Business model dynamics in the tourism industry

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ABSTRACT
The tourism industry is subject to constant change, especially since the emergence of the internet and new ICTs challenge prevailing business models and stimulate the development of new organizations. Throughout the years, the increasing online growth gave rise to a new business model of online travel agencies which threaten traditional tour operators nowadays. Tourism companies are exposed to a variety of external and internal factors, which stimulate a continuous need for business model innovations. The most important forces can be identified as social and technological. The former describes the change in customer behavior in regard to ever more demanding traveler in terms of destinations, value for money and the overall experience. On the other hand, the consistent development of technologies and respective online trend requires companies to invest in business model experimentations, if they want to stay competitive in the fierce travel sector. Based on two case studies, this paper explores how incumbent and entrepreneurial firms are affected by external pressures. The business model evolution of the analysed firms demonstrate that over time there seems to be a convergence between online and traditional travel agencies, which in the long run can lead to a dominant business model in the future.

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Keywords
Tourism industry, business model evolution, travel agencies, external pressures, ICTs, customer behavior

Abbreviations
CRS = Computer Reservation System
GDS = Global Distribution System
ICTs = Information and Communication Technologies
OTA = Online Travel Agency

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1. INTRODUCTION

The tourism industry has undergone a variety of changes throughout the last years. One of the main reasons can be found in the increased globalization which respectively leads to an easier access and dissemination of information as well as a borderless world offering completely new opportunities for travelers nowadays (Buhalís & Law, 2008). Another important development in this regard, is the emergence of the internet and so called ICTs, which account for all the information and communication technologies used in a company including hardware as well as software and tools such as websites or management information systems (Osterwalder, 2004). These ICTs enables customers to attain reliable and accurate information and also make it possible to undertake reservations in a faster and often more convenient way than offered by conventional methods such as high street travel agencies (Buhalís & O’Connor, 2005). Furthermore, e-tourism encourages a more interactive relationship between tourism organizations and travelers which lead to completely new ways of developing and marketing tourism products. As Buhalís and Licata (2002) state the Internet gave rise to numerous new tourism eMediaries who distribute their products directly to consumers. In addition, to the technological changes also the customer behavior of travelers changed. Due to the easier access to information and the opening up of the tourism industry in terms of offered destinations, customers have greater expectations and therefore one can notice a shift from the ‘old’ conventional to the ‘new’ tourism (Stamboulis & Skayannis, 2003). The former is the tourism of the 50s, 60s and 70s mainly offering standardized and rigidly packaged mass holidays. The latter however is rather characterized by flexible and segmented offerings which are increasingly experience based (Poon, 2003). As a study by Buhalís and Law (2008) states, a new tourist has evolved as a result of experience. Due to the fact that people are becoming more linguistically and technologically averse, they are facing new opportunities and are often becoming frequent travelers. Nordin (2005) further indicated that this experience economy includes more customized holidays and personalized services which in turn allow the tourist to engage more actively in the experiences. However, the population nowadays is not only characterized by attributes such as experience-seeking and individualistic, but can also be seen as demanding high value for money, they like to experiment in their choices but are rather impatient and most importantly, they often have the financial resources to book several holidays a year, however they are facing a lack of free time to actually do so (Edwards, Mistilis, Roman, Scott & Cooper, 2008). Due to the limited time frame people have available for their vacation they often try to engage in so called “edutainment”, indicating a holiday where interest not only in regard to personal but also professional development can be satisfied simultaneously (Buhalís & Law, 2008). A study by Dwyer, Edwards, Mistilis, Roman and Scott (2009) supports this phenomenon by stating that the distinction between work and leisure will blur even more in the future. In addition, he also posits that family holidays will still remain, but there is going to be a greater growth in vacations for retired as well as single people. Therefore, due to the change in customer behavior, the travel industry needs to adopt new business model innovations in order to satisfy the more demanding consumers nowadays. The development towards more customized holidays and the wider range of opportunities provided through the internet not only in terms of information search but also online booking procedures gives rise to new online travel agencies. Nevertheless, as a study conducted by Buhalís and Law (2008) indicates there are still a lot of people who look for information online, but still prefer to purchase their holidays offline. Thus, it is interesting to see how conventional travel agencies as well as tour operator, such as Thomas Cook, who already have a lot of experience in the tourism industry, are handling the new challenges in terms of external forces in regard to their business models. Furthermore, traditional brick and mortar high street stores are facing a completely new range of competitors represented by online travel agencies such as Expedia Inc who offer a new way of purchasing tourist products. Therefore, it is important to elaborate on new IT systems and respective business models that help companies in the changing tourism industry to create value and to identify future trends in regard to the potential success of conventional compared to e-business models.

1.1 Research Questions:

1. What external and internal factors have the most influence on business models of travel agencies?

2. How will the tourism industry change in terms of a dominant business model?

The remainder of this research paper includes an extensive literature review on the business model ontology as well as business models in the tourism industry itself. The next section will then cover the methodology which is used for the analysis and part. Therefore, two case studies will be conducted including the application of the business model canvas for the companies Thomas Cook as a representative for a conventional tour operator, and Expedia Inc as an example for an online travel agency. A comparison between the two business models will be drawn and give rise to key implications for the tourism industry. Last but not least, a conclusion of the likely success of the two companies will be provided as well as future predictions on trends towards a potential dominant business model in the travel industry.

2. THEORETICAL FRAMEWORK

The following section will elaborate an extensive literature review on the definition of a business model and its constant evolution.

2.1 Business Models in general

The concept of business models has been widely discussed in the literature, however as Linder and Cantrell (2000) state it is still relatively poorly understood. This might also be the reason, why no clear definition of the phenomenon exists yet. Nevertheless, there have been numerous attempts to capture the true meaning of a business model. As Chesbrough and Rosenbloom (2002) posit, an Internet search on the term ‘business model’ resulted in 107 000 references and the number is still rising nowadays. The first time the idea appeared in an academic article was in 1957 (Bellman, Clark, Malcom, Craft & Ricciardi, 1957), however the actual hype around this buzzword is still a relatively young phenomenon and can be traced back to the dot.com boom at the end of the 1990s. However to attain a thorough understanding of its true meaning, it is advisable to start at the beginning by evaluating the two components of the concept, namely ‘business’ on the one hand and ‘model’ on the other hand. The latter is defined as “Graphical, mathematical (symbolic), physical, or verbal representation or simplified version of a concept, phenomenon, relationship, structure, system, or an aspect of the real world.” (Business Dictionary, 2014), while the term ‘business’ describes “the activity of buying and selling goods and services, or a particular company that does this, or work you do to earn money” (Cambridge Dictionary, 2014). In the literature this led to a distinction into two differing views on the business model ontology. The first idea was to focus on the way companies do
business (e.g. Galper, 2001; Gebauer & Ginsburg, 2003), while in contrast, scientist such as Gordijn (2003) or Osterwalder (2004) put an emphasis on the model aspect providing a conceptualization of the way firms create value in form of understandable frameworks consisting of varying elements and relationships that describe the organization. In regard to the first view, Timmers (1998) defines a business model as the architecture for the product or service which involves the different business actors, their roles and potential benefits as well as a description of the resources needed for revenues. Another approach is trying to see the business model as writing a story about the company (Magretta, 2002), which answers the most important questions already stated by Peter Drucker (1995): who is the customer? And what does the customer value? Furthermore, a good business model also needs to take into account the financial aspect indicating how the firm makes money and how to offer an attractive cost structure to customers. Concerning the second view, putting an emphasis on the model aspect, literature offers a variety of so called meta – models including different elements and relationships which describe how a company does business. One example can be found in the studies of Chesbrough and Rosenbloom (2002) who indicate that a successful business model depends on the valuable commercialization of technical potential and therefore describes a business model as a “mediating construct between technology and economic value”(p.532). Furthermore, in their perspective a business model should include all of the following elements: value proposition, market segment, value chain as well as cost structure and profit potential. Another example is given by Al-Debei & Avison (2010) who describe a business model in terms of a unified framework including the 4V (value proposition, value architecture, value network, value finance). Throughout the years there have been several attempts to create meta-models describing all important components that are valuable for the success of an organization (e.g. Gordijn & Akkermans., 2003; Amit & Zott, 2001; Dubosson-Torbay, Osterwalder & Pigneur, 2002). However, most of the authors put an emphasis on the 4V expanding their scope by adding additional aspects, but in general terms they all come back to the basic four. A thorough analysis of the business model understanding each component and their interrelatedness, makes the business model a useful tool for the management to reach better business decisions (Hacklin and Wallnöfer, 2012).

For the remainder of this research paper a focus lies on yet another meta-model, namely the business model canvas framework. It represents a convenient model for this study, since it can not only be applied to traditional offline companies but also captures the main components of the newly developed e-business models and can also be summarized into the four main pillars already mentioned above.

2.2. Business Model Canvas

The business model canvas of Osterwalder and Pigneur (2010) represents a “shared language for describing, visualizing, assessing and changing business models”. The canvas itself consists of nine building blocks including among others customer segment, value propositions, channels, key partners, revenue streams and cost structure. However, these blocks can also be generally summarized in four pillars namely product, customer interface, infrastructure management and financial aspects (Osterwalder & Pigneur, 2005), which can be compared to the four perspectives of Norton and Kaplan’s Balanced Scorecard (2001).

Table 1. The four pillars of the business model canvas. (Synthesis of Osterwalder, 2004 and Osterwalder & Pigneur, 2003).

<table>
<thead>
<tr>
<th>Pillar</th>
<th>Building Block</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customer Interface</td>
<td>Target Customer</td>
<td>Represents a customer to whom the product offering is useful and therefore addressed by the company</td>
</tr>
<tr>
<td>Distribution Channel</td>
<td>Value Configuration</td>
<td>Can be seen as the architectural configuration of the value chain</td>
</tr>
<tr>
<td>Relationship</td>
<td>Capacity</td>
<td>Represents repeatable patterns of action using assets to produce the product</td>
</tr>
<tr>
<td>Financial Aspects</td>
<td>Revenue stream</td>
<td>Describes the way a company makes money through a variety of revenue streams</td>
</tr>
</tbody>
</table>

2.2.1 Product

The first of the four pillars is the product itself and includes everything the company has to offer to its customers. Furthermore, the product line is supposed to differentiate the organization from its competitors based on their unique value proposition, which is defined as a statement indicating all the benefits that are delivered by the company to the customers (Bagchi & Tulski, 2000). Weill and Vitale (2013) evaluate the strength of a value proposition based on “the brand, the breadth of offerings, the price-value equation, and the completeness of the consolidation into a single-point of contact” (p.127). After all, a sound value proposition is of great importance to a company’s success, since it represents an opportunity to communicate what is special about the product offerings and why customers can profit from the purchase.

2.2.2 Customer Interface

The second pillar is concerned with the customer interface and includes those elements that involve the buyer namely target customer, distribution channel and relationship. The first can be defined as the consumer to whom the product offering is useful and therefore represent potential customers a company wants to address (Chesbrough & Rosenbloom, 2002; Osterwalder, 2004). In this regard, it is important to make use of successful market segmentation, which breaks a market into different groups of people who share common characteristics (Gordijn & Akkermans, 2003). Second, the distribution channel, takes the different ways into consideration in which the customer can be approached. These channels can have numerous characteristics such as inbound or outbound, direct versus indirect as well as automated forms (Anderson, Day & Rangan., 2012). Furthermore, the right distribution channel also decides about the richness of the information transfer to the customer (Weill & Vitale, 2013). Third, the relationship aspect indicates how close the customer is to the company. A strong relationship can only be built if the organization offers valuable recommendations, good advice and most of all trust (Weill & Vitalis, 2013).

2.2.3 Infrastructure management

The third pillar represents the infrastructure management which is necessary to deliver the value proposition in the right way to the target customer segment. One of the main components is the element of value configuration and can be defined as the architectural configuration of the value chain (e.g. Chesbrough & Rosenbloom, 2002; Osterwalder, 2004). The value configuration includes all connected activities which add information or physical components at each stage of the value chain. The end result is the final product delivered to the customer which incorporates all information attained through the value chain process (Afuah & Tucci, 2003). The second
element of the infrastructure is the capabilities which can be found in a company. Wallin (2000) understands capabilities as “repeatable patterns of action” using assets of the firm for the creation, production and offering of products and services. Thirdly, a successful infrastructure is also concerned with the partnerships of the companies, since due to globalization and the opening up of the markets companies increasingly move towards a network organization (Osterwalder, 2004).

2.2.4 Financial aspects
The last pillar takes the financial aspect into consideration and consists of the cost structure and the revenue stream of the company. The first element, cost structure, includes all expenses a company has to take into consideration when manufacturing a product. The specific cost structure is calculated by the ratio of fixed to variable costs. It is important to establish a fitting cost structure to each value network if the firm wants to satisfy its customers’ needs and thus create value in the long run (Christensen, 2013). Furthermore, as already mentioned above, the cost structure should be aligned to the other key elements of the business model (Fritsch & Pigneur, 2010). The second element, revenue stream, is defined as “the way a company makes money through a variety of revenue flows” (Osterwalder, 2004, p. 96). However, a firm can have several different revenue streams with varying pricing mechanisms. As Fritsch & Pigneur (2010) posit, the pricing structure represents the value a customer is willing to pay for a certain product and a description of how the transaction will take place, i.e. in form of a one-time fee or subscription. Nowadays, the internet has made it a lot easier to compare prices (Levin, 2011), which in turn gave rise to a completely new range of pricing mechanisms (Klein & Loebbecke, 2000).

Concluding, the nine building blocks and respective 4 pillars of the business canvas represent a powerful way to identify how a company does business. The application of the canvas is relatively easy and fast, which makes it a useful tool to compare differing business models in an industry and to capture its distinct value and potential competitive advantage.

2.3 Position of business model in the organization
After discussing what a business model is, it is also important to clarify its actual role in an organization. In this regard, Osterwalder (2004) demonstrates a business model as a link between three factors, namely business organization, ICTs and strategy. Therefore, one can say that it offers a building plan including the design of the business structure and the usage of different systems such as ICTs, which finally results in the individual operational form of the company (Osterwalder, Pigneur & Tucci, 2005). Nevertheless, there has been an extensive discussion between the difference of business models and strategy (Stähler, 2002; Seddon & Lewis, 2003), since even though a lot of people use these terms interchangeably nowadays, they do not describe the same thing (Magretta, 2002). There are a variety of differences, such as the focus on value creation for the business and not only for shareholders. Furthermore, they also differ in the state of knowledge, indicating that business models are cognitively limited, while strategy assumes a wide availability of reliable information. Last but not least, business models are focusing on the value creation for customers, while strategy on the other hand rather puts emphasis on sustaining this value (Chesbrough & Rosenbloom, 2002). As Shafer, Smith & Linder (2004) posit the two components are interrelated, since business models help analyze strategic objectives, while respectively strategy can help to understand and communicate the chosen design for the model.

2.4 Path dependent behavior in business model evolution
As literature suggests business models undergo a constant evolution in response to external as well as internal factors (Demil & Lecocq, 2010; Teece, 2010; de Reuver, Bouwman & MacInnes, 2007). External factors can be categorized into the PESTEL framework including political, environmental, social, technological, economic as well as legal aspects, which together also address the overall market dynamics of an industry (Teece, 2010). A change in the business model can often be identified by the change in the cost and/or revenue stream due to new kind or sources of resources or the externalization of a value chain activity (Demil & Lecocq, 2010). Furthermore, new technologies also call for an adjustment in the existing logic in order to satisfy the varying customer needs (Teece, 2010). This view is also supported by de Reuver, Bouwman and MacInnes (2007) who state that business models need to be revised according to changing technology as well as market and regulatory conditions. However, it is also important to notice that the right business model may often not be approached right away, but it takes some time and learning experience to identify the most fitting value framework for each individual firm. Especially, large firms engage in experiments to try out different business models simultaneously, since they have the necessary resources to invest in the innovation process (Doz & Kosonen, 2010). These experiments are supposed to enable an organization to establish a model which has the potential to become the standard in an industry at one point (Bayus & Agarwal, 2007). Nevertheless, even though an organization finds itself in a constant “state of transitory disequilibrium” (Demil & Lecocq, 2010, p.240) based on the permanent interacting and changing of its core components, the management team has the ability to make some leading decisions in regard to the business model. Concerning this decision making process the phenomenon of path dependency is noteworthy. As Sydow, Schreyögg and Koch (2009) posit, past events and history often guide future actions, which can lead to a combination of several self-reinforcing mechanisms such as the usage of internal rather than external complementary assets or a persistence in decision making patterns which in turn hinders the evolution of the existing business model. This behavior can often be found in large firms, who have already been successful in the past. They imply certain likelihood to get stuck in a specific path (Vergne & Durand, 2010), since incumbent firms often rely on their previous success and are less willing to commit to any changes. New technologies are thus integrated into the existing business model, in order to maintain the old routines and stay closer to the status quo (Chesbrough & Rosenbloom, 2001). On the other hand, the experience in the market makes incumbent companies less vulnerable towards contingent events, since they already managed to establish a financial buffer based on their existing value framework (Sosna, Trevinyo-Rodriguez & Velamuri, 2010). Entrepreneurial firms are more affected by external events, since they do not possess the resources to quickly adapt their business model to the fast changing environment (Baker & Nelson, 2005). Therefore, new entrants can only start with one single value framework, which has the necessary components to make a profit.

Concluding, one can say that one reason why the business model ontology is a never ending discussion is the fact that it faces a constant evolution. Every firm has to make adjustments to their business model due to varying factors including internal as well as external aspects. Therefore, a company can only attain a competitive advantage in the long run, if it manages to maintain the most successful components of the existing logic.
and combines them with new creative ideas. Hereby it is important to take risks, since experience has shown that the greatest innovations only occurred due to visionary entrepreneurs and managers who believed in their concepts.

2.5 External factors influencing business model dynamics: PESTEL
One of the most common used frameworks to elaborate the external factors influencing an industry is the PESTEL framework stated by Johnson (2011). He indicated that each industry sector has to face several challenges in terms of political, economic, social, technological, environmental as well as legal forces which all have an impact on how companies do business and provide an opportunity to attain a competitive advantage if these issues are tackled in a favorable way than their competitors. The political situation is mainly concerned with actions carried out by the government, while the economic aspect has a rather financial background incorporating issues such as inflation or interest rates (Eungblut, 2013). The social part is expressed in the demographics and behavior of the society including not only their characteristics as individual human beings but also their needs and desires as consumers. Technology plays an important role in basically every industry, since their constant development represents great possibilities to improve current market offerings. Furthermore, it gives rise to continuous business innovations in form of new products as well as processes. The environmental aspect can be divided into two categories. For one it can be seen as rather unpredictable in regard to natural disasters. It represents one of the more unpleasant factors, since it cannot be controlled and hence incorporates a certain risk. On the other hand, it also addresses issues such as water management or energy consumption which can be restrained by the society (Eungblut, 2013). Nevertheless, its impact varies according to the respective industry. Last but not least the legal situation can limit a company's operations based on several laws and regulations, but can often be bypassed nowadays due to possibilities such as outsourcing.

To summarize, an industry is exposed to numerous external factors which for one can help a company to improve its business operations if they find a valuable way to make sufficient use of their industry knowledge. Nevertheless, they also represent a constant risk factor, since some of the aspects go beyond the control of the management team and are thus difficult to deal with.

3. METHODOLOGY, SAMPLE AND DATA ANALYSIS
The emergence of online travel agencies as an alternative to conventional high street travel agencies and tour operators is a valuable approach to analyse business model evolutions in the tourism industry. The comparison of these two types of travel product service providers will present us with the possibility to identify reasons for business model adjustments and helps us answer the question whether there is a convergence towards one distinct business model in the future. The research approach in this regard starts with a data collection in form of an extensive literature review on varying business models in the tourism industry in order to provide a thorough understanding of the possibilities for tourism companies to do business. The data used is sourced from annual reports of the respective company representatives, 68 scientific references on the topic of business models and the travel sector.

The process of business model evolution will be shown based on two case studies representing for one a traditional tour operator and on the other hand an online travel agency in order to identify whether there is a trend towards a dominant business model nowadays. As a representative for the latter an elaboration on the value creation activities of Expedia Inc will be carried out, since it is one of the world’s largest online travel sites operating in 30 countries around the globe. Hence, it is striking to evaluate valuable information of the business operations and draw conclusions for the wider industry. This company can provide interesting findings for business model innovations, since its main growth drivers are technology and product innovation as well as global expansion, and new channel penetration (Expedia Inc., 2013a). For the conventional high street counterpart, an analysis of the Thomas Cook Group will provide a deeper insight in the business model dynamics of a travel company with a persistent business model logic, since it is one of the leading leisure travel groups with a long history in the tourism industry. Their vision is “to deliver trusted, personalised holiday experiences through our high-tech, high-touch strategy [and to] be there for our customers wherever, whenever and however they want to connect with us.” (Thomas Cook Group, 2014a). The company offers not only holiday packages but also single components via an online as well as an offline channel. Furthermore, they are still opening new travel outlets every year which makes the company a perfect example for a modern travel agency.

Table 2. General information of representative companies. (based on annual reports 2013).

<table>
<thead>
<tr>
<th></th>
<th>Thomas Cook</th>
<th>Expedia Inc</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenues</strong></td>
<td>£ 4,195 B ($7,061)</td>
<td>$4,8 B</td>
</tr>
<tr>
<td><strong>Employees</strong></td>
<td>7,253 in continental Europe</td>
<td>14k+ in 30+ countries</td>
</tr>
<tr>
<td><strong>Customers</strong></td>
<td>7.2 million</td>
<td>60 million visitors to website each month</td>
</tr>
<tr>
<td><strong>Retail outlets</strong></td>
<td>2327</td>
<td>0</td>
</tr>
<tr>
<td><strong>Internet distribution</strong></td>
<td>13%</td>
<td>100%</td>
</tr>
<tr>
<td><strong>Vision</strong></td>
<td>“Deliver trusted, personalised holiday experiences through our high-tech, high-touch strategy”</td>
<td>“Revolutionize Travel Through the Power of Technology”</td>
</tr>
<tr>
<td><strong>Main competitors</strong></td>
<td>TUI Travel PLC, Carlson Wagonlit Travel, American Express Company</td>
<td>Travelocity, Priceline, Orbitz</td>
</tr>
</tbody>
</table>

These case studies will help to elaborate on the increasing trends towards dis-intermediation on the one side, which indicates a reduction of traditional intermediaries such as tour operator and travel agencies in the tourism supply chain and re-intermediation with the emergence of the online travel agencies on the other side (Kracht & Wang, 2010). The online travel industry is constantly growing and consequently challenges some of the well-established traditional intermediaries, which therefore have to invest in new business model innovations if they want to stay competitive in the market. To analyse the main reasons for business evolutions, the PESTEL framework will be applied to the tourism industry identifying the most important external factors influencing existing business models nowadays. Furthermore, the phenomenon of path dependency and the impact of competition will be evaluated. The main drivers for changes in the travel sector will then be applied to the two case studies in order to demonstrate how external as
well as internal forces impact the business models of tourism companies.

3.1 PESTEL framework

The PESTEL framework demonstrates a valuable tool to analysis an industry in terms of external factors (Johnson, Whittington, Scholes & Pyle, 2011). However, it is important to note that not all forces apply to the same degree to each business sector. Therefore, one needs to understand what each individual aspect stands for in order to identify the components that influence the respective industry most and thus need the most attention in the decision making process of the management team.

Table 3. Operationalization of external factors.

<table>
<thead>
<tr>
<th>External factor</th>
<th>Potential components</th>
</tr>
</thead>
<tbody>
<tr>
<td>Political</td>
<td>Stability of government, social policies, regulations, tax policies</td>
</tr>
<tr>
<td>Economic</td>
<td>Interest rates, inflation, credit accessibility, unemployment rates</td>
</tr>
<tr>
<td>Social</td>
<td>Population demographics, distribution of wealth, changes in lifestyle and trends</td>
</tr>
<tr>
<td>Technological</td>
<td>New innovations, new technology platforms</td>
</tr>
<tr>
<td>Environmental</td>
<td>Attitude towards environment, waste management, energy consumption, natural disasters</td>
</tr>
<tr>
<td>Legal</td>
<td>Employment regulation, health and safety regulations</td>
</tr>
</tbody>
</table>

Figure 1. External factors influencing an industry.

4. ANALYSIS

The following section will first elaborate on the different business models which can be found in the tourism industry, followed by a thorough analysis of the external factors affecting the travel sector nowadays. To demonstrate how the business models have changed throughout the last years, two case studies will be conducted. In this regard, the business model canvas will be applied to the Thomas Cook Group as a representative for a traditional tour operator and Expedia Inc as an example for an online travel agency. Both business concepts have been exposed to modifications in the industry triggered by a variety of different external as well as internal drivers, which forced them to rethink their strategies. This business model innovation process will be demonstrated on the basis of a model, which will provide a sophisticated overview of changes in the business operations of the two companies. The results of the analysis will contribute valuable information on the question of a potential trend towards a dominant business model in the tourism industry.

4.1 Business models in the tourism industry

As already mentioned earlier, the tourism industry has undergone a variety of changes throughout the last decades. One of the main reasons for the constant development are ICTs and especially the emergence of the Internet in the 1990, which has had a huge impact on business models. The online world led to a development of numerous e-business and e-commerce, which in turn resulted in a drastic change in the way how companies make money (Osterwalder, 2004). The adoption of ICTs demonstrated a great number of new opportunities in terms of business models in contrast to the old traditional ones who often shared similar features. New technology makes it possible to integrate the customer in company’s process, e.g. through customer service or greater customization, and also facilitates the collaboration with partners which together results in the development of network organizations (Osterwalder, 2004). More advances can be found in the reach of customers through a multitude of new channels. Furthermore, a variety of new pricing structures and revenue streams can be identified based on the emergence of the Internet and respectively the World Wide Web (Verma & Varma, 2003).

This development towards a greater online world can also be found in the tourism industry, since as Chiou, Lin and Perng (2011) posit the travel sector is one of the largest industries making use of the Internet as a medium for e-business innovations. Furthermore the emergence of new technologies in form of reservation systems such as the GDS (Global Distribution System) and CRS (Customer Reservation System) also resulted in severe changes in the operations of travel service providers. Therefore, the following section will provide a short overview of the most important business models in the travel sector nowadays. The main categories in this regard can be demonstrated as accommodations such as hotels or other tourist residences, complementary services including restaurants, cafes or museums and last but not least distributors. The latter can further be distinguished into several subcategories, which will be discussed in more detail in the following paragraphs.

4.1.1 Traditional travel agencies

The main function of a travel agency is to act as an intermediary selling tourism products to customers on behalf of suppliers such as an airline or hotel. Traditional travel agencies and tour operators have a long history in the travel industry. The first organized tour was offered on 5 July 1842 by Thomas Cook and demonstrated a one-day rail excursion from Leicester to Loughborough (Thomas Cook Group, 2014a). Ever since, the conventional high street stores have had their ups and downs due to increasing competition and a constant change in customer behavior. The old mass holiday packages are no longer attractive to the ‘new’ tourist and thus a change in business strategy towards a more individual approach needed to be adopted. However, their main advantage until today is the fact that they can provide the customer with much more customized and specific information by gathering data solely based on the unique customers’ need (Kim, Kim & Han, 2007). Furthermore, traditional travel agents provide a personal human relationship, which often enhances a feeling of trust and security (Del Chiappa & Presenza, 2013). Nevertheless, they are also said to favour rather well-known service providers which might charge fairly higher prices. Grandados, Gupta and Kauffman (2012) further indicate that travel agencies operating offline have control of the information, which give rise to the opportunity to extract surplus from the consumer by limiting their transparency.
4.1.2 Online Travel Agency
Online travel agencies (OTA) first occurred in the 1990s after the emergence of the Internet. Pioneering companies in this field are firms such as Expedia Inc. and Orbitz, who established a strong market position in the online tourism sector. Similar to traditional high street travel agencies, they also act as an intermediary between travel-related products as well as information and customers (Kim et al., 2007). However, OTAs only operate online and do not engage in any offline channels to reach their target customers. They provide the online purchaser with the possibility to put together their own customized holiday by selecting a flight, hotel or potential car rental individually. The main advantage in addition to the great flexibility, is the saving of costs in terms of travel agent fees (Buhalis, 1998). However, based on the immense range of choices, people can get fairly overwhelmed and lose the overall perspective. Thus, OTAs need to identify customers’ expectations and desires in detail in order to ensure a high service quality and to reduce the degree of uncertainty which is often associated with online transactions (Fu Tsang, Lai & Law, 2010). The most cited reason against e-commerce is the issue of security problems in terms of fears for information leakage or theft of account information. Rao (2000) also posits that especially credit card safety is a major concern for travelers and often limits their online purchasing behavior of tourism products. Nevertheless, online travel agencies managed to become an important player in the tourism industry and thus challenge the traditional travel agencies and tour operators to adapt to the emerging changes in ICTs and the ever more demanding customers.

4.1.3 Computer reservation system/Global distribution system
The computer reservation system was first introduced in the 1970s and represents a database which manages the inventory of tourism businesses (Buhalis & Law, 2008). It was originally designed and operated by airlines, but nowadays further developed into other complementary services concerning tourism products. They have the ability to store current information about all available services and possess the right infrastructure for the transformation of these data. CRS systems help to diminish the physical distance between the service provider and the sales mediator and thus the customer (Schulz, 1996). Their financial structure is based on a commission-per-reserve or flat for adhesion. One of the most successful companies adopting the reservation system is Sabre, which was founded in 1960 on behalf of American Airlines.

In the 1980s the CSR system was further developed into the global distribution system (GDS), which enables direct access to airlines, flights and fares and nowadays also other tourism products such as hotels or rental cars (Buhalis & Licata, 2002). The system allows sales to travel agencies, which is why a lot of GDS such as Worldspan have an established partnership with companies such as Expedia Inc. Furthermore, they represent a connection between the suppliers’ reservation systems. GDS as well as CSR represent the main link to tour operator systems and travel agencies (Rabanser & Ricci, 2005).

4.1.4 Infomediaries
Another rather newly developed business model in the tourism industry demonstrates the so called infomediary, which basically are supposed to help buyers and suppliers to understand a particular market (Rabanser & Ricci, 2005). In the travel sector this means sharing information and experiences about past vacations with other interested tourists on platform such as Tripadvisor or Trivago. These websites provide customers with valuable insights in specific destinations in terms of hotel rankings and reviews as well as tips concerning great restaurant or must-dos in certain cities. They also offer virtual communities where people can initiate discussions and exchange experiences. Their financial structure is primarily based on revenue per advertising and sales.

4.1.5 Platforms
A relatively new trend in the tourism industry are platforms such as airbnb or couchsurfing, which provide a social network where apartment owners can offer there accommodations to travelers online. These platforms work similar to other social media systems, in terms of creating your own profile representing useful information about yourself to give the owner the chance to evaluate a potential fit.

Table 4. Overview of business models in the tourism industry based on the business model canvas framework. (see appendix for bigger illustration)

<table>
<thead>
<tr>
<th>Archetype</th>
<th>Product (Value Proposition)</th>
<th>Customer Interface</th>
<th>Infrastructure</th>
<th>Financial Aspects</th>
<th>Example</th>
</tr>
</thead>
<tbody>
<tr>
<td>Traditional travel agency</td>
<td>Travel products, accommodations, complementary service offerings</td>
<td>Online distribution</td>
<td>Multiple partners, commissions</td>
<td>Multiple partners, commissions</td>
<td>Thomas Cook</td>
</tr>
<tr>
<td>OTA</td>
<td>Travel products, flights, accommodations, complementary service offerings</td>
<td>Online channel only</td>
<td>Multiple partners, booking &amp; processing fees</td>
<td>Booking &amp; processing fees, buying inventory, selling at a profit</td>
<td>Expedia</td>
</tr>
<tr>
<td>GDS/CSR</td>
<td>Sourcing and retrieving travel information</td>
<td>Multi-users, travel agents, airline employees, but also travelers</td>
<td>Supplier/Network with travel provider</td>
<td>Booking/traffic fees from airlines, subscriptions from agencies</td>
<td>Sabre, Amadeus, Galileo, Worldspan</td>
</tr>
<tr>
<td>Infomediaries</td>
<td>Travel and destination information</td>
<td>Online channel</td>
<td>Network for traveler sharing experiences</td>
<td>Click and display-based advertising</td>
<td>Tripadvisor</td>
</tr>
<tr>
<td>Platforms</td>
<td>Accommodations, Online channel</td>
<td>Social media network connecting travelers and apartment owners</td>
<td>Social media network connecting travelers and apartment owners</td>
<td>Service fees to hosts and guests</td>
<td>Airbnb</td>
</tr>
</tbody>
</table>

4.2 External factors influencing business model evolution in the tourism industry
Business model evolutions mainly occur because of the pressure of external and internal factors. This phenomenon also applies for the business models in the tourism industry. The travel sector is one of the most profitable industries worldwide and thus is facing a fierce competition enhancing the strive for ever new and innovative company concepts. Therefore, it is important to evaluate potential influencing elements in order to identify the most valuable business models and establish a consistent market position in the long run. A distinction of the main factors can be made based on the PESTEL framework (Johnson et al., 2011) analyzing the macro-environment of an industry.

Table 5. PESTEL analysis of the tourism industry.

<table>
<thead>
<tr>
<th>Factor</th>
<th>Effect</th>
</tr>
</thead>
<tbody>
<tr>
<td>Political</td>
<td>Terrorist attacks</td>
</tr>
<tr>
<td>Economic</td>
<td>Current change in world currency exchange rate, law, (cost of air travel)</td>
</tr>
<tr>
<td>Social</td>
<td>Change in customer behavior</td>
</tr>
<tr>
<td>Technological</td>
<td>Growth of the Internet and other ICT, such as transitional banking or computer reservation systems (CRS)</td>
</tr>
<tr>
<td>Environmental</td>
<td>Natural disasters</td>
</tr>
<tr>
<td>Legal</td>
<td>Various regulations and acts depending on government</td>
</tr>
</tbody>
</table>
4.2.1 Political
The political factor is mainly concerned with the contingent events of terrorist attacks such as 9/11 or the Madrid bombings in 2004. They lead to public fear and often go beyond the abilities of the governments, even though countries invest more and more time, money and effort in increased security standards e.g. at airports. Furthermore, wars also diminish the attractiveness of certain destinations which together results in a decreased demand in the travel industry (Sönmez & Graefe, 1998). However, on the positive side, the increasing political as well as economic integration of large regions of the world such as Europe, Asia or the Americas also provides a variety of new possibilities for travelers (Rayman-Bacchus & Molina, 2001).

4.2.2 Economic
The economic aspects are associated with the current change in the world currency exchange rate, which makes it difficult to establish a fair and persistent price structure for customers worldwide (Dwyer, Forsyth & Spurr, 2004). Furthermore, travel service provider have to deal with the growing costs of natural resources such as oil demonstrating an additional challenge to the increasing trend of low cost air travel.

4.2.3 Social
Throughout the last years a constant change in customer behavior could be witnessed. Travelers nowadays are becoming more demanding in terms of customized offers, destinations and prices (Buhalís & Law, 2008). Furthermore, due to often very busy work schedules, the society puts more emphasis on the importance of leisure and thus expect a greater experience from their vacations (Dwyer et al., 2009). Therefore, tourism companies need to find new ways to satisfy their customers’ needs and desires.

4.2.4 Technology
The most important influencing factor in regard to the travel industry is the emergence of new technologies, which has greatly impacted the production of tourism. New booking systems such as CRS or GDS and especially the internet and ICTs have made it easier to access information and increased the speed of transactions, which in turn resulted in a reduction of costs (Buhalís & Law, 2008). However, the constant development of new technologies also challenges companies to adapt their business operations if they want to keep creating value for their customers and stay competitive in the market.

4.2.5 Environmental
The environment is unpredictable, which is the reason why it is extremely difficult to control any environmentally associated factors. Natural disasters such as tsunamis, floods or earthquakes can destroy whole landscapes and thus make it impossible for travelers to approach certain destinations for a certain period of time (Ritchie, 2004). Especially in countries where the tourism industry represents one of the main sources of income, these contingent events can have severe consequences. However, in regard to travel agencies, they have limited capabilities to diminish the impact of environmental factors.

4.2.6 Legal
In the last decades several governments have tried to gain some control over the tourism industry and to protect their customers by introducing several regulations. The package travel regulation (1992) makes tour operators responsible for their travelers and indicates what can be done if regulations are breached (Grant, 1996). Furthermore, the Trade Descriptions Act (1968) legally binds travel service providers to publish only truthful and accurate descriptions and information. Last but not least the Supply of Goods and Service Act (1982) urge travel agencies to ensure that bookings are carried out correctly.

Concluding, one can say that the tourism industry is faced with a variety of external factors, which to a more or less extent influence the way travel agencies do business. Some events go beyond the control of the tourism organizations, however especially the first four components PEST demonstrate an opportunity to make valuable changes in business operations and innovate the business model. Therefore, it is worthwhile for companies to spend sufficient resources on market analysis in order to identify current trends in terms of customer behavior and technology which might have the potential to create a competitive advantage in the future.

4.3 Business Model Canvas – Case Studies
This section presents the main findings on business model evolutions of travel agencies based on two case studies of Thomas Cook and Expedia Inc. First, the current business models of the two companies will be analyzed to identify similarities as well as differences in the way they make money. The following subsection will evaluate which external factors have led to a change in the dominant business logic and demonstrate in which way the companies tried to cope with these events. The analysis will simplify the identification of a potential trend towards a common business model for travel agencies.

4.3.1 Traditional travel agency Thomas Cook
The Thomas Cook Group was founded in 1842 when offering the first organized tour (Thomas Cook Group, 2014a). Due to its long history the company had to overcome several challenges in terms of changing technology and other market factors. Therefore, they adopted different adjustments to their primary business model which however has maintained some of its key components over the years. Furthermore, based on their long experience the phenomenon of path dependencies plays a vital role in the business model innovation of the organization. The dominant logic of their applied value framework can be characterized as one of a traditional tour operator and in broader terms travel agency. Their current business model can be summarized in terms of the four pillars of the business canvas (Figure 2).

Figure 2. Four pillars of business canvas applied to Thomas Cook Group. (based on annual report 2013)

As the table indicates Thomas Cook offers a profound value proposition including traditional pre-packaged holidays as well as independent travel products such as flight and other related services. Their core values are based on three main components namely its brand strength, product breadth and distribution reach which the company managed to build as a result of their long experience in the tourism industry (Thomas Cook Group, 2014b). Due to these distinct attributes, Thomas Cook is able to
satisfy several customer segments among others families, couples as well as singles and groups and thus targets basically everyone who is looking for a vacation (Thomas Cook Group, 2013). Their good reputation in terms of delivering these values to the tourist is one of the reasons why the company has been successful for over 100 years now. In comparison to their main competitors they promise their customers to “deliver the best possible customer experience today offering value, flexibility and choice” while continuously innovating in order to meet the future needs of the traveler (Thomas Cook, 2014c). The infrastructure of the organization consists of a broad partnership network, which is getting extended on a regular basis including companies such as Neckermann, Ving, Spies and Tjäreborg (Thomas Cook Group, 2013). Furthermore, based on their experience, they were able to develop an expertise in regard to the market and established distinct capabilities in form of risk management and leadership (Thomas Cook Group, 2013).

Regarding the financial aspects of the company, their business model concept as a travel agent suggests a mark-up mechanism. This pricing structure is defined as the difference between the lowest offering price and the higher prices an agent or dealer charges the customer (Investopedia, 2014). Furthermore, they also work with commissions paid by a third-party supplier.

However, this existing logic is the result of several business model innovations stimulated by the impact of several external as well as internal factors influencing the tourism industry and thus the value activities of travel companies. The main drivers for change have already been identified on the basis of the PESTEL analysis of the travel sector and the phenomenon of path dependency. Their effect on the overall industry also led to a number of modifications in the business model of Thomas Cook, which can be seen in the following figure (Figure 3, see appendix for bigger illustration).

Figure 3. Business Model Evolution Thomas Cook Group.

As the figure demonstrates the main external factors for the business model evolution of Thomas Cook are technological and social as well as economic drivers. The development of new ICTs and especially the emergence of the Internet has impacted the tourism industry to a wide extent and the constant online growth cannot be ignored. Therefore, the company extended their distribution channel from offline high street travel agencies to online websites and call centers in order to offer their customers a variety of choices that fit their personal purchasing behavior. Thomas Cook is a perfect example for an incumbent travel company who is path dependent in their business decisions. The organization has kept their original business model as a tour operator, but tries to incorporate new technologies and expand their scope in order to satisfy their customers needs and in turn stay profitable in the long run. To overcome the competitive pressure of the new trend towards low cost air travel, Thomas Cook adjusted their infrastructure management in several ways. For one, they established a corporation with Accenture who will establish an agile IT infrastructure that integrates the travel services of the separate European IT into a single group organization (Hatter, 2011). This collaboration is supposed to reduce costs, which as a result can be transferred to prices for the customer. Furthermore, Thomas Cook invested in their own airline (Condor) which allows them to maintain certain independence (Thomas Cook Group, 2013). Last but not least, the social aspect and more specifically the change in customer behavior towards a more demanding customer in terms of experience and customized holidays forced the company to rethink their past strategy offering mainly pre-packaged vacations. It was inevitable to launch new product offerings such as independent flights as well as a selection of travel-related financial and other services. Furthermore, it is important to note that the new ICTs and the possibility to easily attain information and compare prices, enhanced the desire of travelers for customized holidays and in turn intensified competition. In addition, the Internet also speeded up the industry itself reducing the entry barriers in terms of a higher transparency in regard to information as well as prices, remodeled distribution channels and decreased switching costs, while simultaneously increasing production efficiency (Kim, Nam, Stimpelt, 2004) and thus giving new start-ups the chance to establish their business in the market challenging the incumbent firms such as Thomas Cook. Therefore, the organization is in constant need of innovation to counteract the threat of new entrants and maintaining their strong market position.

Concluding, the figure shows that even though the company has a long history of success with their business model as a tour operator, they made several adjustments to cope with the industry challenges. Furthermore, it also demonstrates that although the industry if affected by a variety of external factors displayed in the PESTEL framework, Thomas Cook itself is especially influenced by the technological, economic and social drivers. The latter however had the greatest impact in regard to the business model innovation of the company. The organization was first launched as a tour operator offering organized tours to a limited number of destinations, only the demand of the customers to experience a new kind of vacation with more freedom of choice led to a reconsideration of the initial business concept. The development of new technology thus became a means to an end by providing the opportunity to expand the distribution channel and reduce the processing time of bookings. Nevertheless, the decisive factor for the process of business model evolution can be identified as the change in customer behavior.

Figure 4. Main external drivers for business model innovation of Thomas Cook Group.
4.3.2 Online travel agency – Expedia Inc.
Expedia Inc was founded in 1996 and thus belongs to one of the pioneering online travel agencies. The company offers an online trip-planning tool which enables customers to book airlines tickets, hotel reservations and car rentals as well as other complementary services (Expedia Inc, 2013a). The variety of different options makes it possible for the user to create their own customized vacation package, which enhances the satisfaction of personal preferences in comparison to conventional mass tourism product offerings. However, even though Expedia Inc managed to establish a strong market position in the online travel industry, they are also affected by external factors which stimulate the need for business model adjustments. The existing logic of the organization can be captured in the four pillars of the business model canvas (Osterwalder & Pigneur, 2005).

<table>
<thead>
<tr>
<th>Product</th>
<th>Customer Interface</th>
<th>Infrastructure Management</th>
<th>Financial Aspects</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Travel products in form of flights, accommodations as well as complementary service offerings</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• only contact to customers (leisure as well as business travelers) via online channel</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• extensive portfolio featuring some of the world’s leading online travel brands, covering virtually every aspect of researching, planning and booking travel</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• offers a merchant as well as a new agent model (ETP program)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Figure 5. Four pillars of the business canvas applied to Expedia Inc. (based on annual report 2013)

As the table shows, Expedia Inc is offering a variety of values in form of products such as flights, accommodations and additional services. Thereby, they target customers who are looking for travel products covering both leisure and business purposes. To convince travelers of the company and its abilities, the organization puts a strong emphasis on their value proposition stating that they are “revolutionizing travel through the power of technology” (Expedia Inc, 2014a). In this regard, they developed a service concept incorporating three main aspects. For one, they offer a best price guarantee indicating that in case of a customer finding a cheaper offer within 24 hours after the booking, the company refunds the difference and additionally adds a travel coupon (Expedia Inc., 2014b). Second, customers can make use of their personal trip guide which provides customer with valuable information about their destination and recommendations in the form of itineraries adjusted to the length of the stay (Expedia Inc., 2014c). Last but not least, the company launched the so-called Expedia Promise including a variety of promises to their customer in terms of best value, honesty, user-friendliness and security as well as service (Expedia Inc., 2014d). However, due to their limited online distribution channel, Expedia Inc can only approach customers who are Internet experienced. Therefore, they try to make the online experience for their customers as pleasant and valuable as possible by offering an extensive portfolio of partners such as hotels.com, trivago, hotwire or eLong.com which virtually cover every aspect of holidays (Expedia Inc., 2013a). Furthermore, the company established a new financial structure incorporating both a merchant model as well as an agent model. The first is a common distribution strategy in the tourism industry and indicates that hotel room inventory is sold over third party web-sites (Travel Industry Dictionary, 2014). The latter describes a rather newly introduced program called Expedia Traveler Preference (ETP), offering the customer the choice to either pay their hotel room directly online or later on when arriving at the destination (O’Neill, 2012a). It enhances the service quality in terms of customer satisfaction and distinguishes the organization from its main competitors. Nevertheless, in order to stay competitive Expedia Inc has to reconsider their business strategy on a regular basis. Due to the fact that the company is a rather new entrant to the tourism industry in comparison to the Thomas Cook Group, their business model has not undergone as many changes yet. Another reason is the lack of necessary resources to invest in extensive experimentations in terms of business model innovations. Regardless, the company is exposed to external factors as well, which means that they also have to make constant adjustments to their existing business concept. Furthermore, as a new entrant the company is also exposed to a fierce competition between upcoming online travel agencies. The main competitors can be identified as Orbitz, Travelocity as well as priceline.com and booking.com (Schofield, 2011). The emergence of the Internet has intensified rivalry due to a variety of factors such as low switching costs, low level of product differentiation and the perishability of the travel products. Furthermore, the new ICTs have increased the transparency enabling for once the monitoring of competitors but also allowing for imitation of innovations and most striking the adaption of prices (Buhalis & Zoge, 2007). The resulting price wars enhance the power of the buyer and leave the supplier with the need of constant improvement in regard to satisfying customer needs. Hence, tourism companies started to compete on customization in form of more personalized offers as well as differentiation. This development can also be seen in the case of Expedia Inc, who are constantly engaging in potential business model innovations, in order to face their competitors and attain a competitive advantage in the long run. Throughout the years the company already started to make first modifications to their initial business model, which can be seen in the following figure (Figure 6, see appendix for bigger illustration).

Figure 6. Business Model Evolution Expedia Inc.

As the figure demonstrates, Expedia Inc has strongly worked on their value proposition introducing new concepts such as the Best Price Guarantee (Expedia Inc., 2014b) as well as Your Personal Trip Guide (Expedia Inc., 2014c). These additional services enhance customer satisfaction and as a consequence lead to a higher retention rate. Nevertheless, especially the social factors in form of changes in customer behavior force the company to reconsider their current business strategy which presently resulted in first discussion about creating an additional offline presence to the distribution chain by cooperating with offline travel agents (Expedia Inc., 2013b). The economic aspect of low cost air travel represents a
challenge for Expedia Inc in the same way it does for Thomas Cook. Therefore, the company adopted an airline reservation system which allows the consumers to make purchases directly from the airlines eliminating the travel agency as an intermediary. The change in customer behavior led to the expansion of the partner network into an extensive portfolio covering virtually every aspect of the all-round travel experience. Furthermore, the company is trying to adopt new technologies in terms of mobile bookings and aims to further introduce innovative offerings in this segment to satisfy the increasing number of mobile users (O’Neill, 2012b). Nevertheless, the company also has been and still is struggling with the fear of its customers concerning potential security issues especially in regard to the payment online. As a consequence, they introduced a new pricing mechanism in the form of an agent model which is called the Expedia Traveler Preference (ETP) program (O’Neill, 2012a). This program, as already mentioned, makes it possible for the customer to decide for themselves when they want to pay, either directly online or later on when they arrive at their destination. However, the agenda is still limited to the purchase of hotel rooms and does not apply for the other travel products Expedia Inc is offering. Furthermore, the company is also working on establishing an offline channel in form of collaborations with traditional mortar and bricks travel agencies by admitting them access to their database (Expedia Inc., 2013b). In regard to the financial aspects, one can see that the company is trying to carry out different pricing structures simultaneously in order to provide their customers with several options that fit their individual preferences.

Figure 7. Main external drivers for Business Model innovation of Expedia Inc.

Nevertheless, as already mentioned each individual tourism company is affected by the PESTEL factors to a differing extent. For Expedia Inc the main drivers for change can be identified as economic in form of the threat of low cost air travel, second the political aspect in terms of potential security issues and last but not least the society itself presenting a constant change in customer behavior. The most striking aspect is the social influence, since it demonstrates the pre-requisite for the business model innovation in the case of Expedia Inc. The more demanding customer inspired and motivated the company to launch new programs in order to satisfy the needs of the travelers.

5. CONCLUSION

As a conclusion, it becomes obvious that each industry is exposed to a number of external as well as internal factors which in turn influence the companies’ operations in the respective business sector. However, not every organization is affected by these drivers to the same extent. Nevertheless, the analysis including the case studies indicates that especially the PEST factors have an impact on the general tourism industry. In a narrower sense the social and technological aspects play an important role in regard to business model evolutions. Due to the fact that the tourism industry mainly consists of travel service providers, it is evident that the society is one of the main drivers for change. The new tourist demands a lot from existing travel organizations, since they often have limited time to spend on researching and booking holidays but expect a great experience that fits their personal interests in return. Therefore, the competition in the travel sector nowadays is extremely fierce which challenges companies to offer a fast and all-round service, while simultaneously dealing with external pressures. These can for once be identified as the six factors suggested by the PESTEL framework in regard to the macro-environment of a company, but in a narrower sense the individual companies are also challenged by the influence of competition. Especially new entrants have to prove themselves by offering a value proposition that will pull customer away from current organizations and will help them retain their traveler. An important aspect in regard to the level of competition is the emergence of the Internet, which has changed the dynamics in the industry. New technologies enable customers to easily attain information and compare prices, which leaves the tourist companies in fierce competition. The intangible and perishable nature of the products intensified the rivalry as well, since the degree of product differentiation and respectively switching costs are low. In order to cope with the increased power of buyers, travel organization constantly need to innovate to maintain their market position. Incumbent firms have to keep their competitors in mind as well. However due to their experience they need to be aware of potential outcomes resulting from the path dependency phenomenon. This indicates that success in the past can limit their effort invested in business model innovations, which gives entrepreneurial firms the chance to win over customers with new concepts. In the tourism industry this means that traditional tour operators such as Thomas Cook should not rest on their past success but actively engage in strategic experimentation, while new entrants such as online travel agencies have to create an attractive business model concept which will convince customers to leave their old comfort zone, because they are hoping for a value increase in comparison to their old travel purchasing behavior.

Nevertheless, even though one can see a trend towards online travel researching, there will be no dominant business model in the near future since traditional travel agencies still enjoy a high reputation in terms of customer service and personal involvement. Furthermore, due to the current demographic of the world population in regard to the older generation the offline channel will still be preferred based on the lack of technological skills by the elders. On the other hand, as the business model evolution of the case studies demonstrates e.g. the collaboration of Expedia Inc with offline travel agencies and Thomas Cook with the establishment of an online presence, the split between the two business models is steadily decreasing. Thus, in order to stay competitive in the intense tourism industry it is important to invest sufficient resources in market analysis and respective business model innovations. In addition, it is worth noting that even though no dominant business model has become prevalent yet, the trend towards online distribution cannot be denied. Especially considering that the society will continue to change in regard to their internet affinity, there is a possibility that the tourism industry will develop a dominant business model in the long run. However, in the near future the numerous external factors affecting travel companies still have a differing impact on the various business models which leads to continuous innovations and in turn enhances competition. Due to the fact that the tourism industry is constantly evolving especially as a result of changes in customer behavior and the
emergence of new technologies, it demonstrates an attractive business sector for new start-ups and challenges incumbent firms to maintain their market share.

Referring back to the research questions, one can conclude that the most important factors influencing the tourism industry are the social as well as technological aspects, since the new ICTs and the emergence of the internet have empowered the customers. It is easier to attain and compare information, which automatically leads to higher demands of the tourists and thus challenges the travel companies to maintain control. Furthermore, the online growth seems to enhance the convergence of the two business models of traditional as well as online travel agencies, which leaves us to wonder whether there is going to be a dominant business concept in the future.

5.1 Practical relevance

The model can be applied to all companies operating in the tourism industry. It demonstrates a useful tool to analyse the external factors influencing the business models of the respective organization. Furthermore, the changes in the industry stimulate business innovations which as a consequence lead to a vivid market. Therefore, the model can be used for a thorough analysis not only of the tourism industry but also its effects in regard to business concepts and thus supports the decision making process of the management concerning potential business model modifications.

5.2 Academic relevance

This paper adds value to the existing literature by providing a profound analysis of the tourism industry and its business models in terms of the impact of external factors and their respective effect on business model evolution. Furthermore, it gives rise to future predictions concerning trends in the travel sector. The theory building process of Carlile and Christensen (2004) suggest a three step approach including the initial observing stage, followed by classification and finally resulting in the definition of relationships. Based on the observations made throughout the case studies, it was possible to classify two prevailing business models namely the traditional travel agency, which for research matters is associated as the incumbent organization on the one hand the rather new entrant represented by online travel agencies on the other hand. The results of the case studies demonstrate that while for incumbent firms the phenomenon of path dependency can demonstrate a threat, entrepreneurial firms are principally struggling with fierce competition in the beginning. Referring to the macro-environment, especially the social and technological forces will continue to challenge the industry and its organizations. Each business concept in the tourism industry has its own advantages as well as disadvantages. Although organizations such as Expedia Inc and Thomas Cook are trying to cover most of the customers’ needs in regard to travel booking by forming numerous partnerships and constantly innovating their own strategies, there seems to be no dominant business model yet. Nevertheless, through the observation and classification stages in the analysis, it became obvious that the tourism industry is especially challenged by the constantly changing customer demands that are often triggered through new technologies. The society of today continuously attains more technical expertise and thus expects more from their service providers. Therefore, one can conclude that a trend towards online distribution is likely to occur leading to an even fiercer environment for travel company competitors.

6. DISCUSSION AND LIMITATIONS

This research paper is subject to several limitations. First of all, the study is based on scientific theoretical papers and studies performed by other researchers, which indicates that secondary data in form of peer-reviewed journal articles was reviewed limiting the analysis of data to published resources. Besides that, only articles written in English and German have been evaluated, which may narrow the perspectives and thus limit the impact on the underlying theories. Furthermore, the study was restricted in time and scope which for instance only allowed a comparison between the two current leading business models in the tourism industry. Furthermore, the industry analysis itself was restraint to the six factors of the PESTEL framework. The analysis of this paper is based on the underlying concept of the business model canvas stated by Osterwalder and Pigneur (2010). Nevertheless, there might be other business model frameworks that capture the value activities of tourism companies in a different way and in turn provide new insights. In addition, it is necessary to test the model in practice to be able to draw valuable managerial implications. The application of the model gives organizations the chance to evaluate its usability and to encounter potential drawbacks which consequently demonstrates an opportunity to make modifications. Therefore, the model is advised to be applied to a number of case studies in order to identify potential missing external factors. Future research should aim at the identification of the main drivers of change in the tourism industry, since they may push travel companies in the same direction and as a consequence eventually lead to a dominant business model in the travel sector in the long run.

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5-forces-analysis-two-crucial-concepts-for-business-leaders-salespeople/2#trashUrGnLABA.dpuf


8. APPENDIX

Table 4. Overview of business models in the tourism industry based on the business model canvas framework.

<table>
<thead>
<tr>
<th>Archetype</th>
<th>Product (Value Proposition)</th>
<th>Customer Interface</th>
<th>Infrastructure Management</th>
<th>Financial Aspect</th>
<th>Example</th>
</tr>
</thead>
<tbody>
<tr>
<td>Traditional Travel Agency</td>
<td>Travel products: flights, accommodations &amp; complementary service offerings</td>
<td>Omni-channel distribution</td>
<td>Multiple partners</td>
<td>Commissions from third-party supplier, charge mark-up</td>
<td>Thomas Cook</td>
</tr>
<tr>
<td>OTA</td>
<td>Travel products: flights, accommodations &amp; complementary service offerings</td>
<td>Online channel only</td>
<td>Multiple partners</td>
<td>Booking &amp; processing fees; buying inventory at discounted prices, selling at a premium</td>
<td>Expedia Inc</td>
</tr>
<tr>
<td>ODS/CSR</td>
<td>Saving and retrieving travel information</td>
<td>Main users: travel agents, airline employees, but also travelers</td>
<td>Supplier/network with travel service provider</td>
<td>Booking/traffic fees from airlines, subscriptions from agencies</td>
<td>Sabre, Amadeus, Galileo, Worldspan</td>
</tr>
<tr>
<td>Informediaic</td>
<td>Travel and destination information</td>
<td>Online channel</td>
<td>Network for traveler sharing experiences</td>
<td>Click and display based advertising</td>
<td>TripAdvisor</td>
</tr>
<tr>
<td>Platforms</td>
<td>Accommodations</td>
<td>Online channel</td>
<td>Social media network connecting traveler and apartment owner</td>
<td>Service fees to hosts and guests</td>
<td>Airbnb</td>
</tr>
</tbody>
</table>

Figure 3. Business model evolution of Thomas Cook.
Figure 6. Business model evolution of Expedia Inc.