Innovative Business Models in Tourism Industry

Stavros Valsamidis[a], Dimitrios Maditinos[b], Athanasios Mandilas[c]

[a]EMaTTech, Kavala, Greece, svalsam@teikav.edu.gr, [b]EMaTTech, Kavala, Greece, dmadi@teiemt.gr, [c]EMaTTech, Kavala, Greece, smand@teiemt.gr

Abstract

This study examines the business models of four emblematic Digital Disruptive Intermediaries (DDIs), Airbnb, TripAdvisor, Expedia and Booking.com. The sources are constituted mainly by surveys, articles and expert opinions which are the main argumentation sources. The best practices for ideal business models in tourism industry through the analysis of the DDIs are the findings of the study. The main functions of the DDIs are Cataloguing, Reordering or filtering, Ranking and Recommending, Bundling, Sharing, Intent Casting, Channelling Actors, Pricing and Matching Actors. The originality of the paper derives from the SWOT analysis of the business models of the four well known DDIs. There is no previous analysis which evaluates the business models and discloses the main functions they perform.

Keywords: Tourism Industry, Digitalization, SWOT Analysis, Business Model, Digital Disruptive Intermediaries.

1. Introduction

Advances in technology offer new capabilities for all the industries (Chen et al., 2012). Now, we are in the midst of a new revolution driven by the power of digital technology and the Internet (Schwab, 2017). Information and Communication Technologies (ICT) are used not only to enhance efficiency, access, timeliness, transparency and accountability, helping the tourism industry to provide adequate services (Bethapudi, 2013; Cantoni & Xiang, 2013; Benckendorff et al., 2014); these developments have also enormous implications for every aspect of tourism (accommodation, hospitality, catering, transportation, entertainment, events, attractions, leisure, information and services) (Zongqing, 2004; Lee & Yuan, 2018).

The new models are reducing costs, breaking away from old patterns of fee arrangements, and increasing efficiency through unique structuring and use of technology (Baden-Fuller

& Mangematin, 2013). A great example of this evolution can be found in the pressure put on aviation companies to deliver services at lower costs (Franke, 2004; Wensveen & Leick, 2009). On one hand, companies are being asked to re-evaluate processes from back - end operations to matter - based project management, while on the other hand they are being expected to create and implement new strategies on everything from budget forecasting to reducing costs (Baden-Fuller & Morgan, 2010; Casadesus-Masanell & Heilbron, 2015).

Changes were also observed especially since the beginning of the 19th century in the network of travel agencies (Holloway & Taylor, 2006). While until then, travel agencies mainly organized the travellers' trips, the new look of the tour operator offers the journey as a final consumer product (the ready-made package tour) almost in line with the standards of industrial production of large-scale material products, while at the same time, sets the basis for changing the type of trips from individual to recreational trips (Murison, 2015; Adenwala, 2014). This study examines the business models of four emblematic digital disruptive intermediaries (DDIs), Airbnb, TripAdvisor, Expedia and Booking.com through SWOT Analysis.

2. Baseline

The term disruptive technologies was coined by Bower and Christensen (1995). Digital disruption is the effect that changes the fundamental expectations and behaviours in a culture, market, industry or process - caused by, or expressed through digital capabilities, channels, or assets. Advancing technology and globalization are the main causes for digital disruption (Dunning, 2014). Disruptive innovations either create new markets by bringing new features to non consumers or offer more convenience or lower prices to customers at the low end of an existing market (Christensen et al., 2004).

"Traditional travel distribution in which high street travel agencies played a dominant role was revolutionized with online travel agencies and direct distribution through airlines and hotels websites acquiring a key role, low-cost carriers and online travel agencies were the clear winner of the online travel revolution over the last years, changing the way that today consumers plan and book their trips " (Carroll & Sileo, 2014). *"Tour operators suffered the rise of independent travel and, today, they are embracing the online and mobile channels in order to stay competitive"* (Horner & Swarbrooke, 2016).

Business model is the way earnings are generated and dates back to the earliest days of business (Laudon & Traver, 2014). A business model describes how an organization creates and offers value. Value is used in the broadest sense and is not just an economic value, it can also be a social or other value. The main uses of business models not only describe and

categorize businesses but they are used by managers internally in a business to explore future growth opportunities (Osterwalder & Pigneur, 2010).

Inspired by these insights, it is emphasized that business models can be used to categorize the business world and explore the nature of business model categories and what these categories might mean for managers provide a potentially rich agenda for cognitive researchers (Reinhold et al., 2017). Business model environment map by Stampfl (2015) structures the interactions between business models and their environment. This map is suitable for identifying risks and opportunities for business model innovation in tourism industry (Figure 1).
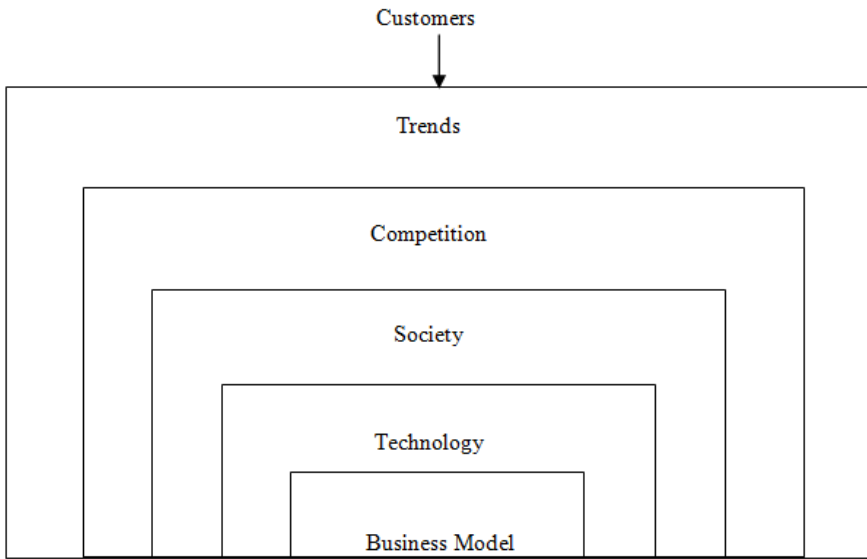
Fig.1 Digitalization in business models of tourism industry
Authors' adaptation

The changes in business models arise from the influence of digitalization on the business models and the development of new business models as well as the change of the existing ones (Moutinho et al., 2011).

There are changes to customers with different customer behaviour and for well-informed customers. Digitalization plays an important role on the customers' behaviour. Understanding customer's behaviour and especially customer information behaviour can help industrial managers to develop, optimize search engine, and customize their websites to meet the needs of their customers (Ha & Love, 2005). The Internet has become one of the most important sources of customer's information, especially for young and better educated customers. Customers of different gender, age, nationality, educational background and life style display different search (Law et al., 2009). Many people prefer to

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book online when they have previously travelled to a destination and they feel familiar with the place, although many still treasure their established relationships with travel agents (Law et al., 2009). The authors also state that *"Travellers require different information from the Internet at different stages of travel. For instance, before departure, the availability of information can affect travel planning, whilst later on customers may seek reassurance from review sites that they have selected the right products and services found that upon arrival, the information that visitors receive can influence their venue decisions. For customers searching on the Internet for the lowest room rates, the travel websites of search engines play an important role in information searching, and Google in particular is perceived to be the most important tool.".*

There are changes in competition with new competitors from other regions, digital competitors and tendency towards monopolisation. Mobile technologies provide a new and convenient way for tourists to gather information from any location, and perhaps more significantly for the destination they have been introduced (Weber, 2009).

There are also technological changes with exponential development of digital technologies and data; technologies affect all areas of business and private life and digitalization enables new business models (Law et al., 2009). Technology cannot determine social or economic activity. And yet it creates opportunities for entrepreneurial activity. It is an important force for dissolving barriers to entry to old economic activities and facilitating the development of entirely new industries - or to put it in the contemporary vernacular, disrupt previous businesses (Kenney, 2017). The increasing ability to process data is so important because digital problems that were too difficult to solve in one time period, become amenable to solution later as processing power increases. The adoption of IT can enhance the competitive advantage of a business presented a complexity framework that models the relationship between IT and tourism (Law et al., 2009).

Today, the integration of hardware and software provides a tight customer experience, meaning that probability to use technology during travel is almost a normal fact. This has got the impact that people use their mobile phones and its social networks to get recommendations while travelling. Mobile technologies support location based services, interpretation and dynamic interaction with tourism suppliers analyzed tourists' usage intentions with mobile guides (Buhalis & Law, 2008; Rasinger et al., 2007).

Globalization, with interaction among the people, companies and governments of different nations driven by international trade and investment and aided by IT and mobility is another trend (Stampfl & Prügl, 2011). Sometimes, businesses only need to understand the trends, the maturity and the capability to innovate, learning from other industries in order to always search for new markets and new needs of the customers. Of course, all must be in a multi-channel device interaction, but above all the mobile interaction is mandatory in our

days and in the future. Expectedly, there will be a great relevance for the tourism industry in the near future (Adey et al., 2014).

The various Tourism aspects, Globalization, Technology and Business models with emphasis to major technological advancements are depicted in figure 2.
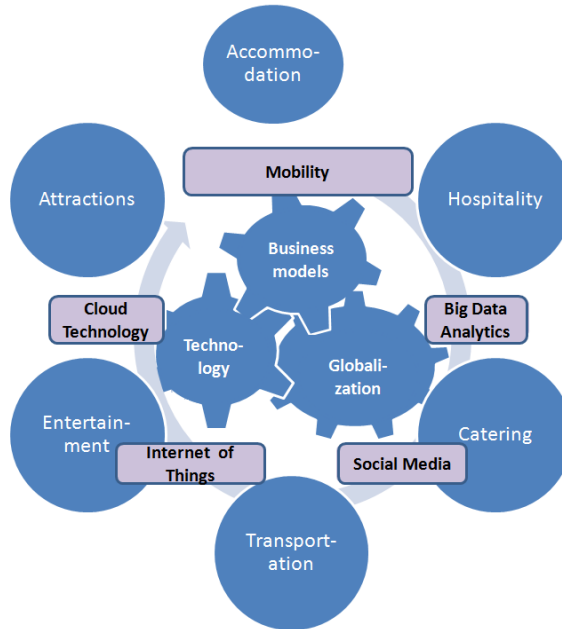

Fig 2. Globalization, Technology and Business models in tourism aspects
Authors' adaptation

3. Approach

The context of the present paper is to examine the practices that a few tourist companies use to become successful by gaining wealth and competitive advantages.

The sources are constituted mainly by surveys, articles and expert opinions which are the main argumentation sources (Expedia1, 2017; Gyódi, 2017; Uenlue, 2017; Hospitality Industry, 2017, Guttentag, 2015, Filieri et al., 2015). The aim of the study is to understand at which level of their business models adapted digitalization and this is investigated through the study of companies' strategies. In addition, the attention is focused on what improvements due to digital technologies make them winners against the competitors. These "leader" companies were taken into consideration and analyzed, to indicate the consequences of digital disruption, the strategies that each company uses to differentiate

from the competitors in the competitive environment and how they take advantage of the digital technologies and succeed as digital disruptors. The selected companies are Airbnb, TripAdvisor, Expedia and Booking.com because they are the most emblematic tourist companies. Nevertheless, the choice was not easy and someone can argue that there are many more DDIs such as Agoda, Trivago, Couchsurfing. They are considered as the most indicative business models.

Airbnb uses an aggregator business model; it does not have a linear business model like the traditional hotel chains. It is a community based, two sided online platform that accommodates the process of booking private living spaces for travellers (Botsman and Rogers, 2010). On one side are the owners' that list their space and earn rental money and on the other side are the travellers that are provided with easy access to rent private homes. Personal profiles provide information about the host and what it offers. Airbnb receives commissions from both hosts and guests upon every booking (Bashir and Verma, 2016).

Customers use TripAdvisor in order to plan their vacations. It uses a click based advertising business model which means that TripAdvisor displays clickable button that leads to a booking page for hotels through the advertiser. These are cost per click advertisements. The advertiser will pay only if the user clicks on the link which leads them to the advertiser's page away from TripAdvisor and gets paid for each click regardless if it leads to booking or not. The costs of the click are determined in an auction system (Miguéns et al., 2008).

Expedia is based on the the merchant business model since the platform buys hotel rooms and then resells them to travellers. *"The merchant gets the rooms cheaper by buying the rooms very early as well as in bulk. Often, the merchant bundles them with airfares, rental cars and other things"* (Weigert, 2018). The merchant model also allows individual hotel bookings. But the packages are dealt, more attractive to those who do not want to research flights accommodation and other things separately.

Booking.com is based on the agency business model. This model uses the same revenue with the old travel agency commissions. Booking.com has contracts with the hotels listed on it and gets a 10%-30% commission on each booking through its site. In booking.com, hotels pay for ranking higher with a higher commission. The difference to Cost per Click (CPC) adds is that the hotels pay only for successful bookings (Garrigos-Simon et al., 2017). *"Offering hotel rooms on a commission basis has the benefit of not owning the inventory and thus not having cash tied as well as not carrying the unsold inventory risk"* (Yun et al., 2017).

The elements that a business model is made up of, when followed in a correct manner, help a company achieve the success that it is obligated to have. Regarding the parts of this approach SWOT Analysis were selected as suitable tools for presenting strategies that a business uses to achieve a few of the aims that it may have.

4. Empirical Study

The results of SWOT Analysis of Airbnb (AirBnB1, 2017; AirBnB2, 2017), (TripAdvisor1, 2017; TripAdvisor2, 2017), Expedia (Expedia1, 2017; Expedia2, 2017) and Booking.com (Booking.com1, 2017; Booking.com2, 2017) are portrayed in table 1.

Table 1. SWOT Analysis of four business models
(authors' elaboration based on the aforementioned studies)

	AirBnB	TripAdvisor	Expedia	Booking.com
Strengths	Peer to Peer collaborative consumption on business model A powerful end "cool" image and reputation Highly skilled employees A portfolio of properties that serves many registered users Online trust and verification systems A primary focus on customer support A beautifully crafted design of their website A young entrepreneurial and innovative organization A core focus on hospitality Fund raining capability	Strong international presence in 45 countries Feature like "Just For You" which offers personalized recommendations help in its customer retention strategy Prominent acquisitions have made it a strong brand Nearly 3000 people are a part of the organization Pioneer in Hotel and flights booking, vacation rentals, restaurant finding, travel guides	Broad range of hospitality service and online travel offerings Strong portfolio of travel brands It has presence in global market space, so the risk in revenue growth is less Strong brand name coupled with high customer loyalty It has over 10,000+ partners for hotels, airlines etc Nearly 15000 people are employed with the brand Acquisition of smaller players has strengthened its position Global presence in about 60 countries	Good Returns on Capital Expenditure Highly successful at go to market strategies Highly skilled workforce through successful training and learning programs Strong dealer community High level of customer satisfaction Strong distribution network Strong Free Cash Flow
Weaknesses	Legal and lobbying internal capabilities Lack of focus on the positive environmental impact Lack of differentiation of the business Incentives to promote trust and verification A robust and full end to end service Provides undifferentiated services and products	Theft of email addresses from its database creates a sense of insecurity among its customers Controversies regarding the validity of reviews done about hotels put a question mark on its core value proposition	Intense competition from other service providers means limited margins and slow market share growth Provides undifferentiated services compared to that of competitors	Inability to compete with the leading players in the industry in terms of innovation Financial planning is not done properly and efficiently Not very good at product demand forecasting leading to higher rate of missed opportunities compare to its competitors The profitability ratio and Net Contribution % of Booking.com are below the industry average Organization structure is only compatible with present business model thus limiting expansion in adjacent product segments There are gaps in the product range sold by the company

5. Discussion and Conclusions

This study examined the digitalization and digital transformation in the tourism industry through the SWOT Analysis of four emblematic Digital Disruptive Intermediaries (DDIs), Airbnb, TripAdvisor, Expedia and Booking.com.

Airbnb uses an aggregator business model, TripAdvisor uses a click based advertising business model, Expedia makes the majority of its revenues through the merchant business model and Booking.com is based on the agency business model.

The four companies use different business models thus different practices. Their primary business requirement is the ability to respond to new, unforeseen or unpredictable business requirements and customer demands, in order the willingness to embrace disruption to be achieved. Their reorganization of the allocation of demand and supply leads to a disruption of tourist markets, particularly those that were formerly monopolised.

The functions of these DDIs in tourism industry are:

- *Cataloguing* – They provide a comprehensive and structured catalogue of products or services from multiple suppliers.
- *Reordering or filtering*- They offer functionality to reorder or filter structured lists of products and services to find a suitable offering.
- *Ranking and Recommending* – They use algorithms to rank-order products or services, based on certain criteria or to provide individual recommendations.
- *Bundling* – They create and offer integrated bundles of products, content or services, that are often sourced from multiple suppliers.
- *Sharing* – They allow sharing of digital, often user generated, content between users of the intermediary's platform.
- *Intent Casting* – They allow users to spell out their needs/intents for sourcing a product, service or project funding from others.
- *Channelling Actors* – They provide customers with the ability to select supplier-provided products, content or services and routes customers to the supplier's digital platform.
- *Pricing Functions* – They engage in comparing and/or setting prices of products or services sourced from suppliers.
- *Matching Actors* – They offer ways of pairing customers with the right suppliers of products, content or services, often by way of specialised algorithms.

However, success in tourism industry requires a long-term commitment to full business transformation and willingness to embrace disruption. Solution must promote agility and flexibility. The primary business requirement is the ability to respond to new, unforeseen, or unpredictable business requirements and consumer demands.

It is impossible to conduct a study that does not contain weaknesses. Therefore, there are some limitations in this study as well. Only four disruptors were examined. Apart of the aforementioned Agoda, Trivago, Couchsurfing there are many more such as GetYourGuide, Musement, FareHarbor, Klook, Peek etc which have to be analysed in

future studies. With other methods of analysing such as PEST Analysis, Business Model Canvas and Porter's 5 Forces Business Analysis, a more complex and thorough study could validate the results.

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