Henry Harteveldt's Blog

For eBusiness & Channel Strategy Professionals

Google Launches July 4 Fireworks Early, Buys ITA Software

Posted by Henry Harteveldt on July 2, 2010

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In a move that had been speculated about since April, on July 1 Google announced it had entered into an agreement to buy Cambridge, MA-based ITA Software for $700 million — thus launching its own round of business fireworks ahead of the US July 4 holiday.

As an analyst, I believe this deal makes sense because:

- **The two firms don't overlap.** Like peanut butter and jelly, Bogey and Bacall, and scotch and soda, Google and ITA go together nicely. Google is an excellent resource to find information about Websites, but — at least as travel information is concerned — it can't always provide users with the "last mile" information they need. For example, a Google search that I did for "cheap airfares San Francisco-New York" generated 4,570,000 results in 0.33 seconds, but only produced a list of Websites. That's not really the answer a traveler wants. This is where ITA will come in. By integrating ITA's QPX airfare search into its search engine, Google will be able to provide a user with more specific, actionable information, such as airlines, schedules, fares — and the Websites that sell the tickets. And, as impressive as Google's technology prowess may be, airfare and other travel price searches aren't easy to do — Google described the process as "daunting," and they're right. So it's smarter for Google to buy than to build.
- **Online travel is growing — globally.** In the US, Forrester's current forecast estimates that online leisure and unmanaged business travel spending will increase from $80 billion this year to nearly $111 billion by year-end 2014. Within this, airline tickets form the largest category, accounting for $44.8 billion of online spend in 2010, climbing to $59.1 billion by 2014. Our current European online travel forecast calls for €57 billion of online leisure purchases in 2010, of which flights are expected to account for €27.7 billion. By 2014, we expect online leisure spending in Europe will reach €79.7 billion, €38.5 billion of which will be airline tickets. The total value of airline tickets researched online is higher. In the US, for example, 17% of US online leisure travelers are Lookers, travelers who research trips online, but book them through offline channels. They research more than half their trips online — that's business Google-ITA can tap into as well. (Note: Reports may only be available to Forrester subscribers; non-subscribers may be able to purchase individual reports from our Website.)
- **Search, and Google, both need an edge.** Forrester's North American Technographics® Travel Online Study, Q1 2010 (US) shows that an equal number of US online leisure travelers who research travel online report using

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both general search engines and online travel agencies. Yes, travelers may use these sites in different ways. However, I have to believe that the folks at Google would like to see more travelers use search throughout their trip planning. Google also needs to catch up in travel search capabilities to Bing. Though Bing is reported to have only 9% of the overall search market, Bing Travel has an excellent airfare search engine, Farecast — ironically, an ITA client. Acquiring ITA should help Google achieve both objectives.

Beyond the financial aspects of the deal, I believe that ITA will benefit from this acquisition in several ways — and will also need to prepare for change. Just remember, ITA didn't need to sell — Google needed to buy. Now 14 years old, ITA is a solid organization, with strong leadership and an impressive, creative approach to using technology to solve complex business problems. ITA has raised more than $100 million from investors, and has money in the bank. ITA counts some of the largest names in the travel industry as its clients. As I commented to Tnooz, there are only so many thoroughbred ponies, and Google got one of the best in ITA. Thus far, though, ITA has chosen to focus solely on airfare search. Jeremy Wertheimer, ITA's president and CEO, said on the July 1 call announcing this deal that doing airfare searches has been "enough" for ITA. Understandable: focus has its benefits. But what's been enough for ITA thus far may not necessarily be enough for Google in the future — especially when Google shelled out $700 million. Already testing hotel price search, Google could invest both human capital and technology to spur ITA onto developing the equivalent of a QPX product for hotels — and beyond that to other parts of the travel industry, like rental cars and cruise lines.

The Google-ITA deal simultaneously offers ITA's clients, especially airlines and travel agencies, a major benefit while also causing concern.

- **The benefit: Greater insight into consumer intent.** A challenge for any travel marketer or eBusiness professional managing her or his search marketing budget is to understand a customer's intentions when conducting a search. Absent dates in a travel search, a travel seller has no idea when a traveler wants to travel, and thus has to treat all searches as equally important. Once Google offers an ITA-powered flight search, a traveler will be able to enter her or his travel dates. In theory, we see this as allowing a travel company to bid more sensibly for the keywords. For example, an airfare search for travel within the next three days may indicate either a business trip or last-minute vacation, and a travel seller can choose to bid more for those keywords if these types of trips suit its strategy. A search for a trip several months in the future might indicate a leisure trip — again, a travel seller can choose whether to bid, and how much.
- **The concern: We don't know how Google will present Websites within flight results.** Within minutes of the Google-ITA announcement, I started to hear from industry eBusiness, marketing, and distribution professionals expressing concern about how Google would present the Websites of airlines and OTAs within a flight search's organic results, and what the model might be. The concern, based on not knowing the answer, is whether Google would charge airlines and OTAs to present their links. Going back to my San Francisco-New York search, six airlines serve the cities nonstop, more offer connecting flights, and all the major OTAs sell tickets for this city-pair. If, for example, an airline or OTA had to pay Google-ITA a fee for its Website to be listed in that flight's organic results, I see trouble brewing. Only one approach will be acceptable: for all bona fide sellers' Websites to be presented within a flight search's organic results — without charge to the airline or OTA.

Google's proposed acquisition isn't guaranteed. It's subject to government anti-trust review. I'm neither a lawyer nor someone who makes a practice of trying to secondguess Washington, DC. Google stated that ITA will honor all existing contracts, but I wouldn't be surprised if they will be required to commit to making ITA's products available to all who want to continue licensing it, and at commercially acceptable rates (read: no price gouging, and no saying no to Bing Travel if they want to continue using ITA to power Farecast). It helps Google that companies like Amadeus offers its Metapricer fare search tool. It's also possible that Expedia could choose to license its Best Fare Search technology to third parties. And, of course, Google-ITA will have to present the Websites of qualified airlines and OTAs in a flight's organic search results without charge.

What do you think of Google-ITA (hmmm…"Googleita"…)? Did I miss anything? How much impact do you believe this will have on the online travel industry? Will it spur additional M&A? I'd enjoy hearing your thoughts.

Thanks, as always, for your time.