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If I were a Partner at Crosspoint Venture Partners...

A commentary on some great investment opportunities the VCs are missing in the travel space | By Max Starkov

Earlier this year Crosspoint Venture Partners, a top-tier early-stage VC firm, shocked the VC world, institutional investors and entrepreneurs alike with its decision to cancel a \$1 billion dollar fund. One of the reasons was that the firm did not feel it could achieve sufficient returns for its blue-chip institutional investors in the current economic environment.

If I were a managing partner at Crosspoint Venture Partners, I would not have missed the chance to consider and invest in some exciting opportunities in the travel industry, the third largest industry worldwide. Here is why:

VCs and the Travel Industry

VC firms have never shown a particular interest in the travel industry. One of the reasons is that VCs often consider that "the travel space is already taken" by online travel agencies like Travelocity, Expedia and now Orbitz. In fact, online travel agencies are only the "presentation layer" of a very complex inventory management and distribution infrastructure and backend procurement and CRM processes. For example Travelocity relies on a 35-year old technology (Sabre) as the backend of its reservation system. Second, let's face it, everyone considers himself a travel expert. But taking the Boston-NYC shuttle or staying at the Plaza hardly makes you an airline or hospitality industry expert. And third, VCs employ very few travel industry experts.

While the B2C online travel market will see some major consolidation in the coming quarters, I strongly believe that investments in next-generation B2B technology infrastructure and ASP-based solutions for the travel industry will reward VCs with hefty returns in the long run.

These strategic investment opportunities are in the "three pillars" of the eBusiness platform of the travel industry: eProcurement, eCRM and eDistribution, and across several market segments: inventory distribution, hospitality industry, corporate travel procurement, and convention and meetings markets.

Online Travel is here to Stay

Online travel purchasing is growing fast despite the softened economy. PhoCusRight predicts that the online travel market will grow from 7% of the overall travel market in 2000 to 17% of the market in 2003. The \$600 billion U.S. travel industry expects \$23 billion of online bookings this year (58% increase compared to 2000). This number will increase to \$40.1 billion in 2003 and \$63 billion in 2005.

Here is a summary of my vision of strategic investment opportunities VC firms should consider despite of, or perhaps because of, the current economic environment:

Online Inventory Distribution

Today's Global Distribution Systems (GDSs) remain a very inefficient and expensive distribution system. GDSs are based on technology invented 35 years ago and still running on mainframes. While costs of communications, transportation and distribution are decreasing worldwide thanks to new technological efficiencies, GDS fees keep on increasing year after year. At the same time GDSs face serious challenges and are threatened by dwindling customer base: travel agency numbers are decreasing through closures and consolidation.

All travel suppliers are looking for alternative and cheaper distribution of their perishable inventory via the Internet. And this is quite understandable: this year average airline load factor is 69%, hotel occupancy rate has fallen below 60%. Cost of a reservation using the traditional GDS channels is \$30-\$50 for air and \$25-\$40 for hotel. GDSs cannot handle group blocks and do not support a number of special accounts, last room availability, etc.

The Internet has created an ideal medium for non-GDS distribution. All airlines offer bookings on their websites. Almost 50% of hotels offer online reservations on their websites. According to Forrester Research, online hotel sales are expected to grow to \$5.7 billion in 2004. Pegasus Solutions, originally established as a switch between major hotel brands and the GDSs, is already distributing hotel inventory through non-GDS channels on a mass scale, through websites and affiliates. WorldRes is in fact the first Web-based non-GDS hotel inventory distribution system. Orbitz utilizes a GDS (Worldspan) for less than 20% of the booking process, due to its innovative airfare search technology supplied by ITA Software.

Companies like ITA Software or Mirror Image Communications, whose Total Distribution System allows tour operators to book in real time group hotel and resort inventory, are just two of the candidates for a VC consideration.

Hotel and Lodging Market

This \$100 billion U.S. market is in dire need of cheap ASP-based systems for hotel inventory management, yield management and online distribution. The existing shrink-wrap software Property Management Systems (PMS) and Central Reservation Systems (CRS) involve high acquisition and maintenance costs and require expensive IT staff, hardware and training. A PMS package for even a small hotel (up to 50 rooms) may cost as much as \$75,000. The ASP model provides hotels and lodging establishments with affordable, transaction based PMS and CRS in a single-image inventory environment (seamless call-center and online booking). Traditional vendors like Micros Fidelio are already embracing the ASP model. This June Pegasus Solutions launched its ASP PMS system at the HITEC show in Orlando. A company worth looking into is the SynXis Corporation, an ASP-model CRS provider with installed base of over 500 hotels.

On the other hand approximately 310,000 hotels worldwide are not bookable via any of the GDSs. Sabre carries only 48,000 hotels from hotel switches like Pegasus and WizCom. GDSs were created by the airlines to serve the airlines and have never focused on the very fragmented hospitality industry. Other reasons are the high integration and maintenance costs and transaction fees involved in using the existing switching solutions. A Web-enabling company like Tablet.com that provides intuitive and customer-centric online booking engines for hotel websites and the online distribution network WorldRes are worth noticing.

Corporate Travel Procurement

This is a \$185 billion market in the U.S. alone. Business travel ranks among the top three corporate expenses. The economic downturn is forcing corporations to better control T&E expenses and to mandate self-booking systems. Booking travel in a self-serve mode trims down travel management fees and can lead to significant savings. Corporations are introducing travel policies requiring their employees to book business travel via the corporate self-booking system. Gateway Inc. achieved a remarkable 98 percent usage of their Intranet-based self-booking engine, provided by e-Travel. Honeywell managed a 72% adoption rate of their GetThere (Sabre) system within 8 months and saved millions of U.S. dollars in fees and lower Web-only fares. A rising star in the corporate self-booking systems is Seattle-based Highwire Inc, which earlier this year inked deals with some of the largest business travel accounts in the country, Microsoft and Deloitte & Touche.

Conventions and Meetings Market

This \$120 billion U.S. market desperately needs ASP-based solutions for real-time booking of convention housing and group block space. 100 million group and block space hotel transactions (i.e. one-third of all hotel bookings) are made in a very inefficient, low-tech manner (phone, fax, email) and require expensive "human touch" throughout the process. Hotels and meetings planners alike are dying for solutions that will allow real-time bookings of block space. For example direct group interfaces to hotel CRS/PMS would allow real-time group/block space reservations and low cost, direct non-GDS distribution. Major hotel brands are already developing universal XML APIs. Several B2B players in this field are worth looking into: PlanSoft, b-there and Passkey.

eProcurement

The global market for hospitality related procurement is in excess of \$100 billion. The fragmented nature of the hospitality industry creates a lot of inefficiencies in the RFP and purchasing process and that is why

hotels are starting to embrace Hospitality eProcurement Exchanges. eProcurement can bring as much as \$7 billion annually in supply chain cost savings (Deutsche Bank).

Several hospitality electronic marketplaces are already functioning, the largest being PurchasePro with customer count of 3100 hotels. Some major hotel brands have launched their own marketplaces, such as Wyndham Hotels' WynSource, an Internet-based procurement system built on the GoCo-op platform. Other hotel brands have joined forces to combine their purchasing power. Avendra, a joint venture of Hyatt Hotels and Marriott International, was launched last month and also uses the GoCo-op platform. The Aberdeen Group estimates that eProcurement exchanges will eventually handle \$13 billion of transactions per year.

In this space worth watching is the Florida-based GoCo-op, an eProcurement developer and host of Internet-based procurement systems.

Other Opportunities

The list of opportunities goes on and on. Some other emerging technologies and applications include: eCRM solutions utilizing next-generation smart agent technology; dynamic pricing of travel inventory based on real-time supply and demand; automated ASP-based Hotel Loyalty Programs; innovative recommendation engines that improve dramatically the look-to-book ratio (e.g. Triplehop.com), mobile applications for presence-based and location-based services, "push" notifications and alerts, etc.

Perhaps now that the tech IPO market is essentially closed and will stay that way at least another quarter, VC firms have more time on their hands to evaluate some new exciting opportunities, technologies and business models in the travel industry.

So, if I were a managing partner at Crosspoint Venture Partners, I would know what to do..