquiring online customers from their own offline channels.

In fact, the pressure that travel suppliers put on intermediaries has at least partially spurred significant ownership changes among three of the largest players in the industry: the private equity buyouts first of Cendant (renamed TravelPort) and now of Sabre Holdings, as well as TravelPort's purchase of Worldspan. But, the suppliers' online advantage is disappearing as the majority of travel transactions move to the Web.

Other insights from PhoCusWright's U.S. Online Travel Overview include:

- While the U.S. represented just one third of total online and offline travel bookings of the combined North America, Western Europe and Asia Pacific markets in 2005, the U.S. share of online bookings was over 60 percent of all online bookings.
- Growth of dynamic packaging - the ability of consumers to easily combine airline, hotel, rental car and other product purchases online - is projected to slow significantly from 51 percent in 2005 to 18 percent in 2008. This trend is partly attributable to the current tight supply of bulk airfares and merchant hotel rates available for packages, thanks to higher load factors and occupancy as suppliers enjoyed strong sales during the recent robust economy.
- Hotels will be the fastest growing segment online, surpassing air travel, which until 2006 had long been the fastest growing product segment.
- The advanced level of the U.S. online travel market creates an atmosphere in which many innovations such as dynamic packaging, metasearch and user-generated content

incubate in the U.S. before expanding to other global markets. Many of these innovations include the new online capabilities that PhoCusWright has termed Travel 2.0 - the travel industry's application of Web 2.0 practices empowering the online consumer.

- The tipping point of the travel market, with the online channel becoming the norm for travel purchases, is going to further shape consumer behavior that utilizes Travel 2.0 tools and applications.