Digital Services in the Area of Accommodation and Transportation

Economic and Legal Aspects

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Presentation prepared for Policy Department A on request of IMCO Committee

Schedule

- Significance of the online travel market
- Business model transformation and typology
- Collaborative consumption: benefits and issues
- Informing policy: data-driven solutions

Significance of Online Travel Market

- European travel market growing significantly
  - Revenue €264Bn in 2015 to €282Bn in 2017 (Phocuswright)
  - 918m air passengers in EU in 2015 (Eurostat, 2017)
- Online travel booking is becoming dominant
  - 47% of revenue in 2015 to >50% in 2017 (Phocuswright)
  - Online travel agents and direct flight booking >75%
- Recent growth of European sharing economy
  - 17% of all EU adults use sharing services (EU, 2016)
  - Accommodation worth €15.1Bn in transactions (PwC, 2016)

Business Model Transformation

Traditional Business Models	Transformed Business Models
• Asset heavy	• Asset light
• Inflexible	• Flexible / Scalable
• Linear	• Network-based
• Operation-focused	• Customer-focused
• Dyadic exchange	• Multi-sided platform
• Industry competence	• Tech. competence
• Push-based	• Ubiquitous
	• Immediate

BRITISH AIRWAYS

AVIS

Hilton

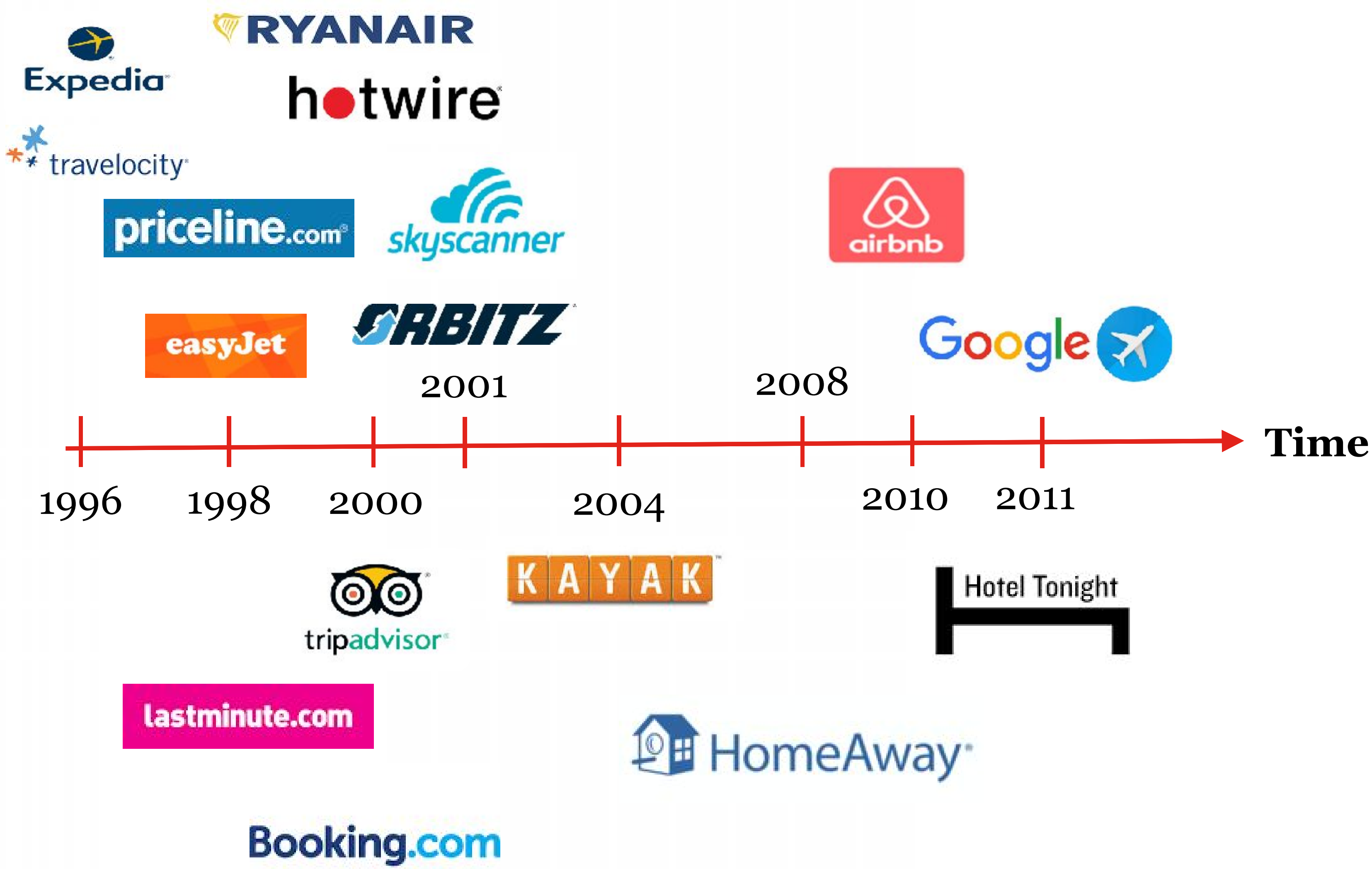
Booking.com

UBER

tripadvisor

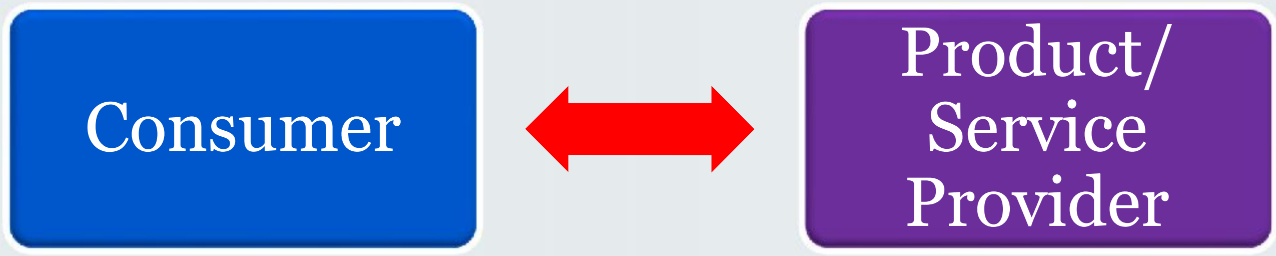
airbnb

Online Travel Industry Timeline

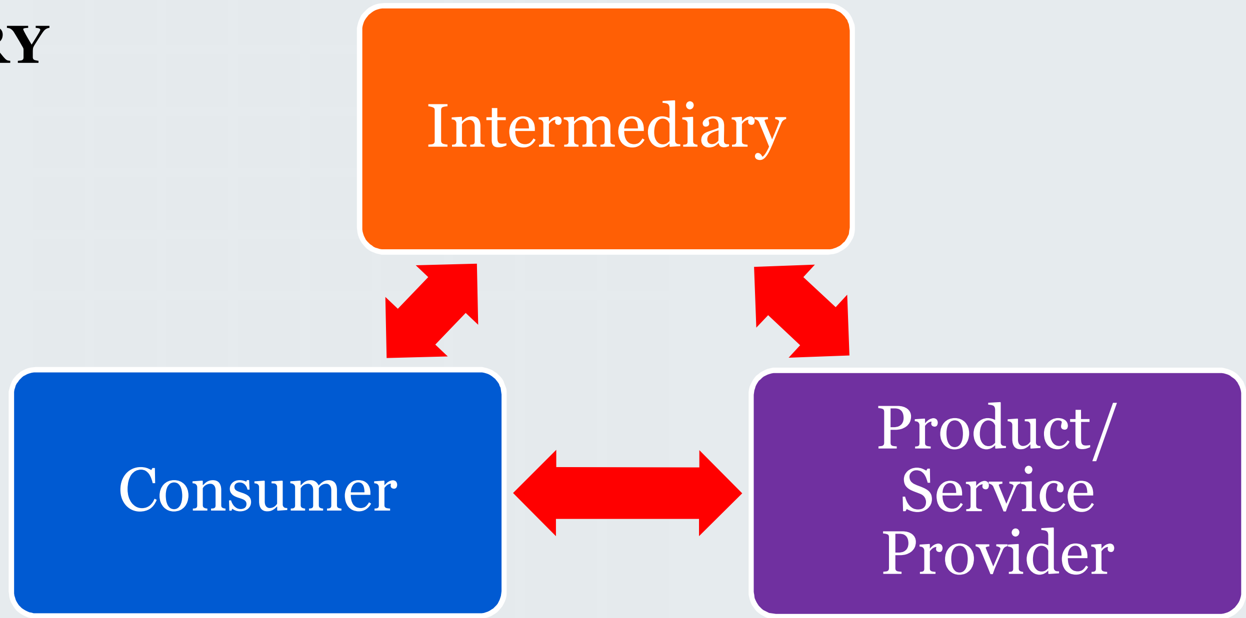


Basic Business Models

A. **DIRECT SALES MODEL**



B. **INTERMEDIARY MODEL**



Airline Travel Services Business Models

- Online Travel Agent (Agency)
- Online Travel Agent (Merchant)
- Online Travel Agent (Infomediary)
- Traditional Travel Agency
- Price-Comparison Platform
- Direct Sales


Notable Business Model Features
Product Range
Channels: Reach, Speed & Availability
Transaction Costs
Information Symmetry & Trust Metrics
Network Effects
Pricing Mechanisms
Value Proposition
Revenue Streams
Cost Structure & Resources
Key Partners
Customers & Relationship Management

Big Players in the Global Travel Industry

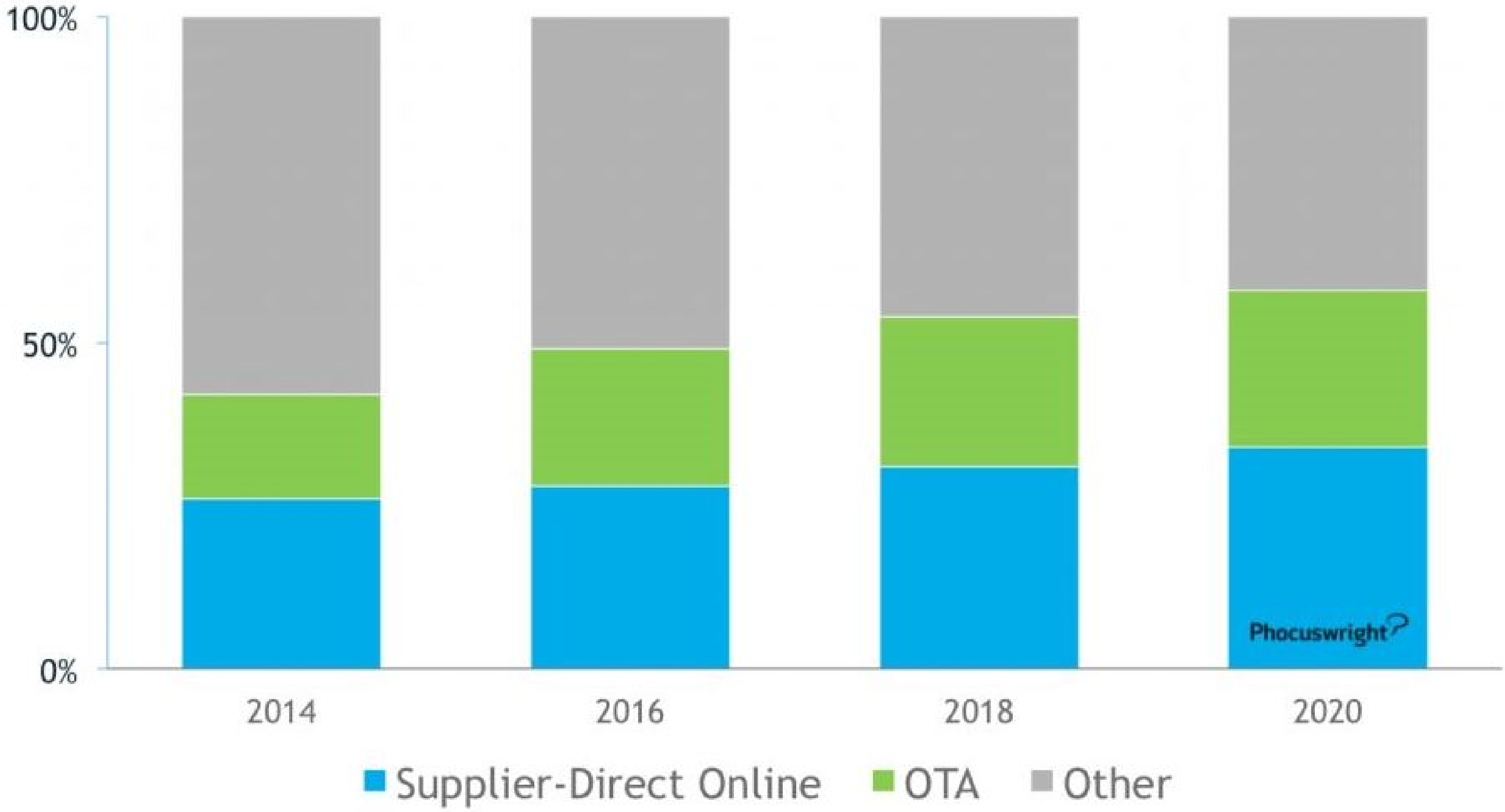
By Transaction Value

Travel Companies (2015)	Airline (2016)**	Accommodation (2016)
1. Expedia Inc. ($61Bn)	1. American ($40Bn)	1. Marriott ($17Bn)
2. Priceline Group ($56Bn)	2. Delta ($40Bn)	2. Hilton ($12Bn)
3. American Exp. GBT ($30Bn)	3. United Cont. ($37Bn)	3. Airbnb ($12Bn)***
4. Carlson Wagonlit ($24Bn)	4. Lufthansa ($36Bn)	4. Accor ($7Bn)
5. BCD Travel ($24Bn)	5. Air France-KLM ($29Bn)	5. Wyndham ($6Bn)
6. HRG North America ($16Bn)	6. IAG ($25Bn)	6. Host ($5Bn)*
7. FC USA ($13Bn)	7. Southwest ($20Bn)	7. Hyatt ($4Bn)*
8. American Express ($5Bn)	8. China Southern ($18Bn)	8. Jin Jiang ($3Bn)
9. Travel Leaders ($4Bn)	9. China Eastern ($15Bn)	9. Intercontinental ($2Bn)
10. Fareportal/Travelong ($4Bn)	10. All Nippon ($15Bn)	10. Extended Stay ($1Bn)*
	** Emirates not included	*2015 ***reported estimate

Sources: Travelweekly (2016); Forbes(2017); Cowen & Co. (2016); annual reports; *inter alia*.

This table is compiled from secondary sources; it is indicative but accuracy is not guaranteed.

European Travel Market – Share by Channel



Source: Phocuswright (2016)

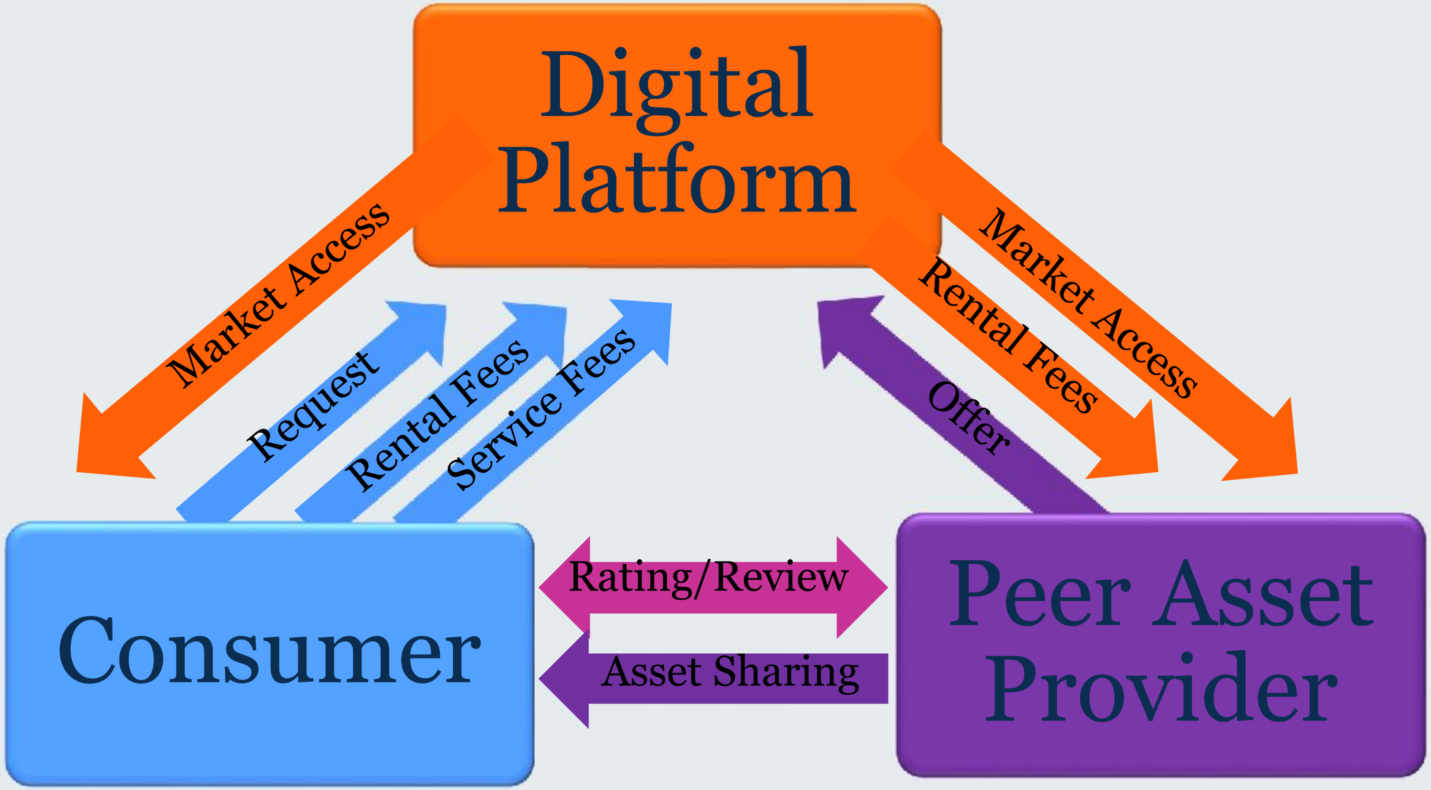
Issues for Regulatory Scrutiny

- Airline consolidation and market power
- Airline charges for indirect bookings discriminate against neutral channels
- Advanced technologies and big data analytics provide new tools for discrimination
  - Geo-blocking
  - Profiling and personalised prices

Accommodation Services Business Models

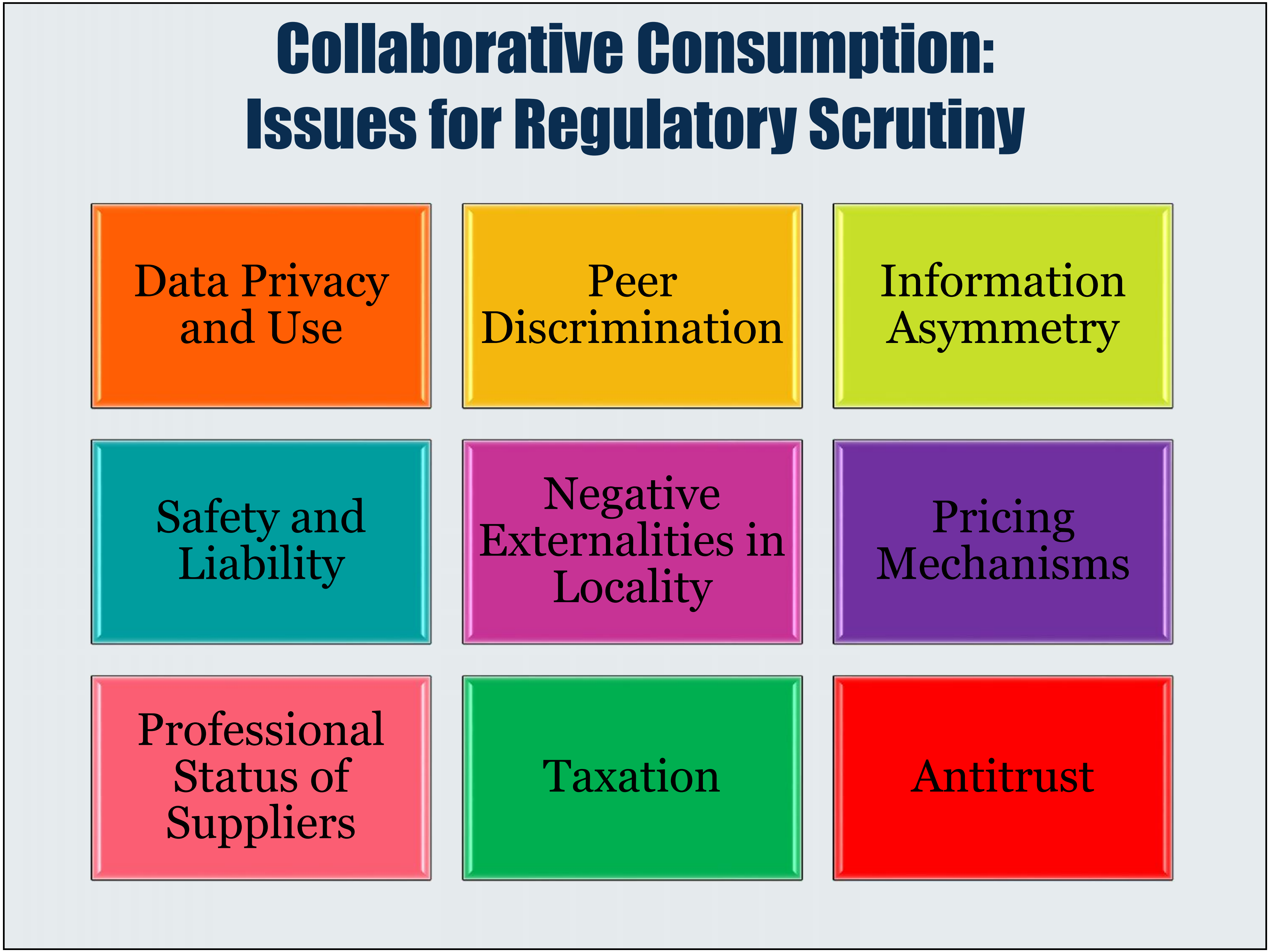
- Collaborative Consumption Platform
- Online Travel Agent (Agency)
- Online Travel Agent (Merchant)
- Online Travel Agent (Infomediary)
- Traditional Travel Agency
- Price-Comparison Platform
- Direct Sales

Collaborative Consumption Business Model



Collaborative Consumption:
Benefits in the Accommodation Sector

- Employment & Income Opportunities
- Reduced Cost of Services to Consumer
- Flexible Supply
- Improved Asset Utilisation
- Better Customer Service
- Efficient Allocation Mechanism
- Reduced Environmental Impact
- Economic Growth
- Market Innovation & Competition


Collaborative Consumption:
Issues for Regulatory Scrutiny
Data Privacy and Use
Peer Discrimination
Information Asymmetry
Safety and Liability
Negative Externalities in Locality
Pricing Mechanisms
Professional Status of Suppliers
Taxation
Antitrust

Regulatory Approaches to AirBnb within Europe

Informing Policy: Data-Driven Solutions

Problem	Solution
• Tax Conformity • Discrimination	Sales & Activity Data Analytics / Automate
Information Asymmetry	Independent Trust Platforms / Nudge
Data Privacy & Use	Transparent Policy & Consumer Options
Negative Externalities	Multisource Data Analytics
Unfair Pricing	Audit of Pricing Algorithms

Conclusion

- New collaborative services provide and promise tremendous future benefits for Community Members
- Many aspects of the business models of the new services are different and require scrutiny
- Airline ticket sales platforms are using tactics to discriminate
- Technology, data and analytics underpin new business models and provide a key tool for regulation