
TRAVEL TECHNOLOGY

Spiders' tale: Online travel sites weave a tangled Web (12/20/2005)

Search firms compete for users and revenue

By Dennis Schaal

Back in 2003, FareChase got into a legal tussle with American Airlines when the carrier sued the start-up search company for allegedly flooding American's Web site, AA.com, with unauthorized consumer queries and for pilfering the carrier's fares, schedules and intellectual property through screen-scraping.

Much of the extra traffic on the site produced no revenue for American, yet generated costs for the airline "and literally would create traffic jams for us," recalled Billy Sanecz, a corporate communications manager for American.

A lot has changed in two years.

Today, American's relationship with FareChase and other comparison-shopping search engines is evolving in pace with the technology and business models of travel search companies, even as both sides continue to struggle with commercialization issues.

American and FareChase resolved their legal scrape over screen-scraping, also known as "spidering," in 2004, and several weeks ago FareChase began pulling fare data from American via a now-sanctioned XML feed directly from the back-end database of AA.com.

XML, an abbreviation for Extensible Markup Language, is a far more sophisticated and flexible technology than the Web's traditional HyperText Markup Language (HTML). XML facilitates more efficient data exchanges, not only among Web sites but among the databases that feed those sites -- in this case, the data sets that make up airlines' complicated schedule and fare information.

The XML tunnel, Sanecz says, eliminates the burden for American, which now has similar Web-based connections in place with the other major meta-search engines, including SideStep, Kayak and Mobissimo.

Like American, many suppliers and some online agencies now view participation in meta-search engines -- and their cousins, the deal publishers and facilitated search engines such as Travelzoo, BookingBuddy and Cheapflights -- as essential components of their e-marketing programs.

Unlike the meta-searchers, facilitated search engines like Travelzoo's SuperSearch and BookingBuddy.com do not search dozens of Web sites simultaneously. Instead, they charge what is essentially a slotting fee for placement of each advertiser's booking engine on their Web site. Consumers can use advertisers' booking engines one at a time to search and book on their Web sites before fares or rates are displayed.

As the two kinds of online travel search companies notch distribution and advertising deals and roll out new features, they are slugging it out for consumer

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eyeballs and for ways to generate revenue.

Who's making money?

At this point, the big question is whether anyone other than search giants Google, Yahoo and MSN is actually making money on travel search roughly five or six years after those the first crude "screen-scrapers" appeared.

In fact, American's participation in the meta-search engines highlights one of the roadblocks to profitability. The airline feeds its data to SideStep, FareChase, Kayak and Mobissimo, but it is getting a free ride. American pays no cost-per-click nor any transaction fee when the search engines -- which do not perform bookings -- funnel consumers to AA.com.

The search engines, chasing an elusive comprehensiveness to bolster their claims of one-stop-shopping acumen, would rather have American's flights than its fees at this juncture.

At the same time, many of the search companies are struggling to erase red ink. Cree Lawson, the founder and CEO of Travel Ad Network, which sells banner and text ads for Web sites like IgoUgo and OneTravel.com, says some of the meta-search companies are on the "bleeding edge" because of the high costs associated with their technology investments and marketing.

"I think you will see a shakeup in this market," Lawson said. "I would say that some of these guys will be running out of money soon."

In that regard, privately held Kayak, which attracted \$17 million in venture capital plus a \$2 million investment by AOL, projects it will lose \$6.3 million on \$3.3 million in revenue in 2005, its launch year.

"Our focus is not on being profitable right now," said Kayak co-founder and CEO Steve Hafner. "We could achieve that very easily by pulling back on our marketing spend, putting banner ads on the Web site and throwing out suppliers like American who aren't paying."

"Just like that you are profitable," Hafner said. "That's not our goal. Our goal right now is to build a great product and get in front of lots of people."

He calls this the "land grab" phase.

In contrast to a year ago, the meta-search category has fine-tuned its search functionality and is ready now, Hafner said, noting that on Kayak.com the "majority" of air, 90% of hotel and all of the car rental transactions are paid for by suppliers and agencies. The company's traffic and revenue grew in October, increasing 30% and 42%, respectively, he said.

"You have to have leverage over those guys," said Hafner, referring to suppliers who participate but don't pay to play. "There is no economic reason for them not to pay. Fundamentally, it is a much better channel to reach consumers than the online travel agencies. But, then again, you are talking about companies that are in bankruptcy or nearing bankruptcy. If they don't have to pay, they are not going to pay."

Among other meta-searchers, SideStep, which also is heavily into the deal-publishing side of the business, recently signed marketing and distribution

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agreements with American, Delta, Hilton International and Marriott. SideStep, whose CEO stepped down this year, says it took a loss in 2004 but is profitable in 2005. Mobissimo, which differentiates itself through its extensive international inventory and relationships, is the only major meta-searcher without venture capital financing or a portal parent. Mobissimo says it became cash-flow positive in June.

Meanwhile, FareChase, acquired by Yahoo last year and still in beta testing, is in its own category regarding business models and commercialization. Although most of the meta-searchers get compensation from suppliers on a cost-per-click, transaction-fee or revenue-share basis, FareChase allows all online agencies and suppliers to participate in its natural search results for free.

FareChase is designed to make money "around the rails," as one competitor put it, namely on the Yahoo-generated sponsored links that appear to the right and below the free search results. Yahoo, a public company that boasts the most-visited URL on the Internet, does not break out FareChase financials, but certainly FareChase can be a significant money-generator for its parent. And competitors point out that FareChase's model doesn't preclude it from changing to a pay-to-play model in the future.

Unlike most of the meta-searchers, Cheapflights.com, BookingBuddy and Travelzoo are publishers, with a heavy emphasis on deal promotions through e-letters, e-mail alerts and online ads.

Cheapflights, a division of U.K.-based Cheapflights Ltd., launched in the U.S. in 2003. Privately held Cheapflights Ltd. says it's been profitable since it's founding in 1996.

Likewise, Smarter Living, the Massachusetts company that launched BookingBuddy in 2003, says it has operated in the black since its creation in 1999.

Meanwhile, New York-headquartered Travelzoo, a public company whose core business is deal publishing, counts 300 travel-company advertisers, 29 consecutive quarters of revenue growth and consistent profits. For the nine months ended Sept. 30, Travelzoo had net income of \$6.3 million on revenue of \$36.9 million.

But Travelzoo and most of the other search companies are playing a dicey and complex game -- what Lawson of Travel Ad Network terms "click arbitrage" -- as they battle for consumer audiences and seek to prove their value proposition to suppliers and agencies.

Click arbitrage means that Travelzoo buys consumers' clicks on Yahoo, MSN and Google and absorbs the risk, hoping that consumers linking to Travelzoo.com will generate higher revenue when they click on one, or hopefully several, of Travelzoo's advertisers, which include anyone -- and almost everyone -- from ATA to United.

Clicking, clicking everywhere

"Most of these sites," says Lawson, referring to both the meta-searchers and the deal publishers, "don't have their own audience that goes to them directly. They buy that traffic by the click from somewhere else. Then the click comes into the Web site, and they are hoping they can pay for one click coming in and receive money from three clicks going out."

And what a tangled Web they weave. For example, this click arbitrage practice has Kayak advertising on the sites of competitors BookingBuddy and Cheapflights.

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Travelzoo's Yahoo ads appear on FareChase. BookingBuddy's advertising appears on Mobissimo.

Moreover, the costs of acquiring that Web traffic is problematic. For example, Travelzoo's average cost to add a new subscriber in the third quarter -- during which it added almost 741,000 subscribers and lost nearly 423,000 -- was \$3.19. That was 57 cents more than it cost in the second quarter.

On the positive side, Travelzoo has attracted an array of advertisers, including Travelocity.

The Sabre-owned online agency's participation comes despite the fact that Travelocity has shunned meta-searchers like FareChase and Kayak out of concerns for brand and price dilution. In the nine months that ended Sept. 30, an ad agency representing Travelocity plunked down \$5.9 million, or about 16% of Travelzoo's revenue, to advertise in Travelzoo's marketing vehicles.

The online agencies are one of the grand prizes (the other missing gem is Southwest Airlines) that all of the meta-searchers and facilitated searchers covet so they can prove to consumers that their search engine is the most comprehensive. And the online agencies take varied approaches to the search engines.

For example, although Travelocity doesn't participate in the major meta-search engines, including Yahoo-owned FareChase, Sabre-owned Lastminute.com offers its fares and rates to the pan-European search engine Kelkoo, also owned by Yahoo.

Meanwhile, Orbitz and Cheap Tickets provide data to FareChase and SideStep but refuse to grant access to Kayak. Competition among the meta-search engines and the facilitated search engines is intense as they compete for ad dollars, and each paints itself as providing the better value proposition to consumers and suppliers. The meta-search engines claim they deliver more qualified leads to advertisers and provide comparison shopping for price-driven consumers. The facilitated search engines counter that they are more comprehensive because they have a broader advertising base and are more supplier-friendly.

Much of the debate and competition hinges on when to show pricing to consumers. The search results from the meta-search companies generally feature side-by-side comparisons of fares and rates. In contrast, the facilitated search engines emphasize advertisers' brands, and consumers don't see price until after they select individual advertisers' search engines and land on their Web sites.

"I would assume that the meta-search engine delivers a much more highly targeted click," Lawson says. "I think they provide infinitely more value. I struggle to see how any comparison-shopping value is delivered [by the facilitated search engines] to the user."

Travelzoo founder and CEO Ralph Bartel, who owns 78% of the company, said one reason Travelzoo is successful is because its model accommodates the desire of suppliers and agencies to avoid price comparisons. He scoffs at the notion that real price differentiation even exists.

Krista Pappas, a former FareChase official who now serves as chief strategist and senior vice president of sales and business development for Smarter Living, said, "We are all vying for the same media dollars. I don't know how they [the meta-

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search engines] can qualify themselves as comprehensive if they don't have [the participation of] the major online agencies."

The bottom line, Pappas said, is that "BookingBuddy is delivering qualified traffic from people who have a propensity to buy. With meta-search, you type in you want to go from Boston to Chicago, and it pings every Web site that they have a deal with -- or even those they are scraping that they may not have a deal with and that the consumer maybe never wanted to see."

Much of the future of travel search, observers agree, depends on how search engines like Google and portals like Yahoo and AOL play their hands.

Google is downplaying its test of a flight links feature, which offers one-at-a-time searches of online agency booking engines, saying it is merely trying to improve consumers' search experiences. Google says it is not receiving money from the agencies displayed in the test and doesn't plan to delve into meta-search.

Still, the entire travel industry keenly observes Google's every move, and some observers wonder if flight links might become a revenue generator in the future, especially as some online agencies talk of exploring more off-line advertising in 2006.

Meanwhile, AOL got off to a slow start with its Kayak-powered PinpointTravel.com, first opting for an AOL look and feel, and now moving toward a site that mirrors Kayak in most respects.

AOL and Yahoo both have lucrative deals with Travelocity, which is the exclusive booking engine on the portals' respective travel channels, and much of meta-search's future may depend on how these Web giants decide to tip the balance of power between their Travelocity and meta-search offerings.

"In 2006, if Yahoo and AOL choose meta-search as their default path, then, just like that, you have a channel that's equal in size to an online travel agency," says Kayak's Hafner. "If they are slower to adapt it, then it would be 2007."

Hafner said it will come down to a simple comparison of the models: "If they send 100 people down a meta-search path, how many of them will come back because it was worth the experience? And what was the monetization? And if we send 100 people down the traditional, single travel agency path, what's the repeat rate there? What's the revenue per visit?"

The portals will discover, Hafner said, that meta-search is better. "They will make the switch. It's how you want to point the fire hose of traffic," he said.

Yahoo has already begun diverting some of the traffic on the Yahoo Travel home page, in Yahoo Travel Guides, Yahoo Shopping and even in Yahoo's e-mail service toward FareChase. Travelocity refuses to participate in FareChase, and Yahoo and Travelocity recently renegotiated the terms of their partnership, which expires at the end of next year.

"We have conclusively proved that meta-search doesn't have to have an online travel agency relationship," said Yen Lee, general manager of Yahoo Travel.

He noted, however, that Travelocity's business on Yahoo Travel is growing at a double-digit clip.

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Regarding the ultimate balance between FareChase and Travelocity within Yahoo, Lee said, "I think it is a little presumptuous of competitors to say [what Yahoo will do.] We don't know what we are going to do. But we do have a vision about providing Yahoo consumers with whatever they need."

One thing consumers may want is comprehensiveness, which often seems like a distant target. Although meta-search engines and suppliers are introducing XML feeds, there still is a lot of site-scraping taking place. That causes some suppliers to limit the number of flights that meta-search engines can display. That could lead, for example, to consumers wondering why they might occasionally find a better United fare on United.com or Orbitz than on one of the search engines.

"Back when we were doing spidering, much more than we do now, airlines would limit us as to so many flights because we were beating the hell out of their Web site," says Paul English, Kayak's co-founder and chief technology officer. "Now that we have direct-connects through ITA Software and XML, they can very efficiently give us hundreds of results."

The disparity still exists, however, although perhaps to a lesser degree.

"There are 2 billion flight combinations between Los Angeles and New York," Hafner said. "No Web site is going to show that in one display."

He said an airline might limit Kayak's results to 25 flights, and Kayak is trying to emulate the experience that consumers get on the airline's Web site rather than displaying an unwieldy number of fares.

The competition among the travel searchers is fairly intense and the verbiage can be barbed. For example, Mobissimo claims to search 137 Web sites and to have the most comprehensive real-time search engine. It even recently offered \$100 to anyone who could identify a travel search engine that searches more Web sites.

Beatrice Tarka, Mobissimo's co-founder and CEO, asserted that competitor Kayak gets many of its fares from an ITA database, and that it often doesn't search in real-time. For example, if searching a San Francisco-London itinerary, Kayak displays flights and fares from Lufthansa and Alitalia. But, if consumers want to book flights, they have to re-enter the itinerary information on the airline Web sites because Kayak doesn't search them and doesn't have a business relationship with the airlines.

Further, Tarka said, Kayak biases its displays.

Another skeptic is Yahoo's Lee, who expressed doubts about Kayak's claims that it is providing conversion rates four to five times higher than advertisers get on Yahoo and Google.

"It's hard for us to believe, based on what suppliers told us," Lee said, pointing to Kayak's financial losses.

As the meta-search engines battle it out among themselves and compete with the facilitated searchers, it must be noted that all of them are fighting for just one segment of the travel marketplace.

"I think the meta-search engines will always be challenged by the same things that have challenged the online travel agencies," Lawson says. "And that is that you are dealing with the least loyal audience -- the price-comparison people."

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