White Paper:

The Marketing Strategy of eTravel Services: The case of Travelocity

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Executive Summary

- Travelocity.com Inc. (NASDAQ: TVLY) is a data base driven travel marketing and transaction company, providing reservations and information for more than 700 airlines, more than 50,000 hotels and more than 50 car rental companies

- Unlike many other eBusiness models, online travel is actually (or very close to being) profitable. There are no inventories to maintain, or products to ship.

- US air travel is a $130 billion industry; online travel agencies collectively have about 8% of this market (7% among leisure travelers, and 1% among corporate travelers).

- The growth of the online leisure market is promising; the channel could be worth $35 billion by 2005.

- Travelers booking online are price sensitive; despite claims by all eTravel providers as uncovering lower fares than competitors, a new major competitor within the industry, Orbitz (owned collectively by a group of large United States based airlines) may have access to both technology and arrangements with carriers that uncovers lower fares.

- All eTravel portals have formed strategic alliances with portal sites to drive traffic to their sites.

- Within increasing competition, Travelocity should aggressively pursue the small and medium sized business travelers. Although this market currently accounts for 1% of the overall air travel industry, their positioning as an important purchaser of travel services, and in effect driver of the economic health of the industry, cannot be understated.

Foreword

For the most part, this paper was written in late August and early September 2001, prior to the terrorist attack on New York City, Washington DC, and Pennsylvania. Since that devastating act of terrorism, consumer confidence throughout North America has declined, and many economies of the world are close to an economic slowdown. In addition to deteriorating economic conditions, the events of September 11, 2001 have hit the airline industry, and those associated with it, hard. Not only were planes throughout North America grounded for several days after the attack, but preliminary information available from the airlines indicates that average load factors may have declined as much as half.

As a result of declining demand, airlines have announced massive layoffs (over 100,000 redundancies in North America alone), and Government's are discussing bailout packages or loan guarantees. As demand for air travel decreases, demand for other travel related services (including travel agents, virtual or real, hotels, and car rentals) will naturally decline as well.

It is impossible to determine how long slowdown and decline in customer confidence will last. In any case, the reader is advised that this paper was written prior to the events of September 11, 2001.

Introduction – The need for information

Marketing, in essence, is a very simple concept which requires producers to start with the identification and specification of consumer needs, and then mobilize their firm's assets and resources to achieve a mutually satisfying exchange relationship from which both parties derive the benefits they are seeking. By definition, this implies that a firm has both the ability to understand the needs of the customers, and the motivation to change. Theodore Levitt, articulated the need for change by firms in his seminal 1960 article titled "marketing Myopia". Despite his emphasis on the inevitability of change in the ways in which basic human needs like transportation and entertainment may be satisfied, relatively few managers and firms fully appreciated the need to adopt and change in response to changing market dynamics[1]. Essentially, this implies that successful firms can not only see a customer need, but they can also take the steps needed to fulfill that need in an economically defined manner.

Paramount to identifying specific customers needs and adopting to change, is the ability of the firm to have the information needed to understand the needs of customers. The need for information has become increasingly acute in recent years as a result of environmental changes and increased international competition. Ironically, the development of computers and the Internet means that the typical manager has moved from a condition of information scarcity to one of information overload.

[1] Levitt, Theodore "Marketing Myopia", *Harvard Business Review*, July-August, 1960, pp. 45-56.

Notwithstanding this proliferation of information, the decision maker is still faced with the need to define the problem, and identify the most relevant pieces of data that will solve the problem, given the inevitable pressures of time and cost. The fundamental purpose of marketing research is to assist in that task.

The Marketing Strategy Process

The marketing strategy is a circular, mutually supportive, seven-part process. The components are:

1. Consumer analysis
2. Market analysis
3. Review of the competition and self
4. Review of the distribution channels
5. Development of the preliminary marketing mix
6. Review of the economics
7. Revision and extension of steps 1-6 until a consistent plan emerges.

Introduction to Travelocity.com

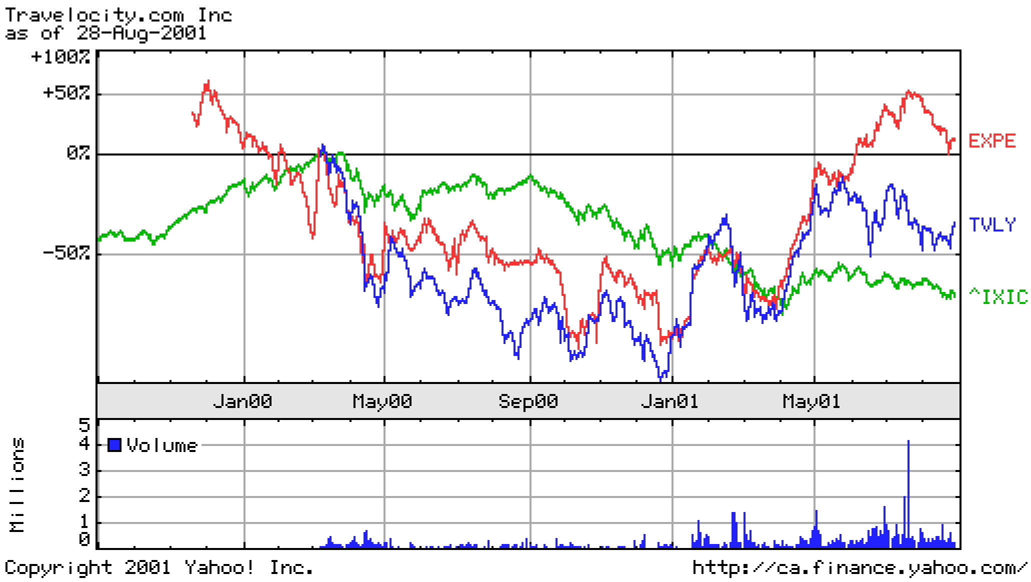
Travelocity.com Inc. (NASDAQ: TVLY) is a data base driven travel marketing and transaction company, providing reservations and information for more than 700 airlines, more than 50,000 hotels and more than 50 car rental companies. In addition, Travelocity offers more than 6,500 vacation packages, cruise departures and a vast database of destination and interest information. Travelocity employs more than 1,100 customer service professionals, and has sold more than 16 million airline tickets.

In addition to regular travel agents, airline ticket centres, airline websites, airline alliance websites, Travelocity has several key online competitors. These include: Expedia.com (NASDAQ: EXPE), cheaptickets.com, lowestfare.com, and onetravel.com, and newer companies Orbitz.com and Hotwire.com.

Travelocity is an interesting company because it is different from other dot-coms. The business model works; although they are losing money ($51M at year end, December 31, 2000), they have $86M available in cash. Net profit for the second quarter (ended June 30, 2001) was $1.8M. Perhaps a greater measure of success is that they are still in business.

Part of the success of Travelocity stems from the fact that their product is virtual, and therefore they do not have to worry about warehousing, inventory, or shipping physical products. Claiming to be the largest market on the internet, Travelocity has an extremely recognized brand name, both domestically in Canada, in the United States, and overseas in the United Kingdom and Germany.

Since its initial public offering in March of 2000, share prices in Travelocity declined along with many other internet based operations. Since January of this year, Travelocity is recovering lost shareholder value, and while outperforming the NASDAQ index, remains a less attractive investment compared to Expedia.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1- Consumer Analysis

Consumer analysis → Market → Competition → Distribution → Marketing Mix → Economics → Revise

Consumers do not have the same needs, wants desires. The objective of consumer analysis is to identify segments or groups within a population with similar needs, wants and desires so the marketing effort can be directly targeted to them.

What is the need category? Who needs the company and why?

Travelocity serves the need of consumers looking to make their own travel arrangement over the internet. These individuals are interested in convenience, instant access to information and are obviously connected to the internet.

What is the buying process?
The buying process was originally very straightforward. A consumer visits the Travelocity website and after entering the departing airport, desired destination and date of travel, they obtain the lowest price airfare for this trip. This model has since been expanded by Travelocity to include the following structural points:

- The inclusion of the customer name and email address in their database. This allows for periodic communication to reinforce the brand name. Or, some users may perceive this simply as unsolicited junk mail.
- The ability to act as a full service travel agent by also providing hotel, car rental, cruise line and package holidays.
- The positioning as a travel expert, by providing detailed and comprehensive destination information, including a listing of most popular tourist sites, video, city guides and maps. This destination information is co-branded with Frommers and Lonely Planet.
- The creation of a separate distribution channel constrained by budget; rather than having a user investigate how much an airfare costs to a variety of different destinations, Travelocity has allowed the user to select a budget range, and then view the destination choices from their preferred selections. This simplifies the destination selection process if a user is simply looking to get away and is not constrained by a fixed schedule.

The typical buying process involves the following steps:
awareness → information search → evaluation of alternatives → purchase → post-purchase evaluation.

Therefore, there are two separate buying processes:

- Fixed destination (the traveler wants to go to Chicago): The traveler is thinking about going to Chicago → how should they get there? → they decide that driving would take 40 hours → How long will it take to fly there → either call travel agent, or use online search engine → enter departure / arrival airports and date of travel → see available flight prices → decide to purchase or not → wait for tickets to arrive in the mail.

- Flexible destination (the traveler wants to go away, but only wants to spend $300 on a ticket): The traveler is thinking about getting away → review personal finances → determine the budget for trip → they may review literature about possible destinations → visit travel agent or search engine → identify possible travel options fitting with the budget → decide to purchase or not → wait for tickets to arrive in the mail.

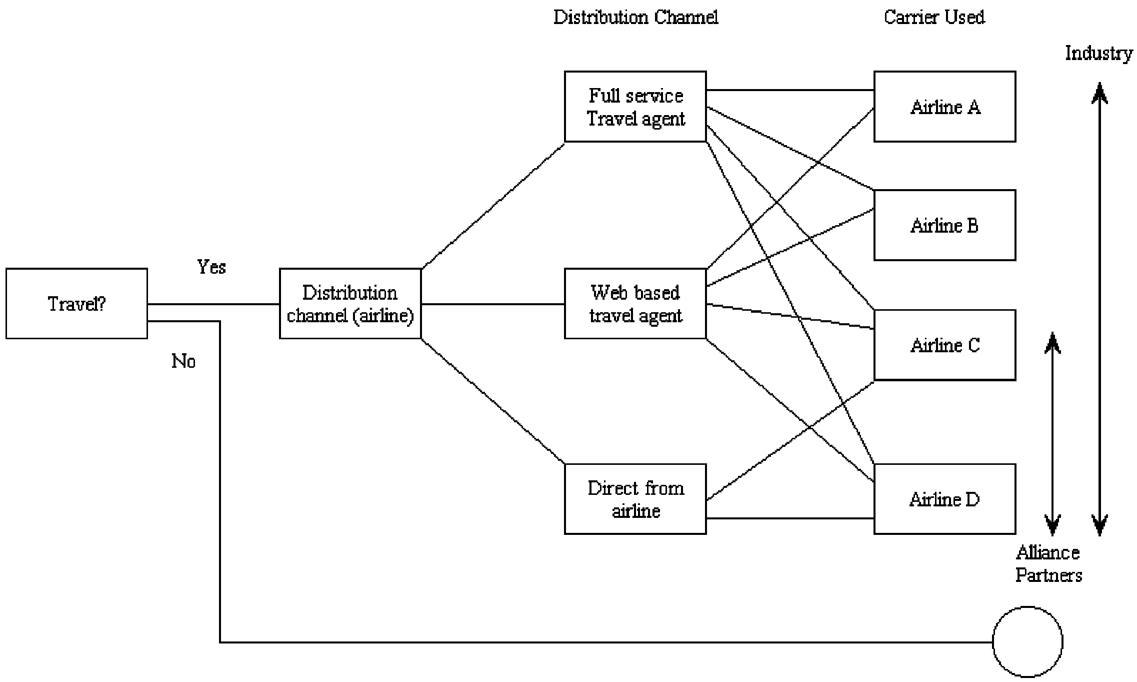
Is the product a high or low involvement product?

The usage of a travel agent is both a high and low involvement purchase. Since the agent acts as an intermediary between the actual travel and the customer, the involvement could be considered low. In many cases, airlines try to position themselves as a destination provider, rather than simply providing transportation from origin to destination. In this sense, the airline is providing access to "Chicago", rather than simply transportation.

Alternatively, given the higher than average ticket price (when compared to other daily purchases), it can be a very high involvement purchase. Customers may have a preference for a specific airline (or perhaps a negative preference for another), but they may also have preferences for a distribution channel (among the variety of travel agents, websites and store fronts, how should the ticket be purchased). Finally, the customer also has the opportunity to decide on class of travel. Combining these options, together with the antecedents affecting the cost of the typical airline ticket including advance purchase, restrictions (Saturday night stay over or refundability); produces a wide variety of pricing options available.

For many people, who might be defined as purchasing the destination, many of these intangibles are not important, since they are highly price sensitive. Others passengers may be willing to travel with a preferred airline, or increasingly their alliance partner, in order to collect frequent flyer points. In any case, this combination of factors influencing buying behaviour can be classified as a high involvement product.

In this sense, the buying process should generally be classified as a high involvement purchase, and can be illustrated in the decision tree below:



For summary purposes, we will assume that the customer has three main distribution channel options. These are:

- Full service travel agents: These are defined as the regular travel agents that are common in strip malls and shopping centres throughout North America and Europe. Although some agencies specialize in a specific type of travel package (for example cruises, package holidays or adventure vacations), many remain generalists, providing airline tickets, hotel reservations and car rentals to a variety of leisure and business travelers. The airlines typically pay each travel agent a commission ranging from $25-$50 for domestic tickets, to $100 for international travel.
- Web based travel agencies: These are defined as the internet based travel agents where the customer specifies their travel requirements and pays online. The agency simply accepts the reservation and prints the ticket. Often, these agencies can also assist the customer with hotel or car reservations. The typical commission paid from the airline for these reservations are $10-$20 for domestic travel.
- Direct from the airline: Finally, the passenger can purchase a ticket directly from the airline. This actually involves several different unique distribution channels, namely (a) over the telephone, (b) through the airlines website, (c) through website of the alliance member of which the airline belongs[2], (d) through the central ticket location or at the airport, or (e) through specialty travel offices

[2] See for example Staralliance.com, of oneworld.com, the two largest global airline alliances. Both have an online reservations system that places customers on one of the carrier's alliance partners.

operated by the airline[3]. Although initially many airlines just sold tickets, many are now offering hotel and car rental reservations as well. This is the preferred distribution method for the airlines, since they only sell tickets on their carrier (or perhaps with their alliance partner, as illustrated by sales to airlines C and D above) while foregoing any commission expenses.

Does Travelocity intend to segment the market?

Generally, airlines have two main segments of consumers: Frequent business travelers (often defined as taking six or more business trips per year), and non-frequent business travelers. Although in reality there are a wide variety of sub-segments within these groupings (for example, business travelers paying to fly business or first class, or who pay full fare economy versus frequent business travelers who purchase discounted tickets), the broader definitions of business versus leisure traveler are often used in the industry. These segments, although widely used, are difficult to target since depending on the trip purpose, a customer can be either or both segments.

Travelocity appears to be segmenting this market. Although first created to satisfy price sensitive leisure travelers, the agency now offers a specific service for business travelers, and also operates separate websites for numerous countries (for example, Travelocity.ca or Travelocity.co.uk).

Beyond this it is not apparent how Travelocity segments customers. Needless to say, if they are not already doing so, they should segment them using a combination of attitudes, needs, behaviors, and geographic location.

[3] Many airlines have a single ticketing office located in the business centres of larger cities. Other airlines, like British Airways and Qantas, have several, often blocks apart, branded travel agencies located in their larger domestic cities.

2- Market

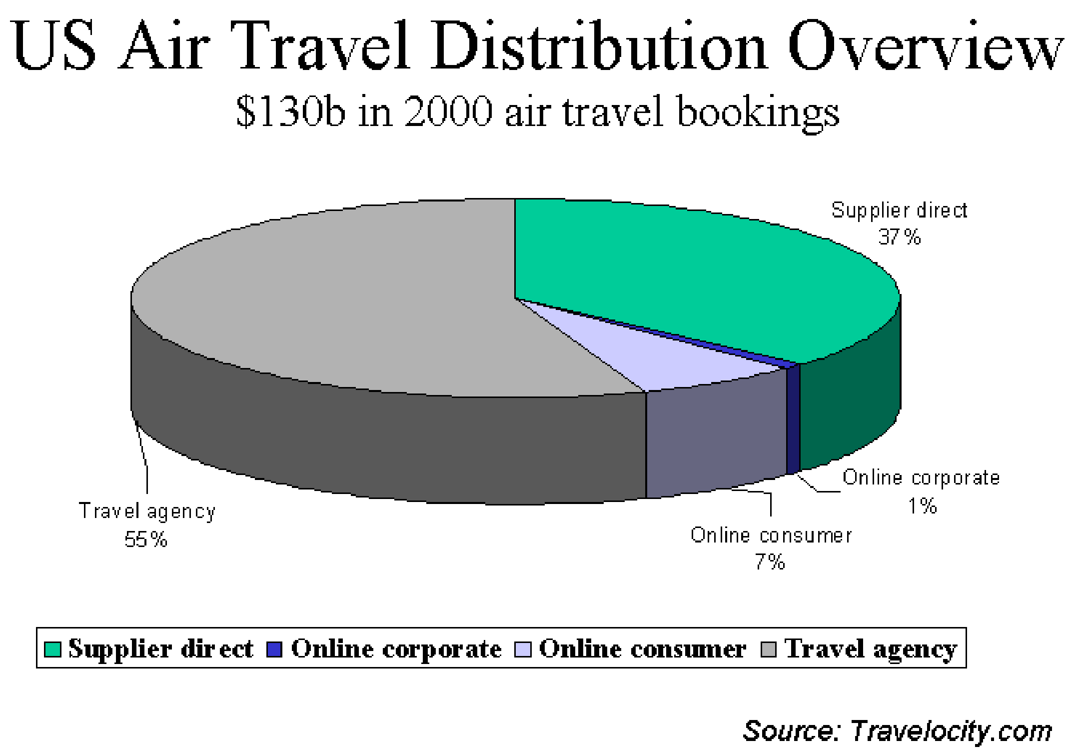
Consumer analysis → Market → Competition → Distribution → Marketing Mix → Economics → Revise

Market analysis takes a broader view of the potential customers to include market sizes, trends and future opportunities. This section of the report will also examine key competitors.

What is the relevant market?
The relevant market for Travelocity is not the overall travel market, but rather the online travel market. This is primarily driven by leisure traffic, although a developing important segment relates to servicing the needs of corporate, especially small business, travel.

The largest market for Travelocity remains the United States. Of its 27 million members collected in the Travelocity database, 25.5 million reside in the United States[4].

The allocation of air travel across distribution channels is illustrated below:



Clearly, travel agencies hold the largest share of the market. However, the market share figure for travel agents has probably declined 30 or 40 percentage points over the past

[4] Travelocity Investor Presentation, May 2001, obtained at Travelocity.com under investor relations.

couple of decades. Online traffic has managed to obtain eight percent of the market in a relatively short time frame.

The growth potential for on-line leisure travel is impressive.

Forecasts obtained from Travelocity.com (credited to the Forrester research group) predict that overall on line leisure travel will grow from $12.2B in 2000 to $32.7B in 2005, an improvement of 168% over half a decade. Even if the market only improves by half this amount (85%), the forecast for 2005 will be an industry worth $22.6B.

A point worth noting is that these forecasts were published in September of 2000, long before the current economic downswing. In times of increased economic uncertainty, demand for both leisure and business travel declines.

Where is the market in its product life cycle?
Products, like people, have been viewed as having a life cycle. The concept of the product life cycle describes the stages a new product goes through in the marketplace: introduction, growth, maturity, decline.

Online travel agencies can be classified as being in a growth market. These type of markets are characterized by[5]:

Marketing Objective:	Stressing differentiation
Competition:	Growing
Product:	More versions
Pricing strategy:	Gaining market share
Promotion:	Stressing competitive differences (ie: finding lower fares)

Alternatively, regular travel agents can be classified as being in a mature market. Although an analyst might classify travel agents in a declining market, this is not true since the demise of travel agents is not predicted; they will persist, however with increased competition from other channels. A declining market occurs when video cameras replaced 8mm movie cameras. Such a widespread replacement by alternative channels will not occur for sometime; currently only 50% of the American population has access to the internet, and some consumers will always demand a human touch.

A mature market is characterized by:

Marketing objectives:	Developing brand (channel) loyalty
Competition:	High
Products:	Full product line
Pricing strategy:	Defend market share and seek a profit
Promotion:	Reminder oriented.

What are the key competitive factors within the industry?
Several key competitive factors within the industry will be examined, namely: Quality, Service, Price, Advertising, Security, and Conversion.

Quality and Service
In terms of the basic need from consumers (the receipt of the ticket they purchased in a timely manner), all competitors should be providing a minimum level of service. If they do not consistently deliver, they will be out of business shortly. However in terms of customer satisfaction, Expedia is outperforming Travelocity. The following table summarizes the trip travel sites, ranked by customer satisfaction on a ten point scale[6]:

Property	Customer Satisfaction
Southwest airlines	8.62
Expedia	8.09
Continental Airlines	7.97
Travelocity	7.94

The relationship between customer satisfaction and future market behaviour, although inferred as a perfect relationship, has not been proven. Nevertheless, customer satisfaction provides a useful indication for service quality. At the time of writing,

[5] Berkowitz, Eric, Frederick Crane, Roger Kerin, Steven Hartley, and William Rudelius, "Marketing: 3rd Canadian Edition", McGraw-Hill, Toronto, 1998.
[6] Nielsen/NetRatings and Harris Interactive, March 2001, released April 23, 2001.

satisfaction ratings were not available for Orbitz, since it started operations in July of 2001.

Price

Since travel agencies act as an intermediary between the customer and the end product, the charges for issuing tickets is often incorporated into the airline ticket price, and therefore is often transparent to the passenger. Although online travel agents charge a smaller commission (often $10 for a domestic ticket) than regular travel agents (often $20-$50, or 10% of the ticket price), the fee for service is probably not the driver of consumer behavior. Instead, customers are more likely to be sensitive to the price of the tickets themselves.

All providers claim to have a stronger search engine than their competitors which is able to uncover a greater percentage of lower priced tickets. To test this theory, six test ticket price searches were conducted on four competitors. The results of this test are summarized below (lowest fares in green)[7]:

	Orbitz	Expedia	Travelocity	OneTravel
New York (JFK) – London (LHR)	$335 on American	$361 on Virgin Atlantic	$361 on Virgin Atlantic	$358 on Virgin Atlantic
New York (JFK) – Los Angeles (LAX)	$255 on Sun Country via MSP	$255 on Sun Country via MSP	$255 on Sun Country via MSP	$255 on Sun Country via MSP
Los Angeles (LAX) – Bangkok (BKK)	$706 on Eva via TPE	$706 on Eva via TPE	$603 on China Airlines via TPE	$683 on China Airlines via TPE
London (LHR) – Phuket, Thailand (HKT)	$1525 on Malaysian via KUL	$1525 on Virgin via KUL	$976 on Qantas via BKK	$976 on Qantas via BKK
Calgary (YYC) – Honolulu (HNL)	$411 on Northwest via SEA	$427 on Northwest via SEA	$534 on Northwest via SEA	$427 on Northwest via SEA
Calgary (YYC) – Phuket (HKT)	$1285 on United via BKK	$1925 on Air Canada via HKG	Unable to find any flights matching itinerary	$1358 on Singapore via SIN

Based on this small, and certainly not exhaustive examination, Orbitz appears to uncover the lowest price fares at least half the time. Travelocity locates lower fares more frequently than Expedia, but was also unable to match any itinerary for travel between Calgary and Phuket Thailand. Arguably, Orbitz, since it is owned collectively by a group of airlines (American, Continental, Delta, Northwest and United), may have access to

[7] All tests were conducted between 16:00 and 16:30 on August 30, 2001, for travel anytime on November 6, 2001 returning anytime on November 13, 2001. All ticket prices include all relevant taxes.

unpublished fares. Incidentally, Orbitz found lower fares on American, Northwest and United.

Advertising
Travelocity intends to spend $50M in 2001 on promoting its brand[8]. Expedia also intends on spending $50M on advertising while upstart Orbitz may spend $100M.[9] Impressions are the number of times ads within a single industry are rendered for viewing across any media. According to Juniper Media Metrix, the share of impressions for e-travel companies are[10]:

Company	**Share of impressions**
Lowestfare.com	37%
Trip.com	10%
Europcar	9%
Expedia	6%
Hotel reservation network	4%
Travelscape.com	3%
Travelocity	3%
Leisureplanet.com	3%
Delta Airlines	3%
Yahoo Travel	2%

This indicates that Travelocity and Expedia are not generating the volume of advertising compared to their competitors.

It is one thing to have volumes of advertising; it is another to have effective advertising. Again, according to Jupiter Media Metrix, in a multi-country internet audience measurement study, the most widely recognized e-Travel site is Travelocity which claims 5,309,000 unique visitors in March of 2000, and a 4.9% reach[11]. Expedia, or any other online travel site, did not register on the list of the top 50.

Security
One of the challenges facing any e-commerce company is the reluctance of customers to provide credit card information over the internet. Many customers use online travel sites to seek information, but few actually make a purchase. According to an NFO study, 67% of business respondents reported seeking travel information from online sources, but fewer than 25% actually made a purchase[12].

[8] Travelocity Investor Presentation, May 2001, obtained at Travelocity.com under investor relations.
[9] Business Week, "Will Orbitz Suck the Air out of the Travel Sites?", April 26, 2001.
[10] Juniper Media Metrix, "Dot coms in the drivers seat", July 2000.
[11] Juniper Media Metrix, "First ever multi-country internet audience measurement results" released June 19, 2000 (http://ca.mediametrix.com/press/releases/20000619.jsp)
[12] NFO, press release, "Air Travelers adoption of the internet continues to expand, according to survey from NFO Plog", June 15, 2001.

Conversion
Air travelers continue to embrace technology and are seeking travel information on the internet at a higher rate than ever before, rivaling more traditional sources. Travelocity claims the highest conversion rate for any e-commerce site; 8% of its visitors proceed to purchase. This figure is up from 5% in 1999 and 2% in 1998[13]. This indicates that over 90% of all visitors to the site do not purchase, and represents a tremendous revenue opportunity if this ratio could be doubled.

The conversion ratio for Expedia is 7% in the quarter ending June 30, 2001, up from 4.1% in the previous year quarter, and up from 5.7% in the previous quarter[14].

Comparable figures could not be obtained for other providers.

3- Competition

Consumer analysis → Market → Competition → Distribution → Marketing Mix → Economics → Revise

This section of the marketing analysis looks at the competition from the perspective of core competencies.

What is Travelocity good at, and what are key competitors good at?

Travelocity: Market share 35%[15]
- Has a strong, recognized brand
- Through its relationship with SABRE, has a strong IT platform
- Has proven itself in the marketplace
- Has a robust member database, and maintains contact with customers through several touch points: demand targeted emails, confirmation emails, ticketing emails, bon voyage emails, and during the trip.
- Has developed its brand into a destination site by offering more than airline tickets.
- The site offers a calendar showing flight availability. This feature is created using UNIX based relational database of fares, schedules and availability[16].
- Advertising currently accounts for 25% of revenue, effectively diversifying outside of its core competency (providing travel information)[17].
- Key alliances with Yahoo, @home, AOL, Excite and others provide the co-branding opportunities, but using the Travelocity search engine on partner sites. These key portal alliances generate 40% of the firm's revenue[18].

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[13] Travelocity, 2000 annual report
[14] Press release from Expedia, "Expedia inc. reports record gross bookings of $2.4billion in TY01 and record cash profit of $14 million for the June quarter", July 30, 2001
[15] All market share figures provided here are from Travelocity (Travelocity Investor Presentation, May 2001, obtained at Travelocity.com under investor relations). It is too early to provide comparison share figures for Orbitz.
[16] Travelocity, 2000 annual report.
[17] Ibid
[18] Travelocity Investor Presentation, May 2001, obtained at Travelocity.com under investor relations.

Expedia: Market share (25%)

- Also has a proven brand name, and is able to leverage its relationship with Microsoft
- Has the advantage of not being associated with any particular airline (American Airlines has an equity position in SABRE, who remains as a major shareholder in Travelocity.com)
- Has developed its brand into a destination site, by offering more than airline tickets.
- Expedia continues to expand as well. Earlier in 2001, it acquired Travelscape.com and VacationSpot.com.

Orbitz: Market share (unknown)

- For a start up company, Orbitz has generated significant primary brand awareness. This is likely to be the result of both an aggressive advertising campaign, including the purchasing of space in the Economist and Economist.com (indicating the desire to create a global brand) and the higher profile from its main investors: American, Continental, Delta, Northwest and United.
- The media buy for Orbitz includes 65 print magazines and newspapers, as well as interactive purchases on a dozen web portals[19].
- Orbitz also has an extremely effective search engine which, in a simple test, consistently uncovered lower fares than other competitors. Part of the reason for this could be because their booking engine runs on a high-end server, as opposed to a mainframe computer, therefore leapfrogging the technology being used by other e-travel agents[20].
- Despite needing approval from the United States Justice Department for its business model, the site is operational. Regulators were concerned that Orbitz would reduce competition, since participating airlines must agree to either spend a fixed amount of money to market the site each year, or give its lowest internet fares exclusively to Orbitz[21].

Individual Airline websites: Collective market share estimated at 11%

- Most airline sites strictly offer airline tickets, without providing cruise, hotel, car, or destination information.
- Similarly, most airlines, although not technically limited, only sell seats on their own carriers, or alliance partners.

[19] Saunders, Christopher, "Orbitz launches major print campaign", Advertising Report, June 11, 2001.
[20] Ibid
[21] Ibid

Full service travel agents: Total industry market share (55%)

- The advantage from traditional full service travel agents is personal service.
- Increasingly, many agents are specializing in a specific type of holiday, or destination. This level of product knowledge appeals to travelers with similar needs.

What are the resources available to the competitors?
All three major competitors have similar cash resources available. Both Travelocity and Expedia should be profitable in 2001; the former realized a profit of $618,000 in the first quarter, while the latter lost $4.3M in the last quarter (fourth quarter, ending June 30, 2001). Both firms have substantial cash available to fund operations; Travelocity reports cash on hand of $86M and Expedia of $182M[22].

Since Orbitz is owned by several airlines, it is not possible to know what their cash situation is.

As discussed in the core competency section above, Travelocity and Expedia both use mainframe computers, while Orbitz uses state of the art servers.

Barriers to entry
There are significant barriers to entry for firms seeking to become an e-travel agent. In addition to the technological barriers, potential firms will need significant advertising to develop their brand and attract customers. New competitors must be prepared to invest heavily in technology, infrastructure and customer support and marketing.

It will be interesting to examine how successful Orbitz is in this market. If it is successful, there will likely be similar collaborative or individual efforts among major airlines in North America, Europe or Asia[23].

Other domestic US based airlines (America West, Southwest, Alaska etc) may decide to forego any significant online presence altogether, and instead position themselves as being "travel agent friendly" by increasing travel agent commissions in the hope of becoming the preferred carrier among travel agents.

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[22] Travelocity Investor Presentation, May 2001, obtained at Travelocity.com under investor relations, and press release from Expedia, "Expedia inc. reports record gross bookings of $2.4billion in TY01 and record cash profit of $14 million for the June quarter", July 30, 2001.
[23] Since first writing this paper, Air Canada launched its own independent travel portal, destina.ca, on September 6, 2001.

4- Distribution and Marketing Channels

Consumer analysis → Market → Competition → Distribution → Marketing Mix → Economics → Revise

Distribution channels are the routes by which a product moves from the company to the customer. Marketing channels, alternatively, are the avenues to the customer.

For all competitors in the industry, there are two primary distribution channel options available:

- Electronic tickets: Are the most preferred and least costly method of distributing ticket information to the passenger. Rather than receiving a printed ticket, a traveler obtains a file number, obtained via email or fax from the travel agent, which is used to access the booking at time of check in.
- Physical tickets: Physical tickets are printed tickets that must be mailed to the customer. Depending on time available from the date of purchase to the date of travel, the tickets will either be priority mailed to the customer or sent via courier. It is crucial that customers obtain their tickets on time, or they will probably not return to the site.

Alternatively, looking at marketing channels, there are two strategies prevalent in the industry:

- Directly from your site: In this case, customers must visit your site directly.

- Alliances with other portal sites: In this instance, alliance partners offer travel options to their visitors using search engines provided by one of the major e-travel companies. The level of partnership varies from simply providing a link and directing visitors to the e-travel agent (as is the case with concierge.com directing traffic to Orbitz), or developing a co-branded solution and search engine directly at the portal site (as is the case with AOL.com and Travelocity.com). Alliance sites are paid a commission of about half the total commission awarded to the e-travel site itself[24].

Portal alliances can prove to be a successful revenue generator for the firms. Portal traffic accounts for 40% of Travelocity's revenue.

Clearly, Travelocity is the leader in portal alliances. Its partners are major recognized brands on their own and are capable of diverting a significant amount of traffic and potential business its way. Major exclusive alliance partners include AOL, @home, Compuserve, Excite and Yahoo.

Expedia does not have as effective a strategy for its alliance or affiliate partners. Four examples of affiliate partners are presented on its website (MSNBC, Knight-ridder.com, concierge.com, and epinions.com), yet on the first look the only site that provides

[24] Please see: http://www.expedia.com/daily/associates/EAP_standard_op_agmt.htm

booking opportunities is MSNBC.com. Visitors looking for an Expedia link at concierge.com will be surprised to find a booking link to Orbitz!

How do e-Travel agents earn revenues?
All e-Travel agents earn revenues from travel bookings. These fees are paid by the airlines, hotels, car rental companies and cruise lines for booking travel with the various providers. Acting as an intermediary, virtual agents typically earn about 5% of the value of the purchase, whereas traditional agents earn about 10%, although the fees paid by airlines to full service travel agencies decline almost annually.

Additionally, revenue is earned by selling advertising on an e-travel site.

5- Marketing Mix

Consumer analysis → Market → Competition → Distribution → Marketing Mix → Economics → Revise

Marketing mix is defined as the tools and techniques for implementing the marketing of a product. Typically, there are four components to the marketing mix (the four Ps): Product, Pricing, Place~~,~~ and Promotion.

Ideally, market research would be used to identify any potential gaps in positions held within the industry. This information could then be used to reposition or extend the Travelocity brand to address an opportunity. In the absence of available research, we will make some assumptions relating to a comprehensive strategic positioning strategy.

Product
Travelocity should continue with its existing products and services. The extent a new major competitor like Orbitz, and possible other subsequent airline packed collectives, will erode market share is unknown. Conducting market research, especially using forecasting tools such as conjoint analysis or discrete choice modeling, would reveal the amount of market share that could be lost.

Although Travelocity will loose market share to Orbitz, the effect of this new competitor is not cause for major alarm. Fortunately, the overall market is growing, and the acceptance of e-Travel services, if the trend continues, will result in an overall greater market. Even if the assumption that Orbitz takes a third of the market each from Travelocity and Expedia over five years, and if the projections for an e-Travel industry the overall size of $32B by 2005 are true, the industry could look like:

Company	Market share 2001 (%)	Market share 2005 (%)	Share of revenue 2005 ($B)
Travelocity	35	23	7.36
Expedia	25	17	5.44
Orbitz	--	20	6.40

Whereas today, Travelocity has 35% of an overall market worth $12B (equaling a $4B share), even with increased competition in a growing industry, the results are not catastrophic. Should the industry projections hold true, and assuming no other major competitors enter the space, overall share of revenue could almost double by the year 2005.

By maintaining the status quo, Travelocity should be in a healthy position in the future.

However, maintaining the status quo also addresses two potentially damaging weaknesses that need to be addressed and monitored:

1. Orbitz found lower fares more frequently than Travelocity. In order to service this market effectively, a provider must find comparable fares. If there is a system problem that is preventing users from consistently uncovering lower fares, then customer migration to a provider that does find them could occur.

2. Even worse than not finding the lowest fare is not finding any routing at all. In the example for travel from Calgary, Canada to Phuket, Thailand, Travelocity was unable to find any route connections. Since the author of this paper has made that exact trip before (using a route from Calgary – Vancouver – Hong Kong – Phuket), and since other e-travel agents were able to uncover flight options, Travelocity's short coming in this area will also contribute to customer frustration and potential migration.

Further research could uncover whether these two weaknesses are abnormalities or symptomatic of a larger problem.

Opportunity: Business Travelers

A separate product opportunity for Travelocity is positioning the product as an in-house travel agent for small and medium sized businesses. Although individuals from these types of organizations travel frequently, and increasingly globally, many are extremely price sensitive. While airlines are tripping over themselves to service a rapidly declining market (business travelers actually paying, and not upgrading, for business or first class), many frequent business travelers are increasingly flying in economy class.

This presents a unique opportunity to satisfy frequent business travelers. Many of these individuals are, or have been, members of the top-tier frequent flyer programs on their favorite airlines. Although these programs are intended to foster loyalty towards a particular airline, in many instances, they can create disloyalty.

Consider the case of a frequent traveler; in one year, business may require extensive overseas travel. As a result of these frequent trips, the traveler is awarded the top tier or second highest status in an airlines frequent flyer program (typically, a traveler is required to fly 35,000 miles to receive "gold" level in a given frequent flyer program, and as many as 75,000 miles to receive "platinum" status). Since the status earned in one year but the benefits (which may include upgrade opportunities, dedicated check-in, priority luggage, priority seat selection, and lounge access) but the benefits do not come until the following year, the traveling patterns of these passengers may change during this time. For many of these travelers, their traveling habits often change abruptly from one year to the next, resulting in less international travel, or more domestic travel[25]. Therefore, two things happen. Firstly, the frequent traveler does not always have the opportunity to enjoy the benefits of frequent traveler status. Secondly, less or shorter traveling often results in a failure to acquire the necessary miles to retain the status. Therefore, the airline has no alternative, but to take away the prestige and frequent flyer status from these travelers. This removal of status creates negative goodwill on behalf of a traveler, supposedly the most profitable and important segment in the travel industry, towards the airline.

This demonstrates the importance of both frequent flyer miles, but also frequent flyer status. Once a traveler has acquired several hundred thousand miles, an easy task if a project takes the traveler to Australia, Asia, Europe, or South America two or three times a year, the marginal utility of each additional mile, while important, diminishes. Conversely, the importance placed on tier status increases. Once a traveler realizes that they can fly anywhere they want, at anytime, using points, the value of the points themselves becomes secondary to tier status.

Product: Providing frequent flyer status and benefits
Therefore, there is an opportunity to capture a significant amount of business traveler reservations if Travelocity branded itself as a provider of tier status among frequent, but price sensitive, business travelers. Providing status could be accomplished in one of two options: firstly, either co-branding with an individual airline or a group of airlines. This would allow frequent Travelocity users to either have one-time passes (available every time a reservation is made with Travelocity) or an annual membership, enabling the traveler to use the dedicated check in, upgrade opportunities, or lounges of the partner airline(s). Secondly, Travelocity could provide tier status directly to frequent travelers on its own. This could be accomplished through creating its own check-in and lounge at major airports.

This second option would be particularly advantageous within North America due to the HUB system used on most routes. Since it is nearly impossible and uneconomical, to offer direct flights from point A to point B (except on the most heavily traveled routes), travelers are often required to fly into one airport to catch a connection. This results in actually flying from point A to B (the HUB), and then out to point C. Although each airline has its own HUBs; there are a dozen major ones in the United States and Canada. The list includes: Denver, Dallas, Salt Lake City, Chicago, Minneapolis, Atlanta, Detroit, New York (either LaGuardia for domestic flights or JFK for international flights), Los Angeles (for international flights), Toronto and Vancouver (for international flights).

Travelocity could create its own domestic lounges for frequent travelers connecting through these major HUBS.

[25] While employed at a major Canadian based airline, the author was told that the turnover among the top-tier membership is about 30-40% a year.

Product: Providing less restrictive fares
In addition to developing lounges and frequent flyer loyalty, Travelocity could also attract many business travelers by offering a less-restrictive product. Customers (and airlines) realize that there is a trade-off between lower fares and higher restrictions. Travelers booking a flight to Denver leaving Calgary on Monday morning and returning early Monday evening, will expect to pay more for the ticket than a passenger making a reservation 14 days out, and planning to stay over a Saturday night. The list of common restrictions for domestic (or within North America) travel include:

Restriction	Lowest price point (Discounted ticket)	Highest price point (Full fare ticket)
Advance purchase	21 day advance purchase	Immediate or same day travel
Minimum stay[26]	Saturday night stay required	None
Refundability level	None	Full refund available if travel plans change
Ability to change travel dates	Generally not available. May be able to travel standby on other flights	Ability to travel with confirmed reservation on other days/flights

Clearly, the airlines are positioning the full fare tickets at business travelers whose place a high emphasis on convenience and flexibility. The price for these services vary widely: a full fare day trip from Calgary to Denver with one day's notice can cost as much as US$2500, while a discounted trip, booked 3 weeks in advance with a Saturday night stay, can cost as little as US$200. However, the frequency of travelers paying full fare, or anything more than needed, is declining rapidly.

While most business travelers accept the advance purchase, refundability and ability to change restrictions, the single restriction that causes the highest level of resentment is the minimum stay. Business travelers, especially frequent but price sensitive ones, recognize that Saturday night stays cut into their personal time; time that is already a precious commodity. Additionally, Saturday night stays can be expensive when the cost for additional meals and accommodation is included.

This presents a potential opportunity for Travelocity; to leverage its size and strength to negotiate exclusive business traveler, friendly deals with the airlines that would not require a business traveler to stay a Saturday night in order to capture the lowest fare. One possible alternative would be to develop a minimum stay of 3-4 days, thereby allowing the airlines to continue maximizing revenue from those travelers making shorter trips.

If Travelocity was able to negotiate an exclusive business friendly deal with several airlines, and position the product as such a tool only available through booking with Travelocity, it could make significant inroads within the business market[27].

[26] Note: For many overseas flights, the minimum stay required for lowest fares is 7 days and not a Saturday night.

Place (distribution):
For both new products, the distribution strategy should remain consistent with Travelocity's core competencies; namely delivering an online product supported by live customer service representatives as needed. The creation of strategically located frequent flyer lounges will create an additional channel and provide a face to the brand. Within the lounges, customers should have the opportunity to use computers connected to the internet to book additional travel, and have tickets printed within the lounge. In this sense, the lounge agents will also need to be educated as travel support staff.

Price:
It is difficult to determine a pricing strategy for either product without further investigating potential consumer demand.

Promotion:
This service should be promoted through the following media options. Since the potential target, with both suggested products, is business travelers, many of the suggested advertising venues are business related.

In the broadest sense, the promotional strategy should be constructed to initially provide awareness in anticipating on creating interest in the buying process. Therefore, the promotional mission should be to provide a compelling message aimed at solving a "need" message. In this case, the needs are (a) ability to relax and/or work and enjoy the benefits of frequent travel in a branded lounge, and (b) to obtain lowest possible airfares.

The specific advertising should be largely print related (specifically, outdoor, magazines and newspapers), and targeted at frequent travelers through the following possible media opportunities:

- Inflight magazines (from all major airlines)
- Business magazines (like Forture, Harvard Business Review, Business Week, Forbes, and the Economist)
- Major business newspapers like the New York Times, and the Wall Street Journal
- Major outdoor locations (perhaps billboards located on entrances to major downtown city centres, or approaching airports)

[27] There are two possible ways to obtain such fares: First, to negotiate with several airlines, second to identify certain routes with the highest potential, and then either pre-purchase or guarantee revenue levels.

6- Economics

Consumer analysis → Market → Competition → Distribution → Marketing Mix → Economics → Revise

It is not possible to continue with an economic review of the two marketing ideas without additional resources, which are beyond the scope of this paper.

Specifically, for either possibility, the following would be undertaken:

Understanding demand, market potential and customer preferences
Although the ideas presented in section five above seem valid, the marketplace itself will ultimately determine their success and acceptance. Therefore, market research should be undertaken to identify the market possibilities of either or both strategies. Specifically, a product forecasting tool, like discrete choice modeling, should be considered. Choice modeling, an improvement over traditional conjoint analysis, is a powerful tool that identifies not only the market potential for new or improved product offerings, but can also be used to define the optimal product positioning strategy, and to determine possible consequences of competitive reaction.

Therefore, discrete choice modeling should be undertaken to not only determine if the marketing ideas are good ones, but also to perceive how the product itself should be positioned, how much customers are willing to pay for it, and the possible consequences of having a competitor replicate the ideas[28].

Essentially, this provides a very accurate measure of the potential **benefit** of such offerings.

Understanding costs
In addition to understanding the benefits of such services, an analysis of the costs of providing such services must also be undertaken. The possible costs include:

- Construction of new facilities
- Staffing
- Maintenance
- Service
- Communications and advertising etc.

By merging the costing and potential benefit information together, a cost/benefit analysis can be undertaken. This analysis will not only identify whether the marketing program is a good idea, but by combining potential revenue with potential costs, will identify if it will be profitable.

[28] Please see the author's firm, www.ncResearch.com, for a more detailed discussion of discrete choice modeling.

Conclusion

Travelocity, as the market leader in eTravel services, is uniquely positioned to continue to capture increased revenues. Although the service, when first launched, attracted primarily leisure travelers, Travelocity and other on-line providers have increasingly concentrated on business travelers.

The market for eTravel is attractive. Companies are not required to carry inventory, the overall travel market is worth $224 billion, and online travel accounts for 5%. Travelocity is the market leader in the online travel industry based on various measurements: they have 35% of the gross bookings, a 25 million-member database, and a conversion rate of 8.1%. Furthermore, the company has a diversified revenue mix: 49% in air transactions, 18% in non-air transactions (hotels, cars, cruises, vacation packages), 28% in advertising, and 4% in other revenue.

As the market for online travel services grows, the range of companies in the online travel services industry (including travel suppliers, traditional travel agencies, travel information providers, online portals and e-commerce providers) will increase their efforts to develop products and services to compete with Travelocity. To remain competitive, Travelocity must continue to combine a comprehensive service offering, technological innovation and customer service.

Although the online travel service market presents attractive opportunities, there are challenges that must be overcome in order to succeed in this marketplace. To succeed, online travel service providers must invest in technology and infrastructure, attract a large number of customers to achieve economies of scale, establish strategic relationships to drive online traffic, incur the costs of building a brand, obtain travel-related information and integrate it with booking capabilities, aggressively seek out new segments and differentiate its product offering whenever possible.

