



Public Competition Assessment

13 January 2015

Expedia, Inc – proposed acquisition of Wotif.com Holdings Limited

Introduction

1. On 2 October 2014, the Australian Competition and Consumer Commission (**ACCC**) announced its decision not to oppose the proposed acquisition by Expedia, Inc. (**Expedia**) of Wotif.com Holdings (**Wotif**) (**proposed acquisition**).
2. The ACCC decided that the proposed acquisition was unlikely to have the effect of substantially lessening competition in a market in contravention of section 50 of the *Competition and Consumer Act 2010* (**the Act**).
3. The ACCC made its decision on the basis of the information provided by the parties to the acquisition (the **parties**) and information arising from its market inquiries. This Public Competition Assessment outlines (subject to confidentiality considerations) the basis on which the ACCC has reached its decision.

Public Competition Assessments

4. To provide an enhanced level of transparency in its decision making process, the ACCC issues a Public Competition Assessment where:
 - an acquisition is opposed;
 - an acquisition is subject to enforceable undertakings;
 - the parties to the acquisition seek such disclosure; or
 - an acquisition is not opposed but raises important issues that the ACCC considers should be made public.
5. This Public Competition Assessment has been issued because the proposed acquisition was not opposed by the ACCC but raises some important issues that the ACCC considers should be made public.
6. By issuing Public Competition Assessments, the ACCC aims to provide the public with a better understanding of the ACCC's analysis of various markets and the associated competition issues. Public Competition Assessments can also alert the public to circumstances where the ACCC's assessment of the competition conditions in particular markets is changing, or is likely to change.

7. Each Public Competition Assessment is specific to the particular transaction under review by the ACCC. While some transaction proposals may involve the same or related markets, it should not be assumed that the analysis outlined in one Public Competition Assessment will be conclusive of the ACCC's view in respect of other transaction proposals, as each matter will be considered on a case-by-case basis.
8. Public Competition Assessments outline the ACCC's principal reasons for forming views on a proposed acquisition. As such, Public Competition Assessments may not definitively identify and explain all issues that the ACCC considers arise from a proposed acquisition. Further, the ACCC's decisions generally involve consideration of confidential information provided by the parties and market participants. In order to maintain confidentiality, Public Competition Assessments do not contain any confidential information nor identify its sources.

The parties

The acquirer: Expedia

9. Expedia is a global online travel agency (**OTA**) that offers consumers the ability to book accommodation, flights, vacation packages, car rentals, cruises and other travel services. Retail travel products can be booked through Expedia both online and via telephone. Expedia is also a relatively small supplier of corporate travel management services through its Egencia business.
10. Expedia's online platforms provide an information service enabling consumers to compare the prices and attributes of accommodation offered by a large number of accommodation providers in Australia and abroad.
11. Expedia's portfolio of brands include:
 - Expedia.com – a full service OTA with localised sites in 31 countries
 - Hotels.com – an accommodation specialist with sites in more than 60 countries
 - Hotwire.com – a travel discount company with sites in 12 countries throughout North America, Europe and Asia
 - Egencia – a corporate travel management company
 - Venere.com – an online accommodation reservation specialist in Europe; and
 - a majority shareholding in trivago – an online accommodation metasearch company with sites in 45 countries.

The target: Wotif

12. Wotif is an ASX-listed and Australian-based OTA that is predominantly active in relation to the supply of online accommodation booking services. These services represent approximately 87 per cent of its revenue.¹ Wotif is also active in the provision of booking services for flights, travel packages and other travel products.
13. Wotif's main brands include Wotif.com, lastminute.com.au, travel.com.au, Asia Web Direct, LateStays.com, Go Do and Arnold Travel Technology.

¹ Wotif.com Holdings Limited 2014 Annual Report, page 18.

Other industry participants

The Priceline Group

14. The Priceline Group provides online accommodation, flights and related travel services through a number of brands globally. It has invested heavily in marketing and has a strong presence in Australia. Its major OTA brands include Booking.com, the most visited OTA website in Australia,² and Agoda. The Priceline Group also owns Kayak, a travel metasearch website and mobile application.

Orbitz Worldwide

15. Orbitz Worldwide is a global OTA with an Australian presence in online accommodation bookings through its HotelClub.com brand.

Webjet

16. Webjet is an Australian-based OTA that has historically focused on flight sales, but has expanded its accommodation business with the acquisition of Zuji in 2013. Zuji is an OTA which offers flights, accommodation, packages and car hire.

Hooroo

17. Hooroo is part of the Qantas Group and offers online accommodation bookings through the Qantas, Jetstar and Hooroo websites.

Flight Centre

18. Flight Centre is primarily a 'bricks and mortar' travel agent with retail outlets across Australia, offering accommodation bookings (as well as other travel related services) to consumers in-store and over the phone. Flight Centre also offers online accommodation bookings through its OTA business Quickbeds.

Helloworld

19. Helloworld (formerly Jetset Travelworld/Stella Travel) is another bricks and mortar travel agent chain, which has also launched an online booking arm. In 2013, Helloworld announced an alliance with Orbitz Worldwide, giving it access to Orbitz Worldwide's global technology platform to power its new OTA, helloworld.com.au.

STA Travel

20. STA Travel is a global travel agency brand owned by Zurich-based Diethelm Keller Ltd. In Australia it started life on university campuses as 'Student Travel Australia'. It provides accommodation booking services through both its bricks and mortar stores and online.

² <http://www.traveltrends.biz/ttn555-global-sites-grow-fastest-as-locals-struggle-to-stay-with-the-pace-2014-hitwise-hottest-100-reveals/>

Metasearch websites

21. Metasearch sites aggregate online listings of travel products from a range of OTAs and other sites and provide reviews and price comparisons for those products. A customer is usually redirected to an OTA or hotel website after clicking on a link to book the product.
22. Metasearch sites which focus on accommodation listings and are popular in Australia include:
 - TripAdvisor, a Nasdaq-listed company which is one of the largest accommodation metasearch websites globally and within Australia
 - trivago, which is majority owned by Expedia, and
 - HotelsCombined.
23. Metasearch websites are discussed in further detail from paragraph 39.

Other

24. There are a range of companies which provide online distribution/booking services primarily for non-hotel accommodation in Australia and overseas, including AirBnB, Stayz and Hostelworld.

The proposed acquisition

25. Expedia proposed to acquire 100 per cent of the issued shares in Wotif by way of a scheme of arrangement.

Review timeline

26. The following table outlines the timeline of key events in this matter.

16 July 2014	ACCC commenced review under the Merger Process Guidelines.
6 August 2014	Closing date for submissions from interested parties.
15 August 2014	ACCC requested further information from Expedia.
18 August 2014	ACCC requested further information from Wotif.
4 September 2014	ACCC published a Statement of Issues outlining preliminary competition concerns.
17 September 2014	Closing date for submissions relating to Statement of Issues.
2 October 2014	ACCC announced it would not oppose the proposed acquisition.

Market inquiries

27. The ACCC conducted market inquiries with a range of industry participants and interested parties, including hotel operators, other accommodation providers, airlines and competing OTAs. The ACCC also liaised with the New Zealand

Commerce Commission which was conducting a merger review of the acquisition in New Zealand at the same time as the ACCC's review.

Statement of Issues

28. The ACCC published a *Statement of Issues* on 4 September 2014. In the *Statement of Issues* the ACCC expressed the preliminary view that the proposed acquisition may raise competition concerns in the market for the online distribution/booking of Australian accommodation. In particular, the ACCC expressed concern that the proposed acquisition may result in the following effects:
- an increase in the commission rates charged by Expedia to Australian accommodation providers;
 - a reduction in the amount of promotional opportunities offered by OTAs to Australian accommodation providers.
29. The ACCC also expressed the preliminary view that the proposed acquisition was unlikely to raise competition concerns in the following related markets:
- the consumer side of the two-sided market for the online distribution/booking of Australian accommodation;³
 - the market for online distribution/booking of air travel (which is also a two-sided market);
 - markets for the distribution/booking of other travel products, including holiday packages, car hire and cruises (which are also two-sided markets).

Areas of overlap

30. The activities of Expedia and Wotif overlap in the areas of online booking services for accommodation, flights, holiday packages, car hire, cruises and other travel products. Of these different products, the primary area of overlap that the ACCC focused on was online booking services for Australian accommodation.

Future with and without the proposed acquisition

31. In assessing a proposed acquisition pursuant to section 50 of the Act, the ACCC considers the effects of the acquisition by comparing the likely future competitive environment if the acquisition proceeds (the “with” position) to the likely future competitive environment if the acquisition does not proceed (the “without” position) to determine whether the proposed acquisition is likely to substantially lessen competition in any relevant market.
32. The ACCC's view is that absent the proposed acquisition (the “without” position), Wotif is likely to continue to operate as an independent competitor in the relevant markets.

Industry background

33. There are a number of media platforms through which accommodation is distributed both online and offline, with the primary ones being:

³ A two-sided market is defined at paragraph 40.

- **Online travel agencies** – OTAs sell one or multiple travel tourism products direct to consumers, allowing consumers to search, compare and book accommodation via their websites (e.g. Expedia.com, Wotif.com).
 - **Directly via accommodation providers** – many accommodation providers have their own websites where consumers can book rooms directly. Consumers may also book directly with the provider by phone, email or as a “walk-in”.
 - **Bricks and mortar travel agencies** – many travel agents have a physical retail presence that involves consumers meeting directly with the travel agent. Some bricks and mortar agencies also have an online presence.
 - **Corporate travel booking services** – companies such as Corporate Travel Management and Carlson Wagonlit supply accommodation to organisations.
 - **Destination websites** – some local tourism organisations operate websites which offer accommodation bookings, for example Tourism Noosa.
34. There has been significant growth in online travel bookings in recent years and this trend is expected to continue, with increases in the usage of mobile devices and tablets for bookings driving this growth.
35. OTAs generally operate by two models:
- **Merchant model** – the OTA acts as a wholesaler, selling inventory at a rate comprising the hotel’s net rate and the OTA’s commission fee. Hotels are paid by the OTA after the consumer has concluded their stay. OTAs that use the merchant model include Expedia and Orbitz.
 - **Retail model** – the consumer books through an OTA and pays the hotel directly. The hotel will then pay the OTA a commission on the booking. This model is also referred to as the published model. Expedia and Orbitz also operate this model in addition to Booking.com.
36. Wotif operates a model similar to the merchant model except that the consumer pays Wotif an additional booking fee of \$5.50 at the time of booking.
37. OTAs generally charge a base commission rate to accommodation providers, and then charge a higher commission rate to those accommodation providers that wish to appear on the front page of the OTA’s unrefined/unfiltered search results. An exception to this is Wotif, which lists accommodation providers alphabetically by star rating. Consumers are able to refine/filter results on OTA sites by price, customer reviews, specific locations or features of the room and/or hotel.
38. OTAs attract consumers to their websites by advertising through both online (e.g. Google AdWords), and offline media (e.g. TV and print media) in addition to providing an attractive and functional website with a broad range of accommodation inventory. The ACCC understands that the primary form of competition between OTAs centres on attracting consumers to their websites, which is in part dependent on OTAs being able to offer a broad range of accommodation inventory.

Metasearch websites

39. Metasearch sites such as TripAdvisor allow consumers to compare a range of accommodation options (based on ratings, price, availability, location etc.) and

then provide booking options for each hotel (unless the hotel has chosen not to make bookings available). TripAdvisor's TripConnect function allows OTAs (and the hotel itself) to bid against each other to appear in the booking options for a particular hotel. The value of the bids determines the ranking of each booking option, and the OTA or hotel is charged if a consumer clicks on their link.

40. TripAdvisor also offers accommodation providers a 'Business Listings' product. This is a subscription service (rather than a cost-per-click product) which allows the accommodation provider to display its direct contact details (including a link to its own website) on the TripAdvisor page for its property. An accommodation provider can also post special offers on its TripAdvisor page. However, the display of the Business Listings contact and special offer information is smaller and less prominent than the booking buttons provided by the TripConnect function.

Market definition

41. The ACCC assessed the impact of the proposed acquisition in the context of the following online markets for the distribution/booking of:
 - i. Australian accommodation. This is a two-sided market where there are two groups of customers:
 - accommodation providers who wish to attract consumers to their properties; and
 - consumers who wish to book accommodation.
 - ii. air travel (which is also a two-sided market); and
 - iii. other travel products, including packages, car hire and cruises (which are also two-sided markets).
42. The relevant markets identified above are consistent with those outlined in the *Statement of Issues*. The consumer side of market (i), and the markets comprising (ii) and (iii) were identified in the *Statement of Issues* as markets where the proposed acquisition was unlikely to raise concerns. Market inquiries following the *Statement of Issues* did not reveal any further information to change the ACCC's views in relation to these markets and as such these are not considered further. This *Public Competition Assessment* therefore only analyses competition impacts in the market for the online distribution/booking of Australian accommodation, focussing on the impact on Australian accommodation providers.

Market for online distribution/booking of Australian accommodation

Product dimension of the market

43. The market for the online distribution/booking of Australian accommodation is a two-sided market where positive network effects exist.⁴ The importance of an OTA to an accommodation provider is directly related to the volume of traffic that an OTA generates through its access to consumer 'eyeballs'. Therefore, most

⁴ That is, an increase in the number of accommodation providers listing on OTAs increases the value of the OTA to consumers who want to book accommodation, therefore attracting more consumers to the OTA, and vice versa.

fees tend to be levied on accommodation providers rather than consumers because their demand is likely to be less elastic than that of consumers, who are readily able to switch between OTAs and access similar accommodation. It is the eyeballs that OTAs generate through their large investment in advertising and promotion (a sunk cost incurred by OTAs) that are of value to accommodation providers, therefore the ACCC's analysis has focussed on this side of the market.

Accommodation versus other travel products

44. The ACCC analysed whether the distribution of travel products, including hotels, flights, car rental, cruises, etc. comprise separate distribution markets for each travel product or a single market for the distribution of travel products.
45. From the consumer perspective, different travel products such as hotel rooms and flights are mainly complements rather than substitutes. Industry participants indicated that a large proportion of consumers purchase travel products on a standalone basis through OTAs, although there has been an increase in the number of consumers purchasing travel products as a package (e.g. flight and hotel packages), particularly by consumers travelling overseas. On the supplier side, accommodation providers need to access distribution services which attract consumers to book accommodation and are unlikely to have the ability to readily commence supplying other travel products (e.g. flights or cruises) even if given an incentive to do so.
46. Many OTAs offer booking services for travel products other than accommodation, such as airline flights and leisure cruises. Further, some providers offering booking services for other travel products have recently started offering booking services for accommodation. However, given the costs associated with establishing a sufficient pool of accommodation inventory⁵ and attracting a sufficient consumer audience,⁶ the ACCC considered that switching from offering online distribution/booking of other travel products to accommodation is not likely to be sufficiently quick and free of investment for accommodation listings to be considered a supply-side substitute for other travel product listings.
47. On balance, the ACCC considered it appropriate to define a product market for distribution/booking of Australian accommodation, taking into account the primary overlap between the merger parties, the complementary nature of other travel products from a consumer perspective and the inability of most accommodation providers to readily switch between supplying different travel products. Providers of booking services for other travel products are considered potential entrants into this market.

Online distribution versus bricks and mortar stores

48. As identified in the *Statement of Issues*, there is a range of ways in which accommodation providers distribute and consumers book accommodation. The

⁵ As an alternative to contracting directly with accommodation providers, some OTAs acquire inventory from other OTAs (e.g. from Expedia through its Expedia Affiliate Network). However, this reduces the margin available to the re-selling OTA and may also impact its ability to compete by offering innovative offers to consumers.

⁶ The ACCC notes that airlines and their affiliates (e.g. Hooroo) may be well placed to sell accommodation by selling it in conjunction with flights. On the other hand, not all accommodation bookings are associated with flights and many consumers who have booked flights are still likely to search separately for their accommodation to ensure they obtain the best deal.

key consideration for an accommodation provider is typically to ensure as wide a distribution of their accommodation inventory as possible to minimise the number of empty rooms.

49. The ACCC defined a market for the distribution/booking of Australian accommodation through the online channel only, as accommodation providers are unlikely to switch enough inventory from online channels to bricks and mortar travel agents to make a small but significant increase in online distribution costs (e.g. an increase in commission rates charged by OTAs) unprofitable. Online channels capture unique consumer eyeballs that are not captured through the bricks and mortar channel as, for a significant proportion of consumers, bricks and mortar travel agents are not a close substitute for OTAs. These consumers have a preference for comparing a wide range of accommodation providers, accessing reviews from fellow travellers to inform their decision and favour the convenience of booking online without the need to visit a store or speak to a customer service person.
50. The ACCC also found that OTAs were not a close substitute for a significant proportion of consumers that frequent bricks and mortar travel agents. These consumers often have a preference for drawing on the advice and expertise offered by sales agents and favour the ability to book personalised holiday packages, particularly when travelling overseas.
51. Accordingly, the ACCC considered it appropriate to consider the competitive effects of the proposed acquisition with reference to a market for distribution/booking of accommodation that is limited to online channels, taking into account bricks and mortar agents only to the extent that they offer online booking services (for example, as Flight Centre does through Quickbeds.com.au).

Other online booking channels

52. The ACCC considered that the market for online distribution/booking of Australian accommodation includes distribution and booking through a range of channels including OTAs, directly through accommodation providers' own websites (e.g. Hilton.com) and destination websites (e.g. surfersparadise.com).
53. Most hotels offer consumers the option of booking accommodation through the hotel's own website. In many instances, a link to a hotel's website is provided in the search results on a metasearch site.
54. Market inquiries indicated that hotels also implement strategies to funnel consumers to their direct channel and avoid paying commission fees to OTAs. For example, hotels can reduce the volume of inventory made available to OTAs and make this volume available to be booked directly through their own website instead.
55. Therefore, the ACCC considered that Expedia and Wotif compete not only with other OTAs, but with other forms of online distribution including the accommodation providers' own websites and destination websites. The proportion of bookings made through each channel varies between accommodation providers, with OTAs generating one third to over half of the bookings received by an accommodation provider. The extent to which these channels constrain OTAs is discussed further in the competition assessment.
56. The ACCC also considered the role of metasearch sites. The ACCC found that metasearch sites increasingly compete with OTAs for consumer eyeballs. Metasearch websites do not currently provide a booking function in their own

right, but connect consumers to an OTA or other site to complete a booking. Accordingly, the ACCC did not consider metasearch sites to be in the same market as OTAs. However, as discussed further below, the ACCC considered metasearch sites to be important to the competitive dynamic in the market for online distribution/booking of Australian accommodation as they provide an expanding avenue for accommodation providers to bypass OTAs and transact directly with consumers.

Geographic scope of the market

57. The ACCC defined the geographic scope of the market to be the distribution/booking of Australian accommodation, encompassing bookings made by Australian residents and inbound bookings from overseas residents.

Competition Assessment

58. The ACCC's preliminary concerns outlined in the Statement of Issues were that the proposed acquisition may have the potential to substantially lessen competition in the market for online distribution/booking of Australian accommodation and may result in an increase in commission rates charged by OTAs to accommodation providers.

Competitive significance of Wotif

59. A significant number of industry participants, particularly smaller accommodation providers, identified Wotif as a vigorous and effective competitor for the distribution/booking of Australian accommodation, having regard to the volume of bookings generated by Wotif (for some accommodation providers more than half of all bookings received via OTAs are from Wotif) and its lower rates of commission compared to the other two major OTAs in Australia, Expedia and Booking.com.
60. Other OTAs, including Orbitz Worldwide, Webjet, Quickbeds, Hooroo and Helloworld have significantly smaller shares of bookings than the top three and were not generally identified by accommodation providers as a significant source of bookings.
61. Wotif's competitive strength appears to be based primarily on:
 - its brand awareness: Wotif was the first major accommodation OTA in Australia and continues to enjoy strong brand recognition in Australia;
 - its wide range of inventory: Wotif has more Australian hotels listed than any other OTA.
62. Industry participants noted that the base commission charged by Expedia and Booking.com in Australia is less than they charge in other parts of the world, and considered that it was the presence of Wotif that constrained Expedia and Booking.com from increasing commissions. Some industry participants raised concerns that the acquisition of Wotif would result in Expedia increasing commission rates to accommodation providers.
63. Although Wotif is one of the three major competitors in the market and an important source of bookings for many accommodation providers, the ACCC's inquiries indicate that it has lost its position as the leading OTA in the Australian market. Some market participants questioned its ability to remain competitive

with Expedia, Booking.com, newer OTAs and new business models in the future without the acquisition.

64. Wotif has experienced a decline in its market share of Australian accommodation bookings since 2011, a period that has seen Booking.com experience significant growth. This decline is attributed to the lack of ongoing investment in Wotif's online platform, its booking fee levied to consumers (which puts it at a competitive disadvantage to its competitors who do not charge a booking fee) and its failure to match the advertising spend of its key competitors, especially for key search terms on Google AdWords.
65. Booking.com has experienced very strong growth in Australia, particularly over the past two years. Booking.com is now, by most measures, the largest OTA in Australia and has increased its hotel inventory to a level that gives it comparable (although still lower) coverage to Wotif. The ACCC understands that Booking.com is continuing to sign more accommodation providers in regional areas, which has traditionally been Wotif's competitive strength.
66. The ACCC understands that Booking.com has leveraged its recognition among Australian consumers who travel overseas to build its profile for domestic accommodation bookings by Australian consumers. The ACCC notes that other major overseas OTAs may be in a similar position to expand their presence in the Australian market as Booking.com did, particularly if there were a price incentive post-acquisition.
67. As a result of Wotif's declining market share, many industry participants considered that without the acquisition Wotif would need to remove its booking fee, invest in modernising its booking platform and increase its advertising spend to counteract the continued expansion of Booking.com. Although Wotif remains a profitable business, its performance in terms of accommodation bookings has declined in recent years. For example, The Wotif Group's number of room nights booked in Australia and New Zealand decreased by 9.4% in 2013-14⁷, which Wotif considers is due to it being out-spent on advertising by its competitors.
68. The ACCC notes that Wotif has previously increased its commission rate to accommodation providers from 10% to 11% in 2013 and to 12% in 2014. Many industry participants considered that, given the investment Wotif would need to make to arrest its declining performance, it was likely that Wotif would further increase its commission rates to accommodation providers at some point in the near future without the acquisition.
69. The ACCC notes that some industry participants raised concerns that the growth of Booking.com and the declining performance of Wotif would result in Booking.com becoming the dominant player in the market in the foreseeable future. These industry participants considered that the proposed acquisition may create a stronger competitor to Booking.com compared to the current market structure.

Dynamic nature of online accommodation booking industry

70. As noted in the *Statement of Issues*, there has been a substantial shift from bricks and mortar travel agents to online sales channels for the distribution and sale of accommodation.

⁷ Wotif, *FY14 Results – Presentation Materials*, <http://www.wotifgroup.com/wp-content/uploads/2014/08/ASX294-12Aug14-Presentation-Materials.pdf>

71. Market inquiries also confirmed that within the online market itself, the methods by which accommodation booking options are offered to consumers have diversified. Evolution in the market is illustrated by the emergence of new OTAs, metasearch/aggregator websites (such as TripAdvisor and Google Hotel Finder), new business models such as AirBnB (an online distribution/booking platform which facilitates the letting of private accommodation, including individual rooms in private houses), and web applications which respond to consumers' increasing use of mobile devices to make bookings.
72. Metasearch websites such as TripAdvisor originally provided the opportunity for travellers to read and review travel-related content. However, they have since introduced features such as price comparisons for accommodation and links to book directly with an accommodation provider that have seen the functionality much more closely resemble that of an OTA. Such websites capture consumers' preferences for combining independent and comprehensive information about accommodation options and easy booking processes. As detailed below, these websites provide a substantial platform for OTAs and hotels to promote their offerings and are likely to play an increasingly important role in the distribution of accommodation.
73. Industry participants also considered that metasearch websites and OTAs are continually testing and introducing new services and products in order to attract consumers and accommodation owners to their websites. Recent examples include TripAdvisor's Instant Bookings (a mobile application which allows the consumer to complete a booking without leaving the TripAdvisor platform)⁸ and Business Listings products, Google Hotel Finder (a map-based metasearch product), and TripAdvisor's FlipKey, a website which specialises in the distribution of apartment/home rentals incorporating TripAdvisor reviews.
74. There has also been substantial change within the OTA industry. Until recently in Australia, Wotif, and to a lesser extent Expedia, were market leaders in terms of accommodation booked through OTAs. As outlined at paragraphs 63-65, this has changed rapidly with the entry and expansion of Priceline Group through its Booking.com and Agoda websites.
75. In addition, in recent years a number of 'channel managers' have developed systems to facilitate connections between their booking systems and consumer-focused websites such as OTAs and TripAdvisor. Channel manager systems, such as that offered by SiteMinder, allow accommodation providers to manage the distribution of their inventory across a range of distribution channels, including integration with the systems of leading OTAs and aggregator sites.⁹
76. These developments indicate that there have been many innovative commercial responses to consumer demand for better online booking facilities, including, for example:
 - combining the ability to personally research travel options and easily make a booking; and
 - the ability to make bookings on a mobile or last-minute basis while the consumer is travelling.

⁸ The actual transaction service is still provided by an OTA, but the OTA's role is much less prominent compared to a standard booking than originates with TripAdvisor.

⁹ For example, Site Minder's Channel Manager product allows a hotel to list all available rooms on a range of booking sites at the one time and the number of available rooms is automatically reduced across all those sites when a booking is made from any site.

77. The ACCC considered that the pace and breadth of the introduction of new methods for the online distribution of accommodation and the fact that new products continue to be developed, strongly suggests that it is a dynamically competitive market. The ACCC's market inquiries did not reveal any information to suggest that the proposed acquisition would be likely to impede the degree of dynamic change in the market.

Competition from other online distribution channels

78. The ACCC considers that developments such as those outlined above have expanded the range of options for hotels to distribute their accommodation inventory, either through booking intermediaries (such as OTAs) or their own websites.
79. On the flip-side of this two sided market, the dynamic nature of competition has also manifested in the emergence of a large range of options by which consumers can and do book accommodation online. Market inquiries indicated that consumers research their options through several websites before ultimately making a booking. The majority of consumers commence their accommodation research with a Google search of generic terms largely based on a location (for example "Melbourne hotels"), then browse metasearch websites such as TripAdvisor, HotelsCombined and Google Hotel Finder, which display a range of booking options offered by multiple OTAs and accommodation providers.

Role of Metasearch websites

80. The ACCC found that metasearch websites, particularly TripAdvisor and Google Hotel Finder, assist hotels to bypass OTAs and provide a meaningful platform for new entry or expansion by OTAs. For example, independent accommodation providers, through the subscription-based TripAdvisor Business Listings service, can list their property on TripAdvisor, provide contact information (including a link to the provider's website) and offer specials (e.g. free breakfast) to consumers. An accommodation provider with a TripAdvisor Business Listing also has the option to participate in the TripConnect service. The TripConnect service allows independent accommodation providers to compete against OTAs for placement on the price comparison booking panel on TripAdvisor's website, a function introduced in 2013. Prior to this, only OTAs and large hotel franchises were able to bid for placement in the booking panel on TripAdvisor's website.
81. The ACCC considers that new developments by metasearch sites are increasing the ability of accommodation providers to reduce their reliance on the major OTAs, as well as obtain a greater proportion of bookings directly through their own websites.
82. The growth in the popularity of metasearch websites has caused a shift of consumers from OTAs to these websites as their first point in searching for accommodation. This appears to have two effects:
- i. it provides a platform for the entry and expansion of lesser known OTAs by making it possible for them to obtain bookings (via a metasearch site); and
 - ii. hotels are more able to reduce their reliance on particular OTAs to access a potential customer base, whether through smaller OTAs or the ability to promote direct bookings.

83. Market inquiries indicate that metasearch websites, in particular TripAdvisor and Google Hotel Finder, pose a significant competitive threat to OTAs because these websites:
- display a larger number of hotels than any one OTA, have the ability to display the best available price for rooms to consumers, and increasingly have similar booking functionality to an OTA; and
 - increasingly facilitate direct transactions between hotels and consumers with the introduction of new features (such as TripAdvisor's instant booking function).
84. The ACCC considers that ongoing growth in the popularity of metasearch websites will likely erode any temporary market power currently enjoyed by particular OTAs.

Direct bookings

85. As noted in the *Statement of Issues*, accommodation providers can engage in strategies to increase the volume of consumers booking directly through their websites in order to minimise or avoid paying commissions to OTAs. These strategies include the following:
- taking positive steps to attract more consumers to their own websites, e.g. by offering discounts, other bonuses or loyalty schemes; and
 - withholding their inventory from OTAs, i.e. making only a limited number or type of rooms available via OTAs as opposed to their own websites.
86. Market inquiries indicated that the extent to which these strategies are effective can be influenced by factors including:
- the price and volume parity requirements that most OTAs include in their contractual arrangements with accommodation providers;
 - difficulties faced by accommodation providers in attracting consumers to their own websites, due to the complexity and expense of promoting them (see further below). This is more likely to be an issue for smaller accommodation providers without a strong brand name; and
 - the risk of lost sales (and therefore empty rooms) if accommodation providers miscalculate the number of rooms to withhold from OTAs.
87. Notwithstanding these issues, the ACCC's post-SOI market inquiries indicated that hotels do exercise a flexible approach in their dealings with OTAs. For instance:
- Many accommodation providers regularly offer accommodation promotions and sales by offering inventory which is differentiated from the rooms sold through OTAs; and
 - There is evidence that accommodation providers of various sizes in overseas markets are increasingly using products such as TripAdvisor's Instant Bookings and Business Listings, on the basis that they are a cost-effective means of generating bookings relative to commissions paid to OTAs.

Barriers to entry and expansion

88. The ACCC's review indicated that a new OTA would be able to access a sufficient volume of hotel inventory to enter the market as accommodation providers generally have an incentive to distribute their inventory across a wide range of platforms to access as many potential consumers as possible. This is facilitated by channel manager applications (such as SiteMinder's) which allow a hotel to list a particular room on multiple OTAs at the same time. However, as noted above, a new OTA would face significant costs in engaging a sufficient number of staff to approach, enter contracts and maintain relationships with those accommodation providers.
89. The ACCC's review also indicated that a new OTA would incur significant sunk costs through advertising to attract a sufficient number of eyeballs to compete successfully in the market. While there are a number of smaller, independently-owned OTAs in the market, some market participants suggested that the sunk costs involved with advertising, particularly on Google and metasearch websites presents a barrier to new OTAs achieving a sufficient scale to constrain the incumbents such as Expedia and Booking.com.
90. The ACCC considered that if the industry were to remain in its current form, there may be significant barriers to a new entrant or existing player in the market expanding to an equivalent size to Wotif, Expedia or Booking.com.
91. However, the ACCC considered that despite the barriers to entry, recent changes in the market suggest that there are significant global players who have the ability and incentive to overcome those barriers.¹⁰ The ACCC considered that competition would continue to be dynamic in the future, and this would result in the ongoing development of differentiated products and business models. Companies in adjacent markets (e.g. TripAdvisor and Google) are likely to place significant competitive constraint on incumbent OTAs by developing new products which allow either those companies or other new entrants to compete more vigorously with the incumbent OTAs.

Likelihood of increased commission rates

92. The key theory of harm raised in the *Statement of Issues* related to the potential for Expedia to raise commission rates to accommodation providers post-acquisition.
93. Industry participants submitted to the ACCC that in the absence of the proposed acquisition, Wotif would need to remove the \$5.50 booking fee it currently charges consumers to maintain a competitive position in the market. The ACCC considers that if this were to occur, it is likely that Wotif would attempt to increase commissions to accommodation providers in order to compensate for removing the consumer booking fee, bringing its pricing model into line with that adopted by other OTAs. Therefore, the ACCC considers that a change in Wotif's pricing structure is likely with or without the acquisition.
94. The ACCC also acknowledges that the removal of an independent Wotif could lead to Expedia and Booking.com increasing commission rates above their current levels.

¹⁰ For example, Amazon is reported to be entering the OTA market (this was not known at the time of the ACCC's decision): <http://www.economist.com/blogs/gulliver/2014/11/online-travel-firms?fsrc=scn/tw/te/bl/enteramazon>.

95. However, the ACCC considered that the dynamic nature of the market provides opportunities for accommodation providers to reduce their reliance on OTAs for the distribution of inventory and will continue to do so in the future, restricting the ability of OTAs to increase commissions beyond what was likely to occur absent the acquisition. The ACCC therefore considered that to the extent that Expedia and Booking.com raise commission rates post-acquisition, any such increase would be likely to:
- cause a significant proportion of accommodation providers to reduce the proportion of inventory they sell through OTAs, for example by withholding inventory from OTAs and investing more into promoting direct bookings through metasearch options;
 - encourage at least some entry or expansion by other OTAs;
 - be increasingly constrained directly by metasearch websites such as TripAdvisor; and
 - accelerate the development of new products and business models which may further reduce accommodation providers' reliance on OTAs.

Conclusion

96. Based on the above analysis, the ACCC concluded that the proposed acquisition was unlikely to substantially lessen competition in the market for the online distribution/booking of Australian accommodation.