



Shaping the Travel Industry

Booking Holdings, owner of incumbent online travel agent (OTA) brands including Booking.com, Priceline and Agoda, has been instrumental in the digitalisation of the travel industry over the last 20 years.



Travel is a large and growing industry. Since 2010, the travel industry has exhibited attractive +4% growth, driven by both hotel and airline sub-industries, as well as accelerated +10% growth in short-term rental accommodation due to the popularity of Airbnb. Currently, consumers globally spend a staggering US\$2.5t a year on travel and this trend is set to continue, fuelled by favourable demographics such as the rise of middle-income consumers as well as changing societal norms where consumers increasingly favour experiences over physical possessions.

In 1997, Booking launched Priceline, one of the first OTAs for hotels, and quickly recruited thousands of independent and unbranded hotel owners to the platform. To build scale, the company acquired Booking.com and agoda.com, which allowed the company to establish an early foothold across major developed markets. Shortly after this, Booking added new travel verticals including car rentals and flights to provide guests with a more holistic travel offering.

Scale is paramount for this business model. Guests will visit an OTA platform if they trust they will find a suitable hotel anywhere in the world and, equally, hotel owners will list their property on a large OTA platform knowing they gain access to the most prospective leisure guests. Booking monetises its platform by charging hotel owners a ~15% revenue commission fee for each filled room. Booking drives additional customer traffic to hotel listings by purchasing advertising placements on Google Hotels or other metasearch platforms such as TripAdvisor. Booking's scale, industry-leading data and tools allow it to advertise at a lower cost compared to an independent hotel owner.

Increased mobile usage quickly shifted bookings online. OTA bookings currently account for ~70% of total intermediary bookings, up from ~40% in 2009. Booking will continue to benefit from this shift online in Europe and North America where there are residual opportunities, as well as new Asia-Pacific markets where online usage is more nascent.

Due to its immense scale, Booking has successfully established a dominant two-sided marketplace by connecting millions of small, independent hotels across the world with millions of leisure travellers. This has solidified its dominant ~40% share of the global OTA market, including up to ~75% share in certain Western European markets. Maintaining quality customer service for a fragmented network of hotel owners is costly; however, importantly, this creates a meaningful financial barrier to entry and has helped protect against competitive threats from smaller OTAs and disruption from large technology players such as Google. Booking also benefits from scale advantages in IT infrastructure, data engineering capabilities and brand marketing compared to smaller, less-profitable OTAs.

Undoubtedly, the pandemic was a major disruptive event for the entire travel industry. However, Booking's management team used this crisis to build its dominance. Notably, the company accelerated its offering in flights, car rentals and short-term rentals to increase its competitiveness against peers, Expedia and Airbnb. Booking is quickly becoming the one-stop shop for all your travel needs. These initiatives have increased customer retention metrics and direct traffic to Booking's website and mobile app, together representing an impressive ~55% of its total bookings. Combined, these initiatives are creating more loyal and higher-value customers for Booking. This manifests as lower advertising expenses, higher company profitability,

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higher returns for shareholders and a stronger competitive moat. Booking has further bolstered its value proposition via the rapid expansion of its Genius loyalty program across all brands to offer competitive discounts to guests who book frequently on the platform. It is remarkable what Booking and its management team have delivered during a period of extreme volatility.

The future of the travel industry is exciting. How consumers seek travel inspiration, search for their next dream destination and complete their final booking transaction will continue to evolve. One day it may be possible to book all your travel needs seamlessly on one platform, augmented by a personalised AI travel assistant. While it is still early stages, Booking is already trialling AI assistant tools in the US and UK to improve the user experience. Booking's market dominance and innovative, consumer-centric culture have been critical to its success to date and place it at the forefront of industry change over the coming decade.

Sources: Company filings, Euromonitor.

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Brands

Booking.com




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