

## **Incumbent-Entrant Dynamics in Global Travel**

Jennifer Royer :: Technology Strategy :: December 10, 2012

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This paper answers the question: *"To what extent will the new technologies employed by trip planning startups displace those of existing players, and how should incumbents respond?"*

I contend that new entrants are spurring major innovations in online travel, and incumbents can benefit via acquisitions and fast-follower strategies.

### **Introduction: Travel Industry. Company Profiles and Trends**

Valued at \$1.15 trillion in 2012, the global tourism market is immense, and the number of options for travelers is commensurate, particularly as new entrants flood the market. There are many market players, among them providers (airlines, hotels, tour companies) and the online travel associations (OTAs) that aggregate information and facilitate bookings across these entities. TripAdvisor and Lonely Planet are one step removed from OTAs but are instead in the business of providing travelers with planning and destination advice, generating leads for OTAs and providers.

TripAdvisor launched in 2000 as one of the early players utilizing user-generated content, rather than expert-reviewed guides, to help travelers plan their trips. Lonely Planet has a different history, founded in 1972 by two backpackers who scrapped together a guide to Southeast Asia. The company has since gone on to print over 100 million guidebooks and was acquired by the BBC in 2007<sup>1</sup>. In recent years, TripAdvisor has gone on an acquisition spree, buying 11 companies<sup>2</sup> and reporting a 42% CAGR in annual revenues from 2006-2011<sup>3</sup>. Meanwhile, Lonely Planet has reportedly lost £50 million in value, even as its digital books business is doubling its annual revenues<sup>4</sup>.

The market grows ever crowded: as of May 2011, travel-related startups received an estimated \$1.3 Bn in VC funding<sup>5</sup>, with travel tech seeing new entrants like Wanderfly and Trippy, which provide visually curated, social trip discovery. Global growth in travel is expected to be fueled by the uptick in online activity; in 2011, an estimated 82% of travelers planned trips online and 57% booked

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<sup>1</sup> Lonely Planet website. "The Lonely Planet Story." <http://www.lonelyplanet.com/about/>

<sup>2</sup> TripAdvisor Crunchbase profile. <http://www.crunchbase.com/company/tripadvisor>

<sup>3</sup> TripAdvisor Q3 2012 Investor Presentation.

<sup>4</sup> "Lonely Planet value down £50 million." *The Bookseller*. 17 July 2012.

<sup>5</sup> "Travel startup funding estimated to have hit \$1.3BN in past five years." *TNooz*. 3 May 2011.

online<sup>6</sup>. The dominant design of trip planning in the past – travel agents – is being pushed aside as these new, nimble players pave the way for a market driven by online and mobile apps with simple, often photo-laden UXs that support peer-to-peer travel planning.

### **Innovation in the Travel Planning Market**

Even with startup momentum, new travel businesses are providing major innovations at best. Last summer, Mike Butcher of TechCrunch bemoaned the fact that too few startups were truly disrupting and “thinking big,” and this problem seemed particularly acute in online travel<sup>7</sup>. A travel blog contributor echoed this sentiment, saying that too many startups are trying to create superior versions of existing sites, rather than “coming up with new business models, or tackling an actual industry challenge/shortcoming<sup>8</sup>.” Airbnb is an example of a truly radical, Horizon 3 player, diminishing the relevance of impersonal and overpriced cookie-cutter hotels while serving as a “liquidity provider” by creating a peer-to-peer marketplace for the fragmented long tail of short term, individual property rentals<sup>9</sup>.

But in travel planning – TripAdvisor and Lonely Planet’s focus – there is no such leap of innovation. New players like Wanderfly, Trippy, and GoGoBot, all of which aim to provide highly visual, personalized, and socially curated trip planning guidance, enhance but do not destroy the competencies of existing firms, particularly as incumbents easily snap them up. For resource-rich global firms, it isn’t hard to add a more visual interface or improved social integration, either organically or via acquisition. Nevertheless, the technologies of new firms are major innovations, as they have shifted user behavior. The preexisting market standard largely hinged on “pull” mechanisms and catered to those with some notion of where they wanted to travel, e.g., Sally wants to go to Istanbul, so she consults travel sites to find information and plan her trip. New technologies have shifted this paradigm to create a space for travel discovery without alienating those who know where they’d like to go. Rather than typing “Istanbul,” Sally now selects that she likes adventure travel and wants to spend under \$1,000, or she peruses top-rated destinations from Facebook friends. This is the space that Wanderly, recently acquired by TripAdvisor, has aimed to transform,

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<sup>6</sup> Juergen, Michelle. “Get out of Town with Wanderfly.” 29 November 2011. *Entrepreneur Magazine*.

<sup>7</sup> Butcher, Mike, “Why startups should be .44 Magnums.” *Techcrunch*. 16 July 2011.

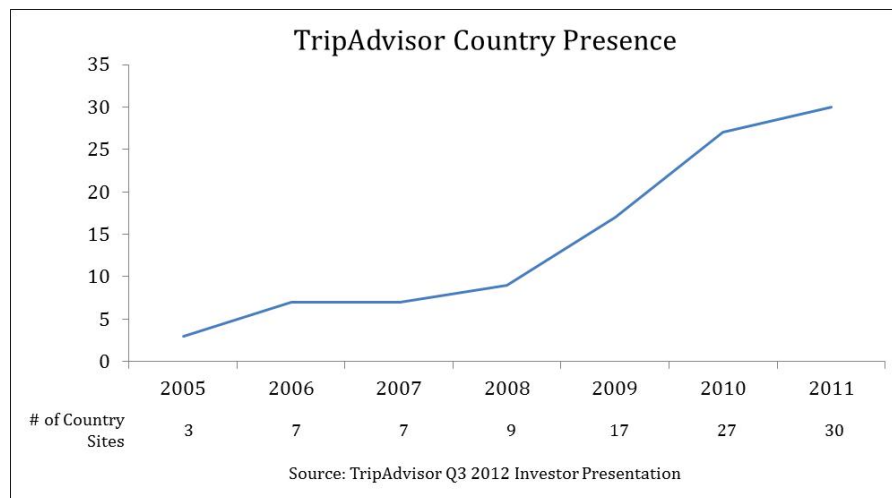
<sup>8</sup> Spektor, Audrey. “Come on, travel startups: Please innovate and stop replicating!” *Tnooz*. 19 November 2012.

<sup>9</sup> Haber, David. “The Magic of Liquidity: Web Marketplaces Still Have A Long Way To Go.” *TechCrunch*. 1 December 2012.

addressing the 70% of travelers who don't know where they'd like to travel 3-4 months before they book their holiday<sup>10</sup>.

The problem with new entrants – and why they are not yet a threat but an asset and inspiration to existing players – is that they still rely on OTAs for bookings (e.g., Wanderfly directs travelers to Expedia). Recent startups are unable to command significant market power because they rely on complementary assets and are cannot appropriate their technology.

Travel planning sites derive value from network effects – the more listings, reviews, and users, the better – so the information they have is not unique. Further, they require partnerships with OTAs so users can book flights, hotels, and tours. For newer startups, appropriation is an issue. Despite those who contend that TripAdvisor's ratings are not accurate, a 2011 PhoCusWright report



documented that 98% of travelers found them credible, and the TripAdvisor brand is pervasive. The company now hosts 30 country-specific sites in 21 languages and has a stable of 19 travel media brands. Accommodation

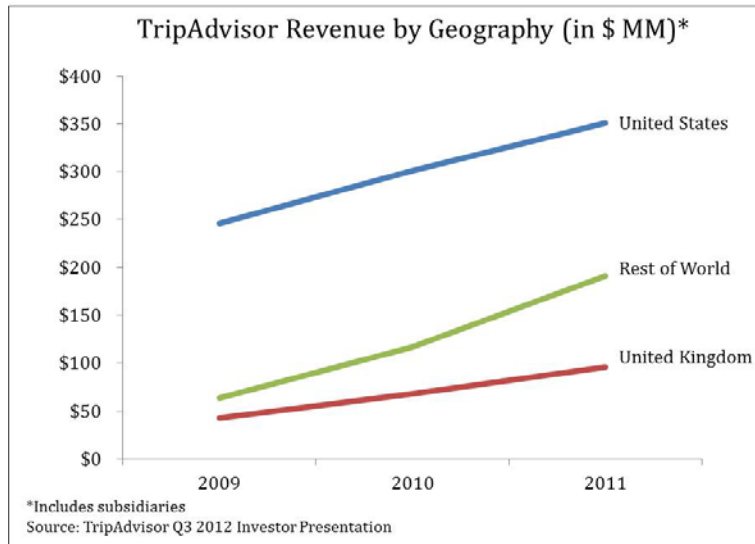
providers and tour companies worldwide take pride in TripAdvisor affiliations, keen to flash awards and ratings to prove their worth with travelers. Incumbents with a strong brand and broad portfolio, can easily scale new features inspired by niche players.

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<sup>10</sup>May, Kevin. "TLabs Showcase – Wanderfly." Tnooz. 30 July 2010.

## The Path Ahead

So, what should existing players like TripAdvisor and Lonely Planet do in light of new entrants:



make or buy? The evidence overwhelmingly points to the latter, though allocating a small budget to dabble in new products and technologies would not hurt. TripAdvisor has benefitted from its ability to expand to new markets and technologies, evidenced by its consistently growing revenues in domestic and international segments. Through its acquisitions,

it has improved and scaled capabilities while expanding to nascent technologies, like Wanderfly's discovery engine, which will represent a higher proportion of TripAdvisor's revenue base as more travelers use "push" rather than "pull" mechanisms to plan trips.

TripAdvisor's success is in stark contrast to Lonely Planet, which has tried to ride the wave of



social-mobile activity by internally developing a new app called Wenzani that aggregates geo-located recommendations for dining establishments, activities and nightlife using reviews from both established travel guides and friends. Nearly a year after launch, it has not gained much traction. Meanwhile, its parent is not drawing much attention relative to popular review-based sites and OTAs like TripAdvisor and

Booking.com, with monthly unique visitors that are a fraction of these larger players.

## **Conclusion**

Trip planning incumbents are advised to “acquire and adapt,” leveraging their resources, appropriable brand, and distribution assets while continuing to monitor new developments and shape standards. The travel industry as a whole, even with its wave of new entrants, is still ripe for true disruption; e.g., airlines remain 5 steps removed from the end consumer looking for the cheapest flight. Current standards involve many parties, including global distribution systems, OTAs and inspiration sites. Simply describing the system is inefficient.

Mike Butcher describes true disruption as assaulting enormous industries, saying, “You build the biggest handgun you can.... hold it to the metaphorical head of the largest industry<sup>11</sup>.” With an eye towards toppling existing standards in the travel market, incumbents should keep playing the “fast follower” card and buying up promising new entrants.

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<sup>11</sup> Butcher, Mike, “Why startups should be .44 Magnums.” *Techcrunch*. 16 July 2011.