Guest Post: Weighing up Expedia's triple combo of major acquisitions

By David Tossell, Vice President Travel and Hospitality Practice at DataArt

We all saw it coming. The signs were there since 2013 when Travelocity succumbed and became an affiliate of Expedia.

And then the fine print was revealed: Expedia had pre-negotiated the right to buy Travelocity outright at a later date. The end game was known - it seemed a matter almost as trivial as setting the date and announcing a price.

And then the waters around the OTA world seemingly calmed down.

Yes, Orbitz had acknowledged that they were shopping themselves, but, Priceline didn't have an obvious strategic need for Orbitz and Expedia was just completing the acquisition of Travelocity, plus they spent $658 million in 2014 to acquire Wotif Group (Wotif.com, Lastminute.com.au, Travel.com.au etc).

And then in a flash, Orbitz was gone - another logo added to Expedia's growing house of online travel brands. Expedia had completed the "great travel land grab" in locking-up Wotif, Travelocity and Orbitz over the span of just a few months.

But what did Expedia get with their purchase of Orbitz?

Phocuswright estimates that the Orbitz acquisition gives Expedia a 75% market share in US online travel agencies.

Euromonitor International reports that Expedia's global travel retail market share in 2014, adding-in Orbitz, would have been 6.3% vs. Priceline's 4.9%.

If it was "scale" that Expedia was going for, Expedia undoubtedly has it in the US market with the acquisition of Orbitz.

The argument behind achieving greater "scale" for Expedia is not without questions and even long term doubts regarding the sustainability of a strategy that relies on squeezing hoteliers on margins.

Yes, Expedia should be able to improve margins in hotel contract negotiations, but, that benefit may be offset by hotels and chains dialing-up their spend with competing distribution channels and investing in other ways to decrease their dependency on OTA channel distribution.

Expedia gets more than just 'scale'

In the weeks following Orbitz's acknowledgement that they were shopping for a buyer, speculation on "who would end up owning Orbitz" turned to private equity groups, including groups from Australia or Asia. Even Amazon and Google were mentioned more than once to be in the hunt for Orbitz.

Taking Orbitz out of play may have just been a smart defensive play, as Expedia's chess move keeps Amazon, eLong, Qunar, Flight Centre, etc from having a quick way to ramp-up a US presence.

Another reason for Expedia, is that Orbitz serves as a nice complement to its private label travel business and brings American Express, AAA, AARP, Yahoo, Capital One, Royal Bank of Canada and more all under one roof.

Priceline's private label market share is well below that of Expedia - especially a combined Expedia / Orbitz. Hence, Expedia's Orbitz acquisition makes them a powerhouse in the private label travel business.

Priceline wins too

Priceline stands to benefit from the Orbitz acquisition for many of the same reasons as Expedia will benefit.

First, a consolidated OTA distribution channel helps Priceline's negotiation leverage with suppliers.

Second, Orbitz benefits from seeing the likes of Amazon, Google and other OTA not stepping-up competition with an Orbitz acquisition.

Third, Priceline's position likely improves by picking-up large accounts in the private label travel business, as it's now a two-horse race rather than a three-horse race with Orbitz becoming a logo for Expedia.

The one-two-three punch of Expedia taking down Wotif Group, Travelocity and Orbitz in a matter of months underscores that Priceline's acquisition strategy is differentiated from that of Expedia's.

Expedia's recent acquisitions have doubled-down on traditional OTA's similar to the flagship Expedia.com business.

Priceline's acquisition approach appears to be on expanding their business model into adjacent businesses (restaurant reservations - OpenTable) and greater participation in key areas of the travel technology ecosystem (hospitality technology companies Buuteeq, Hotel Ninjas and ad targeting technology company Qlika).

Only time will tell if Expedia's "more of the same" acquisition strategy wins-out over Priceline's "diversify across the travel distribution ecosystem."

Is Expedia-Orbitz-Travelocity where it ends?

Dara Khosrowshahi, chief executive of Expedia Inc., reiterated in a recent analyst call discussing fourth quarter 2014 earnings, that "acquisitions are a part of our game plan." Who's next? Cheapoair? HomeAway?

One might think that based on Khosrowshahi's comments that 2015 might continue to be an exciting year for acquisitions.

It might. But, is consolidation just a hallmark of an industry that is approaching its apex and could be facing stagnant growth in the years to come?

Other developments from 2014 might have greater impact on the future of travel distribution than Expedia buying-up a round of second tier online travel agencies.

Consider these developments that could present even greater challenges to Expedia and Priceline in the coming decade:

• Oracle buying Micros brings a well-heeled, ultra aggressive technology company even further into the travel industry.

• SAP's acquisition of Concur adds tremendous global scale in the Fortune Global 500 and could accelerate the adoption of connectivity between customers and suppliers.

• Amazon has indicated its interest in trying its hand at travel again. The Amazon Marketplace is arguably the most successful online marketplace today... imagine what they could do in travel.

"Is Expedia-Orbitz-Travelocity where it ends?" Of course not. We are witness to the intersection of the chess game of mergers and acquisitions, the adoption of emerging technologies and the dynamics of a marketplace made up of multiple stakeholder types.

In all likelihood, the travel distribution ecosystem will remain an evolving space for decades to come.