

# Travel Industry Worldwide

October 2003



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	<b>Methodology</b>	<b>7</b>
	<b>The eMarketer Difference</b>	<b>8</b>
	<b>The Benefits of eMarketer’s Aggregation Approach</b>	<b>9</b>
	<b>“Benchmarking” and Projections</b>	<b>9</b>
<b>I</b>	<b>Travel Trends</b>	<b>11</b>
	<b>A. Business Travel</b>	<b>16</b>
	<b>B. Leisure Travel</b>	<b>23</b>
<b>II</b>	<b>Technology Applications and Initiatives</b>	<b>25</b>
	<b>A. Travel Distribution</b>	<b>26</b>
	<b>B. Self-Service Kiosks</b>	<b>35</b>
	<b>C. In-Flight E-Mail Update</b>	<b>36</b>
<b>III</b>	<b>Travel Advertising and Marketing</b>	<b>37</b>
	<b>A. Offline</b>	<b>38</b>
	<b>B. Online</b>	<b>41</b>
<b>IV</b>	<b>Total Travel Market: Size and Growth</b>	<b>53</b>
	<b>A. Leading Tourism Markets – Arrivals</b>	<b>54</b>
	<b>B. Leading Tourism Markets – Spending</b>	<b>56</b>
	US	58
<b>V</b>	<b>Online Travel Market</b>	<b>61</b>
	<b>A. North America</b>	<b>63</b>
	US	63
	Canada	73
	<b>B. Europe</b>	<b>74</b>
	Revenues	74
	Category, Channel and Country Breakdown	77
	<b>C. Asia-Pacific</b>	<b>81</b>
	<b>D. Travel Service Vendors</b>	<b>84</b>
	North America: US and Canada	84
	Europe	93
	Traditional Agencies & Consolidation	94

<b>VI</b>	<b>Travel Segments</b>	<b>97</b>
	<b>A. Air Travel Market</b>	<b>98</b>
	Competitive Environment: FSCs vs. LCCs	98
	Worldwide Airline Traffic & Leading Airports	104
	Leading Airlines	106
	<b>B. Hotel/Hospitality Market</b>	<b>112</b>
	Hotel Performance Benchmarks	113
	Traveler Preferences	116
	Emerging Technologies: Broadband Hotels	121
	<b>C. Car Rental Market</b>	<b>125</b>
	Revenues and Fleet Size	125
	Leading Companies and Markets	126
	Traveler Preferences	129
<b>VII</b>	<b>Traveler Demographics &amp; Preferences</b>	<b>131</b>
	<b>A. Business Travelers</b>	<b>132</b>
	US	132
	Europe	138
	<b>B. Leisure Travelers</b>	<b>140</b>
	North America: US	140
	North America: Canada	155
	Europe	159
	<b>Index of Charts</b>	<b>165</b>



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## Welcome to eMarketer

Dear Reader:

The *Travel Industry Worldwide*™ report from eMarketer examines the dramatic shifts that the global travel industry has experienced in the past two years. It covers the major leisure and business travel categories in both the online and offline segments at a time when the industry is facing some of its toughest challenges in years.

With the travel industry now poised for recovery, this report, which examines current trends in travel spending and traveler demographics as well as new technology applications and initiatives, is an invaluable reference tool for tracking what are sure to be dramatic changes in the year ahead.

The pages that follow contain statistics, lists and detailed information that are critical for developing business and marketing plans, creating presentations, answering vital “need-to-know-now” questions from clients or management and making informed decisions about ventures that affect all aspects of your company’s marketing operations.

Like all eMarketer reports, *Travel Industry Worldwide*™ presents statistical information aggregated from a broad range of authoritative research sources, totaling more than 60 in all in this report. In addition, readers may wish to consult eMarketer’s eStat Database, which contains thousands of additional statistics on virtually every aspect of the global travel industry, in order to get the most complete picture of trends as well as consumer preferences in the leading travel markets around the world.

If you have any questions or comments concerning eMarketer or any of the material in this report, please call, fax or e-mail us.

Noah Elkin  
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	<b>Methodology</b>	<b>7</b>
	<b>The eMarketer Difference</b>	<b>8</b>
	<b>The Benefits of eMarketer’s Aggregation Approach</b>	<b>9</b>
	<b>“Benchmarking” and Projections</b>	<b>9</b>
I	Travel Trends	11
II	Technology Applications and Initiatives	25
III	Travel Advertising and Marketing	37
IV	Total Travel Market: Size and Growth	53
V	Online Travel Market	61
VI	Travel Segments	97
VII	Traveler Demographics & Preferences	131
	Index of Charts	165

**Methodology**

- [Travel Trends](#)
- [Technology Applications and Initiatives](#)
- [Travel Advertising and Marketing](#)
- [Total Travel Market: Size and Growth](#)
- [Online Travel Market](#)
- [Travel Segments](#)
- [Traveler Demographics & Preferences](#)
- [Index of Charts](#)

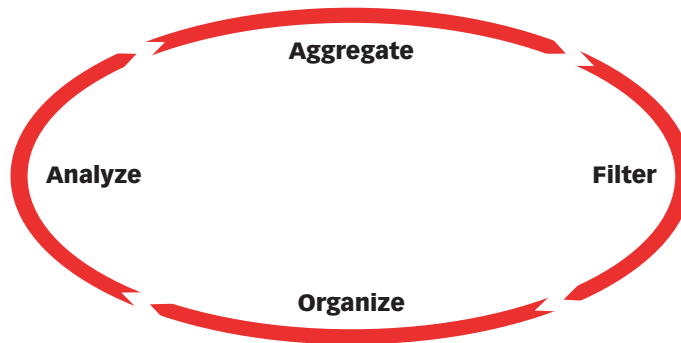
eMarketer’s approach to market research is founded on a philosophy of aggregating data from as many different sources as possible. Why? Because there is no such thing as a perfect research study and no single research source can have all the answers. Moreover, a careful evaluation and weighting of multiple sources will inevitably yield a more accurate picture than any single source could possibly provide.

## The eMarketer Difference

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eMarketer does not conduct primary research, it therefore has no testing technique to defend, no research bias and no client contracts to protect.

eMarketer prepares each market report using a four-step process of aggregating, filtering, organizing and analyzing data from leading research sources worldwide.




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Using the Internet and accessing a library of electronically-filed research reports and studies, the eMarketer research team first aggregates publicly available e-business data from hundreds of global research and consultancy firms. This comparative source information is then filtered and organized into tables, charts and graphs. Finally, eMarketer analysts provide concise and insightful analysis of the facts and figures along with their own estimates and projections. As a result, each set of findings reflects the collected wisdom of numerous research firms and industry analysts.

**“I think eMarketer reports are extremely useful and set the highest standards for high quality, objective compilation of often wildly disparate sources of data. I rely on eMarketer’s research reports as a solid and trusted source.”**

— Professor Donna L. Hoffman, Co-Director, eLab, Vanderbilt University



**Methodology**

- [Travel Trends](#)
- [Technology Applications and Initiatives](#)
- [Travel Advertising and Marketing](#)
- [Total Travel Market: Size and Growth](#)
- [Online Travel Market](#)
- [Travel Segments](#)
- [Traveler Demographics & Preferences](#)
- [Index of Charts](#)

## The Benefits of eMarketer’s Aggregation Approach

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**Objective:** information is more objective than that provided by any single research source

**Comprehensive:** gathered from the world’s leading research firms, consultancies and news organizations

**Authoritative:** quoted in leading news publications, academic studies and government reports

**All in one place:** easy to locate, evaluate and compare

**Readily accessible:** so you can make quick, better-informed business decisions

**Above the hype:** accurate projections that business people can use with confidence

**Time saving:** there’s no faster way to find Internet and e-business stats, online or off

**Money saving:** more information, for less, than any other source in the world

## “Benchmarking” and Projections

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Until recently, anyone trying to determine which researcher was most accurate in predicting the future of any particular aspect of the Internet did not have a definitive source with which to do this. For instance, over 10 firms predicted e-commerce revenues for the fourth quarter 1998 online holiday shopping season, and yet no single source could be identified after the fact as having the “correct” number. In the Spring of 1999, however, the US Commerce Department finally began measuring e-commerce B2C activity so business people and others could have a benchmark with which they could compare and evaluate projections.

eMarketer has adapted its methodology to recognize that certain government and other respected, impartial sources are beginning to provide reliable numbers that can be consistently tracked over time. Most of these established sources, however, only measure past results; typically, they do not make predictions.

### **Methodology**

[Travel Trends](#)

[Technology Applications and Initiatives](#)

[Travel Advertising and Marketing](#)

[Total Travel Market: Size and Growth](#)

[Online Travel Market](#)

[Travel Segments](#)

[Traveler Demographics & Preferences](#)

[Index of Charts](#)

Today, eMarketer formulates its essential e-business numbers by first identifying the most established, reputable source for a given sector being measured and then adopting that organization's figures as benchmarks for the historical/current period. For instance, eMarketer's US Internet user figures will be based on a combination of the most recent data from the US Census Bureau and the International Telecommunication Union. Using this data as the benchmark for 2000 and 2001, eMarketer will make projections for subsequent years based on the following factors:

- a comparative analysis of user growth rates compiled from other research firms
- additional benchmark data from Internet rating firms, e.g., Nielsen//NetRatings, comScore Media Metrix, which use panels to measure Internet user activity on a weekly and monthly basis
- an analysis of broader economic, cultural and technological trends in the US

Similarly, US e-commerce revenues are being "benchmarked" using historical data from the US Department of Commerce, and broadband household and penetration rate forecasts are being built off baseline data from the Organization for Economic Cooperation and Development (OECD).

Through this benchmarking process, eMarketer will be holding itself – and its projections – accountable.

**“When I need the latest trends and stats on e-business, I turn to eMarketer. eMarketer cuts through the hype and turns an overabundance of data into concise information that is sound and dependable.”**

— Mark Selleck, Business Unit Executive, DISU e-business Solutions, IBM

	Methodology	7
<b>I</b>	<b>Travel Trends</b>	<b>11</b>
	<b>A. Business Travel</b>	<b>16</b>
	<b>B. Leisure Travel</b>	<b>23</b>
II	Technology Applications and Initiatives	25
III	Travel Advertising and Marketing	37
IV	Total Travel Market: Size and Growth	53
V	Online Travel Market	61
VI	Travel Segments	97
VII	Traveler Demographics & Preferences	131
	Index of Charts	165

[Methodology](#)

[Travel Trends](#)

[Technology Applications and Initiatives](#)

[Travel Advertising and Marketing](#)

[Total Travel Market: Size and Growth](#)

[Online Travel Market](#)

[Travel Segments](#)

[Traveler Demographics & Preferences](#)

[Index of Charts](#)

The travel marketplace exhibited some downright contrary trends in 2002-2003. Major airlines, particularly US carriers, suffered under severe financial duress, with several entering (and some exiting) bankruptcy. Most European and Asia-Pacific carriers have remained solvent, although the latter were certainly buffeted mightily by the impact of SARS. At the same time, low-cost carriers (LCCs) have literally and figuratively soared, from JetBlue and Southwest Airlines in the US to Ryanair and easyJet in Europe.

All travel suppliers have suffered from a fall-off in business travel, a result of corporate belt-tightening and a search for lower-cost alternatives. The section below goes over these trends in greater detail.

Business travelers are not alone in the search for ever-lower fare and rates, and the Internet has been an effective tool for travelers of all stripes looking to wring as much savings as possible out of shrinking budgets. As a result, even while suppliers are suffering, online travel sales are booming like never before. The Internet still accounts for a relatively small portion of all travel sales, but it is having an undeniably large impact on the overall travel market.

**“Now, more than ever, it’s critical for corporate travel managers to communicate to employees the importance of carefully planning trips to minimize the potential for losing the entire value of a nonrefundable. Savings from leisure-style tickets are still there – but now the financial risk is higher if they go unused.”**

— Brian Mogler, vice president, Supplier Relations and Consulting, American Express Corporate Travel, 29 October 2002

[Methodology](#)

**[Travel Trends](#)**

[Technology Applications and Initiatives](#)

[Travel Advertising and Marketing](#)

[Total Travel Market: Size and Growth](#)

[Online Travel Market](#)

[Travel Segments](#)

[Traveler Demographics & Preferences](#)

[Index of Charts](#)

Data from the Travel Industry Association of America (TIA), a Washington, DC-based, non-profit association that represents the interests of all participants in the US travel industry, show a continued rise in the number of person-trips in the US, suggesting that the domestic market is returning to health. However, most of the growth is coming from the leisure travel segment, suggesting that the lagging economic recovery is still leading businesses to contain their travel expenditures as much as possible. The volume of business travel fell to 197.5 million person-trips in 2002, representing a 5.8% decline from 2001. The section below explores these trends in greater detail.

**Domestic Person-Trips\* in the US, 2000-2005 (in millions)**

<b>2000</b>	<b>997.6</b>
<b>2001</b>	<b>1,017.8</b>
<b>2002</b>	<b>1,021.3</b>
<b>2003</b>	<b>1,040.7</b>
<b>2004</b>	<b>1,073.9</b>
<b>2005</b>	<b>1,087.9</b>

*Note: \*A person-trip is one person traveling 50 miles (one way) or more away from home and/or overnight*

*Source: Travel Industry Association of America (TIA), May 2003*

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[Methodology](#)

**[Travel Trends](#)**

[Technology Applications and Initiatives](#)

[Travel Advertising and Marketing](#)

[Total Travel Market: Size and Growth](#)

[Online Travel Market](#)

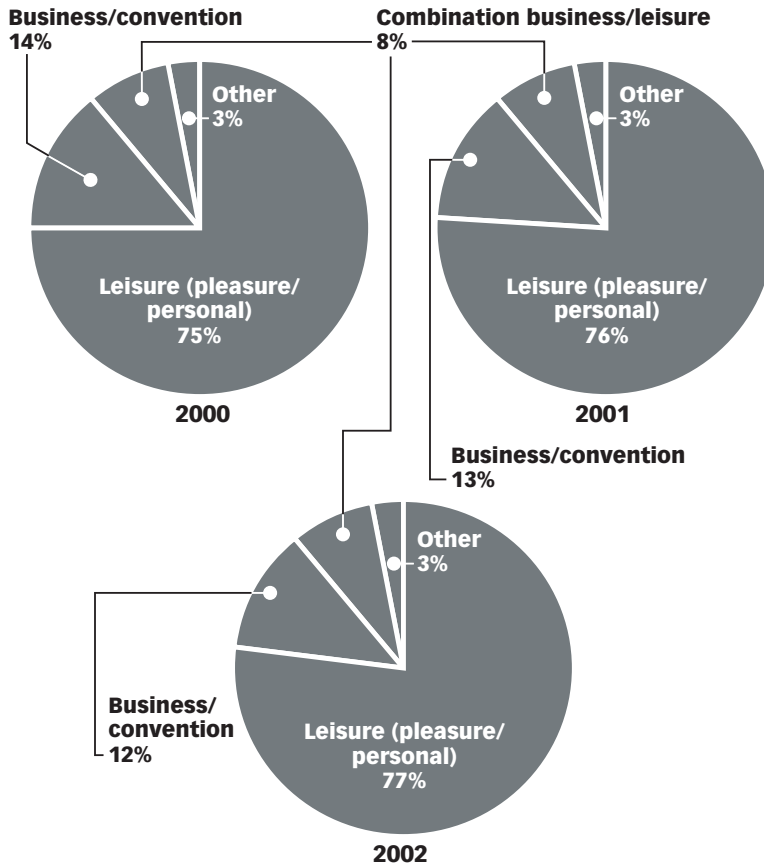
[Travel Segments](#)

[Traveler Demographics & Preferences](#)

[Index of Charts](#)

The most recent TIA breakdowns of the purpose and transportation mode used for domestic travel in the US are for 2001. However, a comparison with 2000 data shows little variation, suggesting that these percentages will vary little over time, even in the face of broader shifts in the travel industry. Although the anecdotal evidence may have suggested otherwise, the percentage of trips taken by plane did not show significant declines from 2000 to 2001, and a larger fall-off was actually registered for automobiles. However, passenger rail systems did enjoy a momentary increase in riders due to travelers' concerns about the safety of air travel.

**Domestic Person-Trips\* in the US, by Purpose of Trip, 2000-2002 (as a % of total)**



*Note: \*A person-trip is one person traveling 50 miles (one way) or more away from home and/or overnight*

*Source: Travel Industry Association of America (TIA), May 2003*

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Methodology

**Travel Trends**

Technology Applications and Initiatives

Travel Advertising and Marketing

Total Travel Market: Size and Growth

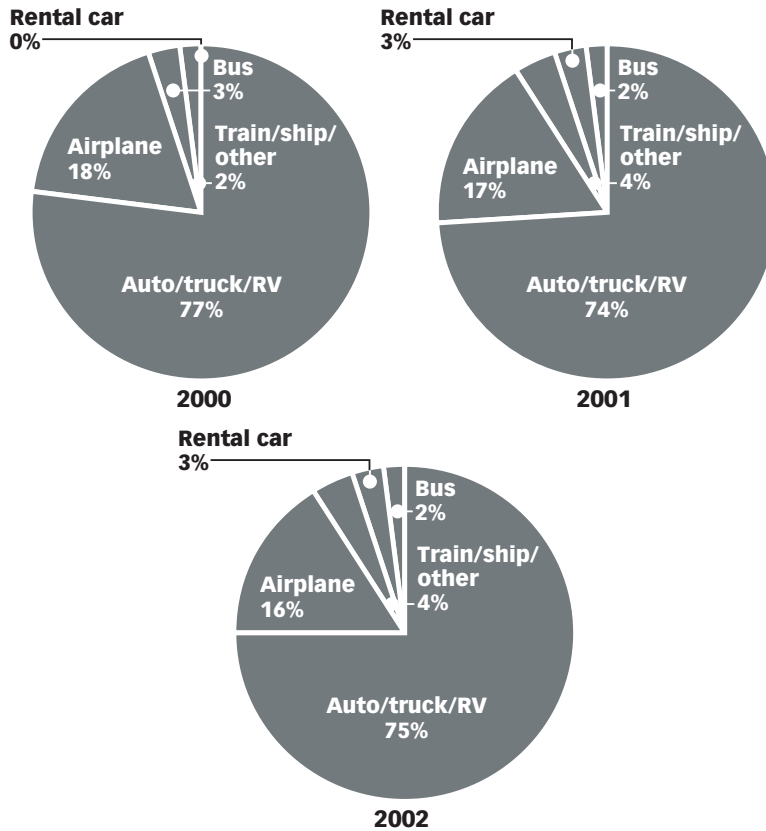
Online Travel Market

Travel Segments

Traveler Demographics & Preferences

Index of Charts

**Domestic Person-Trips\* in the US, by Mode of Transportation, 2000-2002 (as a % of total)**



Note: \*A person-trip is one person traveling 50 miles (one way) or more away from home and/or overnight

Source: Travel Industry Association of America (TIA), May 2003

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[Methodology](#)[Travel Trends](#)[Technology Applications and Initiatives](#)[Travel Advertising and Marketing](#)[Total Travel Market: Size and Growth](#)[Online Travel Market](#)[Travel Segments](#)[Traveler Demographics & Preferences](#)[Index of Charts](#)

## A. Business Travel

An October 2002 study by American Express predicted that business travel and entertainment (T&E) costs, described as “corporations’ second-largest controllable expense after salaries,” would rise by 2% to 3% in 2003.

Business airfares, which are usually the lowest fully refundable economy fares, requiring up to three days advance purchase, were forecast to rise by 3% to 4%. According to figures from TOPAZ International, the average domestic airfare rose from the first to the second quarter of the year (from \$501 to \$526), thanks to a significant price hike in the month of May, but the average as of the end of August 2003 was actually lower than in January. International airfares dropped quarter-over-quarter (from \$2,639 in Q1 to \$2,472 in Q2), and were also lower in August (\$2,689) than they were in January (\$3,064).

**“Over the last couple of years, the business travel industry has been hit by major economic, political and health crises. But travel is an essential part of doing business and we will start to see a return to healthy spending as companies gradually return to normal commerce and business activity.”**

— Kevin Iwamoto, president and CEO, National Business Travel Association (NBTA), 7 July 2003

For business travelers, perhaps more significant is the finding that as of the third quarter of 2002, the typical business fare cost six times as much as the lowest discount fare, which is based on the most restrictive fare, and usually requires an advance purchase of up to 28 days as well as a Saturday-night stay. As recently as six years ago, the typical business fare was just over two-and-a-half times the lowest discount fare, according to American Express research. This makes leisure fares a more attractive option, but business travelers should be aware of restrictions on these lower fares that may actually increase overall business travel costs.

The American Express study also forecast that hotel room costs across the US would remain flat or exhibit slight declines, as lodging companies work to compensate for an oversupply of rooms. This prediction has been borne out by data from TQ3 Travel Solutions, which found that the average domestic daily rate declined by around 2% between the first and second quarters of this year. The average international rate rose 14% over the same period.



[Methodology](#)

[Travel Trends](#)

[Technology Applications and Initiatives](#)

[Travel Advertising and Marketing](#)

[Total Travel Market: Size and Growth](#)

[Online Travel Market](#)

[Travel Segments](#)

[Traveler Demographics & Preferences](#)

[Index of Charts](#)

**“Over the past few years, companies have tightened their travel programs and reduced air travel spending by using more leisure-type fares. But many will see their average fares rising – now that airlines have put new restrictions on the lowest fares and stopped applying corporate discounts to them.”**

— Brian Mogler, vice president, Supplier Relations and Consulting, American Express Corporate Travel, 29 October 2002

A survey of more than 200 US corporate travel managers conducted mid-year by the National Business Travel Association (NBTA) found widespread declines in travel spending compared to the same period in 2002. Nevertheless, nearly one-third of the respondents indicated that their companies had increased travel spend, and 40% stated they expect to be taking more hotel rooms in 2003 than in 2002. On the other hand, close to 30% of the surveyed travel managers expected hotel room usage to remain flat.

**“We’re seeing many positive indicators that business travel is rebounding and returning to the normal levels prior to September 11 last year. However, the travel industry is undergoing a period of significant transition and redefinition, and it must understand that the business traveler is reshaping the industry due to the number of choices for air carriers and hotels available.”**

— Julian Sparkes, partner, Accenture Transportation & Travel Services industry group, 19 September 2002

[Methodology](#)

**[Travel Trends](#)**

[Technology Applications and Initiatives](#)

[Travel Advertising and Marketing](#)

[Total Travel Market: Size and Growth](#)

[Online Travel Market](#)

[Travel Segments](#)

[Traveler Demographics & Preferences](#)

[Index of Charts](#)

Economic concerns remain the major sticking point, with 74% of respondents citing improvements in the balance sheets of their companies as essential factors in the rebound of business travel. In an April 2003 NBTA survey of more than 240 corporate travel managers, 74% of respondents did not expect business travel to recover until 2004 or beyond. In the meantime, many are taking measures to wring the most value out of their corporate travel budgets. Among the measures reported by the travel managers surveyed are the following:

- approximately 44% of responding corporations now require senior-level executives to fly coach
- around 60% have switched to alternative airports to reduce airfares
- 73% are booking flights on discount airlines
- 78% report increased usage of mid-priced hotel brands (at the expense of luxury properties)

### US Corporate Travel Spending Trends, June 2003 (as a % of respondents)

**Some decrease in spending compared to same time last year**

**58%**

**Some increase in spending compared to same time last year**

**31%**

*Note: n=204 corporate travel managers*

*Source: National Business Travel Association (NBTA), July 2003*

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These findings confirm the results of a September 2002 survey of 950 business travelers at US-based companies by Accenture, which showed that firms are evaluating their travel options with greater care. According to the study, conducted in August 2002, 13% of respondents said they had increased travel on low-cost carriers in the previous six months, and 17% said they would fly more frequently on LCCs in the next six months. Likewise, with accommodations, 57% of the business travelers surveyed by American Express expected to stay in mid-range hotel, while just 16% planned to choose lodging in the luxury segment.

**“...Many travel professionals agree that travel will never return to previous levels.”**

— Phyllis Schumann, senior editor, *Runzheimer Reports on Travel Management*, 2 July 2003

[Methodology](#)

**[Travel Trends](#)**

[Technology Applications and Initiatives](#)

[Travel Advertising and Marketing](#)

[Total Travel Market: Size and Growth](#)

[Online Travel Market](#)

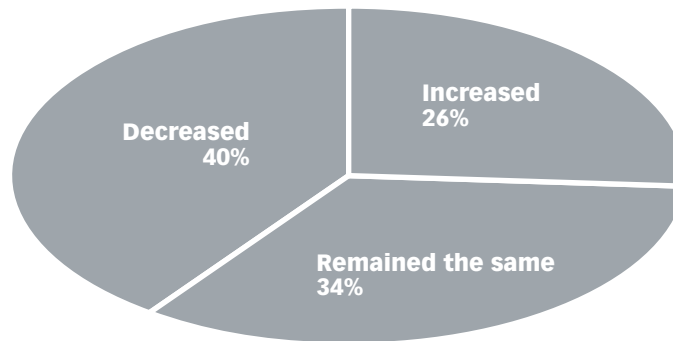
[Travel Segments](#)

[Traveler Demographics & Preferences](#)

[Index of Charts](#)

According to a similar study of 280 corporate travel professionals surveyed by market research firm Runzheimer International and the Association of Corporate Travel Executives (ACTE), 40% of North American companies have reduced their travel budgets in 2003. This is a lower figure than the 58% cited by the NBTA, but then again, a smaller percentage (26%) could point to increases in travel spending. One-third of respondents stated that they had maintained the same level of spending as in 2002.

**Travel Budget Trends among Corporations in North America, 2003 (as a % of respondents)**



*Note: n=280 travel managers*  
*Source: Runzheimer International, Association of Corporate Travel Executives (ACTE), July 2003*

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[Methodology](#)

**[Travel Trends](#)**

[Technology Applications and Initiatives](#)

[Travel Advertising and Marketing](#)

[Total Travel Market: Size and Growth](#)

[Online Travel Market](#)

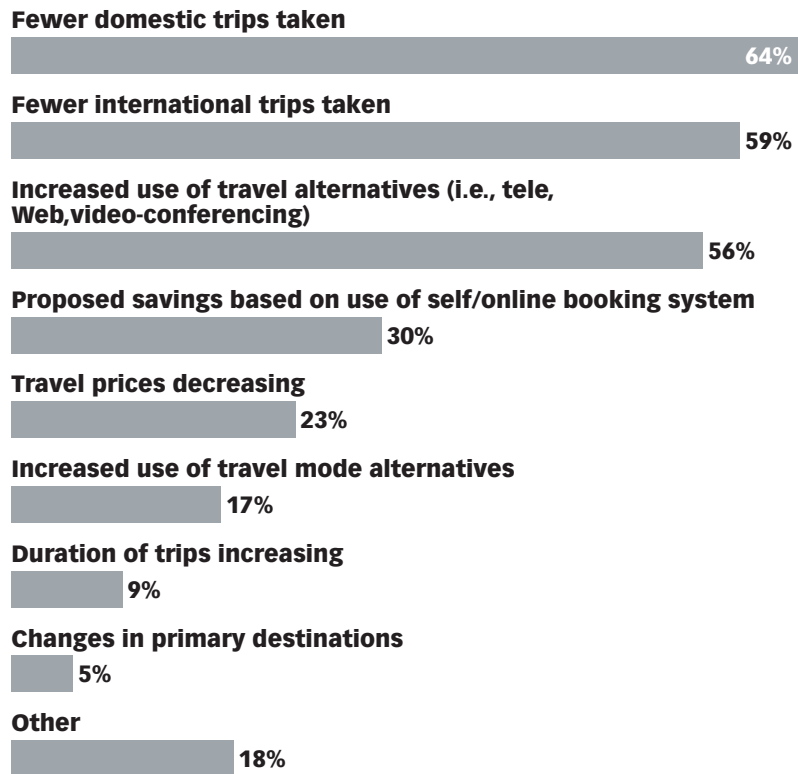
[Travel Segments](#)

[Traveler Demographics & Preferences](#)

[Index of Charts](#)

The Runzheimer study points to a decline in the number of trips taken as the main reasons for the reduced budgets, followed closely by increased usage of travel “alternatives” such as tele-, video- and Web-conferencing. One-third of respondents cited a switch to self-service and online booking systems as a means to trim travel budgets. Beyond use of the various technology-based conferencing modes, driving and train travel were the most widely used alternative travel modes, as shown in the second chart below.

**Reasons for Decrease in Travel Budget among Corporations in North America, 2003 (as a % of respondents)**



*Note: n=280 travel managers; multiple responses allowed*  
*Source: Runzheimer International, Association of Corporate Travel Executives (ACTE), July 2003*

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Methodology

**Travel Trends**

Technology Applications and Initiatives

Travel Advertising and Marketing

Total Travel Market: Size and Growth

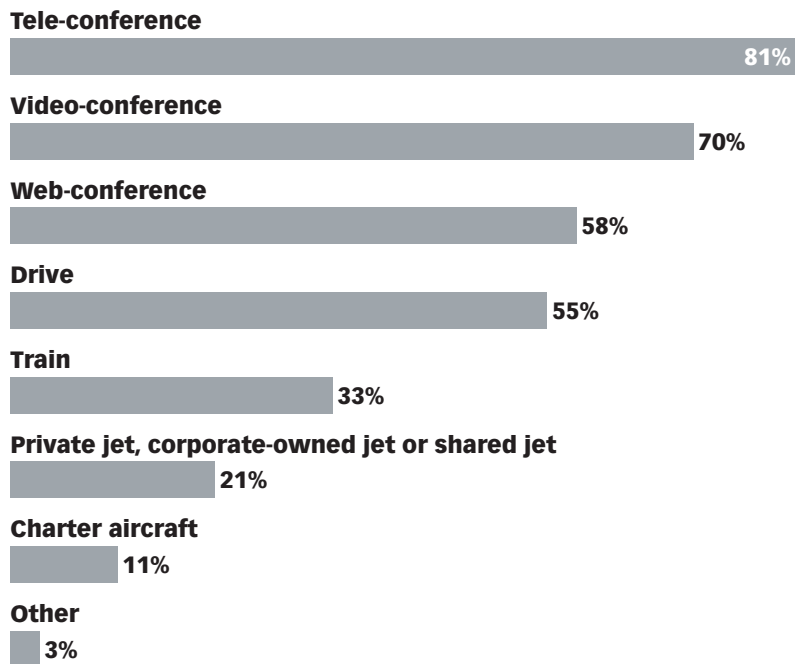
Online Travel Market

Travel Segments

Traveler Demographics & Preferences

Index of Charts

## Travel Mode Alternatives Used by Corporations in North America, 2003 (as a % of respondents)



Note: n=280 travel managers; multiple responses allowed  
Source: Runzheimer International, Association of Corporate Travel Executives (ACTE), July 2003

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**“Corporations are restricting and limiting air travel for both financial and security reasons. But financial reasons carry the most weight.”**

— Phyllis Schumann, senior editor, Runzheimer Reports on Travel Management, 2 July 2003

Methodology

**Travel Trends**

Technology Applications and Initiatives

Travel Advertising and Marketing

Total Travel Market: Size and Growth

Online Travel Market

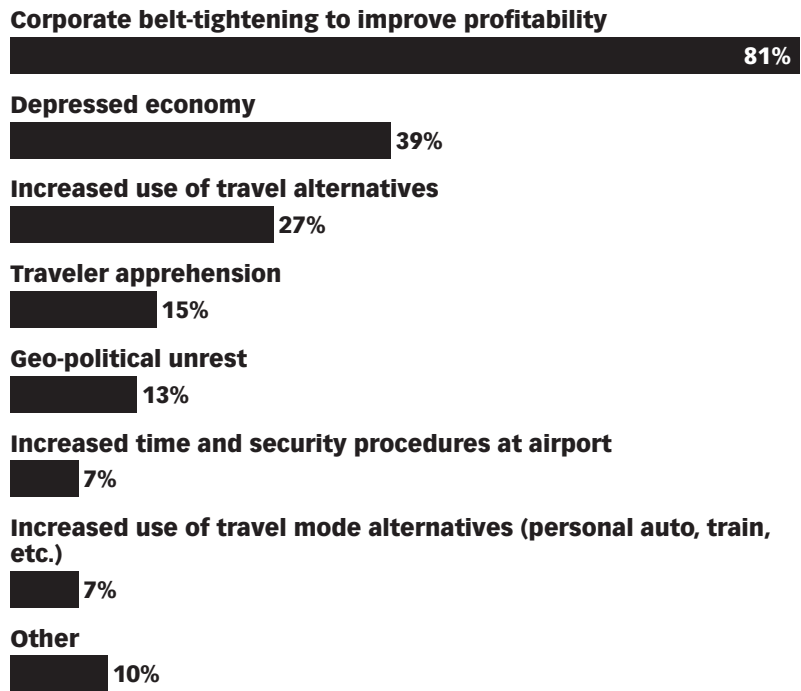
Travel Segments

Traveler Demographics & Preferences

Index of Charts

In particular, corporations are limiting air travel – typically the most expensive component of business trips – due to financial restrictions, much the same conclusion reached by the NBTA survey. “Corporate belt-tightening to improve profitability” was cited by 81% of respondents, while the depressed economy, the second factor, was mentioned by 39%, well exceeding fears about traveling (15%) and geo-political unrest (13%).

**Reasons for Limiting Air Travel among Corporations in North America, 2003 (as a % of organizations limiting air travel)**



Note: n=280 travel managers; multiple responses allowed  
 Source: Runzheimer International, Association of Corporate Travel Executives (ACTE), July 2003

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**“In the airline business these days, the competitive frontier is customer convenience....”**

— Keoni Wagner, spokesperson, Hawaiian Airlines, in Line56.com, 15 August 2003

One thing is certain: belt-tightening by business travelers may help to shore up beleaguered corporate balance sheets, but it then forces airlines, hotel chains, rental car companies and other travel service providers to do the same. This cycle will continue as long as the economy remains moribund or until attractive low-cost travel options emerge that do not do irreparable harm to the bottom line of travel firms.

[Methodology](#)[Travel Trends](#)[Technology Applications and Initiatives](#)[Travel Advertising and Marketing](#)[Total Travel Market: Size and Growth](#)[Online Travel Market](#)[Travel Segments](#)[Traveler Demographics & Preferences](#)[Index of Charts](#)

## B. Leisure Travel

A May 2003 TIA survey found that economic concerns and lack of time were the main reasons leisure travelers cited for not traveling this summer, traditionally a high point for the travel and tourism industry. They made scant mention of anxieties about travel safety, terrorism and SARS. However, these factors seem unlikely to make a substantial dent in the online travel market. Market research firm PhoCusWright noted recently that whereas overall US travel spending declined by 5% in 2002, online leisure and unmanaged business travel sales grew by 37%.

These figures are significant given that the Internet still accounts for a relatively small portion of the overall travel market. It has become the leading source for researching trips, but not yet the main channel for purchasing travel. According to PhoCusWright, 15% of *all* Americans made an online travel purchase in 2002. Approximately half of all *online* travelers – the most Web-savvy consumers – *only* bought travel products and services on the Internet, while 80% usually did so.

The lure of convenience and low prices has made Internet converts out of many travelers. The initial focus of both online travel agencies and suppliers has been the lucrative airline category, which remains the largest travel component. Agencies and suppliers have a roughly equal share of the market, with suppliers still enjoying a slight edge. However, enhanced offerings in other categories are not far off. In fact, the greater availability and selection of cruises, vacation packages, car rentals and hotels has already had a noticeable impact in the marketplace. Online sales in these categories are increasing at a far faster pace than airline tickets. PhoCusWright, for one, predicts that packages will account for up to 20% of the \$19 billion in leisure travel sold online in 2003, up from less than 10% in 2002.

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	Methodology	7
I	Travel Trends	11
<b>II</b>	<b>Technology Applications and Initiatives</b>	<b>25</b>
	<b>A. Travel Distribution</b>	<b>26</b>
	<b>B. Self-Service Kiosks</b>	<b>35</b>
	<b>C. In-Flight E-Mail Update</b>	<b>36</b>
III	Travel Advertising and Marketing	37
IV	Total Travel Market: Size and Growth	53
V	Online Travel Market	61
VI	Travel Segments	97
VII	Traveler Demographics & Preferences	131
	Index of Charts	165

[Methodology](#)

[Travel Trends](#)

**Technology Applications and Initiatives**

[Travel Advertising and Marketing](#)

[Total Travel Market: Size and Growth](#)

[Online Travel Market](#)

[Travel Segments](#)

[Traveler Demographics & Preferences](#)

[Index of Charts](#)

## A. Travel Distribution

In the mid-20<sup>th</sup> century, travel distribution revolved around airline seats.

In the past 30 years, however, it has evolved to include six major segments:

- major/national/regional/budget airlines
- owned/managed/franchised lodging businesses
- car rental companies
- large/secondary cruise operators
- passenger rail systems
- attractions and resorts

### Evolution of Travel Distribution, 1920s-Present, 1920s-Present

	Early stages	Core development	Growth of traditional intermediaries	Emergence of online distribution channels
Time-frame	1920s-1950s	1960s-1970s	1980s-Early 1990s	Mid 1990s-present
Suppliers	Airlines	Airlines	<ul style="list-style-type: none"> <li>• Car rentals</li> <li>• Airlines</li> <li>• Lodging</li> </ul>	<ul style="list-style-type: none"> <li>• Airlines</li> <li>• Cruise</li> <li>• Lodging</li> <li>• Rail</li> <li>• Car rental</li> <li>• Package tours</li> </ul>
Industry needs	<ul style="list-style-type: none"> <li>• Reduce time and costs necessary to process ticket</li> <li>• Increase productivity of airline reservation agents</li> <li>• Immediately determine what flights/seats are for sale</li> <li>• Modify inventory</li> <li>• Automating the recording of passenger record (PNR)</li> </ul>	<ul style="list-style-type: none"> <li>• Improve speed in accessing passenger records (PNR)</li> <li>• Improve reservation processing time from three hours to seconds</li> <li>• Reduce reservation error rate</li> <li>• Reduce staffing and training cost</li> </ul>	<ul style="list-style-type: none"> <li>• Increase productivity and capability for handling large amounts of information</li> <li>• Travel agents seek immediate access to airline flight schedules and fares</li> <li>• Ability to serve new business travel marketplace</li> <li>• Meet the demand of global airline alliances</li> <li>• Globalization of CRSS</li> <li>• Online booking</li> </ul>	<ul style="list-style-type: none"> <li>• Provide consumers with direct access to supplier's inventory</li> <li>• Increase confidence in Internet security</li> <li>• Capture and leverage consumer insight</li> <li>• Provide complex travel products</li> <li>• Enable customer self-service</li> <li>• Meet needs of small and large industry suppliers, intermediaries, and consumers</li> </ul>

*continued on page 27*

[Methodology](#)

[Travel Trends](#)

**Technology Applications and Initiatives**

[Travel Advertising and Marketing](#)

[Total Travel Market: Size and Growth](#)

[Online Travel Market](#)

[Travel Segments](#)

[Traveler Demographics & Preferences](#)

[Index of Charts](#)

System capabilities	<ul style="list-style-type: none"> <li>• Electromagnetic systems – electronic signal between agents terminal and main control room</li> <li>• Magnetronic reserivisor – giant aluminum wheel that recorded millions of small electric charges</li> <li>• Data organizing translator – machine readable card system</li> </ul>	Sabre <ul style="list-style-type: none"> <li>• Two IBM 7090 computers used for data storage and processing</li> </ul>	Sabre – easySabre (provides online booking to consumers in 1985) <ul style="list-style-type: none"> <li>• Worldspan</li> <li>• Amadeus</li> <li>• Galileo</li> <li>• Corporate travel agencies</li> </ul>	<ul style="list-style-type: none"> <li>• Online agencies – Travelocity.com</li> <li>• Supplier Web sites – Delta.com</li> <li>• GDS Web-based booking services – Planet Sabre</li> </ul>
System deficiencies	<ul style="list-style-type: none"> <li>• Still experience time delay in information processing</li> <li>• Unable to accurately assign PNR information to a seat</li> </ul>	Adequate system reliability due to thousands of agency locations	<ul style="list-style-type: none"> <li>• GDSs are text only, inflexible and require complex commands</li> <li>• Legacy systems are outdated, expensive to maintain, require significant training time and have limited search capability</li> </ul>	<ul style="list-style-type: none"> <li>• Customer data is fragmented</li> <li>• Lack standardized communication between suppliers and intermediaries</li> <li>• Unable to provide complex products</li> <li>• Unable to tailor information to individual needs</li> </ul>

Source: Accenture/World Travel and Tourism Council (WTTC), May 2002

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**“I make no apologies for our pricing structure.”**

— William J. Hannigan, chief executive officer, Sabre Holdings, as quoted in the New York Times, 12 February 2003

In spite of the increasingly customer-friendly features of reservation systems, a report prepared by Accenture for the World Travel & Tourism Council (WTTC) suggests that much of the travel technology infrastructure remains “transaction-centric,” as opposed to “customer-centric.” Worse still, the rising complexity of fare structures, partially a result of the range of prices found on the Internet, has increased costs for the global distribution systems (GDSs), which have not been shy about passing these along to suppliers (airlines, hotel chains, car rental companies, etc.). In turn, consumers have no doubt borne their share of the brunt of these higher costs as well.

[Methodology](#)

[Travel Trends](#)

**Technology Applications and Initiatives**

[Travel Advertising and Marketing](#)

[Total Travel Market: Size and Growth](#)

[Online Travel Market](#)

[Travel Segments](#)

[Traveler Demographics & Preferences](#)

[Index of Charts](#)

**“Travel distribution will have to evolve from efficiently processing transactions to carrying out meaningful conversations with customers that are rich in content, address their service issues and concerns, and finally, efficiently process the customer’s transaction. The goal will be to carry out ongoing conversations with targeted customers that produce profitable bookings. The transaction-oriented systems GDSs and suppliers use today are a barrier to carrying out these profitable on-line and off-line conversations.”**

— “Customer-Centric Systems for the Travel and Tourism Industry,” report, *Accenture/World Travel & Tourism Council (WTTC), May 2002*

The report, released in May 2002, points to content (detailed, unbiased and personalized information), service (single point of contact) and transactions (fast and secure, with low-cost alternatives) as the three main components of a customer-centric booking process. The fact that different distribution systems were initially created and developed *not* to communicate with each other has complicated the task of today making them work together, and, as a result, has made consumers’ needs secondary.

The future heralds a time when passenger information is shared across multiple independent channels (online and off) – for the benefit of the passenger. It is thought that this scenario, known as “integrated direct connect,” will ease the booking process for consumers, tighten suppliers’ relationship with them and enable travel companies to sell complex products with greater ease, thereby increasing revenue-generating opportunities. Forrester Research, for example, believes that GDSs will account for a decreasing share of all travel suppliers’ sales by 2006, with most companies focused on selling their inventories directly to consumers.

**Breakdown of Travel Supplier Revenues, 2001 & 2006**

	2001		2006	
	Direct sales	Global Distribution Systems (GDSs)	Direct sales	Global Distribution Systems (GDSs)
Airlines	30%	70%	49%	51%
Hotels	56%	44%	66%	34%
Car rental	57%	43%	72%	28%
All suppliers	45%	55%	59%	41%

*Note: n=40 suppliers; multiple responses allowed*

*Source: Forrester Research, May 2002*

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[Methodology](#)

[Travel Trends](#)

**Technology Applications and Initiatives**

[Travel Advertising and Marketing](#)

[Total Travel Market: Size and Growth](#)

[Online Travel Market](#)

[Travel Segments](#)

[Traveler Demographics & Preferences](#)

[Index of Charts](#)

**“I don’t see the two sides coming to an agreement. The airlines are from Venus and the reservation systems are from Mars.”**

— Scott Barry, Credit Suisse First Boston, as quoted in the New York Times, 12 February 2003

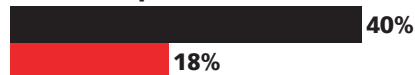
As noted by Forrester Research in a presentation at the May 2002 Hotel Electronic Distribution Network Association (HEDNA) global meeting, most suppliers use GDSs as a link to travel agencies. Secondary reasons, particularly for hotels, are the links they provide to corporate accounts. Other non-lodging suppliers pointed to the entrée GDSs provide to remote markets.

**Reasons Why Travel Suppliers Use Global Distribution Systems (GDSs), 2002 (as a % of respondents)**

**Link to travel agencies**



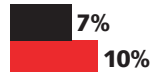
**Link to corporate accounts**



**Helps with sales in remote markets**



**Handles complex transactions**



■ Hotels ■ All suppliers

Note: n=40 suppliers; multiple responses allowed  
Source: Forrester Research, May 2002

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[Methodology](#)

[Travel Trends](#)

**Technology Applications and Initiatives**

[Travel Advertising and Marketing](#)

[Total Travel Market: Size and Growth](#)

[Online Travel Market](#)

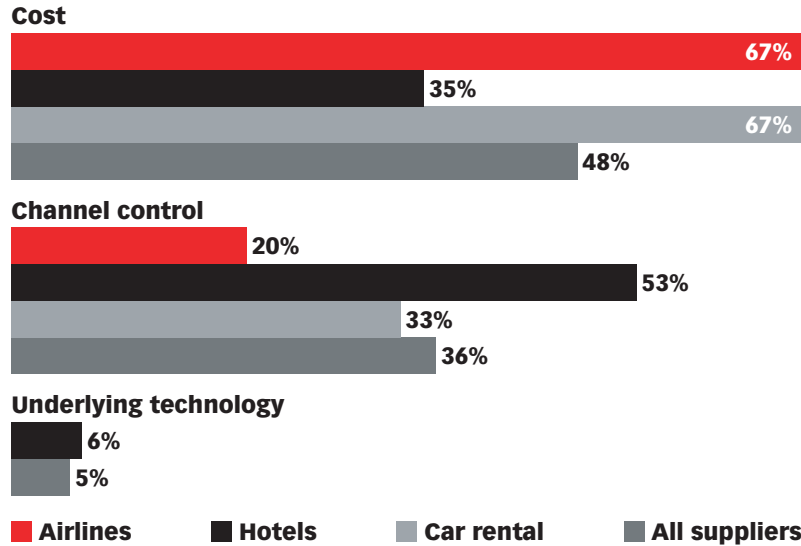
[Travel Segments](#)

[Traveler Demographics & Preferences](#)

[Index of Charts](#)

Cost remains the chief concern for most leading travel suppliers. Hotels are the exception here, as they face greater challenges from online agencies and multiple other intermediaries for control over distribution of their stock. Hotel chains have been relative laggards in jumping aboard the Internet bandwagon, and many intermediaries have already stolen a march on them.

**Travel Supplier Concerns about Reservations Distribution, 2002 (as a % of respondents)**



Source: Forrester Research, May 2002

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**“By disseminating their Web fares so widely on Orbitz, the airlines have created another way to ratchet fares even lower when they can least afford it...Their deal with Orbitz essentially forces every liquidation into the front window on Main Street.”**

— *The New York Times*, 27 October 2002

Methodology

Travel Trends

**Technology Applications and Initiatives**

Travel Advertising and Marketing

Total Travel Market: Size and Growth

Online Travel Market

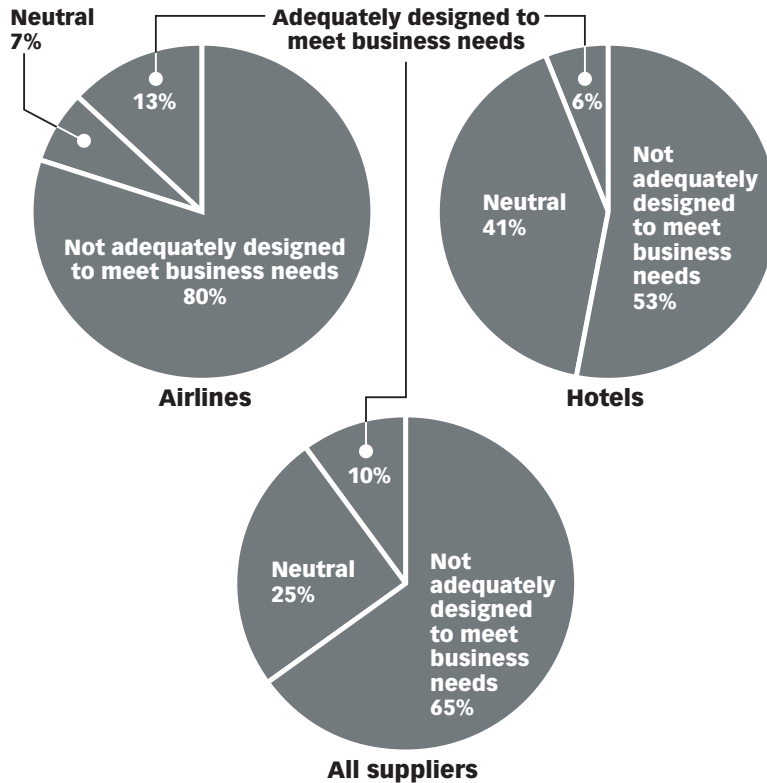
Travel Segments

Traveler Demographics & Preferences

Index of Charts

Naturally, suppliers level the lion's share of their complaints at the GDSs. Nearly two-thirds of the suppliers surveyed by Forrester responded that GDSs were *not* adequately designed to meet their needs. However, the airlines and hotels that participated in the survey diverged considerably in their responses.

**Travel Supplier Attitudes toward Global Distribution Systems (GDSs), 2002 (as a % of respondents)**



Note: n=40 suppliers  
Source: Forrester Research, May 2002

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**“We sell over \$5 billion a year through Sabre. If they increased their fee by 50 percent, I would probably have to pay it. I have absolutely no leverage.”**

— Craig Kreeger, vice president for sales, American Airlines, as quoted in the New York Times, 12 February 2003

[Methodology](#)

[Travel Trends](#)

**Technology Applications and Initiatives**

[Travel Advertising and Marketing](#)

[Total Travel Market: Size and Growth](#)

[Online Travel Market](#)

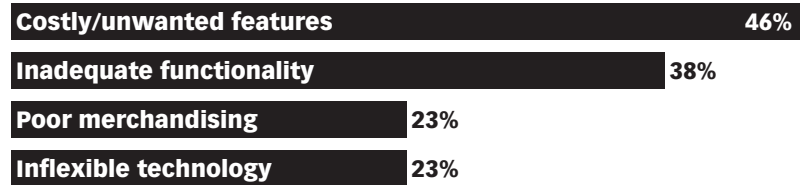
[Travel Segments](#)

[Traveler Demographics & Preferences](#)

[Index of Charts](#)

The varying reasons cited reflected the different issues each supplier has to confront in distributing their inventory. For airlines, it was cost, unwanted features and inadequate functionality, while hotels pointed to technology limitations and poor merchandising options.

**Reasons Why Airlines Find Global Distribution Systems (GDSs) Inadequate for Their Business Needs, 2002 (as a % of respondents)**



Note: n=13 airlines; multiple responses allowed  
Source: Forrester Research, May 2002

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**Reasons Why Hotels Find Global Distribution Systems (GDSs) Inadequate for Their Business Needs, 2002 (as a % of respondents)**



Note: n=16 hotels; multiple responses allowed  
Source: Forrester Research, May 2002

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For their part, the distribution systems bridle at hotel chains' newfound goal of independence. They complain that consolidation among major players in the lodging industry as well as among leading online agencies that distribute inventory is impeding automation. As the president of Worldres.com put it, rewarding high-cost, high-volume channels, such as the Expedias and Orbitzes of the world, with the lowest rates, the result is only an increase in the overall cost of distribution.



[Methodology](#)[Travel Trends](#)[Technology Applications and Initiatives](#)[Travel Advertising and Marketing](#)[Total Travel Market: Size and Growth](#)[Online Travel Market](#)[Travel Segments](#)[Traveler Demographics & Preferences](#)[Index of Charts](#)

**“The continued challenge will be how hard a travel manager wants to chase lower Internet fares. The additional cost of searching various public web sites may prove to be too much to make it worthwhile. Technologies continue to be developed that will assist the corporations and travel management companies in this arena. In the end, travel managers must obtain the data and facts to work with Internet sites, suppliers, and new technologies to make their programs the best they can be.”**

— Bradley Seitz, president and CEO, TOPAZ International, 4 August 2003

Another way to look at the distribution environment is in terms of the costs it creates for consumers. According to an October 2002 study by NetChoice, a coalition of Internet retailers, technology companies and trade associations formed with the goal of promoting open e-commerce, the online travel market in the US (and indeed, Internet retailing in general) is constrained by outdated regulatory barriers and vestigial business practices. NetChoice estimates that these constraints, including the inability of airlines to offer direct connect technology to on- and offline travel agencies, will cost consumers \$1.34 billion between 2002 and 2006. Current regulations largely prevent the airlines from bypassing computer reservation systems (CRS).

[Methodology](#)

[Travel Trends](#)

**Technology Applications and Initiatives**

[Travel Advertising and Marketing](#)

[Total Travel Market: Size and Growth](#)

[Online Travel Market](#)

[Travel Segments](#)

[Traveler Demographics & Preferences](#)

[Index of Charts](#)

Note that the cost to consumers is based on testimony from Orbitz that its direct connect systems save 75% over the booking fees charged by the CRS. The figures do not include commissions charged by travel agents, online or off, as these are not considered part of the regulatory structure.

**Cost to Consumers of Barriers in Airline Ticket Sales in the US, 2001-2006 (in millions)**

	Base year 2001	2002	2003	2004	2005	2006	5-year total
<b>Total sales</b>	<b>\$80,300</b>	<b>\$83,512</b>	<b>\$86,852</b>	<b>\$90,327</b>	<b>\$93,940</b>	<b>\$97,697</b>	<b>\$452,328</b>
E-Commerce as a % of total sales	14.7%	16.2%	17.8%	19.6%	21.5%	23.7%	–
<b>Total e-commerce</b>	<b>\$11,795</b>	<b>\$13,493</b>	<b>\$15,437</b>	<b>\$17,659</b>	<b>\$20,202</b>	<b>\$23,111</b>	<b>\$89,903</b>
Airline Web site sales	\$6,889	\$7,175	\$7,462	\$7,760	\$8,071	\$8,394	\$38,862
Travel agency on-line sales	\$4,896	\$6,319	\$7,975	\$9,899	\$12,132	\$14,718	\$51,041
Percentage savings	2.6%	2.6%	2.6%	2.6%	2.6%	2.6%	–
<b>Cost to consumers</b>	<b>\$129</b>	<b>\$166</b>	<b>\$209</b>	<b>\$260</b>	<b>\$318</b>	<b>\$386</b>	<b>\$1,340</b>

Source: NetChoice, October 2002

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**“They [global distribution systems] charge exorbitant rates relative to the value they add. It is a cost that we don’t find justified.”**

—J. Scott Kirby, executive vice president for sales and marketing, America West Airlines, as quoted in the New York Times, 12 February 2003

[Methodology](#)

[Travel Trends](#)

**Technology Applications and Initiatives**

[Travel Advertising and Marketing](#)

[Total Travel Market: Size and Growth](#)

[Online Travel Market](#)

[Travel Segments](#)

[Traveler Demographics & Preferences](#)

[Index of Charts](#)

## B. Self-Service Kiosks

Airlines are turning increasingly to self-service solutions. These include Web-based check-in and airport kiosks for travelers, which translate into greater convenience for travelers (such as the ability to print boarding passes at home, sometimes up to a day in advance of a flight) as well as the potential for lower employee costs for airlines (or staff that are freed up to perform other duties). Several US carriers, including Alaska Airlines, America West, Hawaiian Airlines and Northwest Airlines have contracted with e-business software and technology vendor Kinetics for self-service kiosks, which now number upwards of 3,000 in 150 North American airports.

### US Airlines Offering Electronic Check-In Process, 2003

	<b>Internet check-in</b>	<b>Maximum hours ahead</b>	<b>Total US kiosks/cities</b>
American Airlines	Advantage members only	12	588/72
Continental Airlines	Yes	30	677/113
Delta Airlines	SkyMiles members only	24	441/77
Northwest Airlines	Yes	36	632/143
United Airlines	Mileage Plus members only	24	361/13
US Airways	Yes	24	250/44

Source: *Business Travel News*, January 2003; *eMarketer*, September 2003

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[Methodology](#)[Travel Trends](#)[Technology Applications and Initiatives](#)[Travel Advertising and Marketing](#)[Total Travel Market: Size and Growth](#)[Online Travel Market](#)[Travel Segments](#)[Traveler Demographics & Preferences](#)[Index of Charts](#)

## C. In-Flight E-Mail Update

The February 2002 *Travel Market Worldwide*<sup>TM</sup> report prefaced the rise in availability of in-air wireless broadband services for airline passengers, which, in early 2002, seemed imminent. However, the service offerings have taken slightly longer than expected to come to market.

In December 2002, United became the first US carrier to offer two-way e-mail capabilities on domestic flights. Although these were initially restricted to some Boeing 767s in its fleet, the services are expected to be available fleet-wide by the end of 2003. The service provider is Verizon Airfone's JetConnect, a relative newcomer to the arena, which uses Tenzing Communications as its e-mail service provider. Charges can be steep for heavy e-mail users, particularly those sending data-rich attachments, as the service costs \$15.98 per flight, plus ten cents per kilobyte for every data packet that exceeds two kilobytes (one kilobyte is the equivalent of one typed page), with additional charges for bigger downloads.

**“Jumping immediately to [in-flight] broadband is a significant financial risk and immediate financial investment. It's like if you have a new territory and you build interstates with four lanes whereas you have only two cars.”**

— Philippe Chenevier, vice president for special projects, Airbus Industrie, as quoted in the *New York Times*, 15 January 2003

Continental expects to launch two-way e-mail capability later in 2003 on 300 aircraft that fly domestic routes. Like United's service, passengers will connect by plugging their laptops into the jacks in seatback Airfones. The fee, comparable to United's base charge, is expected to come in about \$16 per flight.

Lufthansa was the first airline to offer high-speed broadband Internet access on international flights. The carrier is installing its “FlyNet” service, tested on Washington-to-Frankfurt flights earlier this year, on all 80 of its long-haul aircraft (including Boeing 747-400s and Airbus A340s and A330s). Travelers can pay the hefty service charges – \$30 or \$35 per flight leg – with either a credit card or frequent flyer miles. A plus is that the system can handle sizable downloads, such as streaming video or large PowerPoint files.

Scandinavian Airlines System (SAS) signed a deal with Connexion by Boeing to put Wi-Fi technology on 11 of its long-haul aircraft, with installation due to begin in 2004. Trans-Atlantic flights and routes to and from Asia-Pacific will be the first to feature the new system. Pricing is likely to be in the same league as Lufthansa's.

Virgin Atlantic passengers are currently able to send outbound messages on through the in-flight entertainment system on some flights. The fee is \$2.50 per message.

British Airways (BA) is testing the Connexion by Boeing service on its New York-to-London flights, while Japan Air Lines has a letter of agreement with Connexion but no set launch date for the service.

	Methodology	7
I	Travel Trends	11
II	Technology Applications and Initiatives	25
<b>III</b>	<b>Travel Advertising and Marketing</b>	<b>37</b>
	<b>A. Offline</b>	<b>38</b>
	<b>B. Online</b>	<b>41</b>
IV	Total Travel Market: Size and Growth	53
V	Online Travel Market	61
VI	Travel Segments	97
VII	Traveler Demographics & Preferences	131
	Index of Charts	165

[Methodology](#)

[Travel Trends](#)

[Technology Applications and Initiatives](#)

**[Travel Advertising and Marketing](#)**

[Total Travel Market: Size and Growth](#)

[Online Travel Market](#)

[Travel Segments](#)

[Traveler Demographics & Preferences](#)

[Index of Charts](#)

## A. Offline

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Total US advertising in traditional media (magazines, newspapers, outdoor, television and radio) was relatively robust in 2002, a year that saw considerable economic uncertainty. Most industry categories saw increases in advertising spending, and although travel (airlines, hotels and resorts) did rise, it was a by a modest 2.4%. Travel actually dropped a spot in the overall rankings, falling from eight to nine.

Overall, eMarketer estimated 2.4% in total advertising in 2002 (including the online segment). Growth is expected to be a more buoyant 4.9% in 2003.

- [Methodology](#)
- [Travel Trends](#)
- [Technology Applications and Initiatives](#)
- [Travel Advertising and Marketing](#)**
- [Total Travel Market: Size and Growth](#)
- [Online Travel Market](#)
- [Travel Segments](#)
- [Traveler Demographics & Preferences](#)
- [Index of Charts](#)

**Total Advertising Spending in the US, by Category, 2002 (in millions and as a % change vs. 2001)**

2002 rank	2001 rank	Category	2002 Total ad spending	% change
1	1	Automotive	\$16,364.8	12.9%
2	2	Retail	\$13,527.8	4.6%
3	4	Movies, media & advertising	\$6,023.8	11.1%
4	3	Food, beverages & confectionery	\$6,015.3	3.4%
5	5	Medicines & proprietary remedies	\$5,445.2	1.2%
6	6	Financial services	\$4,658.2	3.3%
7	7	Telecommunications	\$4,296.6	12.9%
8	9	Toiletries, cosmetics & personal care	\$4,199.7	13.2%
9	8	Airline travel, hotels & resorts	\$3,799.8	2.4%
10	10	Restaurants	\$3,740.8	7.7%
11	11	Direct response companies	\$3,582.2	10.0%
12	14	Home furnishings, appliances, supplies	\$2,674.3	21.2%
13	13	Insurance & real estate	\$2,519.0	6.1%
14	12	Computers, software, Internet	\$2,433.4	-20.8%
15	16	Government, politics & organizations	\$2,200.0	40.3%
16	15	Apparel	\$1,897.8	-1.4%
17	17	Beer, wine & liquor	\$1,702.5	12.3%
18	20	Audio & video equipment & supplies	\$1,283.4	16.9%
19	18	Sporting goods, toys & games	\$1,248.0	3.2%
20	19	Entertainment & events	\$1,198.9	2.7%
21	21	Pets, pet foods & supplies	\$400.2	-12.7%
22	23	Business & manufacturing equipment	\$377.1	12.4%
23	22	Cigarettes, tobacco & accessories	\$283.7	-20.8%
24	24	Gasoline & oil	\$241.4	10.3%
		Miscellaneous	\$5,819.5	0.2%
<b>Total</b>			<b>\$95,933.4</b>	

Source: Advertising Age, TNS Media Intelligence/CMR, June 2003

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- [Methodology](#)
- [Travel Trends](#)
- [Technology Applications and Initiatives](#)
- [Travel Advertising and Marketing](#)**
- [Total Travel Market: Size and Growth](#)
- [Online Travel Market](#)
- [Travel Segments](#)
- [Traveler Demographics & Preferences](#)
- [Index of Charts](#)

Travel ad spending, which totaled \$3.80 billion in the US last year, represented 3.96% of the total \$95.93 billion spent by US companies, according to *AdAge* calculations. By far the biggest focus of travel firms were print media, which accounted for 60% of the outlay.

**Travel Advertising Spending in the US, by Medium, 2002 (in millions)**

<b>Newspaper</b>	<b>\$1,166.40</b>
<b>Magazine</b>	<b>\$769.70</b>
<b>Spot TV</b>	<b>\$468.10</b>
<b>Cable TV</b>	<b>\$306.70</b>
<b>National newspaper</b>	<b>\$294.90</b>
<b>Outdoor</b>	<b>\$274.50</b>
<b>Network TV</b>	<b>\$257.20</b>
<b>Other</b>	<b>\$89.40</b>
<b>National spot radio</b>	<b>\$64.30</b>
<b>Sunday magazine</b>	<b>\$44.20</b>
<b>Network radio</b>	<b>\$38.00</b>
<b>Syndicated TV</b>	<b>\$26.40</b>

Source: *Advertising Age, TNS Media Intelligence/CMR, June 2003*

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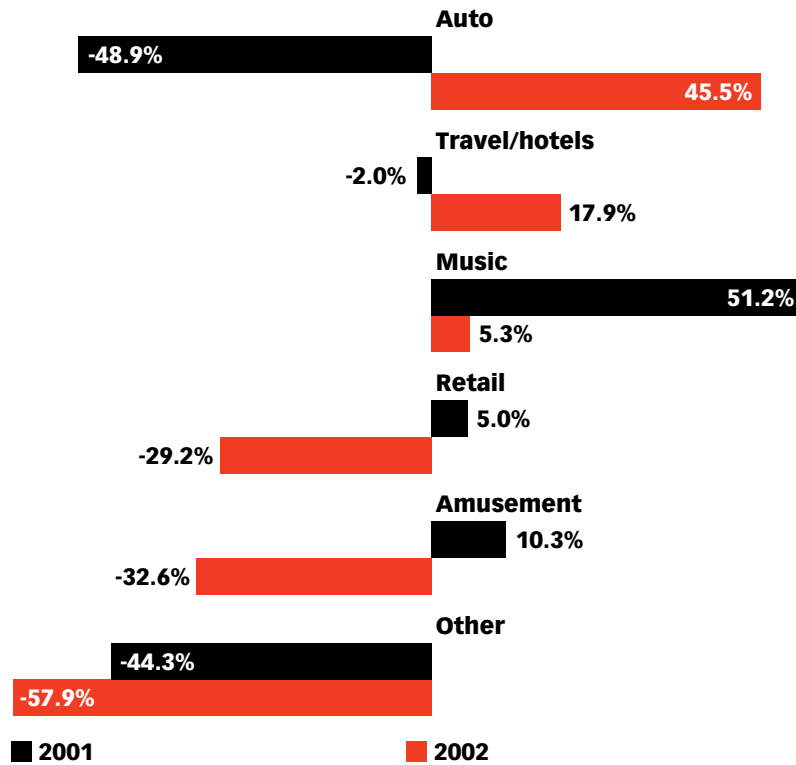


- [Methodology](#)
- [Travel Trends](#)
- [Technology Applications and Initiatives](#)
- [Travel Advertising and Marketing](#)**
- [Total Travel Market: Size and Growth](#)
- [Online Travel Market](#)
- [Travel Segments](#)
- [Traveler Demographics & Preferences](#)
- [Index of Charts](#)

## B. Online

After an unsurprising (if minor decline) in 2001, Interactive Advertising Bureau (IAB) and Pricewaterhousecoopers (PwC) calculations show that US online travel advertising shot up 17.9% in 2002, putting it among the category growth leaders. The London Business School and Havas put 2002 growth in interactive travel marketing spend at 4.4% in the US, France, Germany, the UK and Japan combined, but predicted that it would rise 23.4% in 2003.

### US Online Advertising Spending Growth, by Industry, 2001 & 2002 (as a % increase/decrease vs. prior year)



Note: 2000 total=\$8.09 billion; 2001 total=\$7.13 billion; 2002 total=\$6.01 billion

Source: Interactive Advertising Bureau (IAB)/PricewaterhouseCoopers (PwC), June 2003

- [Methodology](#)
- [Travel Trends](#)
- [Technology Applications and Initiatives](#)
- [Travel Advertising and Marketing](#)**
- [Total Travel Market: Size and Growth](#)
- [Online Travel Market](#)
- [Travel Segments](#)
- [Traveler Demographics & Preferences](#)
- [Index of Charts](#)

**Interactive Marketing Spending in Select Countries\*, by Industry Sectors, 2002 & 2003 (as a % increase/decrease vs. prior year)**

	<b>2002</b>	<b>2003</b>
Automotive	14.0%	14.8%
Business/industrial services	-0.7%	-6.5%
Consumer electronics	-14.7%	5.0%
Consumer packaged goods	7.4%	13.8%
Retail financial services	-0.5%	15.9%
Hotels/tourism/leisure	6.2%	14.4%
Luxury/fashion products	23.5%	16.4%
Media entertainment/culture	6.1%	19.3%
OTC pharmaceuticals	-6.1%	0.8%
Other consumer durables	-1.0%	17.3%
Other electronic products/systems	18.9%	13.6%
Other industrial products/systems	-1.0%	8.9%
Retail/mail order	18.1%	3.9%
Telecom products/services	-10.6%	9.4%
Travel/transport	4.4%	23.4%
Other (including utilities)	16.6%	8.6%

*Note: n=645 chief marketing officers; interactive marketing defined as Internet advertising, marketing Web sites and extranets, e-mail marketing, and new media (e.g., digital TV, wireless); \*US, Germany, UK, France, Japan  
Source: London Business School/Havas, December 2002*

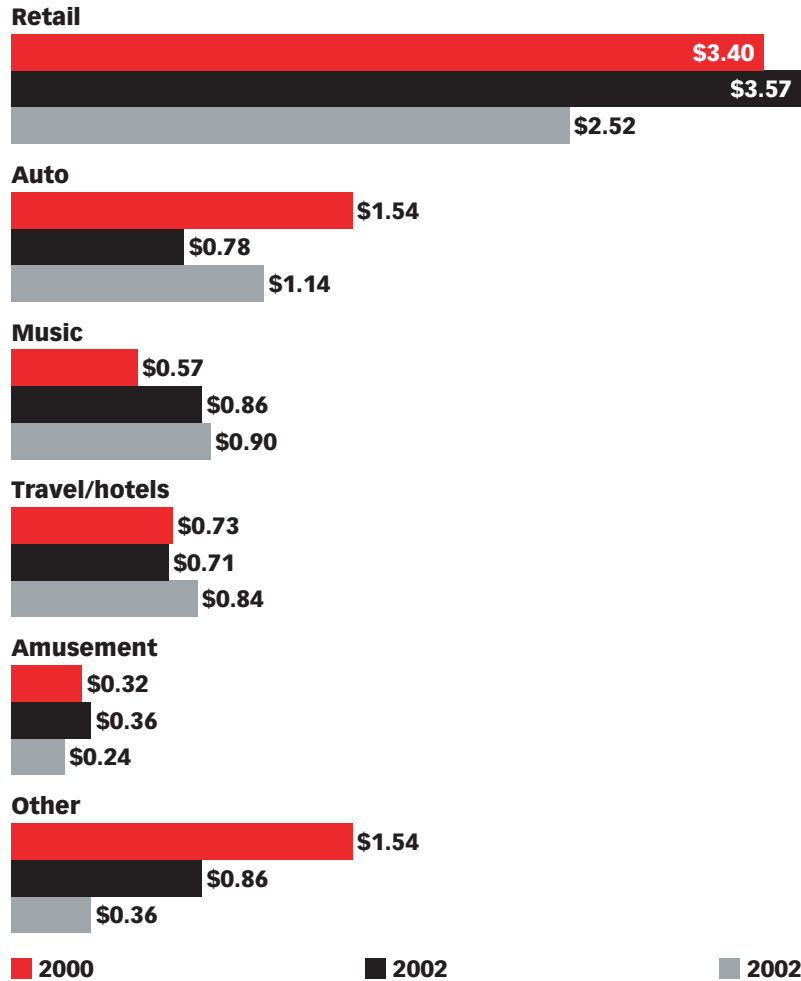
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- [Methodology](#)
- [Travel Trends](#)
- [Technology Applications and Initiatives](#)
- [Travel Advertising and Marketing](#)**
- [Total Travel Market: Size and Growth](#)
- [Online Travel Market](#)
- [Travel Segments](#)
- [Traveler Demographics & Preferences](#)
- [Index of Charts](#)

In terms of overall online spending, though, travel is just the fourth largest consumer category, behind retail, automotive and music. The percentage of advertising spend travel firms are putting towards the Internet has increased by more than 50% since 2000, as seen in the second chart below. The 14% figure compares favorably with the percentage music and automotive companies spend for online advertising.

**US Online Advertising Spending, by Industry, 2000-2002 (in billions)**

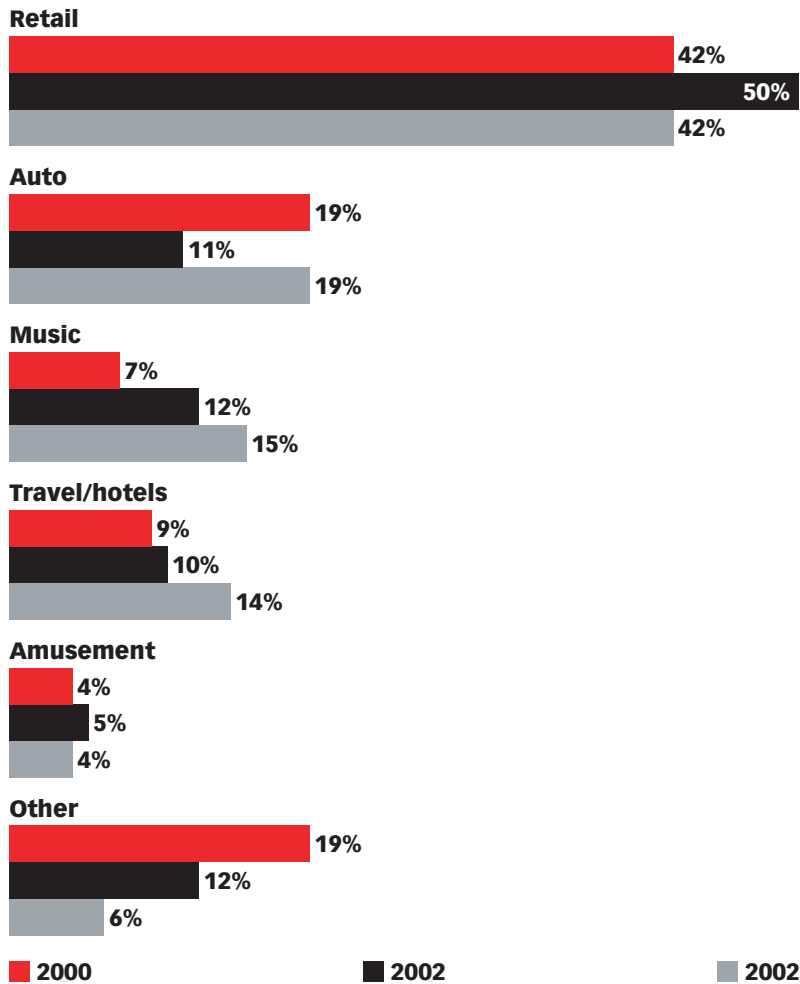


Note: 2000 total=\$8.09 billion; 2001 total=\$7.13 billion; 2002 total=\$6.01 billion

Source: Interactive Advertising Bureau (IAB)/PricewaterhouseCoopers (PWC), June 2003

- [Methodology](#)
- [Travel Trends](#)
- [Technology Applications and Initiatives](#)
- [Travel Advertising and Marketing](#)**
- [Total Travel Market: Size and Growth](#)
- [Online Travel Market](#)
- [Travel Segments](#)
- [Traveler Demographics & Preferences](#)
- [Index of Charts](#)

## US Online Advertising Spending, by Industry, 2000-2002 (as a % of total spending)



Note: 2000 total=\$8.09 billion; 2001 total=\$7.13 billion; 2002 total=\$6.01 billion

Source: Interactive Advertising Bureau (IAB)/PricewaterhouseCoopers (PwC), June 2003

- [Methodology](#)
- [Travel Trends](#)
- [Technology Applications and Initiatives](#)
- [Travel Advertising and Marketing](#)**
- [Total Travel Market: Size and Growth](#)
- [Online Travel Market](#)
- [Travel Segments](#)
- [Traveler Demographics & Preferences](#)
- [Index of Charts](#)

In terms of online advertising impressions in a sample week, travel fell around mid-pack, according to Nielsen//NetRatings' AdRelevance unit. The 1.84 billion travel impression constituted approximately 5% of the total of 35.19 billion impressions.

**Online Advertising Impressions in the US, by Industry, Week of 16 June 2003**

	<b>Impressions</b>
Web media	9,887,690,000
Telecommunications	5,680,673,000
Financial services	5,320,271,000
Retail goods & services	4,968,254,000
Travel	1,837,314,000
Consumer goods	1,529,251,000
Entertainment	1,473,784,000
Public services	1,146,375,000
Software	811,573,000
B2B	808,845,000
Other	1,728,160,000
<b>Total</b>	<b>35,192,190,000</b>

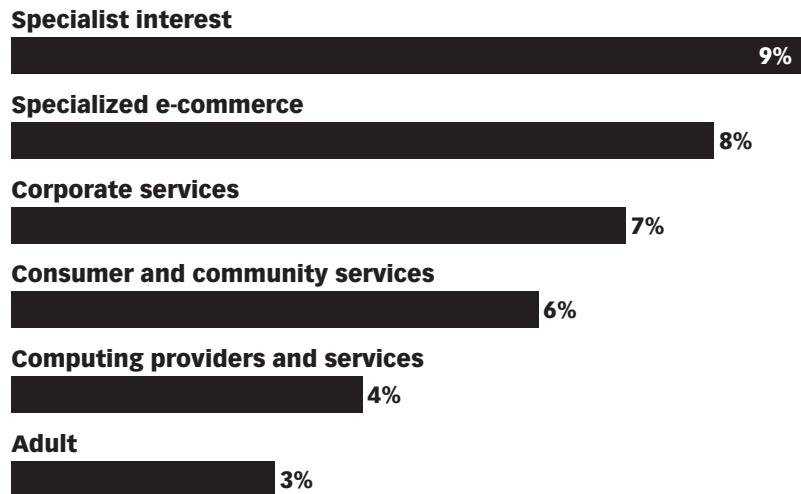
Source: Nielsen//NetRatings AdRelevance, June 2003

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In Europe, individual travel components – agents and tour operators, travel guides and hotels – are a small part of the region's online advertising universe. Together, however, they constitute one of the largest categories, at 7%.

**Top Advertisers in Europe, by Industry Sector, 2002 (as a % of total advertisers)**



*continued on page 46*

- [Methodology](#)
- [Travel Trends](#)
- [Technology Applications and Initiatives](#)
- [Travel Advertising and Marketing](#)**
- [Total Travel Market: Size and Growth](#)
- [Online Travel Market](#)
- [Travel Segments](#)
- [Traveler Demographics & Preferences](#)
- [Index of Charts](#)

**Web hosting/personal pages**



**Travel agents/tour operators**



**Current events and global news**



**Events**



**Specialized search engines and directories**



**Employment**



**Education/training**



**Casinos, lotteries, bookmakers**



**Travel guide**



**Targeted communities**



**Banking**



**Property**



**Hotels, restaurants, bars**



**General e-commerce**



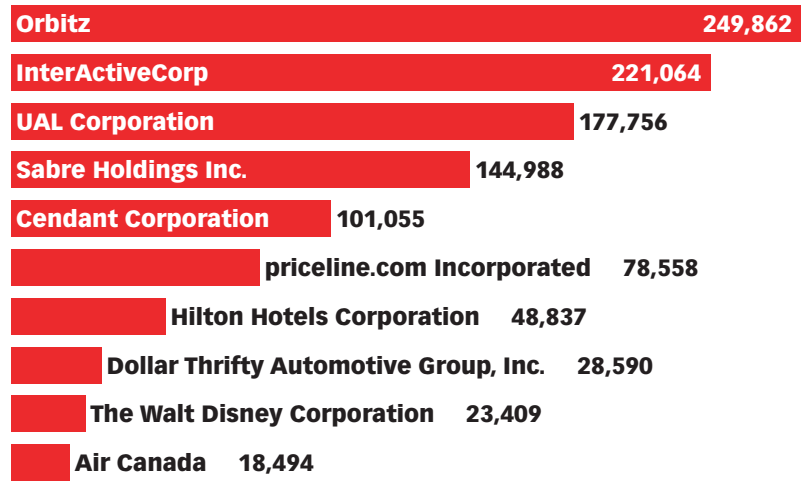
*Note: Based on monitoring of 3,130 Web sites in 14 markets, not including house ads*

*Source: LemonAd, February 2003*

- [Methodology](#)
- [Travel Trends](#)
- [Technology Applications and Initiatives](#)
- [Travel Advertising and Marketing](#)**
- [Total Travel Market: Size and Growth](#)
- [Online Travel Market](#)
- [Travel Segments](#)
- [Traveler Demographics & Preferences](#)
- [Index of Charts](#)

The online advertising leaders in the US have been relatively consistent. Orbitz, the relative upstart among the top online agencies, has focused most of its attention on the Internet, particularly on an aggressive pop-under campaign. In fact, as the third chart below shows, three travel companies have typically accounted for half of the industry's total online advertising impressions.

**Top 10 Travel Advertisers among US At-Home and At-Work Internet Users, Week Ending 7 September 2003 (in thousands of impressions)**



*Note: All online advertising data excludes house ads which are advertisements run on an advertiser's own Web property*  
 Source: Nielsen//NetRatings AdRelevance, September 2003

- [Methodology](#)
- [Travel Trends](#)
- [Technology Applications and Initiatives](#)
- [Travel Advertising and Marketing](#)**
- [Total Travel Market: Size and Growth](#)
- [Online Travel Market](#)
- [Travel Segments](#)
- [Traveler Demographics & Preferences](#)
- [Index of Charts](#)

## Top 10 Travel Advertisers among At-Home and At-Work Internet Users in the US, Week Ending 20 July 2003 (in thousands of impressions)

<b>USA Interactive</b>	<b>289,366</b>
<b>Orbitz</b>	<b>223,675</b>
<b>Sabre Holdings Inc.</b>	<b>222,322</b>
<b>Cendant Corporation</b>	<b>138,168</b>
<b>priceline.com Incorporated</b>	<b>81,221</b>
<b>UAL Corporation</b>	<b>57,802</b>
<b>Marriott International, Inc.</b>	<b>26,072</b>
<b>Starwood Hotels &amp; Resorts Worldwide, Inc.</b>	<b>22,586</b>
<b>Dollar Thrifty Automotive Group, Inc.</b>	<b>22,063</b>
<b>Best Western International, Inc.</b>	<b>21,563</b>

Note: All online advertising data excludes house ads which are advertisements run on an advertiser's own Web property  
 Source: Nielsen//NetRatings AdRelevance, August 2003

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## Number of US Advertisers Comprising Half of Industry Impressions, by Industry, Q4 2002

<b>Web media</b>	<b>19</b>
<b>Entertainment</b>	<b>12</b>
<b>Consumer goods</b>	<b>12</b>
<b>Public services</b>	<b>9</b>
<b>Retail goods and services</b>	<b>8</b>
<b>Financial services</b>	<b>8</b>
<b>B2B</b>	<b>7</b>
<b>Software</b>	<b>4</b>
<b>Travel</b>	<b>3</b>
<b>Telecommunications</b>	<b>2</b>
<b>Health</b>	<b>2</b>
<b>Hardware and electronics</b>	<b>2</b>
<b>Automotive</b>	<b>2</b>

Note: data limited to the advertising technologies and Web sites that Nielsen//NetRatings' AdRelevance service tracks; AdRelevance does not probe inside the AOL proprietary network  
 Source: Nielsen//NetRatings, January 2003

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- [Methodology](#)
- [Travel Trends](#)
- [Technology Applications and Initiatives](#)
- [Travel Advertising and Marketing](#)**
- [Total Travel Market: Size and Growth](#)
- [Online Travel Market](#)
- [Travel Segments](#)
- [Traveler Demographics & Preferences](#)
- [Index of Charts](#)

**Pop-Up Ads\* as a Percent of Total Ads in the US, by Web Site Genre, Q4 2002**

Society, politics and science	27.1%
Community	23.2%
Music and streaming media	22.6%
Personal expression	19.7%
Fashion, romance and celebrity	15.7%
Yellow and white pages	15.7%
Reference and education	13.8%
Kids and family	12.9%
B2B	11.5%
Movies and television	10.4%
Games	9.6%
Home and garden	9.0%
Comics and humor	7.6%
Computing and technology	5.6%
Local and regional	5.3%
Sports and recreation	4.9%
General news	3.5%
<b>WEB SITE AVERAGE</b>	<b>3.5%</b>
Business and finance	3.3%
Incentive	3.3%
Travel	3.0%
Employment	2.9%
Health and fitness	2.8%
Search engine	1.7%
Automotive	1.2%
Shopping and auction	1.2%
Shopping and auction	1.2%
Portal	0.8%
ISP and telecommunications	0.7%

*Note: data limited to the advertising technologies and Web sites that Nielsen//NetRatings' AdRelevance service tracks; AdRelevance does not probe inside the AOL proprietary network; \*pop-up ads defined as "any ad that spawns a new browser window," which means both pop-up and pop-under ads*

Source: Nielsen//NetRatings, January 2003

- [Methodology](#)
- [Travel Trends](#)
- [Technology Applications and Initiatives](#)
- [Travel Advertising and Marketing](#)**
- [Total Travel Market: Size and Growth](#)
- [Online Travel Market](#)
- [Travel Segments](#)
- [Traveler Demographics & Preferences](#)
- [Index of Charts](#)

Internet users may grumble about online ads, but research from DoubleClick and Greenfield Online suggests that where travel is concerned, there is no denying their effectiveness. When asked which media create the largest impact on US consumers looking to learn more about a product, respondents returned results indicating that the one-two punch of Web sites and online marketing was by far the strongest in the travel category.

**Media that Influenced US Consumers Looking to Learn More about a Product, by Product Type, December 2002 (as a % of respondents)**

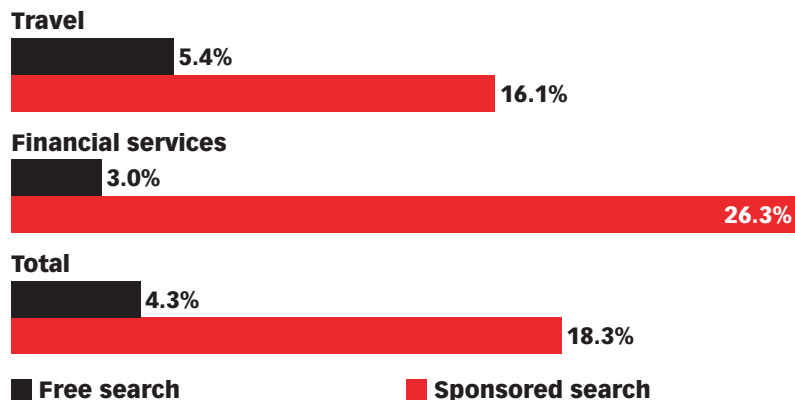
	TV ad	Print ad	Web site	Online marketing
Prescriptions	6%	0%	9%	0%
Automobiles	4%	3%	23%	2%
Electronics	6%	14%	18%	4%
Mortgage/insurance	2%	1%	13%	2%
Travel	0%	1%	41%	12%
Health/beauty	18%	14%	4%	5%
Movies	34%	1%	6%	0%
Telecom	6%	6%	11%	8%

Note: n=2,000  
Source: DoubleClick, Greenfield Online, March 2003

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Click-through rates (CTRs) for both free and paid travel search engine listings exceed those in financial services. However, Internet users will dig only so deep before either selecting a listing or abandoning a search, reinforcing the need for a company to get a high position in search results.

**US Click-Through Rates for Free Search vs. Sponsored Search, by Industry, April-May 2003**



Source: comScore Networks Inc., Interactive Advertising Bureau (IAB), July 2003

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- [Methodology](#)
- [Travel Trends](#)
- [Technology Applications and Initiatives](#)
- [Travel Advertising and Marketing](#)**
- [Total Travel Market: Size and Growth](#)
- [Online Travel Market](#)
- [Travel Segments](#)
- [Traveler Demographics & Preferences](#)
- [Index of Charts](#)

According to data from US Bancorp Piper Jaffray and Overture, the per-click charges between position one and position 10 differ sharply, based on five sample search terms. For instance, the per-click cost for the keyword “travel” ranges from 90 cents for position one down to half that cost for position five. For some advertisers, this implies the lesser cost of position five might well be a smarter buy, even though they will lose some Internet searchers by that point. Note that these absolute prices per click have undoubtedly changed since this research was done, but the chart accurately depicts the relative nature of cost and position.

**Incremental per-Click Charges for Various Positions of Select Keywords, 2002**

Position	Camera	Travel	Web hosting	Online banking	Books
1	\$0.71	\$0.90	\$9.97	\$1.19	\$0.61
2	\$0.71	\$0.63	\$7.04	\$1.18	\$0.60
3	\$0.51	\$0.62	\$7.03	\$1.09	\$0.50
4	\$0.50	\$0.61	\$5.25	\$1.01	\$0.42
5	\$0.43	\$0.45	\$5.16	\$1.00	\$0.42
6	\$0.42	\$0.40	\$5.03	\$0.45	\$0.40
7	\$0.40	\$0.40	\$5.00	\$0.44	\$0.36
8	\$0.39	\$0.38	\$4.99	\$0.42	\$0.35
9	\$0.39	\$0.36	\$4.74	\$0.31	\$0.35
10	\$0.32	\$0.35	\$4.05	\$0.30	\$0.32
<b>Difference from 1 to 10</b>	<b>\$0.39</b>	<b>\$0.55</b>	<b>\$5.92</b>	<b>\$0.89</b>	<b>\$0.29</b>

Source: US Bancorp Piper Jaffray, Overture Services, March 2003

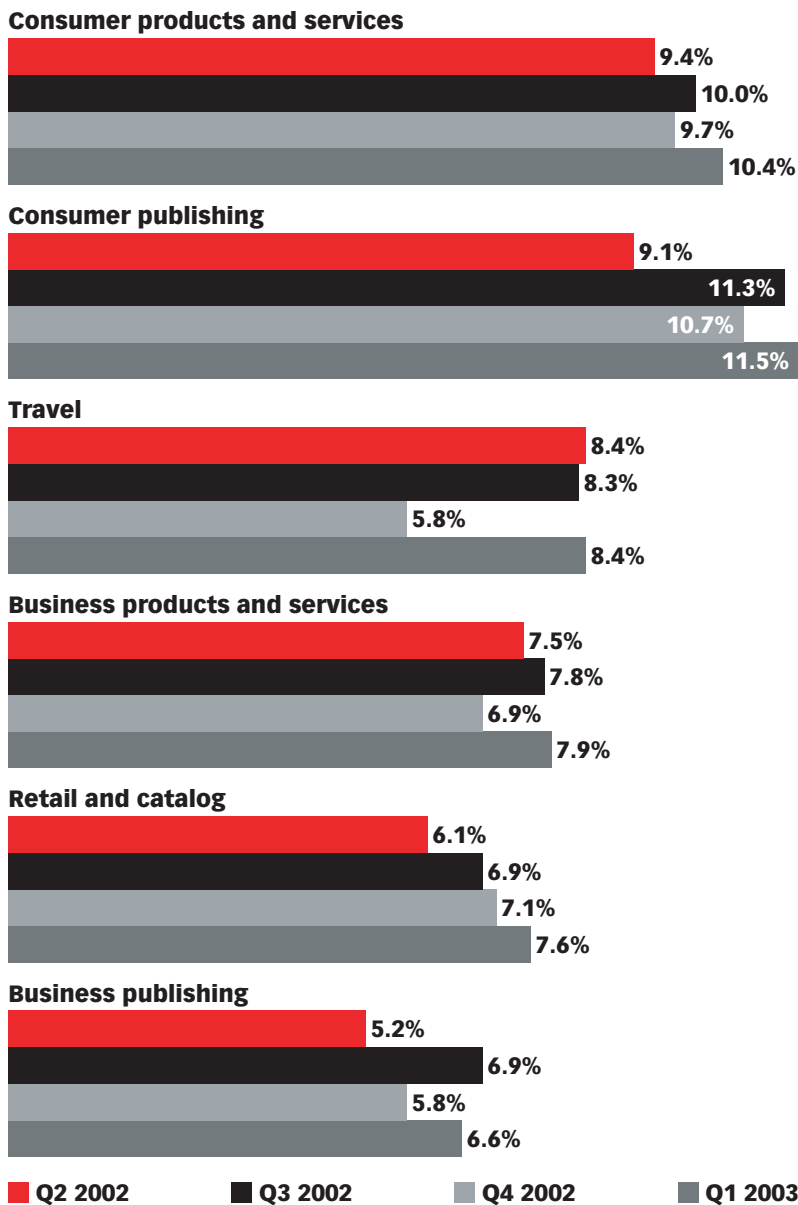
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E-mail marketing CTRs for the travel industry have held relatively steady since the middle of 2002, aside from a minor blip in the fourth quarter of last year. Travel CTRs are about average in DoubleClick’s pan-industry sampling.

Methodology  
 Travel Trends  
 Technology Applications and Initiatives  
**Travel Advertising and Marketing**  
 Total Travel Market: Size and Growth  
 Online Travel Market  
 Travel Segments  
 Traveler Demographics & Preferences  
 Index of Charts

**E-Mail Marketing Click-Through Rates, by Industry, Q2 -Q1 2003**



Source: DoubleClick, May 2003

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More detailed data and analysis on all aspects on interactive marketing and advertising can be found in eMarketer's trio of reports: Online Advertising Essentials, released in June 2003 and Advertising Spending and Online Advertising Tactics, both released in July 2003.

	Methodology	7
I	Travel Trends	11
II	Technology Applications and Initiatives	25
III	Travel Advertising and Marketing	37
<b>IV</b>	<b>Total Travel Market: Size and Growth</b>	<b>53</b>
	<b>A. Leading Tourism Markets – Arrivals</b>	<b>54</b>
	<b>B. Leading Tourism Markets – Spending</b>	<b>56</b>
V	Online Travel Market	61
VI	Travel Segments	97
VII	Traveler Demographics & Preferences	131
	Index of Charts	165

- [Methodology](#)
- [Travel Trends](#)
- [Technology Applications and Initiatives](#)
- [Travel Advertising and Marketing](#)
- [Total Travel Market: Size and Growth](#)**
- [Online Travel Market](#)
- [Travel Segments](#)
- [Traveler Demographics & Preferences](#)
- [Index of Charts](#)

## A. Leading Tourism Markets – Arrivals

Tourism statistics for 2002 reveal a number of surprises for industry watchers. First, the number of arrivals topped the seven million mark – a new high – and overall, arrivals were up 3.1% for the year despite previous grim predictions.

Three regions – the Americas, Europe and Asia-Pacific – once again garnered over 90% of worldwide tourist arrivals in 2002. Surprisingly, year-over-year growth from 2001 to 2002 was most robust in the Middle East, with Asia-Pacific coming in second, while the Americas saw arrivals fall for the second straight year. Europe remains by far the world’s leading tourist destination. According to analysis from the World Tourism Organization (WTO), terrorist attacks and fears of terrorism only affected tourism on a localized basis, and even then, for short periods of time.

The question whether worldwide tourism has made a full recovery remains open in 2003, as concerns about economic recovery and return to growth, the impact of SARS and conflict in the Middle East continued to weigh. Noted WTO Secretary-General Francesco Frangialli, “Wars and tourism are completely incompatible, like fire and water.” The WTO Panel of Tourism Experts, numbering over one hundred, gave a below-average outlook for the first four months of the year, while the outlook for second third of the year was moderately optimistic, with the Middle East and Europe enjoying the biggest increase in confidence. In the midst of an uncertain climate, notes the WTO, the most important factors to consider are not that people are traveling less, but changing their habits, such as going to destinations closer to home and resorting to last-minute bookings, rather than the advance trip-planning that travel service providers depend upon. Flexibility and ability to respond to rapid changes in the market and tourist/client habits and preferences continue to be necessary.

### International Tourist Arrivals, by Region, 2001 & 2002 (in millions, % growth and % market share)

	Arrivals (in millions)		Growth rate			Market share
	2001	2002	2000/1999	2001/2000	2002/2001	2002
Africa	27.7	28.7	3.2%	2.5%	3.7%	4.0%
Americas	121.0	120.2	5.0%	-5.7%	-0.6%	16.8%
Asia-Pacific	121.0	130.6	12.3%	5.0%	7.9%	18.3%
Europe	401.4	411.0	6.8%	-0.5%	3.1%	57.5%
Middle East	21.8	24.1	13.1%	-3.9%	10.6%	3.4%
<b>Total</b>	<b>692.9</b>	<b>714.6</b>	<b>6.8%</b>	<b>-0.5%</b>	<b>3.1%</b>	<b>100.0%</b>

Source: World Tourism Organization (WTO), January 2003

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- [Methodology](#)
- [Travel Trends](#)
- [Technology Applications and Initiatives](#)
- [Travel Advertising and Marketing](#)
- [Total Travel Market: Size and Growth](#)**
- [Online Travel Market](#)
- [Travel Segments](#)
- [Traveler Demographics & Preferences](#)
- [Index of Charts](#)

**“The biggest problem in the current situation of world tourism is uncertainty.”**

— Francesco Frangiali, Secretary-General, World Tourism Organization (WTO), 27 January 2003

France remains the top tourist destination, with 25 million more arrivals than second-place Spain, which has now lofted over the US in the rankings, thanks to continued growth. Alone among the top five destinations, the US saw a slight decline in arrivals from 2001 to 2002, although it is still by far the leading earner from tourism, with receipts that exceed those of first- and second-place France and Spain combined.

**World's Top Five Destinations for International Tourist Arrivals and Tourism Receipts, 2001 & 2002 (in millions, % growth and % market share)**

	International tourist arrivals			International tourism receipts			
	2001 (in millions)	2002 (in millions)	Growth rate 2002/2001	2002 market share	Rank	2001 (in billions)	2001 market share
1. France	75.2	76.7	2.0%	10.7%	3	33.5	4.7%
2. Spain	50.1	51.7	3.3%	7.2%	2	36.7	5.1%
3. US	45.5	45.4	-0.1%	6.4%	1	80.7	11.3%
4. Italy	39.1	—	1.0%	5.1%	4	29.0	4.1%
5. China	33.2	36.8	11.0%	5.1%	5	19.9	2.8%

Source: World Tourism Organization, January 2003

[Methodology](#)[Travel Trends](#)[Technology Applications and Initiatives](#)[Travel Advertising and Marketing](#)[Total Travel Market: Size and Growth](#)[Online Travel Market](#)[Travel Segments](#)[Traveler Demographics & Preferences](#)[Index of Charts](#)

## B. Leading Tourism Markets – Spending

On a regional basis, the combined popularity of various European destinations translates into the greatest tourism earnings, nearly double those of the second-place Americas. Receipts in every region aside from Africa and East Asia declined from 2000 to 2001 (hardly a surprise), as did spending, particularly by the leading producers of tourism revenues (US, Germany, Japan, France, Italy), but 2001–2002 will undoubtedly show growth, especially given the rise in tourist arrivals around the world.

For the 2003 full-year outlook, one factor to consider is major shifts in exchange rates, particularly the rapid appreciation of the euro versus both the US dollar and the UK Pound, making Europe considerably more expensive for some of the world's busiest travelers. The dollar also depreciated against the Mexican peso, the Japanese yen, and the New Zealand, Australian and Singapore dollar.

### International Tourism Receipts, by Region, 2000 & 2001 (in billions, % growth rate and as a % of market share)

	Receipts (in billions)		Growth rate		Market share
	2000	2001	2000/ 1999	2001/ 2000	2000
Africa	\$10.9	\$11.7	2.9%	8.1%	2.5%
Americas	\$132.8	\$122.4	8.6%	-7.8%	26.5%
East Asia and the Pacific	\$81.4	\$82.0	9.6%	0.8%	17.7%
Europe	\$233.0	\$230.1	-0.1%	-0.2%	49.8%
Middle East	\$11.5	\$11.2	0.7%	-2.5%	2.4%
South Asia	\$4.9	\$4.7	7.5%	-5.1%	1.0%
<b>Total</b>	<b>\$474.4</b>	<b>\$462.2</b>	<b>4.0%</b>	<b>-2.6%</b>	<b>100.0%</b>

Source: World Tourism Organization, July 2002

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- [Methodology](#)
- [Travel Trends](#)
- [Technology Applications and Initiatives](#)
- [Travel Advertising and Marketing](#)
- [Total Travel Market: Size and Growth](#)**
- [Online Travel Market](#)
- [Travel Segments](#)
- [Traveler Demographics & Preferences](#)
- [Index of Charts](#)

**World's Top 15 Countries in Tourism Receipts, 2000 & 2001 (in billions, % change and as a % of market share)**

	<b>2000 (in billions)</b>	<b>2001 (in billions)</b>	<b>% change 2001/2000</b>	<b>2001 market share</b>
1. US	\$82.0	\$72.3	-11.9%	15.6%
2. Spain	\$31.5	\$32.9	4.5%	7.1%
3. France	\$30.7	\$29.6	-3.7%	6.4%
4. Italy	\$27.5	\$25.9	-5.7%	5.6%
5. China	\$16.2	\$17.8	9.7%	3.8%
6. Germany	\$17.9	\$17.2	-3.7%	3.7%
7. UK	\$19.5	\$15.9	-18.8%	3.4%
8. Austria	\$10.0	\$12.0	19.7%	2.6%
9. Canada	\$10.7	-	-	-
10. Greece	\$9.2	-	-	-
11. Turkey	\$7.6	\$8.9	17.0%	1.9%
12. Mexico	\$8.3	\$8.4	1.3%	1.8%
13. Hong Kong	\$7.9	\$8.2	4.5%	1.8%
14. Australia	\$8.0	\$7.6	-4.8%	1.6%
15. Switzerland	\$7.5	\$7.6	1.6%	1.6%

Source: World Tourism Organization, July 2002

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**World's Top 15 Countries in Tourism Spending, 2000 & 2001 (in billions, % change and as a % of market share)**

	<b>2000 (in billions)</b>	<b>2001 (in billions)</b>	<b>% change 2001/2000</b>	<b>2001 market share</b>
1. US	\$64.5	\$58.9	-8.7%	12.7%
2. Germany	\$47.8	\$45.9	-3.9%	9.9%
3. UK	\$36.3	\$36.9	1.8%	8.0%
4. Japan	\$31.9	-	-	-
5. France	\$17.7	\$17.5	-1.4%	3.8%
6. Italy	\$15.7	\$14.2	-9.3%	3.1%
7. China	\$13.1	-	-	-
8. Netherlands	\$12.2	-	-	-
9. Canada	\$12.1	-	-	-
10. Belgium/Luxembourg	\$10.2	-	-	-
11. Austria	\$9.3	\$9.7	4.0%	2.1%
12. South Korea	\$6.2	\$6.9	11.5%	1.5%
13. Sweden	\$8.0	\$6.8	-15.1%	1.5%
14. Switzerland	\$6.2	\$6.6	5.2%	1.4%
15. Taiwan	\$6.4	-	-	-

Source: World Tourism Organization, July 2002

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- [Methodology](#)
- [Travel Trends](#)
- [Technology Applications and Initiatives](#)
- [Travel Advertising and Marketing](#)
- [Total Travel Market: Size and Growth](#)**
- [Online Travel Market](#)
- [Travel Segments](#)
- [Traveler Demographics & Preferences](#)
- [Index of Charts](#)

## US

In the US, the world's largest market for travel receipts, TIA figures show that US residents outspend international visitors by a margin of nearly six to one. Of greater note is that fact that overall expenditures will not reach 2000's record levels until 2004, and international visitors' spending will not top the 200 figures until the year after.

### US Travel Spending, 2000-2005 (in billions)

	2000	2001	2002	2003	2004	2005
US residents	\$488.2	\$469.8	\$462.3	475.7	\$501.4	\$530.9
International visitors*	\$82.3	\$71.9	\$66.5	\$68.4	\$74.0	\$80.4
<b>Total</b>	<b>\$570.5</b>	<b>\$541.7</b>	<b>\$528.8</b>	<b>\$544.1</b>	<b>\$575.4</b>	<b>\$611.3</b>

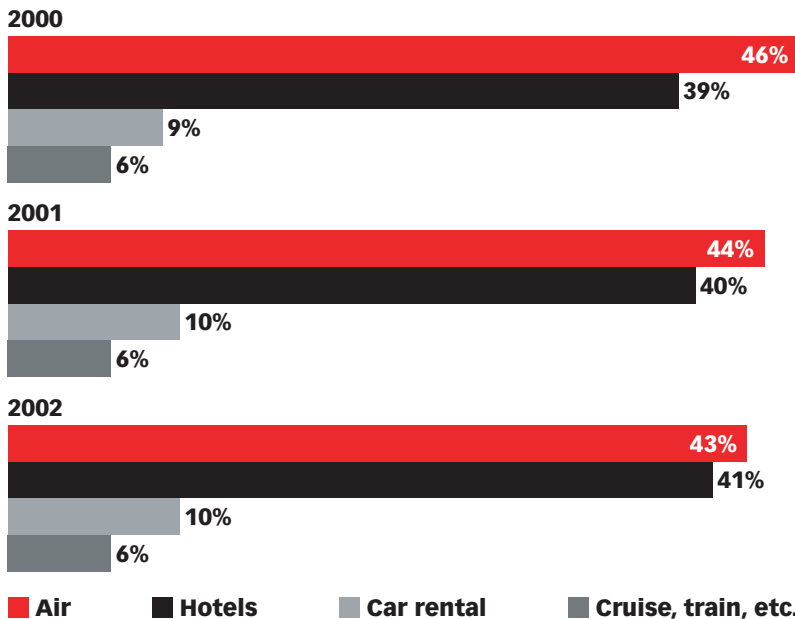
Note: \*excludes international visitors' spending on travel to the US on US flag carriers and other miscellaneous transportation  
 Source: Travel Industry Association of America (TIA), May 2003

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According to the Denmark-based Centre for Regional and Tourism Research, led by senior researcher Carl Marcussen, air tickets account for the largest portion of the overall (online and off) US travel market, but they have been declining in importance over the past three years. Hotels now constitute a nearly equal of the total travel market in the US.

### Breakdown of the Total Travel Market in the US, by Channel, 2000-2002



Source: Centre for Regional and Tourism Research - Denmark, April 2003

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[Technology  
Applications and Initiatives](#)

[Travel Advertising  
and Marketing](#)

**[Total Travel Market:  
Size and Growth](#)**

[Online Travel Market](#)

[Travel Segments](#)

[Traveler Demographics  
& Preferences](#)

[Index of Charts](#)

**“The future leaders of the travel industry will ultimately be those who can strengthen customer loyalty to grow revenues.”**

— Julian Sparkes, partner, Accenture Transportation & Travel Services industry group, 19 September 2002

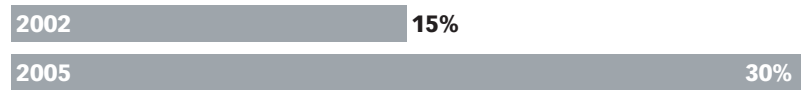


	Methodology	7
I	Travel Trends	11
II	Technology Applications and Initiatives	25
III	Travel Advertising and Marketing	37
IV	Total Travel Market: Size and Growth	53
<b>V</b>	<b>Online Travel Market</b>	<b>61</b>
	<b>A. North America</b>	<b>63</b>
	<b>B. Europe</b>	<b>74</b>
	<b>C. Asia-Pacific</b>	<b>81</b>
	<b>D. Travel Service Vendors</b>	<b>84</b>
VI	Travel Segments	97
VII	Traveler Demographics & Preferences	131
	Index of Charts	165

- [Methodology](#)
- [Travel Trends](#)
- [Technology Applications and Initiatives](#)
- [Travel Advertising and Marketing](#)
- [Total Travel Market: Size and Growth](#)
- [Online Travel Market](#)**
- [Travel Segments](#)
- [Traveler Demographics & Preferences](#)
- [Index of Charts](#)

PhoCusWright projects worldwide online travel sales of \$80 billion in 2003, with the US accounting for 70% of revenues and Europe, Asia-Pacific and Canada making up the rest. This figure is up from \$26 billion in leisure, unmanaged business and corporate travel sales just three years ago. As the online travel research firm has noted, “the juxtaposition of online growth and overall travel weakness is profound.” PhoCusWright goes so far as to predict that the Internet will account for 30% of *all* travel bookings worldwide by 2005.

**Worldwide Online Travel Bookings, 2002 & 2005 (as a % of all travel booked worldwide)**



Source: PhoCusWright Inc., March 2003

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Another interesting trend that PhoCusWright has observed is the triumph of Internet start-ups over traditional leaders in the travel sector. This is quite the opposite of what happened in other retail verticals, where Internet companies may have stolen a march over offline leaders, but were ultimately eclipsed by the more established firms once they shifted their focus to the Web.

**“There is no travel industry equivalent of Barnes & Noble or Schwab, i.e., pre-Internet intermediaries that have held their ground in the Information Age. One hundred percent of the top market share in today’s growth area, the online travel sector, is exclusively enjoyed by new entrants.”**

— Philip C. Wolf, president and CEO, PhoCusWright, as quoted in *Travel Weekly*, 22 July 2003

The major online travel agencies now exercise considerable control over distribution planning, pricing strategies and revenue management. While airlines have been relatively effective at disintermediating ticket sales by selling directly to consumers through their own Web sites, hotels are finding it difficult to overcome the weight that the merchants command in the Internet marketplace, especially because they were late in making an online push themselves, resulting in a situation in which they have been more disintermediated rather than less and their brands usurped by the merchants that stock their inventory.

- [Methodology](#)
- [Travel Trends](#)
- [Technology Applications and Initiatives](#)
- [Travel Advertising and Marketing](#)
- [Total Travel Market: Size and Growth](#)
- [Online Travel Market](#)**
- [Travel Segments](#)
- [Traveler Demographics & Preferences](#)
- [Index of Charts](#)

## A. North America

### US

#### Online Travel Accounts

The US has more Internet users than any other single country, with 162 million predicted to be online by the end of 2003. Growth has begun to level off, as penetration rises, but there will still be as many as 171 million online by 2005.

#### Internet Users in the US, 2000-2005 (in millions)

<b>2000</b>	<b>124.0</b>
<b>2001</b>	<b>142.8</b>
<b>2002</b>	<b>152.8</b>
<b>2003</b>	<b>162.0</b>
<b>2004</b>	<b>168.0</b>
<b>2005</b>	<b>171.4</b>

*Note: eMarketer's year 2000 and 2001 baselines are from the International Telecommunication Union (ITU)*  
*Source: eMarketer, April 2003*

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The number of accounts that consumers are keeping online with banks and other merchants – places where they register and store their personal and financial information and perhaps preferences – are expected to rise across the board in the next three years. According to Jupiter Research, travel accounts will see increases that are modest in comparison with retailers and billers (which include credit card and utility companies), but nearly one-third of the US population will have registered for some kind of travel account by 2006.

#### Online Consumer Accounts in the US, by Account Type, 2002-2006 (in millions)

	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>
Online bank accounts	32	38	44	50	54
Retailer online accounts	165	223	290	363	443
Online brokerage accounts	25	29	35	40	52
Biller accounts enabled	85	126	173	229	293
Travel accounts	55	71	89	109	131

*Source: Jupiter Research, May 2003*

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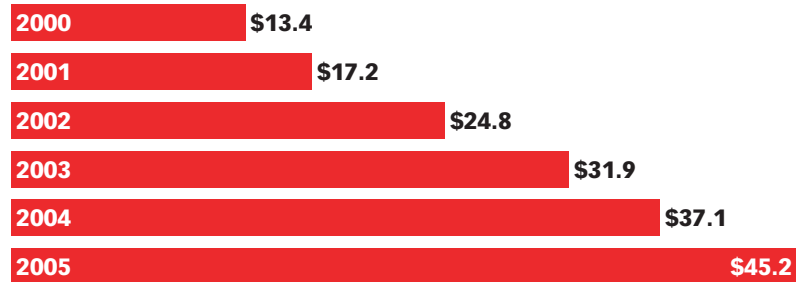
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- [Methodology](#)
- [Travel Trends](#)
- [Technology Applications and Initiatives](#)
- [Travel Advertising and Marketing](#)
- [Total Travel Market: Size and Growth](#)
- [Online Travel Market](#)**
- [Travel Segments](#)
- [Traveler Demographics & Preferences](#)
- [Index of Charts](#)

**Revenues**

eMarketer foresees a 50% rise in online travel revenues between 2003 and 2005. Throughout, travel will hold steady at about one-third of all online spending in the US, as seen in the second chart below.

**US Online Leisure Travel Revenues, 2000-2005 (in billions)**

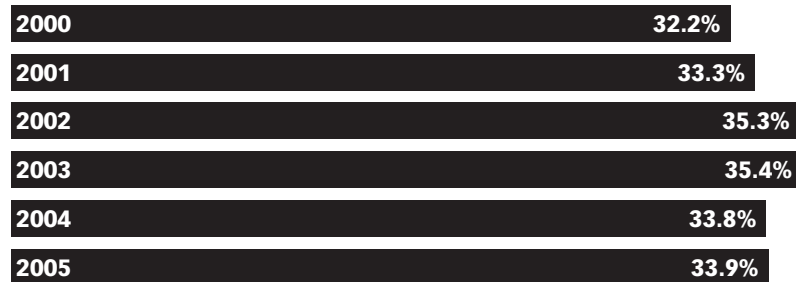


Source: eMarketer, April 2003

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**US Online Leisure Travel Revenues, 2000-2005 (as a % of total US online retail revenues)**



Source: eMarketer, April 2003

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Other research firms are also bullish in their predictions for the travel sector. Jupiter, for one, predicts that online travel sales will surge to \$43 billion in 2003, representing 20% of all travel purchased throughout the year. This share will peak at around 40%-42% by 2006, according to Jupiter forecasts.



- [Methodology](#)
- [Travel Trends](#)
- [Technology Applications and Initiatives](#)
- [Travel Advertising and Marketing](#)
- [Total Travel Market: Size and Growth](#)
- [Online Travel Market](#)**
- [Travel Segments](#)
- [Traveler Demographics & Preferences](#)
- [Index of Charts](#)

According to PhoCusWright, online travel will see across-the-board increases in booking revenues between 2002 and 2005. Vacation packages and cruises will see the largest percentage gains, as agencies redouble their efforts to penetrate markets that have historically been the province of traditional offline agencies. For vacation packages, sales by packagers will more than double, while bookings from intermediaries will increase more than five-fold.

**Online Travel Bookings in the US, by Category, 2002-2005 (in millions)**

	2002	2003	2004	2005
Airlines	\$15,400	\$20,100	\$25,800	\$32,300
Hotel/car	\$9,810	\$13,850	\$18,300	\$23,500
Vacations	\$590	\$1,025	\$1,640	\$2,370
Cruises	\$560	\$900	\$1,375	\$1,925
<b>Total</b>	<b>\$26,360</b>	<b>\$35,875</b>	<b>\$47,115</b>	<b>\$60,095</b>

Source: PhoCusWright Inc., 2003; Wall Street Journal, April 2003

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**Growth of Online Travel Bookings in the US, by Category, 2002-2005 (in % increase vs. prior year)**

	2002	2003	2004	2005
Airlines	31%	31%	28%	25%
Hotel	49%	43%	31%	29%
Car	39%	38%	34%	28%
Vacations	74%	74%	60%	45%
Cruises	65%	61%	53%	40%

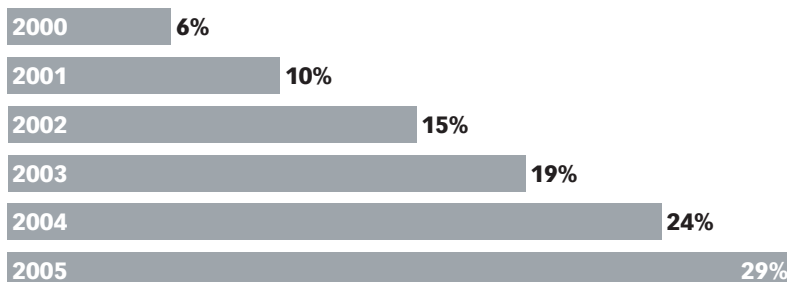
Source: PhoCusWright Inc., 2003; Wall Street Journal, April 2003

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Given the flurry of booking activity that will take place online over the next three years, PhoCusWright's prediction that the Internet will account for nearly 30% of all travel bookings by 2005 is plausible.

**Online Travel Bookings in the US, 2000-2005 (as a % of all travel bookings)**



Source: PhoCusWright Inc., 2003; Wall Street Journal, April 2003

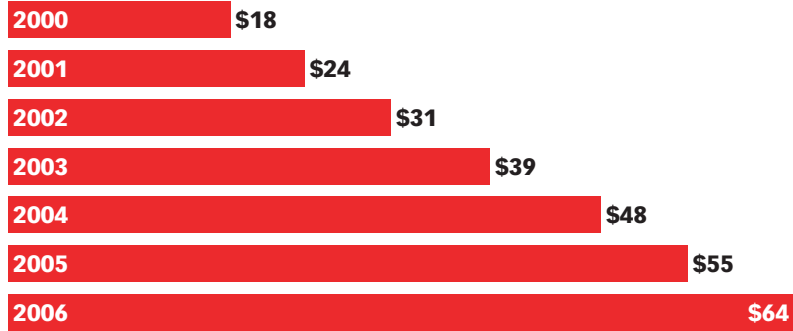
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- [Methodology](#)
- [Travel Trends](#)
- [Technology Applications and Initiatives](#)
- [Travel Advertising and Marketing](#)
- [Total Travel Market: Size and Growth](#)
- [Online Travel Market](#)**
- [Travel Segments](#)
- [Traveler Demographics & Preferences](#)
- [Index of Charts](#)

Investment bank Bear Stearns' August 2002 lodging industry report puts the growth of online travel revenues on a similarly steep curve, reaching as high as \$64 billion by 2006. The online lodging component will double between 2003 and 2006.

**Online Travel Revenues in the US, 2000-2006 (in billions)**

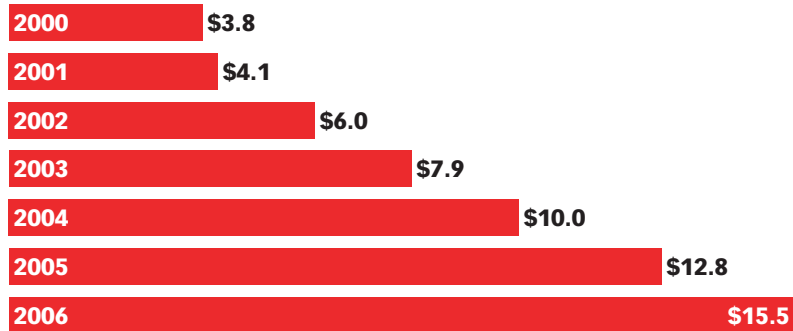


Source: Bear Stearns, August 2002; Travelweb LLC, October 2002

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**Online Lodging Revenues in the US, 2000-2006 (in billions)**



Source: Bear Stearns, August 2002; Travelweb LLC, October 2002

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- [Travel Trends](#)
- [Technology Applications and Initiatives](#)
- [Travel Advertising and Marketing](#)
- [Total Travel Market: Size and Growth](#)
- [Online Travel Market](#)**
- [Travel Segments](#)
- [Traveler Demographics & Preferences](#)
- [Index of Charts](#)

A look at online leisure travel revenues in comparative perspective shows relative convergence between eMarketer and PhoCusWright estimates through 2003, with Bear Stearns something of an outlier. However, the investment bank and PhoCusWright converge more closely in 2004-2005, with eMarketer remaining more on the conservative side.

**Comparative Estimates: US Online Leisure Travel Revenues, 2002-2005 (in millions)**

	2002	2003	2004	2005
Bear Stearns, August 2002	\$31,000	\$39,000	\$48,000	\$55,000
<b>eMarketer, April 2003</b>	<b>\$24,800</b>	<b>\$31,900</b>	<b>\$37,100</b>	<b>\$45,200</b>
PhoCusWright, 2003	\$26,360	\$35,875	\$47,115	\$60,095

Source: various, as noted, 2002 & 2003

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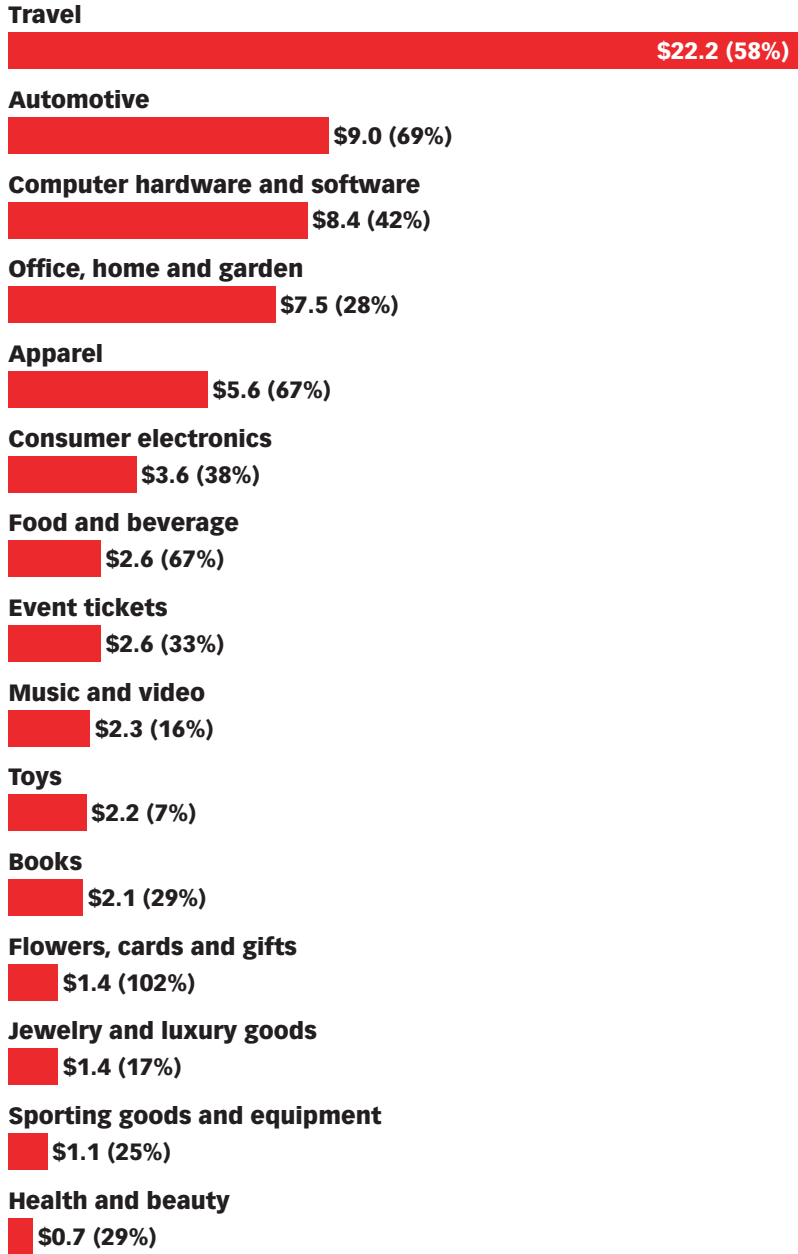
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A survey of 130 Internet retailers by Forrester Research and Shop.org shows significant growth in all e-commerce categories, with travel up nearly 60% in 2002. It is by far the largest consumer segment online, and all signs suggest that it will retain its lead in the years ahead.

- [Methodology](#)
- [Travel Trends](#)
- [Technology Applications and Initiatives](#)
- [Travel Advertising and Marketing](#)
- [Total Travel Market: Size and Growth](#)
- [Online Travel Market](#)**
- [Travel Segments](#)
- [Traveler Demographics & Preferences](#)
- [Index of Charts](#)

Online penetration of the travel market is relatively high, at 9% in 2002 by Forrester and Shop.org's estimates (PhoCusWright, by contrast, put penetration at 15% of total bookings for the same year), but still well behind where computer hardware and software stand. Note that Forrester and Shop.org's figure of \$22.2 billion in online travel sales is also low in comparison to eMarketer, PhoCusWright and Bear Stearns calculations.

**US B2C E-Commerce, by Category, 2002 (in billions and % growth vs. prior year)**



Source: Shop.org and Forrester Research, May 2003; Morgan Stanley, June 2003

- [Methodology](#)
- [Travel Trends](#)
- [Technology Applications and Initiatives](#)
- [Travel Advertising and Marketing](#)
- [Total Travel Market: Size and Growth](#)
- [Online Travel Market](#)**
- [Travel Segments](#)
- [Traveler Demographics & Preferences](#)
- [Index of Charts](#)

### Online Sales in the US, by Category, 2000-2002 (as a % of total retail sales)

	2000	2001	2002
Computer hardware and software	17%	21%	32%
Tickets	4%	13%	17%
Books	13%	11%	12%
Travel	6%	6%	9%
Toys and video games	7%	6%	7%
Consumer electronics	5%	4%	6%
Music and video	7%	6%	6%
Flowers, cards and gifts	3%	2%	3%
Jewelry and luxury goods	2%	3%	3%
Apparel	2%	2%	3%
Health and beauty	1%	2%	2%
Home and garden	1%	1%	2%
Sporting goods and equipment	2%	2%	2%
Auto and auto parts	1%	1%	2%
Food and beverage	0%	0%	1%

Source: Shop.org and Forrester Research, May 2003; Morgan Stanley, June 2003

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Figures for weekly online travel spending from comScore Media Metrix offer strong evidence that recovery is fully under way, certainly in relation to 2002, even if the overall travel market is not yet ready to return to its pre-2001 levels. Average weekly travel spending is up 36% versus a year ago, well outpacing non-travel online spending. According to comScore Network figures, US online travel spending reached \$19.73 billion in the first half of 2003, up 34% from 2002, and \$27.68 billion through the end of August, up 36% from the same eight-month period last year.

### Online Consumer Sales at US Sites, Period Ending 24 August 2003 (in millions and % change)

	Latest week	% change vs. year-ago	Average week: year-to-date	% change vs. year ago
Non-travel	\$928	17%	\$890	17%
Travel	\$769	37%	\$798	36%
<b>Total</b>	<b>\$1,697</b>	<b>17%</b>	<b>\$1,689</b>	<b>26%</b>

Source: comScore Media Metrix, September 2003

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- [Travel Trends](#)
- [Technology Applications and Initiatives](#)
- [Travel Advertising and Marketing](#)
- [Total Travel Market: Size and Growth](#)
- [Online Travel Market](#)**
- [Travel Segments](#)
- [Traveler Demographics & Preferences](#)
- [Index of Charts](#)

Moreover, comScore Media Metrix data indicate that the war in Iraq caused only minor, short-term jitters among US consumers buying travel on the Web. And even so, as the chart below demonstrates, online travel spending was significantly higher than the same period last year.

### Effect of the War in Iraq on Online Travel Spending in the US, January-May 2003 (in millions)

	Pre-war (5 January- 9 March)	War (16 March- 21 April)	Post-war (28 April- 4 May)
Consumer spending	\$771	\$684	\$853
% change vs. year-ago	33%	16%	39%

Note: excludes auctions and large corporate purchases  
Source: comScore Media Metrix, May 2003

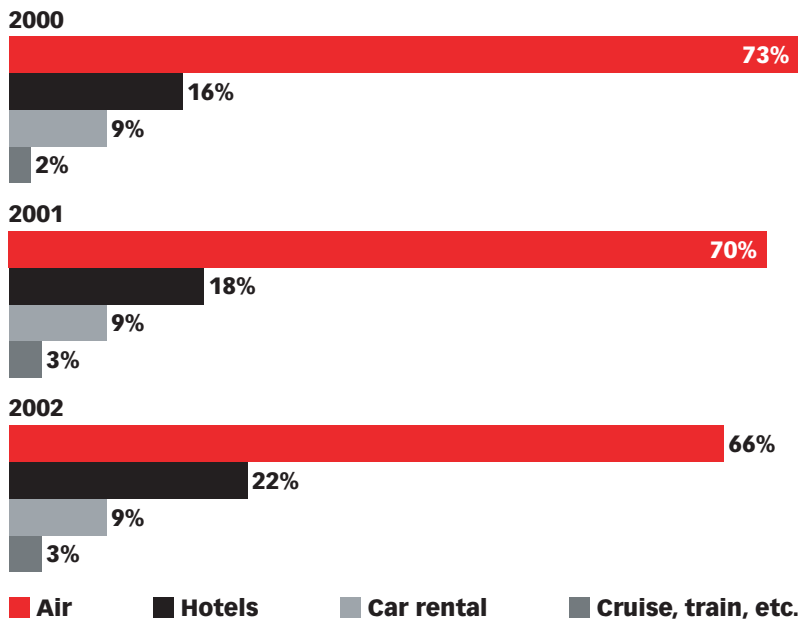
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### Category and Channel Breakdown

As in the overall travel market, air tickets account for the largest portion of the online travel market in the US, while hotels have been rising steadily in importance. However, air tickets still dominate the online segment by a comfortable margin.

### Breakdown of the Online Travel Market in the US, by Category, 2000-2002



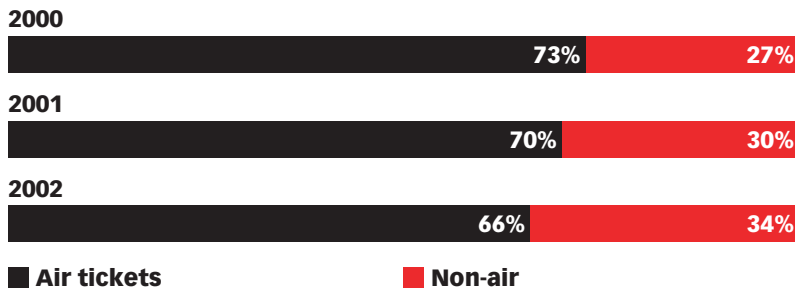
Source: Centre for Regional and Tourism Research - Denmark, April 2003

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- [Methodology](#)
- [Travel Trends](#)
- [Technology Applications and Initiatives](#)
- [Travel Advertising and Marketing](#)
- [Total Travel Market: Size and Growth](#)
- [Online Travel Market](#)**
- [Travel Segments](#)
- [Traveler Demographics & Preferences](#)
- [Index of Charts](#)

### Online Travel Market in the US, by Mode of Travel, 2000-2002



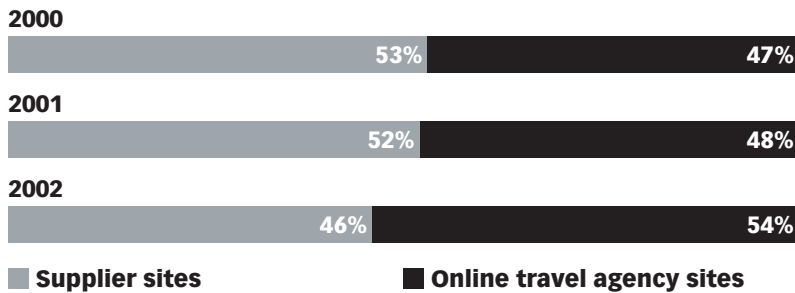
Source: Centre for Regional and Tourism Research - Denmark, April 2003

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The trend towards dominance of the online market by agencies has continued its torrid pace. Agents controlled 54% of online travel sales in 2002, up from 47% in 2000. Clearly, however, suppliers, particularly the airlines, using Orbitz as their distribution channel, are trying to get a piece of the agency action as well.

### Channel Breakdown of the Online Travel Market in the US, 2000-2002



Source: Centre for Regional and Tourism Research - Denmark, April 2003

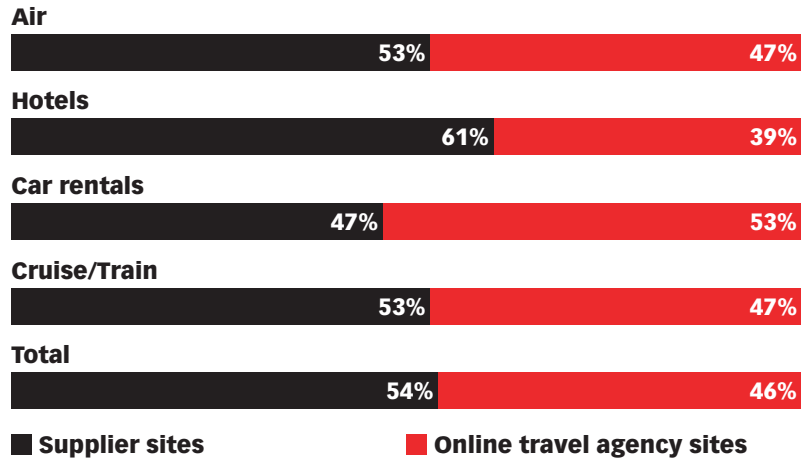
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- [Travel Trends](#)
- [Technology Applications and Initiatives](#)
- [Travel Advertising and Marketing](#)
- [Total Travel Market: Size and Growth](#)
- [Online Travel Market](#)**
- [Travel Segments](#)
- [Traveler Demographics & Preferences](#)
- [Index of Charts](#)

The only segment in which suppliers continue to dominate is car rentals. Agencies enjoy the most commanding presence in the hotel segment, although the major chains are on a quest to reverse that situation.

### Channel Breakdown of the Online Travel Market in the US, by Category, 2002



Source: Centre for Regional and Tourism Research - Denmark, April 2003

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- [Travel Trends](#)
- [Technology Applications and Initiatives](#)
- [Travel Advertising and Marketing](#)
- [Total Travel Market: Size and Growth](#)
- [Online Travel Market](#)**
- [Travel Segments](#)
- [Traveler Demographics & Preferences](#)
- [Index of Charts](#)

## Canada

Although a high percentage of Canadians uses the Internet regularly and has broadband access (53.6% of the online population has broadband, versus 33.8% in the US, according to comScore Media Metrix, whose figures are the most recent), the Internet user base is necessarily small given the size of the country's population. This serves as a limiting factor in the growth of the online travel market with respect to the US or larger European nations, for example.

### Comparative Estimates: At-Home and At-Work Internet Users in Canada, 2000-2006 (in millions)

	2000	2001	2002	2003	2004	2005	2006
Computer Industry Almanac (CIA), December 2002	-	-	17.8	-	-	-	-
comScore Networks Inc., October 2002	-	-	15.9	-	-	-	-
<b>eMarketer, September 2002 (1)</b>	<b>12.7</b>	<b>13.5</b>	<b>14.9</b>	<b>17.8</b>	<b>21.4</b>	-	-
International Data Corporation (IDC), April 2002	-	18.8	-	-	-	-	25.2
International Telecommunication Union (ITU), April 2003 (2)	13.0	14.0	15.2	-	-	-	-
Morgan Stanley, May 2002	9.7	13.0	-	-	-	-	-
PricewaterhouseCoopers (PwC), May 2002 (3)	-	12.5	13.2	14.0	15.0	16.0	17.0

*Note: (1) eMarketer's year 2000-2002 baselines are from the International Telecommunication Union's estimate of Internet users ages 2+ who have accessed the Internet in the past 30 days; (2) Internet users ages 2+ who have accessed the Internet in the past 30 days; in conjunction with Wilkofsky Gruen Associates*  
*Source: eMarketer, September 2002; various, as noted, 2002 & 2003*

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Indeed, according to the International Data Corporation (IDC), online travel spending in Canada to date has been modest, totaling just C\$1.5 in 2001. However IDC does predict more than seven-fold growth by 2006.

### Online Travel Spending in Canada, 2001 & 2006 (in billions of CAD)

<b>2001</b>	<b>\$1.5</b>
<b>2006</b>	<b>\$11.0</b>

*Note: CAGR=47.9%*  
*Source: International Data Corporation (IDC), July 2002*

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## B. Europe

Europe is home to the world's second-largest Internet user population (after Asia-Pacific). Internet penetration ranges from moderate levels in Southern and developing Europe to extremely high penetration in Northern Europe. Broadband access is widely available and adoption is growing quickly. User populations in individual countries are necessarily limited by the size of the population, but the largest economies (France, Germany and the UK) all have large use bases and account for the lion's share of the region's online retail market.

### Revenues

Research from Denmark's Centre for Regional and Tourism Research suggests a number of interesting trends about Europe's travel market, which in the aggregate is larger than that of the US. First is that the overall travel market in Western Europe continues to display moderate growth, while growth in the online travel market has been slowing considerably with each passing year. Second is that online travel revenues are still a small portion of overall travel sales, whereas in the US, they constitute nearly one-third of all travel spending. Europeans are fonder of package tours, and consumers have long planned their leisure travel through established operators that have only begun working online.

#### Online Travel Revenues in Western Europe, 1998-2006 (in billions of €, as a % of total travel revenues and % increase vs. prior year)

	Total travel revenues	Online travel revenues	Online travel revenues as a % of total travel revenues	% growth
1998	€192	€0.2	0.1%	–
1999	€200	€0.8	0.4%	252%
2000	€208	€2.5	1.2%	219%
2001	€208	€4.7	2.3%	86%
2002	€212	€7.6	3.6%	61%
2003	€219	€10.3	4.7%	35%
2004	€225	€12.8	5.7%	24%
2005	€232	€15.2	6.6%	19%
2006	€239	€17.6	7.4%	15%

Note: Each year's actual average exchange rate applies for 1998-2002  
Source: Centre for Regional and Tourism Research - Denmark, April 2003

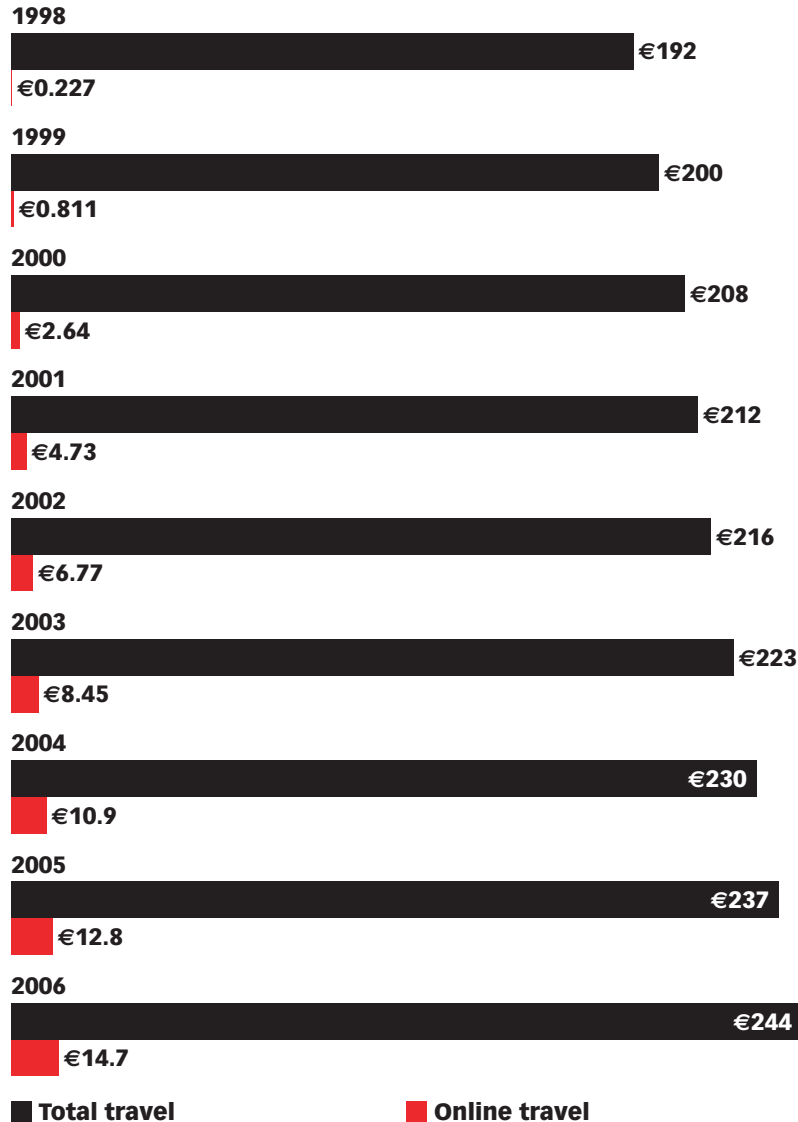
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- [Methodology](#)
- [Travel Trends](#)
- [Technology Applications and Initiatives](#)
- [Travel Advertising and Marketing](#)
- [Total Travel Market: Size and Growth](#)
- [Online Travel Market](#)**
- [Travel Segments](#)
- [Traveler Demographics & Preferences](#)
- [Index of Charts](#)

Figures from the WTO show fairly close convergence with those from the Centre for Regional and Tourism Research. In an early 2003 presentation, the WTO noted that airlines represent 60% of total travel sales in Europe, with half of this total coming from low-cost carriers. Among countries, the UK remains a regional leader, accounting for 34% of Western European travel sales.

**Total Travel and Online Travel Sales in Europe, 1998-2006 (in millions of €)**



Source: World Tourism Organization, June 2003

- [Methodology](#)
- [Travel Trends](#)
- [Technology Applications and Initiatives](#)
- [Travel Advertising and Marketing](#)
- [Total Travel Market: Size and Growth](#)
- [Online Travel Market](#)**
- [Travel Segments](#)
- [Traveler Demographics & Preferences](#)
- [Index of Charts](#)

PhoCusWright's 2002 estimates are in line with those from the Centre for Regional and Tourism Research and the WTO, but its 2005 projection is something of an outlier. The second chart below present figures from the three research providers in comparative perspective.

**Online Travel Bookings in Europe, 2002 & 2005 (in billions of €)**



Source: PhoCusWright Inc., July 2003

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**Comparative Estimates: Online Travel Revenues in Europe, 2002-2005 (in billions of )**

	2002	2003	2004	2005
Centre for Regional and Tourism Research, April 2003	7.6	10.3	12.8	15.2
PhoCusWright, July 2003	–	7.6	–	27.9
World Tourism Organization, June 2003	6.77	8.45	10.9	12.8

Source: various, as noted, 2003

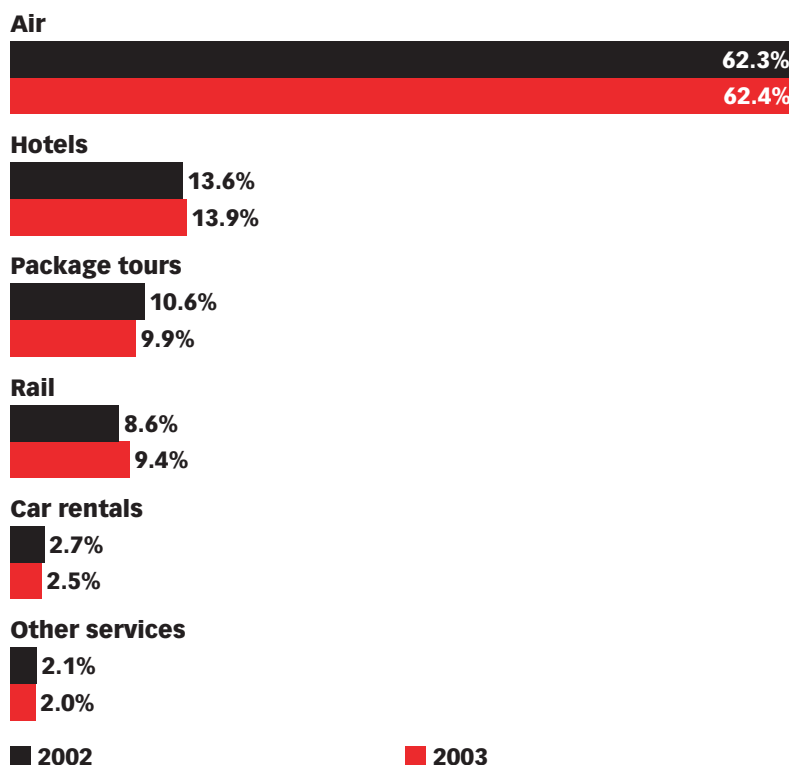
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## Category, Channel and Country Breakdown

The rise of budget airlines, which now sell more than 90% of their seats online in Europe, helped drive up air travel's share of the total online travel market from 59.7% in 2001 to 62.3% during 2002. However, with most no-frills carriers nearly saturated in terms of online tickets sales, growth must come from traditional carriers. The Centre for Regional and Tourism Research cites British Airways (BA), which moved a significant portion of its sales for the short-haul market to BA.com, as an example.

### Breakdown of the Online Travel Market in Western Europe, by Category, 2002 & 2003



Source: Centre for Regional and Tourism Research - Denmark, April 2003

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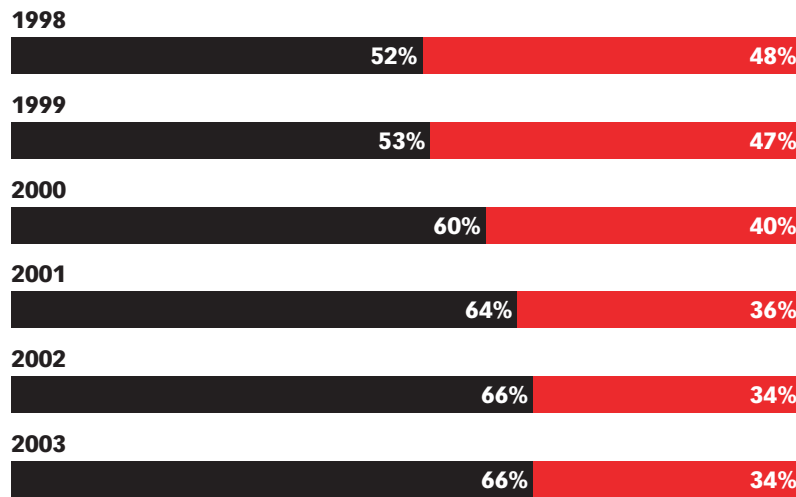
- [Methodology](#)
- [Travel Trends](#)
- [Technology Applications and Initiatives](#)
- [Travel Advertising and Marketing](#)
- [Total Travel Market: Size and Growth](#)
- [Online Travel Market](#)**
- [Travel Segments](#)
- [Traveler Demographics & Preferences](#)
- [Index of Charts](#)

**“With the growth of no-frills carriers and the ability of people to put together components themselves, it is easy to lose sight of the service dimension.”**

— John McEwan, retail director, TUI UK, October 2002

Whereas the online travel market in the US has increasingly been tipping towards online agencies and other intermediaries, the opposite trend has been taking place in Western Europe. Suppliers such as airlines and hotels have stabilized with just over 60% of the market.

**Channel Breakdown of the Online Travel Market in Western Europe, by Market Share, 1998-2003**



■ Supplier direct sales      ■ Intermediaries

Source: Centre for Regional and Tourism Research - Denmark, April 2003

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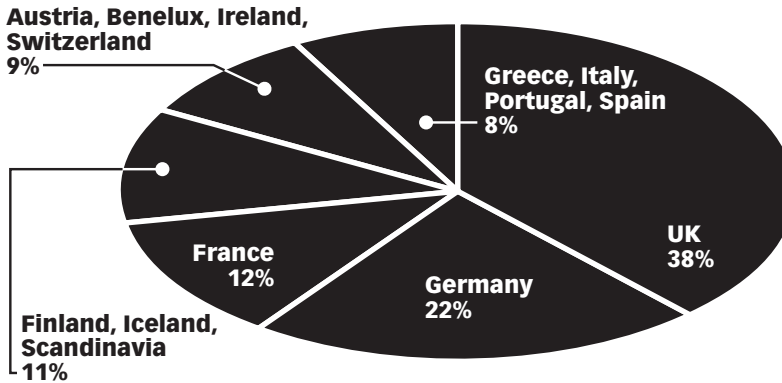
**“We don’t mind how customers buy from us. We believe that by building multi-channels we are appealing to a broader range of customers and at the same time making it easier to retain our inherent customer base.”**

— John McEwan, retail director, TUI UK, October 2002

- [Methodology](#)
- [Travel Trends](#)
- [Technology Applications and Initiatives](#)
- [Travel Advertising and Marketing](#)
- [Total Travel Market: Size and Growth](#)
- [Online Travel Market](#)**
- [Travel Segments](#)
- [Traveler Demographics & Preferences](#)
- [Index of Charts](#)

The UK became the dominant force in the Western European travel market in 1999, and has since extended its lead each year. According to the Centre for Regional and Tourism Research, the rise of no-frills airlines such as Ryanair and easyJet and the concomitant response of traditional carriers such as BA helped the UK gain control of the market. Much of the UK's advance has come at the expense of Germany, as evidenced by the second and third charts below.

**Breakdown of Online Travel Sales in Western Europe, by Country, 2002**

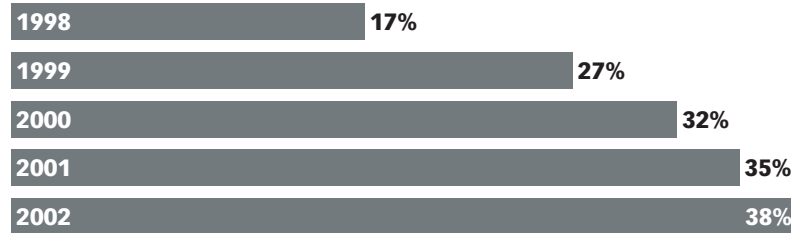


Source: Centre for Regional and Tourism Research - Denmark, April 2003

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**Online Travel Market in the UK, 1998-2002 (as a % of online travel sales in Western Europe)**



Source: Centre for Regional and Tourism Research - Denmark, April 2003

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**Online Travel Market in Germany, 1998-2002 (as a % of online travel sales in Western Europe)**



Source: Centre for Regional and Tourism Research - Denmark, April 2003

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- [Methodology](#)
- [Travel Trends](#)
- [Technology Applications and Initiatives](#)
- [Travel Advertising and Marketing](#)
- [Total Travel Market: Size and Growth](#)
- [Online Travel Market](#)**
- [Travel Segments](#)
- [Traveler Demographics & Preferences](#)
- [Index of Charts](#)

PhoCusWright observes that Spain, representing a small but growing share of the online travel market in Europe, is playing an important role in the development of the region’s overall market, thanks in part to a major online push by flag carrier Iberia and hotel giant Sol Meliá. In addition, notes the research firm, at least 12 online travel agencies are competing for market share, thereby spurring demand and attention for the country’s online segment, which has lagged in relation to other European countries. However, it is due for a breakout as Internet access in general and broadband access in particular begin to climb to region-wide levels. Consolidation among the currently fragmented players can be expected, especially as international agencies such as Expedia and Opodo and local offline leaders enter the online market.

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### **Spain’s Share of the Online Travel Market in Europe, 2003 & 2005**

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Source: PhoCusWright Inc., July 2003

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[Methodology](#)[Travel Trends](#)[Technology Applications and Initiatives](#)[Travel Advertising and Marketing](#)[Total Travel Market: Size and Growth](#)[Online Travel Market](#)[Travel Segments](#)[Traveler Demographics & Preferences](#)[Index of Charts](#)

## C. Asia-Pacific

Until recently, low Internet penetration throughout much of the Asia-Pacific region had limited the availability of online travel services, with companies reluctant to risk entering the market. Now, however, with growth in the Internet user population far outpacing that of Europe and North America, the Asia-Pacific markets look like a better bet. Some of the leading US players in the online travel market have made forays in Asia-Pacific. Notably, however, they have done so not on their own, as they did in Europe, but through partnerships with local firms that have a powerful brand identity.

### Comparative Estimates: At-Home and At-Work Internet Users in the Asia-Pacific Region, 2000-2006 (in millions)

	2000	2001	2002	2003	2004	2005	2006
Computer Economics, June 2002 (1)	-	-	151.3	203.6	238.0	273.0	313.4
Computer Industry Almanac (CIA), March 2002	-	115.0	-	-	357.0	-	-
<b>eMarketer, May 2002 (2)</b>	<b>115.9</b>	<b>165.0</b>	<b>181.5</b>	<b>205.0</b>	<b>235.8</b>	-	<b>47.0</b>
IDATE, January 2003	-	123.0	180.0	-	-	-	375.0
International Data Corporation (IDC), July 2002 (2)	-	94.0	-	-	-	-	-
Morgan Stanley, May 2002	56.0	100.0	141.0	187.0	217.0	246	-
Pricewaterhouse-Coopers (PwC), May 2002 (4)	-	168.7	209.8	253.9	293.1	333.1	371.9
World Bank/Pyramid Research, March 2003 (5)	92.5*	133.1*	209.0	275.8	355.4	442.6	531.4

*Note: (1) Internet users are defined as individuals who consistently use the Internet with access from either work, school, home or multiple locations; (2) eMarketer's year 2000-2002 baselines are from the International Telecommunication Union's estimate of Internet users ages 2+ who have accessed the Internet in the past 30 days; (3) excludes Japan; (4) in conjunction with Wilkofsky Gruen Associates; (5) Number of active, unique individuals who have used the Internet in the past 30 days; estimates by Pyramid Research*

*Source: eMarketer, May 2002; various, as noted, 2002 & 2003*

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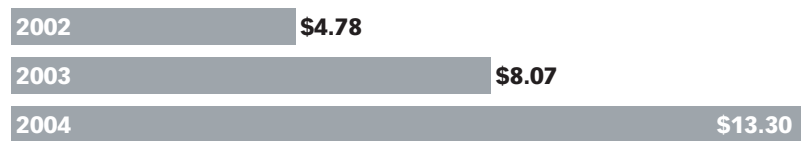
- [Methodology](#)
- [Travel Trends](#)
- [Technology Applications and Initiatives](#)
- [Travel Advertising and Marketing](#)
- [Total Travel Market: Size and Growth](#)
- [Online Travel Market](#)**
- [Travel Segments](#)
- [Traveler Demographics & Preferences](#)
- [Index of Charts](#)

US-based “name-your-own-price” auction firm Priceline has established a beachhead in Hong Kong through a partnership with Hutchison Whampoa, a conglomerate with interests in many fixed-line and wireless telecommunications markets throughout the region. Sites in Singapore and Taiwan have since followed. US-based Travelocity has established a presence in Japan with a site called Tabini. The full-service website represents a joint venture between Travelocity and All Nippon Airways, Japan Airlines and Japan Air System, the country’s leading carriers, plus 14 other carriers from around the region and the US. These alliances with give Travelocity a strong foothold in the Japanese market. In addition, it has invested in and provided the back-end technology for Zuji, a full-service travel site that has the support of 10 major regional airlines (Air New Zealand, Cathay Pacific, China Airlines, EVA, Garuda Indonesia, Malaysia Airlines, Qantas, Royal Brunei, SilkAir and Singapore Airlines). Zuji has already rolled out services in Australia, Hong Kong, Singapore and Taiwan.

Expect then, that searching for travel information, products and services will become one of the most popular online activities as an increased array of services becomes available to the Asia-Pacific consumer. This would be in keeping with trends in Europe and North America, whose Internet users have made travel sites among the most successful e-commerce ventures.

With more and more Internet users in the Asia-Pacific region flocking to travel sites and global travel companies expanding to fill the niche, the future looks bright on the revenue front. PhoCusWright estimates that 1-3% of all leisure travel bookings were made online in 2002 (versus a range of nine to 15% in the US), but as the chart below demonstrates, the research firm expects online leisure travel bookings to triple from 2002 to 2004, with airlines (many of which already sell 10-15% of their inventory online, according to PhoCusWright) garnering the majority of spending, especially as the majors face competition from discount carriers with lower-cost distribution channels.

**Online Travel Revenues in the Asia-Pacific Region, 2002-2004 (in billions)**



Source: PhoCusWright Inc., August 2002

- [Methodology](#)
- [Travel Trends](#)
- [Technology Applications and Initiatives](#)
- [Travel Advertising and Marketing](#)
- [Total Travel Market: Size and Growth](#)
- [Online Travel Market](#)**
- [Travel Segments](#)
- [Traveler Demographics & Preferences](#)
- [Index of Charts](#)

However, as PhoCusWright points out, online travel agencies in Asia-Pacific face stiffer offline competition and more fragmented and variegated markets (thanks to cultural, linguistic and economic disparities) than they have encountered elsewhere in the world, including a consumer base accustomed to buying travel from large agencies and tour operators. As the table below demonstrates, with the exception of Australia, Asia-Pacific consumers are not in the habit of purchasing either business or leisure travel online. Consequently, it will be several years before online leisure travel becomes a dominant online retail category, the position it currently enjoys in the US, and, increasingly, in Europe as well.

**Leading Online Purchases by Internet Users in Selected Countries in the Asia-Pacific Region, 2002 (as a % of internet users who have shopped online)**

	<b>Australia</b>	<b>Global average</b>	<b>Hong Kong</b>	<b>Singapore</b>	<b>South Korea</b>	<b>Taiwan</b>
Books	23%	23%	28%	23%	17%	39%
Business travel	5%	4%	–	6%	–	–
Car	–	1%	–	–	–	–
Clothes	7%	13%	2%	6%	25%	2%
Electronics/electrical goods	6%	13%	7%	4%	20%	16%
Furniture/household furnishings	4%	4%	–	–	15%	2%
Groceries/food	14%	7%	7%	10%	7%	13%
Holidays/leisure travel	21%	11%	4%	6%	2%	–
Jewelry/fashion accessories	5%	3%	2%	2%	9%	10%
Movie/theatre tickets	14%	8%	29%	33%	7%	10%
Music/CDs	11%	15%	9%	15%	12%	6%
PC hardware	4%	10%	5%	2%	14%	5%
PC software	6%	8%	2%	10%	8%	5%
Sports equipment	8%	4%	2%	–	7%	–
Stocks/shares/mutual funds	9%	2%	–	2%	3%	5%
Toiletries/cosmetics	2%	4%	6%	4%	21%	10%
Toys/games	7%	4%	5%	–	7%	–
Videos	4%	5%	5%	6%	–	5%
Other	28%	19%	–	–	9%	2%

*Note: multiple responses allowed; numbers bolded in red indicate most popular category in each country*

*Source: Taylor Nelson Sofres (TNS), June 2002*

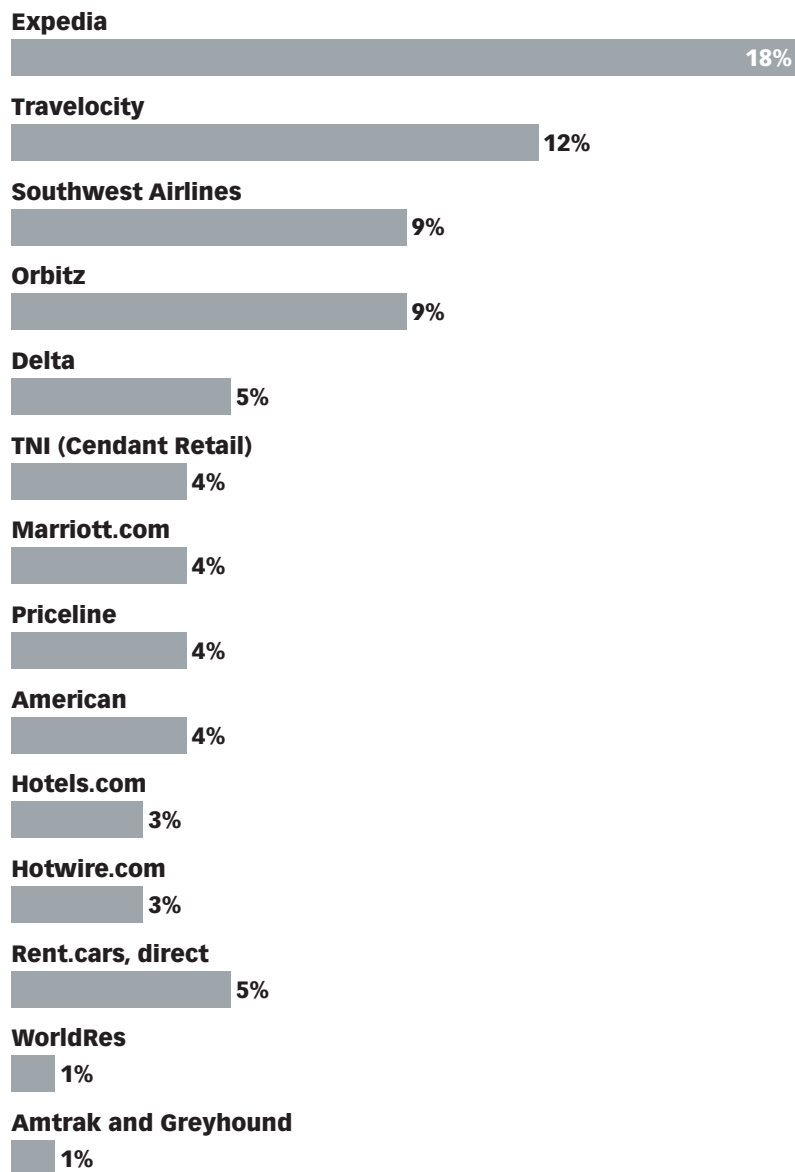
- [Methodology](#)
- [Travel Trends](#)
- [Technology Applications and Initiatives](#)
- [Travel Advertising and Marketing](#)
- [Total Travel Market: Size and Growth](#)
- [Online Travel Market](#)**
- [Travel Segments](#)
- [Traveler Demographics & Preferences](#)
- [Index of Charts](#)

## D. Travel Service Vendors

### North America: US and Canada

Recent figures from the Denmark-based Centre for Regional and Tourism Research show that over the past three years, Expedia has captured a growing share of the online travel market in the US. Whereas in 2000, Expedia was in a virtual tie for second place with budget carrier Southwest Airlines and behind first-place Travelocity by a sizable margin, by the end of last year, it had staked itself to a considerable lead over both companies.

#### Leading Online Travel Companies in the US, 2002 (as a % market share)



*continued on page 85*

- [Methodology](#)
- [Travel Trends](#)
- [Technology Applications and Initiatives](#)
- [Travel Advertising and Marketing](#)
- [Total Travel Market: Size and Growth](#)
- [Online Travel Market](#)**
- [Travel Segments](#)
- [Traveler Demographics & Preferences](#)
- [Index of Charts](#)

**Cruise, direct**



**Other airlines**



**Other hotel chains**



Source: Centre for Regional and Tourism Research - Denmark, April 2003

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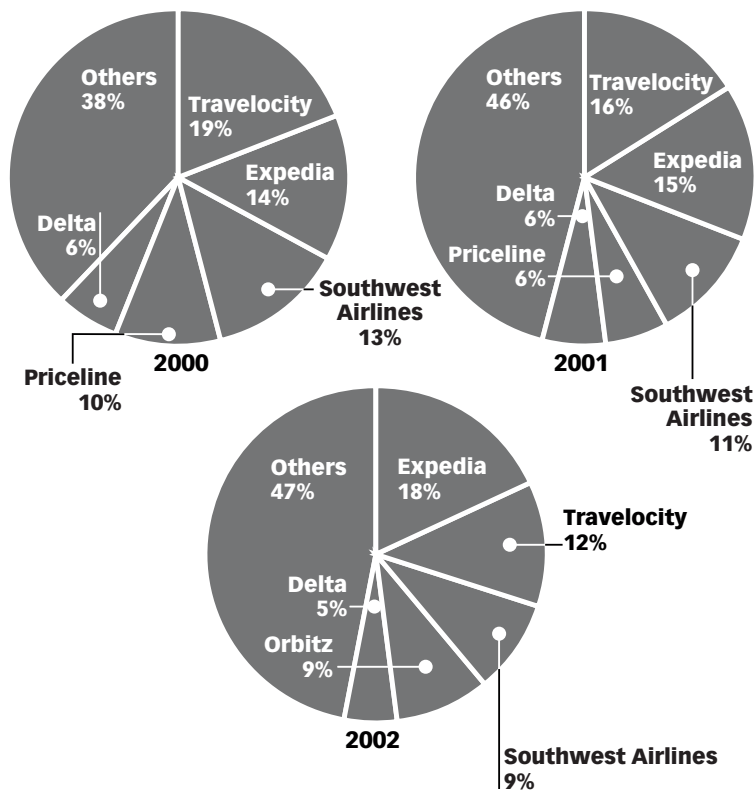
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Two additional trends have accompanied the rise of Expedia among online agencies and suppliers. The first is steadily increasing revenues (at a rate of approximately 50% year-over-year) and the second is the ongoing fragmentation of the online travel marketplace. As the chart below demonstrates, the share controlled by the top five or six companies dropped from 62% in 2000 to 54% in 2001. The top six firms garnered 53% of online travel sales last year – an insignificant drop from the prior year – suggesting that the pace of fragmentation might be leveling off.

- [Methodology](#)
- [Travel Trends](#)
- [Technology Applications and Initiatives](#)
- [Travel Advertising and Marketing](#)
- [Total Travel Market: Size and Growth](#)
- [Online Travel Market](#)**
- [Travel Segments](#)
- [Traveler Demographics & Preferences](#)
- [Index of Charts](#)

A significant contributing factor is the ongoing acquisitions campaign by InterActiveCorp (formerly USA Interactive). The firm recently announced plans to acquire Hotwire (a privately held company founded by Texas Pacific Group and six major airline companies, American, United, Continental, Northwest, US Airways and America West; Delta later joined as an investor) in a deal valued at \$655 million. The move adds significantly to InterActiveCorp's already broad stable of travel properties, which include Expedia and Hotels.com. When this acquisition closes, InterActiveCorp will control three of the top ten most visited travel sites, according to traffic figures from comScore Media Metrix.

**Breakdown of the Online Travel Market in the US, 2000-2002**



Note: 2000=\$12.6 billion; 2001=\$18.6 billion; 2002=\$27.0 billion  
 Source: Centre for Regional and Tourism Research, April 2003

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Another major factor in the shift in the online travel market has been the emergence of Orbitz as a major player. In just its first full year of operation, Orbitz developed into the third largest online travel vendor.

Although it is tempting to attribute the shift to ubiquitous advertising, both online and off, this alone is not a sufficient explanation for the changing fortunes among travel merchants. For example, according to Nielsen//NetRating's AdRelevance unit, Sabre Holdings, Inc., the parent

- [Methodology](#)
- [Travel Trends](#)
- [Technology Applications and Initiatives](#)
- [Travel Advertising and Marketing](#)
- [Total Travel Market: Size and Growth](#)
- [Online Travel Market](#)**
- [Travel Segments](#)
- [Traveler Demographics & Preferences](#)
- [Index of Charts](#)

company of Travelocity, has consistently been the largest online advertiser in the past year, outpacing Expedia and Orbitz by a significant margin. Yet, they have continued to gain market share at the expense of Travelocity.

Web site usability, customer experience and service may have tipped the balance. A June 2003 study by Vividence pointed to Expedia as the leading site for the lodging industry, with Travelocity coming in second. Note that Expedia achieved the highest rating despite placing towards the bottom in two categories that Vividence deemed essential experience drivers *and* despite the fact that study participants cited Travelocity as the online service they would be most likely to use in the future.

Expedia also placed first in the American Customer Satisfaction Index, conducted in the fourth quarter of 2002. The study found hotel sites to be more successful at building the brand rather than converting site visitors into travel buyers.

**US Customer Satisfaction with Leading Online Travel Services, Q4 2002 (based on a 100-point scale)**

<b>Expedia.com</b>	<b>80</b>
<b>Orbitz, Inc.</b>	<b>76</b>
<b>Travelocity.com, Inc.</b>	<b>76</b>
<b>Others</b>	<b>77</b>

*Source: American Customer Satisfaction Index (ACSI), February 2003*

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- [Travel Trends](#)
- [Technology Applications and Initiatives](#)
- [Travel Advertising and Marketing](#)
- [Total Travel Market: Size and Growth](#)
- [Online Travel Market](#)**
- [Travel Segments](#)
- [Traveler Demographics & Preferences](#)
- [Index of Charts](#)

Although Travelocity ranked as the top travel firm in an April 2003 survey by the Customer Respect Group (CRG), a research firm that measures consumer online experience and satisfaction with corporate Web sites, consumers continue to flock to Expedia's site in greater numbers each month, according to tallies by comScore Media Metrix and Nielsen//NetRatings. Clearly then, if a company is consistent across every segment, even if it is not the top-ranked vendor in each one, the whole can be greater than the sum of its parts.

**Top 10 US Travel Firms, Ranked by Online Customer Service, 2003 (based on an index scale of 0-10)**

<b>Travelocity</b>	<b>9.2</b>
<b>Marriott International, Inc.</b>	<b>8.8</b>
<b>Hotwire</b>	<b>8.7</b>
<b>Harrah's Entertainment, Inc.</b>	<b>8.7</b>
<b>Expedia</b>	<b>8.7</b>
<b>Navigant International</b>	<b>8.5</b>
<b>Worldspan</b>	<b>8.4</b>
<b>Starwood Hotels &amp; Resorts Worldwide, Inc.</b>	<b>8.3</b>
<b>Park Place Entertainment Corporation</b>	<b>8.0</b>
<b>SixContinents</b>	<b>7.3</b>

Source: The Customer Respect Group, April 2003

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**Top 10 Travel Web Sites among At-Home Internet Users in the US, Week Ending 6 July 2003 (unique audience in thousands and % active reach)**

	<b>Unique audience</b>	<b>Active reach</b>	<b>Time per person (hrs:min:sec)</b>
MapQuest	4,865	5.85%	0:07:52
Expedia	2,461	2.96%	0:09:30
Travelocity	1,911	2.30%	0:09:55
Orbitz.com	1,889	2.27%	0:07:03
Hotels.com	1,008	1.21%	0:08:21
Priceline	888	1.07%	0:11:09
Yahoo! Travel	874	1.05%	0:03:36
Southwest Airlines	852	1.03%	0:09:45
AOL Travel	842	1.01%	0:18:59
American Airlines	722	0.87%	0:13:57

Note: NetView traffic figures now incorporate AOL Proprietary Channels and Internet Applications Tracking with regular Web traffic data. This data cannot be trended against data from before 10 November 2002

Source: Nielsen//NetRatings, July 2003

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- [Methodology](#)
- [Travel Trends](#)
- [Technology Applications and Initiatives](#)
- [Travel Advertising and Marketing](#)
- [Total Travel Market: Size and Growth](#)
- [Online Travel Market](#)**
- [Travel Segments](#)
- [Traveler Demographics & Preferences](#)
- [Index of Charts](#)

## Top 10 Travel Sites among US Internet Users, June 2003 (in thousands of unique visitors)

<b>1. mapquest.com</b>	<b>30,031</b>
<b>2. Expedia Travel</b>	<b>18,125</b>
<b>3. Travelocity</b>	<b>14,316</b>
<b>4. Trip Network Inc.</b>	<b>12,739</b>
<b>5. orbitz.com</b>	<b>12,667</b>
<b>6. Hotels.com sites</b>	<b>8,014</b>
<b>7. AOL Proprietary Travel</b>	<b>7,932</b>
<b>8. hotwire.com</b>	<b>7,733</b>
<b>9. priceline.com</b>	<b>7,411</b>
<b>10. southwest.com</b>	<b>5,622</b>
<b>Travel category total</b>	<b>71,201</b>

Source: comScore Media Metrix, July 2003

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- [Methodology](#)
- [Travel Trends](#)
- [Technology Applications and Initiatives](#)
- [Travel Advertising and Marketing](#)
- [Total Travel Market: Size and Growth](#)
- [Online Travel Market](#)**
- [Travel Segments](#)
- [Traveler Demographics & Preferences](#)
- [Index of Charts](#)

The two charts below illustrate some other important trends about usage of travel Web sites. In the first, it is evident that most visits come from at-home Internet users (roughly double the rate of those at work), which should give marketers a sense of the potential audience and the types of ads and messages they should serve.

**Top Travel Web Sites Visited by Home, Work and University Internet Users in the US, April 2003 (in thousands of unique visitors)**

	Home	Work	University	All locations
Travel category	48,041	24,945	4,190	65,977
Mapquest.com	17,123	9,911	1,708	26,263
Expedia Travel	9,095	6,085	741	14,716
Orbitz.com	8,354	4,961	638	12,874
Travelocity	7,332	4,339	498	11,123
Trip Network Inc	6,504	4,220	623	10,931
AOL Proprietary Travel	5,097	1,437	349	6,759
SouthWest.com	3,753	2,166	301	5,870
Priceline.com	3,435	1,960	310	5,411
Hotwire.com	3,053	2,187	264	5,411
Yahoo! Travel	2,844	1,843	264	4,717
Hotels.com sites	2,895	1,792	217	4,642
AA.com	2,762	1,529	141	4,062
Delta.com	2,231	1,437	160	3,499
Travelnow.com sites	1,624	1,205	107	2,780
NWA.com	1,911	1,053	80	2,651
<b>Total Internet users</b>	<b>125,379</b>	<b>48,690</b>	<b>10,173</b>	<b>145,588</b>

Source: comScore Media Metrix, May 2003

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- [Methodology](#)
- [Travel Trends](#)
- [Technology Applications and Initiatives](#)
- [Travel Advertising and Marketing](#)
- [Total Travel Market: Size and Growth](#)
- [Online Travel Market](#)**
- [Travel Segments](#)
- [Traveler Demographics & Preferences](#)
- [Index of Charts](#)

The second illustrates the rising popularity of travel sites among Latino Internet users in the US – a highly important and coveted demographic. According to comScore, 43% of the Latino Internet population visited a travel site in June. Of additional interest is the high ranking enjoyed by AOL Proprietary Travel (fifth among Latino users, but seventh among the total US Internet user population) – confirming comScore’s findings that Latinos are more likely to access the Internet via AOL services than the US population as a whole. An additional word to the wise: Latinos flock to sites (such as those for JetBlue and Spirit Airlines) that have full, easily accessible Spanish-language content and e-commerce functionality. This may seem self-evident, but there are many travel (and other retail sites, for that matter) that have yet to pay heed.

**Top 10 Travel Sites among Hispanic Internet Users in the US, June 2003 vs. May 2003 (in thousands of unique visitors and % change)**

	<b>June 2003</b>	<b>% change vs. May 2003</b>	<b>% change vs. average of past 6 months</b>
<b>Travel category total</b>	<b>5,406</b>	<b>3%</b>	<b>7%</b>
mapquest.com	1,988	3%	16%
Expedia Travel	1,249	4%	24%
Trip Network Inc.	956	-4%	22%
Travelocity	927	7%	32%
AOL Proprietary Travel	863	11%	13%
orbitz.com	859	-8%	11%
priceline.com	629	17%	29%
hotwire.com	617	7%	66%
Hotels.com Sites	583	86%	124%
Yahoo! Travel	419	15%	15%

Source: comScore Media Metrix, July 2003

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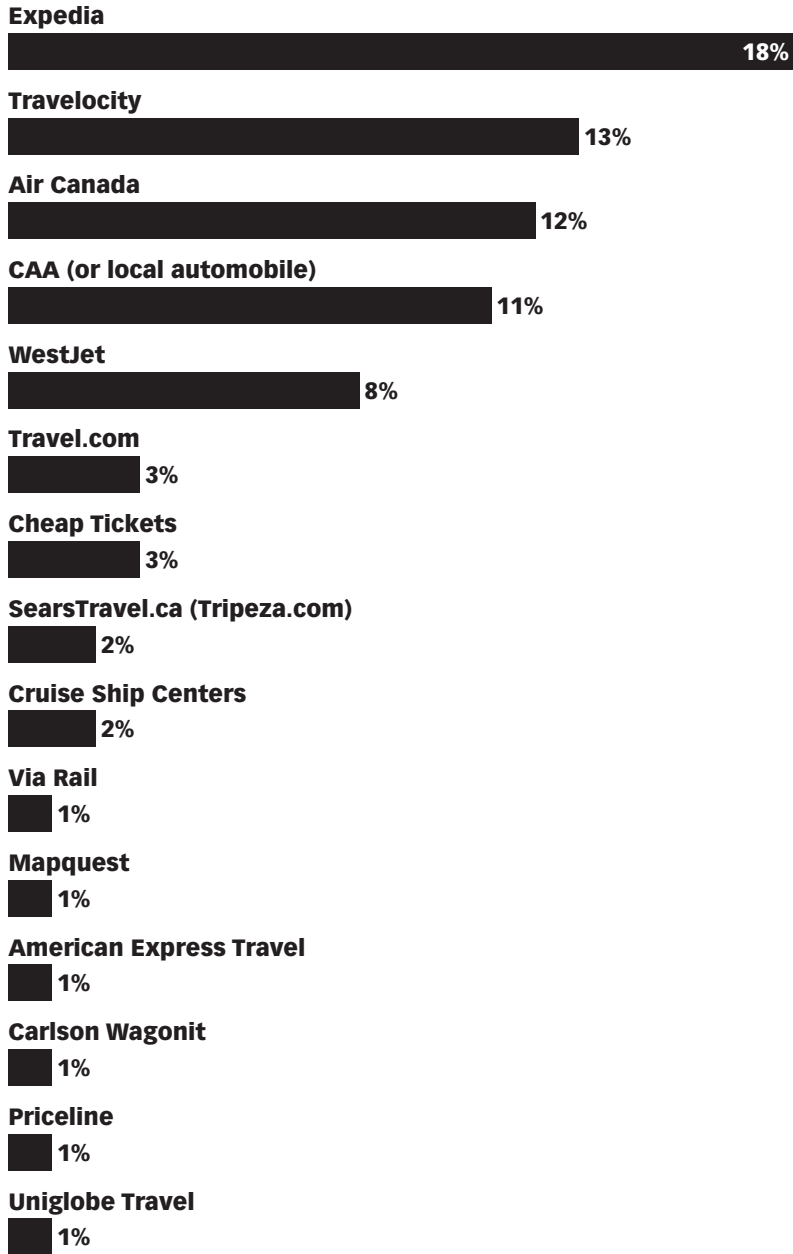
**“Given the hesitancy of Canadian consumers to make purchases online due to privacy and security concerns, the fact that Canadians are increasingly booking travel directly online is a positive reflection of the travel industry’s ability to successfully convert browsers to buyers. Travel is one of the few e-commerce categories that Canadians have embraced wholeheartedly.”**

— Steve Mossop, senior vice president, Ipsos-Reid, 28 August 2003

- [Methodology](#)
- [Travel Trends](#)
- [Technology Applications and Initiatives](#)
- [Travel Advertising and Marketing](#)
- [Total Travel Market: Size and Growth](#)
- [Online Travel Market](#)**
- [Travel Segments](#)
- [Traveler Demographics & Preferences](#)
- [Index of Charts](#)

Expedia and Travelocity are also the top two travel sites in Canada, according to a survey by Ipsos-Reid, followed by the nation's flag carrier, Air Canada, and the Canadian Automobile Association (CAA). The survey noted that Canadian Internet users are gradually overcoming their reticence about buying travel online, finding that the Web has become the leading source of trip-planning information for Canadian users.

**Favorite Web Sites for Travel Information among Canadians, June 2003 (as a % of respondents)**



*continued on page 93*

- [Methodology](#)
- [Travel Trends](#)
- [Technology Applications and Initiatives](#)
- [Travel Advertising and Marketing](#)
- [Total Travel Market: Size and Growth](#)
- [Online Travel Market](#)**
- [Travel Segments](#)
- [Traveler Demographics & Preferences](#)
- [Index of Charts](#)

**Other**



**None (no favorites)**



**Don't know**



Source: Ipsos-Reid, August 2003

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**Europe**

Europe's online travel market remains far more fragmented than that of the US. PhoCusWright notes that France, for example, has nine competitive online agencies, with the top three holding onto approximately half of the market, although three of the top four online agencies (Nouvelles Frontières, Anyway and Karavel) are either tour operators or owned by tour operators. Established leaders in Europe include Lastminute.com, Expedia, ebookers and Opodo, although this latter, Europe's answer to Orbitz, is having its difficulties in gaining a solid foothold in the diverse pan-European marketplace.

**Top 10 Web Sites Visited by Women in the UK, May 2003 (in thousands of unique audience and as a % of total audience)**

	Unique female audience	Female % of total audience	Category
next.co.uk	234	82.9%	Shopping
neopets.com	183	67.85%	Gaming
gus-secure.co.uk	241	65.28%	Shopping
markandspenceer.com	255	57.16%	Shopping
debenhams.com	250	54.34%	Shopping
abbeynational.co.uk	261	49.23%	Finance
mytravel.com	241	49.18%	Travel
ox.ac.uk	239	47.1%	Education
ivillage.co.uk	324	46.56%	Women's Portal
tesco.net	265	46.38%	Shopping

Source: Nielsen//NetRatings, June 2003

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- [Methodology](#)
- [Travel Trends](#)
- [Technology Applications and Initiatives](#)
- [Travel Advertising and Marketing](#)
- [Total Travel Market: Size and Growth](#)
- [Online Travel Market](#)**
- [Travel Segments](#)
- [Traveler Demographics & Preferences](#)
- [Index of Charts](#)

## Traditional Agencies & Consolidation

The ongoing economic crunch has taken its toll on travel agencies, according to data from the Airlines Reporting Corporation (ARC), although the steepest declines have occurred among satellite ticket printers (STPs), which are designed to print and deliver tickets electronically for reservations made directly by corporate clients at another authorized agency location. ARC believes the decline can be largely attributed to the advance of e-ticketing.

### Travel Agents in the US, by Office Type, 2001-2003

	December 2001	December 2002	June 2003
Independent	15,706	14,001	13,151
Branch	10,324	9,383	8,921
Satellite ticket printer (STP)	6,352	4,725	3,912
Home office	1,689	1,413	1,328
<b>Total</b>	<b>34,071</b>	<b>29,522</b>	<b>27,312</b>

*Note: figures for 2003 are through end of June*  
*Source: Airlines Reporting Corporation, July 2003*

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In one of the larger moves in the travel services sector, American Express agreed to acquire privately held Rosenbluth International, the Philadelphia-based owner and manager of corporate travel operations in 15 countries. Terms of the transaction were not disclosed, but bear in mind that Rosenbluth posted over \$3 billion in global business travel revenue in 2002, a down year for business travel. PhoCusWright estimates that 15% of full-service travel agencies in the US went out of business in 2002, unable to withstand the combined blows of a down travel market and the ever-encroaching online agencies.

### Managing Customer Relationships

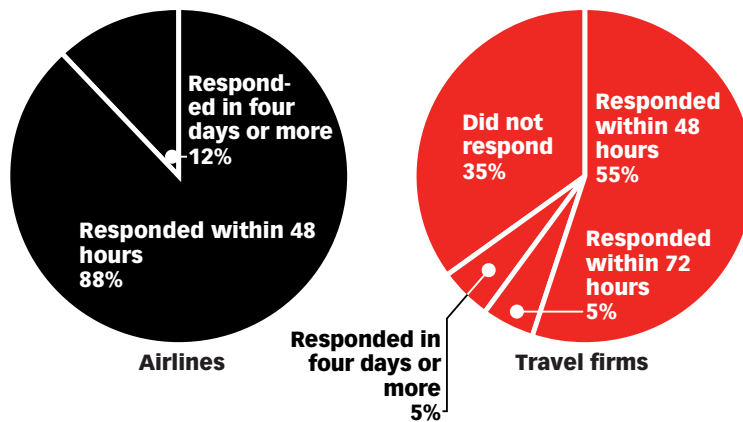
In CRG's Winter 2003 Online Customer Respect Study, airline sites on the whole scored higher than travel sites. These findings will come as a bit of welcome news for the beleaguered airline industry. The industry has been struggling for nearly two years with a depressed travel market, a condition only exaggerated by the outbreak of SARS and war in Iraq.

**For detailed information on the best practices of leading Internet retailers, see eMarketer's August 2003 Online Selling and eCRM report at [http://www.emarketer.com/products/report.php?crm\\_on\\_aug03](http://www.emarketer.com/products/report.php?crm_on_aug03)**

- [Methodology](#)
- [Travel Trends](#)
- [Technology Applications and Initiatives](#)
- [Travel Advertising and Marketing](#)
- [Total Travel Market: Size and Growth](#)
- [Online Travel Market](#)**
- [Travel Segments](#)
- [Traveler Demographics & Preferences](#)
- [Index of Charts](#)

Prominent among the reasons for the disparity in consumer satisfaction with airline and travel sites is that a surprising 35% of surveyed travel firms failed to respond to consumer inquiries submitted online through their Web sites. Among the travel firms that did respond, 55% did so within 48 hours, while 5% responded in 72 hours and the remaining 5% took four days or more to answer consumer inquiries. By contrast, all of the airlines CRG polled replied to consumer questions, and most did so promptly, with 88% responding within a 48-hour timeframe.

**Airline and Travel Firms Responding to Consumer Inquiries Submitted via Company Web Sites, 2003 (as a % of companies surveyed)**



Source: CustomerRespect.com, April 2003

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**“Anything with a propeller is on its way out.”**

— Michael Boyd, airline consultant, as quoted in the New York Times, 27 May 2003

Airline Web sites ranked higher than travel sites according to a number of qualitative criteria as well. Three-quarters of those surveyed automatically sent consumers an e-mail response to confirm receipt of their query, and all subsequently followed up with a personalized message. In addition, all of the airlines display their privacy policies regarding use of personal data on their Web sites. Among travel firms, on the other hand, just 25% used Autoresponder technology, and of this portion, 20% failed to follow up with consumers, while 86% display their privacy policies online.

- [Methodology](#)
- [Travel Trends](#)
- [Technology Applications and Initiatives](#)
- [Travel Advertising and Marketing](#)
- [Total Travel Market: Size and Growth](#)
- [Online Travel Market](#)**
- [Travel Segments](#)
- [Traveler Demographics & Preferences](#)
- [Index of Charts](#)

It is interesting to note, however, that consumer satisfaction scores do not necessarily correlate with overall Web site popularity. According to figures released by Nielsen//NetRatings, Orbitz was by far the leading travel site, outpacing second-place Cheap Tickets by a margin of two to one. In CRG's Customer Respect Index (CRI), Orbitz scored 6.7 on a ten-point scale (based on 25 attributes), which was lower than the travel sector's average of 6.9. Note here that Nielsen//NetRatings ranked the top-10 sites by unique audience growth over a three-week period, not by overall audience numbers. As a result, highly popular sites such as Expedia and Travelocity, which ranked at the top of the CRI but experienced smaller audience growth, were not included in the list.

**Top 10 Travel Web Sites among At-Home Internet Users in the US, 2 February 2003 & 23 February 2003 (ranked by % growth, unique audience in thousands)**

	Unique audience 2 February 2003	Unique audience 23 February 2003	% growth
1. Cheap Tickets	546	864	58%
2. Continental Airlines	241	348	44%
3. American Airlines	484	693	43%
4. Usatravelpro.com	299	428	43%
5. Travelzoo	227	303	33%
6. Orbitz.com	1,367	1,762	29%
7. Alaska Air	177	225	27%
8. Marriot	272	342	26%
9. Internet Travel Network	270	339	26%
10. Amtrak	210	258	23%

Source: Nielsen//NetRatings, February 2003

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As consumers increasingly turn to the Internet to find travel information and make travel-related reservations and purchases, the results of the CRG survey should serve as a reminder to all travel companies of the importance of optimizing the consumer experience and seeking to maximize consumer satisfaction. In difficult economic times and with a growing variety of online options, airlines and travel firms cannot afford to take consumer loyalty for granted.



	Methodology	7
I	Travel Trends	11
II	Technology Applications and Initiatives	25
III	Travel Advertising and Marketing	37
IV	Total Travel Market: Size and Growth	53
V	Online Travel Market	61
<b>VI</b>	<b>Travel Segments</b>	<b>97</b>
	<b>A. Air Travel Market</b>	<b>98</b>
	<b>B. Hotel/Hospitality Market</b>	<b>112</b>
	<b>C. Car Rental Market</b>	<b>125</b>
VII	Traveler Demographics & Preferences	131
	Index of Charts	165

- [Methodology](#)
- [Travel Trends](#)
- [Technology Applications and Initiatives](#)
- [Travel Advertising and Marketing](#)
- [Total Travel Market: Size and Growth](#)
- [Online Travel Market](#)
- [Travel Segments](#)**
- [Traveler Demographics & Preferences](#)
- [Index of Charts](#)

## A. Air Travel Market

### Competitive Environment: FSCs vs. LCCs

A survey of 700 business and leisure travelers conducted in August 2002 by market research firm Penn, Schoen & Berland on behalf of online travel agency Orbitz and the Travel Business Roundtable found that just 9% of respondents had delayed, postponed or canceled international travel since the terrorist attacks of 2001. A survey of 1,000 people in the US, sponsored by online travel service Travelocity and likewise conducted in August 2002, found that 90% of respondents had taken a trip since September 2001, with just 4.1% saying they were still too afraid to fly.

Yet, the airline industry, particularly the major airlines, finds itself in the worst crisis in history. Although four major US carriers reported second-quarter profits, the overall outlook for the year is dim, with the top ten carriers expected to lose up to \$7.25 billion, more than the \$6 billion they lost in 2002.

### Net Debt of US Airlines, 2000-2003 (in billions)



Source: McKinsey & Company, June 2003

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The first quarter of the year saw Air Canada, the nation's flag carrier, Air Lib (France's second-largest carrier) and Hawaiian Airline file for bankruptcy, and US Airways emerge from Chapter 11 (on March 31, 2003) after making drastic employee, flight and seat cuts. Even though it lost an industry-record \$3.5 billion in 2002 and was at one point in early 2003 bleeding cash at the rate of \$5 million per day, American Airlines, the world's largest carrier, managed to narrowly avoid a bankruptcy filing. VARIG, Brazil's flag carrier and Latin America's largest airline, was forced to merge with upstart TAM in order to stave off insolvency.

Swiss International Air Lines (Swiss), the airline formed in March 2002 by the merger of defunct Swissair and CrossAir, its profitable regional subsidiary, has never been on solid financial footing. Planned cuts of one-third of its work force and aircraft are unlikely to be a sufficient antidote to keep the carrier in the air. It remains unclear whether a lifesaving move in September 2003 to join the oneworld alliance, led by American Airlines and BA, will bring stability to the loss-making airline. As part of the deal, BA will get several of Swiss' landing slots at London Heathrow, BA's hub city.

[Methodology](#)

[Travel Trends](#)

[Technology Applications and Initiatives](#)

[Travel Advertising and Marketing](#)

[Total Travel Market: Size and Growth](#)

[Online Travel Market](#)

**[Travel Segments](#)**

[Traveler Demographics & Preferences](#)

[Index of Charts](#)

On the other hand, business for low-cost carriers (LCCs) is booming, with the top six US LCCs enjoying an 17% increase in passenger traffic in the first half of 2003 (versus a 3.2% decline in domestic traffic for the country's six largest major airlines). According to TQ3 Travel Solutions, LCCs now account for 20% of domestic passenger volume, and compete with the majors on 55% of their routes. The LCCs began expanding their fleets in the second half of 2003, even as the majors continued to cut service, routes and ground planes.

The low-cost segment is now booming worldwide, and putting the major airlines under a tremendous degree of pressure. Many have responded by cutting fares to competitive levels on routes where there is overlap with LCCs (a short-term strategy to retain market share at the expense of profits), while several have launched their own low-cost units. These include Song (Delta), Australian Airlines (Qantas), and Snowflake (Scandinavia Airlines System – SAS), which will compete with an ever-growing roster of start-up airlines. What remains to be seen is if the majors can successfully and profitably apply the low-cost model within structures, which, with their relatively rigid fixed costs, are basically antithetical to the flexible model that makes the LCCs so nimble in their operations.

By the same token, the ability of the LCCs to achieve scale in the marketplace without succumbing to the same unwieldy structures as the majors is also unproven. Whereas LCCs have achieved a high penetration of the US domestic market, European LCCs, although expanding rapidly and always front-page news, still control just 7% of the intra-European market in terms of passenger volume and even less in terms of revenues, according to analysis by McKinsey & Company. The strategy consultancy notes that European LCCs lost \$1 billion from 1996 to 2001 (a figure matched by the US low-cost segment, excluding Southwest Airlines) and saw AB Airlines, ColorAir and Debonair go bankrupt. McKinsey estimates that easyJet and Ryanair now control nearly 90% of the low-cost market in Europe, while in the US, Southwest alone accounts for 50%, and suggests that taking on the majors (both low-cost and full-service), particularly on domestic routes, is a recipe for trouble, because European full-service carriers have more competitive costs than on international routes. LCCs must also contend with a charter airline business that is well established across Europe, accounting for an estimated 21% of all intra-European air travel, and making the competitive environment there more intricate than in the US.

## **“Airlines don’t own their customers; they lease them flight to flight.”**

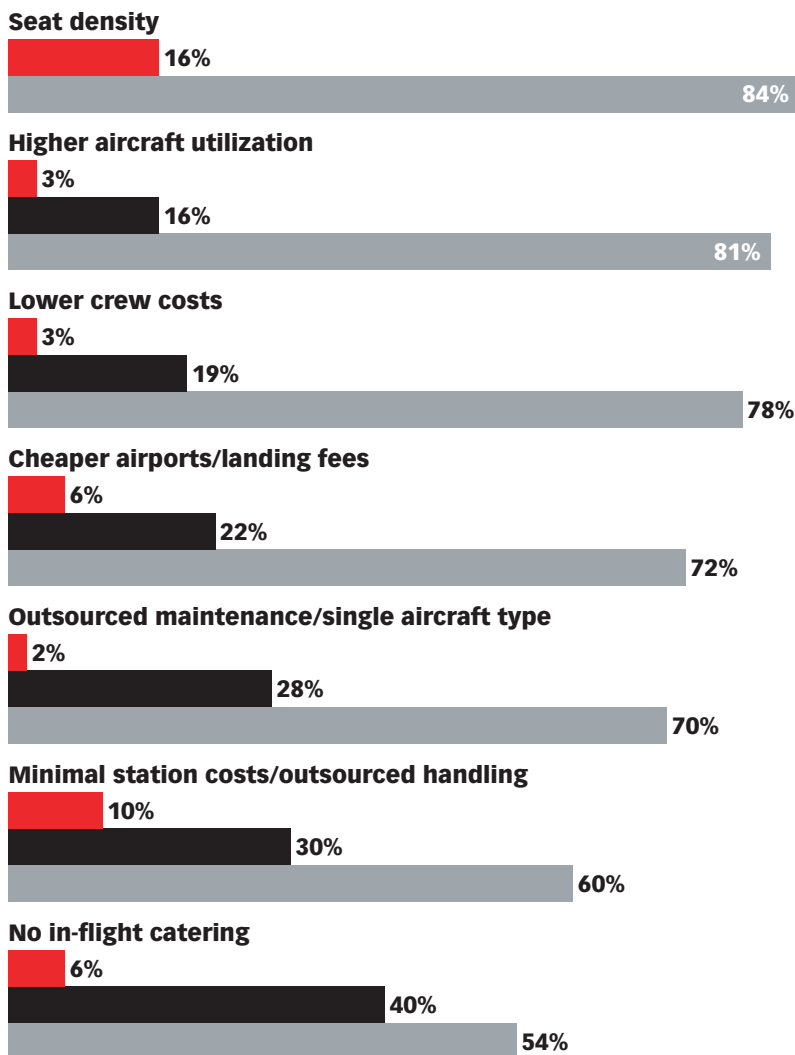
— Forrester Research, “Consumer Technographics 2002 North America Travel Online Study,” December 2002

In the UK, 21% of air travelers going to domestic and European destinations fly on low-cost carriers, according to calculations by

- [Methodology](#)
- [Travel Trends](#)
- [Technology Applications and Initiatives](#)
- [Travel Advertising and Marketing](#)
- [Total Travel Market: Size and Growth](#)
- [Online Travel Market](#)
- [Travel Segments](#)**
- [Traveler Demographics & Preferences](#)
- [Index of Charts](#)

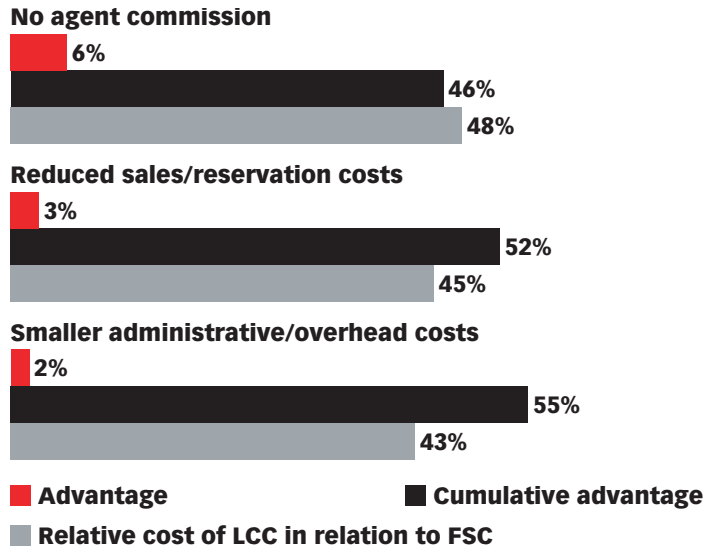
GartnerG2. The number of people departing from or arriving in France on low-cost airlines doubled between 2001 and 2002 alone, with the majority of travelers coming from or headed to the UK. GartnerG2 described the LCCs as the “lifeblood” of French regional airports, a situation that several carriers have not failed to turn to their advantage in terms of concessions. And, as the second chart below shows, a large percentage of business travelers in the UK, at least, opted for LCCs. A September survey by Business Travel International UK (BTI UK) found that 90% of the 100 BTI UK clients surveyed were allowing employees to book flights on LCCs within the company travel policy.

**Cost Advantage of Typical European Low-Cost Carrier (LCC) in Relation to Full-Service Carrier (FSC), 2002**



*continued on page 101*

- [Methodology](#)
- [Travel Trends](#)
- [Technology Applications and Initiatives](#)
- [Travel Advertising and Marketing](#)
- [Total Travel Market: Size and Growth](#)
- [Online Travel Market](#)
- [Travel Segments](#)**
- [Traveler Demographics & Preferences](#)
- [Index of Charts](#)



Source: European Cockpit Association, 2002 and Professor Rigas Doganis, 2001; appeared in GartnerG2, 2003

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### **Unmanaged Business Travelers in Select Countries in Europe Who Flew Low-Cost Carriers (LCCs) in Past 12 Months, September 2002 (as a % of respondents)**



Note: n=376 unmanaged business travelers who use the Internet and who flew for business in the past 12 months  
Source: GartnerG2, September 2002

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For disgruntled full-service carriers (FSCs) feeling the pressure of competition from LCCs, GartnerG2 recommends four possible solutions:

- retrenchment around a core hub
- focus on differentiation via service
- cost-cutting (seen as limited in scope and damaging to morale)
- building a low-cost subsidiary (like Delta's Song) to counter the threat of LCCs

A fifth option would be FSC collaboration with LCCs, with the goal of improving the industry as a whole, including standardization of processes, IT and frequent flyer program management, and better coordinating e-ticketing process to wring further savings out of the system.

[Methodology](#)[Travel Trends](#)[Technology Applications and Initiatives](#)[Travel Advertising and Marketing](#)[Total Travel Market: Size and Growth](#)[Online Travel Market](#)[Travel Segments](#)[Traveler Demographics & Preferences](#)[Index of Charts](#)

**“Business travelers have known for a long time that we charge them more because we provide them services that cost more, then we top off the plane with leisure travelers. The Internet has made this more visible.”**

— Gregory T. Taylor, senior vice president, United Airlines, as quoted in the *New York Times*, 27 October 2002

Thus, the slump in which the airline industry finds itself is no illusion. According to the TIA, domestic and international air travel have both dropped considerably in terms of total miles traveled, part of which can be attributed to a reduction in business travel, itself largely a function of a still-weak economy (a condition in part aggravated by terrorism jitters and conflict in the Middle East). It is not so much that businesspeople did not travel, but that they traveled less in 2002, using alternatives such as tele-, video and Web conferencing. Another survey by the TIA found that 30% of business travelers traveled less by air in 2002 than in 2001, with only 21% responding that they flew more. By contrast, 80% of the leisure travelers surveyed said they flew the same amount or more in 2002.

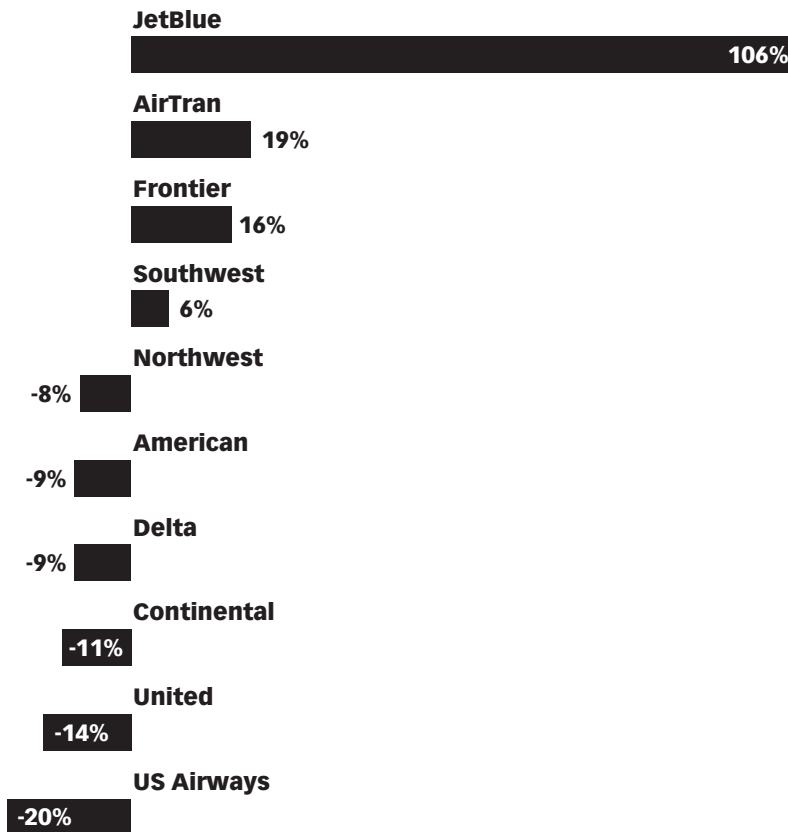
Overall business travel declined 4.3% in 2002, a steeper fall than the 3% decline registered in 2001. According to a survey of 200 corporate travel managers by the NBTA, 33.8% of respondents stated that spending on air travel fell by at least 10% and in some cases more in 2002, with 31.4% saying that they expected air travel expenditures to remain flat in 2003. The TIA forecast a modest increase of 2% in overall business travel 2003, but this will be accompanied by an increased focus on bargain hunting, particularly for lower airfares, including on low-cost carriers.

Given the current state of affairs, both leisure and business travelers have been flocking to the Web in increasing numbers in search of bargains. Ironically, even as the major airlines find themselves under increasing financial pressure, the Web sites have been registering steep growth in traffic. Of course, this perfectly illustrates the conundrum in which the airlines and the travel industry as a whole find themselves in: they have succeeded to a significant degree in attracting travelers to lower-cost Internet-based services, but in so doing, they have reduced their already slim margins that much further.

- [Methodology](#)
- [Travel Trends](#)
- [Technology Applications and Initiatives](#)
- [Travel Advertising and Marketing](#)
- [Total Travel Market: Size and Growth](#)
- [Online Travel Market](#)
- [Travel Segments](#)**
- [Traveler Demographics & Preferences](#)
- [Index of Charts](#)

Moreover, the industry is still being buffeted by the pressure of excess capacity, the growth and expansion of low-cost carriers (whose share of the US market nearly doubled from 11.7% in 1995 to an estimated 21.4% in the early part of last year), weak demand in high-yield segments (first and business class and full-fare coach class), deep discounting in leisure travel segments and the impact of security costs. By utilizing both point-to-point and connecting traffic, leveraging cost and revenue advantages and stimulating demand by offering travelers lower prices, LCCs have been able to grow in a challenging business environment where FSCs have been forced to reduced capacity.

**Year-over-Year Change in Revenue Passenger Miles (RPMs) among Full-Service and Low-Cost US Carriers, May 2002**



Source: McKinsey & Company, June 2003

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- [Methodology](#)
- [Travel Trends](#)
- [Technology Applications and Initiatives](#)
- [Travel Advertising and Marketing](#)
- [Total Travel Market: Size and Growth](#)
- [Online Travel Market](#)
- [Travel Segments](#)**
- [Traveler Demographics & Preferences](#)
- [Index of Charts](#)

**“The...airline industry is slowly but surely beginning to recover following the devastating catalogue of events and pressures of the last couple of years. The global economic and political factors have dented the confidence of many airlines; however, the general positive trends beginning to show through in our statistics indicate that the industry may at last have turned a corner.”**

— Lynne Fraser, marketing director, OAG, 21 September 2003

### Worldwide Airline Traffic & Leading Airports

A look at some historical data for travel agencies, airports and passenger movements shows signs of improvement in the industry since the publication of eMarketer’s February 2002 *Travel Market Worldwide*<sup>TM</sup> report. Whereas total airport traffic, as measured by the number of passengers, declined almost 15% from September 2000 to September 2001, in large part due to the combined impact of the worldwide economic slowdown and the September 11 terrorist attacks, it posted a 13% year-over-year increase from 2001 to 2002. North America, the region hardest hit in 2001, was the biggest gainer in 2002, with a nearly 30% rise in airport traffic.

#### **Worldwide Airport Traffic, by Region, September 2002 (in millions of passengers and as a % change vs. September 2001)**

	<b>Total passengers</b>	<b>% change vs. September 2001</b>
Africa	7.6	3.4%
Asia-Pacific	51.6	11.0%
Europe	98.7	2.2%
Latin America/Caribbean	12.2	2.7%
Middle East	6.4	14.4%
North America	100.0	29.8%
<b>Total</b>	<b>276.6</b>	<b>12.9%</b>

Source: Airports Council International (ACI), December 2002

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- [Methodology](#)
- [Travel Trends](#)
- [Technology Applications and Initiatives](#)
- [Travel Advertising and Marketing](#)
- [Total Travel Market: Size and Growth](#)
- [Online Travel Market](#)
- [Travel Segments](#)**
- [Traveler Demographics & Preferences](#)
- [Index of Charts](#)

Positive signs can be seen beyond the aggregate regional level as well. According to data from Airports Council International (ACI), an international airport trade association, 27 out of the world's top 30 airports saw declines in passenger traffic in 2001; only Tokyo, Madrid and Bangkok registered increases. However, preliminary ACI data show that the situation improved in 2002, with ten airports showing increases in passenger traffic. However, only two of these were in the US, offering strong evidence that suggesting the world's largest travel market has yet to fully recover. Undoubtedly, this will come as no surprise to anyone involved in the travel business.

**World's Leading 30 Airports, 2002 (in millions of passengers and as a % change vs. 2001)**

	<b>Total passengers</b>	<b>% change vs. 2001</b>
1. Atlanta (ATL)	76.9	1.3%
2. Chicago (ORD)	66.5	-1.3%
3. London (LHR)	63.3	4.3%
4. Tokyo (HND)	61.1	4.7%
5. Los Angeles (LAX)	56.2	-8.8%
6. Dallas/Fort Worth (DFW)	52.8	-4.2%
7. Frankfurt (FRA)	48.5	-0.2%
8. Paris (CDG)	48.3	0.6%
9. Amsterdam (AMS)	40.7	3.0%
10. Denver (DEN)	35.7	-1.2%
11. Phoenix (PHX)	35.5	0.3%
12. Las Vegas (LAS)	35.0	-0.5%
13. Houston (IAH)	33.9	-2.2%
14. Madrid (MAD)	33.9	-0.4%
15. Hong Kong (HKG)	33.9	4.1%
16. Minneapolis/St. Paul (MSP)	32.6	-3.3%
17. Detroit (DTW)	32.4	-0.5%
18. Bangkok (BKK)	32.2	5.1%
19. San Francisco (SFO)	31.4	-9.2%
20. Miami (MIA)	30.1	-5.1%
21. London (LGW)	29.6	-5.0%
22. Singapore (SIN)	29.0	3.2%
23. Newark (EWR)	29.0	-6.9%
24. Tokyo (NRT)	28.9	13.9%
25. New York (JFK)	28.9	-1.8%
26. Beijing (PEK)	27.2	12.3%
27. Seattle/Tacoma (SEA)	26.7	-1.3%
28. Orlando (MCO)	26.7	-5.7%
29. Toronto (YYZ)	25.9	-7.5%
30. St. Louis (STL)	25.6	-4.1%

Source: Airports Council International (ACI), April 2003

[Methodology](#)[Travel Trends](#)[Technology Applications and Initiatives](#)[Travel Advertising and Marketing](#)[Total Travel Market: Size and Growth](#)[Online Travel Market](#)**[Travel Segments](#)**[Traveler Demographics & Preferences](#)[Index of Charts](#)

**“For most organizations, the impact of using travel alternatives and its affect on the bottom line is unidentified. At first blush, the cost of travel alternatives versus traditional airfare and lodging costs may show significant dollar savings. What is unknown, however, is whether or not alternatives are costing you customers.”**

— *Phyllis Schumann, senior editor, Runzheimer Reports on Travel Management, 2 July 2003*

That is not to say that the industry, especially some its biggest players, such as the airlines, is out of the woods just yet. In its *Quarterly Report on Global Airline Schedules*, released in September 2003, OAG, which monitors and maintains global flight schedules, revealed that the number of worldwide scheduled flights is on par with 2002 levels, despite the disturbances caused by SARS and the war in Iraq, but still 5% below 2001 levels. The US remains the worst affected market, down 12% from pre-September 11 levels, whereas in Asia-Pacific, scheduled flights are up 6% from September 2001, having recovered from a sharp drop during the worst of the SARS crisis. For US airlines in particular, the picture remains rather bleak, with the exception of cash-flow positive low-cost carriers like Southwest and JetBlue. According to the OAG report, the low-cost segment is up across the board: 176% on pre-September 11 levels in Europe, 123% in Canada, 272% in Asia-Pacific and 450% in Latin America.

**“The enhanced accessibility of last minute specials via the Internet, as well as low prices on last minute travel, is stimulating later booking patterns.”**

— *Dr. Suzanne Cook, senior vice president of research, Travel Industry Association of America, 9 December 2002*

Still, 2003 could be the beginning of a more generalized turnaround, as traffic through the first quarter of the year was up at 20 out of the 30 busiest airports, including many in the US. Moreover, June saw the first year-over-year rise in domestic airfares in the US. This may be unwelcome news to travelers, but it is certainly a good sign for businesses all along the travel value chain.

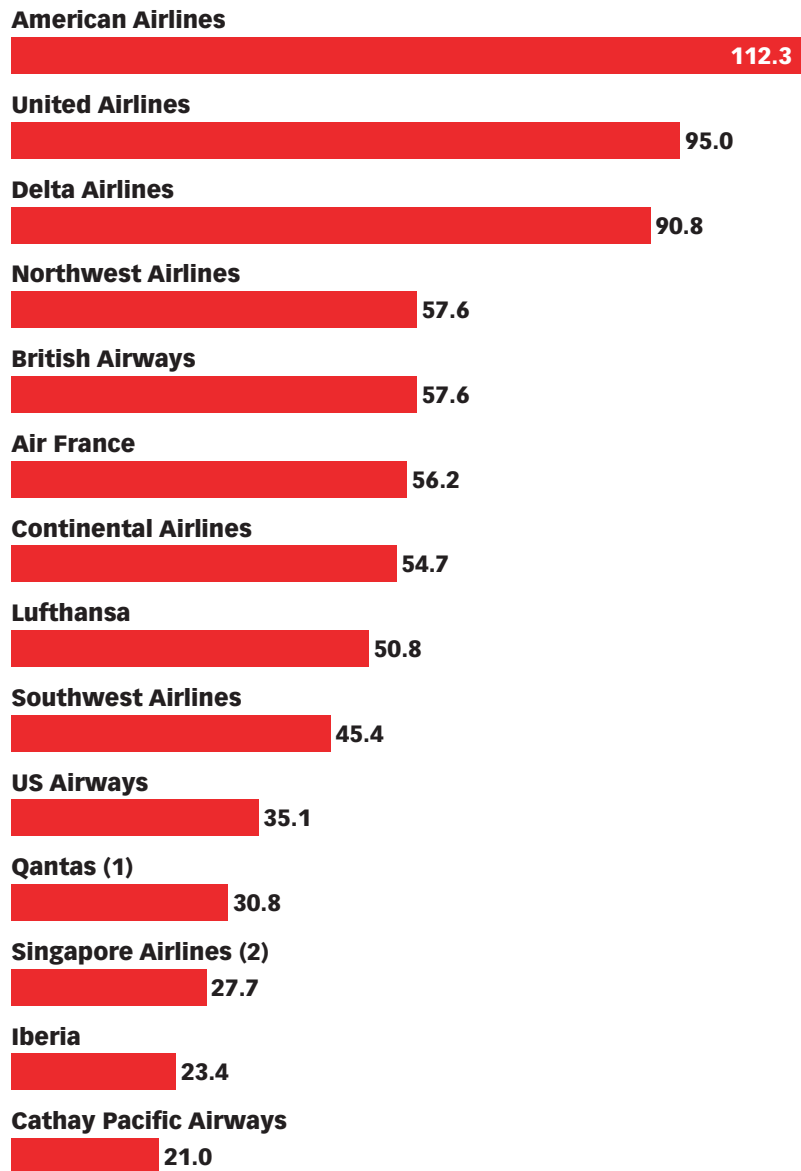
## Leading Airlines

A number of different metrics exist to measure the performance of the world's leading airlines. One of the primary metrics is revenue passenger kilometers (RPKs), a measure of sales volume attained by multiplying the number of revenue passengers (those who paid more than 25% of the applicable fare) carried on a flight by the distance traveled by each passenger. In other words, RPK measures the number of seat kilometers available for purchase on an airline that were actually sold to passengers.

- [Methodology](#)
- [Travel Trends](#)
- [Technology Applications and Initiatives](#)
- [Travel Advertising and Marketing](#)
- [Total Travel Market: Size and Growth](#)
- [Online Travel Market](#)
- [Travel Segments](#)**
- [Traveler Demographics & Preferences](#)
- [Index of Charts](#)

American, the world's largest carrier, was the leader in RPKs in 2002 and maintained its primacy through July 2003, despite losing record amounts of money. United, number one in 2000 and 2001, managed to hold onto the number two spot despite the fact that it, too, hemorrhaged cash in 2002 and sought bankruptcy protection in 2003. Delta, Northwest and British Airways, third, fourth and fifth, respectively, also posted declines in RPKs for the second year in a row. BA in particular has suffered under the assault of aggressive LCCs like easyJet and Ryanair.

**World's Leading 20 Airlines, by Revenue Passenger Kilometers (RPKs), January-July 2003 (in billions )**



*continued on page 108*

[Methodology](#)

[Travel Trends](#)

[Technology Applications and Initiatives](#)

[Travel Advertising and Marketing](#)

[Total Travel Market: Size and Growth](#)

[Online Travel Market](#)

**[Travel Segments](#)**

[Traveler Demographics & Preferences](#)

[Index of Charts](#)

## America West Airlines

 20.0

## Japan Airlines (3)

 19.5

## KLM Royal Dutch Airlines

 18.3

## Korean Air (2)

 17.6

## Emirates (2)

 15.7

## Thai Airways (4)

 15.0

*Note: Includes only carriers that submitted information in time for report; (1) data for January-May; (2) data for January-June; (3) data for January-March; (4) data for January-April*

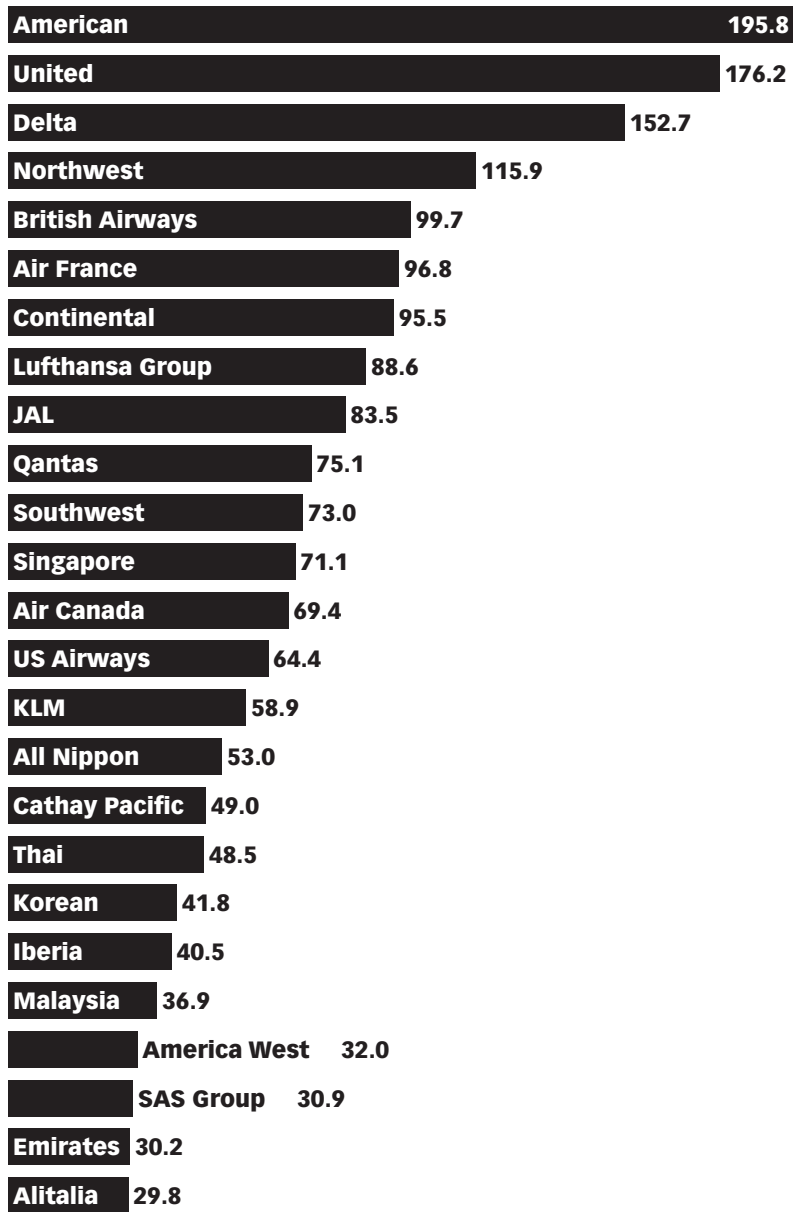
*Source: Air Transport World, September 2003*

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- [Methodology](#)
- [Travel Trends](#)
- [Technology Applications and Initiatives](#)
- [Travel Advertising and Marketing](#)
- [Total Travel Market: Size and Growth](#)
- [Online Travel Market](#)
- [Travel Segments](#)**
- [Traveler Demographics & Preferences](#)
- [Index of Charts](#)

### World's Leading 25 Airlines, by Revenue Passenger Kilometers (RPKs), 2002 (in billions)



Source: Air Transport World, July 2003

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The revenue and profitability picture, even for the world's top 25 airlines, is not a pretty one. Southwest was the only US passenger carrier among the top 25 to turn a net profit in 2002. European and Asian flag carriers fared considerably better, bearing witness to the more robust air travel markets in both regions despite the brief downturn associated with SARS. And although American, United, Delta and Northwest led all carriers in the number of passengers carried on scheduled, published flights, as seen in the second chart below, none was able to translate operating revenues into profits.

Methodology  
 Travel Trends  
 Technology Applications and Initiatives  
 Travel Advertising and Marketing  
 Total Travel Market: Size and Growth  
 Online Travel Market  
**Travel Segments**  
 Traveler Demographics & Preferences  
 Index of Charts

**World's Leading 25 Airlines, by Operating Revenue, Operating Profit and Net Profit, 2002 (in thousands)**

Operating revenue		Operating profit		Net profit	
Rank/airline	Revenue	Rank/airline	Profit	Rank/airline	Net profit
1. Lufthansa Group	\$18,057,000	1. Lufthansa Group	\$1,509,000	1. Lufthansa Group	\$777,000
2. AMR Corp	\$17,299,000	2. FedEx	\$736,184	2. SIA Group*	\$600,547
3. JAL System*	\$17,105,371	3. Cathay Pacific	\$609,000	3. Cathay Pacific	\$511,000
4. FedEx	\$15,941,157	4. British Airways	\$465,000	4. FedEx	\$402,154
5. UAL Corp	\$14,286,000	5. Thai*	\$431,200	5. Emirates*	\$287,000
6. Air France Group*	\$13,702,000	6. Southwest	\$417,338	6. Ryanair	\$258,550
7. Delta	\$13,305,000	7. SIA Group*	\$404,444	7. Southwest	\$240,969
8. British Airways	\$12,116,500	8. Qantas*	\$353,793	8. Thai*	\$234,900
9. All Nippon*	\$10,147,000	9. Emirates*	\$306,000	9. Qantas*	\$222,911
10. Northwest	\$9,489,000	10. Ryanair	\$284,552	10. Iberia	\$167,497
11. Continental	\$8,402,000	11. Iberia	\$261,064	11. British Airways	\$134,000
12. SAS Group*	\$7,429,600	12. Korean	\$245,877	12. Air France Group*	\$129,600
13. KLM	\$7,004,000	13. China Southern	\$244,775	13. Asiana	\$117,000
14. US Airways	\$6,977,000	14. UPS	\$204,256	14. EasyJet*	\$107,670
15. Air Canada	\$6,233,600	15. Air France Group*	\$174,960	15. Aeroflot	\$100,700
16. SIA Group*	\$5,930,460	16. China Airlines	\$152,523	16. JAL System*	\$95,550
17. Qantas*	\$5,897,037	17. Express-Jet	\$147,780	17. Alitalia	\$93,550
18. Southwest	\$5,521,771	18. EVA	\$146,216	18. Korean	\$93,216
19. Korean	\$5,206,348	19. Asiana	\$144,000	19. China Airlines	\$90,184
20. Iberia	\$4,925,109	20. China Eastern	\$128,480	20. Malaysia*	\$89,200
21. Alitalia	\$4,868,628	21. EasyJet*	\$123,008	21. SkyWest	\$86,866
22. Cathay Pacific	\$4,242,000	22. SkyWest	\$119,555	22. Express-Jet	\$84,784
23. Airborne Express	\$3,343,736	23. South African*	\$111,595	23. Lufthansa CityLine	\$79,119
24. Thai*	\$2,976,500	24. Aeroflot*	\$105,700	24. EVA	\$76,250
25. UPS	\$2,851,943	25. JetBlue	\$104,987	25. Air Macau	\$74,048

Note: \*Financial data are for carrier's most recent financial year  
 Source: Air Transport World, July 2003

- [Methodology](#)
- [Travel Trends](#)
- [Technology Applications and Initiatives](#)
- [Travel Advertising and Marketing](#)
- [Total Travel Market: Size and Growth](#)
- [Online Travel Market](#)
- [Travel Segments](#)**
- [Traveler Demographics & Preferences](#)
- [Index of Charts](#)

## World's Leading 25 Airlines, by Number of Passengers, 2002 (in thousands)

<b>American</b>	<b>94,144</b>
<b>Delta</b>	<b>89,868</b>
<b>United</b>	<b>68,585</b>
<b>Southwest</b>	<b>63,046</b>
<b>Northwest</b>	<b>52,669</b>
<b>US Airways</b>	<b>47,168</b>
<b>Lufthansa Group</b>	<b>43,949</b>
<b>All Nippon</b>	<b>43,299</b>
<b>Continental</b>	<b>41,016</b>
<b>Air France</b>	<b>38,045</b>
<b>British Airways</b>	<b>34,445</b>
<b>JAL</b>	<b>33,631</b>
<b>SAS Group</b>	<b>34,445</b>
<b>Qantas</b>	<b>27,128</b>
<b>Iberia</b>	<b>23,922</b>
<b>Air Canada</b>	<b>23,922</b>
<b>Korean</b>	<b>22,172</b>
<b>Alitalia</b>	<b>21,988</b>
<b>China Southern</b>	<b>21,493</b>
<b>Japan Air System</b>	<b>21,434</b>
<b>America West</b>	<b>19,451</b>
<b>KLM</b>	<b>19,380</b>
<b>Thai</b>	<b>18,729</b>
<b>Malaysia</b>	<b>16,208</b>
<b>Singapore</b>	<b>15,002</b>

Source: Air Transport World, July 2003

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[Methodology](#)[Travel Trends](#)[Technology Applications and Initiatives](#)[Travel Advertising and Marketing](#)[Total Travel Market: Size and Growth](#)[Online Travel Market](#)**[Travel Segments](#)**[Traveler Demographics & Preferences](#)[Index of Charts](#)

## B. Hotel/Hospitality Market

Hotels have borne much of the brunt of the decline in travel in 2003, particularly in the US, where travelers waited until the last minute to plan summer vacations. Major chains were able to entice guests by lowering prices, but that move in turn significantly lowered margins and caused slides in second- and third-quarter profits. Poor summer weather did nothing to help tourism's cause.

### **"It's a challenge to get those leisure travelers traveling."**

— Bjorn Hanson, *hospitality practice, PricewaterhouseCoopers (PWC)*, as quoted in *BusinessWeek*, 25 August 2003

Online agencies are coming into conflict with local and state government in the US over hotel-occupancy taxes on discounted hotel rooms sold at specially negotiated rates. Municipal and state authorities contend that online agencies, which collect taxes based on the discounted rates and not the full amount paid by the occupant, are shorting them at precisely a moment that cities can ill afford to lose tax revenue. Whether or not the online agencies will be hit with a big bill for back taxes remains an open question. TravelWeb, the reservations site owned by five of the country's largest hotel chains, is not taking any chances. It is setting aside funds in preparation for the time it will have to pay the additional taxes.

At the same time, loss of bookings due to economic and political events has often compelled hotels to contract out their inventory to online agencies. The result is deep discounts, which have kept room rates low (which may be good for travelers, but it is not the hotels themselves, unless it leads to higher occupancy rates, which so far, has not been the case). Hotels may find themselves in a bind, with travelers now accustomed to discounted rates that chains cannot afford to maintain at the expense of profits. In an effort to shore up their collective online presence, Hilton, Marriott, Starwood, InterContinental, Carlson Hotels Worldwide and Hyatt joined together to form Travelweb.com, an online reservation Web site that aims to draw customers away from the other online agencies and category-specific sites such as Hotels.com.



- [Methodology](#)
- [Travel Trends](#)
- [Technology Applications and Initiatives](#)
- [Travel Advertising and Marketing](#)
- [Total Travel Market: Size and Growth](#)
- [Online Travel Market](#)
- [Travel Segments](#)**
- [Traveler Demographics & Preferences](#)
- [Index of Charts](#)

## Hotel Performance Benchmarks

The best performing region was Asia Pacific where revenue per available room (revPAR) increased by 3.8%, followed closely by Europe where revPAR rose 3.4%. RevPAR increased by just 0.4% in the Middle East. Part of the reason for the impressive performance of these regions is linked to the relative weakness of the US dollar against other global currencies, in particular the euro. When measured in euros, revPAR actually fell across Europe by 3.4%.

### Worldwide Lodging Industry Performance, by Region, 2001 & 2002

	Occupancy			Average daily rate (ADR)		
	2001	2002	% change	2001	2002	% change
US	60%	59%	-1.0%	\$84	\$83	-1.5%
Europe	66%	65%	-1.7%	\$101	\$106	5.3%
Middle East	58%	61%	5.2%	\$86	\$82	-4.6%
Asia-Pacific	67%	69%	3.7%	\$85	\$85	0.0%

	Revenue per average room (RevPAR)		
	2001	2002	% change
US	\$50	\$49	-2.5%
Europe	\$67	\$69	3.4%
Middle East	\$50	\$50	0.4%
Asia-Pacific	\$57	\$59	3.8%

Source: Deloitte & Touche and Smith Travel Research, January 2003

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**“For simple trips, the traveler doesn’t need a travel priest anymore to decipher mysterious code.”**

— Henry Harteveldt, principal analyst, Forrester Research, as quoted in the *New York Times*, 2 September 2003

- [Methodology](#)
- [Travel Trends](#)
- [Technology Applications and Initiatives](#)
- [Travel Advertising and Marketing](#)
- [Total Travel Market: Size and Growth](#)
- [Online Travel Market](#)
- [Travel Segments](#)**
- [Traveler Demographics & Preferences](#)
- [Index of Charts](#)

The devastating effects of SARS in the early part of the year can best be seen in the statistics for hotels in leading Asian destinations, most especially Beijing and Hong Kong. Latin America, reflecting stronger economic conditions, actually saw improvements in some countries, while in Europe and the Middle East, performance was mixed.

**Hotel Industry Statistics for Select Cities in the Asia-Pacific Region, Europe, Latin America and the Middle East, May 2003**

	Occu- pancy	% change	Average daily rate (ADR)	% change	Revenue per average room (RevPAR)	% change
<b>Asia-Pacific</b>						
Auckland	57.8%	-5.4%	\$72	25.0%	\$41	18.3%
Beijing	7.2%	-90.9%	\$65	-19.3%	\$5	-92.6%
Hong Kong	11.8%	-84.9%	\$83	-26.2%	\$10	-88.8%
Singapore	24.5%	-65.0%	\$72	-16.7%	\$18	-70.8%
Sydney	63.8%	-10.3%	\$100	10.3%	\$64	-1.1%
Tokyo	68.0%	-15.8%	\$177	-0.4%	\$121	-16.1%
<b>Caribbean/Latin America</b>						
Buenos Aires	47.1%	22.0%	\$86	-0.4%	\$41	21.6%
Mexico City	68.6%	4.1%	\$128	-3.8%	\$88	0.1%
Quito	59.8%	14.1%	\$74	0.1%	\$44	14.3%
Sao Paulo	49.9%	6.7%	\$74	-23.0%	\$37	-17.9%
Santiago	51.5%	11.5%	\$83	-13.0%	\$43	-3.0%
<b>Europe</b>						
Amsterdam	81.1%	-6.6%	\$179	16.1%	\$145	8.4%
Berlin	72.9%	2.9%	\$107	12.1%	\$78	15.4%
Brussels	69.2%	-0.7%	\$127	34.5%	\$88	33.4%
London	68.3%	-8.1%	\$158	2.5%	\$108	-5.8%
Madrid	73.6%	-4.9%	\$176	18.0%	\$129	12.3%
Paris	61.0%	-17.4%	\$219	17.9%	\$134	-2.6%
Rome	72.9%	-6.4%	\$207	15.1%	\$151	7.8%
Vienna	78.7%	0.6%	\$109	25.0%	\$86	25.8%
<b>Middle East</b>						
Cairo	44.7%	-18.1%	\$64	2.5%	\$29	-16.1%
Dubai	79.0%	-0.2%	\$94	1.2%	\$74	1.0%
Jerusalem	35.1%	20.5%	\$82	-3.6%	\$29	16.2%
Riyadh	63.7%	5.4%	\$111	-4.8%	\$71	0.4%

Source: Deloitte & Touche, May 2003

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- [Methodology](#)
- [Travel Trends](#)
- [Technology Applications and Initiatives](#)
- [Travel Advertising and Marketing](#)
- [Total Travel Market: Size and Growth](#)
- [Online Travel Market](#)
- [Travel Segments](#)**
- [Traveler Demographics & Preferences](#)
- [Index of Charts](#)

Reports by Runzheimer International and benchmark data from clients of TQ3 Travel Solutions indicate lodging rates in the US remained flat over the first half of 2003. International rates, on the other hand rose (6.4% from Q1 to Q2 2003, according to Runzheimer, and 14% according to TQ3 data).

**US and International Lodging Industry Performance, Q1 & Q2 2003**

	Q1 2003	Q2 2003	% change
Domestic average daily booked rate	\$113	\$111	-1.8%
International average daily booked rate	\$143	\$163	14.0%

Source: TQ3 Travel Solutions, 2003

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As leisure and corporate travelers bargain down rates industry-wide, hotels have experienced a severe profit crunch. Although PricewaterhouseCoopers believes that overall 2003 revenues will see a minimal decline of 0.4% for the year, hotels are already taking steps to cut expenses. TQ3 reports a decline in “freebies” offered, including:

- brand-name toiletries
- free newspapers
- extra coffee packs for in-room coffee-makers
- shoe-polish cloths
- sewing kits
- chocolates at downturn

These moves are equivalent to airlines eliminating food and beverage services and/or raising the cost of alcoholic beverages in that they may have a negative impact on service and perceived value, which could easily come back to haunt chains that look to makes cuts in these areas rather than seeking ways to attract higher occupancy.

- [Methodology](#)
- [Travel Trends](#)
- [Technology Applications and Initiatives](#)
- [Travel Advertising and Marketing](#)
- [Total Travel Market: Size and Growth](#)
- [Online Travel Market](#)
- [Travel Segments](#)**
- [Traveler Demographics & Preferences](#)
- [Index of Charts](#)

## Traveler Preferences

Business and leisure travelers in the US have distinct hotel chain preferences. This is understandable, given that business travelers have different space and facility requirements, with comfort (at an affordable price) also a priority for “road warriors.” Note that in the following two charts, the chains are shown in descending order of preference, while the top two to four hotels in each category – those that outperformed the others by a wide margin – represent what NFO Plog Research terms “the best of the rest.”

### US Business Traveler Satisfaction with Hotel Chains in the US, by Hotel Category, 2002

First class hotels	Moderate hotels	Economy hotels
Marriott Hotels	Residence Inn	Country Inn
Hilton	Embassy Suites	Hampton Inn
Westin	Homewood Suites	LaQuinta
Hyatt	Courtyard	
Disney Resorts	Holiday Inn	Comfort Inn
Sheraton	Holiday Inn Express	Super 8
Doubletree	Best Western	Fairfield Inn
Renaissance	Ramada	Motel 6
Wyndham	Clarion	Days Inn
Radisson	Quality Inn	Econo Lodge
Omni	Howard Johnson	Travelodge
Crowne Plaza	Holiday Inn	

*Note: Guest satisfaction rank is listed in order of highest to lowest. Those three or four brands that significantly outperform the others are shown separate from the rest*

*Source: NFO Plog Research, November 2002*

[Methodology](#)[Travel Trends](#)[Technology Applications and Initiatives](#)[Travel Advertising and Marketing](#)[Total Travel Market: Size and Growth](#)[Online Travel Market](#)**[Travel Segments](#)**[Traveler Demographics & Preferences](#)[Index of Charts](#)**US Leisure Traveler Satisfaction with Hotel Chains in the US, by Hotel Category, 2002**

First class hotels	Moderate hotels	Economy hotels
Disney Resorts	Embassy Suites	Hampton Inn
Marriott Hotels	Residence Inn	Country Inn
	Courtyard	Fairfield Inn
Hilton	Holiday Inn Express	LaQuinta
Omni	Best Western	Comfort Inn
Westin	Holiday Inn	Red Roof Inn
Hyatt	Ramada	Motel 6
Sheraton	Quality Inn	Super 8
Wyndham Hotels	Howard Johnson	Days Inn
Radisson	Clarion	Econo Lodge
Doubletree		Travelodge
Renaissance		
Crowne Plaza		

*Note: Guest satisfaction rank is listed in order of highest to lowest. Those three or four brands that significantly outperform the others are shown separate from the rest*

*Source: NFO Plog Research, November 2002*

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**“The general increase of uneasiness among travelers since September 11, along with events such as the recent East Coast blackout, tend to contribute to rising guest expectations that hotels make security a priority.”**

— Linda Hirneise, partner and executive director, hotel practice, J.D. Power and Associates, 26 August 2003

J. D. Power and Associates' more recent survey, which polled nearly 13,000 people who stayed in hotels across the US from January to June 2003, is also more highly segmented, and hence looks at a greater range of properties. Of note in the survey findings is that booking rooms online may not necessarily result in lower rates: travelers who made online reservations for rooms in the mid-price and extended stay segments paid on average 2% to 5% *more* than those who did their booking through traditional channels.

However, booking in advance of a stay is likely to result in higher levels of guest satisfaction with the particular property, especially in the economy/budget segment, where, according to J. D. Power, 30% of travelers do not book ahead of time (a figure that is more than twice that found in other segments).

- [Methodology](#)
- [Travel Trends](#)
- [Technology Applications and Initiatives](#)
- [Travel Advertising and Marketing](#)
- [Total Travel Market: Size and Growth](#)
- [Online Travel Market](#)
- [Travel Segments](#)**
- [Traveler Demographics & Preferences](#)
- [Index of Charts](#)

Guest satisfaction has been improving in the upscale and mid-price limited service segments, but declining in the economy/budget segment. The factors involved in measuring guest satisfaction include pre-arrival/arrival, guest room, food and beverage, hotel services and departure.

### US Traveler Satisfaction with Luxury Hotels in the US, 2003 (index rating)

<b>The Ritz-Carleton Hotel</b>	<b>880</b>
<b>Four Seasons Hotels and Resorts</b>	<b>839</b>
<b>Luxury segment average</b>	<b>835</b>
<b>Fairmont Hotels and Resorts</b>	<b>823</b>
<b>Inter-Continental Hotels</b>	<b>778</b>

*Note: Based on responses from 12,850 guests who stayed in a hotel between January and June 2003; Le Meridian Hotels and Resorts, Sofitel, St. Regis Hotels & Resorts and the Luxury Collection were included in the study but not ranked due to small sample size*  
 Source: J.D. Power and Associates, August 2003

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### US Traveler Satisfaction with Upscale Hotels in the US, 2003 (index rating)

<b>Embassy Suites Hotels</b>	<b>830</b>
<b>Renaissance Hotels and Resorts</b>	<b>823</b>
<b>Omni Hotels</b>	<b>818</b>
<b>Marriott Hotels, Resorts and Suites</b>	<b>817</b>
<b>Westin Hotels &amp; Resorts</b>	<b>802</b>
<b>Hyatt Hotels &amp; Resorts</b>	<b>795</b>
<b>Upscale segment average</b>	<b>793</b>
<b>Wyndham Hotels &amp; Resorts</b>	<b>790</b>
<b>Hilton Hotels &amp; Resorts</b>	<b>784</b>
<b>Adam's Mark Hotels &amp; Resorts</b>	<b>776</b>
<b>Radisson Hotels &amp; Resorts</b>	<b>770</b>
<b>Doubletree Hotels &amp; Resorts</b>	<b>764</b>
<b>Crowne Plaza Hotels and Resorts</b>	<b>763</b>
<b>Sheraton Hotels &amp; Resorts</b>	<b>758</b>

*Note: Based on responses from 12,850 guests who stayed in a hotel between January and June 2003*  
 Source: J.D. Power and Associates, August 2003

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- [Methodology](#)
- [Travel Trends](#)
- [Technology Applications and Initiatives](#)
- [Travel Advertising and Marketing](#)
- [Total Travel Market: Size and Growth](#)
- [Online Travel Market](#)
- [Travel Segments](#)**
- [Traveler Demographics & Preferences](#)
- [Index of Charts](#)

## US Traveler Satisfaction with Mid-Price Full-Service Hotels in the US, 2003 (index rating)

<b>Hilton Garden Inn</b>	<b>792</b>
<b>Courtyard Marriott</b>	<b>780</b>
<b>Holiday Inn Select</b>	<b>776</b>
<b>Clarion</b>	<b>748</b>
<b>Holiday Inn Hotels &amp; Resorts</b>	<b>746</b>
<b>Four Points by Sheraton</b>	<b>736</b>
<b>Mid-price full-service segment average</b>	<b>731</b>
<b>Ramada Inn</b>	<b>712</b>
<b>Quality Inn/Quality Suites</b>	<b>709</b>
<b>Best Western</b>	<b>708</b>
<b>Howard Johnson</b>	<b>684</b>

*Note: Based on responses from 12,850 guests who stayed in a hotel between January and June 2003; Outrigger Hotels & Resorts and Wyndham Garden Hotel were included in the study but not ranked due to small sample size*

*Source: J.D. Power and Associates, August 2003*

- [Methodology](#)
- [Travel Trends](#)
- [Technology Applications and Initiatives](#)
- [Travel Advertising and Marketing](#)
- [Total Travel Market: Size and Growth](#)
- [Online Travel Market](#)
- [Travel Segments](#)**
- [Traveler Demographics & Preferences](#)
- [Index of Charts](#)

### US Traveler Satisfaction with Mid-Price Limited Service Hotels in the US, 2003 (index rating)

<b>SpringHill Suites</b>	<b>815</b>
<b>Wingate Inn</b>	<b>806</b>
<b>Drury Hotels</b>	<b>798</b>
<b>Hampton Inn &amp; Suites</b>	<b>789</b>
<b>Comfort Suites</b>	<b>782</b>
<b>Holiday Inn Express</b>	<b>776</b>
<b>Country Inns &amp; Suites</b>	<b>773</b>
<b>Mid-price limited service segment average</b>	<b>760</b>
<b>Baymont Inns &amp; Suites</b>	<b>756</b>
<b>Sleep Inn</b>	<b>752</b>
<b>AmeriSuites</b>	<b>749</b>
<b>Fairfield Inn</b>	<b>747</b>
<b>La Quinta Inn</b>	<b>739</b>
<b>Comfort Inns</b>	<b>722</b>
<b>AmeriHost Inn</b>	<b>720</b>

*Note: Based on responses from 12,850 guests who stayed in a hotel between January and June 2003; Wellesley Inn and Suites were included in the study but not ranked due to small sample size*  
 Source: J.D. Power and Associates, August 2003

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### US Traveler Satisfaction with Economy/Budget Hotels in the US, 2003 (index rating)

<b>Microtel Inns &amp; Suites</b>	<b>726</b>
<b>Red Roof Inns</b>	<b>698</b>
<b>Ramada Limited</b>	<b>682</b>
<b>Econo Lodge</b>	<b>671</b>
<b>Economy/budget segment average</b>	<b>668</b>
<b>Budget Host</b>	<b>666</b>
<b>Motel 6</b>	<b>661</b>
<b>Super 8</b>	<b>661</b>
<b>Travelodge</b>	<b>650</b>
<b>Knights Inn</b>	<b>611</b>

*Note: Based on responses from 12,850 guests who stayed in a hotel between January and June 2003; Best Value Inn and Rodeway Inn were included in the study but not ranked due to small sample size*  
 Source: J.D. Power and Associates, August 2003

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- [Methodology](#)
- [Travel Trends](#)
- [Technology Applications and Initiatives](#)
- [Travel Advertising and Marketing](#)
- [Total Travel Market: Size and Growth](#)
- [Online Travel Market](#)
- [Travel Segments](#)**
- [Traveler Demographics & Preferences](#)
- [Index of Charts](#)

## US Traveler Satisfaction with Extended Stay Hotels in the US, 2003 (index rating)

<b>Homewood Suites by Hilton</b>	<b>821</b>
<b>Residence Inn</b>	<b>801</b>
<b>Extended stay segment average</b>	<b>785</b>
<b>Hawthorn Inn &amp; Suites</b>	<b>746</b>

*Note: Based on responses from 12,850 guests who stayed in a hotel between January and June 2003; TownePlace Suites were included in the study but not ranked due to small sample size*  
 Source: J.D. Power and Associates, August 2003

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### Emerging Technologies: Broadband Hotels

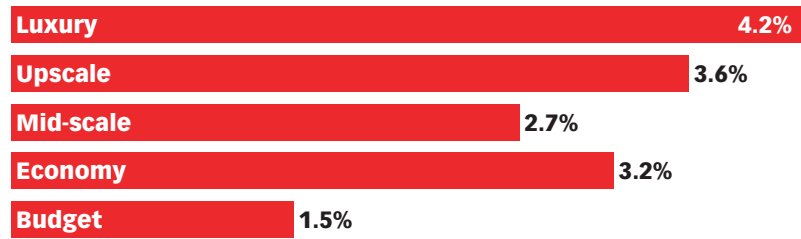
At the end of July 2003, Marriott International announced that by the end of the year, it would begin offering free high-speed access in the company's mid-price Courtyard, Residence Inn, TownePlace Suites and SpringHill Suites hotels, totaling more than 1,200 properties. The Courtyard and SpringHill Suites properties typically attract transient business travelers, while Residence Inn and TownePlace Suites are targeted towards extended-stay bookings. Furthermore, Marriott said it intends to start waiving access fees at more than 500 of its Fairfield Inn brand properties by year-end 2004. In all, the five brands represent approximately 70% of Marriott's overall lodging portfolio.

Until recently, travelers have had to pay stiff charges to get access to a hotel's proprietary in-room high-speed Internet services, with fees generally starting at \$9.95 per day. However, Marriott's moves signal that change is on the way.

- [Methodology](#)
- [Travel Trends](#)
- [Technology Applications and Initiatives](#)
- [Travel Advertising and Marketing](#)
- [Total Travel Market: Size and Growth](#)
- [Online Travel Market](#)
- [Travel Segments](#)**
- [Traveler Demographics & Preferences](#)
- [Index of Charts](#)

The moves have major implications for the lodging industry. According to a 2002 survey by Guest-Tek, a provider of broadband Internet access solutions to hotels, luxury hotels enjoyed the highest overall high-speed usage rates across all lodging segments, followed by upscale and economy hotels. Mid-priced hotels finished in second-to-last place. Note that the survey examined usage rates from 69 hotels across North America that offered Guest-Tek's high-speed Internet access; best practices from hotels with leading usage rates were also taken into consideration.

### High-Speed Internet Usage in Hotels in North America, by Hotel Price Category, February-April 2002 (as a % of respondents)



Note: n=69  
Source: Guest-Tek Ltd., June 2002

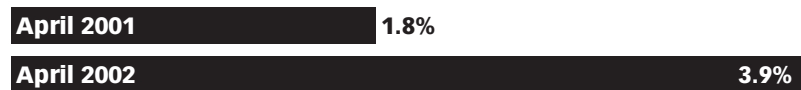
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**“This [Guest-Tek] report confirms that high-speed access continues to be a priority for hotels wishing to become increasingly competitive and generate additional revenue. It is In-Stat/MDR’s expectation that broadband access in hotels will experience strong growth over the next several years.”**

— Amy Cravens, analyst, In-Stat/MDR, 24 June 2002

While the average usage rate for in-room high-speed Internet access increased an impressive 117% from 2001 to 2002 (and 44% from January to April 2002), the more salient finding from Guest-Tek’s survey was that hotels offering complimentary high-speed access had usage rates 88% higher than those that charged fees for the service.

### High-Speed Internet Usage in Hotels in North America, April 2001 & April 2002 (as a % of respondents)



Note: n=69  
Source: Guest-Tek Ltd., June 2002

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- [Travel Trends](#)
- [Technology Applications and Initiatives](#)
- [Travel Advertising and Marketing](#)
- [Total Travel Market: Size and Growth](#)
- [Online Travel Market](#)
- [Travel Segments](#)**
- [Traveler Demographics & Preferences](#)
- [Index of Charts](#)

Guest-Tek also suggested that high-speed Internet access is tied to repeat guests, something that most hotels are sorely in need of these days. Data from one hotel – admittedly not a representative sample – indicated that 18% of total guest room users were repeat and were responsible for more than two-thirds of total uses of the in-room networks. Marriott seems to have come to a similar conclusion in volunteering to absorb the cost of this increasingly vital technological amenity. However, lodging chains should bear in mind the findings from an September 2002 study by Accenture, in which just 17% of 950 business travelers surveyed said that in-room Internet access was a *deciding* factor in choosing a hotel.

**“Not being WLANed is rapidly becoming equivalent to not having a TV set in every guest room.”**

— *Teleanalytics, Inc., “Public Access WLANs Worldwide and WAN-WLAN Integration 2003-2007” report, January 2003*

A separate, although related trend concerns the deployment of wireless local area networks (WLANs) in hotels. Toronto-based research firm TeleAnalytics, Inc. believes that hotels are among the most promising segments for WLAN deployment, and projects phenomenal growth between 2001 and 2006, as seen in the chart below. However, it cautions that WLAN uptake correlates far more closely to the category of hotel rather than the country in which the hotel is located, with the subscriber base in part determined by the penetration of Wi-Fi-equipped notebooks and PDAs and travelers’ capability to pay for the service.

Pricing currently varies across a wide spectrum, ranging from an approximate \$8 per 24-hour period in the US to nearly \$60 in Norway. TeleAnalytics expects this spectrum to stabilize over the next few years at the level of in-room video-on-demand.

**WLAN Deployments in Hotels Worldwide, 2001 & 2006**



Source: *TeleAnalytics, Inc., June 2002*

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eMarketer’s view is that other major multi-brand chains will likely follow Marriott’s lead in the months ahead in the effort to woo new and repeat customers. Should fee-free broadband access become the industry standard, what remains to be seen is if and how hotels will find other ways to pass along the service costs for travelers. This is a key question and a potential wildcard for both the hospitality industry and its customers.

[Methodology](#)

[Travel Trends](#)

[Technology  
Applications and Initiatives](#)

[Travel Advertising  
and Marketing](#)

[Total Travel Market:  
Size and Growth](#)

[Online Travel Market](#)

**[Travel Segments](#)**

[Traveler Demographics  
& Preferences](#)

[Index of Charts](#)

**“Car rental brands are currently receiving a large volume of reservations from online agencies, but they need to better understand and service visitors to their own Web sites. Agencies are pushing vacation package deals, which have become very popular with online purchasers...the growing popularity of vacation packages represents a relatively untapped revenue stream for the car rental brand sites.”**

— Patrick Thomas, senior Internet analyst, Nielsen//NetRatings, 27 August 2003

[Methodology](#)[Travel Trends](#)[Technology Applications and Initiatives](#)[Travel Advertising and Marketing](#)[Total Travel Market: Size and Growth](#)[Online Travel Market](#)**[Travel Segments](#)**[Traveler Demographics & Preferences](#)[Index of Charts](#)

## C. Car Rental Market

### Revenues and Fleet Size

Car rental revenues in the US dropped in 2002 for the second consecutive year, although the fall-off was not as steep as the year-over-year drop from 2000 to 2001. Rental car agencies trimmed their fleets in response, also for the second consecutive year, in an effort to adapt to the changing demands of travelers. Companies, like those in other travel segments, have been hurt by the continued decline in business travel.

#### US Car Rental Revenues, 1998-2002 (in billions)

1998	\$17.2
1999	\$17.6
2000	\$19.4
2001	\$18.2
2002	\$17.9

Source: *Auto Rental News, 2002*

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#### US Car Rental Fleet, 1998-2002 (in thousands)

1998	1,644
1999	1,733
2000	1,829
2001	1,738
2002	1,643

Source: *Auto Rental News, 2002*

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- [Travel Trends](#)
- [Technology Applications and Initiatives](#)
- [Travel Advertising and Marketing](#)
- [Total Travel Market: Size and Growth](#)
- [Online Travel Market](#)
- [Travel Segments](#)**
- [Traveler Demographics & Preferences](#)
- [Index of Charts](#)

## Leading Companies and Markets

Enterprise Rent-A-Car was once again the leading car rental company in the US in 2001, the most recent year for which data are available. Hertz was again second, in both revenues and fleet size. ANC Rental Corporation, formed by the union of the Alamo Rent A Car, Alamo Local Market and National Car Rental brands in November 1999, was the third largest, despite filing for reorganization under Chapter 11 of the US Bankruptcy Code in November 2001. ANC has now signed an agreement to sell National and Alamo to Cerberus Capital Management in an effort to conclude the restructuring process. Together, Cendant, the parent company of Avis and Budget, ANC, Ford Motor Company (the parent of Hertz), Dollar Thrifty and Enterprise control 90% of the US car rental market. Note that in the table below, based on data compiled by *Auto Rental News*, an industry trade journal, the statistics come from a combination of public documents, industry research, *Auto Rental News* estimates and data produced by the car rental firms.

### Top US Car Rental Car Companies, by Revenues, 2000 & 2001

	Revenues (in millions)		Fleet size	Number of US loca- tions	Number of airport loca- tions	Number of local market loca- tions
	2000	2001				
1. Enterprise Rent-A-Car	\$4,500.0	\$5,100.0	486,138	4,398	-	-
2. Hertz	\$3,980.0	\$3,700.0	320,000	1,300	-	1,060
3. ANC Rental Corporation	\$3,400.0	\$3,000.0	271,000	978	355	623
4. Avis	\$2,400.0	\$2,140.0	200,000	952	306	646
5. Budget Rent a Car Corporation	\$1,800.0	\$1,600.0	148,000	1,042	295	747
6. Dollar Rent-A-Car	\$939.0	\$861.0	78,600	268	104	164
7. Thrifty Rent-A-Car System, Inc.	\$543.1	\$541.0	49,750	540	162	378
8. U-Save Auto Rental of America, Inc.	\$135.0	\$148.0	13,400	463	10	453
9. Advantage Rent-A-Car	\$120.0	\$120.0	15,000	150	30	120
10. Rent-A-Wreck	\$102.0	\$104.0	11,600	508	59	449
11. Priceless Rent-A-Car				140	20	120

*continued on page 127*

[Methodology](#)

[Travel Trends](#)

[Technology Applications and Initiatives](#)

[Travel Advertising and Marketing](#)

[Total Travel Market: Size and Growth](#)

[Online Travel Market](#)

**[Travel Segments](#)**

[Traveler Demographics & Preferences](#)

[Index of Charts](#)

12. ACE Rent A Car	\$68.0	\$64.0	8,000	39	39	0
13. Payless Car Rental System, Inc.	\$65.0	\$59.0	8,500	85	45	40
14. Inter American Car Rental	\$42.0	\$41.0	5,800	13	5	6
15. Triangle Rent-A-Car	\$35.0	\$35.0	3,900	20	2	18
16. Americar	\$31.0	\$30.0	3,100	8	5	3
17. X-Press Rent-A-Car	\$20.0	\$25.0	3,500	232	0	232
18. Merchants Rent A Car	\$15.0	\$14.0	1,450	18	0	18
19. Econo-Car Rent-A-Car Systems	\$17.5	\$19.2	2,000	36	6	30
20. Payless-Allstate Car Rental	\$7.5	\$8.0	1,050	8	1	7
21. Wheelchair Getaways Inc.	\$7.8	\$8.1	330	48	0	48
22. Independents	\$1,200.0	\$1,000.0	107,192	7,820	-	-
<b>Total</b>	<b>\$19,400.0</b>	<b>\$16,700.0</b>	<b>1,738,310</b>	<b>19,066</b>	<b>-</b>	<b>-</b>

*Note: Statistics based on company-provided data, public document, industry research and ARN estimates. Revenue comes from car rental operations only, including ancillary counter sales. Revenue and franchise revenue (for those companies with franchises)*

*Source: Auto Rental News, January 2002*

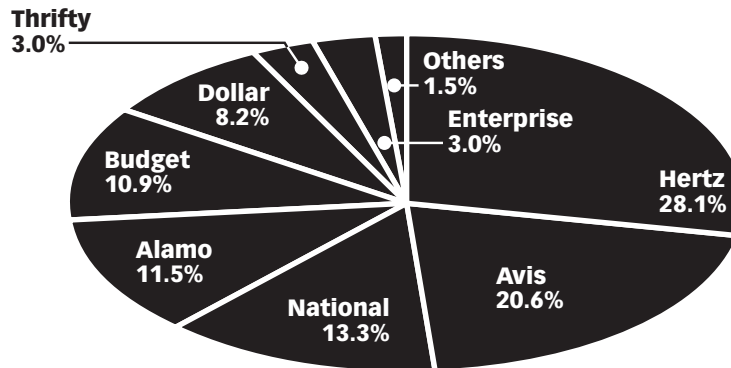
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- [Travel Trends](#)
- [Technology Applications and Initiatives](#)
- [Travel Advertising and Marketing](#)
- [Total Travel Market: Size and Growth](#)
- [Online Travel Market](#)
- [Travel Segments](#)**
- [Traveler Demographics & Preferences](#)
- [Index of Charts](#)

Although not the company with the largest number of US airport locations, Hertz is nonetheless in command of the 50 most lucrative, accounting for close to 30% of revenues from these locations. Avis was the closest single competitor in 2002, at 20.6%, although the combined strength of Alamo and National (under the ANC corporate umbrella) made for a close second.

**Breakdown of Top 50 Airport Car Rental Markets in the US, 2002**



Source: Auto Rental News, January 2002

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In terms of locations, warm-weather destinations dominate, with Orlando the leading earner. All, however, showed precipitous drops in receipts in the 2001-2002 period vis-à-vis 2000-2001.

**Top 10 Airport Car Rental Markets in the US, 1997-2002**

Rank	1997/1998	1998/1999	1999/2000	2000/2001	2001/2002
1	Orlando	Orlando	Orlando	Orlando	Orlando
2	Los Angeles	Los Angeles	Los Angeles	Los Angeles	Los Angeles
3	San Francisco	San Francisco	San Francisco	Atlanta	Atlanta
4	Miami	Miami	Miami	Miami	Phoenix
5	Phoenix	Atlanta	Atlanta	San Francisco	Miami
6	Atlanta	Denver	Phoenix	Phoenix	Denver
7	Denver	Phoenix	Denver	Denver	San Francisco
8	Chicago O'Hare	Chicago O'Hare	Newark	Newark	Tampa
9	Boston	Newark	Chicago O'Hare	Tampa	Las Vegas
10	Newark	Boston	Boston	Ft. Lauderdale	Ft. Lauderdale

Source: Auto Rental News, January 2002

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[Methodology](#)[Travel Trends](#)[Technology Applications and Initiatives](#)[Travel Advertising and Marketing](#)[Total Travel Market: Size and Growth](#)[Online Travel Market](#)**[Travel Segments](#)**[Traveler Demographics & Preferences](#)[Index of Charts](#)

## Traveler Preferences

Reserving rental cars online is becoming increasingly popular with travelers. According to Nielsen//NetRatings, 40.8 million consumers or 28% of all US Internet users ages 18 and older rented a car for travel in the period from June through the end of July (see second table below). By way of comparison, 74.4 million Internet users stayed in a hotel room in this same period, while 64 million Web surfers traveled by plane.

Among rental brands, Hertz remained the leader, but Avis and Enterprise, second and third, respectively, figured in the largest gainers of traffic on a percentage basis. Thrifty Car Rental's Web site experienced the highest year-over-year growth, at 53%.

### Top Car Rental Web Sites among US At-Home and At-Work Internet Users, July 2002 & July 2003 (unique audience in thousands and % change)

	Unique audience July 2002	Unique audience July 2003	% change
1. Hertz	1,754	1,715	2%
2. Avis	1,483	1,178	26%
3. Enterprise Rent-A-Car	1,254	943	33%
4. Budget	1,215	1,114	9%
5. Thrifty Car Rental	836	548	53%
6. Alamo	809	917	-12%
7. Dollar Rent-A-Car	764	583	31%
8. nationalcar.com	708	782	-9%

*Note: This is a custom grouping of the top car rental sites within the ground transportation sub-category. The total unduplicated aggregation of the above sites represents a unique audience of 4,537,000 individuals*

*Source: Nielsen//NetRatings, July 2003*

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- [Methodology](#)
- [Travel Trends](#)
- [Technology Applications and Initiatives](#)
- [Travel Advertising and Marketing](#)
- [Total Travel Market: Size and Growth](#)
- [Online Travel Market](#)
- [Travel Segments](#)**
- [Traveler Demographics & Preferences](#)
- [Index of Charts](#)

**“The car rental market is an oft-forgotten success story in the online travel industry. The top brands are utilizing the Internet to provide reservation tools as well as offering consumers Internet-only prices, especially for leisure rentals.”**

— Patrick Thomas, senior Internet analyst, Nielsen//NetRatings, 27 August 2003

**Travel-Related Purchases Made by US At-Home and At-Work Internet Users in the Past Three Months, 2003 (unique visitors in thousands and % of Internet audience)**

	Unique audience	% of Internet audience
Hotel reservation	74,420	51%
Airline ticket	64,205	44%
Car rental	40,773	28%

Note: Internet users ages 18+  
Source: Nielsen//NetRatings, July 2003

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A study by NFO Plog Research shows that Hertz has assumed the top spot for usage and is also the “favorite” rental car company among both business and leisure travelers, a finding borne out by Nielsen//NetRatings recent traffic survey (see above). Hertz, Budget, Enterprise, Avis all remained in the top four, although they finished in a different order than in the 2001 survey.

**Favorite Car Rental Companies among US Business and Leisure Travelers, 2002**

Business	Rank	Leisure
Hertz	1	Hertz
Enterprise	2	Avis
National	3	National
Avis	4	Enterprise
Alamo	5	Alamo
Dollar	6	Budget
Budget	7	Thrifty
Thrifty	8	Dollar

Source: NFO Plog Research, October 2002

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	Methodology	7
I	Travel Trends	11
II	Technology Applications and Initiatives	25
III	Travel Advertising and Marketing	37
IV	Total Travel Market: Size and Growth	53
V	Online Travel Market	61
VI	Travel Segments	97
	<b>VII Traveler Demographics &amp; Preferences</b>	<b>131</b>
	<b>A. Business Travelers</b>	<b>132</b>
	<b>B. Leisure Travelers</b>	<b>140</b>
	Index of Charts	165

[Methodology](#)

[Travel Trends](#)

[Technology Applications and Initiatives](#)

[Travel Advertising and Marketing](#)

[Total Travel Market: Size and Growth](#)

[Online Travel Market](#)

[Travel Segments](#)

**[Traveler Demographics & Preferences](#)**

[Index of Charts](#)

## A. Business Travelers

### US

#### Demographics

According to Travelocity, business travelers fall into two principal categories: managed and unmanaged. d into three subcategories: “highly, lightly and very lightly managed.” The table below presents the behavioral characteristics of each type of business traveler.

#### Types of Business Travelers, 2003

Managed			Unmanaged
Highly	Lightly	Very lightly	
Has to comply with strictly enforced company travel policies allowing little flexibility to purchase travel outside of company-designated agency	May have company-negotiated discounts with suppliers and/or loosely enforced policies allowing flexibility to purchase travel outside of company-designated agency	Low probability of formal policies or company-negotiated discounts but possibility of internal administrator tracking travel expenses	Travelers not governed by policies and make own decisions

Source: Travelocity, January 2003

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#### Channel Preferences

As noted by Forrester Research, firms of all sizes use travel management companies, although usage rates rise with the size of the company – not surprising given that more employees translate into more complex travel planning needs. Larger firms are also able to use scale to their advantage in the marketplace, bargaining for better corporate rates and discounts for their employees.

#### US Firms that Use Travel Management Companies, 2003 (as a % of respondents)

Small-account firms (1)	49%
Midsize-account firms (2)	73%
Large-account firms (3)	78%

Note: (1) \$1 million of less on US-originating air travel each year; (2) between \$1 million and \$10 million on US-originating air travel each year; (3) more than \$10 million on US-originating air travel each year  
Source: Forrester Research, April 2003

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[Methodology](#)

[Travel Trends](#)

[Technology Applications and Initiatives](#)

[Travel Advertising and Marketing](#)

[Total Travel Market: Size and Growth](#)

[Online Travel Market](#)

[Travel Segments](#)

**[Traveler Demographics & Preferences](#)**

[Index of Charts](#)

**“Online travel sites have had a profound impact on the industry because now there is a transparency to pricing.”**

— Sean Hennessey, lodging consultant, PricewaterhouseCoopers (PwC), as quoted in *Forbes.com*, 21 August 2003

Jupiter Research predicts that by 2008, 28% of managed corporate travel bookings will be made on the Internet, up from 12% in 2003. Sales will triple over the same period, rising from \$8.5 billion in 2003 to \$26.4 billion in 2008. Jupiter anticipates growth will come from an increase in demand for corporate online self-booking systems as well as growth on the supply side, largely a result of the push by Expedia, Orbitz and Travelocity to enter this field.

According to Jupiter’s findings, some culture shift will be required for the agencies to further penetrate the corporate market, particularly mid-size and large firms, where 43% of employees have the leeway to make their own booking. Of the business travelers surveyed, 58% are required to book travel with an on-site agent, specific travel agency or via a desktop corporate booking tool.

**Travel Booking Policies at US Companies, 2002 (as a % of respondents)**



Note: n=139 heavy business travelers from companies with more than 1,000 employees; numbers may not add to 100% due to rounding  
Source: Jupiter Research, October 2002

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[Methodology](#)

[Travel Trends](#)

[Technology Applications and Initiatives](#)

[Travel Advertising and Marketing](#)

[Total Travel Market: Size and Growth](#)

[Online Travel Market](#)

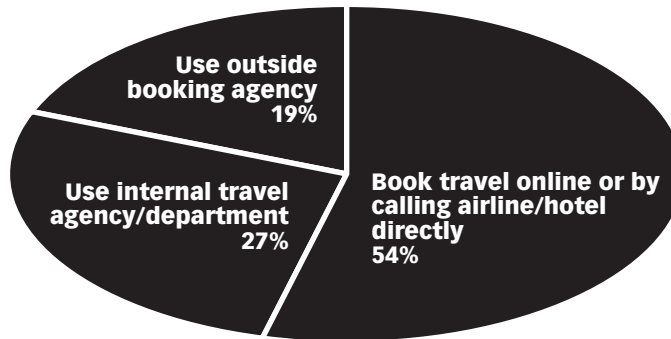
[Travel Segments](#)

**[Traveler Demographics & Preferences](#)**

[Index of Charts](#)

According to a September 2002 survey by Accenture, 54% of business travelers book their airline tickets and hotels directly, either online or by phone. Accenture also found usage of internal travel agencies or departments to be low, at 27%. In all, just 19% of travelers surveyed use an outside booking agency.

**Breakdown of Travel Booking Practices at US Companies, August 2002 (as a % of respondents)**



Note: n=950 business travelers at US companies  
Source: Accenture, September 2002

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**“We’re not even worried about it [online travel agencies’ initial foray into providing business travel solutions]. These guys just aren’t as client-centric as we are...they have shrink-wrapped, one-size-fits-all-solutions that work well for small businesses. We can build a custom program to suit your needs.”**

— Ron DiLeo, chief operating officer of strategic travel solutions, Rosenbluth International, as quoted in *TheStreet.com*, 2 April 2003

[Methodology](#)

[Travel Trends](#)

[Technology Applications and Initiatives](#)

[Travel Advertising and Marketing](#)

[Total Travel Market: Size and Growth](#)

[Online Travel Market](#)

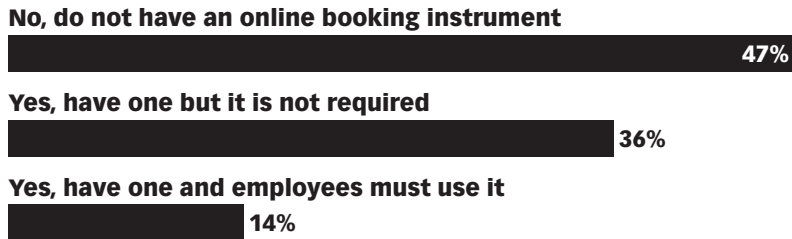
[Travel Segments](#)

**[Traveler Demographics & Preferences](#)**

[Index of Charts](#)

Moreover, among those companies that have a desktop travel-booking tool – and they constituted less than half of the survey sample – usage remains low. Just over one-third of the companies actually require their employees to use the booking tools. And without specific policies, employees tend not to use them, as seen in the second chart below: just 15% of those surveyed “always” use the online instruments.

**Penetration of Online Travel Booking Instruments at US Companies, 2002 (as a % of respondents)**

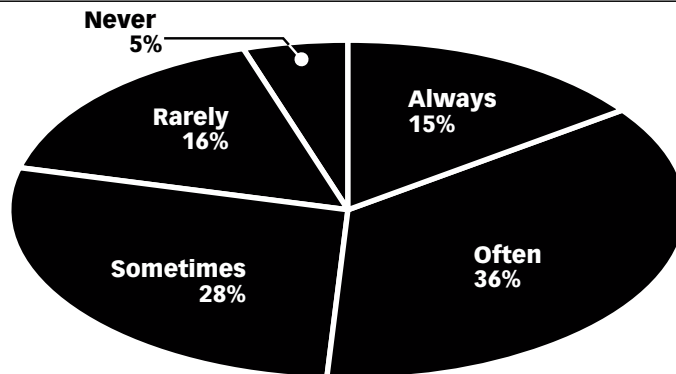


*Note: n=168 heavy business travelers from companies with more than 500 employees*  
*Source: Jupiter Research, October 2002*

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**Usage of Online Corporate Travel Booking Tools at US Companies, by Frequency, 2002 (as a % of respondents)**



*Note: n=81 heavy business travelers from companies where employees have the option of using an online instrument, but it is not required*  
*Source: Jupiter Research, October 2002*

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A July 2003 survey co-sponsored by PhoCusWright and the NBTA was more optimistic about the prospects for booking tools. The study, based on responses from 206 of NBTA’s 700 direct corporate members, found that by the end of 2003, more than 90% of companies that currently have managed travel programs will be using an online booking tool for transient travel, with more than 40% using a tool to arrange meetings and group travel. Adoption is expected to spiral higher by 2005, increasing by 15% over current levels for transient travel and more than 11% for meeting spend.

[Methodology](#)

[Travel Trends](#)

[Technology Applications and Initiatives](#)

[Travel Advertising and Marketing](#)

[Total Travel Market: Size and Growth](#)

[Online Travel Market](#)

[Travel Segments](#)

**[Traveler Demographics & Preferences](#)**

[Index of Charts](#)

The corporations surveyed, while generally optimistic that corporate travel will see renewed growth through 2005, are bullish about their prospects for savings by using booking tools. More than 40% expect to save at least 10% this year, with transaction fees, average ticket prices, and, to a lesser extent, improved supplier negotiations, the areas providing the greatest returns on investment in the tools.

**Opportunities**

Policies mandating usage of corporate booking instruments tend to be rigid, for several reasons. Corporations like to use their leverage to negotiate lower rates, and usage of outside booking methods undermines their position vis-à-vis suppliers. Corporate policies also help to keep a handle on expenses, a process that gets messier when employees start making their own booking decisions. Consequently, just 19% of the firms surveyed by Jupiter allow their employees to go around the corporate policy, *even if they can find a cheaper fare or rate elsewhere.*

However, research by TOPAZ International, a firm contracted by corporations and agencies to conduct comparison surveys of the difference between GDS, managed travel and Internet-only fares, belies the general perception is that Internet travel fares are the lowest available. In its review of itineraries made through a managed travel program and then replicated on Internet travel sites that included Orbitz, Expedia, Travelocity and various airline Web sites, TOPAZ also determined that 78% of the Internet fares were priced higher than the corporate managed fares and only 8.4% were priced lower. The study included approximately 15,000 itineraries.

**Average Corporate Managed Travel Fare vs. Average Internet Fare, January-June 2003**

<b>Corporate managed fare</b>	<b>\$516</b>
<b>Internet fare</b>	<b>\$576</b>

Source: Topaz International, Ltd., August 2003

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**“The Web is a bright spot for airlines, but it will not be bright enough to improve their shaky financial situations.”**

— Jared Blank, senior analyst, Jupiter Research, 19 May 2003



[Methodology](#)

[Travel Trends](#)

[Technology Applications and Initiatives](#)

[Travel Advertising and Marketing](#)

[Total Travel Market: Size and Growth](#)

[Online Travel Market](#)

[Travel Segments](#)

**[Traveler Demographics & Preferences](#)**

[Index of Charts](#)

The major online agencies foresee great opportunities in both the managed and unmanaged travel categories, and are taking steps accordingly, to build product offerings that address each one. In so doing, they are hoping to address what they perceive to be the shortcomings of traditional agencies, or, at the very least, where they think they can add value to the corporate travel booking process, particularly where providing comprehensive comparisons of published, Web and negotiated fares and rates is concerned. The corporate-oriented products include Orbitz for Business, Expedia Corporate Travel, Travelocity Business and GetThere (like Travelocity, a part of the Sabre Holding Company, but oriented more towards large businesses) – versions of the public consumer-oriented sites that are customized to include a particular company's travel policies and special rates negotiated with suppliers. Budget carrier Southwest Airlines has had a separate corporate Web site since May 2000.

Traditional players in this space, most notably American Express Corporate Travel and its online iteration, have not been standing still. Rather, they continue to offer clients more complex customization options as well as services designed specifically for the small businesses noted above that do not have the bargaining power to wrangle special rates out of suppliers.

**“The ability of the corporation’s traditional reservation methods in tandem with their corporate Internet sites to return the lowest fares is imperative to the successful running of a corporate travel program. As long as lower airfares are available on the Internet for the exact same itineraries, travel managers will continue to receive calls from those travelers who find cheaper fares.”**

— Bradley Seitz, president and CEO, TOPAZ International, 4 August 2003

[Methodology](#)

[Travel Trends](#)

[Technology Applications and Initiatives](#)

[Travel Advertising and Marketing](#)

[Total Travel Market: Size and Growth](#)

[Online Travel Market](#)

[Travel Segments](#)

**[Traveler Demographics & Preferences](#)**

[Index of Charts](#)

## Europe

### Demographics

Managed travel dominates in Europe's biggest economies, according to a survey by GartnerG2. However, as with US companies, the percentage of unmanaged travel taken by employees rises in inverse proportion to the size of the company.

#### Breakdown of Business Travelers in Select Countries in Europe, by Business Size, September 2002 (as a % of respondents)

	All		<20 employees	
	Managed	Unmanaged	Managed	Unmanaged
France	64%	36%	45%	55%
Germany	62%	38%	16%	84%
UK	57%	43%	19%	81%
	20-249 employees		250+ employees	
	Managed	Unmanaged	Managed	Unmanaged
France	61%	39%	75%	25%
Germany	55%	45%	85%	15%
UK	56%	44%	73%	27%

Note: Base=Web-using business travelers

Source: GartnerG2, February 2003

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Employees in Europe have considerable leeway for selecting the flights and hotels they want, but typically leave the booking to others. Administrative assistants shoulder this burden more often than company travel departments or outside travel agencies.

#### Person Responsible for Business Travel Bookings at Companies in Europe, September 2002 (as a % of respondents)

	Picked the flight	Booked the flight	Picked the hotel	Booked the hotel
Traveler	53%	24%	44%	24%
A secretary/administrative assistant	20%	33%	24%	34%
Company travel department	15%	23%	16%	20%
Other colleague	5%	6%	13%	12%
A travel agent	11%	17%	6%	12%

Note: Base=Web-using business travelers

Source: GartnerG2, February 2003

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[Methodology](#)

[Travel Trends](#)

[Technology Applications and Initiatives](#)

[Travel Advertising and Marketing](#)

[Total Travel Market: Size and Growth](#)

[Online Travel Market](#)

[Travel Segments](#)

**[Traveler Demographics & Preferences](#)**

[Index of Charts](#)

Note that the absence of data for Asia-Pacific, Canada and Latin America does not reflect a deliberate omission, but merely a lack of comprehensively available public statistics on business travelers in these regions.

**Channel Preferences**

Internally, among those business travelers that use the Internet, usage of company-mandated booking tools is low in Europe, even more so than in the US, although this latter is not surprising given the higher penetration of the Internet among US firms. Across Europe, and particularly in those markets such as the UK where low-cost carriers control a growing share of the airline industry, usage of travel Web sites is notably high.

**Tools Used by Companies in Europe to Book Flight for a Business Trip, by Country, September 2002 (as a % of respondents)**

	France	Germany	Sweden	UK	All
Booking tool	2%	3%	3%	3%	3%
Web site	15%	10%	8%	24%	15%

*Note: Base=Web-using business travelers*

*Source: GartnerG2, February 2003*

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**Tools Used by Companies in Europe to Book Hotel for a Business Trip, by Country, September 2002 (as a % of respondents)**

	France	Germany	Sweden	UK	All
Booking tool	2%	2%	0%	1%	1%
Web site	10%	7%	6%	11%	8%

*Note: Base=Web-using business travelers*

*Source: GartnerG2, February 2003*

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[Methodology](#)

[Travel Trends](#)

[Technology Applications and Initiatives](#)

[Travel Advertising and Marketing](#)

[Total Travel Market: Size and Growth](#)

[Online Travel Market](#)

[Travel Segments](#)

**[Traveler Demographics & Preferences](#)**

[Index of Charts](#)

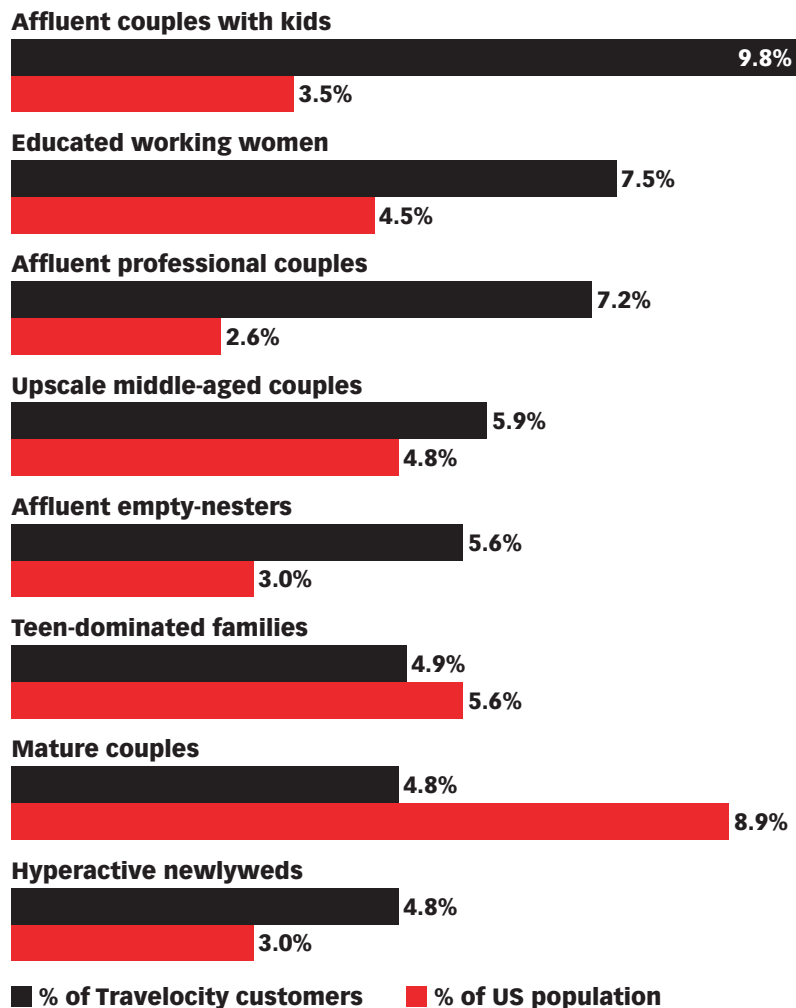
## B. Leisure Travelers

### North America: US

#### Demographics

On the consumer side, Travelocity's own research demonstrates the well-known dominance of upper-income economic segments on the Internet. Affluent couples or families represent a far greater percentage of Travelocity's customer base than they do of the US population as a whole.

#### Demographic Profile of Travelocity Customers in the US, 2003 (as a % of active Travelocity members and as a % of US population)



Source: Travelocity, January 2003

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[Methodology](#)

[Travel Trends](#)

[Technology Applications and Initiatives](#)

[Travel Advertising and Marketing](#)

[Total Travel Market: Size and Growth](#)

[Online Travel Market](#)

[Travel Segments](#)

**[Traveler Demographics & Preferences](#)**

[Index of Charts](#)

Forrester’s ongoing monitoring of online leisure travelers in the US shows a couple of significant points. First, average household income increased by approximately \$14,000 just between 2000 and 2002. Annual leisure travel spending rose as well, by close to 20%. However, the share of travel booked online dropped by one percentage point – statistically insignificant, but significant in the sense that the percentage did not go up, which would be the expected trend.

**Profile of Leisure Travelers\* in the US, 2000 & 2002**

	<b>2000</b>	<b>2002</b>
Household income	\$69,380	\$83,422
Married/partnered	73%	76%
Leisure trips per year	3.5	4.5
Annual leisure travel spending	\$2,872	\$3,401
Leisure travel booked online	62%	61%
Leisure travel online booking tenure (in years)	1.8	3.0

*Note: \*online leisure hotel bookers  
Source: Forrester Research, May 2003*

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Perhaps more important for travel service providers are what Forrester terms “mercenary travelers” – those who travel regularly, often at the last minute, but care little about loyalty programs or incentives. According to Forrester, they constitute two out of every ten travelers, and actively use the Web to book their travel. Mercenary travelers make up 26% of bookers on Hotwire.com, 19% at priceline.com, 18% at Orbitz, 15% at Travelocity, 14% at Cheaptickets.com, 13% at Expedia and 12% at Hotels.com. Overall, 18% of online bookers make their purchase decisions based on price.

For travel service providers, Forrester recommends the following strategies to mitigate the impact that mercenary travelers can have:

- Push them to use sites that provide the value they are looking for, but which are isolated in a way that reduces the risk of cannibalization.
- Sell them packages on distinct sites to reduce revenue dilution from those travelers who would otherwise pay more for individual tickets, rooms, and other travel inventory.
- Use Internet-based consolidators like Hotwire and priceline.com to sell individual trip components, but collaborate with them to better target customers based on shopping and buying behavior.

[Methodology](#)

[Travel Trends](#)

[Technology Applications and Initiatives](#)

[Travel Advertising and Marketing](#)

[Total Travel Market: Size and Growth](#)

[Online Travel Market](#)

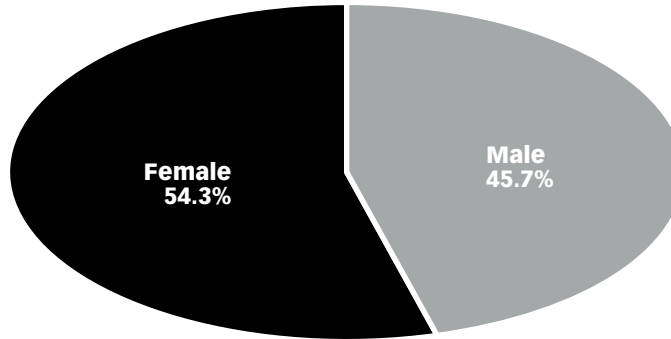
[Travel Segments](#)

**[Traveler Demographics & Preferences](#)**

[Index of Charts](#)

Among the users of travel sites at large, women predominate, although roughly in proportion to their representation in the Internet user population as a whole. In terms of age, the best represented are users between the ages of 25 and 34, 35 and 49 and those over 45, as seen in the second chart below.

**US At-Home Users of of Travel Sites, by Gender, Week Ending 28 July 2002**

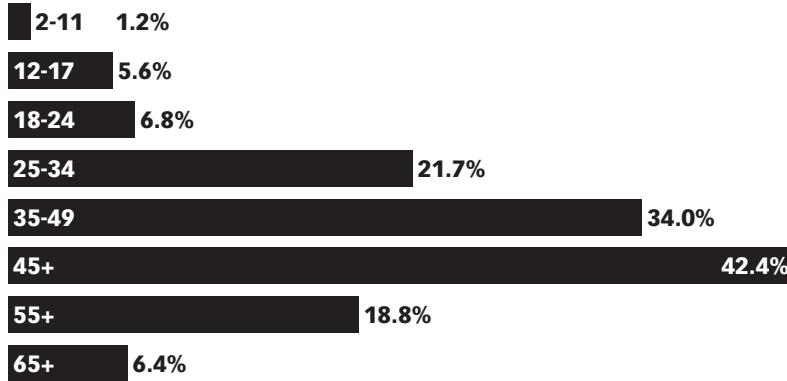


Source: Nielsen//NetRatings, August 2002; Center for Media Research, August 2002

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**US At-Home Users of of Travel Sites, by Age, Week Ending 28 July 2002**



Source: Nielsen//NetRatings, August 2002; Center for Media Research, August 2002

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[Methodology](#)

[Travel Trends](#)

[Technology Applications and Initiatives](#)

[Travel Advertising and Marketing](#)

[Total Travel Market: Size and Growth](#)

[Online Travel Market](#)

[Travel Segments](#)

**[Traveler Demographics & Preferences](#)**

[Index of Charts](#)

The following two charts illustrate that Internet users that buy travel products and services online tend to be highly experienced. Newer users, as seen in the table below, tend to opt for less complex products like CDs, clothing and jewelry.

**Online Travel Buyers in the US, by Experience Online, 2002 (as a % of respondents)**



Note: n=1,001 Internet users ages 18+; respondents saying they regularly or occasionally book travel online  
Source: America Online/RoperASW, April 2003

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**Types of Products Purchased Online by US Consumers, by Experience Online, 2002 (as a % of respondents)**

	New users (<1 year)	Experienced users (6+ years)
Clothes	48.2%	41.8%
CDs	25.2%	17.0%
Jewelry/watches	16.5%	3.0%
Books	11.8%	36.8%
Furniture	8.7%	4.3%
Sporting goods	8.7%	10.1%
Collector's items	8.3%	3.5%
Hobby items	8.3%	4.9%
Flowers	6.6%	6.4%
Automobiles	6.2%	1.7%
Computers/peripherals	6.2%	11.9%
Food/cosmetics	5.6%	9.1%
Electronics	4.3%	16.2%
Travel	3.4%	16.8%
Children's goods	2.8%	8.4%
Software/goods	1.6%	14.6%
Stocks/bonds	0.0%	1.8%
Gifts	0.0%	11.6%
DVDs/Videos	0.0%	7.7%
Drugs	0.0%	2.9%

Source: UCLA Center For Communication Policy, February 2003

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[Methodology](#)

[Travel Trends](#)

[Technology Applications and Initiatives](#)

[Travel Advertising and Marketing](#)

[Total Travel Market: Size and Growth](#)

[Online Travel Market](#)

[Travel Segments](#)

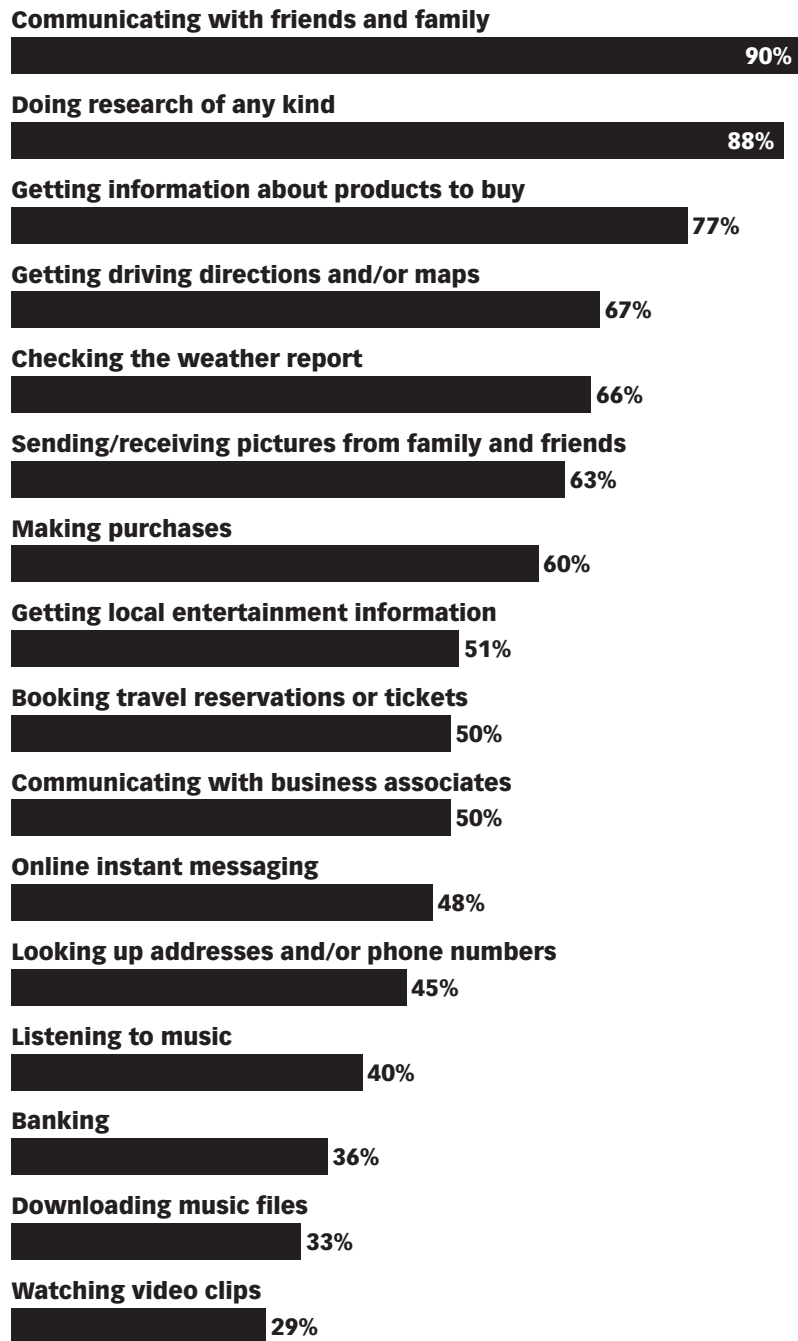
**[Traveler Demographics & Preferences](#)**

[Index of Charts](#)

**Channel Preferences**

On a general level, booking travel is one of the most popular activities among Internet users in the US, according to a survey by America Online and RoperASW. Doing research of any kind, the second most popular activity, likely comprises travel research as well.

**Popular Online Activities among Internet Users in the US, 2002 (as a % of respondents)**



*continued on page 145*



[Methodology](#)

[Travel Trends](#)

[Technology Applications and Initiatives](#)

[Travel Advertising and Marketing](#)

[Total Travel Market: Size and Growth](#)

[Online Travel Market](#)

[Travel Segments](#)

**[Traveler Demographics & Preferences](#)**

[Index of Charts](#)

**Tracking stock portfolio**



**Taking part in an online auction**



**Filing or paying income taxes**



**Getting coupons**



**Trading stocks**



**Downloading books**



*Note: n=1,001 Internet users ages 18+  
Source: America Online/RoperASW, April 2003*

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In an effort to better understand the Internet's impact on travel planning and purchasing, BURST Proprietary Research (BURST!) surveyed close to 10,000 Internet users aged 18 and older about their online travel planning habits, focusing on research and purchase of travel products. The study, carried out in September 2002, concluded that nearly two-thirds of Internet users either research or buy travel online. A May 2003 update found that this percentage had risen to 70%. And of those respondents who had used the Internet as a travel resource in some fashion, 60% had researched and carried out a transaction online, while 40% had used the Internet only to find travel-related information (the breakdown in May 2003 was 53.1% and 46.9%, respectively). As the chart below indicates, more frequent travel generally correlates with a higher propensity to purchase travel online, the major exception being travelers who took more than 10 trips in the previous year. As might be expected, this segment featured the highest proportion of business travelers (36.8% reported traveling mainly for work).

[Methodology](#)

[Travel Trends](#)

[Technology Applications and Initiatives](#)

[Travel Advertising and Marketing](#)

[Total Travel Market: Size and Growth](#)

[Online Travel Market](#)

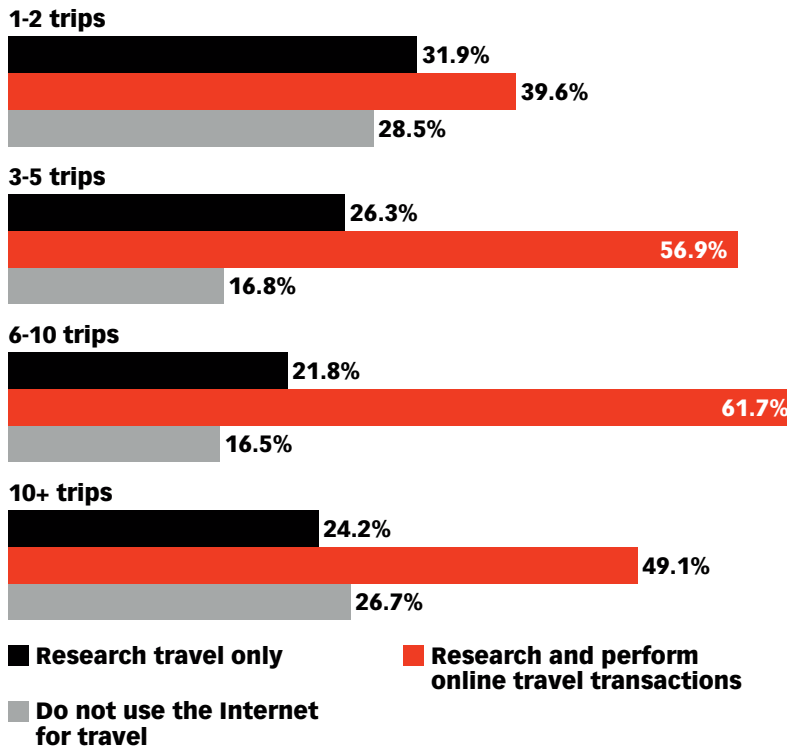
[Travel Segments](#)

**[Traveler Demographics & Preferences](#)**

[Index of Charts](#)

The May 2003 update to the BURST! survey found that purchasing airline tickets was the most common activity among respondents who had conducted a travel transaction online, at 77.4% (up from 76.9%), followed by hotel reservations, at 67.3% (up from 63%), and car rentals, at 37.3% (up from 36.5%). Among those survey respondents who only did travel research online, researching travel destinations (at 69.6%, down from 79.3% in September 2002), exploring hotel rooms and prices (at 43.4%, down from 44.8%), investigating airline flights and fares (at 38.5%, down from 46.6% in the previous survey) and researching travel and tour operators (at 18.7%) were the most popular activities.

**Use of the Web as a Travel Resource among Internet Users in the US, by Frequency of Travel in Past Year, September 2002 (as a % of respondents)**



Note: n=9,836

Source: BURST Proprietary Research, September 2002

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[Methodology](#)

[Travel Trends](#)

[Technology Applications and Initiatives](#)

[Travel Advertising and Marketing](#)

[Total Travel Market: Size and Growth](#)

[Online Travel Market](#)

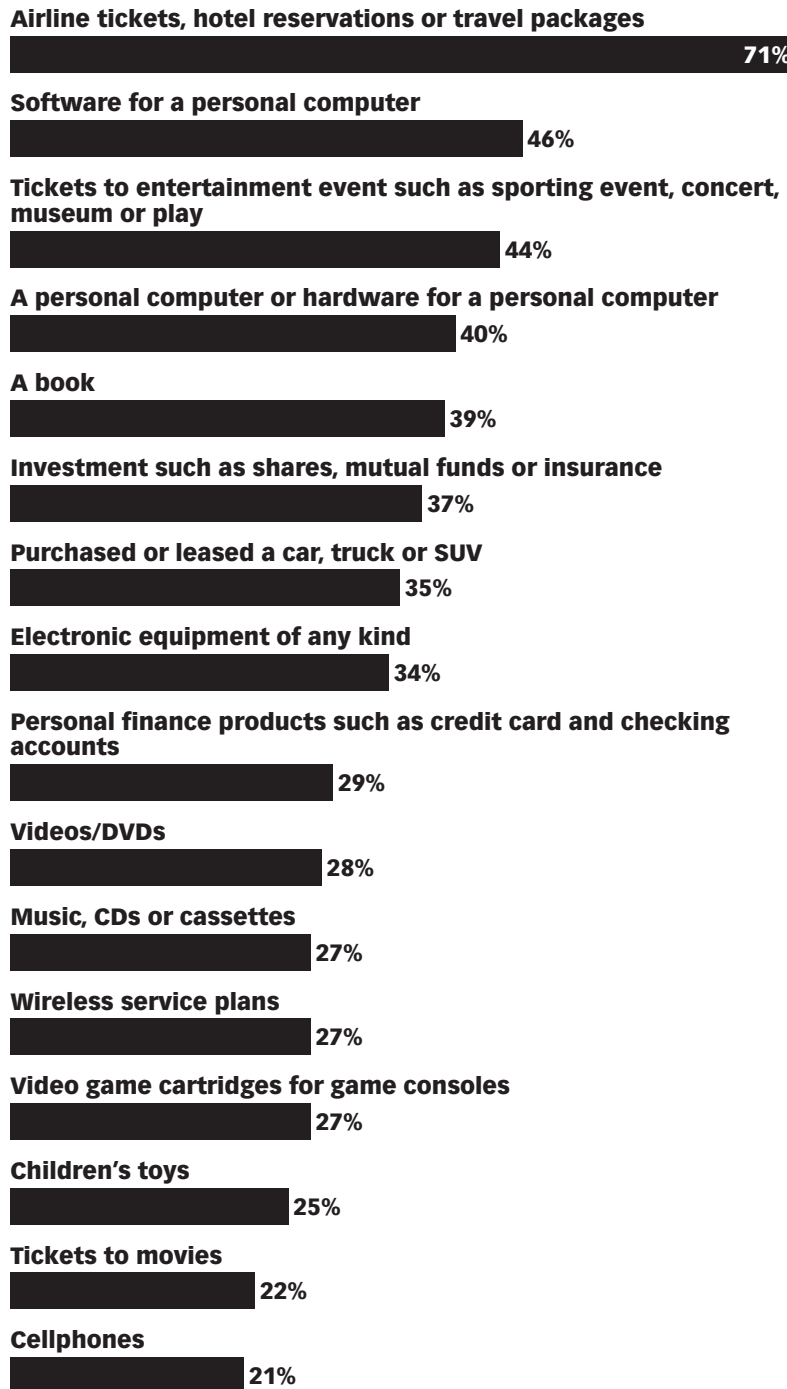
[Travel Segments](#)

**[Traveler Demographics & Preferences](#)**

[Index of Charts](#)

Data from the America Online/RoperASW survey confirm the findings of the BURST! study. Travel products ranked first among all other purchases that Internet users in the US researched online.

**Purchases for which US Internet Users Used the Internet As Their Primary Research Source, 2002 (as a % of respondents)**



*continued on page 148*

[Methodology](#)

[Travel Trends](#)

[Technology Applications and Initiatives](#)

[Travel Advertising and Marketing](#)

[Total Travel Market: Size and Growth](#)

[Online Travel Market](#)

[Travel Segments](#)

**[Traveler Demographics & Preferences](#)**

[Index of Charts](#)

**Health and beauty aids or prescriptions**



**Clothing**



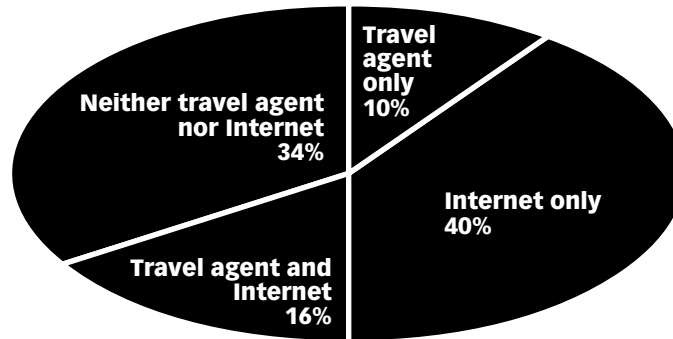
Note: n=1,001 Internet users ages 18+; respondents were asked, "Thinking back to when you last purchased the following items, which one source did you use the most to gather information for your purchase?"  
Source: America Online/RoperASW, April 2003

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According to Yesawich, Pepperdine, Brown & Russell (YPB&R), the Internet remains the leading source for trip planning among leisure travelers in the US, although as the chart below indicates, many resort to the Internet in conjunction with traditional travel agents. The second chart reveals that use of the Internet to plan *some* aspect of a trip may be reaching a plateau among leisure travelers, but it continues to show significant growth in usage among business travelers.

**Sources Used When Planning a Trip by Leisure Travelers in the US, 2003**

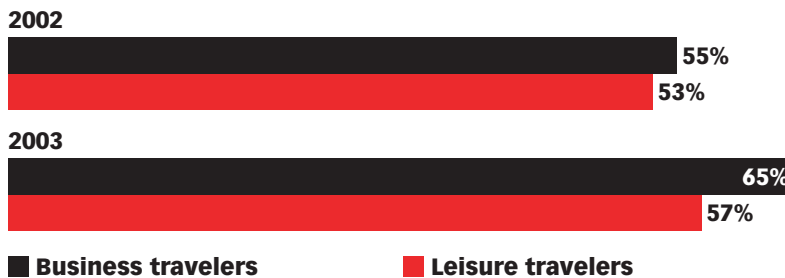


Source: Yesawich, Pepperdine, Brown & Russell, May 2003

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**Use of the Internet to Plan Some Aspect of Travel among Business and Leisure Travelers in the US, 2002 & 2003 (as a % of respondents)**



Source: Yesawich, Pepperdine, Brown & Russell, May 2003

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[Methodology](#)

[Travel Trends](#)

[Technology Applications and Initiatives](#)

[Travel Advertising and Marketing](#)

[Total Travel Market: Size and Growth](#)

[Online Travel Market](#)

[Travel Segments](#)

**[Traveler Demographics & Preferences](#)**

[Index of Charts](#)

## Extremely/Very Important Travel Web Site Features for Travelers in the US, 2002 & 2003 (as a % of respondents)

### Ability to check lowest rates for airfare, hotels and car rentals



### Destination maps illustrating area activities, dining, shops, attractions



### Photos of the area/hotels



### Virtual tours of area/lodging



■ 2002

■ 2003

Source: Yesawich, Pepperdine, Brown & Russell, May 2003

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[Methodology](#)

[Travel Trends](#)

[Technology Applications and Initiatives](#)

[Travel Advertising and Marketing](#)

[Total Travel Market: Size and Growth](#)

[Online Travel Market](#)

[Travel Segments](#)

**[Traveler Demographics & Preferences](#)**

[Index of Charts](#)

According a September 2003 Forrester Research survey, frequent leisure travelers – those who take five or more trips per year – cite “direct paths” to content and intuitive menus as the features that produce the best possible experience at a travel site. Over 60% also want an uncluttered home page and a simple registration process. Personalized content and highly targeted advertising have considerably less appeal. The message consumers are sending is clear: make registration optional, not a requirement, clearly delineate the benefits they will receive in return for their information, and consider asking only for basic information like name, address, and credit card number. Forrester cautions that travel sites should not abandon personalized content, as frequent travel bookers, who spend up to 45% more per year than moderate and infrequent bookers, also care about it more.

**Web Site Features that Are Important to Frequent\* Leisure Travelers in the US, 2003 (as a % of respondents)**

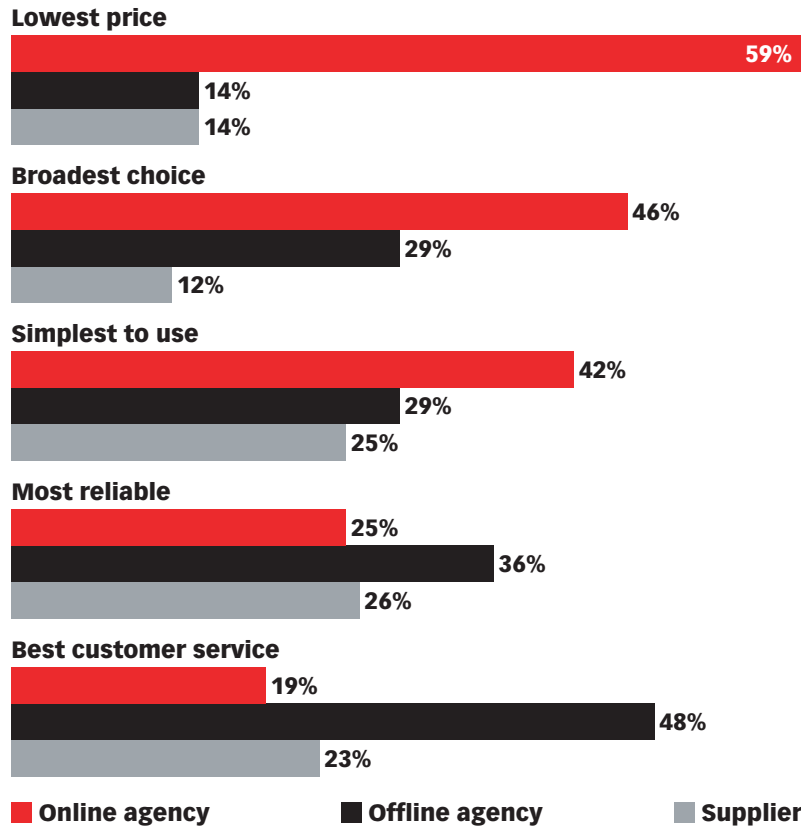


Note: \*five or more leisure trips annually  
Source: Forrester Research, September 2003

- [Methodology](#)
- [Travel Trends](#)
- [Technology Applications and Initiatives](#)
- [Travel Advertising and Marketing](#)
- [Total Travel Market: Size and Growth](#)
- [Online Travel Market](#)
- [Travel Segments](#)
- [Traveler Demographics & Preferences](#)**
- [Index of Charts](#)

PhoCusWright research indicates that online travel agencies excel when it comes to price, choice and ease of use. However, they falter when it comes to reliability and customer service, demonstrating areas where traditional offline travel agencies retain a competitive advantage – one that could be better exploited to keep the online agencies from stealing their market share. Suppliers, on the other hand, did not particularly earn consumers’ favor in any of the categories.

**Consumer Travel Booking Preferences, by Sales Channel, 2002 (as a % of respondents)**



Source: PhoCusWright Inc., 2002; Wall Street Journal, April 2003

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**“As much as online travel bookers love the Web, they are not loyal to the companies from which they buy. Travel companies are faced with the challenge of making the Web as functional as offline options and ensuring that the best values are always online.”**

— Henry Harteveldt, principal analyst, Forrester Research, 21 October 2002

[Methodology](#)

[Travel Trends](#)

[Technology Applications and Initiatives](#)

[Travel Advertising and Marketing](#)

[Total Travel Market: Size and Growth](#)

[Online Travel Market](#)

[Travel Segments](#)

**[Traveler Demographics & Preferences](#)**

[Index of Charts](#)

A notable disconnect exists between travel Web sites and the consumers that use them. According to a Vividence Corporation study, 27% of US Internet users believe they are not finding the best prices on hotel and travel Web sites. In addition, they bristle at having to register in order to use the sites. Travel providers must take action in order to win over reluctant consumers, and guaranteeing the lowest prices is one way to do that.

**Most Common Complaints of US Internet Users about Hotel and Travel Web Sites, June 2003 (as a % of respondents)**



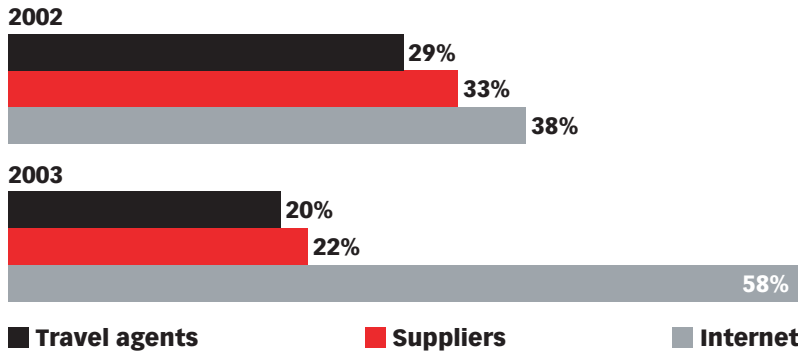
Note: n=2,000  
Source: Vividence Corporation, June 2003

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By contrast, an increasing percentage of the travelers surveyed by YPB&R has found the Internet to be the source of the best prices for travel products and services. The 38% to 58% rise from 2002 to 2003 has come at the expense of travelers' view of both suppliers and travel agents.

**US Leisure Travelers' Opinions Regarding Where They Get the Best Prices for Travel Services, 2002 & 2003 (as a % of respondents)**



Source: Yesawich, Peppardine, Brown & Russell, May 2003

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[Methodology](#)

[Travel Trends](#)

[Technology Applications and Initiatives](#)

[Travel Advertising and Marketing](#)

[Total Travel Market: Size and Growth](#)

[Online Travel Market](#)

[Travel Segments](#)

**[Traveler Demographics & Preferences](#)**

[Index of Charts](#)

### Destination Preferences

According to NFO Plog Research, the preferred destinations for US travelers have remained relatively consistent over the past three years, with most sharing at least three of the following four qualities:

- beautiful outdoor scenery
- warm weather
- variety of activities
- well-maintained lodgings and attractions

Not surprisingly, Hawaii and Florida have topped the list three years running. On the other hand, international destinations of choice, as seen in the second chart below, have shown greater variation, with a variety of economic, political and weather-related factors likely accounting for the shifts.

### Satisfaction Index for Domestic Destinations among US Travelers, 2000-2002

	2000 rank	2001 rank	2002 rank
Hawaii	1	1	1
Florida	2	2	2
Maine	7	6	3
Alaska	5	4	4
California	3	3	5
Colorado	6	7	6
Nevada	4	5	7
Vermont	19	8	8
New York	9	9	9
South Carolina	18	12	10
Montana	*	*	11
Washington	10	11	12

Note: \*not ranked in 2000 or 2001

Source: NFO Plog Research, December 2002

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[Methodology](#)

[Travel Trends](#)

[Technology Applications and Initiatives](#)

[Travel Advertising and Marketing](#)

[Total Travel Market: Size and Growth](#)

[Online Travel Market](#)

[Travel Segments](#)

**[Traveler Demographics & Preferences](#)**

[Index of Charts](#)

### Satisfaction Index for International Destinations among US Travelers, 2000-2002

	2000 rank	2001 rank	2002 rank
Ireland	6	5	1
Australia	2	1	1
New Zealand	6	6	3
Scotland	8	3	4
English countryside/Wales	9	2	5
Austria	*	*	6
London	2	7	7
Bermuda	*	*	8
Eastern Europe	*	*	9
Aruba	20	8	10
Hong Kong	*	*	11
Switzerland	*	*	12

Note: \*not ranked in 2000 or 2001

Source: NFO Plog Research, December 2002

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[Methodology](#)

[Travel Trends](#)

[Technology Applications and Initiatives](#)

[Travel Advertising and Marketing](#)

[Total Travel Market: Size and Growth](#)

[Online Travel Market](#)

[Travel Segments](#)

**[Traveler Demographics & Preferences](#)**

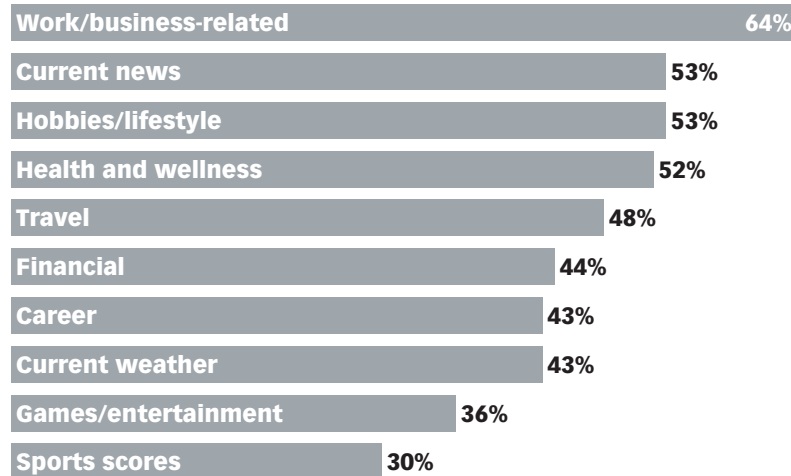
[Index of Charts](#)

## North America: Canada

### Channel Preferences

According to comQUEST Research's Spring 2003 CyberTRENDS survey, travel falls around mid-pack in terms of the most visited Web site categories by Canadian adults. These data reveal general findings about Canadians' Internet-related travel activities.

### Web Sites Accessed by Canadian Adults While Searching or Visiting Sites of Interest, by Category, Spring 2003



Source: ComQUEST Research, Spring 2003; canada.com, 2003

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[Methodology](#)

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[Online Travel Market](#)

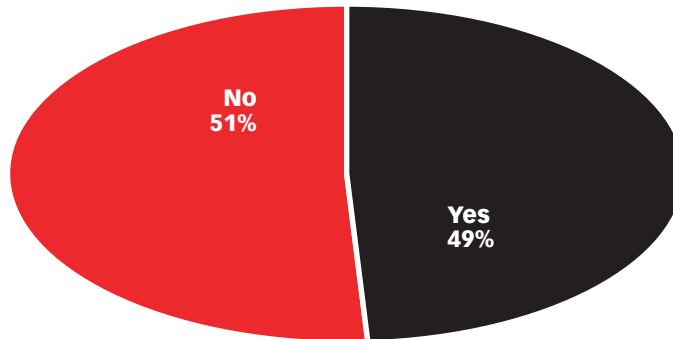
[Travel Segments](#)

**[Traveler Demographics & Preferences](#)**

[Index of Charts](#)

Ipsos-Reid's "Online Travel 2003: What the Future Holds" study, released in August 2003, contains more specific findings. Among them, it reveals that nearly half of Canadians (the survey used an equal sample of active Internet users and non-Internet users) have used the Internet to do travel-related research. Moreover, as the second chart below illustrates, the Internet is now the leading source of travel-planning information among online Canadians.

**Canadians Who Have Gone Online to Research a Trip Prior to Taking It, June 2003 (as a % of respondents)**

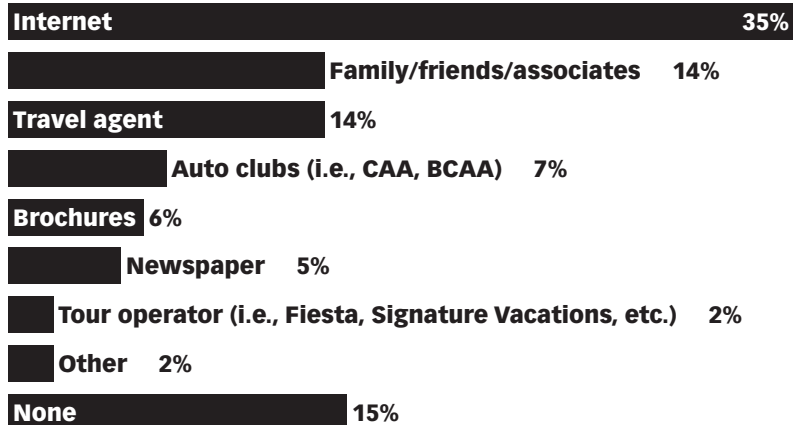


Source: Ipsos-Reid, August 2003

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**Primary Source of Information Used by Canadians for Planning Upcoming Travel, June 2003 (as a % of respondents)**



Source: Ipsos-Reid, August 2003

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[Methodology](#)

[Travel Trends](#)

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[Travel Advertising and Marketing](#)

[Total Travel Market: Size and Growth](#)

[Online Travel Market](#)

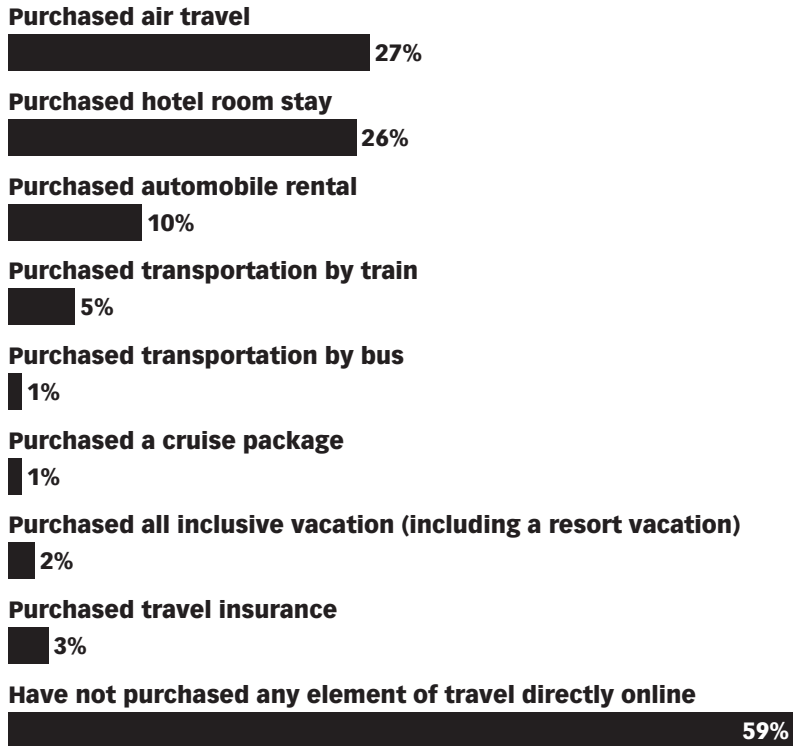
[Travel Segments](#)

**[Traveler Demographics & Preferences](#)**

[Index of Charts](#)

In addition, the Ipsos-Reid study reported that 36% of Canadian adults with Internet access have used the Internet to directly book some aspect of travel. This represents a rise from the 31% figure recorded in June 2002 and double the 18% figure recorded just three years ago, in September 2000. Just over a third of the survey respondents made more than three travel purchases online in the past year, but most made in the realm of one or two.

**Online Travel Purchases Made by Canadians, June 2003 (as a % of respondents)**

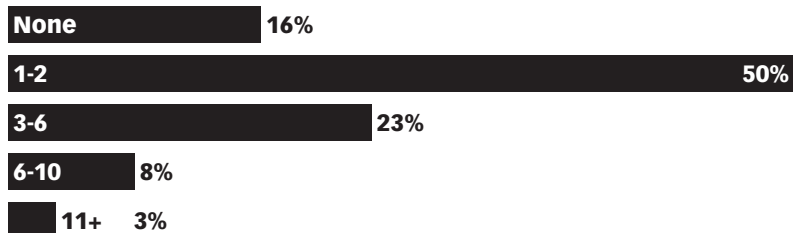


Source: Ipsos-Reid, August 2003

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**Number of Times Canadians Have Used the Internet in the Past Year to Purchase Online Travel, June 2003 (as a % of respondents)**



Source: Ipsos-Reid, August 2003

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[Methodology](#)

[Travel Trends](#)

[Technology Applications and Initiatives](#)

[Travel Advertising and Marketing](#)

[Total Travel Market: Size and Growth](#)

[Online Travel Market](#)

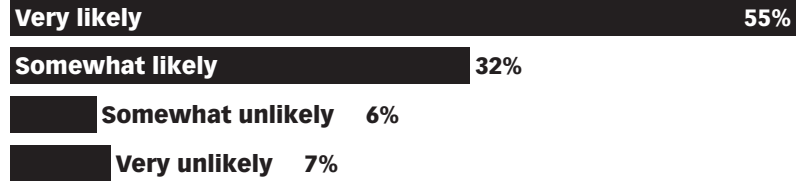
[Travel Segments](#)

**[Traveler Demographics & Preferences](#)**

[Index of Charts](#)

Still, at this point, although Canadians are increasingly using the Internet purchase travel, they remain most comfortable with the idea of going online to research their trips. As the charts below illustrate, a far greater percentage of respondents would be “very likely” to use the Internet to research their trip than buy trip elements.

**Likelihood of Canadians to Use the Internet to Research Their Next Trip, June 2003 (as a % of respondents)**

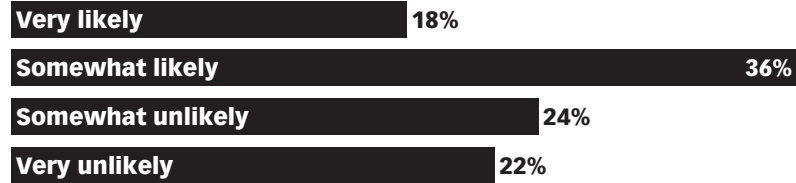


Source: Ipsos-Reid, August 2003

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**Likelihood of Canadians to Use the Internet to Purchase Their Next Trip, June 2003 (as a % of respondents)**



Source: Ipsos-Reid, August 2003

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[Methodology](#)

[Travel Trends](#)

[Technology Applications and Initiatives](#)

[Travel Advertising and Marketing](#)

[Total Travel Market: Size and Growth](#)

[Online Travel Market](#)

[Travel Segments](#)

**[Traveler Demographics & Preferences](#)**

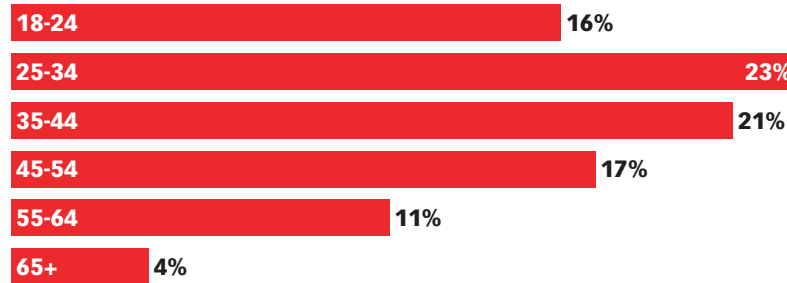
[Index of Charts](#)

## Europe

### Demographics

Information about the demographic breakdown of European Internet users that visit travel sites is not abundant. However, Jupiter Research data from August 2002 indicate that users from the ages of 25 to 54 – the heart of the user population and the travelers that presumably have the greatest financial resources – are the best represented.

#### Western European Visitors to European Travel Web Sites, by Age, April 2002 (as a % of online visitors)



Source: Jupiter Research, August 2002

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[Methodology](#)

[Travel Trends](#)

[Technology Applications and Initiatives](#)

[Travel Advertising and Marketing](#)

[Total Travel Market: Size and Growth](#)

[Online Travel Market](#)

[Travel Segments](#)

**[Traveler Demographics & Preferences](#)**

[Index of Charts](#)

### Channel Preferences

An America Online/RoperASW survey of approximately 500 at-home Internet users in France, Germany and the UK, the three countries responsible for the majority of Europe's user population, found that booking travel fell around mid-pack among the list of preferred activities. As in the US survey, where research of any kind ranked close to the top (number one in Europe), travel-related surfing was likely included under this broader rubric. In the Eurobarometer data in the second chart below, looking for information on travel was the third most popular activity in a survey with a much larger survey sample (both numerically and geographically).

### Online Activities of Internet Users in Europe, 2001 & 2002 (as a % of respondents)

	2001	2002
Do research of any kind*	85%	87%
Communicate with friends and family*	84%	82%
Get information about products to buy**	68%	73%
Get driving directions and/or maps*	–	67%
Get news online***	71%	64%
Communicate with business associates*	46%	59%
Look up addresses and/or telephone numbers*	–	55%
Send and receive pictures from family and friends online**	–	55%
Make purchases***	43%	51%
Get local entertainment information*	52%	50%
Bank***	39%	47%
IM**	39%	41%
Book travel reservations or tickets***	36%	40%
Check the weather report*	–	33%
Download music files***	30%	32%
Listen to music like you do on the radio**	29%	28%
Online auction**	13%	24%
Watch video clips***	20%	23%
Track stock portfolio**	22%	16%
Trade stocks***	15%	9%
Download books**	–	9%
Get coupons online**	–	8%
Go anywhere using a portable device like a cell phone**	–	7%
Filing or paying income taxes online***	–	6%

Note: \*2001 n=756; 2002 n=750; \*\*2001 n=754; 2002 n=754; \*\*\*combines both samples

Source: America Online/RoperASW, March 2003

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[Methodology](#)

[Travel Trends](#)

[Technology Applications and Initiatives](#)

[Travel Advertising and Marketing](#)

[Total Travel Market: Size and Growth](#)

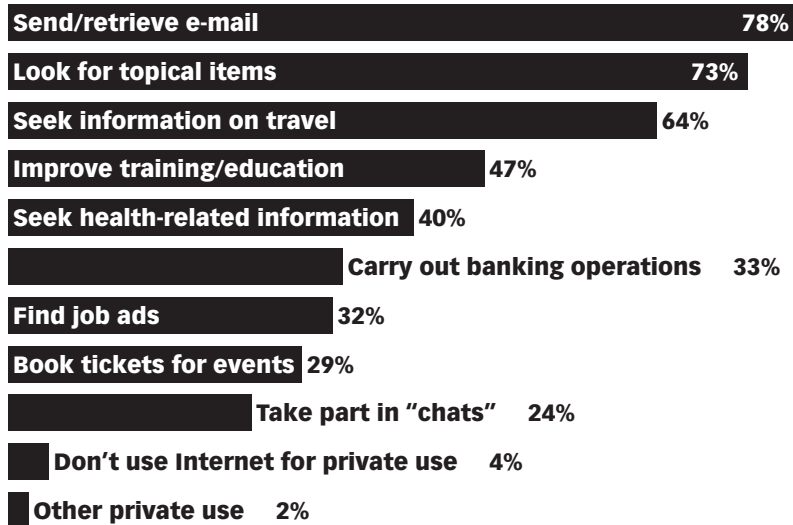
[Online Travel Market](#)

[Travel Segments](#)

**[Traveler Demographics & Preferences](#)**

[Index of Charts](#)

**Online Activities of Internet Users in the EU, November 2002 (as a % of Internet users)**



*Note: multiple responses allowed*  
 Source: Flash Eurobarometer #135, April 2003

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[Methodology](#)

[Travel Trends](#)

[Technology Applications and Initiatives](#)

[Travel Advertising and Marketing](#)

[Total Travel Market: Size and Growth](#)

[Online Travel Market](#)

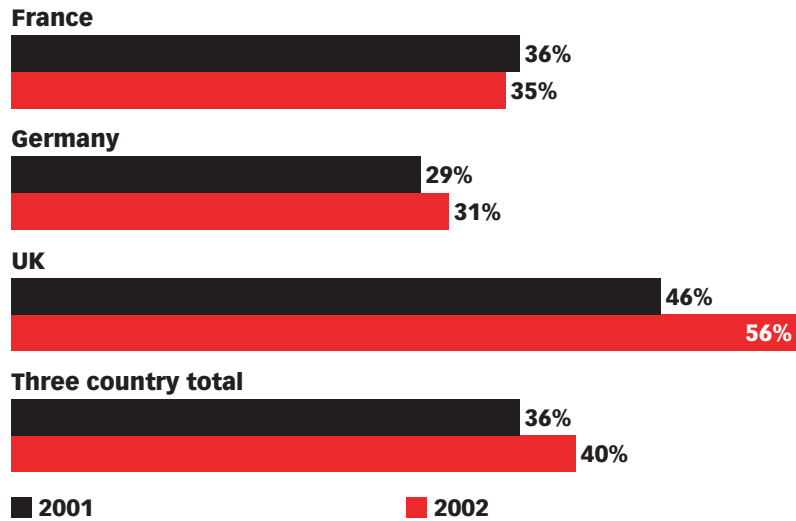
[Travel Segments](#)

**[Traveler Demographics & Preferences](#)**

[Index of Charts](#)

For the most part, the users surveyed by America Online/RoperASW are booking more travel online (with the exception of those in France). This is keeping with the outlook noted by PhoCusWright, which described Europe's online travel market as once a laggard, but now developing quickly. As might be expected, the reach of travel sites is greatest in Europe's more advanced Internet countries, with Italy and Spain still in the development phase.

**Internet Users in France, Germany and the UK Who Book Travel Reservations or Tickets Online, 2001 & 2002 (as a % of respondents)**



*Note: France-2001 n=502, 2002 n=500; Germany-2001 n=514, 2002 n=504; UK-2001 n=502, 2002 n=500; Total-2001 n=1,518, 2002 n=1,504*  
*Source: America Online/RoperASW, March 2003*

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[Methodology](#)

[Travel Trends](#)

[Technology Applications and Initiatives](#)

[Travel Advertising and Marketing](#)

[Total Travel Market: Size and Growth](#)

[Online Travel Market](#)

[Travel Segments](#)

**[Traveler Demographics & Preferences](#)**

[Index of Charts](#)

**Travel Web Site Usage among At-Home Users Worldwide, by Country, November & December 2002**

	Active reach November	Active reach December	Time per person November (hr:min:sec)	Time per person December (hr:min:sec)
France	29.50%	33.23%	0:14:56	0:14:19
Netherlands	28.81%	30.77%	0:12:22	0:13:07
Germany	26.31%	28.87%	0:16:35	0:19:03
Japan	28.73%	28.73%	0:08:50	0:09:05
Switzerland	26.24%	27.90%	0:11:50	0:12:37
UK	27.63%	26.80%	0:16:39	0:15:31
US	25.73%	25.52%	0:26:25	0:24:49
Sweden	21.23%	22.32%	0:17:07	0:14:38
Australia	18.07%	17.82%	0:18:54	0:18:28
Italy	13.95%	15.70%	0:12:18	0:11:57
Hong Kong	16.41%	13.93%	0:14:32	0:11:15
Spain	6.51%	7.55%	0:08:47	0:09:40
Brazil	3.10%	3.91%	0:16:31	0:13:31

Source: Nielsen//NetRatings, January 2003

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	Methodology	7
I	Travel Trends	11
II	Technology Applications and Initiatives	25
III	Travel Advertising and Marketing	37
IV	Total Travel Market: Size and Growth	53
V	Online Travel Market	61
VI	Travel Segments	97
VII	Traveler Demographics & Preferences	131
	<b>Index of Charts</b>	<b>165</b>

<b>Methodology</b>	<b>7</b>
<b>The eMarketer Difference</b>	<b>8</b>
<b>The Benefits of eMarketer's Aggregation Approach</b>	<b>9</b>
<b>"Benchmarking" and Projections</b>	<b>9</b>
<b>I Travel Trends</b>	<b>11</b>
▮ Domestic Person-Trips* in the US, 2000-2005 (in millions)	13
▮ Domestic Person-Trips* in the US, by Purpose of Trip, 2000-2002 (as a % of total)	14
▮ Domestic Person-Trips* in the US, by Mode of Transportation, 2000-2002 (as a % of total)	15
<b>A. Business Travel</b>	<b>16</b>
▮ US Corporate Travel Spending Trends, June 2003 (as a % of respondents)	18
▮ Travel Budget Trends among Corporations in North America, 2003 (as a % of respondents)	19
▮ Reasons for Decrease in Travel Budget among Corporations in North America, 2003 (as a % of respondents)	20
▮ Travel Mode Alternatives Used by Corporations in North America, 2003 (as a % of respondents)	21
▮ Reasons for Limiting Air Travel among Corporations in North America, 2003 (as a % of organizations limiting air travel)	22
<b>B. Leisure Travel</b>	<b>23</b>
<b>II Technology Applications and Initiatives</b>	<b>25</b>
<b>A. Travel Distribution</b>	<b>26</b>
▮ Evolution of Travel Distribution, 1920s-Present, 1920s-Present	26
▮ Evolution of Travel Distribution, 1920s-Present, 1920s-Present	27
▮ Breakdown of Travel Supplier Revenues, 2001 & 2006	28
▮ Reasons Why Travel Suppliers Use Global Distribution Systems (GDSs), 2002 (as a % of respondents)	29
▮ Travel Supplier Concerns about Reservations Distribution, 2002 (as a % of respondents)	30
▮ Travel Supplier Attitudes toward Global Distribution Systems (GDSs), 2002 (as a % of respondents)	31
▮ Reasons Why Hotels Find Global Distribution Systems (GDSs) Inadequate for Their Business Needs, 2002 (as a % of respondents)	32
▮ Reasons Why Airlines Find Global Distribution Systems (GDSs) Inadequate for Their Business Needs, 2002 (as a % of respondents)	32
▮ Cost to Consumers of Barriers in Airline Ticket Sales in the US, 2001-2006 (in millions)	34
<b>B. Self-Service Kiosks</b>	<b>35</b>
▮ US Airlines Offering Electronic Check-In Process, 2003	35
<b>C. In-Flight E-Mail Update</b>	<b>36</b>

<b>III</b>	<b>Travel Advertising and Marketing</b>	<b>37</b>
<b>A.</b>	<b>Offline</b>	<b>38</b>
	▮ Total Advertising Spending in the US, by Category, 2002 (in millions and as a % change vs. 2001)	39
	▮ Travel Advertising Spending in the US, by Medium, 2002 (in millions)	40
<b>B.</b>	<b>Online</b>	<b>41</b>
	▮ US Online Advertising Spending Growth, by Industry, 2001 & 2002 (as a % increase/decrease vs. prior year)	41
	▮ Interactive Marketing Spending in Select Countries*, by Industry Sectors, 2002 & 2003 (as a % increase/decrease vs. prior year)	42
	▮ US Online Advertising Spending, by Industry, 2000-2002 (in billions)	43
	▮ US Online Advertising Spending, by Industry, 2000-2002 (as a % of total spending)	44
	▮ Top Advertisers in Europe, by Industry Sector, 2002 (as a % of total advertisers)	45
	▮ Online Advertising Impressions in the US, by Industry, Week of 16 June 2003	45
	▮ Top Advertisers in Europe, by Industry Sector, 2002 (as a % of total advertisers)	46
	▮ Top 10 Travel Advertisers among US At-Home and At-Work Internet Users, Week Ending 7 September 2003 (in thousands of impressions)	47
	▮ Number of US Advertisers Comprising Half of Industry Impressions, by Industry, Q4 2002	48
	▮ Top 10 Travel Advertisers among At-Home and At-Work Internet Users in the US, Week Ending 20 July 2003 (in thousands of impressions)	48
	▮ Pop-Up Ads* as a Percent of Total Ads in the US, by Web Site Genre, Q4 2002	49
	▮ US Click-Through Rates for Free Search vs. Sponsored Search, by Industry, April-May 2003	50
	▮ Media that Influenced US Consumers Looking to Learn More about a Product, by Product Type, December 2002 (as a % of respondents)	50
	▮ Incremental per-Click Charges for Various Positions of Select Keywords, 2002	51
	▮ E-Mail Marketing Click-Through Rates, by Industry, Q2 2002-Q1 2003	52
<b>IV</b>	<b>Total Travel Market: Size and Growth</b>	<b>53</b>
<b>A.</b>	<b>Leading Tourism Markets – Arrivals</b>	<b>54</b>
	▮ International Tourist Arrivals, by Region, 2001 & 2002 (in millions, % growth and % market share)	54
	▮ World's Top Five Destinations for International Tourist Arrivals and Tourism Receipts, 2001 & 2002 (in millions, % growth and % market share)	55
<b>B.</b>	<b>Leading Tourism Markets – Spending</b>	<b>56</b>
	▮ International Tourism Receipts, by Region, 2000 & 2001 (in billions, % growth rate and as a % of market share)	56
	▮ World's Top 15 Countries in Tourism Spending, 2000 & 2001 (in billions, % change and as a % of market share)	57

<ul style="list-style-type: none"> <li>▄ World's Top 15 Countries in Tourism Receipts, 2000 &amp; 2001 (in billions, % change and as a % of market share) 57</li> </ul>	57
US	58
<ul style="list-style-type: none"> <li>▄ Breakdown of the Total Travel Market in the US, by Channel, 2000-2002 58</li> <li>▄ US Travel Spending, 2000-2005 (in billions) 58</li> </ul>	58
<b>V Online Travel Market</b>	<b>61</b>
<ul style="list-style-type: none"> <li>▄ Worldwide Online Travel Bookings, 2002 &amp; 2005 (as a % of all travel booked worldwide) 62</li> </ul>	62
<b>A. North America</b>	<b>63</b>
US	63
<ul style="list-style-type: none"> <li>▄ Internet Users in the US, 2000-2005 (in millions) 63</li> <li>▄ Online Consumer Accounts in the US, by Account Type, 2002-2006 (in millions) 63</li> <li>▄ US Online Leisure Travel Revenues, 2000-2005 (as a % of total US online retail revenues) 64</li> <li>▄ US Online Leisure Travel Revenues, 2000-2005 (in billions) 64</li> <li>▄ Online Travel Bookings in the US, 2000-2005 (as a % of all travel bookings) 65</li> <li>▄ Growth of Online Travel Bookings in the US, by Category, 2002-2005 (in % increase vs. prior year) 65</li> <li>▄ Online Travel Bookings in the US, by Category, 2002-2005 (in millions) 65</li> <li>▄ Online Lodging Revenues in the US, 2000-2006 (in billions) 66</li> <li>▄ Online Travel Revenues in the US, 2000-2006 (in billions) 66</li> <li>▄ Comparative Estimates: US Online Leisure Travel Revenues, 2002-2005 (in millions) 67</li> <li>▄ US B2C E-Commerce, by Category, 2002 (in billions and % growth vs. prior year) 68</li> <li>▄ Online Consumer Sales at US Sites, Period Ending 24 August 2003 (in millions and % change) 69</li> <li>▄ Online Sales in the US, by Category, 2000-2002 (as a % of total retail sales) 69</li> <li>▄ Breakdown of the Online Travel Market in the US, by Category, 2000-2002 70</li> <li>▄ Effect of the War in Iraq on Online Travel Spending in the US, January-May 2003 (in millions) 70</li> <li>▄ Channel Breakdown of the Online Travel Market in the US, 2000-2002 71</li> <li>▄ Online Travel Market in the US, by Mode of Travel, 2000-2002 71</li> <li>▄ Channel Breakdown of the Online Travel Market in the US, by Category, 2002 72</li> </ul>	72
Canada	73
<ul style="list-style-type: none"> <li>▄ Online Travel Spending in Canada, 2001 &amp; 2006 (in billions of CAD) 73</li> <li>▄ Comparative Estimates: At-Home and At-Work Internet Users in Canada, 2000-2006 (in millions) 73</li> </ul>	73
<b>B. Europe</b>	<b>74</b>
Revenues	74



▄ Online Travel Revenues in Western Europe, 1998-2006 (in billions of €, as a % of total travel revenues and % increase vs. prior year)	74
▄ Total Travel and Online Travel Sales in Europe, 1998-2006 (in millions of €)	75
▄ Comparative Estimates: Online Travel Revenues in Europe, 2002-2005 (in billions of €)	76
▄ Online Travel Bookings in Europe, 2002 & 2005 (in billions of €)	76
Category, Channel and Country Breakdown	77
▄ Breakdown of the Online Travel Market in Western Europe, by Category, 2002 & 2003	77
▄ Channel Breakdown of the Online Travel Market in Western Europe, by Market Share, 1998-2003	78
▄ Online Travel Market in Germany, 1998-2002 (as a % of online travel sales in Western Europe)	79
▄ Online Travel Market in the UK, 1998-2002 (as a % of online travel sales in Western Europe)	79
▄ Breakdown of Online Travel Sales in Western Europe, by Country, 2002	79
▄ Spain's Share of the Online Travel Market in Europe, 2003 & 2005	80
<b>C. Asia-Pacific</b>	<b>81</b>
▄ Comparative Estimates: At-Home and At-Work Internet Users in the Asia-Pacific Region, 2000-2006 (in millions)	81
▄ Online Travel Revenues in the Asia-Pacific Region, 2002-2004 (in billions)	82
▄ Leading Online Purchases by Internet Users in Select Countries in the Asia-Pacific Region, 2002 (as a % of Internet users who have shopped online)	83
<b>D. Travel Service Vendors</b>	<b>84</b>
North America: US and Canada	84
▄ Leading Online Travel Companies in the US, 2002 (as a % market share)	84
▄ Leading Online Travel Companies in the US, 2002 (as a % market share)	85
▄ Breakdown of the Online Travel Market in the US, 2000-2002	86
▄ US Customer Satisfaction with Leading Online Travel Services, Q4 2002 (based on a 100-point scale)	87
▄ Top 10 Travel Web Sites among At-Home Internet Users in the US, Week Ending 6 July 2003 (unique audience in thousands and % active reach)	88
▄ Top 10 US Travel Firms, Ranked by Online Customer Service, 2003 (based on an index scale of 0-10)	88
▄ Top 10 Travel Sites among US Internet Users, June 2003 (in thousands of unique visitors)	89
▄ Top Travel Web Sites Visited by Home, Work and University Internet Users in the US, April 2003 (in thousands of unique visitors)	90
▄ Top 10 Travel Sites among Hispanic Internet Users in the US, June 2003 vs. May 2003 (in thousands of unique visitors and % change)	91
▄ Favorite Web Sites for Travel Information among Canadians, June 2003 (as a % of respondents)	92
Europe	93
▄ Favorite Web Sites for Travel Information among Canadians, June 2003 (as a % of respondents)	93

▄ <b>Top 10 Web Sites Visited by Women in the UK, May 2003 (in thousands of unique audience and as a % of total audience)</b>	<b>93</b>
Traditional Agencies & Consolidation	94
▄ <b>Travel Agents in the US, by Office Type, 2001-2003</b>	<b>94</b>
▄ <b>Airline and Travel Firms Responding to Consumer Inquiries Submitted via Company Web Sites, 2003 (as a % of companies surveyed)</b>	<b>95</b>
▄ <b>Top 10 Travel Web Sites among At-Home Internet Users in the US, 2 February 2003 &amp; 23 February 2003 (ranked by % growth, unique audience in thousands)</b>	<b>96</b>

**VI Travel Segments 97**

**A. Air Travel Market 98**

Competitive Environment: FSCs vs. LCCs	98
▄ <b>Net Debt of US Airlines, 2000-2003 (in billions)</b>	<b>98</b>
▄ <b>Cost Advantage of Typical European Low-Cost Carrier (LCC) in Relation to Full-Service Carrier (FSC), 2002</b>	<b>100</b>
▄ <b>Cost Advantage of Typical European Low-Cost Carrier (LCC) in Relation to Full-Service Carrier (FSC), 2002</b>	<b>101</b>
▄ <b>Unmanaged Business Travelers in Select Countries in Europe Who Flew Low-Cost Carriers (LCCs) in Past 12 Months, September 2002 (as a % of respondents)</b>	<b>101</b>
▄ <b>Year-over-Year Change in Revenue Passenger Miles (RPMs) among Full-Service and Low-Cost US Carriers, May 2002</b>	<b>103</b>
Worldwide Airline Traffic & Leading Airports	104
▄ <b>Worldwide Airport Traffic, by Region, September 2002 (in millions of passengers and as a % change vs. September 2001)</b>	<b>104</b>
▄ <b>World's Leading 30 Airports, 2002 (in millions of passengers and as a % change vs. 2001)</b>	<b>105</b>
Leading Airlines	106
▄ <b>World's Leading 20 Airlines, by Revenue Passenger Kilometers (RPKs), January-July 2003 (in billions)</b>	<b>107</b>
▄ <b>World's Leading 20 Airlines, by Revenue Passenger Kilometers (RPKs), January-July 2003 (in billions)</b>	<b>108</b>
▄ <b>World's Leading 25 Airlines, by Revenue Passenger Kilometers (RPKs), 2002 (in billions)</b>	<b>109</b>
▄ <b>World's Leading 25 Airlines, by Operating Revenue, Operating Profit and Net Profit, 2002 (in thousands)</b>	<b>110</b>
▄ <b>World's Leading 25 Airlines, by Number of Passengers, 2002 (in thousands)</b>	<b>111</b>

**B. Hotel/Hospitality Market 112**

Hotel Performance Benchmarks	113
▄ <b>Worldwide Lodging Industry Performance, by Region, 2001 &amp; 2002</b>	<b>113</b>
▄ <b>Hotel Industry Statistics for Select Cities in the Asia-Pacific Region, Europe, Latin America and the Middle East, May 2003</b>	<b>114</b>
▄ <b>US and International Lodging Industry Performance, Q1 &amp; Q2 2003</b>	<b>115</b>
Traveler Preferences	116
▄ <b>US Business Traveler Satisfaction with Hotel Chains in the US, by Hotel Category, 2002</b>	<b>116</b>

▄ US Leisure Traveler Satisfaction with Hotel Chains in the US, by Hotel Category, 2002	117
▄ US Traveler Satisfaction with Upscale Hotels in the US, 2003 (index rating)	118
▄ US Traveler Satisfaction with Luxury Hotels in the US, 2003 (index rating)	118
▄ US Traveler Satisfaction with Mid-Price Full-Service Hotels in the US, 2003 (index rating)	119
▄ US Traveler Satisfaction with Economy/Budget Hotels in the US, 2003 (index rating)	120
▄ US Traveler Satisfaction with Mid-Price Limited Service Hotels in the US, 2003 (index rating)	120
Emerging Technologies: Broadband Hotels	121
▄ US Traveler Satisfaction with Extended Stay Hotels in the US, 2003 (index rating)	121
▄ High-Speed Internet Usage in Hotels in North America, April 2001 & April 2002 (as a % of respondents)	122
▄ High-Speed Internet Usage in Hotels in North America, by Hotel Price Category, February-April 2002 (as a % of respondents)	122
▄ WLAN Deployments in Hotels Worldwide, 2001 & 2006	123
<b>C. Car Rental Market</b>	<b>125</b>
Revenues and Fleet Size	125
▄ US Car Rental Fleet, 1998-2002 (in thousands)	125
▄ US Car Rental Revenues, 1998-2002 (in billions)	125
Leading Companies and Markets	126
▄ Top US Car Rental Car Companies, by Revenues, 2000 & 2001	126
▄ Top US Car Rental Car Companies, by Revenues, 2000 & 2001	127
▄ Top 10 Airport Car Rental Markets in the US, 1997-2002	128
▄ Breakdown of Top 50 Airport Car Rental Markets in the US, 2002	128
Traveler Preferences	129
▄ Top Car Rental Web Sites among US At-Home and At-Work Internet Users, July 2002 & July 2003 (unique audience in thousands and % change)	129
▄ Favorite Car Rental Companies among US Business and Leisure Travelers, 2002	130
▄ Travel-Related Purchases Made by US At-Home and At-Work Internet Users in the Past Three Months, 2003 (unique visitors in thousands and % of Internet audience)	130

**VII Traveler Demographics & Preferences 131**

<b>A. Business Travelers</b>	<b>132</b>
US	132
▄ US Firms that Use Travel Management Companies, 2003 (as a % of respondents)	132
▄ Types of Business Travelers, 2003	132
▄ Travel Booking Policies at US Companies, 2002 (as a % of respondents)	133
▄ Breakdown of Travel Booking Practices at US Companies, August 2002 (as a % of respondents)	134

▄ Usage of Online Corporate Travel Booking Tools at US Companies, by Frequency, 2002 (as a % of respondents)	135
▄ Penetration of Online Travel Booking Instruments at US Companies, 2002 (as a % of respondents)	135
▄ Average Corporate Managed Travel Fare vs. Average Internet Fare, January-June 2003	136
Europe	138
▄ Person Responsible for Business Travel Bookings at Companies in Europe, September 2002 (as a % of respondents)	138
▄ Breakdown of Business Travelers in Select Countries in Europe, by Business Size, September 2002 (as a % of respondents)	138
▄ Tools Used by Companies in Europe to Book Hotel for a Business Trip, by Country, September 2002 (as a % of respondents)	139
▄ Tools Used by Companies in Europe to Book Flight for a Business Trip, by Country, September 2002 (as a % of respondents)	139
<b>B. Leisure Travelers</b>	<b>140</b>
North America: US	140
▄ Demographic Profile of Travelocity Customers in the US, 2003 (as a % of active Travelocity members and as a % of US population)	140
▄ Profile of Leisure Travelers* in the US, 2000 & 2002	141
▄ US At-Home Users of of Travel Sites, by Age, Week Ending 28 July 2002	142
▄ US At-Home Users of of Travel Sites, by Gender, Week Ending 28 July 2002	142
▄ Types of Products Purchased Online by US Consumers, by Experience Online, 2002 (as a % of respondents)	143
▄ Online Travel Buyers in the US, by Experience Online, 2002 (as a % of respondents)	143
▄ Popular Online Activities among Internet Users in the US, 2002 (as a % of respondents)	144
▄ Popular Online Activities among Internet Users in the US, 2002 (as a % of respondents)	145
▄ Use of the Web as a Travel Resource among Internet Users in the US, by Frequency of Travel in Past Year, September 2002 (as a % of respondents)	146
▄ Purchases for which US Internet Users Used the Internet As Their Primary Research Source, 2002 (as a % of respondents)	147
▄ Use of the Internet to Plan Some Aspect of Travel among Business and Leisure Travelers in the US, 2002 & 2003 (as a % of respondents)	148
▄ Sources Used When Planning a Trip by Leisure Travelers in the US, 2003	148
▄ Purchases for which US Internet Users Used the Internet As Their Primary Research Source, 2002 (as a % of respondents)	148
▄ Extremely/Very Important Travel Web Site Features for Travelers in the US, 2002 & 2003 (as a % of respondents)	149
▄ Web Site Features that Are Important to Frequent* Leisure Travelers in the US, 2003 (as a % of respondents)	150
▄ Consumer Travel Booking Preferences, by Sales Channel, 2002 (as a % of respondents)	151

▄ <b>US Leisure Travelers' Opinions Regarding Where They Get the Best Prices for Travel Services, 2002 &amp; 2003 (as a % of respondents)</b>	<b>152</b>
▄ <b>Most Common Complaints of US Internet Users about Hotel and Travel Web Sites, June 2003 (as a % of respondents)</b>	<b>152</b>
▄ <b>Satisfaction Index for Domestic Destinations among US Travelers, 2000-2002</b>	<b>153</b>
▄ <b>Satisfaction Index for International Destinations among US Travelers, 2000-2002</b>	<b>154</b>
North America: Canada	155
▄ <b>Web Sites Accessed by Canadian Adults While Searching or Visiting Sites of Interest, by Category, Spring 2003</b>	<b>155</b>
▄ <b>Primary Source of Information Used by Canadians for Planning Upcoming Travel, June 2003 (as a % of respondents)</b>	<b>156</b>
▄ <b>Canadians Who Have Gone Online to Research a Trip Prior to Taking It, June 2003 (as a % of respondents)</b>	<b>156</b>
▄ <b>Number of Times Canadians Have Used the Internet in the Past Year to Purchase Online Travel, June 2003 (as a % of respondents)</b>	<b>157</b>
▄ <b>Online Travel Purchases Made by Canadians, June 2003 (as a % of respondents)</b>	<b>157</b>
▄ <b>Likelihood of Canadians to Use the Internet to Purchase Their Next Trip, June 2003 (as a % of respondents)</b>	<b>158</b>
▄ <b>Likelihood of Canadians to Use the Internet to Research Their Next Trip, June 2003 (as a % of respondents)</b>	<b>158</b>
Europe	159
▄ <b>Western European Visitors to European Travel Web Sites, by Age, April 2002 (as a % of online visitors)</b>	<b>159</b>
▄ <b>Online Activities of Internet Users in Europe, 2001 &amp; 2002 (as a % of respondents)</b>	<b>160</b>
▄ <b>Online Activities of Internet Users in the EU, November 2002 (as a % of Internet users)</b>	<b>161</b>
▄ <b>Internet Users in France, Germany and the UK Who Book Travel Reservations or Tickets Online, 2001 &amp; 2002 (as a % of respondents)</b>	<b>162</b>
▄ <b>Travel Web Site Usage among At-Home Users Worldwide, by Country, November &amp; December 2002</b>	<b>163</b>

**Index of Charts**

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