

Competitive Rivalry in Duopolis

Expedia vs. Booking.com

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1)

Booking.com and Expedia are in the moment by far the largest Online Travel Agencies (OTA) in the world [1]. Booking.com is a part of the Priceline group which is responsible for more than 75% of the group's total revenue. Expedia OTA is also a part of larger Expedia Inc. group, and is also the largest group's revenue generator and the group's main business. In the OTA business, there are many other players, but these two are definitely "whales" and hypothetically spoken, if one of these two would disappear from the market tomorrow, the whole OTA market would be dramatically shaken. All this facts lead to the conclusion that this is a duopoly in the OTA market.

Sales of the leading travel agencies worldwide in 2016

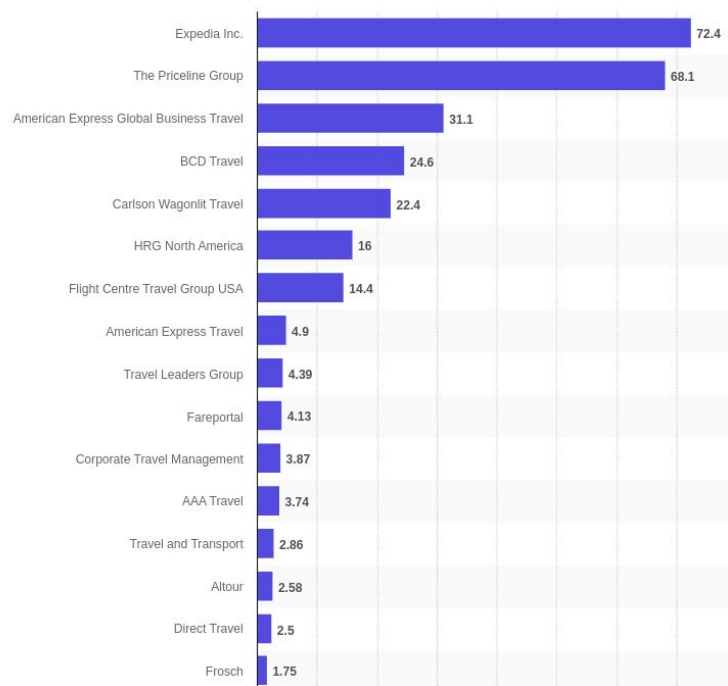


Figure 1 - OTA Sales in 2016. Source:

<https://www.statista.com/statistics/307591/sales-of-the-leading-travel-agencies-worldwide/>

2)

Travel industry is \$1.3 trillion heavy [2]. Industry growth strongly accelerated during late 90s together with the dot-com bubble. In the days “before internet”, people used to go to the local travel agencies to book a hotel, flight or a vacation. Nowadays, most people rely on OTA websites to search, gather information, read reviews from others and finally to book an accommodation in the most distant parts of the world within comfort of their home with simple mouse click.

Booking.com uses Agency business model. They make contracts with hotels and display hotels available rooms on their website. For each executed hotel booking/purchase on booking.com website, they get commission which ranges from 10 to 30 percent. The commission depends on hotels size and hotels ranking preferences. This is one of the oldest and almost “bullet proof” business models (or at least in booking.com case). This revenue model is much more profitable than most others in OTA industry.

Expedia's business model, called merchant business model, differs significantly from that of Booking. They buy hotel rooms in bulk with significant discount, buy flights with small or no discount, and sell complete travel arrangements with lower price than if hotel and flight purchased individually. This way, customer gets discount on the whole package and saves time on searching and combining travel and accommodation arrangements. Expedia, like Booking.com, also offers individual hotel room purchases. Additionally, individual purchases of flights and car rentals are possible. Merchant business model was considered superior at the beginning, but booking.com has shown larger growth with their agency business model. This may be due to the fact that Expedia has to pay bulked hotel rooms and flights upfront, meaning that, risk of not selling all of the “travel arrangements” is present.

3)

From the Figure 1 can be seen that the rivals have roughly equal market shares at the moment.

Booking.com has steady revenue growth and keeps accelerating. If this trend continues, in 2 years they could double revenues from 2014. Table below summarizes revenues and net-incomes from 2014 to 2017.

Booking.com	2014	2015	2016	2017
Revenue	8,441,971	9,223,987	10,743,006	12,681,082
% Revenue Growth		0.09	0.16	0.18
Net-Income	2,421,753	2,551,360	2,134,987	2,340,765
% Net Growth		0.05	-0.16	0.1

Expedia Inc.	2014	2015	2016	2017
Revenue	5,763,485	6,672,317	8,773,564	10,059,844
% Revenue Growth		0.16	0.31	0.15
Net-Income	398,097	764,465	281,848	377,964
% Net Growth		0.92	-0.63	0.34

Expedia also had a large growth in last 4 years. In year 2016 they made over 30% more revenue compared to year 2015. In comparison to booking.com, their revenues are on the same scale whereas net-income is significantly lower, almost 10 times lower.

As by far two biggest players in OTA market, total market growth will be estimated based on numbers of Expedia and Booking.com.

	2014	2015	2016	2017
TOTAL Market	14,205,456	15,896,304	19,516,570	22,740,926
% Growth		0.12	0.23	0.17

Total OTA market has very significant growth and small growth variance, and it is to expect that this growth trend will continue in the following few years.

Both companies offer almost the same products/services, either directly through own brand or one of the group. For example, Priceline (whose brand is Booking) offers packages(bundles) which are Expedia's speciality where they make most revenues. Expedia, on the other hand, offers products and services that are strength of booking.com. Both groups have aquired metasearch engines. Kayak for booking and Trivago for Expedia. These meta search engines offer hotels direct purchases to their websites without provisions. The hotels pay for traffic, or pay per click (PPC). Strategically, the Kayak and Trivago acquisitions are good logical moves due to the higher concerns of lawsuits from hotel chains and even whole states who raise questions about rate parity clauses and try to shake them. Basically, Booking and Expedia have prepared for the worst right in time and have strengthen their positioning. Below is the market segmentation matrix.

Strategic segment	Expedia	Booking
B2C	X	X
B2B Affiliate	X	X
Metasearch	X	X
User reviews	X	X
Flights	X	X
Car rental	X	X
Cruises	X	
Packages (Bundles)	X	
Taxi		X

Concerning buyer characteristics, I would say that Expedia aims at people that want less planning and worrying about the complete arrangements, transportation, and who only want to rest. In other words, older population group with more money. Booking, on the other side, aims at travellers and younger population which wants and expects some “surprises” on the travel and has no troubles in experiencing new and unexpected costs.

Booking.com spent 2.7 billion on advertising in 2015 mainly on Google, but also other search engines and hotel meta search engines. Additionally, also in 2015, they spent \$237 millions for brand advertising mainly on television but also on other media[3]. It is interesting to note that hotel own websites are ranked lower than their Booking.com links on Google search engine. This is due to the fact that Booking.com has basically no preference on which hotel is going to be booked by user as long they do it over Booking.com’s platform. This demand aggregation allows them to pay more for Google advertising than almost all of the single hotel or hotel chains, meaning that Booking.com has better economies of scale in digital advertising than most hotels.

Booking.com already has over 1.5M places to stay. I say places because they offer not only hotels but also apartments, motels, bed & breakfast accommodations, hostels and other accommodation variances. All accommodation places that are offered through Booking.com have a contract ensuring to Booking.com that they can not offer cheaper prices on their own website or elsewhere. In tourism industry, this contract clause is called rate parity. Only this clause gives Booking.com huge advantage over others, especially over single hotels or smaller hotel chains. Over years, Booking.com has gathered many accommodation and places user reviews

which are maybe the most important criterion when users are researching for a place to stay. After signing a new contract is with an accommodation, Booking.com offers professional photography and accommodation staff schooling for better hotel's customer service, among other services that they offer, to help hotels gain more professional appearance. Having so many different accommodations and places in their database, Booking.com has developed a state-of-art search experience for end users with many filtering options. Many places to stay (hotels, motels and co.) proudly show off their Booking.com score in the entrance auras to their new customers/users. On top of all this, every year, Booking.com invests huge amounts of money into developing new and enhancing current technologies for making their users feel more comfortable with their UX design and services.

Expedia as a Microsoft spin off, is a technology driven company. They make huge investments into further technology improvements for their own and user benefits. They are currently the best in making packages (travel + place to stay) beating pricing combinations of individual purchases which gives huge value to the end user. Recently, they have introduced program which enables customers to pay after their travel. Similarly to Booking.com, Expedia invests a lot into AI and UX for enhanced end-user experience, business opportunities/demand predictions, route and travel-time optimizations and customer service automation.

Since Booking.com and Expedia can invest more in marketing than most of the hotels and hotel chains, and since economies of scale is on their side, hotels will have troubles getting out of their chains.

In recent years, Expedia has negotiated 24 hour return clause with hotels so that in case they do not sell out the whole room bulk, they can return it and get cash back. This is also a strong indice of Expedia's power gain in recent years. Furthermore, most channel managers (programs that connect hotels to OTAs) rely on Booking's and Expedia's end-user interfaces such as websites and mobile apps. Some large hotel chains have started initiatives for cooperation on fighting against domination of Booking and Expedia. Customer loyalty programs have been initiated (mostly business travel) and law suits against rate parity contract clauses have been undertaken. Huge total industry growth, and growth of these two OTA giants combined with their measures undertaken to lock-in the supply side, leaves small hotels and small chains completely with no bargaining power for the moment.

At the moment, users most benefit from offers of these two giants. Once a user has made purchase on their websites or apps, he/she constantly receives appealing offers and deals "measured" especially for him/her. User trust programs combined with personalized recommendations, broad inventory, high customer orientation focus, huge marketing campaigns, and many subsidiaries and cooperation networks of these two companies keep users "locked-in", in many cases even without their awareness.

In recent years, there have been many new market entrants. Most of them go bankrupt or just keep swimming slightly above water. Some of them try to generate

revenues by going with prices lower than those of hotel owners (which is not allowed by contract), keep their own margin very low in hope to sell large amount of rooms earning little on every single one. One example, speaking from my own experience in tourism industry, would be olotels.com, an OTA company which probably went “down” few years ago due to many lawsuits against rate parity clauses violations. Today, they are “reborn” under Amoma.com brand.

Both companies were founded in 1996. Expedia was initially a Microsoft division and later in 1999 spin-off. Maybe the most interesting fact in the whole story is that Expedia refused to buy Booking.com in 2002. Few years later, Booking.com was acquired by Priceline what helped Priceline to change their financial position from loss to billions in profits. Apparently, this is the most profitable business acquisition in the history [4]. Booking.com has shown larger growth than Expedia with agency business model what made Expedia to concentrate more on merchant business model. Expedia is well aware of the current Booking.com dominance in online agency business and does everything to ensure its survival and continuous growth through strategic mergers and acquisitions with/of other travel companies [5]. This fact justifies significant lower net-cash amounts than those of Booking.com. On the other side, Booking.com concentrates its strengths on growth, marketing and dominance of its own brand. EU has warned that Booking has reached market dominance beyond the point of no return [5]. To fight this, some countries, like Turkey, have filed lawsuits and have forbidden rate parity clauses in order to protect their hotel industry. This allows hotels to offer cheaper prices than listed on Booking and Expedia. It also enables pricing intelligence on different sales channels and easier market entries for other competitors.

To conclude, these 2 OTA giants are very well positioned and have concentrated each on their strengths. Their growth, together with total industry growth, is huge at the moment what is a good indicator of the OTA's current life cycle. At the moment, they are very capable of achieving above average returns. There are many new entries, profitability is high, strategic focus is on marketing and acquisitions, supplier powers are slowly increasing, buyer and substitution powers are low. Competitive rivalry is high and highly ruinous for many smaller OTA's, older tourism agencies and new market entrants if not positioned strategically to survive. These 2 are also influencing the industry structure increasingly. They are working on switching costs strengthening, lobbying, are creating demand through enormous advertising. At the moment, there is no proof of coordination between them, but due to their current size, growth, strength and influence, it is very probable.

Sources

- [1] <https://www.statista.com/statistics/307591/sales-of-the-leading-travel-agencies-worldwide/>
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