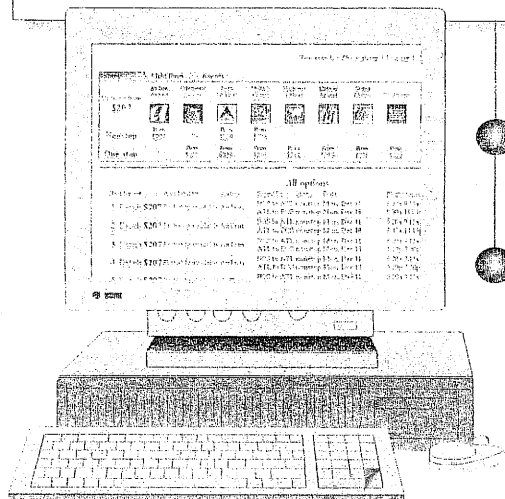


# ONLINE TRAVEL



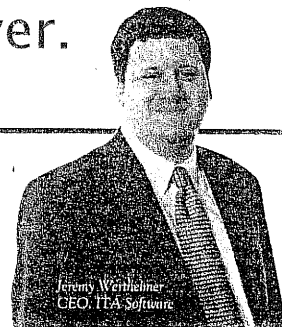
## • BIG HIT OR • BIG HYPE?

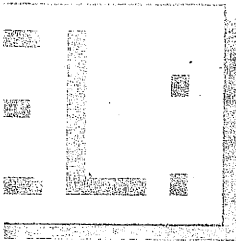
Cambridge, MA  
based ITA Software

will likely be an impact player.

By Uriel Heilman

**E**ver try to cram a carry-on into an overhead compartment that was about to burst? Have you ever taken a seat next to a guy whose elbow extends all the way into your abdomen? And then find out he paid \$500 less than you did—*even though you're sitting in the middle?*





If you're waiting for a solution to overcrowding at 20,000 feet, you'd better be patient. But, if it's the overpricing that bothers you, you'll be happy to know there's a new weapon out there in the online pricing revolution for airline tickets.

It's called ITA Software, and it's the brainchild of a group of computer scientists from the

MIT Artificial Intelligence Laboratory. These entrepreneurs have built an airfare search engine so good it may render alternatives obsolete.

"The industry hasn't had new software written in a long time," says ITA's Jeremy Wertheimer, speaking at the recent PhoCusWright online travel conference in Phoenix, Arizona. "Today, all travel web sites use one of four Global Distribution Systems [like Sabre and Galileo] which were built in the 1960s. But the world has changed since then. Prices today change all the time. Availability changes every second."

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Wertheimer, founder and CEO of the Cambridge-based software company, says there are at least three thousand different ways to get from Boston to Los Angeles within an eight-hour time frame—with each flight priced differently.

Rather than limit those choices, Wertheimer explains, ITA is designed to "make the whole market transparent," displaying all results and letting users sort by price, airline, number of stopovers and more. Because ITA doesn't automatically filter out any results, the search engine produces more choices and lower-priced fares than other search engines.

For example, when pricing out a recent trip between New York and Phoenix, ITA's display included a combination of direct and non-direct flights, flight itineraries using multiple airlines, flights from multiple airports, and flight options sorted by price, airline or number of stops.

Though the lowest possible fare was \$545, this writer opted for a \$604 round trip to limit stopovers and fly on my airline of choice. That fare compared with \$868 (with multiple stopovers) on the homepage of a second-tier airline, and fares on first-tier airlines that were nearly triple

ITA's price using other travel web sites and airline homepages.

Interestingly, the airline with the \$604 itinerary did not even allow me to select the combination of flights that yielded the \$604 fare when I went to search for it on the airline's own homepage, so I ended up making my purchase over the phone.

ITA doesn't actually sell air travel. The company licenses its software to travel agencies, travel companies, and online travel sites like Travelbyus.com, or the forthcoming, much ballyhooed, multi-airline-sponsored travel site, Orbitz.

So why is this small, 32-person company in Kendall Square becoming so important?

Air travel is a \$270 billion-a-year industry, according to the World Travel & Tourism Council, and is the most widely purchased commodity on the Net. According to Cambridge-based Forrester Research, \$17 billion will be spent making online travel purchases in 2000, including bookings for air, hotel, car and vacation-packages. The average online "booker"—as Internet travel buyers are known in industry lingo—has an annual leisure travel budget of \$2,539 per year, makes upwards of \$70,000 per annum, and goes on more than three leisure trips every twelve months.

"Travel," in the words of Jeff Katz, CEO of Orbitz, "is sparking one of the strongest national economies that we have ever seen."

Meanwhile, the number of online bookers is growing, and the gap between bookers and "lookers"—people who research travel online but purchase it elsewhere—is shrinking. According to Lincoln, MA-based Gomez.com, the online customer research and ranking firm, the number of online travel buyers is expected to grow in 2001 to 48 million, up from 30 million this year.

As the number of US households buying travel online skyrockets, the question of who will be the big players and why, is catching Wall Street's attention. "There's a huge market out there for companies to automate the process of booking [travel]," explains David Small, an analyst with Goldman Sachs.

So, who is booking all this online travel?

Forrester's senior analyst Harry Hartevelde says the old-fashioned, brick-and-mortars of the travel industry are increasingly reasserting dominance, and only the strongest of the myriad Internet travel brands will survive.

In 1999, Yahoo was the leading travel web site, with Excite!, AOL and Netscape all making it into the top seven. Those four sites all disappeared from the top 10 in 2000, which was a mix of airline web sites (Southwest, American and Delta), hotel web sites (Marriott and Holiday Inn), car-rental sites (Alamo and Budget), and the three powerhouse brands of Internet travel: Travelocity (#1), Priceline (#2) and Expedia (#4).

It will be very difficult for a new web site to break into this kind of top 10 list, says Bob LaFleur, an associate director

at Bear Stearns. But if there's any secret strategic weapon that can do it, it's technology. Technology, he says, gives new companies "second-mover advantage."

"With these second-generation travel sites," LaFleur posits, "these people are dealing with technology that's a little more advanced than it was several years ago—with Travelocity and Expedia coming out."

ITA, many analysts think, may very well be the technology company that changes everything.

Analysts are already predicting that ITA's most famous licensee, Orbitz, is poised to rocket into the Top Three of online travel sites, largely because of the combination of cutting-edge software (ITA) and a formidable marketing budget (\$100 million, according to CEO Jeff Katz). Orbitz is now in beta-testing mode and its web site is scheduled for launch in June 2001.

In truth, however, any online company using ITA's software can offer consumers as much variety and value as Orbitz says it will. The difference, projects Katz, is that Orbitz customers will receive outstanding customer service.

Some analysts, however, remain skeptical. At the eTravelworld conference, Forrester's Hartevelde derisively referred to Katz's description of Orbitz's customer service as "fantastical," saying: "We've had a lot of empty promises before."

Whether these new business-to-consumer companies can survive in the current economic climate—which has reduced the value of some travel companies, like Priceline.com, by 90% since just mid-September—remains to be seen.

"... people are dealing with technology that's a little more advanced than it was several years ago—with Travelocity and Expedia coming out."

But, it's a safe bet their success will hinge largely on the technology behind them. That's why it will be difficult to ignore companies like ITA. And in this environment of "more rationalized business development cycles," as Bear Stearns's LaFleur terms it, Wall Street will take note. ☺

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