

# ASX Announcement

WOTIF.COM HOLDINGS LIMITED ABN 41 093 000 456



wotif group

**DATE:** Thursday 4 September 2014

## WOTIF GROUP ACKNOWLEDGES ACCC STATEMENT OF ISSUES

Wotif.com Holdings Limited (ASX: WTF) (**Wotif Group**) acknowledges the Australian Competition and Consumer Commission (**ACCC**) has today released a 'Statement of Issues' regarding the proposed acquisition of Wotif Group by Expedia Group (NASDAQ:EXPE), via a Scheme Arrangement.

The ACCC Statement reflects initial input received following first-round feedback from interested parties, and highlights the areas it will seek further information on from industry during an extended consultative period.

Wotif Group will continue to work closely with the ACCC to resolve any issues identified as a result of market enquiries, and will release updates to the timetable of activity when appropriate.

A copy of the Statement of Issues, including the ACCC's anticipated timeline, is attached.

The Scheme Booklet and an updated timetable, including shareholder Scheme meeting details, will be released shortly.

The Scheme remains subject to certain other customary conditions precedent including Wotif Group shareholder and court approval.

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## Statement of Issues

4 September 2014

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

#### Introduction

1. Outlined below is the Statement of Issues released by the Australian Competition and Consumer Commission (**ACCC**) on the proposed acquisition of the Wotif.com Holdings Limited by Expedia, Inc. (**proposed acquisition**).
2. A Statement of Issues published by the ACCC is not a final decision about a proposed acquisition, but provides the ACCC's preliminary views, drawing attention to particular issues of varying degrees of competition concern, as well as identifying the lines of further inquiry that the ACCC wishes to undertake.
3. In line with the ACCC's Informal Merger Review Process Guidelines (at [www.accc.gov.au/processguidelines](http://www.accc.gov.au/processguidelines)) the ACCC has established a secondary timeline for further consideration of the issues. The ACCC anticipates completing further market inquiries by 19 September 2014 and anticipates making a final decision on 2 October 2014. However, the anticipated timeline can change in line with the Merger Review Process Guidelines. To keep abreast of possible changes in relation to timing and to find relevant documents, market participants should visit the Mergers Register on the ACCC's website at [www.accc.gov.au/mergersregister](http://www.accc.gov.au/mergersregister).
4. A Statement of Issues provides an opportunity for all interested parties (including customers, competitors, shareholders and other stakeholders) to ascertain and consider the primary issues identified by the ACCC. It is also intended to provide the merger parties and other interested parties with the basis for making further submissions should they consider it necessary.

#### Background

5. Expedia, Inc. (**Expedia**) proposes to acquire 100 per cent of the shares in Wotif.com Holdings Limited (**Wotif**) by way of a scheme of arrangement.
6. After making some preliminary targeted inquiries the ACCC commenced a public review on 16 July 2014.

## The parties

### Expedia

7. Expedia is a global online travel agency (**OTA**) that offers consumers the ability to book accommodation, flights, vacation packages, car rentals, cruises and destination services and activities.
8. In Australia, Expedia's main activities involve offering consumers the ability to book accommodation, flights, travel packages, cruises, car hire and other retail travel products both online and via telephone. Expedia is also a relatively small supplier of corporate travel management services through its Egencia business.
9. 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.
10. 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
  - trivago, an online accommodation metasearch company with sites in 45 countries.

### Wotif

11. Wotif is an ASX-listed and Australia-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. Wotif is also active in the provision of booking services for flights, travel packages and other travel products.
12. Wotif's main brands include Wotif.com, lastminute.com.au, travel.com.au, Asia Web Direct, LateStays.com, Go Do and Arnold Travel Technology.

### Other industry participants

13. **The Priceline Group** is a global OTA with a strong Australian presence and heavy investment in marketing activities in Australia. Its brands include Booking.com and Agoda.
14. **Orbitz Worldwide** is a global OTA with an Australian presence in online accommodation bookings through its HotelClub.com brand.

15. **Webjet** is an Australia-based OTA that, although historically focused on flight sales, expanded its accommodation business via the acquisition of Zuji in 2013. Zuji is an OTA which offers flights, accommodation, packages and car hire.
16. **Hooroo** is part of the Qantas group and offers online accommodation bookings through the Qantas, Jetstar and Hooroo websites.
17. **Flight Centre** is a 'bricks and mortar' travel agent with retail outlets across Australia, offering accommodation bookings to customers in-store and over the phone. Flight Centre also offers online accommodation bookings through its OTA business Quickbeds.
18. **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.
19. **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 bookings services through both its bricks and mortar stores and online.
20. There are also a range of companies which provide online distribution/booking services primarily for non-hotel accommodation in Australia and overseas, including Airbnb, Stayz and Hostelworld.

## Market inquiries

21. On 16 July 2014 the ACCC commenced market inquiries regarding the proposed acquisition.
22. The ACCC received responses to its market inquiries letter from a range of industry participants including hotel operators, other accommodation providers, airlines and competing OTAs.

## Future with and without the acquisition

23. Section 50 of the Act prohibits mergers or acquisitions that would have the effect or be likely to have the effect of substantially lessening competition in a market. 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.
24. The ACCC's preliminary view is that absent the proposed acquisition, Wotif is likely to remain as an independent competitor in the relevant markets.

## Industry Background

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

- **Online travel agencies** – OTAs sell one or multiple travel tourism products direct to customers, allowing them to search, compare and book (e.g. Expedia, Wotif).
  - **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 agencies** – have a physical presence that involves consumers meeting directly with travel agents. Some bricks and mortar agencies also have an online presence. Consumers have access to a comprehensive range of travel-related products and services, including all-in-one tour packages.
  - **Corporate travel booking services** – companies such as Corporate Travel Management and Carlson Wagonlit supply accommodation to organisations for use by their employees.
  - **Destination websites** – some local tourism organisations operate websites which offer accommodation bookings, for example Tourism Noosa.
26. 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.
27. 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 customer has concluded their stay. OTAs that use the merchant model include Expedia, Wotif and Orbitz.
  - **Retail model** – the customer books through an OTA and pays directly to the hotel. The hotel will then pay the OTA a commission on the booking. This model is also referred to as the published model. Booking.com operates this model.
28. OTAs generally charge a base rate of commission to accommodation providers for bookings through their portals and charge a higher rate of commission to hotels to appear on the front page of their unrefined search results. An exception to this is Wotif, which lists hotels alphabetically by star rating in their unrefined search results. Customers are able to refine results on OTA sites by price, customer reviews, specific locations or features of the room and/or hotel.
29. OTAs attract customers 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.

## Areas of overlap and market definition

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 between Expedia and Wotif is in accommodation.

***Is there a separate accommodation distribution market?***

31. The ACCC's preliminary view that it is likely to be appropriate to define a market based around the distribution of accommodation products only (not as part of a package). It is likely that many consumers would visit OTAs seeking to book accommodation on a standalone basis.
32. However, the ACCC will consider the extent to which OTAs which currently focus their offer on other types of travel products (e.g. Webjet and Skyscanner) could readily expand their accommodation offerings.

***Is online separate from bricks and mortar?***

33. As noted above, there are a range of ways in which accommodation providers distribute, and consumers book accommodation. The ACCC understands that, for most accommodation providers, the key consideration in their distribution decisions is to ensure as wide a distribution of their accommodation inventory as possible, to maximise the number of bookings they receive and minimise the number of empty rooms.
34. The ACCC's market inquiries have indicated that online sales are an important and growing channel to market for Australian accommodation providers.
35. Bricks and mortar travel agents (including the option of booking accommodation with a travel agent over the telephone) also remain an important channel to market for accommodation providers and a preferred option for a significant proportion of consumers. They provide accommodation booking services, and have certain advantages over OTAs, particularly in providing package holidays and for consumers who value personalised advice and assistance in booking travel products.
36. However, the ACCC's preliminary view is that there are a significant proportion of customers for whom the services of bricks and mortar travel agents are not a substitute for online accommodation booking services, for example:
  - consumers who wish to compare a wide range of accommodation and access reviews by other consumers who have stayed at a property; or
  - consumers who prefer the convenience of online booking and do not want to visit a store or speak to a customer service person in order to complete their booking.
37. Given the incentive for wide distribution referred to above, the ACCC considers that there would be few accommodation providers who could now afford not to advertise their inventory on at least one online platform
38. For these reasons, the ACCC considers that an insufficient proportion of Australian accommodation providers are likely to switch away from distributing their inventory through online channels in response to a small but significant increase in online distribution costs to suggest the market is broader.
39. Accordingly, the ACCC's preliminary view is that the relevant market for distribution/booking of accommodation is limited to online channels and only includes bricks and mortar agents to the extent that they offer online booking services (for example, as Flight Centre does through Quickbeds.com.au).

***Do OTAs compete with direct distribution channels?***

40. The ACCC's preliminary view is that Expedia and Wotif compete not just with other OTAs, but with other forms of online distribution including destination websites and the accommodation providers' own websites (e.g. Hilton.com).

41. However, the extent to which non-OTA forms of online distribution will constrain Expedia post-acquisition may be different from the constraint provided by other OTAs. This issue is discussed further under 'issues that may raise concerns' below.

### ***Geographic dimension of the relevant market***

42. The ACCC's preliminary view is that the geographic dimension of the relevant market is likely to be the distribution/booking of Australian accommodation, that is, hotels and other accommodation located in Australia. This would include bookings made by Australian residents and inbound bookings made by overseas residents.

### ***Markets for other travel products***

43. As there is some overlap between Expedia and Wotif in the distribution of other travel products, such as flights, car hire and cruises, the ACCC is also considering whether the proposed acquisition raises competition concerns in relation to the distribution of these products. This is considered further below.

## **Conclusion**

44. The ACCC's preliminary view is that the following markets are likely to be relevant in assessing the proposed acquisition:
  - a. a market for online distribution/booking of Australian accommodation through a range of channels including OTAs and directly through accommodation providers' websites. This is a two-sided market where there are two groups of customers:
    - hotels and other accommodation providers who wish to attract consumers to their properties; and
    - consumers who wish to book accommodation.
  - b. a market for online distribution/booking of air travel (which is also a two-sided market); and
  - c. markets for the distribution/booking of other travel products, including holiday packages, car hire and cruises (which are also two-sided markets).

The ACCC invites comments from market participants on its proposed definition of the relevant markets, including:

- whether potential competition effects on the distribution of accommodation should be considered separately from effects on the distribution of other types of travel products (e.g. flights, car rentals);
- the importance of online distribution channels to Australian accommodation providers, compared to bricks and mortar agents, corporate travel services and other channels; and
- to what extent could accommodation providers reduce their reliance on online channels (e.g. by selling more of their inventory through bricks and mortar agents) in response to an increase in online distribution costs?

## Statement of issues

45. For the purpose of this Statement of Issues, the issues in this matter are divided into two categories, 'issues that may raise concern' and 'issues unlikely to raise concerns'.

### Issues that may raise concerns

#### ***Potential increase in commission rates charged to accommodation providers***

##### *Competition between OTAs*

46. The ACCC's market inquiries have indicated that OTAs are an important and growing channel to market for Australian accommodation providers. However, the percentage of bookings which accommodation providers receive through OTAs appears to vary significantly. Some large hotel chains may receive 20 per cent or less of their bookings via OTAs, while smaller accommodation providers (or those without a strong brand name) may be dependent on OTAs for more than 50 per cent of their bookings.
47. The ACCC's review has indicated that Expedia and Wotif are two of the three largest OTAs operating in the market for online distribution/booking of Australian accommodation. The Priceline Group, through its Booking.com and Agoda brands, is the other one. Other OTAs, including Orbitz Worldwide, Webjet, Quickbeds, Hooroo and Helloworld appear to have significantly smaller shares of bookings than the top three.
48. While competitors including The Priceline Group have gained significant market share in recent years, Wotif remains a leading Australian OTA. Wotif's competitive strength appears to be based primarily on:
- its wide range of inventory: Wotif has more Australian hotels listed than any other OTA;
  - its brand awareness: Wotif was the first major accommodation OTA in Australia and continues to enjoy strong brand recognition from Australian and New Zealand consumers.
49. The ACCC's market inquiries have indicated that the commission rates charged by Wotif are significantly lower than those charged by Expedia.
50. Market participants also suggested that Expedia's commission rates are lower in Australia, relative to other parts of the world, due to the strong competition provided by Wotif.
51. Market participants expressed concerns that, with the removal of Wotif as an independent competitor, a significant competitive constraint on Expedia will be removed, and Expedia will increase commission rates.
52. Expedia would continue to face competition from The Priceline Group post-acquisition. However, if Expedia and The Priceline Group are the only major OTAs in Australia, there may be limited incentive for them to compete with each other by offering lowering commission rates to accommodation providers.
53. The ACCC's market inquiries have indicated that OTAs also compete to attract a greater share of hotels' discretionary advertising spend, for example, by inviting hotels to join promotions which are designed to stimulate demand for a city, region or event. OTAs offer hotels the opportunity to participate at commission levels which vary according to expected booking volumes and the degree to which hotel room prices are discounted.



54. If there is reduced competition from other OTAs post-acquisition, Expedia and The Priceline Group may have less incentive to compete by offering additional promotional opportunities to accommodation providers.

*Competition from other online distribution channels*

55. The ACCC is considering the extent to which accommodation providers could avoid a potential increase in commission rates by Expedia post-acquisition by using alternate online channels to distribute their inventory.
56. As noted above, the ACCC's preliminary view is that the relevant market includes the distribution/booking of accommodation through a range of online channels, including OTAs, directly through accommodation providers' websites and through other websites which offer booking services, such as some destination websites (e.g. [www.visitnoosa.com.au](http://www.visitnoosa.com.au)). However, the ACCC is considering the *level* of competition which non-OTA forms of online distribution are likely to impose on Expedia post-acquisition.
57. As noted previously, the ACCC understands that in most cases the primary consideration for accommodation providers is to maximise their reach to potential consumers by listing their inventory on as many websites as possible. However, an accommodation provider would also generally prefer to receive a booking through a channel which costs less (e.g. through its own website) than through an OTA which charges a comparatively high commission rate.
58. Accommodation providers who wish to avoid, or minimise, the amount they must pay in commissions have some potential strategies available to them:
- taking positive steps to attract more consumers to their own websites, e.g. by offering discounts or other bonuses;
  - withholding their inventory from OTAs, i.e. only making a limited number or type of rooms available via OTAs, while making a full range available through their own websites.
59. Market inquiries have indicated that many accommodation providers do use, or attempt to use, these strategies to increase the proportion of bookings that they receive directly.
60. However, the extent to which these strategies are effective is 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;
  - the risk of lost sales (and therefore empty rooms) if accommodation providers miscalculate the number of rooms to withhold from OTAs.
61. In addition, other forms of online distribution may not provide a complete substitute for accommodation providers compared to the functionality provided by OTAs.
62. Direct booking channels do not provide the 'search and compare' function which many consumers (particularly leisure travellers) require. Therefore an accommodation provider which relies entirely on the direct channel may miss out on bookings from consumers who start the search/booking process unaware of which hotel they wish to book.

63. Search engines such as Google may help to alleviate this problem by allowing accommodation providers to promote themselves by bidding on keywords such as 'Melbourne hotels' or 'boutique hotels', but only if the accommodation provider can afford to pay to rank highly in the search advertising, or can employ sophisticated search engine optimisation (SEO) strategies to ensure that its website ranks highly in the organic search results.
64. The websites of most accommodation providers other than large hotel chains do not rank highly in Google search results. However, it is possible that Google's recently launched 'Hotel Finder' site may help to alleviate this problem for accommodation providers.
65. Metasearch websites such as TripAdvisor, Hotels Combined and trivago (which is majority owned by Expedia) are increasingly important in providing the search/compare function which many consumers value in making accommodation booking decisions. However, metasearch websites do not provide a booking function in their own right,<sup>1</sup> instead providing headline prices for different OTAs (and in some cases the hotel's own website) which consumers can click through to and book.
66. If an accommodation provider can ensure that its own website is ranked in the top four or five booking options displayed on a metasearch website's page for that property, the provider probably has good chance of obtaining the direct booking. The ACCC understands that, until recently, only large hotel chains could offer a direct booking link on TripAdvisor, but this is changing with TripAdvisor's new TripConnect product.
67. However, to achieve a high ranking in the booking options on TripAdvisor, the ACCC understands that the accommodation provider would need to:
  - offer a cheaper rate than the OTAs who are also advertising its inventory on the metasearch site (which again raises issues under the pricing parity clauses);
  - pay more to outbid the OTAs who are also distributing its inventory for higher rankings on the metasearch site. It appears that many smaller providers find it too expensive to outbid OTAs in this way, particularly because they are required to pay for 'cost per click' advertising even if no sale results from it; or
  - not list on OTAs at all and only provide a direct booking link on TripAdvisor. However, the accommodation provider would still need to pay on a 'cost per click' basis regardless of whether a booking is made.
68. Alternatively, an accommodation provider may choose to not facilitate bookings through metasearch sites at all, and rely on consumers proactively searching for the provider's own website. However, there are disadvantages with this strategy: for example, hotels that do not provide a link for direct booking via TripAdvisor are listed last in TripAdvisor's default search results.

The ACCC invites comments from market participants on the likely competitive effects of the proposed acquisition, including:

- how do OTAs compete with each other to attract accommodation providers to their platforms? Do they compete on the basis of their standard commission

<sup>1</sup> A partial exception is TripAdvisor's recently launched 'instant booking' functionality (initially only available in the US), which lets smartphone users complete bookings without leaving the TripAdvisor site (although the transaction itself will still be with an online agent or a hotel).

rate? Do they compete by offering different promotional opportunities to accommodation providers (such as Wotif's 'Flaming Deals')?

- does having several large OTAs in the market make it easier for accommodation providers to resist commission rate increases? Or do accommodation providers have no choice but to accept the commission rates offered, so that they can list on as many OTAs as possible?
- how important is competition from Wotif in preventing Expedia and The Priceline Group (Booking.com and Agoda) from increasing their commission rates?
- is competition from The Priceline Group and other OTAs likely to be sufficient to prevent Expedia from increasing commission rates post-acquisition?
- to what extent can accommodation providers limit their exposure to any commission rate increase by seeking to increase direct bookings? Do pricing and volume parity requirements imposed by the OTAs limit this, or do accommodation providers find ways to circumvent the parity clauses?
- are other types of online channels, such as destination websites, a viable alternative to OTAs for accommodation providers?

*Likelihood of entry/expansion in the online accommodation distribution market*

69. The ACCC's preliminary view is that there are barriers to entry in the market for the online distribution/booking of accommodation which may prevent the entry or expansion of a new OTA on a scale sufficient to compete with Expedia and The Priceline Group.
70. A new OTA seeking to enter the market would face costs associated with developing the necessary software and obtaining relationships with a sufficient number of accommodation providers. However, the ACCC considers that the primary barrier to entry for a new OTA is the need to attract a sufficient number of consumer 'eyeballs'. While there are only three large providers, the online accommodation market is already quite crowded, with the leading OTAs all distributing under several brand names. Therefore it may be difficult for a new entrant to attract sufficient attention in the marketplace.
71. The key to obtaining a sufficient consumer audience appears to be advertising. For many OTAs the most important form of advertising is search advertising on Google and metasearch websites like TripAdvisor. OTAs also use other forms of advertising, including TV and billboards, in order to build brand awareness. However, search advertising and TV advertising in particular can be very expensive.
72. Despite these issues, there are recent examples of entry or expansion in the online accommodation distribution market. For example:
- Booking.com appears to have significantly increased its presence in the Australian market over the last few years, in part due to a major TV advertising campaign; and
  - Qantas subsidiary Hooroo appears to have grown significantly since its launch in 2012.
73. The ACCC has also observed significant changes in the way that accommodation is offered to consumers in recent years. The online travel industry appears to be dynamic and evolving. For example:

- TripAdvisor has grown from a consumer review website to a major intermediary between consumers and accommodation booking services. In August 2013 it was ranked number 2 in a list of the top 100 travel websites in Australia (based on visitor numbers) by Experian Hitwise and TravelTrends.biz;
  - Google has launched its HotelFinder site as a competitor to TripAdvisor.
74. Accordingly, there appears to be potential for companies, most likely those in adjacent industries, to enter the market with new business models and disrupt the OTAs' business model. The ACCC is therefore continuing to investigate whether the dynamic nature of the industry is likely to facilitate the development of new business models and discipline Expedia's competitive conduct post-acquisition.
75. The ACCC is particularly interested in the likelihood of new business models developing that may disrupt any market power created by the proposed acquisition.

The ACCC invites comments from industry participants on the nature and extent of barriers to entry in online distribution/booking of accommodation and how the online industry is likely to evolve over the next few years, including:

- To what extent can the success of Expedia and The Priceline Group in Australia in recent years be attributed to their ability to leverage their existing overseas businesses? To what extent did these companies benefit from entering/expanding in Australia at a time when the online accommodation market was growing rapidly?
- Are there any other companies likely to be able to replicate the success of Expedia and The Priceline Group in the future?
- Do OTAs who currently focus on non-hotel accommodation, such as Airbnb and Stayz, place any competitive constraint on OTAs such as Expedia and Booking.com? Are these providers likely to expand so that they compete more directly with Expedia and Booking.com?
- How is the growth of metasearch websites likely to affect competition in this market? Is it likely to prevent further price increases by OTAs?
- To what extent has the shift from using websites on desktop computers to using mobile websites and applications on tablets and mobile devices affected barriers to entry in the online distribution/booking of accommodation?
- Any other comments on how the online travel industry is likely to evolve in the coming years and how this may impact OTAs and the potential for new entry.

## Issues unlikely to raise concerns

### *Potential increase in accommodation booking fees for consumers*

76. The ACCC's preliminary view is that it is unlikely that the proposed acquisition would enable Expedia to increase (or introduce) accommodation booking fees, or significantly reduce the quality of the services it provides to consumers.
77. While Wotif has developed a successful OTA business on the basis of a model which includes a (small) booking fee for consumers, the market trend appears

to be moving away from charging fees directly to consumers, and instead generating all revenue from the commissions charged to accommodation providers.

78. Expedia does not currently charge booking fees to consumers and Booking.com has successfully expanded in Australia over the last few years with a strong emphasis on its 'no booking fee' model. In light of the strong competition from Booking.com, it appears unlikely that Expedia would risk losing consumers by increasing consumer booking fees.
79. If Expedia were to increase fees to consumers, it appears likely that a significant proportion of consumers would be motivated to switch to other OTAs, or to accommodation providers' direct channels. The increasing importance of metasearch websites, and the comparison between channels that they facilitate, would appear to make this strategy even less likely to succeed.
80. The ACCC notes that, while bookings fees for consumers may not increase, if commission rates charged to accommodation providers increase, this is likely to flow down to consumers through higher accommodation charges.

#### ***Online distribution/booking of air travel***

81. The ACCC's preliminary view is that the proposed acquisition is unlikely to enable Expedia to increase fees or commissions, or decrease the quality of its services, to either airlines or consumers of air travel.
82. Expedia is a significant competitor in the provision of online distribution/booking services for flights. Wotif also provides flight distribution/booking services, but this makes up only a small part of its business.
83. Webjet is another major provider of online distribution/booking services for flights for Australian customers.
84. Airlines also distribute a significant proportion of their flights directly through their own websites. The proportion of consumers who book directly with the provider (rather than through an OTA) appears to be significantly greater in respect of flights than it is in respect of accommodation.
85. This is likely due, at least in part, to greater consumer knowledge of the available options, as the number of airlines flying any particular route is much less than the number of accommodation options in any Australian city or large town. The search function which OTAs provide is therefore less important for consumers seeking to book flights than it is for consumers seeking to book hotels. As a result, it appears that airlines are less reliant on OTAs than accommodation providers.
86. Therefore, the ACCC's preliminary view is that the proposed acquisition is unlikely to provide Expedia with any significant degree of market power in relation to online flight distribution/booking services.
87. If, post-acquisition, Expedia attempted to increase the price for, or decrease the quality of, the distribution services it provides to airlines, airlines would be likely to take steps to decrease the proportion of bookings they receive through Expedia, making such a strategy unprofitable for Expedia.
88. Similarly, it appears that any attempt by Expedia to increase booking fees charged to consumers, or decrease the quality of its booking services, would be likely to cause consumers to switch to other OTAs or book directly with the airline.

### ***Distribution/booking of other travel products***

89. The ACCC's preliminary view is that the proposed acquisition is unlikely to enable Expedia to increase fees or commissions, or decrease the quality of its services, to either suppliers or consumers of other travel products, including holiday packages, car hire and cruises.
90. The ACCC's market inquires did not indicate that market participants are concerned about the effect of the proposed acquisition on the distribution of these other types of travel products.
91. In the case of holiday packages, the ACCC's preliminary view is that Expedia would continue to face competition from a broader range of competitors including airlines and bricks and mortar travel agents.
92. In the case of car hire, the ACCC's preliminary view is that OTAs are likely to be a less important channel to market than they are for accommodation, with many consumers booking hire cars directly with the hire company.
93. In the case of cruises, the ACCC's preliminary view is that bricks and mortar travel agents are likely to remain a more important channel to market than OTAs, as the greater complexity of the product means that consumers are more likely to require personalised advice.

The ACCC invites comments from market participants on the ACCC's preliminary findings regarding the likely effects of the proposed acquisition on the:

- online distribution of air travel; and
- distribution of other travel products, including holiday packages, car hire and cruises.

### **ACCC's future steps**

94. The ACCC now seeks submissions from market participants on each of the issues identified in this Statement of Issues and on any other issues that may be relevant to the ACCC's assessment of this matter.
95. Submissions are to be received by the ACCC no later than 19 September 2014.

The ACCC intends to publicly announce its final view by 2 October 2014. However the anticipated timeline may change in line with the Merger Review Process Guidelines. A Public Competition Assessment for the purpose of explaining the ACCC's final view may be published following the ACCC's public announcement.