

# Transforming Travel and Tourism

## Market forces and opportunities in the OTA industry



- The Online Travel Agency (OTA) industry is expected to grow at 15% CAGR to ~\$150Bn by 2027
- The market holds potential for consolidation particularly in regional niches and specific customer segments
- The industry is run on tight margins, so profitability is key for long-term sustenance of the company
- A robust partnership framework will enable OTAs reap benefits of network effects
- Pricing and customer experience on the platform will ensure that the platform is valuable to both the supplier (hotelier/host) and customer

Travel. A word that evokes feelings of relaxation, adventure, cultural exchange and so much more. The idea of travel gained prominence in 16<sup>th</sup> century when aristocrats travelled to European cities as a part of their education which came to be known as the *Grand Tour*. With the advent of rail networks, travel became more accessible. Thomas Cook, the first institutional travel agent, leveraged the opportunity and sold package holidays for trains and hotels booked together.

500 years, two World Wars and several technological innovations later, the travel industry stands overhauled. As platform businesses became successful in e-commerce and social media, the travel industry also joined the revolution. Booking.com and Expedia were the early innovators, while Airbnb, one of the latest entrants, opened the rental homes market. OYO came up with a standardized customer experience for budget accommodations and agoda focussed on penetrating Asia-Pacific markets. In this article, I analyse market forces and opportunities in the OTA industry.

Before we get into market analysis, a quick overview of the business model and offerings:

1. Online Travel Agency (OTA) services can range from **listing agencies** that help in discovery process, **revenue managers** who optimize pricing, **channel managers** for channel

management and finally **payment aggregators**. An OTA could offer one or many of these services. Trip advisor, for instance, primarily helps me as a consumer with the discovery process, while OYO touches upon most parts of the value chain - they list the property, manage channels partnerships, and offer SAAS solutions for revenue management.

- An OTA generates revenue through **agency related commissions, merchant sales, and advertising**. For agency commissions, OTA invoices travel service providers after completion of trip, while for a merchant sale it facilitates payments from travellers during the booking.

## 1. Market analysis

Moving to the market analysis section, it has three parts – market size and growth, business model and profitability of the major OTA players, and engagement with the user.

### 1.1. Size and growth

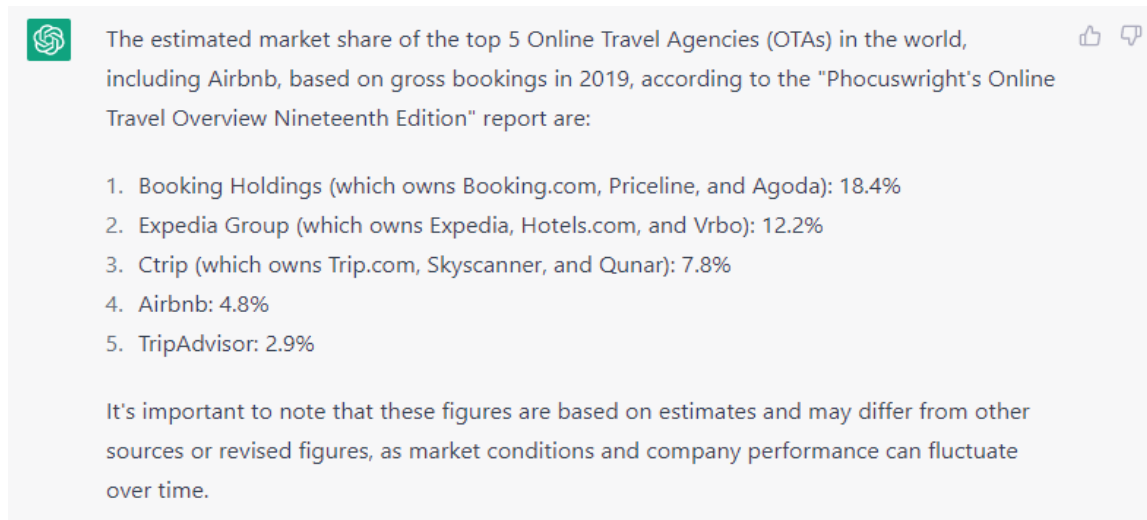
	Factor	Assumptions and commentary	Source
<b>1: Calculate Total Available Market (TAM)</b>	$\Sigma$ (Tourism contribution to GDP) <sup>1</sup> * % spent on travel and accommodation  $(\$ 2.5 Tr) * 65\%$  <b>~\$1.6 Tr</b>	<ul style="list-style-type: none"> <li>Pre-pandemic (2019 or latest available) figures used as worldwide mobility restrictions impacted travel and tourism industry</li> <li>As OTAs offer travel and accommodation, only relevant proportion of total expenses is used to calculate market size. According to an online survey, typical spends on travel and accommodation as % of total expenses<sup>2</sup> vary between ~64%-75%</li> <li>This % can vary based on factors such as duration of travel, location (domestic vs int'l) and nature of travel (business vs leisure). On the conservative side, 65% was assumed for calculating market size</li> </ul>	<i>UN World Tourism Organization (UNWTO).</i> <i>World Bank</i>  <i>Online surveys</i> <a href="#">Source</a>  <i>Expert interviews</i>
<b>2: Estimate Serviceable Available Market (SAM)</b>	% OTAs users * <i>Step 1</i>  $45\% * (\$ 1.6 Tr)$  <b>~\$740 Bn</b>	<ul style="list-style-type: none"> <li>According to various online surveys, ~40-50% users rely on OTAs for their travel bookings. 45% was used to calculate the # of users. The figure here represents the <i>gross merchandise value</i></li> </ul>	Customer surveys <a href="#">Source 1</a> <a href="#">Source 2</a>
<b>3: Compute Serviceable Obtainable Market (SOM)</b>	% OTA Commission * <i>Step 2</i>  $15\% * (USD 740Bn)$  <b>~\$110Bn</b>	<ul style="list-style-type: none"> <li>OTAs charge between 5% to 20% commission based on the type of property, geography, and services offered. On the conservative side, ~15% is considered commission for this calculation</li> </ul>	Secondary research and expert interviews

Let us sense check the numbers by estimating the market bottoms-up.

<sup>1</sup> Only includes countries reporting under UNWTO

<sup>2</sup> The range for % *spent on travel and accommodation* was calculated for Domestic Trip (4 nights) and international trip (12 nights) estimates

1: ChatGPT helped me find a reliable source that provides market share of top OTAs (including Airbnb).



The estimated market share of the top 5 Online Travel Agencies (OTAs) in the world, including Airbnb, based on gross bookings in 2019, according to the "Phocuswright's Online Travel Overview Nineteenth Edition" report are:

1. Booking Holdings (which owns Booking.com, Priceline, and Agoda): 18.4%
2. Expedia Group (which owns Expedia, Hotels.com, and Vrbo): 12.2%
3. Ctrip (which owns Trip.com, Skyscanner, and Qunar): 7.8%
4. Airbnb: 4.8%
5. TripAdvisor: 2.9%

It's important to note that these figures are based on estimates and may differ from other sources or revised figures, as market conditions and company performance can fluctuate over time.

The top five comprise ~43% of the market. This indicates avenues for consolidation based on markets and customer segments. I will get to that in a bit.

2: The revenues add up to a total of ~\$39Bn.

OTA Platform	Revenue, 2019 (\$ Bn)	Source
Booking Holdings	15.1	<a href="#">NASDAQ:BKNG</a>
Expedia Group	12.1	<a href="#">NASDAQ:EXPE</a>
Trip.com	5.1	<a href="#">NASDAQ:TCOM</a>
Airbnb	4.8	<a href="#">NASDAQ:ABNB</a>
TripAdvisor	1.6	<a href="#">NASDAQ:TRIP</a>

Table 1 Annual revenue of OTA platform, Annual Reports

3: The top five OTAs occupy 43% of the market and are worth ~\$39Bn in revenue, hence the total market would be worth ~\$91Bn.

This is in-line, albeit slightly lower, than our top-down estimate of ~\$110Bn.

**It would be reasonable to conclude that the OTA market in 2019 was in the range of \$90Bn to \$110Bn, roughly a ~\$100Bn market.**

This might not be as large as the retail e-commerce industry which by some estimates is roughly three times the size ~\$3.4Tr<sup>3</sup>. However, it is significantly big to create value for investors, operators, and the end consumer.

The next logical step is to ask how the market has been growing.

### Growth

The top 5 OTAs grew at ~15% CAGR between 2016-19, followed by a decline of 13% between 19-21 during COVID lockdowns.

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<sup>3</sup> eMarketer report, 2019

The market picked up in 2022 with easing of mobility restrictions. However, it hasn't reached pre-COVID figures (as suggested from international arrivals data). This could partly be because China, one of the biggest tourism markets, lifted safe distancing measures only in December 2022.

**NOTE:** As OTAs have not yet published 2022 data, I looked at international tourist arrivals data as proxy for post-pandemic recovery. There were 1.4Bn international tourist arrivals in 2019. International tourists were ~0.4Bn in 2020/21 grew to ~0.9Bn in 2022 suggesting a rebound, although not close to the 2019 figures (CAGR 2019-22: -37%)

Central Banks across the world started raising interest rates to contain inflation towards the last quarter of 2022. Rising interest rates, along with the war in Ukraine, would impact the global economy (and therefore the tourism industry) in 2023.

**Growth forecast:** If the global economy stabilises towards end of 2023, the industry should be able to grow at rates similar to 2016-19 period at ~15% CAGR (2024 onwards).

OTA Platform	Revenue, 2016 (\$ Bn)	Revenue, 2019 (\$ Bn)	Revenue, 2021 (\$ Bn)	CAGR 2016-19	CAGR 2019-21
Booking Holdings	10.7	15.1	10.9	12%	-15%
Expedia Group	8.7	12.1	8.6	12%	-16%
Trip.com	2.8	5.1	3.1	22%	-22%
Airbnb	1.6 <sup>4</sup>	4.8	5.9	43%	11%
TripAdvisor	1.6	1.6	0.9	2%	-25%
Aggregated				15%	-13%

Table 2 Annual revenue OTA platform, Annual Reports

**Conclusion: A 15% CAGR growth between 2024-27** (pre-COVID market size of ~\$100Bn) **would imply the OTA market grows to ~\$150Bn by 2027.**

## 1.2. Profitability

The top five OTAs (apart from Airbnb) have been profitable businesses and have provided value for investors.

Booking Holdings' competitive advantage emanates from **economies of scale** of its six customer-facing brands including Booking.com, Priceline and agoda. They continue to grow through acquisitions, such as Getaroom and proposed purchase of Etraveli Group. Further, their brands are strategically positioned to minimize cannibalization risk, with agoda is targeting Asian markets and Booking.com catering to European clientele from its Netherlands headquarters.

Expedia Group **differentiates** itself from competitors **through multiple channels to generate demand**. In 2020, they moved to a platform operating model, to deliver more scalable services. They now manage marketing investments holistically across their brand portfolio. However, their marketing expenses (~50% of revenues in 2019) are higher compared to peers which allows them to invest heavily on online advertising and loyalty programs. These costs impact their bottom line.

Trip.com is **focused on the Greater China market** and operates in the country through PRC subsidiaries. Its success of more than 20% CAGR growth between 2016-19 can be attributed to rising affluence and greater demand for tourism in China. However, the company's profitability has remained volatile over the years, with net income in negative for 2016.

<sup>4</sup> Airbnb 2016 figures are not available in public domain, secondary source used ([Link](#))

Airbnb arrived as a challenger to disrupt the accommodation booking market in 2007 by bringing a **sense of community to travel**. They have therefore made significant investments into host safety and front-line workers (which other OTAs do not need to invest in) given their unique business model. These expenses along with product development costs and regulatory restrictions have resulted in a less than profitable business for Airbnb.

TripAdvisor generates revenue from **click-based advertising to OTA websites**. ~1/3<sup>rd</sup> of their revenue is generated through this model from Booking and Expedia. It is therefore imperative that they invest heavily on content and marketing to consumers. ~56% of revenues in 2019 were used for marketing thus depleting their margins.

OTA Platform	EBITDA Margin	Return on Equity (ROE)
<b>Booking Holdings</b>	38%	0.82
<b>Expedia Group</b>	17%	0.10
<b>Trip.com</b>	37%	0.07
<b>Airbnb</b>	-5%	-
<b>TripAdvisor</b>	27%	0.11

Table 3 EBITDA margin and ROE for OTA platform, Annual Reports

### 1.3. User engagement

A platform business relies on its network effects to acquire and retain customers. In that context, understanding loyalty and satisfaction of the consumer is paramount. Hence, I use Net Promoter Score (NPS) as an indicator to analyse user satisfaction of top 5 OTAs.

TripAdvisor and Airbnb have higher NPS scores compared to peers. This could be attributed to the unique value proposition that Airbnb's community experience offers, and the high-quality travel blogs produced by TripAdvisor.

OTA Platform	Net Promoter Score
<b>Booking Holdings</b>	<b>7</b>
<b>Expedia Group</b>	<b>13</b>
<b>Trip.com</b>	-
<b>Airbnb</b>	<b>27</b>
<b>TripAdvisor</b>	<b>25</b>

Table 4 NPS OTA platform, Comparably

## 2. Challenges and opportunities

Following the above analysis, there are three key challenges for OTA platforms to solve.

### 2.1. How to increase the size of the market?

Offer customers and providers compelling reasons to join the platform. This would require transforming the proposition from being a travel booking agency to a complete itinerary provider.

#### Customer side

- **Expand offerings:** Travellers, particularly those bound for international destinations, often require travel insurance and currency conversions. Partnerships with fintech companies and

digital insurers through API integrations can fulfil these requirements of the customer for a seamless experience. OTAs can leverage their existing partnerships with B2B payment processing companies such as NIUM to provide similar services to end customers. Offering such services can act as a differentiator for competing OTAs.

- **Travel and food sponsorships:** Partner with food and travel shows/channels and social media influencers. One of my favourite pastimes is to watch travel and food shows. If a “TripAdvisor” or “Expedia” were the prime sponsors of my favourite Anthony Bourdain featuring the bustling streets and ramen shops of Tokyo, chances are I would go out and make my travel purchases on that platform.

#### Provider side

- **Incentives for asset acquisition and retention:** An OTA executive cited “It is important to get the right kind of property inventory and ensure that you are able to retain the asset”. A customer success team that uniquely solves for the hotelier’s problems and optimizes platform usage can assist in this endeavour. Further, having a loyalty program for property owners can incentivise them to stay within the ecosystem. This is a complex issue to solve. There are challenges around pilferage particularly in developing economies or within the budget hotel segment, however strong partnerships will ensure that OTAs and providers grow together in the long run.

#### 2.2. How do you improve profitability?

- **Acquisitions:** Opportunities for further consolidation lies in the fragmented OTA market. Sourcing an asset(s) that offers competitive advantage can help by improving scale and impacting profitability through cost synergies. Some important factors for evaluation are geographic focus, customer segment– B2B vs B2C and asset class – hotels vs homestays.
- **Strategic pricing:** Dynamic pricing can further improve profitability of the OTA business. As is commonly known, differentiated pricing is a lever by most OTAs use to show property prices based on customer profile, seasonality, timing etc.

#### 2.3. How to improve engagement with the customer which eventually helps with the business performance?

- **Customer experience:** Focus on the product offering from a customer centric lens and communicate the value to the customer. In this regard, OYO has marketed its “three click bookings” to its customer well.
- **Curate engaging content:** Industry experts cite that “Better photos and content enhances customer engagement”. This is a testament to TripAdvisor’s NPS scores which are a result of their high-quality blog posts and featured travel pictures.

Much of travel is about breaking out of mundane routines and having a wholesome experience. In the near future, OTA operators with the use of technology can reshape the way we experience travel. Data and technology allow OTAs to tailor their services to suit user requirements. Operators can take this opportunity to think through their partnership frameworks to create a powerful ecosystem for all stakeholders.