

# Case Study: How Competition benefits the e-Consumer

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# Airline Background

- Launched scheduled services in 1998
- Fastest growing regional airline in Europe
- Passenger numbers increasing from 12,000 per annum in 2000 to a projected **1 million for 2004**
- Operating 500 flights per week across 25 routes
  - **6 domestic, 17 UK and 2 French routes**
- 300 Employees and turnover of EUR80 million
- Fleet of **10 ATR aircraft**



# Route Network

# Travel Industry: Distribution Channel Options

|        |          | Online  | Offline   |
|--------|----------|---|---|
| Direct |          | <ul style="list-style-type: none"> <li>• Own Website, e.g. aerarann.com</li> </ul>                                      | <ul style="list-style-type: none"> <li>• Call Centre</li> <li>• Airport Ticketing/Reservation Counter</li> <li>• Office in City Locations</li> </ul>        |
|        | Indirect | <ul style="list-style-type: none"> <li>• Online 3<sup>rd</sup> party portals, e.g. lastminute.com, opodo,...</li> </ul> | <ul style="list-style-type: none"> <li>• Travel Agency Chains</li> <li>• Independent Agencies</li> <li>• Tour Operators</li> <li>• Consolidators</li> </ul> |

## Air: Globally

- 16% of all air tickets are sold online
- 95% of low cost carrier tickets are sold online

## Hotel: US

- 9% of US hotel sales are online
- 50-60% of which are booked through online 3<sup>rd</sup> parties
- By the end of 2005, 20% of hotel bookings in the US will be made online

# Travel Industry: Future of Travel Distribution

- The Internet and related technologies have brought about the ability to flatten the distribution chain, but to date it has simply increased the number of routes to market, as different categories of players vie for similar positions
- This has resulted in the following trends emerging
  1. More **demanding and educated** consumers
  2. Emergence of **Dynamic Packaging**
  3. **Low Cost** Model
  4. Importance of **Yield Management**
  5. Adoption of **E-Commerce technologies**

## The emergence of a **more demanding and educated consumer**

- 24x7 Service to research and purchase online and receive confirmation of transactions
- Streamlined and intuitive Web site usability - simplified user interface
- Flexibility and comprehensiveness - Dynamic Packaging capabilities
- Ability to book at the last minute
- Demand for authentic experiences, wellness vacations and educational programmes is increasing
- The hybrid consumer, e.g. combining five star accommodation with a low-cost flight, exhibiting little destination or product loyalty
- Demand for shorter, more frequent trips – domestic and intra-regional trips popular

## The emergence of **dynamic packaging**

- The travel industry is highly fragmented, with many small players (>95% are SMEs), making the supply-side complex and diverse, with the total trip experience made up of discrete fragments delivered by independent suppliers
- In the past, tour operators attempted to reduce the complexity and risk for consumers, but at the expense of flexibility
- There is an increasing expectation of choice, variety with demands for multi-supplier itineraries tailored to their specific individual requirements, driving the trend towards dynamic packaging
- New technologies such as XML and Web Services have emerged to integrate and improve connectivity between disparate elements of the travel experience

## Migration towards the **low-cost model** across travel sectors

- The travel industry is highly information intensive. The Internet has enabled information about products and services to be ubiquitous and this trend has resulted in a commoditisation effect and associated downward pressure on prices
- Travellers have developed a “Shop around, bargain-hunting” attitude incorporating “Do-It-Yourself” travel to self-create a travel experience to suit their purpose, budget, context and preferences – primarily driven by the Internet and low-cost airlines
- Traditional high costs of distribution (generally >25%) due to the dominance of intermediaries over the past decades, has in recent years been challenged with the elimination/reduction of travel agent commissions and a fight against rising GDS fees
- Providers are also taking a close look at operational costs, particularly labour costs, and are closely analysing the performance of assets and other resources to determine where best to cut costs

## **Yield management** as an increasingly critical part of daily business

- The travel industry is vulnerable to external factors beyond its control (terrorism, war, environmental hazards, disease, epidemics,...), so demand is often unpredictable, a characteristic which has shown its worst over the past few years
- Products and services sold are time and space-specific and highly perishable – a hotel room for tonight cannot be sold tomorrow
- The ability to unload distressed stock often tips the balance from unprofitability to profitability in what is typically a low margin business (generally <10% margin)

- Slow, but increasing, adoption of **eCommerce-related technologies** by travel providers
  - It is estimated that less than 5% of travel providers have online sales capability
  - The vast majority of online distribution channels currently rely on content held and managed by the GDS and Switch companies, where the smaller provider is not represented
  - The challenge for providers is to assess the appropriateness, reach and value of the multitude of channels available (direct to consumer, through various emerging brokers,...) and spend their limited distribution budgets on the most suitable channels



# Online Travel Market: Europe

Online travel sales in Western Europe increased by **43% from 2002 to 2003**, reaching €11.7 billion, representing 5.2% of the EU travel market. Growth of 29% is predicted for 2004 reaching €14.4 billion (6.4% of the market) and could reach €20.2 billion by 2006

In 2003 **69% of online travel** was direct with the provider (compared with 52% in 1998), with the remaining 31% using an intermediary

Air travel still dominates, accounting for **57% of online travel in 2003**. Packages follow at 16%, then hotels at 14%, rail at 7% and car rental at 3%



# Online Travel Market: US

Online travel sales in the US was valued at US\$27 billion in 2002 (up from US\$ 12.5 billion in 2000), representing about **14% of the US travel market**. More than 33% of all US leisure and unmanaged business travel will be booked online in 2006 (against 20% in 2003)

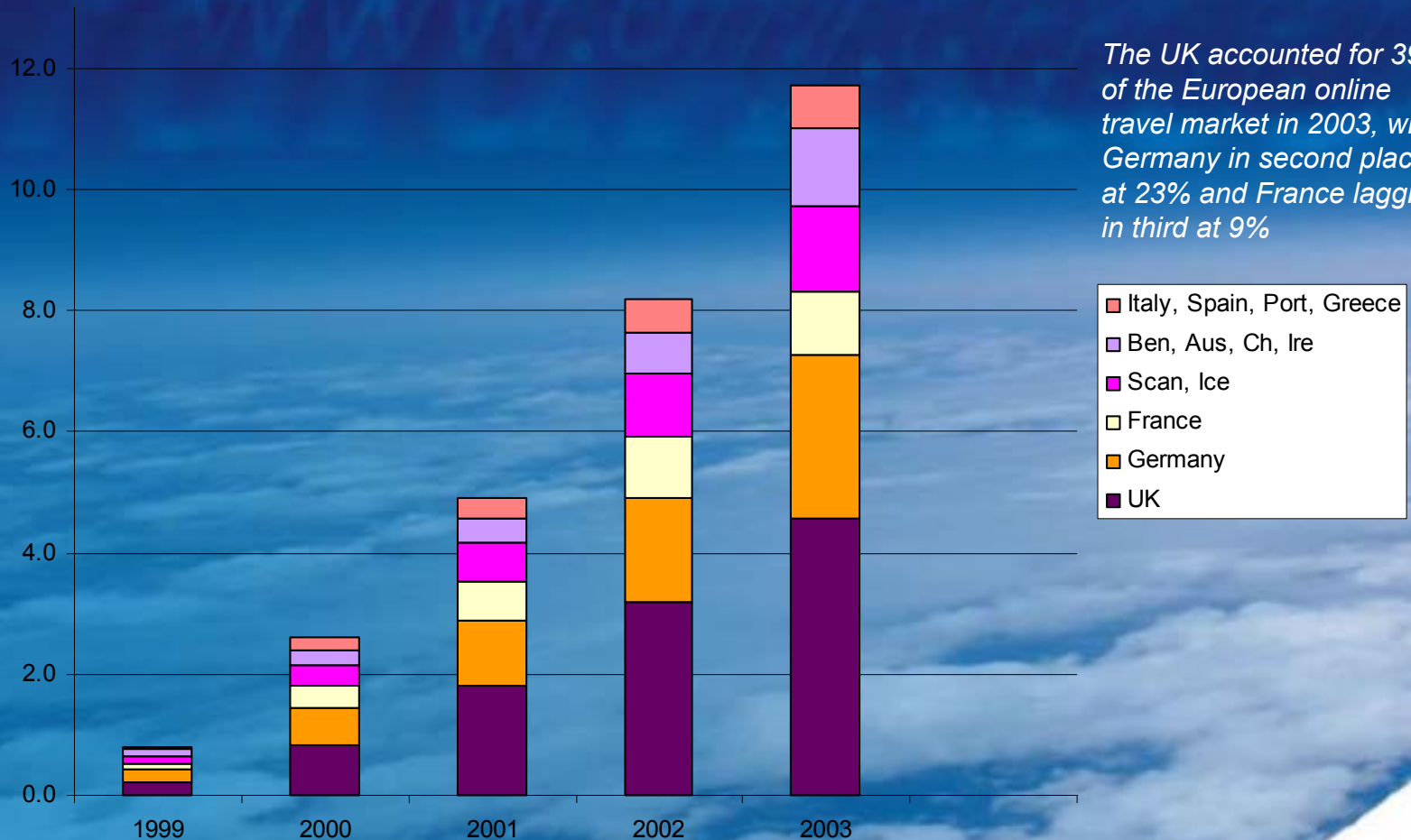
In 2002 **46% of online travel was direct with the provider** (compared with 53% in 2000), with the remaining 54% using an intermediary or agent

Air travel still dominates, accounting for **66% of online travel in 2002**, albeit down from 73% in 2000. Hotels follow at 22% and car rental at 9%



## European Online Travel: Growth Europe, 1999-2003

€ million



*The UK accounted for 39% of the European online travel market in 2003, with Germany in second place at 23% and France lagging in third at 9%*

- Italy, Spain, Port, Greece
- Ben, Aus, Ch, Ire
- Scan, Ice
- France
- Germany
- UK

## Booking Process UK, 2003/2004

### Browse/ Research



- 39% of British adults use the Internet to carry out research on travel and accommodation
- Search engines generate 38% of visits to travel Web sites, with consumers mostly searching for brand names
- 8% have previously responded to an email offer or a newsletter by clicking on a Web site link or emailing back

### Decision- making



- 23% have printed information from a Web site to help in decision making
- 22% have phoned the company whose Web site they had been visiting
- More people obtain information on travel from the Internet than they do from travel agents
- 12% have registered details or preferences on a travel Web site
- 17% of UK leisure travellers book travel through the Internet. In another survey,

### Booking

- 10% had booked a package or accommodation online (against 5% in 2001)
- 49% had booked a flight online (against 20% in 2001)

\*Based on Surveys from GartnerG2 (July 2003), KeyNotes (March 2004), Hitwise (July 2004), Office National Statistics (December 2003), Glasgow Caledonian University Research (May 2003)

# Online Travel: Aer Arann

- Launched online booking in 2002
- Now accounts for **60% of sales**
- Projected to increase to **75% by end 2004**
- Look to book ratio **1:5** compared with industry average for shopping portals of 1:100 or 1:10 for top shopping portals e.g. Amazon
- **EUR2 million** promoting online booking for 2004
- Invested in the **Openskies system**
  - State of the art online booking process
  - Ticketless travel

# Online Travel: Aer Arann

- Launching Aer Arann Travel Manager in Oct 04
- New online product catering for
  - **Travel Agencies**
  - **Corporate users**
- Allow them to access
  - All previous and existing reservations
  - Discounted fares for volume users
  - Make changes or cancel existing and cancel reservations

# Online Travel: Aer Arann

[aerarann.com](http://aerarann.com) – one stop travel shop

- Avis Car Hire
- KWT Travel Insurance
- Worldbooker Hotels
- 4Gifts

| Web Statistics | Unique Visitors |
|----------------|-----------------|
| Daily          | Approx 6,000    |
| Monthly        | Approx 180,000  |