

Web-Impact on the Air Travel Industry

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Air Travel Industry: Important Internet User

- **Fasted growing** segment within the Internet
- One of the most important industries in **absolute figures**
 - ↳ Online travel sales in 2003:
US \$ 29 billion (10% of projected travel spending)
Source: Forrester Research
 - ↳ Online Leader: **Travelocity**,
First quarter 2000: US \$ 504 gross bookings,
more than 8 million visitors in April 2000

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Selected On-Line Servers and Their Owners

| System | Type of company / owner |
|-------------------------------|-----------------------------------|
| Travelocity | ↳ Sabre / American Airlines |
| Expedia | ↳ Microsoft, Worldspan as backend |
| Internet Travel Network (ITN) | ↳ Start-up |
| Preview Travel | ↳ Start-up |

Consolidation

No. 1 Travelocity recently acquired Preview Travel
No. 2 Expedia bought hotel site travelscape.com and vacation.spot

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Web-Based Air Travel Intermediaries ...

- Reduce coordination and communication **cost** for buyers and sellers
- Generate **volume** for the suppliers
- **Pool** homogeneous **demand** in order to give individual customers access to suppliers' volume discounts
- Improve **likelihood of order fulfilment** for customers
- Separate or even **isolate coordination mechanism** from other sales and distribution channels and thus limit spill-over effects of price discounts
- Operate with varying levels of **transparency**

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Web-Based Flexible Business Models

- Customer profiling (e.g. Weblining)
- Sales auction (e.g. Lufthansa)
- Reverse auction (e.g. TravelBids)
- Demand pooling (e.g. Letsbuyit)
- Customer utility differentiation (e.g. Rosenbluth)
- Demand aggregation (e.g. Priceline)

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Main Contribution of Web Technology

- **Precondition** for efficient micro-segmentation pricing models (based on flexible pricing and negotiations about product attributes)
- **Low signalling cost** and **reduced time** on suppliers' and customers' side
↳ **last minute allocation** of products and service
- **Future: From Pricing to Efficient Allocation?**
 - Customer-driven specification of service attributes
 - Customer preference signalling and response
 - Customer-driven service innovation

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Conclusion (1): Increasing Price Spread

Customer buying behavior encourages business models focusing on low prices



Business needs increasingly trigger acceptance of even higher prices due to scarcity

Feasible due to scale and matching / coordination mechanisms

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Conclusion (2): Developing Channel Structures

- Dis-Intermediation (airlines directly selling online)
- New Intermediaries
 - 1) New roles of old 'air-travel' players (e.g. Travelocity, Rosenbluth)
 - 2) New roles of old 'non air-travel' players (e.g. Expedia)
 - 3) New players (TravelBids, Priceline, Travel24 etc)
- 'Empire fights back' (airline alliances)
 - 1) 27 US airlines forming on-line travel agency, 'T2' (WSJ, 04/14/00)
 - 2) 11 European airlines founding 'Otopenia', Lufthansa, BA, AirFrance, Iberia, Swissair, SAS, KLM, Alitalia
Target: Saving up to 500 million EURO in distribution

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Drivers for Re-Configuration

- Customer buying behavior
- Scale: 'Web Survival' alone not feasible
- Shared investment costs
- Slightly more control than with 'Travelocity',
Complaints regarding collusion

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Summary: Web-Impact on Air Travel Industry

- (1) Increasing price spread for air travel tickets in spite of 'transparency' and 'ticket finders'
- (2) Developing channel structures
 - Dis-Intermediation
 - Re-Intermediation
 - 'Empire fights back'

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Thank you very much for your attention!

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