Travel

Incumbents Strike Back

The IBM Institute for Business Value, in cooperation with Oxford Economics, interviewed 346 CxOs from the Travel industry. These conversations included both quantitative and qualitative responses. The analytical basis for this Travel industry report uses 322 valid responses from the total data sample collected.

More than 12,800 CxOs, representing six C-suite roles, 20 industries and 112 countries, contributed to our latest research. We used the IBM Watson Natural Language Classifier to analyze their contextual responses and ascertain overarching themes. We also used various statistical methods, including cluster analysis and discriminant analysis, to scrutinize the millions of data points we collected.

Which way to the future?

The signals are utterly bewildering. As digital technologies transform the world, monopolies are winning big-time. Yet collaborative systems are also flourishing, and even in industries where the competition is shrinking there's still plenty of creativity. Little wonder top executives are puzzled.

Travel CxOs are no exception. Two years ago, they were unequivocally convinced that the competitive landscape was shifting away from traditional areas toward new, unexplored opportunities. Today, they're divided as to whether the focus will be on new or established markets (44 percent versus 43 percent). And where, previously, they envisaged that open innovation would predominate, a growing number anticipate more internal innovation. But there are two points on which Travel CxOs broadly agree: 80 percent expect more emphasis on customer experiences than products, and 63 percent assume that most organizations will partner more widely.

Travel CxOs also report that there's been a significant change in the external factors most likely to affect their organizations in the near future. Market forces and technological advances continue to top their agendas (in that order). But people skills have overtaken regulatory and macro-economic concerns: 61 percent of respondents say talent will be one of the three main influences on their enterprises. As travelers turn to digital channels for their travel needs, from researching to booking, and insistence on the personal touch increases, demand for digitally capable staff is rising.

Reinventors race ahead

In the course of our research, we identified three distinct organizational "archetypes," each at a different stage on the road to Digital Reinvention™ (see Figure 1).

Reinventors focus on developing breakthrough products, services and business models; excel at extracting value from their ecosystems; and actively experiment. Their IT strategies are aligned with their commercial goals, and they're superb at managing change – all of which helps them stand out both financially and as innovators.

Practitioners are ambitious but haven't yet acquired the capabilities required to realize their ambitions. They're neither as focused nor as agile as Reinventors.

Aspirationals have even further to go. They still need to devise a clear strategy, put the right processes and resources in place, and develop the agility to seize new opportunities.

Reading the road signs

So what's actually going on? Four topics stand out from our conversations with CxOs and our work with academics:

Dancing with disruption

The path to personalization

The pull of platforms

Innovation in motion.

"Technological advances are spurring the development of new business models that can provide a better experience on both the demand and supply sides."

Chief Finance Officer, Travel, Philippines

Figure 1

Travel split

Industry archetypes have distinct characteristics that lead to differing vantage points

28%	**Reinventors**
26%	**Practitioners**
46%	**Aspirationals**
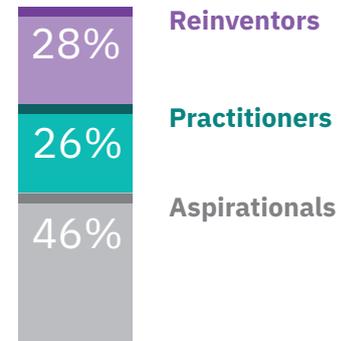
Dancing with disruption

Two years ago, CxOs told us they were deeply worried about digital giants and ankle-biters from other sectors invading their territory. Now, it's not outsiders they're most concerned about; the *real* disruption, they state, is coming from innovative industry incumbents. Travel CxOs share the prevailing view: 65 percent attribute the turmoil in their sector to once unwieldy companies that have reinvented themselves to thrive in the digital age. But they're still nervous about other sources of competition – probably recalling the meteoric growth of erstwhile minnows like Airbnb.

Travel CxOs plan to fend off these threats by making fundamental changes to their organizations – primarily by offering better, more differentiated services, becoming more efficient and developing new distribution channels. The Reinventors in our travel sample lead the way. They're making more wholesale alterations than other travel companies. They're also better placed to realize their ambitions: 59 percent of Reinventors have business processes that are optimized to support their strategies, compared with just 43 percent of Practitioners and 35 percent of Aspirationals.

What's equally noteworthy is how few Travel CxOs intend to adopt a defensive position. Even in the area of business they say is least likely to require fundamental reforms – collaboration among service providers – only 14 percent hope to preserve the *status quo*. Such widespread determination to make extensive changes to so many aspects of their operations suggests that many travel executives are intensely dissatisfied with the industry's value chain.

The path to personalization

Connecting with the customer on a personal level is vital these days, but designing compelling personalized experiences is very difficult; it takes a profound understanding of what makes different people tick. A full 92 percent of Travel CxOs claim their companies are at least somewhat effective at creating personalized experiences – which is astonishing, given how many of them also point to the need for major improvements in the products and services the industry delivers.

Again, however, Travel Reinventors are ahead of the curve. They're particularly skilled at using data to identify unmet customer needs (see Figure 2). More than two-thirds of them are also open to the idea of collaborating with other providers. The CxOs who head these companies recognize that sharing insights helps them enhance the travel experience, thereby increasing demand across the travel spectrum.

"We connect with our customers as soon as they step into the airport."

Chief Information Officer, Travel, Turkey

The pull of platforms

One of the most exciting recent trends is the emergence of the platform business model, which connects producers directly with consumers, enabling organizations to grow faster and generate higher profits. Platforms have huge potential in the highly fragmented travel sector. Think of Priceline (now Bookings Holdings), which has become a multibillion-dollar business without owning a single hotel. Google has also entered the arena, and some of the largest hotel chains have banded together to form Room Key, which offers loyalty discounts to seasoned globetrotters.

Only 5 percent of Travel CxOs currently have platforms, but 24 percent are experimenting with the concept and 28 percent intend to reallocate capital for this purpose. So what makes a platform work? We identified three "rules" for success: creating value from reciprocity, capitalizing on data and committing to innovation. Travel Reinventors fit this profile. They're more willing to collaborate and better at using data to spot new opportunities. They're also more aware of the need for change and quicker to switch course: 80 percent have cultures that reward both fast failure and successful innovation (versus just 45 percent of Practitioners and 52 percent of Aspirationals).

Figure 2

Know now

Reinventors excel at using data to understand their customers' unmet needs

Reinventors
Practitioners
Aspirationals
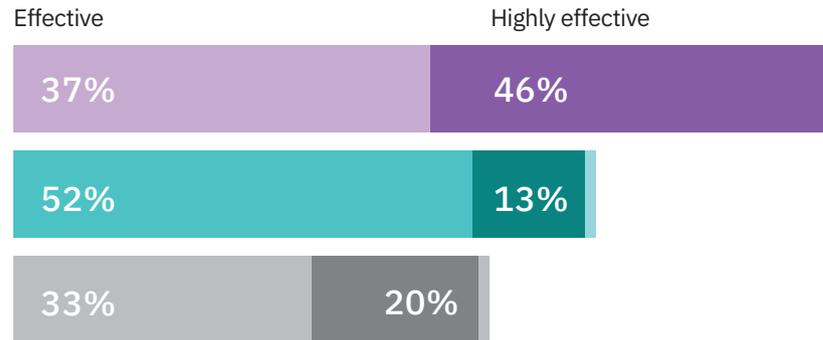
Effective	Highly effective
37%	46%
52%	13%
33%	20%

Q: To what extent does your leadership team actively solicit input from employees to develop new ideas and approaches?

Innovation in motion

The organization of work is altering dramatically as enterprises collaborate to innovate and ecosystems replace go-it-alone entities. Yet Travel CxOs don't have as strong a grasp of where their industry is heading as CxOs in many other sectors. In fact, those running Reinventor companies are even more cautious than those running Practitioners – possibly because they have a clearer understanding of just how hard it is to predict future trends accurately in an industry that's evolving so fast.

Travel Reinventors are handling this uncertainty by creating teams that learn on the fly. They actively solicit input from employees to develop new approaches (see Figure 3). They also encourage the widespread sharing of knowledge, and some have gone even further: 59 percent empower their teams to decide on the best course of action (versus only 48 percent of Practitioners and 41 percent of Aspirationals, respectively).

"Technology has paved the way for a lot of interesting innovations that are changing the way we experience travel."

Chief Executive Officer, Travel, Australia

Figure 3

Reinventors
Practitioners
Aspirationals

Open minds

Travel Reinventors actively solicit input from employees to develop new ideas
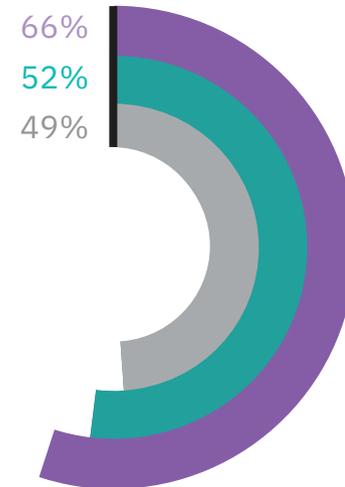
66%
52%
49%

Q: To what extent does your leadership team actively solicit input from employees to develop new ideas and approaches? (Percentage of respondents choosing "to a large extent.")

Reinventors are, likewise, more adept at putting the right people in place to execute their strategies and at building robust networks of partners, suppliers and distributors. In short, they have a more open culture and more agile operations than Practitioners and Aspirationals – and these, as our research shows, are two of the key stepping stones to organizational dexterity.

Strengthening advantage: Actions to take now

Bring bespoke to the masses. Capitalize on the techniques and technologies that travel companies already use to serve elite travelers. Analyze customer data to tailor your offerings, personalize your communications and use mobile devices to deliver an inspiring travel experience. Create opportunities for travelers to customize their own experiences.

Stitch up the seams. Collaborate with different travel companies to offer seamless journeys through coordinated processes and shared insights. Work with airlines, railroad operators, cab companies and baggage-handling firms to create a single, fully coordinated "door-to-door" service.

Draw on the wisdom of empowered employees. Listen to the people in the front lines who speak with travelers every day. Evaluate and leverage their ideas and experiences to identify new opportunities for innovating and transforming your business.

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