Online Intermediation Platforms Market Inquiry: Key issues relating to travel and tourism

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competition commission south africa

Introduction

Types of online intermediation services covered:

Main focus: Accommodation (+-80% of overall revenues)

Prominent Platforms/ OTAs: *Booking.com (leading), Airbnb, Expedia, Lekkeslaap (domestic)*

Other online intermediation services:

- **Flights**

  Travelstart, Computicket, eDreams, Expedia

- **Metasearch**

  Trivago, Tripadvisor, Kayak, Google Hotels & Flights, Cheapflights, Skyscanner

- **Car Rentals**

  Rentalcars, Car Trawler, Carrentals (Expedia)

- **Buses**

  Computicket, Flightsite, Busbud

- **Activities**

  Airbnb

Introduction (Cont.)

Trends

- Fast rate of online adoption pre-covid largely due smartphone penetration (+-80% of bookings done by phone in 2020 – apps + mobile web).

- Covid massively impacted travel and accommodation (45% decline in traffic & revenues in 2020), slow recovery in 2021.

Platform ownership

- Global platforms own international traveller
- Booking.com and Airbnb are making inroads into domestic traveller market
- Small & domestic platforms focus on niches e.g. Lekkeslaap (Afrikaans & byroad destinations)
- Local platforms can't compete head-on in competitive nodes because of high paid search
- Face risk that global platforms enter and dominate their niche

Key platform competition issues

Price Parity Clauses

- Wide price parity
  - No clear argument for it
  - Evidence: cheaper prices result when moving from wide to narrow & evidence of platform sponsored competition matching cheaper prices on other channels.
- Narrow parity:
  - Arguments for > free riding & billboard effect
  - No evidence of free riding (here & Germany)
  - Indications by hotels that they would price cheaper on own channels & adopt on pricing /marketing strategy

Discounting

- Booking.com is able to leverage its market power & extensive Genius loyalty program to attract accommodation funded discounts
  - It further entrenches Booking.com
  - Accommodation providers feel compelled to provide discounts in exchange for visibility

Taxation

- Global platforms pay lower corporate tax than SA (28%)
  - e.g. Airbnb (21%), Booking.com (17,4%), Agoda (17%).
- This gives global platforms an advantage as they can:
  - Pass through additional profits in the form of lower prices or discounts
  - Reinvest profits into platform development or customer acquisition

Key business user competition issues

Commissions charged

- Global hotel chains negotiate their contracts and receive favorable commission rates relative to the standard commission rates published by OTAs. E.g. Booking.com:
  - Get substantial discounts for standard rates and promotional rates
  - Effect: pay less than standard commission but get promotional visibility
  - Adversely impacts SME business user competition & consumer choice

Sponsored ranking and transparency

- Rank is important for visibility and customer traffic
- Leading platform appears to mimic Googles pay for customer acquisition model
- 50% and more of small hotels found platform promotion fees unfair
- Distorts consumer choice especially as it isn't clearly marked as an advert (or sponsored)
- Labelling opaque

Treatment of accommodation providers

- Payment terms – unfair (no parity) & impact small hotels mostly
- Cancellation and overbooking policies – overly rigid

Google related issues

Consumer journey

- +-60% of consumers start their journey on Google Search
- Paid Search typically at top of page
- Most visibility and clicks at top of page
- Biggest spenders, get better visibility – marketing (mostly Google Ads) biggest expense for OTAs, ranging between 30% and 80% of total revenues

Google's search engine result page (SERP) & changes over time

- Google's SERP is key source of customer acquisition
- SERP has changed over time:
    - Paid search results less distinguishable from organic search results
    - Number of paid search results at the top of SERP have increased
    - There has been an increase in SERP features, including Google's Travel Unit
    - Google's own SERP features not clearly marked as Google's own product
    - Organic search results being pushed further down the SERP – fewer third-party organic results shown in the first SERP

Google related issues (Cont.)

Concerns:

- Google self-preferences Travel Unit by giving itself 1st organic search result & rich features
  - Disadvantages its competitors downstream (metasearch engines)
  - Revenues of metasearch competitors decreasing while Google's Travel Unit revenues are increasing
- To make up for the loss of organic traffic, platforms/ OTAs must increase ad spend with Google
  - A concern raised by domestic and small platforms – to get significant traffic, one needs to spend lots on Google.
  - Growth = customer acquisition = Google Spend.
  - Deep pockets (e.g. Booking.com) always win
  - Competition between small & large OTAs distorted
- Model also allows platforms to bid on each others' branded search terms (e.g. Booking.com bidding on a competing platform branded name, e.g. Lekkeslaap
  - Increases platforms' ad spend
  - Platforms' view: own branded search term should be organic because consumers know exactly where they want to go

Thank you