

---

## **THE WINNER TAKES IT ALL - BUSINESS MODEL INNOVATION IN THE TOURISM INDUSTRY**

**Grab Benjamin<sup>1</sup>, Bumbac Robert<sup>2</sup>, Gavril Roxana<sup>3</sup> and Ilie Cristian<sup>4</sup>**  
<sup>1) 2) 3) 4)</sup>*The Bucharest University of Economic Studies*

E-mail: benny\_grab@hotmail.com; E-mail: robert.bumbac@com.ase.ro

E-mail: roxana.gavril@gmail.com; E-mail: dgaeur@gmail.com

---

### **Abstract**

The study aims to detect and showcase key drivers of business model innovation in tourism industry - with primary focus on recent business decisions of big online retailers in the market. Fundamental changes across the industry results as the ongoing narrative of digitization, an evolving business trajectory which is at the heart of this study. The paper consists in an overview on the existing literature and a concise outline of our research. Both research from professional associations as well as recognized publishers were considered. Furthermore, market data and available top-level interviews were gathered and processed. More than 50 publications were analyzed to better understand market development in the tourism sector. The latest digitization wave has a strong impact on existing market forces models as well as business model innovation. Our research revealed that main competitors in the online tourism industry are heavily involved in business model innovation by continually expanding their products and services. Also, large and growing numbers of clients are drawn towards well-known and sizeable market. Against this trend, the tourism industry represents an interesting case for ongoing changes in the retail world, since customers tend to reduce the sheer complexity of endless online offers and contributing in creating individual champions in or across market segments. The paper introduces important aspects of doctoral research concerning business model innovation in the context of digitization and strategic management. The research was conducted as part of the Research Centre of Business Administration in The Bucharest University of Economic Studies, Romania.

### **Keywords**

innovation, strategic management, tourism, business Management

### **JEL Classification**

F61, L21, L25, L81, L83, O30, M16

---

### **Introduction**

The travel and tourism industry plays a significant role for the global economy. In addition to the social benefits of bringing people from different cultural and ethnic backgrounds together, it has significant economic implications with regards to employment and investments across the globe. Its overall importance is further proved by the fact that the travel and tourism industry represented 11% of the total GDP worldwide, according to World Travel & Tourism Council (2017). Given its status as a labor and capital-intensive

---

industry, the main question remains to what extent the sector is affected by the latest wave of digitization.

In order to provide for a thorough assessment, a structured industry analysis is introduced in the form of Porter's Five Forces Model. Following a discussion on its renewed relevance, the drivers and impacting factors of digitization are introduced to set the stage for the ongoing transformation across various industries. Given the significance of innovation in the context of the latest digitization wave, the theoretical framework is further complemented by the presentation of various types of innovation approaches with a particular focus on the risks and benefits associated with disruptive forms of innovation. The final part of the paper focuses on current trends and changes occurred in the travel & tourism industry. In this context, both the development in customer expectations as well as the strategic management challenges of firms in the sector are reflected. Furthermore, the main factors of influence in the digitized travel & tourism industry are introduced. Lastly, the new winner-takes-all paradigm in e-commerce is reflected in the constantly evolving business models as showcased by three of the main competitors in the industry.



**Fig. no. 1. Michael Porter's Five Forces Model**

*Source: Porter, 1980*

### **Research Methodology**

In the light of the nascent stage of research, the paper is the result of a thorough review of existing research from professional associations as well as recognized publishers. Furthermore, market data and available top-level interviews were gathered and processed. In a nutshell, more than 50 publications were analyzed to draw the big picture on recent market development in the tourism sector. Existing market forces models as well as business model innovation clusters form the basis for essentially defining the strong impact of the latest digitization wave. Essentially, it is the aim of our research to shed light on the main drivers steering the current development in the online tourism sector. This can be done by showcasing the challenges and opportunities from a management perspective as well as the ongoing trends from a customers' perspective. As a consequence, we were able to identify existing root causes, which ultimately shape the future of the entire industry going forward.

### **Theoretical Framework**

Conducting a structured industry analysis is a key component for assessing the overall attractiveness of any given market. Therefore it is essential to focus on the structural determinants of the intensity of competition in an industry. The five competitive forces –

market entry barriers, threat of substitution, bargaining power of suppliers, bargaining power of buyers and rivalry among competitors reflect the complexity of the industry analysis, as all these variables influence on the degree of intensity of competition and market development opportunities (Porter, 1980; Wheelen & Hunger, 2002; Mellahi et al., 2005).

The figure above highlights the inter-connectivity between different factors with the four surrounding variables determining the overall degree of rivalry in the industry. Based on the factors mentioned above, a strategist is able to rate every single competitive force according to the companies' view on the industry to assess whether it is well positioned to operate successfully in the market or not. The five competitive forces and their key characteristics are described below:

- **Threat of new entrants.** New firms on the market are mainly attracted by promising market potentials. However, due to the fact that these new competitors add additional capacity to the market, while aiming to gain market share, existing ones are aware and respond to this challenge. In many markets, entry barriers prevent new companies from approaching the market. High capital requirements, limited distribution channels as well as the need for economies of scale are only some of the possible entry barriers (Porter, 1980; Wheelen & Hunger, 2002).
- **Threat of substitutes.** A substitute is a product or a service that might be different in nature, but is nevertheless regarded as interchangeable by the consumer. Bottled water, for example is a substitute for other soft drinks like cola or lemonade. For companies it is therefore important to detect potential substitutes and make adjustments to their strategies, in order to limit potential losses and stabilize their profitability. The effect of substitutes in an industry therefore cannot be underestimated (Porter, 1980; Wheelen & Hunger, 2002).
- **Bargaining power of customers and suppliers.** Customers expect value for money; therefore it should be one of the companies' main target to satisfy them as it is a precondition for profitability. The market place force customers and companies to agree on a price, which often reflects the desire of companies to sell at the highest price possible and the customer's wish to buy at the cheapest possible one. Stronger demand for quality products at the lowest price possible reduces a firms' profitability, which is an indicator for a higher bargaining power and lower profitability of the entire industry. In this context the bargaining power of customers and suppliers is closely related, as it is determined by the following factors: buyer/supplier concentration, switching costs, total possible purchases, product differentiation and available information about products (Porter, 1980; Wheelen & Hunger, 2002; Mellahi et al., 2005).
- **Rivalry.** The degree of competition can either have a stimulation effect or lead to depressive reactions of firms operating in a sector. In any way, intensive rivalry has an impact on the overall profitability of the industry. Therefore, the concept of profitability takes a central position in this framework as one of the main determinants for businesses. The intensity is strongly impacted by the number of competitors, the total industry growth, the excess capacity and the diversity of rivals as well as the exit barriers (Porter, 1980; Wheelen & Hunger, 2002; White, 2004; Mellahi et al., 2005).

Porter's Five Forces Model has been criticized mostly for being too static, which makes it less eligible for coping with the challenges of the fast changing business environment. Hence, scholars like White (2004) looked for ways to overcome the shortcomings of the

original model by modifying and complementing it. In addition to the point of criticism regarding the static nature of the Porter's Five Forces Model, the tool has also drawn heavy disapproval from Human Resources experts, as they claim that their field of interest is not properly represented. Furthermore, Porter's assumption that a firm's profitability depends primarily on the attractiveness of the industry in which the company is operating has also been substantially criticized. Several studies have compared the industry-specific factors and the firm-specific factors and their impact on profitability. According to this idea, firms' profitability seemed to depend heavily on skillful management of the individual business units. However, Porter's Five Forces Model remains a vital tool for analyzing the competitiveness and attractiveness of an industry. (Rumelt, 1991; Mellahi et al., 2005)

Despite the criticism on the model, it can still be regarded as a widely accepted and commonly referenced strategic management tool. Against this background, it is not surprising that digitization impacts the attractiveness and competitiveness of different industries. Thus, individual aspects of the Porter Five Forces Model require particular attention for companies seeking to reap the benefits of winning digital strategies, despite evident regional disparities in a global context (Narayanan & Fahey, 2005; Grundy, 2006).

According to Hirt and Willmott (2014), the following seven strategic principles with significant potential for reshaping the competitive landscape apply in the current digital age:

**1. New pressures on prices and margins**

Digital technologies provide for an increase in price transparency in real time for customers and shake the fundamentals of the former information deficit allowing firms in the past to generate higher margins.

**2. Competitors emerge from unexpected places**

New technological dynamics helped bringing down existing entry barriers which allows web-based service providers to effectively reach clients without the prerequisite of building a costly support infrastructure. In the financial industry, small boutique start-ups have come to haunt cumbersome universal banks by stealing market share. At the same time, successful online firms venture into new fields of business by reapplying customer-centric strategies while leveraging their well-known brands.

**3. Winner-takes-all dynamics**

Digital businesses make use of network effects by bringing together the right talent, a good use of vast data as well as engineer friendly and technology-driven cultures. Ultimately, this leads to a reduction in transaction costs and a better performance on a per employee basis. This positive, customer-centric environment has the tendency of creating a virtuous cycle with best in class companies becoming the go-to places for digital talent and customers alike.

**4. Plug-and-play business models**

With large online businesses defining winning strategies, third party service providers often seek opportunities in attaching their businesses to existing platforms. The reduction in transaction costs and the flexibility of new digital systems allows for this seamless expansion of services and products.

**5. Growing talent mismatches**

The growth of automation and artificial intelligence is likely to massively influence the composition of the labor market and may redefine the fate of most blue and white collar professions from janitors over bank clerks to doctors. At the same time, companies are currently struggling to find suitable candidates with creative problem solving skills and technical expertise at ever greater numbers. Given the scope and depth of the expected changes, this will most certainly have substantial implications on public policy issues (Manyika, 2017).

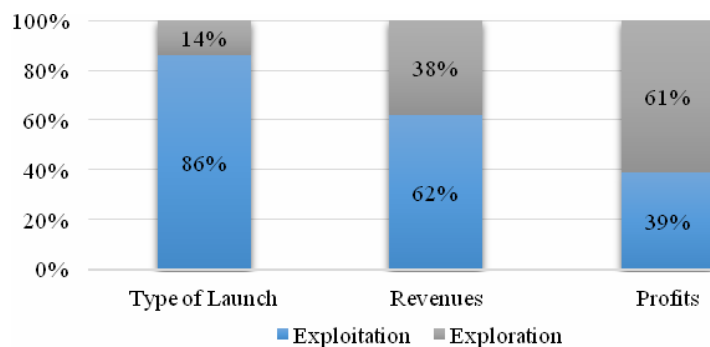
## 6. Converging global supply and demand

Online services are available around the globe (to a varying extent). In this light, customers expect a fully harmonized customer experience which includes product and service features, service support options as well as smart and easy delivery and payment options.

## 7. Relentlessly evolving business models

Digitization is not a sprint, but a journey. Therefore, companies need to accept this new reality and work towards continually evolving their existing business models. Solely relying on incremental changes may not be sufficient enough for staying in business given that other competitors (potentially also from different industries) are already working on radical solutions for disrupting individual markets.

The last point concerning evolving business models is of particular importance since companies in their innovation efforts need to find the right balance between exploration and exploitation. In essence, March (1991) describes it as the trade-off between radical, disruptive innovation versus incremental, performance-improving innovation. The general management and handling as well as the benefits and rewards of both innovation approaches are outlined below (fig. no.2). It showcases that while most initiatives focus on exploiting existing company capabilities, exploratory projects have the potential to substantially buffer up the overall profit position of a firm (Kahn, 2012).



**Fig. no. 2. Use and benefit of type of innovation**

*Source: Kahn, 2012*

In order to build a bridge to the strategic management perspective and the industry analysis framework introduced in the beginning of the theoretical framework section, companies may opt for various different strategies to address the existing degree of rivalry in the market as well as the impact of digitization. Christensen & Overdorf (2000) identified three main types of innovation approaches:

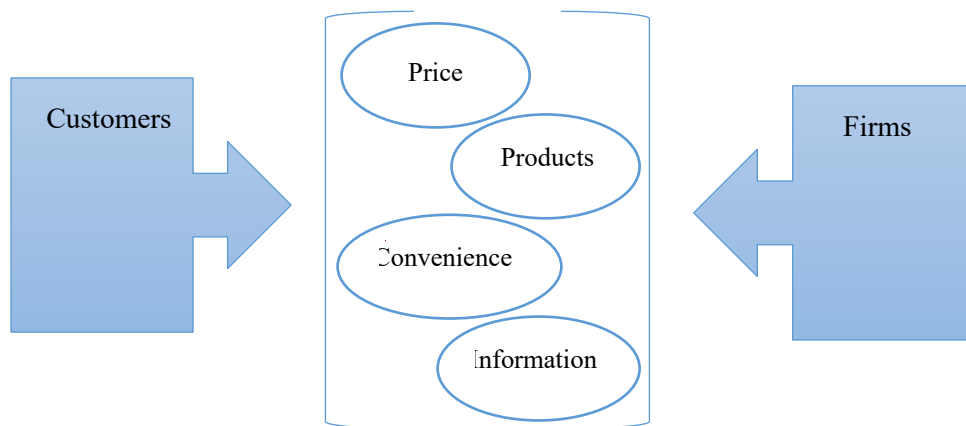
- **Performance improving innovation (improvements of merit)** - essentially replacing an older model with a newer/better version;
- **Efficiency improving innovation (process innovation)** - offering a similar product or service at a better price;
- **Market creating innovation (disruptive business model innovation)** - introducing cost-reducing technology with an improved business model.

## Research Contribution

The global travel and tourism industry does not only play a significant role in bringing together people from diverse ethnic and cultural backgrounds, but it creates substantial value for the economies worldwide. In this light, the World Travel & Tourism Council (2017) states that the total contribution of the entire sector to the global GDP has reached

11% with a total amount of EUR 10,000 billion in 2017. In addition to the overall contribution to the global economic value chain, the impact of the travel and tourism industry on employment and investment is equally profound. With the number of jobs associated with the sector to rise from currently 300 million to approximately 400 million over the next decade. In parallel, the positive dynamics of the industry provide tailwinds for total sector investments to grow by an impressive 4.5% p.a. (Sharpley & Telfer, 2016).

The role of online travel and tourism service providers has gained momentum over the last years and slowly outpaced its brick and mortar competition in terms of volume and total number of transactions. According to global research firm Phocuswright (2017), online platforms account for more than 55% of the total transactions with the younger generations being at the forefront of making use of travel e-commerce options. In this light, 3 in 4 customers are aged 34 or younger (Fuggle, 2017).



**Fig. no. 3. Factors of influence in the digitized tourism industry**

*Source: own illustration*

Given the current momentum in online travel tourism, Fig. no.3 underlines the main factors of influence in the digitized tourism sector:

- **Price** - Digital solutions provide almost perfect transparency in terms of prices available in the market. Additionally, better profitability per employee thanks to larger volumes to be processed - on the firms' side benefits both online companies and final consumers (Hirt & Willmott, 2014).
- **Product** - The flexibility and inter-connectivity of online retail platforms enable firms to easily adapt and scale their products and services to changing demand on the customers' side. In this context, a well-known storefront may quickly insource new offers if demand picks-up in the market (Hirt & Willmott, 2014).
- **Convenience** - E-commerce allows for the ultimate shopping experience 24/7 with smartphones swiping through different stores within seconds. It is this convenience factor which makes mobile applications the perfect gateway to customers' next travel decision - with 1 in 2 traveler journeys starting mobile (Rijvers, 2016).
- **Information** - Travel and tourism information available online go far beyond any sales person recommendation or glossy catalogue picture in a classic travel shop setting. In addition to comprehensive information and comparison of prices and product features, crowd-sourced reviews from numerous travelers are available for potential clients. Firms on the other hand profit from travelers data to customize even better suitable products going forward (Treksoft, 2017).

Given the evolving dynamics described above ranging from anytime, anywhere customer expectations, a seamless service and support experience as well as a full and ever growing range of exciting new products at reasonable prices, the entire travel and tourism industry is under constant pressure to innovate and evolve their business models. A look at some of the main competitors in the global online travel and tourism industry sheds light on this ongoing trend.

**Table no. 1. Business model development of main travel and tourism platforms**

	Tripadvisor	Booking.com	AirBnB
Hotels	●	●	●
Private accommodation	●	●	●
Tours and activities	●	●	●
Flights	●		
Reviews	●	●	●

Legend

● Initial field of business

● New field of business

Source: own illustration

Table 1 highlights the degree of business model development among some of the leading firms (all among the Top 10 of the most visited online travel sites in 2017) which make use of the thermic created by the digitization windfall. All firms have created winning plug-and-play business concepts allowing them to swiftly use new business opportunities while at the same time providing customers with new features and services. At the same time, their services are available worldwide with clients enjoying a standardized product with easy, intuitive and accessible payment and support structures. Lastly, in the eye of consumers and employees alike, they have managed to build a brand which allows them to profit from the ongoing winner-takes-all market dynamics (Hirt & Willmott, 2014; Souto, 2015; Oskam & Boswijk, 2016; eBiz, 2017).

**Conclusions**

The travel and tourism industry has great significance for the global economy - both in terms of employment as well as in attracting investment. In addition to that, its growth prospects look promising for the decade to come. Essentially, it is the combination of actual volume, positive growth trajectory as well as the composition of a labour - and capital-intensive industry that makes it particularly vulnerable to the challenges of digitization. Against this background, e-commerce market players successfully address these issues by building flexible and easily extendable platforms, creating a winning working environment for attracting talented staff while taking an open-minded stand towards business model innovation. In a nutshell, it is this drive for constant, customer-centric innovation that sets apart the dinosaurs of the industry from the actual winners taking it all.

**References**

eBiz, 2017. *Top 15 Most Popular Travel Websites | July 2017*. [online] Available at: <<http://www.ebizmba.com/articles/travel-websites>> [Accessed 1 February 2018].

Fugle, L., 2017. *65 travel & tourism statistics to know about in 2017 and 2018*. [online] Available at: <<https://www.treksoft.com/en/blog/65-travel-tourism-statistics-trends-for-2018>> [Accessed 3 February 2018].

Grundy, T., 2006. Rethinking and reinventing Michael Porter's five forces model. *Strategic Change*, 15 (5), pp.213-229.

- Hirt, M. and Willmott, P., 2014. *Strategic principles for competing in the digital age*. McKinsey Quarterly May 2014. [online] Available at: <<https://www.mckinsey.com/business-functions/strategy-and-corporate-finance/our-insights/strategic-principles-for-competing-in-the-digital-age>> [Accessed 10 February 2018].
- Kahn, K., 2012. *The PDMA Handbook of New Product Development*. 3rd ed. Chichester: Wiley.
- Lercher, H., 2017. *Big Picture: the innovation model*. Graz: Anzeigen und Marketing Kleine Zeitung.
- Manyika, J., 2017. What the future of work will mean for jobs, skills, and wages. McKinsey Quarterly November 2017. [online] Available at: <<https://www.mckinsey.com/global-themes/future-of-organizations-and-work/what-the-future-of-work-will-mean-for-jobs-skills-and-wages>> [Accessed 8 February 2018].
- March, J.G., 1991. Exploration and Exploitation in Organizational Learning. *Organization Science*, 2 (1), pp.71-87.
- Mellahi, K., Frynas, J.G and Finlay, P., 2005. *Global Strategic Management*. Oxford: University Press.
- Narayanan, V.K. and Fahey, L., 2005. The relevance of the institutional underpinnings of Porter's Five Forces Framework to emerging economies: an epistemological analysis. *The journal of management studies*, 42 (1), pp.207-223.
- Oskam, J. and Boswijk, A., 2016. Airbnb: the future of networked hospitality businesses. *Journal of Tourism Futures*, 2 (1), pp.22-42.
- Phocuswright, 2017. *Tours & Activities Come of Age: Global Travel Activities Marketplace 2014-2020*. [online] Available at: <<https://www.phocuswright.com/Travel-Research/Destination-Activities-Marketing/Tours-amp-Activities-Come-of-Age-Global-Travel-Activities-Marketplace-2014-2020>> [Accessed 3 February 2018].
- Porter, M., 1980. *Competitive Strategy*. New York: The Free Press.
- Rijvers, P., 2016. *Booking.com makes last-minute travel easier on mobile*. [online] Available at: <<https://www.thinkwithgoogle.com/marketing-resources/booking-com-last-minute-travel-mobile/>> [Accessed 3 February 2018].
- Rumelt, R., 1991. How much does industry matter?. *Strategic Management Journal*, 12 (23), pp.167-185.
- Sharpley, R. and Telfer, D., 2016. *Tourism and Development in the Developing World*. London: Routledge.
- Souto, J., 2015. Business model innovation and business concept innovation as the context of incremental innovation and radical innovation. *Tourism Management*, 51 (12), pp. 142-155
- Trekkssoft, 2017. *Travel Trends Report 2018*. [online] Available at: <<https://www.trekkssoft.com/en/library/ebook-travel-trend-report-2018>> [Accessed 1 February 2018].
- Wheelen, T.J. and Hunger, D.J., 2002. *Strategic Management and Business Policy*. New York: Prentice Hall.
- White, C., 2004. *Strategic Management*. New York: Palgrave MacMillan.
- World Travel & Tourism Council, 2017. *Tours & Activities Come of Age: Global Travel Activities Marketplace 2014-2020* [online] Available at: <<https://www.phocuswright.com/Travel-Research/Destination-ActivitiesMarketing/Tours-amp-Activities-Come-of-Age-Global-Travel-Activities-Marketplace-2014-2020>> [Accessed 17 January 2018].