Research Highlights:

PhoCusWright's

U.S. ONLINE TRAVEL OVERVIEW

Tenth Edition

A comprehensive analysis and forecast of U.S. travel market trends by sector, segment and channel.

Written & Researched by
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Size and Structure of the U.S. Online Travel Market

Lorraine Sileo

What Goes Down Must Come Up

Truly, 2009 was the worst year for travel in decades. Even the horrific events of Sept. 11, 2001 did not hamper the industry as much as the current recession has. After the Sept. 11 attacks took direct aim at air travel, the total U.S. travel market fell 8% in 2001 and 9% in 2002. In 2009 alone, the U.S. travel market experienced a 15% decline.

Looking ahead, all eyes are on the pace of recovery, which remains restrained, although the pace will pick up in the second half of the year and into 2012. Travel innovation will aid in the upturn, benefiting online travel channels. Social media, user-generated content, video, mobile applications, location-based services, and the proliferation of new media and devices will combine to engage travelers and increase demand. Efforts at personalization, such as tracking consumer behavior and users' social graphs, will increase online conversion for those retailers and suppliers who do it right.

Size of the U.S. Online Leisure/ Unmanaged Business Travel Market

PhoCusWright sizes the U.S. travel market by counting the relevant revenues of U.S.-based suppliers across the following six segments: airline, car rental, cruise, hotel and lodging, rail, and tour operators/packaging. *PhoCusWright's U.S. Online Travel Overview Tenth Edition* focuses on the online leisure/unmanaged business travel marketplace, including supplier-direct websites and online travel agencies. By the end of 2010, the U.S. online leisure/unmanaged business travel market will be back to positive growth following a year that now seems – and is certainly hoped – to be an aberration. The online market is gaining back what it lost in 2009 and then some, increasing 8% to reach $96.9 billion in 2010. The market declined for the first time in 2009, when it lost 5% of its value. The recovery in 2010 will put the online travel market ahead of 2008 levels.

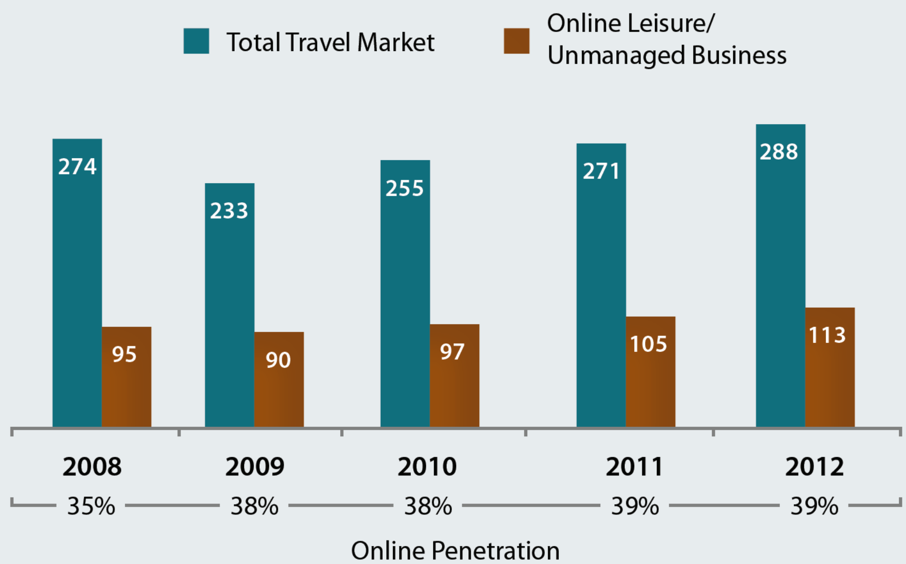
Select Key Trends & Implications

- U.S. online leisure/unmanaged business travel market gross bookings fell 5% in 2009 to $89.5 billion. The online segment represents 38% of all U.S. travel. In 2010, however, the market will recover 8% and reach a record $96.9 billion.

- The total U.S. travel market plummeted 15% in 2009 – three times the rate of decline of the online leisure/unmanaged business segment. Most of the decline was due to severe cutbacks in corporate travel, which contributed to a 17% falloff in air sales in 2009.

- In 2010 the total U.S. travel market will regain nearly half of what it lost in 2009, but will not recover to 2006 levels. Due to a corporate travel rebound and steep capacity cuts, airlines will represent 55% of the total online travel market in 2010.

Figure 1.1
U.S. Online Leisure/Unmanaged Business and Total Travel Gross Bookings, 2008–2012 (US$B) **and Online Penetration**



Note: 2010-2012 projected.
Source: *PhoCusWright's U.S. Online Travel Overview Tenth Edition*

- U.S. OTAs have been successful during the recession and continue to outperform supplier websites. OTAs have fully recovered from an off year in 2009 (-1%) and will enjoy double-digit growth in 2010. OTAs will grow 28% over 2008-2012, while supplier websites will increase 26%.

Purpose of the Report

PhoCusWright's U.S. Online Travel Overview Tenth Edition is a snapshot of the U.S. travel industry that focuses on the purchase, distribution, and marketing of travel booked by the leisure or unmanaged business traveler. Tracking data trends since 1998, PhoCusWright has followed the evolution of online travel purchasing from an activity that was ancillary to supplier companies and agencies to what is now the most influential and possibly most transformative purchase channel.

This report highlights the brands that have driven growth in the online channel. It discusses distribution shifts in travel supplier segments – airlines, hotels, car rental companies, vacation packagers, railways, and cruise lines – from both supplier and OTA perspectives. This report also includes discussion of major offline distribution channels: traditional travel agencies and supplier direct (either via call centers or walk-ins to hotel properties or car rental locations).

The result is a comprehensive overview of travel distribution in the U.S. This report analyzes the trends in market share, technological innovation, and consumer behavior that are influencing the marketplace, incorporating historical industry results from the previous two years to provide a three-year forecast.

Methodology

Market Size and Forecasts

PhoCusWright has been tracking the financial results of the online travel industry since 1998. This report's estimates and forecasts cover U.S.-based travel businesses, including travel suppliers (airlines, hotels, car rental companies, packagers, railways, and cruise lines) and online travel agencies. The total market size includes sales of non-U.S. travel suppliers transacted via U.S.-based OTAs. All figures are in U.S. dollars unless otherwise stated.

Both leisure and unmanaged business travel services are included in the online travel market size and forecast figures. Unless otherwise indicated, all online gross bookings and share figures refer to leisure/unmanaged travel. Unmanaged business travel refers to all air, car, and hotel expenses associated with business travel in firms that do not have a travel policy dictating the channel, type of travel, supplier, or fare/rate uses. Corporate online booking systems such as Sabre/GetThere and Amadeus/e-Travel are excluded from this analysis (for more information on the corporate travel market, see *PhoCusWright's U.S. Corporate Travel Distribution Fourth Edition,* July 2009). This report does include corporate travel bookings in the total travel market figures and in the total revenues for each segment, but does not directly address the size and dynamics of the corporate travel market, except to the extent that they shape key trends affecting the size and development of the total and online travel markets.

PhoCusWright builds its estimates and forecasts from discussions with more than 80 travel executives regarding their companies' Internet sales, marketing and technology investments, challenges, strategies, and expectations. Their responses have been vetted and aggregated to determine market size for supplier websites and OTAs. PhoCusWright also reviews data from Securities and Exchange Commission documents, company reports, and select third-party data sources.

Figures for 2008-2009 are based on actual company results. Projections for 2010-2012 are based on company interviews, consumer research, and market developments. PhoCusWright also considers historical growth and economic trends when developing its forecasts. Estimates and projections are for gross bookings – the retail value of travel sold over the Internet – after cancellations. Figures for airlines are based on flown (passenger) revenue. Hotel figures are based on room revenue. Figures for car rental are based on domestic U.S. revenues, excluding insurance replacement revenue. Figures for cruise lines and tour operators are based on U.S. outbound passenger revenue. Figures for rail are based on passenger ticket revenue.

Travel that is researched online but booked offline using toll-free telephone numbers provided on the websites is, where possible, excluded from online gross bookings figures. Total travel figures (online and offline) are used to determine Internet penetration for each market segment. Total travel figures are either derived from third-party sources or are PhoCusWright estimates.

Consumer Travel and Behavioral Information

PhoCusWright conducts an annual consumer survey for its Consumer Travel Report series. *PhoCusWright's U.S. Online Travel Overview Tenth Edition* draws frequently from *PhoCusWright's Consumer Travel Report Second Edition* (May 2010). For the latter report, PhoCusWright fielded an online consumer survey during January 12-28, 2010 through Global Market Insite, Inc., targeting the general U.S. population that has Internet access and travels for leisure.

To qualify for participation in the study, respondents had to indicate that they had taken at least one leisure trip at least 75 miles from home in the past 12 months and that the trip included paid accommodations and/or air travel. They were also required to have played an active role in planning their leisure trips. Respondents who qualified are referred to as "U.S. travelers." Paid accommodations include hotels and other nightly priced lodging products, as well as timeshare and vacation rentals.

PhoCusWright received 2,763 qualified responses, and the weighted respondent pool can be projected with confidence to the U.S. adult population with Internet access. To accurately measure incidence of travel within certain segments, an additional 1,280 respondents were surveyed to obtain baseline metrics about travelers and nontravelers within the general online population. The error interval for analysis of the U.S. traveler population is +/–1.9% at a 95% confidence level. Significant differences noted in this report were identified at a 95% confidence level.

Based on data from the U.S. Census Bureau and Harris Interactive, PhoCusWright projects the number of U.S. adults with Internet access who took at least one leisure trip (as previously defined) in 2009 to be 112 million people. These travelers represent 49% of the total U.S. population. The additional requirement for respondents to have played an active role in travel planning further tightens the focus of the study, as 11% of U.S. travelers were consequently disqualified. *PhoCusWright's Consumer Travel Report Second Edition* examines U.S. travelers who played an active role in planning their trips. These travelers represent 73 million consumers and 40% of the total U.S. adult population.

These are just a few of the findings from *PhoCusWright's Online Travel Overview Tenth Edition.* Purchase the full report here: http://www.phocuswright.com/store/1481.

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