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## Last minute travel: Anomaly or opportunity? A case study of an online travel agency's product evolution

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*Last Minute Travel: Anomaly or Opportunity?*

*A Case Study of an Online Travel Agency's Product Evolution*

*by*

Cady Wolf

Master of Hospitality Administration  
University of Nevada, Las Vegas  
2008

A professional paper submitted in partial fulfillment  
of the requirements for the

**Master of Hospitality Administration**  
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**ABSTRACT**

***Last Minute Travel: Anomaly or Opportunity?***

***A Case Study of an Online Travel Agency's Product Evolution***

by  
Cady Wolf

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## PART ONE

### Introduction

According to Jupiter Research, Online Travel is expected to reach \$128 billion by the year 2011. It is estimated that sales of online packages will reach \$7.6 billion by 2011; with one segment of this market, last minute travel, estimated to reach \$1.8 billion during the same period. The growth potential of the last minute market segment is substantial, as the number of consumers who purchase travel online will grow from 34 million in 2005 to 55 million in 2011 (Cannizzaro, Carrol, Offutt, and Quinby, 2007).

However, recent changes in the airline industry will have a dramatic impact on the future of the last minute segment. In a recent article in the USA Today (June 16, 2008), airline cutbacks are affecting almost every state in the US; reducing capacity out of primary and secondary airports. Additionally, analysts predict the worst isn't over; according to the USA Today website, the biggest reductions are expected this fall.

In addition to the changes in the airline industry, the current state of the US economy is also having an impact on the travel industry. According to a recent PhoCusWright study consumer confidence has fallen dramatically from 92% in March 2007 to 33% in March 2008 (Steinbrink, 2008). However, even though consumer confidence is down, and the economy is declining, consumers are still traveling. Research shows that people have altered the way they are traveling by taking shorter trips with a propensity to buy 'package' vacations ,i.e. flight + hotel in one transaction (PhoCusWright, 2008).

So what does this mean for online travel agencies whose futures depend on savvy consumers who spend time researching, planning and buying their travel online? What

does the future hold for the last minute travel market segment online; whose success is dependant on a delicate balance of supply and demand? What trends are happening that will help or hinder last minute travels success? And finally, what can the last minute segment learn from its history that they can apply towards future success?

This paper identifies the specific purpose of researching the last minute travel segment. It will showcase one online travel company's last minute product as a case study for the topic. This paper will include a literature review and empirical research, but will be primarily supported by focusing on Travelocity as a case study for the last minute segment.

### *Purpose*

The problem that Travelocity and similar on-line travel agencies face is to understand the complexities of today's changing global market and how various factors impact consumer purchasing of on-line last-minute travel products. Subsequently these companies need to understand how to strategically position themselves and/or their resources for these products based on whether the last minute segment is in fact an opportunity or an anomaly. The next section provides an overview of this unsolved puzzle. First, a statement of the problem is discussed. Followed by objectives and/or proposed hypothesis. Thirdly, a brief justification and/or significance, followed by the constraints and glossary of terms.

The purpose of this paper is to explore the last minute travel space online, with particular focus on one online travel company, Travelocity. This paper provides an overview of the last minute travel space as it has evolved in recent years via the internet. This paper will take a close look at how one online travel company, Travelocity, became

the market maker in this space. It will look at how changes in the economy along with other factors helped propel this industry segment to the forefront as well as put it in peril. Lastly, this paper explores the upcoming challenges and opportunities that not only Travelocity faces with its last minute travel program, but what the last minute market segment can expect as well.

### *Statement of Problem*

This paper give an overview of the unsolved puzzle of last minute travel: the potential to grow the product, yet the US is in a recession, and the travel landscape is changing. By focusing on one online travel company , Travelocity, as a case study, this paper explore many dimensions of the problem. These issues include understanding the economy, the global marketplace, competitive landscape, and consumer psychology. Past and current trends will lend insights and recommendations for the last minute model moving forward

Travelocity faces increasing competition from the online travel agencies. One way that Travelocity differentiated themselves early on was to create a very successful channel called” last minute deals”. However, in late 2007 Travelocity started to see a decline in the success of the product due to changes in the economy as well as in the travel industry. The problem being explored is how Travelocity can adapt their last minute business model to keep it a viable and healthy channel that provides value for the consumer as well as driving results for the company and its supplier partners.

### *Statement of Objective / Proposed Hypothesis*

There are three main objectives of this paper. First, this paper seeks to provide a broad overview of the travel industry, to include the various factors impacting it, with a



specific focus on the problem facing the on-line last-minute product. Second, this paper seeks to provide depth into the specific factors defining this problem, leveraging both literature and a case study of Travelocity, which should help industry leaders in defining the scope of this problem and/or methods for gaining insight. Third, this paper seeks to provide industry leaders some recommendations for how to reconcile the dilemma relative to this problem by providing insights to help them shape their strategic positions.

The working hypothesis for this paper is two fold. First, industry leaders need to have a multi-faceted approach to understand the problem of on-line last-minute travel product offering. Meaning, industry leaders need to examine the economic conditions, evolving supplier partners, market dynamics, and consumer psychology amidst uncertain times to gain insight into the problem. Second, which armed with a comprehensive view, leaders will be able to strategically position themselves and see the opportunities within the on-line last-minute travel marketplace.

The objective of using Travelocity as a case study for the last minute travel segment is to understand the complexities and nuances they faced from inception of the last minute travel product, to its current state. Travelocity faced some struggles early on with the product, but proved after refinement and research that this was a viable market segment that could not only meet consumer demand, but also fill a need for their supplier partners. Reviewing the challenges and opportunities Travelocity faced while growing this market segment will provide valuable research for this market segment moving forward.

*Justifications*

The justification of this paper is to provide information and research on the viability, demand, and long term health of the last minute travel business model for online travel agencies, using Travelocity as a case study. This paper first begins with an overview of travel industry, with particular focus on the online travel space. It then gives specific background and history on Travelocity. Lastly, it focuses specifically on Travelocity's last minute product. It will look at how the last minute travel segment was a growing business that met demands in its early days, but became less relevant as economic times and market conditions changed as it matured. This paper also looks at how Travelocity's last minute segment morphed with the changing travel landscape and adapted to market demands to be successful.

*Constraints*

Three primary constraints were encountered while researching the last minute market segment. Antidotal insights were the most available, market research was relatively biased, and true empirical research was rare and difficult to locate. Both historical and current data on this market segment are very limited. In addition, the number of related companies or competitors is fairly small, limiting opportunities for additional research and comparison..

The research was limited to studying one organization, Travelocity. While Travelocity has ample data on their last minute product, the constraint comes from interpretation and relevance of data that can be applied to future business models. This constraint also relates to the proprietary company data that was reviewed as well.

Additionally, interviews with a small amount of consumers and company executives, while relevant, limits the product review, research, and opinion to a small market sub set.

This section examined the why it is relevant to explore and research the last minute travel segment. It focused on one online travel company, Travelocity, and identified their last minute product as the case study for this research. This section also looked at the problem statement and objectives developed to address the business model. The next section will examine the justification for researching this topic and choosing Travelocity as a case study.

### *Glossary*

Intermediary: person in the middle, collect a product and distributing it out to others

LMD: Last Minute Deals

Opaque: disguised, hidden to the consumer

OTA: Online Travel Agency

OTC: Online Travel Company

Packages: two or more travel product bundled together, i.e., Flight + Hotel, Hotel+Car

Site59: Last Minute Travel company and segment on Travelocity

Supplier: travel company that produces a product direct, i.e. an airline , hotel or car rental company

TIA: Travel Industry Association of America

TotalTrip: proprietary word used to describe Travelocity's package product

WTO: World Tourism Organization

## PART TWO

### Literature Review

#### *Introduction*

According to the World Tourism Organization, uncertainty over the global economic situation is affecting consumer confidence and could hurt tourism . A recent PhoCusWright study showed consumer confidence in the economy has fallen dramatically from 92.3% in March '07 to 33.1% in March '08 (Steinbrink, 2008). A combination of the failing housing market, the high cost of fuel & energy; and an ever-present credit crunch has taken their toll on the American population. While initial studies in the first quarter of 2008 indicated that travel has been marginally impacted by these factors, the tides are changing moving into the second half of the year.

This section includes an exploration of the travel industry, with particular focus on the online business. This section will look at each of these areas and the multiple factors & levels that impact them from historical data, market conditions, and consumer trends in the travel sector. This section will show breadth in terms of the factors impacting the on-line travel industry and the specific last-minute deal product offering, as well as depth in terms of each factor's scope, history, and link to other dimensions.

There are three major sections included in the literature review. The first section gives a brief overview of the travel industry. The second section looks at the evolution and current state of the on-line travel business. The third section explores the last minute travel segment and how it relates to online travel. Additional areas for exploration will include historical data, current conditions, consumer profile, competition, and summary insights relevant to each segment.

### *Travel Industry Overview*

The travel and tourism industry has been one of the fastest growing global businesses of the last century. According to the World Tourism Organization (WTO), global international arrivals have gone from a mere 25 million international arrivals in 1950, to an estimated 806 million in 2005. During this time frame, Europe and the Americans were the main tourism receiving regions with an estimated 95% of the share in 1950, and 76% of the share in 2000 (WTO, 2008).

Travel and Tourism is a \$1.6 trillion dollar industry in the United States. It is one of the U.S. largest employers, with one out of every eight non-farm people employed in a travel-services related job (Keefe, 2008). High prices, increased passenger capacity on airlines, and more controlled hotel inventory lead to record revenue numbers in 2007. However, trends and the travel landscape are changing in 2008.

### *Current Conditions*

The biggest trend affecting the overall travel industry right now is rising fuel costs. In addition, there is a loss of consumer confidence in the airline industry. The rising fuel prices are affecting travel from a drive and fly perspective, making it costlier to fly planes and for consumers to drive their cars. In a recent study conducted by the Travel Industry Association of America (TIA), they estimate that there could be over \$26 billion dollars in lost in consumer spending in the US economy due to frustration with air travel. This, coupled with rising fuel costs, has led consumers to avoid approximately 41 million trips in the past year. According to this same study, TIA estimates that it is not just a hit on the airlines, but that the trickle down effect will cause revenue losses to hotels, restaurants, and state and local taxes (Keefe, 2008).

For consumers that are still choosing to fly, the rising cost in fuel is leading airlines to cut passenger load capacity. A recent USAToday article stated that airline schedule changes and cutbacks could happen at over 300 domestic airports. This could result in up to an 8.8% reduction in passenger capacity (Couch, Hansen & Carey, 2008). This reduction in capacity could mean eliminating routes or daily flights at an airport; or it could mean changing out a larger aircraft for a smaller one. Regardless, the changes, some which have taken place, and more which are expected to happen this fall; have a trickle down effect for the travel industry.

As a result of the reduction and restrictions with the airlines and the decrease in consumer travel, hotels are also reducing their rates in hopes of stimulating volume or demand. Places hardest hit by the cutbacks are high leisure markets which produce lower yield for airlines such as Las Vegas. Conversely, destinations with a high volume of international travelers like New York City are faring fairly well as the weakened US dollar is driving demand. In addition, many consumers are opting for a “staycation” which according to the Urban Dictionary, is a vacation close to home. Local hotels and activity partners can capitalize on this trend by marketing to these consumers.

### *Consumer Profile*

Travel is a global product and commodity. Consumers from all parts of the world have access to opportunities and products that enable them to travel domestically or internationally. Due to technology and improved global economic conditions in the 20<sup>th</sup> century, the profile of the consumer has changed. According to Figure 1, this landscape has even changed dramatically in the past ten years. While in the 1950s, the majority of travel (96%) was to Europe and the America's, the World Tourism Organization is

projecting that by 2020, the top three receiving destinations will be Europe (717 million), East Asia and the Pacific (397 million) and the Americas (282 million).

*Figure 1.* International Travel Profile

	Base Year	Forecasts		Market share (%)		Average annual growth rate (%)
	1995	2010	2020	1995	2020	1995-2020
	(Million)					
World	565	1006	1561	100	100	4.1
Africa	20	47	77	3.6	5.0	5.5
Americas	110	190	282	19.3	18.1	3.8
East Asia and the Pacific	81	195	397	14.4	25.4	6.5
Europe	336	527	717	59.8	45.9	3.1
Middle East	14	36	69	2.2	4.4	6.7
South Asia	4	11	19	0.7	1.2	6.2

*Note.* From World Tourism Organization “Tourism 2020 Vision”, 2008

### *Competition*

The travel industry is a multi-faceted, global industry. It has proved to be a viable and sustainable business model for countries around the world. Consumers have a multitude of ways to plan their business trip or leisure vacation. They can choose from a traditional travel agent, (i.e. Carlson Wagonlit), a corporate travel agency (i.e. American Express, etc) an online travel agency (i.e. Expedia, Travelocity, etc) or can go to a supplier direct (i.e. American Airlines, Hyatt Hotels, etc) in-person, via the phone, or direct to their websites. With the inception of the internet in 1994 , online travel in particular has seen the most rapid growth of all of these segments (Harteveldt,2008)

While all of these distribution channels have their own niche markets and core customers, they are all competing for a space in the global travel economy.

### *Summary Insights*

The travel industry is an exciting and dynamic global marketplace. The consumer has multiple options to plan their travel from using a traditional travel agency, an online travel agency, or booking with a supplier partner direct via the phone, in-person, or over the internet. While travel is still on the increase globally, current economic conditions, primarily due to rising fuel costs, are changing consumer trends and demand.

This section briefly examined the history of the travel industry. It also reviewed the current health and economic status of the travel industry. The next section will closely examine the fastest growing segment of the travel industry: online travel.

### *Online Travel*

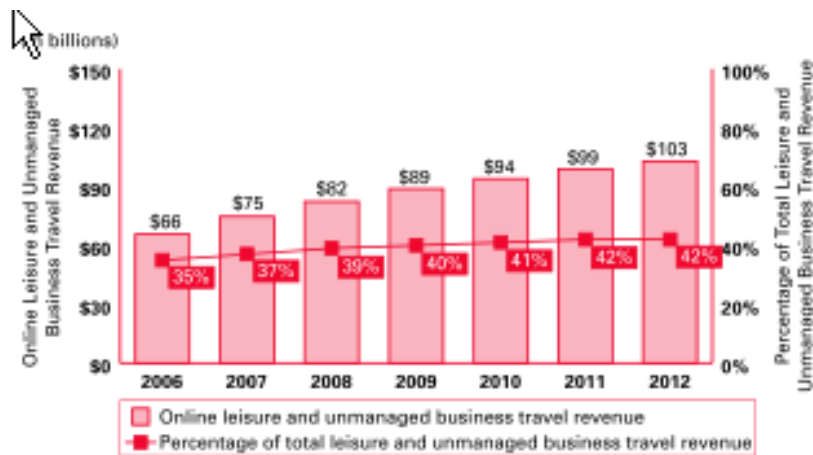
According to the Jupiter Research US Travel Forecast for 2007 to 2012, in 2007 US consumers booked a total of \$99 billion in travel online, and estimates this number will reach \$147 billion by 2012. Of this portion, travel supplier websites are expected to account for approximately 69% of this share by 2012 (Clarkson, Shegal, and Daniels, 2007). This section will give an overview of the travel industry relevant to online travel. It will take a look at the history, current conditions, consumer profile, and market competition & overview.

### *History*

Online travel evolved in the mid 1990s. The first online travel site was Travelocity in 1996. At that time, online travel accounted for less than 1% over the overall travel landscape. By 2012, online travel is expected to comprise approximately 42% of the overall travel market (see Figure 2).



Figure2. Online Travel Market Growth through 2012



*Note.* From Jupiter Internet Travel Report, 2007

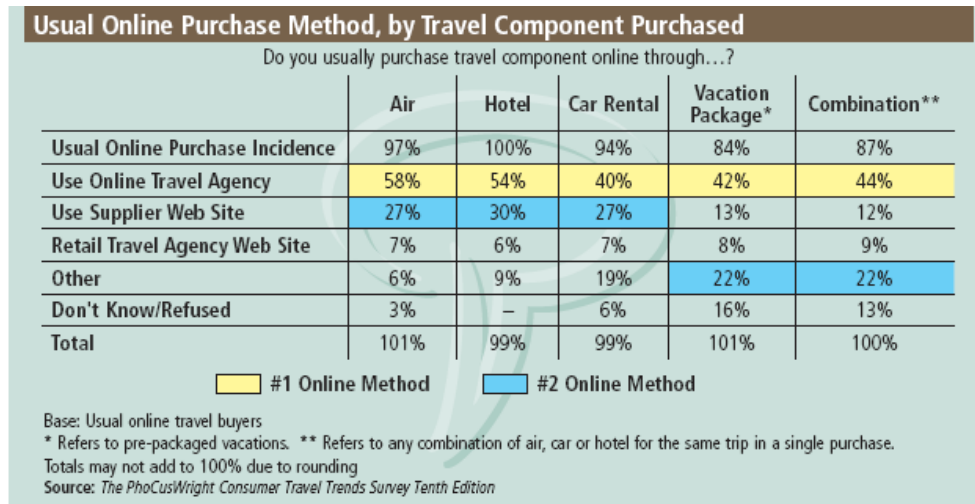
#### *Current Conditions*

In the U.S, online travel had a banner year in 2007. However, it is estimated that online growth rates will slow down in 2008 amidst consolidation and a blurring of business models (Schetzina, 2008). Where online travel is experiencing substantial growth is internationally, with China remaining the last frontier. In addition, suppliers and travel agencies are focusing their efforts on the packaging side of the business.

It is estimated that online package sales will increase up to \$8.9 billion by 2012 as consumers confidence in the savings offered by package sales savings rises and online travel agencies' packaging technology becomes more sophisticated (Jupiter Research, 2007). Travel "packages" generally tends to comprise of two or more travel components such as air & hotel, hotel & car, hotel & activity, etc. This business has seen substantial growth in the past few years not only because of the savings to the consumer, but also because it affords suppliers the ability to drive more volume with a lower rate that is concealed, or 'opaque' to the consumer. By bundling two or more components together, the supplier maintains rate integrity because their individual price is not broken out,

versus if the consumer bought each segment independently. As exhibited in Figure 3, online consumers have a high propensity to purchase vacation packages and/or combine travel components.

*Figure 3. Online Purchase Method, by Travel Component*



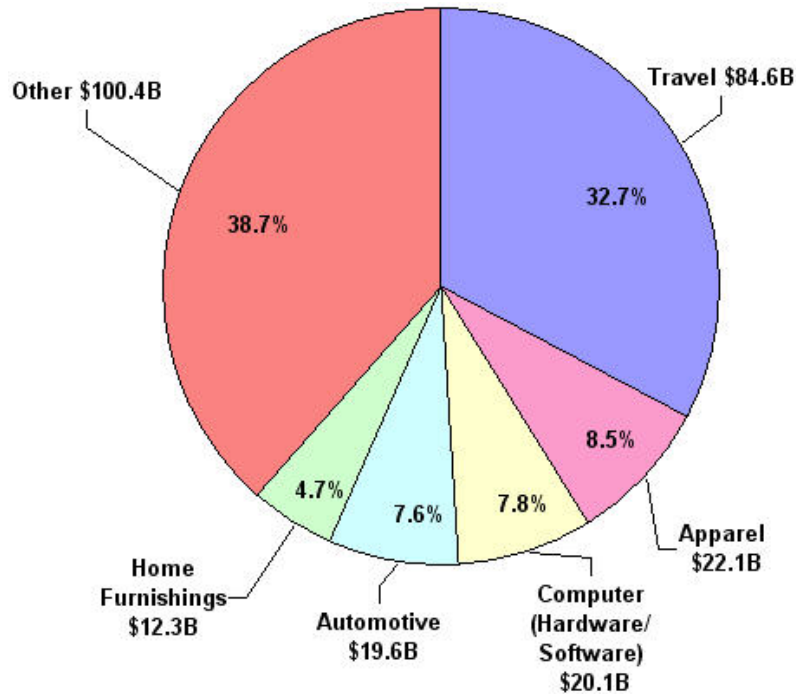
*Note.* From "The PhoCusWright Consumer Travel Trends Survey", tenth edition by S. Steinbrink, 2008, pg 22.

### *Consumer Profile*

As a travel distribution channel, the internet has matured. In 2007, it is estimated that 70 percent of online leisure travelers are booking at least some of their personal travel online and 52 percent of online leisure travelers have by-passed traditional channels to purchase almost all of their personal travel online (Jupiter Research, 2007).

Travel is the number one rated consumer purchase online (see Figure 4). The advances in technology have made the internet the perfect venue for consumers to research and plan their travel. Without a tangible product to house and distribute, travel has also proven to be profitable and viable business model for the internet.

Figure 4. Consumer Products Purchased Online



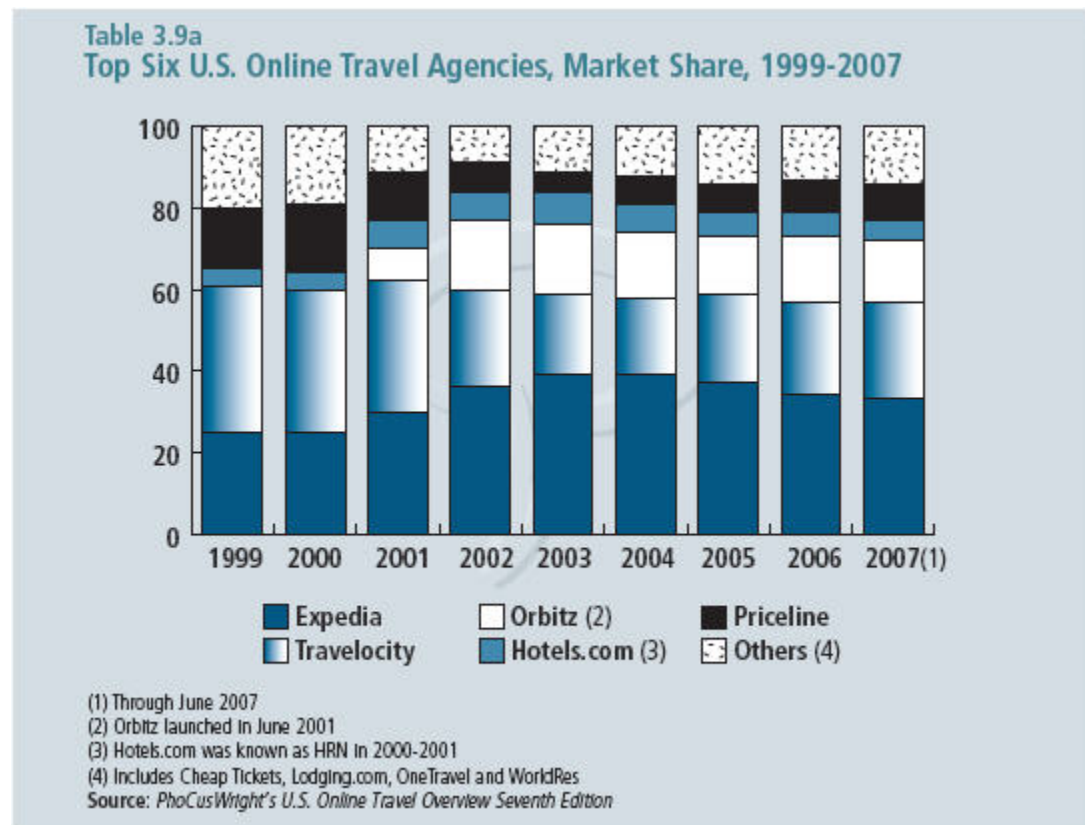
Note. From Forrester Online Retail Sales Report 2007.

The standard online traveler is defined as an adult who has taken a commercial air trip in the past year, stayed in a hotel in the past year for leisure purposes, and used the internet in the past 30 days (Steinbrink, 2008). The online travel consumer is also affluent, well-educated, evenly distributed male /female, and avid online users. According to a comScore Media Metrics study conducted in July 2007, over half of online travelers graduated with a college degree, earned over \$60,000 annually, and purchased travel online at least once in a six month period. In addition, according to this same study, 63% of online travelers are ages 25 to 54, with 92% are the head or dual-head of the household.

### Competitive Set / Market Overview

In the current online travel space, there five top competitors: Expedia, Travelocity, Orbitz, Priceline, and Hotwire (see Figure 5). Of these sites, the top three control 73% of the share. If you combine Expedia & Hotels.com, which are owned by the same parent company, this share raises to 79%.

Figure 5. Online Travel Agency Landscape



*Note.* From PhoCusWright Online Travel Overview: Market Overview, seventh edition, by Cannizzaro et al, 2007, pg 3.10.

Another area of competition of online travel agencies, are the suppliers themselves. While online travel agencies act as intermediaries, or third party distributors, suppliers like United Airlines or Hyatt hotels have gotten savvy enough to sell to the

consumer direct online as well via their own websites. Technology and marketing have made the supplier formidable competition for OTA's.

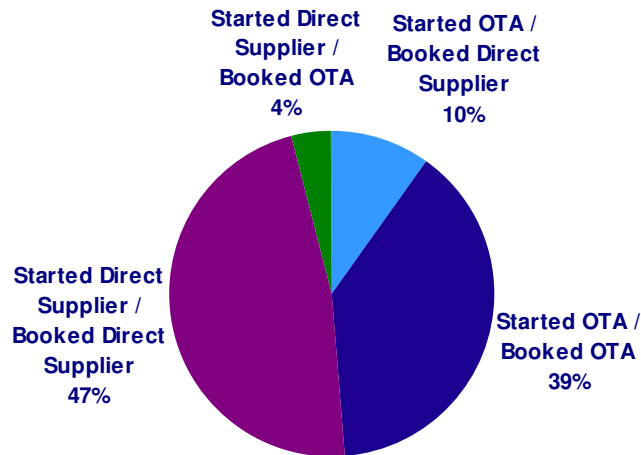
Suppliers and online travel agencies are still battling for the loyalty of online travelers. Recent research indicates that online consumers are becoming savvier as they switch between on and offline booking channels. Consumers also shop between a supplier's website (i.e. a hotel or airline direct) and online travel agency (OTA) websites (i.e. Expedia or Travelocity) to research and purchase travel (Steinbrink, 2008).

However, research shows that consumers exhibit a definite preference for booking at either a supplier site or an online travel agency (OTA). They often cross shop, but typically will book from the channel where they began their search. Cross-visitation happens widely, but only as an informational reference or to validate purchase intent.

According to a third party custom survey conducted by comScore for Travelocity in 2007, 47% of online travelers start and book at a supplier website (i.e. United Airlines, Hilton.com, etc), 39% start and book at an online travel agency website (i.e. Expedia, Travelocity, Hotels.com ) and no more than 10% switch booking channels (see Figure 6). The independent study polled over 1500 consumers and asked them for their last three travel purchases, what their method of researching and booking their trip. The third party study validated that generally where online travel consumers generally start their research, is ultimately where they end up purchasing.

Figure 6. Where consumers book travel online: agency vs. supplier direct

**Online Purchase Channels Used to Shop and Book Travel**



*Note.* Travelocity comScore Custom Online Survey Results, November, 2007.

*Summary Insights*

Travel is a discretionary purchase, and online travelers account for 83% of the US online population (Harteveldt, Johnson & Scott, 2007). While the online travel segment has enjoyed healthy growth since its inception in the early 90s, current economic conditions are starting to level off that trajectory. Consolidation of online players, along with consumers who are becoming more loyal and web-savvy, will lead suppliers and online agencies to focus on strategic promotions, high margin products, and up selling efforts to maintain sales and growth moving forward.

This section looked at online travel. It reviewed the history of online travel along with the current market conditions. This section also examined the profile of an online consumer, as well as a look at the competition in the market place. The next section will take an in-depth look at one market of online travel, the last minute segment.

*Last Minute Travel*

This section will explore the evolving nature of Last Minute Travel with regard to the online travel industry. It will take a look at several factors that have helped shape the last minute segment. These areas include examining the history of last minute travel, the consumer profile, competitive landscape, and lastly, taking a look at the viability and demand of the business model.

*Overview*

One out of every three Americans booked a pleasure trip at the last minute last year (Ghias, 2008). The Last Minute Travel segment covers a broad spectrum by product and definition. The last minute travel segment can appeal to the spontaneous traveler, a business traveler, or a deal seeker. However, it primarily appeals to the leisure traveler.

The last minute travel segment allows both on and offline travel agencies the opportunity to capitalize on the impulse leisure traveler by driving incremental revenue to a travel supplier during need periods. Where the last minute segment has gotten real traction in recent years however is via on the online channel. With the advancements in technology, the last minute segment gives a supplier a place to sell distressed inventory for incremental revenue; and gives the consumer a real time opportunity to purchase deeply discounted travel up to three hours prior to their trip.

The last minute business model has been around for sometime, but was pioneered online in 1999 by a company called Site59. According to Michelle Peluso (personal communication, June 24, 2008), CEO of Travelocity, and former CEO of Site59; Site 59 was created and incubated from a travel and tourism sector at Boston Consulting Group. The idea was to create a last minute package travel product that met consumer and

supplier needs. The concept involved selling suppliers 'distressed' inventory inside of 14 days all the way up to 3 hours prior to departure. The business model is also focused around leisure travelers who take weekend trips.

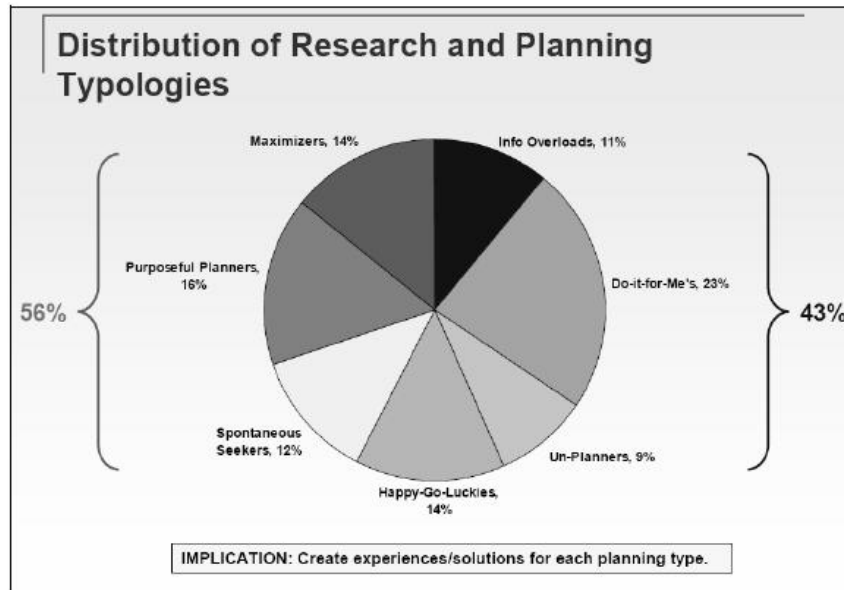
### *Consumer Profile*

According to the Travel Industry Association of America (TIA) over half of US adults- nearly 103 million - take at least one weekend trip per year (TIA.org, 2008). Almost 30% of Americans have taken five or more weekend trips per in the past year. Most weekend travelers (42%) make last minute plans and select their destination within two weeks of their trip.

While the number of travelers taking a last minute trip is high, the profile varies. This works both to the benefit and the detriment for this market segment. Consumer profiles can range anywhere from a student, to married couples, to a last minute business traveler. In a recent study by TIA (see Figure 7) researching and understanding consumer profiles and propensities to purchase can aid in success of selling the product. With regard to the last minute travel segment, understanding more about the market and implementing market segmentation strategies will lead to increased customer satisfaction, profitability, and revenue (Dacko,2004).



Figure 7. Profiles of the Online Traveler



Note. "2008 Outlook for Travel & Tourism" Travel Industry Association of America, January, 2008

#### Competitive Set / Market Overview

The last-minute travel/tourism market is not homogenous in composition (Dacko, 2004). The last minute travel segment has a fragmented competitive set. Because the definition of 'last minute' travel is loosely interpreted, travel companies have marketed it under various subtexts. For example, in April of 2003 if you conducted a search for the key words "last minute travel" that warranted 1.8million matches (Dacko, 2004). Today, if you conduct that same search on Google, it returns 13 million matches.

There are primarily two ways to classify the last minute segment. The first way is by name, and the second is by definition. The two primary internet competitors in the last minute space by name are LastMinuteTravel.com, and LastMinute.com. While both are internet sites, www.lastminutetravel.com focuses on deeply discounted last minute deals and inventory. According to Lauren Volcheff, marketing director for

LastMinuteTravel.com, their average consumer books 15 days ahead of departure. She goes on to state that consumers are getting trained to expect good deals at the last minute, however rising fuel prices are contributing to a decline in airfare deals, which could impact the business (Ghias, 2008).

Another primary website that gets recognition on name is LastMinute.com. This online travel company was purchased by Travelocity in 2005, and operates sites in the United Kingdom and the United States. While the U.S. version of the website is dedicated to travel deals available for departure inside of 21 days, its sister site in the UK is more of a 'lifestyle' brand that focuses on selling not only travel products, but also event tickets, flowers, and other web based services. According to a recent MarketingWeek.com (July, 2008) article, travel accounts for only 60% of LastMinute.com's total UK business, with the remaining focus on auxiliary products such as theater tickets, flowers, and gifts.

The second method of classifying the last minute market segment is by definition. According to the 2008 Ypartnership/Yankelovich national Leisure Travel Monitor "last-minute" travel is defined as being 15 days or less in advance of departure (Ghias, 2008). Sites like Travelocity, Expedia, and Hotwire all have dedicated sections on their websites to entice the impulse travel to look, and ultimately book, heavily discounted packages that fall within the last minute parameters.

#### *Demand and Viability of the Model*

The last minute travel segments success is based on demand from consumers, inventory from suppliers, and consumers adapting to the current trend of booking packages. The structure of the last minute segment is the most valuable to consumers

when suppliers can opaquely bundle their distressed inventory into packages they can sell online. As displayed in Figure 8, consumers are making online package purchases for travel. This figure underscores that the online market for complex travel is growing rapidly, which will ultimately help the viability of the last minute model.

*Figure 8. Frequency and Components of Simple vs. Complex Online Travel*

Mean* Frequency of Purchasing Simple vs. Complex Travel Online						
In the last year, how many times, if any, have you purchased travel component online?						
Online Purchase		Mean 2007	Mean 2006	% Change (2007 vs. 2006)	Mean 2005	% Change (2006 vs. 2005)
Simple Travel	Hotel	6.01	4.30	+40%	4.18	+3%
	Air	4.23	4.07	+4%	3.95	+3%
	Rental Car	4.13	2.95	+40%	3.42	-14%
Complex Travel	Combination Purchases	3.42	2.49	+37%	3.59	-31%
	Timeshare / Vacation Rentals	3.56	1.67	+113%	1.60	+4%
	Vacation Packages	1.76	1.23	+43%	1.50	-18%
	Cruises	1.46	1.58	-8%	1.86	-15%

Base: Total online travel purchaser, past year  
 \*Mean excludes zero  
 Source: The PhoCusWright Consumer Travel Trends Survey Tenth Edition

*Note.* From "The PhoCusWright Consumer Travel Trends Survey", tenth edition by S. Steinbrink, 2008, pg 14.

### *Summary Insights*

The last minute travel segment can continue to be a successful business model if online travel agencies can supply the consumers enough discounted product to keep up with demand. Past history and recent searches show that concept of last minute travel is very desirable. The primary component that can hamper this model is the current airline cutbacks. Without the air capacity to support the package business, the true online last minute model could become extinct.

A recent article asked 25 hotel partners "is the last minute model was facing extinction?" General consensus was that the online last minute model was just another

distribution channel with non last minute providers that offered better rates (Hotel Marketing, 2008). Even though the last minute model still remains loosely defined, this study validates the business model.

This section looked at the last minute travel market segment. It briefly examined the historical evolution of the product, the profile of the consumer that traditionally uses the product, and the current marketplace and competition. It also briefly discussed the importance of the supplier relationships, and the future of the business model. The next section will make some summary insights and conclusions.

### *Conclusion to Literature Review*

Travel continues to be a worldwide business and hobby for consumers. While the current economy has slowed growth in this sector, people will continue to travel. The online travel space is one of the fastest growing segments of the travel industry and has experienced significant growth since its inception in the early 1990s.

According to a recent article assessing business trends for travel there are four key businesses changing trends that will affect the travel industry moving forward: a shift of transactions to book electronic channels, growth of internet volume, transaction integration into site design, and industry consolidation (Haley, 2008). However, what this article fails to recognize is the current and ever-changing economic conditions that are affecting travel, such as oil-prices, and reduced airline capacity restrictions as well.

Additional trends to watch that will affect the travel industry, and online travel in particular are growth of the international market, impact of social networking on sites like Facebook, environmental travel, and the impact of search technology for both suppliers and agencies (Schetzina, 2008). Historical data has proven that the travel industry is a

dynamic market that is able to adapt to the changing environments. Despite recent concerns about the economy, consumers are still traveling.

This chapter examined the travel industry with insights from supporting literature. It reviewed historical data, market conditions, consumer trends, and competition that have affected and shaped not only in the travel sector, online travel as well. It also explored the evolution and current condition of one specific travel market segment: last minute travel. The next section reviews a case study on one online travel company's last minute market segment.

### PART THREE

#### Introduction

This proposal explores the last minute travel space online, with particular focus on one online travel company, Travelocity. It takes a look at several factors that have helped shape the last minute segment for Travelocity. It looks at how changes in the economy along with other factors helped propel the last minute travel segment to the forefront as well as put it in peril. Lastly, this section explores the upcoming challenges and opportunities that not only Travelocity faces with its last minute travel program, and makes recommendations moving forward.

The purpose of this section is to present a descriptive case study using various sources to gain insight into the problem of how to understand the puzzle of the on-line last-minute travel product as an opportunity or anomaly. While the last minute segment has proven to be a viable business model for Travelocity, especially after 9/11, current economic conditions and supplier demands have changed the travel landscape.

Travelocity has been reviewing and refining their last minute travel strategy for this segment to meet current demands.

Initial research and review of the Travelocity case study shows success with their strategies, however changes in the industry, primarily with the airlines, could affect future product offering and hamper success of this market segment. This paper takes an in-depth look at some of the tools, strategies, and marketing initiatives Travelocity uses for the last minute segment. Research methods include multiple sources such as interviews, market data, and proprietary Travelocity data.

This chapter is structured in four sections. The first section reviews the methodology used to gather information on last minute travel and Travelocity. The second section takes an in-depth look at Travelocity; exploring its history, evolution of their last minute product, and looking closely at their market segments and trends. The next section discusses the results of the research and explores some of the initial findings. The last section focuses on upcoming challenges, opportunities, and recommendations for the last minute segment as an overall business strategy for Travelocity as they seek to create new markets, meet consumer needs, and enhance their overall product offering.

### *Methodology*

This section will take a look at the research methods used for this project. The descriptive case study of Travelocity used multiple sources, including proprietary documents & data, and interview data. The goal was to gain insights about Travelocity's perspective on the economy, its supplier partners, market dynamics, and consumer psychology in the current near-recession economy.

Overview of method, source, and focus (narrative and table) was used to illustrate the link between type of data and source. Data and source included (a) journals & newspaper – to give insights about economy, general industry trends, and changes in supplier partnerships (b) company documents- to give background of strategic position of product and supplier relationships (c) existing proprietary company data – to give insight into product development and overall strategic road map of the last minute product segment on Travelocity.

To operationalize the research propositions, this project uses a case study mixed-mode methodology (Zikmund, 2003). Case study is appropriate because this project focuses on one organization in one industry – Travelocity, and online travel. Both qualitative and quantitative methods were used, to include literature review, review interviews with staff and managers, and review of organizational documents such as product plans and forecasts. These three techniques fortify the collection strategies to help strengthen the analysis.

#### *Data Collection*

For this case study, three primary data collection techniques were used: literature (journals, newspapers, online), interviews, and proprietary document reviews. The primary literature review was conducted in the previous section, but additional information was used to support this section as well. For the specific case study, semi-structured interviews with managers were conducted in the workplace. This gives insight into the history, formation, and strategies of the last minute segment on Travelocity. . Additionally, proprietary Travelocity documents were collected and reviewed, to include mission statements, press releases, product plans, and strategy documents. These

documents give insight into the creation, historical performance, and strategy plans of the last minute product from its inception on Travelocity.

Because the scope of the research project is limited to one specific company and a very narrow topic, the sample audience and opportunity were relatively limited. For this research project, it was most beneficial to employ more nonprobability sampling techniques into the sample plan. For example, judgment (purposive) sampling was the most appropriate for this case study. According to Zikmund, purposive sampling is a “nonprobability sampling technique in which an experienced individual selects the sample based upon some appropriate characteristics of the sample members” (pg. 382). For the research that was conducted, surveying internal customers on the marketing team, technology team, product team, and the supplier teams were most relevant. In addition, feedback from upper management and executives on historical data was included as well.

#### *Data Analysis*

There were four stages to analyzing the data. First, a general review of the literature occurred. Trends, patterns, and relevant data from these findings were reviewed. And where possible, statistics related to demographic data, trends, forecast, or market data were tied into the research.

For the second stage, the interview data was collected and reviewed. Each interview transcript was reviewed line-by-line, with a general story or brief description prepared. Next, any themes that emerged were noted and categorized. The final step involved looking across each of the interviews to see if there were any patterns across the interviews.



The third stage involved analyzing the documents. Similar to interviews, each item was reviewed individually noting any themes. Next, any patterns across all of the documents were noted.

The final stage involved looking for patterns across all of these data collection sources. Any meta-themes were identified. These themes and patterns were noted, reviewed, and applied to the final research findings.

To enhance trustworthiness of the analysis, three primary steps were taken. First, all interviewees received a copy of their transcription to ensure accuracy of the data that was captured. Next, the researcher reviewed the data to ensure reliability. Third, the researcher shared key findings with organizational members to ensure the meta-themes are valid and reliable.

This section examined the methodology used to examine the last minute travel segment. It discussed research methods used to focus on one online travel company, Travelocity. The next section will explore the relevancy of the last minute business model using Travelocity as a case study.

#### *Case Study: Travelocity*

This section will focus on Travelocity and their last minute product. It will take a look at several factors that have helped shape the last minute segment for Travelocity. These areas include examining the history Travelocity, the evolution of their last minute product, a look at the market segment and trends, and exploring the long term viability and demand of the last minute segment relative to Travelocity's overall business.

### *History of Travelocity*

Travelocity was developed as a beta site by their parent company, Sabre Holdings in 1995 (A. Comeaux, personal communication, June 19,2008). To understand Travelocity, you have to first look at its parent company Sabre holdings and their relationship to the travel industry. It is also important to see how Travelocity's business model was created to fill a consumer void and fit into Sabre's overall suite of products.

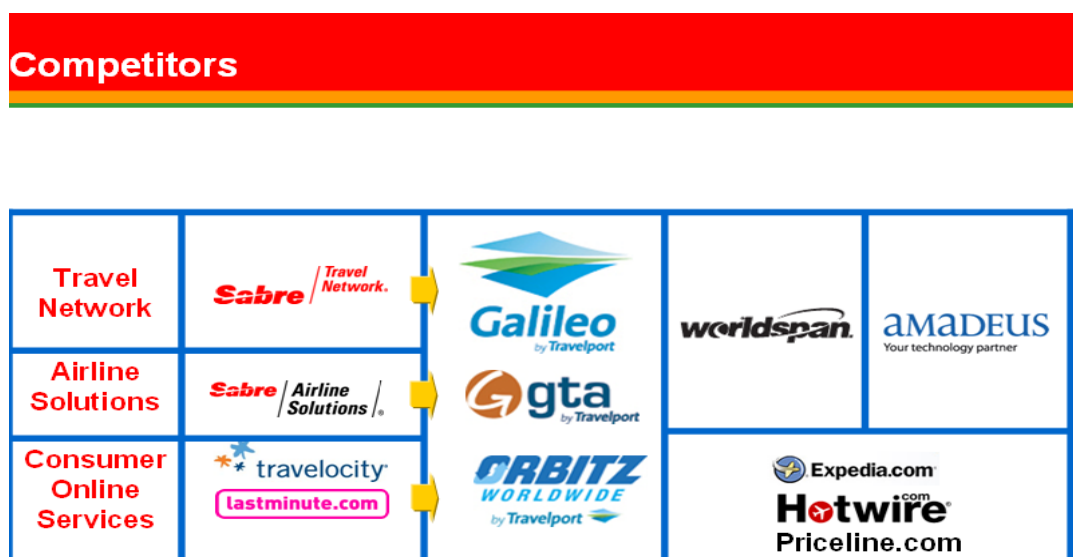
Sabre Holdings connects people with the world's greatest travel possibilities by retailing travel products and providing distribution and technology solutions for the travel industry. Sabre Holdings supports travelers, travel agents, corporations, and travel suppliers through its companies: Travelocity, Sabre Travel Network (STN), and Sabre Airline Solutions (SAS). Headquartered in Southlake, Texas, the company has approximately 9,000 employees in 45 countries. Full year 2006 revenues totaled \$2.8 billion. In March of 2007 the company went private when it sold to two private equity firms, Silver Lake Partners and Texas Pacific Group. While not a traditional 'hospitality' company, but more of a travel technology company, integration in the travel and hospitality industries is realized through each of its three divisions: Travelocity, STN, and SAS.

Sabre Holding's brands offer a broad portfolio of leading travel marketing, distribution and technology solutions that are well positioned in the marketplace. It markets travel in the consumer-direct channel primarily through Travelocity.

Travelocity's competitors (see Figure 9) include Priceline.com, Travelport (which owns Orbitz and ebookers.com), Expedia (which also operates Hotels.com and Hotwire.com) and Opodo (owned by nine European airlines and Amadeus Global Travel Distribution

S.A. (“Amadeus”). Virtually all major airlines, and many other travel suppliers, have websites that allow consumers to book directly with that supplier, and some offer an array of products and services. Certain owners of these sites may make certain discounted fares and prices available exclusively on their proprietary or multi-vendor websites.

Figure 9. Travel Distribution Marketplace



Note. Source: From internal Sabre data

The Travelocity segment markets and distributes travel-related products and services directly to individuals, including leisure travelers and business travelers. Travelocity is a truly global company operating sites in Europe (*lastminute.com*) and Asia (*Zuji.com*) which help make it one of the largest travel agencies in the world. Travelocity also provides content and functionality to market and sell products and services through private-label websites for suppliers, distribution partners and travel agencies. Through these offerings; travelers can access pricing, and information about airlines, hotels, car rental companies, cruise lines, vacation and last-minute travel packages and other travel-related services. They also have *Travelocity Business*, an

online corporate travel agency segment that provides business travelers the corporate travel technology and full-service product offerings along with the online expertise of Travelocity.

Like Travelocity's parent company Sabre Holdings, many of its competitor's flagship brands are also considered competition. Travelocity competes with Orbitz, and Sabre Holdings competes with its parent, Travelport. Another example of this would be Amadeus' global travel distribution competing with Sabre's while their subsidiary Opodo competes with LastMinute.com. While some business is consumer facing, others are business to business; but all have various touch points throughout the travel and hospitality industries. However, one area where Travelocity has relatively limited "true" competition, is in its last minute product segment. While many companies might market a 'last minute' deal or product, Travelocity is one of the few companies to design, implement, and invest in this segment as a core strategy for their overall brand and product line.

#### *Evolution of Last Minute Travel on Travelocity*

On March 26<sup>th</sup> of 2002, Travelocity acquired a small online travel company out of New York called Site59. Named for the '59<sup>th</sup> minute' of an hour; the core idea for the company came from the travel and tourism practice at Boston Consulting Group (BCG). How to move into the last minute arena, and in particular, the online travel packaging space while meeting supplier and consumer needs was the impetus for creating the business model. The conceptual team decided that there must be a technology to handle all the permutations and scalability needed for a successful business and financial model.

The functionality of the technical solution to bridge that gap became the company's cornerstone for its business to consumer (BtoC) and business to business (BtoB) growth plans. The unique packaging technology that was developed now serves as the backbone for many of the industry's largest players. BCG provided initial “seed” capital to hatch Site59 out of incubation and into reality in August of 1999, and Travelocity acquired it three years later seeing an opportunity to fill a void in the online marketplace.

Site59's future hinged on the success not only of its technology, but of its two distinct business applications. The first application aimed at consumers purchasing travel online inside of seven days up to three hours prior to a trip departure. The BtoC product launched in May '00 with suppliers like Delta airlines, Bass hotels, Holidays Inn, Inter-Continental Hotels, and Crowne Plaza. Demand slowly grew, and with it, the booking window was increased out to fourteen days. By January of 2001, Site59 had signed on over 250 travel suppliers, including airlines, hotels and car rental companies; and they were selling packages in over 31 destinations.

In March '01, amidst the burst of the dotcom bubble, Site59 continued its growth and launched the second phase of their successful business model. Their quest to become an Application Service Provider (ASP) was solidified when Yahoo! Travel signed on to have Site59s product distributed on their online travel portal. In June of 2001, recognizing opportunity for their brand and consumers, Travelocity also signed with Site59 for private label distribution of packages sold inside of 14 days. Travelocity added a new section to their site called ‘Last Minute Deals’ and started to market the product. The b2b model proved to be successful for Site59, and they continued to sign up multiple partners including American Airlines and one of Travelocity's direct competitors, Orbitz.

On September 11, 2001 the travel industry and the world looked on as terrorism reached new heights with the attack on the World Trade centers. The Site59 offices were located within blocks of the World Trade center, but the staff and business remained in tact. The economic impact and severe downturn in travel impacted Site59 and the overall travel industry. However, Site59 was able to see the silver lining, and became a very fluid, viable , distribution channel to their significant number of supplier partners. The decrease in consumer demand and increase in supplier product helped Site59 refine their business model to command large discounts from suppliers to drive consumer demand; this increasing their overall company revenues and catapulting their business to become one of the highest margin businesses in online travel.

Recognizing the success with their dual-approached business model and high margin business, Travelocity acquired Site59 in March of 2002. At the time of acquisition, Site59 had over 2600 travel partners worldwide, 12 ASP partners, 35 destinations, and hundreds of affiliate websites promoting their product. Travelocity successfully maintained Site59 as an independent brand for five years until in 2007 they sunset the brand and officially moved it over to a more marketable name and brand: lastminute.com.

Lastminute.com is a company based in the United Kingdom. Founded in 1998, Travelocity purchased the company in 2005 for \$1 billion. Lastminute.com had a virtual stranglehold on the last minute market segment, until recently, it has slipped to third largest travel site in the UK behind Expedia and Trip Advisor . Currently, travel accounts for approximately 60% of LastMinute.com's total revenue, with the balance derived from their 'lifestyle' segment that sells theatre tickets, restaurant reservations, flowers and similar lifestyle experiences (MarketingWeek, 2008).

With the purchase of LastMinute.com, Travelocity not only gained strong European market presence, but it also gained access to a key online travel domain: Lastminute.com. After careful review, and numerous focus groups, in 2007 Travelocity decided to morph their Site59 brand officially to the domain of Lastminute.com. With the last minute segment on Travelocity seeing slow decline in revenue and share shift starting in 2007, switching the name to lastminute.com was a strategic marketing move to drive consumer and brand awareness along with their international brand (J Glueck, personal communication, July 1, 2008).

#### *Market Segment, Product & Trends*

In order to maximize the potential of the last minute segment on Travelocity, it was important to understand both the needs of the consumer, as well as the needs of the supplier. While consumer demand and the economy helped to drive the business, it was also important to have an attractive array of products to sell. For the last minute product to be successful, a delicate balance of these factors needed to be maintained.

#### *Market Segment*

According to Jeff Glueck, Chief Marketing Officer for Travelocity, and former Site59 employee, it was critical to identify, segment, and market to the last minute consumer (J. Glueck, personal communication July 1, 2008). Travelocity and Site59 conducted several focus groups and online surveys to collect data and identify the consumer. What they found was that the last minute traveler was a spontaneous adventure seeker that felt like they were in the 'in' crowd. According to the Travel Industry Association of American, over 12% of the adult vacationing population (16 million) consider themselves "spontaneous seekers"(Steinbrink, 2008). Additionally, the last

minute consumer was identified by Travelocity as generally young, affluent, and well-traveled.

With advanced technology and the ability to mine customer data, Travelocity was able to create a profile of their last minute customer. Over 63% of the last minute travelers were under the age of 40. In addition, almost half (46%) earned over \$100,000 annually. Travelocity's data also showed that over half (53%) of the people traveled more than four times a year, and like to take more unconventional, adventurous trips.

The last minute traveler is also someone who travels over a weekend. This is a very attractive segment to target as these consumers tend to travel more frequently, have a higher household income, and like to buy hotels, events, and attractions (PhoCusWright, 2008). These consumers are also more likely to buy from online travel agencies like Travelocity, and spend more money online (see Figure 10).

*Figure 10. Weekend Traveler Profile*

**Table 1**  
**Long Weekend Trips – Age**

	<b>18-34</b>	<b>35-44</b>	<b>45-54</b>	<b>55+</b>
Mean Number of Trips, Past Year	3.85	3.04	3.82	4.47
Mean Spent, Last Long Weekend	\$793	\$886	\$721	\$734
Mean Spent Online, Last Long Weekend	\$379	\$454	\$492	\$598
Percent Spent Online	48%	51%	68%	81%

Base: Mean number: Total leisure travelers. Mean spent and mean spent online: Total leisure travelers whose last trip was a long weekend

Note: Means exclude '0'

Source: The PhoCusWright Consumer Travel Trends Survey Ninth Edition

*Note.* From "The PhoCusWright Consumer Travel Trends Survey", Ninth Edition, 2007.



*Product*

Last Minute Deals (LMD) is a niche product. For a supplier to participate and take advantage of the distribution, they need to adhere to the specific guidelines established by Site59. Aside from the core principal of booking travel inside of fourteen days up to three hours prior to a trips departure; there were three other primary guidelines established to define and differentiate the product from others found online. They included packaging, stay restrictions, and restricted pricing policies.

Site59 laid out the initial product guidelines that everything sold via their site or distribution channels would be a package. A package includes more than one travel component and can be a combination of air, car, hotel, and/or an activity such as a show or tour in a destination. By packaging these components together, they were able to achieve opaque pricing, which gave suppliers the price integrity they were looking for in the early '00s.

Another staple of the Site59 product plan was that the LMD product would be to incorporate stay restrictions. The LMD product could be sold for weekend travel only and must incorporate a Saturday night stay. These guidelines were initially put into place to take advantage of the airlines lower fares for leisure travelers that generally had a Saturday night stay to make the fare less expensive. The other reason for the two night minimum and Saturday night stay was to inhibit the business traveler from consuming these packages and to target the leisure traveler.

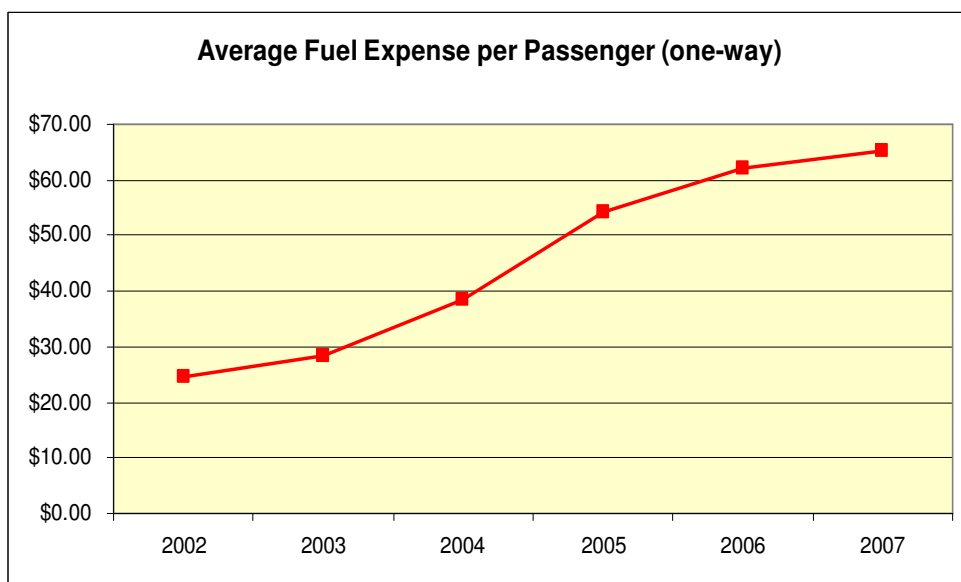
The last key component of the LMD product plan was to establish restricted pricing policies. In order to garner the best available rates and inventory for their product, the team made the packages booked online non-refundable. By doing this, Site59 was able to

command deeper discounts from supplier partners and pass the savings on to consumers. As a rule of thumb, suppliers needed to have a minimum 35% discount off their best available rate to be able to participate in the program. The deep discounts to top leisure destinations were attractive to the consumer, and the opportunity to drive incremental revenue for suppliers led to a win-win situation all the way around (J. Glueck, personal communication, July 1, 2008).

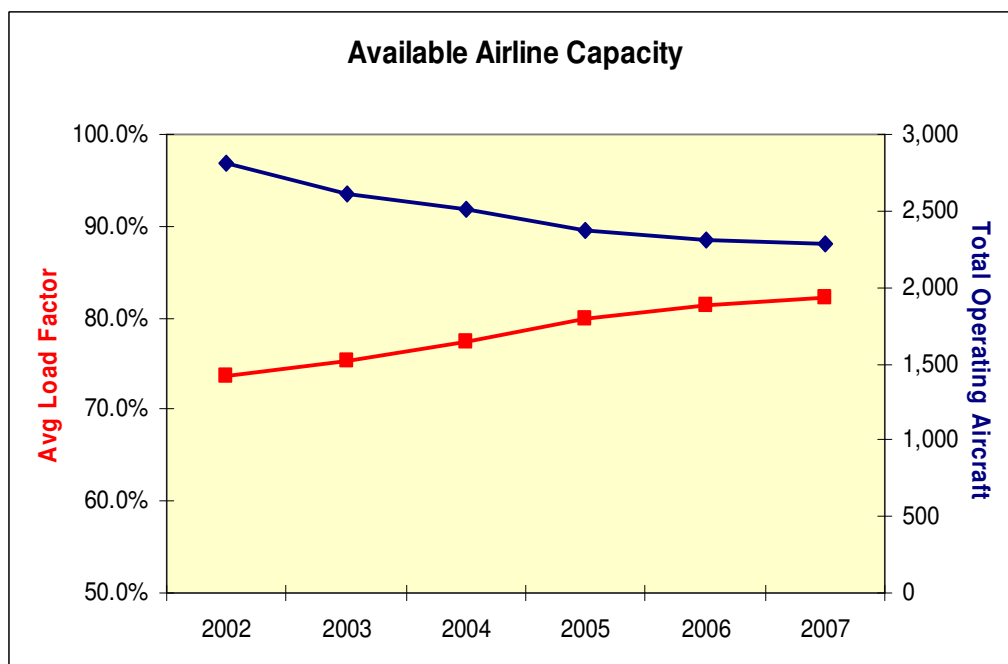
### *Trends*

The Site59 last minute package model enjoyed success from its inception in 1999. While the initial ramp up was slow, after 9/11 the business model became a very viable and attractive online travel solution for both suppliers and travelers. However, over the past few years there have been some bumps in the road for Travelocity and the last minute market segment. This sections will examine some past and current trends relative to the business

The role of the supplier ( i.e. airlines, car rental companies, hotels) is critical to the success of the last minute segment. Having a good product offering at attractive rates in multiple destinations is the key driver of the business. In 2007, 99% of the packages booked on Travelocity's last minute channel included airfare. Therefore, based on this information, the health of the airline industry along with available product sold in the last minute channel is needed. Unfortunately, in the first quarter of 2008 the U.S. saw an increase in fuel prices which led to a cut in passenger capacity with many airlines (see Figures 11 and 12). This trend has negatively impacted the last minute business on Travelocity.

*Figure 11. Weekend Traveler Profile*

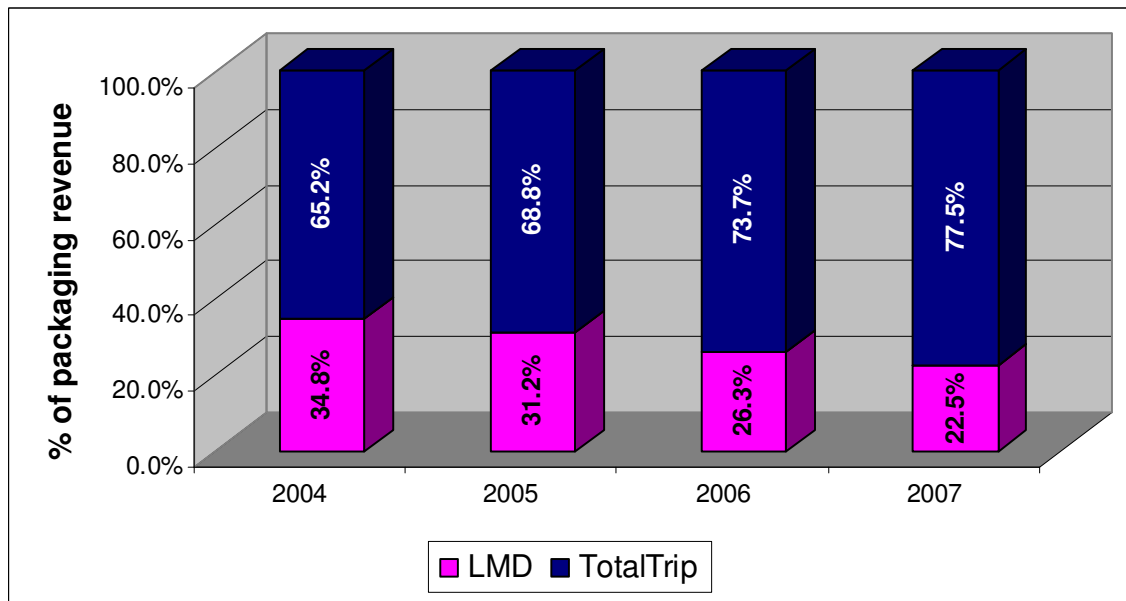
*Note:* Source: [www.airlinefinancials.com](http://www.airlinefinancials.com) - Analysis of SEC and BTS data\* Includes costs for American, United, Delta, Continental, and Northwest Airlines

*Figure 12. Airline Capacity Trends*

*Note:* Source: [www.airlinefinancials.com](http://www.airlinefinancials.com) - Analysis of SEC and BTS data \*Includes data for American, United, Delta, Continental, and Northwest Airlines

Another trend that has affected the last minute segment on Travelocity was the introduction of its own vacation product. While the last minute segment enjoyed steady growth from its inception, when Travelocity introduced its own package business (aka “TotalTrip”) in late 2003, they started to see a decline in the last minute segment (see Figure 13).

Figure 13. Travelocity TotalTrip vs. Last Minute package segment growth 2004-7



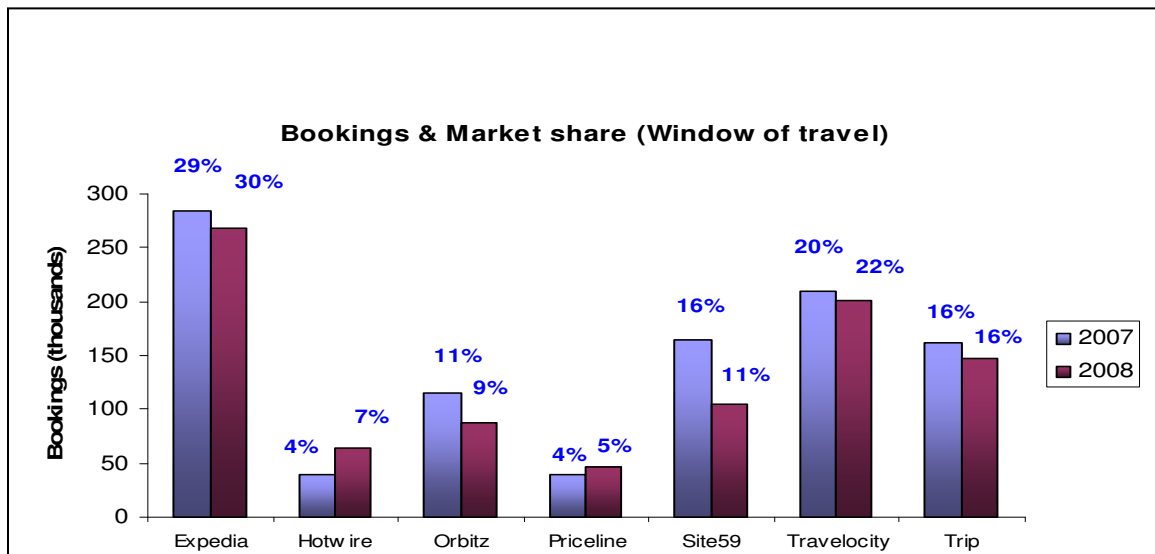
*Note.* source: Travelocity internal report on Last Minute market segment, June, 2008.

Travelocity’s vacation product offered consumers an opportunity to package flights and hotels together for a discounted rate. There were numerous differences in their vacation product versus their last minute product. The first primary difference was that for the traditional vacation product, in most cases the rates were refundable. In addition, this product didn’t require a minimum night stay, or have a Saturday night stay restriction. In addition, these packages were available to consumers for a longer booking window outside of the fourteen day limit in the last minute path. Even though

Travelocity saw a decline in the last minute segment, it was still bringing in considerable revenue and consumers still flocked to the product.

Another trend that Travelocity saw with regard to their last minute segment was a share shift across the online travel agencies (OTAs) in the first quarter of 2008. For bookings made inside of 14 days, staying over a weekend for between 2 and 5 nights, Travelocity saw the OTA market shrink by 9% and share shift over to competitors Hotwire and Priceline (see Figure 14).

Figure 14. Online Travel Agency Bookings and Market Share 2007 vs. 2008



*Note.* source: Travelocity internal report on Last Minute market segment, June, 2008.

The decline of the economy could be a primary driver for this, with consumers shifting preference for OTA sites that specialize primarily in discounted rates. The Priceline model is an auction/name your own price model; and Hotwire has a completely opaque business model that doesn't allow the consumer to see the product until after they

have purchased. Perception that these sites are more heavily discounted than Travelocity's last minute channel could be a driver for this shift.

This section reviewed the market, product and trends of Travelocity's last minute segment. It explored the evolution of the last minute product and looked at factors that have contributed to or hindered its success. This next section will look at the viability of the last minute model based on the researcher's initial findings.

*Initial Findings & Results: Viability of Last Minute Model on Travelocity*

The last minute model on Travelocity is still evolving. Initial findings indicate future success of this business model is hinged primarily on four key areas: supply, competition, the customer, and marketing efforts. Based on review of Travelocity's last minute business model, challenges and opportunities for this segment moving forward will be identified.

The first area of focus to continue a viable last minute model on Travelocity is to acquire and maintain strong product supply. Because over 99% of the last minute product is sold in conjunction with airfare, it is critical that Travelocity have available airline product to sell in its last minute markets. Given the current state of the airline industry, with capacity cuts in over 300 airports in the U.S., this will be critical to the last minute segment moving forward.

In addition, Travelocity will also need to continue receiving hotel offers and inventory not only from the major suppliers, but also in the major destinations. With supplier's becoming more web savvy, and consumers booking with suppliers direct, this

could be challenging. The suppliers will need to be educated that Travelocity is a significant distribution channel that differs from their own.

The second key finding from reviewing the Travelocity last minute case study is to keep current with the competition. Travelocity's last minute segment has lost share to other online travel agencies that are geared towards price sensitive shoppers. This is especially relevant today given the current economic concerns. Travelocity will need to continue to closely monitor the competition and garner best practices to stay competitive. While they once had a leading position in the last minute segment, they will need to look for innovative ways to sell and showcase their product.

The third key finding is to understand the customer. With changes in the economy and travel marketplace, the needs of the consumer are changing as well. Understanding what products and destinations are relevant to the consumer will help the longevity of the LMD business on Travelocity. A good example of this is to study the destinations that have increased or decreased airline service and/or capacity. By shifting focus and driving demand to markets that have better availability, Travelocity can capture market share and grow the business.

The fourth and final key finding is in regard to marketing and merchandising. Clearly Travelocity's last minute segment is losing share to other OTAs. There is opportunity to change and/or increase the marketing message or merchandising opportunities in strategic destinations. This can happen online on their website, but also in other Travelocity marketing messages offline, print, or search. In addition, Travelocity should continue to take advantage of their core customers, targeting marketing, cross-selling, and up-selling products where available. Keeping the last minute product, message, and pricing top of

mind for consumers will allow them to choose the Travelocity last minute product over competitors.

This section examined Travelocity as a case study with regard to the last minute market segment. It looked at the historical evolution not only of Travelocity, but of Site59, Travelocity's acquisition of the company, and their foray into the last minute segment. It took an in-depth look at the market segment, product, and trends for last minute travel on Travelocity. It also explored initial findings for the viability and longevity of the last minute model on Travelocity. The next section suggests recommendations and concluding insights for the last minute travel business on Travelocity as it strives to maintain this segment as a viable business solution.

### *Recommendations*

Travelocity's last minute market segment has enjoyed success in the six years since they acquired the business from Site59. The travel landscape has changed dramatically over the years, with online websites consolidating, competition becoming fiercer, and consumers becoming more internet savvy. While the last minute segment on Travelocity appears to remain a viable business model, there are opportunities to refine and increase the business moving forward. This section will convert the initial findings and results into specific recommendations for Travelocity.

. After reviewing the materials and research in the case study, some general recommendations for Travelocity's last minute segment would consist of reassessing the business model and modifying the product. Also, taking a close look at the competition, and why they are losing share can also give them valuable insight.



The first recommendation reviewed was that Travelocity should reassess their last minute business. This business model because has been on a steady decline since the second quarter of 2007. Travelocity has lost share not only to their competition, but the last minute product has lost share internally to their own packaging product. The packaging product has been on a steady increase since its inception in late 2003.

One option is to review opportunities to combine these Travelocity's two packaging products into one. Another option is to more aggressively cross-market the two packaging products to increase share and awareness can drive incremental revenue for the business model. With consumers changing their buying behavior to purchase more packages, this is an opportunity to drive sales and increase product recognition.

Travelocity has enjoyed some recent success with moving the booking window from the traditional 15 days , to a longer booking window of 21 days or less. According to Noreen Henry, Vice President of Hotels & Packaging at Travelocity this comes at a critical time when consumers are faced with increased prices, decreased product offers, and tough economic times ( N.Henry, personal communication, July 31, 2008). This 21 day booking window will help sales on the last minute UK and US sites.

Another recommendation is that Travelocity should also look at potentially modifying the product. They should look at opportunities to diversify outside of air by promoting more car + hotel package bookings. While 90% of their current last minute product includes air, changes in the airlines industry are causing consumers to look at alternate travel option. Many consumers are opting to stay closer to home, so by increasing their package product offering to include hotel, activities and car, they could increase sales and share via that option as well.

Travelocity should also look at secondary or emerging markets. With the decreased airlines capacity, airlines might have more availability and capacity in secondary markets and start marketing in those destinations. Again, for those passengers who might choose to drive versus fly, these secondary markets could also become more attractive.

Another recommendation is for Travelocity to continue to closely monitor and evaluate the competition. They should evaluate what products and functionality the other OTAs are offering that Travelocity is not. Continually assessing the competitions marketing and merchandising efforts, product offerings, and product display on their sites can give Travelocity ideas and insights on how to increase their business and share. Travelocity has relatively sophisticated shopping and reporting tools, however the landscape is very dynamic and changes often. Updated Technology enhancements that can help them automate and analyze data will be critical to future success.

Lastly, Travelocity should keep in mind the long term goals for the company and continue to monitor and measure success. The company has a tremendous intellectual work force, so they should continue to collaborate across teams and lines of business so that fresh ideas can be generated and new views considered. The pioneering spirit of the internet and the dynamic travel landscape afford them many opportunities to be creative.

### *Conclusions*

The travel industry is a dynamic, global marketplace. It is an ever changing industry that continues to grow, drive global revenue, promote products and destinations, and adapt to meet consumer needs. As exhibited in this case study, Travelocity has demonstrated that it is not only a cutting edge global company, but that it is also willing

to change and adapt its product offerings to meet the needs of the global consumer. One such area that they have experienced success in is the last minute travel segment.

While current trends and research show that the travel industry is bracing for a rough patch, growth is still evident, especially for the key players. Travelocity has experienced tremendous growth and success in the brief life-span of the online travel space. A good example of this was their strategic acquisitions and adoption of the last minute market segment. Online travel will continue to grow at record pace, and with the increase in consumer trends to purchase online packages, the last minute segment has a viable avenue for success.

For existing and futures players in the last minute market segment, they will need a few key ingredients in order to be successful. First, companies focusing in the last minute travel space will need to meet both consumer and supplier demand. Carefully assessing their competition, aligning themselves with key supplier partners, and focusing their efforts on key marketing initiatives will help them maintain and grow their last minute model. In today's fast-paced world where commerce and technology meet, being fluid, adaptable to change, and innovative will be key to future success.

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