

T2RL'S First View is our rapid analysis of breaking news. It helps provide perspective, putting the facts in the context of our wider and deeper knowledge of the market.

## Kayak Cashes Out

T2R Staff

### The Facts

Priceline has announced that it is to acquire Kayak for \$1.8Bn in cash and stock just four months after the metasearch provider floated on the New York Stock Exchange.

### The Analysis

Ever since the acquisition of ITA Software by Google in April of last year the writing has been on the wall for pure metasearch providers. (See *FirstView "Google Doesn't Do "Also-Ran" 31 January 2012*). Not only does Google continue to dominate the general search market with 89% of the world market and 86% in the USA, it also controls the world's most popular web browser (Chrome) and is the gatekeeper to the dominant mobile platform (Android). Half of all Internet users world wide visit Google on any given day.<sup>1</sup>

The dominant platform for tablets remains Apple's IOS and that company too has been showing an interest in software tools for travel search. All of which goes to suggest that the significant competition in the pure search market will be between Apple and Google especially if mobile applications continue to grow at significant rates compared to classic web sites.

In this environment the successful floatation of Kayak on the NYSE in July was a considerable achievement for CEO Steve Hafner and his team. It benefited from the rather slow roll-out of Google Flight Search based on ITA Software and a lack of clarity in precisely how Google intends to exploit the travel market. The waters may have been further muddied by the announcement that ITA's passenger services system had been implemented at Cape Air in March 2012. Many industry observers were surprised that the notoriously messy business of providing transactional systems to airlines had not been quietly jettisoned after the acquisition. The danger was that management focus on events down the road in Hyannis would distract from the task of creating a dominant travel search engine. In the opinion of T2RL the Kayak travel search system, including its mobile apps remains superior to Google's offering which, in the mobile space at least, is still branded ITA and does not yet support an iPad version.

Whatever the reason, Kayak was able to exploit a window of opportunity and floated at \$26 a share. It has had a good run through the late summer and autumn, closing at \$31.54 before the announcement of the \$40 per share acquisition by Priceline.

T2RL believes that the deal was a good one for Priceline and a stupendously good one for the shareholders of Kayak.

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<sup>1</sup> Sources: Karmasnack.com, Statcounter.com, IDC, Alexa.com

In the medium to long term there is no future for specialised travel search engines. They will inevitably have to integrate horizontally with general search or social network providers or integrate vertically with travel booking companies. Kayak management understands this well as evidenced by its deal with Travelocity in March 2011, but loose partnerships of this sort don't really go far enough. Tight integration with Priceline, which is the second placed of the major OTAs, lagging only Expedia<sup>2</sup>, will ensure that Kayak's products, technology and people remain relevant for several more years.

Meanwhile, Priceline has acquired a brand and a customer base almost as big as its own – although there will be significant overlap between the two customer groups. It has also acquired some very powerful technology and a group of around 100 software engineers experienced in the sometimes irrational and unpredictable requirements of travel distribution.

## The Speculation

Kayak was the biggest of the metasearchers with Internet penetration three times higher than its nearest rival SkyScanner. It can be expected to drive significant new business to Priceline and conversely divert some of it away from Expedia, Travelocity, Orbitz and the rest. Those other online travel agents may now be in the market for a metasearcher of their own. Privately-held SkyScanner may well be on the radar.

Alternatively the other OTAs may seek a preferential relationship with one of the search or mobile giants. Neither Apple nor Google has shown much appetite for the difficult business of fulfilment in any of their areas of interest. Their app stores work on an agency basis, taking a percentage of sales without needing to take responsibility for product quality or service. There is no reason to suppose they would want to approach travel any differently. A relationship where Apple or Google handles the front end search before handing off to a preferred OTA for fulfilment would suit them very well. For the OTAs though it could be a dangerous move, possibly relegating them to a role as a transaction-servicer operating on squeezed margins while the consumer-facing brands clean up.

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<sup>2</sup> Source: Alexa.com