
Martha Lane Fox

Brief history, long view



With the internet becoming firmly established as European consumers' travel tool of choice, *Locum Destination Review* talked to **Martha Lane Fox**, co-founder and group managing director of Europe's leading travel and leisure website, *lastminute.com*, about the company's rapid rise to the top, its ground-breaking business strategy, and the prospects for *lastminute.com* and the on-line travel market as a whole. **Owen Burdekin**, the editor of *Locum Destination Review*, and **Sue Warren**, a senior managing consultant with Locum and a dotcom entrepreneur to boot, posed the questions.

Martha Lane Fox has just announced the financial results for the first quarter of 2003 for *lastminute.com*, the internet company that she co-founded with Brent Hoberman in October 1998. She is buoyant, and she has every right to be. There has been growth in gross profit from £4.5 million in the corresponding quarter of 2002 to £11.3 million, an increase of 153.8 per cent. Other improvements include a drop in customer acquisition cost, which now stands at £9.20 per customer, and a significant increase in the customer conversion rate, from 16.1 per cent in the first quarter of 2002 to 25.6 per cent now. Further still, the results show that during 2002 the company gained over 800,000 new customers, taking the number of unique customers since launch to in excess of 1.5 million. All of this comes on the back of the announcement in November 2002 that *lastminute.com* had generated its first pre-tax profit of £0.3 million during the fourth quarter of last year. The company has come a very long way in five short years.

We meet on a bitterly cold London morning at the offices of *lastminute.com*, opposite The Queen's Gallery on Buckingham Gate. Outside, more commuters than usual shuffle along the pavements wearing angry and slightly bewildered expressions. There has been yet another signal failure on the London Underground at Oxford Circus, at the height of rush hour. It is something with which workers in this great city have become only too well acquainted over the preceding decades. Martha Lane Fox is one of the many whose journey to work this morning has concluded with a brisk and entirely unwelcome hike to the office in near-freezing conditions. Unlike most, however, she is quick to see the wider implications of the situation, and how it is affecting tourism in the city. 'One of the

things that people consistently tell me about London is that the transport is absolutely appalling. And the thing is, it's not complicated!! Just make it better and I think we could have a lot more happy tourists.'

Launching the business

We will return to London and its challenges later, but we begin at the beginning. Few in the UK will have avoided the hype that surrounded the IPO of *lastminute.com* on the London Stock Exchange and the Nasdaq National Market on 14 March 2000. The extensive coverage of the launch brought Martha Lane Fox and her business partner, Brent Hoberman, to the attention of web-watchers, business analysts and interested consumers the world over. Hoberman's business idea was simple: to offer consumers opportunities to acquire excellent value deals on airline tickets, hotel rooms, package holidays, entertainment tickets and a host of other things, at the last minute. *lastminute.com* would essentially act as an agent, making suppliers' products, some of them distressed, available to a hungry public, at short notice. The internet would be the perfect medium through which to make the business work, giving both suppliers and consumers maximum flexibility. But would consumers respond favourably? Would the business be enthusiastically received by the City? And if so, could it be grown and sustained? The answer to all three questions has been a resounding yes.

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Lane Fox with her co-founder, Brent Hoberman

The initial doubts expressed by City commentators about the ability of lastminute.com and other internet businesses to deliver profit over time have only served to strengthen the ambition and resolve of Lane Fox: 'For me, there was a massive judgement made on the internet way too early. I haven't always agreed with Bill Gates but he did say something that was spot on about two years ago. He said that everybody's focusing on the next ten minutes and we should be looking at the next ten years. It's depressing that there was an outcry of "Where's the money being made by these ridiculous businesses?" Well some were, but 80 per cent of new businesses blow up - there's always going to be some blow-outs! There was some irresponsibility, sure, and there was some hype and there were some ridiculous investment decisions made, but there was nothing evil or suspicious - I think people just got a bit carried away. Some business ideas got ignored, of course, but good ones didn't.'

To say that this was 'one of the good ones' would be an enormous understatement. The business idea has remained extremely simple since day one. But how does the company actually make money? 'As with all internet models, what you hope to get to - quickly - is a fixed cost base through which you can scale revenues very efficiently, and through which you can get that "super profitability". We make money from commissions and commercial revenues that people pay us to advertise on our sites and sponsor the sites, pulling people towards their particular products. But, fundamentally, we make super profits by leveraging the asset we've built, which is our technology and our brand, into lots of different places.'

At the last count, lastminute.com had established itself in 12 countries. It has eight wholly owned businesses and six joint

ventures, which it runs with industry partners. 'In Spain, for example, we've got a partnership with Sol Meliá, which is fantastic for lots of reasons, partly because they are a fantastic supplier of hotel rooms to us and we get great rates from them so that's beneficial, and also because we wouldn't have launched in Spain for another year probably, and yet with them we're not putting any cash in, they are. We're just giving the brand, giving the technology, and we have a site there. So we're quite opportunistic about new businesses and we will continue to look at leapfrogging time by bringing in great partners.'

If all goes to plan, where does Lane Fox see the business in five years' time? 'In terms of where we are in our lifecycle, when we set up lastminute.com we passionately believed that we could build a business that was going to be here in 20 years, 25 years, 30 years, not just in the next five months. Some people wonder whether this business will exist, and whether it will be profitable. The real questions are how big can this be, and how profitable?'

Getting suppliers onboard

Without solid partnerships with industry suppliers, however, there would be no business. Today, lastminute.com works with over 14,800 suppliers, of everything from flights to theatre tickets: 'We have worked really hard over the last five years to build this up direct relationships with suppliers themselves. We have proprietary fares in our own database, whether it's hotel fares that you won't find anywhere else, or air fares that you won't find anywhere else,

Awards

Investor Relations Award (Webuser Awards 2002)

Best Use of New Media for E-commerce and Best Online Business (Revolution Awards 2000)

Millenium Product (award backed by the Design Council in Dec 1999)

Best UK Internet start-up (ranked first in the 1999 e25 rankings voted on by Management Today and Bain Consultancy)

Company of the Year (Growing Business Awards 1999 run by the CBI and Real Business)

Best Commercial Web Site (Yell UK Web awards 1999)

Best Retail Web Site (New Media Age awards 1999)

Best of Venture Market Europe (Red Herring 1999 Editor Awards)

entertainment tickets, gifts, whatever. Suppliers give us product on allocation, and we sell that product.'

While the formula is now tried and tested, were there any doubts about it to begin with? 'From a customer point of view, it just never stacked up to us, that people were going to say, "Oh but you know Air France or Lufthansa will cut out all the agents". I personally think that this whole argument about the web cutting out intermediaries is nonsense. People go to agents because they can have a more convenient and easy experience, and that's exactly what's happened on the web.'

The lastminute.com business model means that most of its partners are also potential competitors. Doesn't this go against the grain for suppliers? 'All of our suppliers are our competitors for that one individual product in a way, but suppliers will always put product where there is volume. At the beginning it was probably a leap of faith for them - "Who are these two? What's this website? What's the internet?" But right now they are seeing us turning over £500m, and they know that if we're not selling their product we'll be selling one of their competitors, so they don't want that to happen.' Significantly, British Airways has been one of the company's partners since the very beginning. 'We sell about £25 million of British Airways products annually, it's our biggest supplier relationship.' So much for not being taken seriously by the big boys.

Mission statement

'To become the number one European e-commerce lifestyle player by delighting our customers with great-value inspiration and solutions'

But how do suppliers feel about customers choosing her brand over their own? Do they feel threatened? No, argues Lane Fox, because they accept that lastminute.com has successfully cornered the market for hassled consumers in search of last-minute choices: 'If I'm a customer and I want to do something, especially at the last minute, do I want to look at 15 different sites to try to find the best deal? No I want to go to two or three trusted brands to compare the price and where I can see maximum choice.' She goes on: 'I don't think there has to be a tension between the supplier and the distributor. Quite the opposite. It can be that the distributor empowers the supplier, and that's what I hope we do, because we give enormous control to our suppliers over their inventories, so that they can do things with lastminute.com that would be hard to do through some of the other channels that they might work with, partly because of the reactivity of the web. A hotel or an airline can call us or send us product or use our extranet to upload product in the morning and be selling it by lunchtime, and be pushing it out in our e-mails literally in a matter of hours. And if you've got a particularly distressed product, that's obviously a big advantage for them.'

Generating market awareness

The company has so far amassed an astonishing 6.8 million subscribers - internet users who have registered their information with the company and requested regular information about lastminute.com deals of all types. But how do they get people's attention in the first place? 'At lastminute.com we've never actually done "big bang" marketing. We've never personally invested in TV or anything like that, because I actually don't think that's very effective.' We remind her that when the company launched, it was almost impossible to move in London for buses that were plastered in lastminute.com advertisements. 'Yes, they were extraordinary. They were so cheap, because nobody was advertising on buses at that time. We just did the buses and we passionately believe in on-line, and the vast majority of our marketing budget still today is for on-line. We do a bit of radio stuff, but the vast majority of our budgets go on-line, for seeding and search engines, and on-line partnerships.'

Development of technology is prioritised financially over 'marketing' in the conventional sense: 'Across all of the businesses in the various different countries, we will spend about £6.5 million on media this year, which I know is one of our biggest competitors' budget for just one country. We spend more than double our media budget, about £15 million, on technology. We can afford to spend this much on technology because our customer acquisition cost is phenomenally low - about the same in the UK as Amazon's is in the US. We passionately believe that it is through our technology that we build competitive differentiation.'

The most powerful marketing tool that has been developed through this commitment to technology has been the weekly newsletter that all lastminute.com subscribers receive - in their own language, and tailored to their own preferences. The idea - and the copy - for the first newsletters came from Lane Fox and Brent Hoberman themselves. 'Back in '98, Brent and I wrote the newsletter in a slightly cheeky, silly tone because we don't know anything else. We were offering flights from London to New York for £99, so we wrote lots of silly jokes about what you could do in New York - that's what we knew what people would forward on to each other,

because that's just a price that makes you say, "My god, let's go!" This is the most powerful type of marketing and it's *cheap*, it's really cheap.'

This electronic form of permission marketing is proving extremely popular with subscribers. 'We send out 250 versions of our UK newsletter alone every week, and hundreds of others to the 4.5 million subscribers who are not from the UK. It's all done automated with rules, targeted to different groups.' While this is a far cry from the launch period, the technique is as 'personal' and effective as ever. 'Our marketing teams have taken it and turned it into something that seven million people want to read as opposed to 700.'

Gaining consumer confidence

Attracting people's attention is one thing. Selling them high-value products over the internet is another entirely, particularly products that defy the tried-and-tested 'letterbox' principle bandied around at the height of dotcom hysteria (namely that consumers would only be truly confident in products that could be delivered the next day into their homes). Why, therefore, were Lane Fox and Hoberman so sure that consumers would warm to the idea of buying travel and leisure products on-line? 'I think that travel is a fantastic application for the web, and I think that particularly airline seats, which have now become such a commodity on the web, were a real catalyst to getting people to book.'

She is quick to credit the market-leading budget carriers for their role in this process: 'I think that easyJet, Ryanair and the incredible push that they made to getting people on-line was fantastic. If you look at our market compared to the German market, where they haven't really had those catalysts, where the airline carriers haven't been doing big advertising campaigns - "£1 if you book on-line" - then the market is much, much smaller; the amount of travel booked on-line, the amount of e-commerce done generally is much smaller.'

The low-cost airlines may have opened people's minds to the possibilities and value to be had on the internet, but when it comes to making a first on-line purchase do people go straight for the flights and hotel rooms? 'I think lots of people on lastminute.com are making their first purchase for some of the smaller, perceived lower-risk items - things like sending a bunch of flowers, booking a restaurant table, a £10 theatre deal. If you're nervous, do you want to book a flight to go away for the weekend? Maybe not, it might seem a bit scary, but does it seem fairly low risk to book a theatre ticket that doesn't really matter? Once you've made your first purchase on-line, your confidence to make the other one grows. When you've captured someone and if they've had a good experience the first time, they're normally hooked.'

One of the most successful strategies to be pursued by lastminute.com in hooking first-time purchasers has been the fashioning of offers around specific occasions in the calendar. Valentine's Day falls at the end of the week, and the opportunity to focus in on this has not been missed: 'Look at what we're selling at the moment - hotels in Paris, nice country house hotels. We can build Valentine's Day into an event, with a wide product range. About 35 per cent of the items we're selling are not travel, and that's just because of the ticket price obviously. Those items are made up of entertainment tickets for things like theatre, music and sport, and other peripheral things. The best selling item yesterday

was a bunch of roses. It won't be the thing we made most money from, but it will be the thing that captured most customers.'

This type of themed promotion is popular not only with consumers but also with suppliers, and good for the business model: 'The rationale behind creating occasions is that you have a much more defensible business and a better customer experience, and suppliers get the opportunity to showcase their products more often to people - and learn more about their own customers.'

The proof of this strategy is in the pudding. While consumers continue to buy a wide range of products, travel sales remain popular: 'In terms of the gross revenues of the business, travel is still



the most important, between 85 and 90 per cent of gross revenues according to the time of year, but that is because you're paying £400 for a package holiday and you're paying £10 for a discounted theatre ticket.'

Living up to brand values

We put it to Martha Lane Fox that her own personality and attributes are firmly stamped all over the lastminute.com brand, from the logo to the newsletter to the many TV and radio appearances. Is it good for the business to be so closely associated with one key figure? She concurs that 'The pink is me - that's one indelible mark I've left on the business!!' But she argues that her wider imprint is beneficial rather than detrimental: 'What I care passionately about is that we don't become a brand without a personality. I don't think many internet brands have a personality, whether it's Expedia, who I respect enormously but who don't have a personality behind them, or Amazon, who I think are phenomenal, and who have an efficient, clean, great customer service. What I like about our brand and what I think is exciting for the future is that it does have a bit more attitude to it. I think it does hopefully give people confidence, it does make them want to visit more regularly than actually when they want to purchase, and all those beneficial things.'

The hope that users will come to associate the brand not just with buying but also finding out about products is more than a fleeting

aspiration. It forms a core part of the mission statement: 'Lastminute.com aims to become the number one European e-commerce lifestyle retailer by delighting our customers with great value inspiration and solutions.' A recent piece of research by Nielsen//NetRatings suggests that this goal is being achieved. It states that during November 2002, lastminute.com had the largest UK audience of unique users (907,000), the biggest reach (4.14 per cent of active UK internet users), the most page views (over 1.7 million) the most visits per person (1.81), and, crucially, the second longest time (behind only British Airways) spent by each visitor to the site (11 minutes, 27 seconds).

Again, the brand commitment to consumer-facing technology has played a big role in developing customer loyalty as the great value deals upon which the business is predicated. A premium is placed upon keeping each website as user-friendly as possible. 'Brent and I are obsessive about how the site looks and how easy it is to buy. We feel we're probably halfway up the mountain in terms of making it great. We've got a list as long as you like of all the things that we know we need to do in order to improve the site. I don't sit back and think "This is perfect, it's so easy" - it's not. We play on the site *all* the time. I try to buy something at least once a week, partly just to see how easy it is and see if I've got any new ideas by doing it, but also because there's always something I want to buy.'

Equally important to Lane Fox is creating a genuine interaction with customers: 'We look at customer feedback very extensively, and we've got lots of ways on the site of you telling us what you think - e-mail boxes and surveys and through the newsletter, and when you've done something we ask if you can take a few seconds just to tell us what you thought. We did this recently with some of our hotel customers, and lots of them wrote back and said that the deal was fantastic but they really overpaid on the parking. That's not something we'd have ever thought about or known about, and it was a big issue for our customers, so we rang up these hotels and said either you stop charging for parking or we take you off the site.' Clearly, the customer is king.

Keeping up with consumers

As lastminute.com continues to mature as a brand, so too does the internet. Lane Fox has noticed some major changes in the profile of the company's demographic segmentation. 'It's changing with the internet becoming more mainstream, but also changing as we get better at addressing different segments.' She explains that the company is communicating with two distinct segments. The first is 25-45 year olds, 'normally city dwellers, who are usually earning quite a lot of money, with quite high disposable income, taking lots of short breaks, who are probably not married and don't have children'. The other is more downmarket, interestingly: 'This is the fastest-growing segment - with a family, or retired, looking for bargains, and that's definitely the biggest shift we've seen in the last year to 18 months, is that profile moving on-line.'

This comes as something of a surprise. Were the bargain hunters not among the first customers queuing up to take advantage of lastminute.com's ground-breaking offers? 'They really weren't on-line back then. In '98 it was only early adopters that were using the web. I think we've got bargain-hunters on-line now because we have always been about great value deals, not cheap, cheap, cheap - you can go and stay in a five-star hotel for a three-star price, or go on a scheduled flight for a charter flight price.'

Today's independent traveller, it seems, is looking beyond the flight to the rest of the experience: 'What we're seeing all the time is that the flight is seen as a commodity, and the customer stays in a hotel that they wouldn't otherwise have stayed in. Certainly the low-cost carriers have pushed that further, and now people are not only deciding to stay somewhere they wouldn't otherwise have done but they're also booking a ticket to see this or that as well.'

As far as UK consumers are concerned, the increasing outbound trend reported by the BTA and others is borne out by the experiences of lastminute.com, although Lane Fox claims that her company is riding on the back of this trend rather than fuelling it.

UK on-line travel booking - November 2002

Domain	Unique audience (000's)	Reach %	Page views (000's)	Visits per person	Time per person (mins)
lastminute.com	907	4.14	17,630	1.81	11:27
expedia.co.uk	884	4.04	10,669	1.53	05:45
easyjet.com	701	3.2	7,566	1.57	09:59
britishairways.com	607	2.77	12,201	1.71	15:02
opodo.co.uk	492	2.25	2,105	1.39	03:31
ebookers.com	150	0.68	1,701	1.31	06:57
travelocity.com	124	0.57	561	1.39	03:25

Source: Nielsen//NetRatings November 2002

Performance			
	Year ended 30 September 2002	Year ended 30 September 2001	Growth (%)
Registered subscribers at year end	6,443,381	4,208,484	53
Customers since inception	1,277,887	536,446	138
Cumulative items sold in the year	1,719,362	806,155	113
Number of suppliers at year end	14,454	9,286	56
Total transaction value (£'000s)	245,971	124,210	98
Gross profit (£'000s)	33,264	17,204	93
Gross margin	13.5%	13.9%	(0.4)
Loss (before goodwill amortisation and taxation) for the year (£'000s)	(19,261)	(39,086)	(51)

'I don't think it's because we've capitalised on that. I think it's just more - and this will sound silly now - but it used to be difficult to buy a flight *and* book a hotel room in the same place on the site. Now it's really easy, so that's boosted interest.' In November 2002, lastminute.com introduced its 'Breakbuilder' product, which allows customers to book a flight and hotel together, and get an integrated price for the package. By December, the product was already accounting for 7.5 per cent of total UK sales. Another UK trend observed by the company that tallies with recognised industry patterns is an increase in demand for short breaks.

Dealing with new challenges

We wonder whether the current uncertainty over the economy and the threat of potential military conflict is affecting this or other trends. 'God knows what's happening in the economy at the minute, but people are still travelling, I think people are still going on city breaks. Sad as it is, the terrorist threat hasn't got the same resonance here as it has in the US, where people here have got used to it. We certainly couldn't say there has been a slowdown in the travel business. But you do need to caveat that with the fact that the internet market and on-line percentage of that is growing so fast anyway, that we would expect to buck the trend a bit.'

The two side-effects of the present situation that Lane Fox reports are 'firstly that people are booking more last minute, because they want to go away, but they want to know where will be safe, and secondly that because there has been a slowdown in travel in macro terms, we have been able to offer amazing deals'. The company is seeing fewer bookings for destinations such as Morocco and Tunisia, but more city breaks: 'We see lots of people going to Spain and coming to London for weekend breaks, which has led to a huge boost in our hotels business in London. So we're kind of in an interesting position, because we can push people around across different places and different categories.'

Interestingly, it is not just London that is hosting more city breaks. 'Whereas 80 per cent of our UK business was generated in London when we launched, now about 40 per cent is, and we sell lots of short breaks, especially to country house hotels, but also to Edinburgh, Glasgow, Manchester, Leeds.' Mainly the people travelling into these cities are domestic travellers - 'but that's mainly because we haven't done a good job on that yet'.

London's marketing - or lack of it - is of major concern to Lane Fox: 'I think it's a real shame that people haven't got it together properly to market London. They wasted a huge amount of money, post-September 11th, quite a shocking amount of money I think, on an advertising campaign that cost upward of £2 million or £3 million. Whether or not it had any effect they've got no idea and where that money is going is really important and it should be really accountable.'

So what does she think could be done to improve London's positioning? 'I haven't heard anything since the launch of the new tourism strategy for London [in September 2002]. Certainly, here at lastminute.com we put together a very detailed proposal about how we could market London to all the countries that we are in, using on-line advertising and tailored newsletters. I would take a more low-key approach. We would love to do special London newsletters all round Europe, and that was one of our proposals to the London thing: let's market London to all those people. It doesn't have to be about London being hip and cool, and a big branded launch. I think it can be just about pressing a few points that maybe people had forgotten - that London is a great place to come for food, or a great place to come for art, or whatever it is. It's about targeting specific groups around Europe, targeting specific segments, and that's what on-line is great for.'

It is a great irony and a great shame that one of the world's leading on-line travel brands has not been invited onto the team responsible for improving London's international profile. What a missed opportunity.

It is also a great irony that this young woman, who spends her every waking hour focused on putting other people on flights and in hotel rooms, hardly ever gets away herself. Next week, however, she will be taking a holiday - and buying it on her own website. 'I'm going away on holiday and I still haven't booked it, so later today I shall find somewhere to go on the site. I know that just sounds like positioning but you ask anyone in this building and they'll tell you it's true!'

It will be a well-earned break.