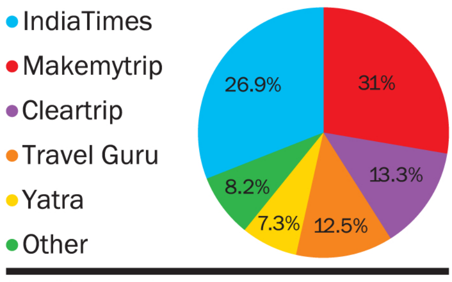
E-business: making travel & tourism click

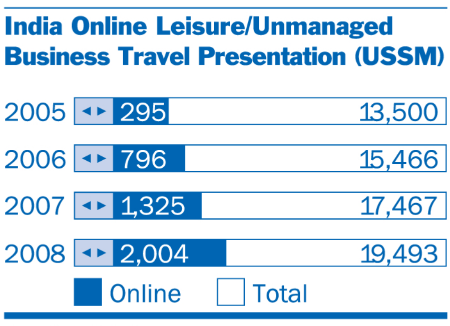
Ashwin Damera is a young entrepreneur whose business plan for an online travel website won him second place at the Harvard Business School. Within a year of the launch of his e-commerce portal 'Travel Guru', it seized 12.5 percent of the Online Travel Agencies' (OTA) market share. Similarly, Sandeep Murthy of Cleartrip is an MBA from Wharton. Prior to establishing and operating Cleartrip with three other co-founders, Stuart Crighton, Mathew Spacie and Hrush Bhatt, he worked at Interactive Corp, a firm behind the online travel major, Expedia. Cleartrip has now grown into a 350-person business, attracting around 100,000 people on the site on a daily basis and converting almost 5.5 percent of them into customers. Cleartrip averages almost 7500 air bookings, around 2000 hotel reservations and its daily revenue earnings are close to Rs 2.2 crore. Likewise, Deep Kalra and Sachin Bhatia of Makemytrip.com are today selling close to 10,000 domestic tickets online and have captured thirty-one percent of the OTA's total market (see Box A).

The Rise of the Online Travel Market

The online travel market surpassed US$ 2 billion (Rs 8000 crore) by 2008 – an almost seven-fold increase from the US$ 300 million market in 2005 (Box B). This is expected to grow to US$ 6 billion (Rs 24,000 crore) by 2010. This unprecedented growth has been made possible by a new generation of urban Indians researching and booking travel on the internet and the partnership between the low-cost carriers (LCCs)and the online travel agencies. LCCs account for close to 40 percent of India's domestic travel market. In addition to Air Deccan (now Kingfisher Red Airlines), which has been the pioneer, and Jet Lite (earlier Air Sahara), the opening of the sector has seen the emergence of six new airlines (Go Air, Spice Jet, Paramount Airways, Indigo, Indus Air and MDLR). These LCCs offer short-haul, point-to-point services on a no-frills basis. Most of them have single seating arrangements (all economy, no business or first), their fleet consists of a single aircraft model, and they do not pamper their clients with fancy cuisine. Their objective has been to reduce their cost by 35 to 40 percent as compared to legacy carriers. With reduced operational costs, high passenger loads and low staffing, LCCs have aimed to break even within two to three years of their operation. On account of their emphasis on cost-optimization, these carriers have vigorously embraced the internet and made online travel agencies their logical partners.



Source: Eyefortravel research



Source: PhoCusWright Inc.

Several demand and supply side factors propel this growth. On the demand side, India's sustained economic growth has resulted in an expanding middle class and a cultural disposition attuned to travel. On the supply side, travel-supplier partnerships with the banking industry have promoted online payment; the information technology sector has allowed homegrown online solutions; the immense growth of online bookings of Indian railways and now the low-cost carriers have acted as a catalyst and the influx of venture capital in the online travel agency sector has given it greater momentum.

Young Entrepreneurs Tap Venture Funds

One of the biggest contributory factors has been India's leadership in information technology and business process outsourcing. This has enabled online travel agencies and LCCs to host solutions, build technology platforms and customer service capabilities and provide secure booking engines. Another critical factor has been the huge opportunity available in the internet space, where permission from government agencies is not required. This has led to young entrepreneurs raising resources from venture funds and launching operations. For instance, Makemytrip.com has had three rounds of funding amounting to almost US$ 39 million from Tiger Fund, Gabriel Venture Partners,

This is, however, likely to undergo a radical change as air booking margins and commissions get squeezed. The next major opportunity will be for consolidation in the lodging industry and enhancing yield management by booking hotel rooms online. Travel Guru, which markets itself as 'hotel ka guru', has tied up with more than 4000 hotels across the country with an inventory of over 2000 rooms. It is today booking over 1000 rooms a day.

This dynamic growth in the Indian travel and tourism industry has to be viewed in the background of various innovative trends (see Box C).

The PhoCusWright study has projected the idea that online channels would continue to outpace the total travel market growth and online penetration would surpass twenty-three percent in the total travel market by 2010. The supplier direct channel would dominate the online distribution with a market share of sixty-five percent in 2008, while online travel agencies would have increased their share to twenty-five percent from the present level of seven percent. This growth would be at the expense of the traditional travel agencies, whose share would declined from thirty-two percent in 2005 to a mere ten percent in 2008. According to the report, traditional agencies would 'neither have the scale and financing, nor the brand equity and knowhow to compete with the venture fund backed startups and subsidiaries of multi-billion dollar international conglomerates.'[2]