

# Booking.com Business Model Canvas

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## Business Model Canvas Booking.com

The travel industry is a \$1.3 trillion heavy. And the biggest player by market capitalisation in this huge pond is the Booking.com's parent, the Priceline Group. Priceline owns a number of brands that are all running a [platform business model](#) (the most promising business model right now).

Booking.com and Expedia are the biggest [Online Travel Agencies \(OTAs\)](#). I have compared their [business models here](#). But this space is becoming more interesting by the day with an increasing amount of players moving into this space, including [TripAdvisor and Google](#).

What makes Booking.com so successful despite the enormous competition by similar and other business models and a strong pushback by the major hotel chains? That is what we will be looking at today.

# The Business Model Canvas

The Business Model Canvas consists of the 9 categories you see below to describe a company. Broadly speaking, the left-hand side is the supply side from the business' perspective and the right-hand side is the customer side.

[illegible]

## The Business Model Canvas as devised by Alex Osterwalder.

Download the business model canvas as excel file: [Business-model-canvas](#)  
[xlsx]

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Before we get started on Booking.com, let's have a brief look at the other brands that the Priceline Group owns:

- **Booking.com:** online accommodation reservations
- **Priceline.com:** combined packages for hotel, rental car, airline ticket and vacation reservation (in the US)
- **Kayak.com:** travel meta-search engine
- **Agoda.com:** online accommodation reservations (in the Asia-Pacific region)
- **Rentalcars.com:** rental car reservation service
- **OpenTable:** restaurant reservation and information services

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# Value Proposition

Platform businesses have [two or more customers](#) that they need to provide value to. In the case of OTAs, these are the travellers and the hotels.

## Value proposition to travellers

1. **Cheap(est) prices:** Booking.com has contracts in place with the hotels that it lists. One of the clauses, called rate parity, is that the hotels can't offer the same (type of) room at a cheaper rate on the hotel's web pages. And if they do so they have to match it on Booking.com. Without such a rule, users could choose a hotel on Booking.com but then complete the booking on the hotel's pages. Despite some changes in this space, Booking.com is still able to offer the cheapest prices on those hotels it most prominently features.
2. **Amount of choice:** Booking.com has now over 1 million places to stay in their database and a large amount of filtering options that make it easier for the user to find what they are after. Moreover, Booking.com helps consumers to make value choices.
3. **Reduction of risk:** the star rating and reviews generated (over 100m reviews to date) by other users reduce the risk of being disappointed. Booking.com features reviews only from those who have booked through them. This system effectively prevents manipulation, a problem well known on many other platforms. I have covered this topic [extensively in my Yelp article](#).
4. **Call centres:** Many people still want to talk to a human prior committing to a considerable amount of money. Two-Thirds of

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Booking.com's employees are in the customer service areas for this reason.

5. **Useful app:** the traveller's journey does not end with the booking. Booking.com's app has useful content prior to the booking but increasingly also travel guide functionality in their app. Also, bookings through apps have multiplied from 2015 onward and are expected to stay in the double-digit growth space.
6. **Useful travel content:** useful content that accompanies the [traveller's micro moments](#).

## Value proposition to hotels

Hotels have a love-hate relationship with the OTAs. While a majority of their bookings come through other channels, OTAs remain crucial to get as close to being fully booked as possible\*.

1. **Incremental revenue:** the key value proposition is that Booking.com helps to fill otherwise empty-staying rooms. Hotel rooms are like perishable goods. If they are not booked on a night the revenue for that room that night is irrecoverably gone. With hotels being high fixed cost assets, this loses the room's contribution to the high fixed cost base.
2. **Ability to react:** Booking.com allows hotels to implement their [revenue management strategy](#) by providing the ability to flexibly decide/change which rooms they offer through Booking.com on which nights and its rates. This allows hotels to drive additional business on a short fuse, to put up special promotions, and dynamically adjust commission for soft periods to rank higher.

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3. **Global reach:** Booking.com helps hotels to reach global markets and potential customers that by themselves they would not reach. Achieving global reach in a meaningful way (i.e. high conversion rates) requires investments that may be underestimated. Booking.com have localised content, payment options, apps, etc. They also translate the hotel content into the local language (~40 languages done by a localisation team) and are present on the relevant advertising channels. The Priceline Group have acquired local online travel agencies who have captured a meaningful local market share and built a recognised brand. They have [offices in many countries](#), an online presence in over 220 countries, feed their mobile apps and keep all the content consistent.
  4. **Risk reduction:** Fees are structured in a way that there is no upfront payment and no payment whatsoever unless there is a booking. Unlike in online marketing, there is no risk of paying money for advertising for no return. [Cost-per-click models](#) that I have described previously come with the risk of no or low returns.
  5. **Drive additional traffic to the hotel's website ("billboard effect"):** One [prominent study](#) came to the conclusion that there are is a considerable amount of travellers who research on the OTAs, like Booking.com, but then book on the respective hotel's website. Thus, the OTA pays for the customer acquisition cost (CAC) but generates no revenue for themselves. This effect is called "billboard effect." More recently, other studies have [questioned that this effect](#) (still) exists. It is ultimately hard to measure due to the hundreds of [micro moments over which the](#)

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[customer journey unfolds](#). But there are two things I am very certain of:

1. Being present on an OTA with good ratings will have positive effects.
  2. Bookings will take place where the customer gets additional benefits (loyalty benefits, perks, freebies) – at the same price, be it on the hotel page or on the OTA pages.
6. **Market intelligence:** Booking.com shares market intelligence, booking forecasts for given locations as well as how the hotel is performing on the Booking.com platform in relation to competition.

\* Some of the most important KPIs in the hotel industry are Average Daily Rates (ADR) and Revenue Per Available Room (RevPAR). For the purposes of this article, note that “fully booked” means maximising these KPIs,



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## Key partners

1. **Hotels or property owners:** Booking.com sees anyone who registers their property to be bookable through them as a partner. And there are many [types of properties](#) that fall into this (hotels, villas, golf courses, castles, boats, capsules, tents and more).
2. **Major hotel chains:** Hotels – esp major chains – have a love-hate relationship with Booking.com. Sticky points are commissions and customer data. I have described the [tug-of-war in detail here](#).
3. **Affiliates:** Booking.com runs an [affiliate program](#) through which those websites make a commission (on Booking.com's commission) should their webpage originate a booking. They offer [various products](#) to their affiliates. This helps Booking.com grow into the non-OTA areas that still manage a lot of the market.
4. **Travel agents:** Booking.com wants [travel agents to book through their platform](#) and earn commission through it. Benefits for the agents are no upfront costs as well as no additional operational costs.
5. **Corporate travel managers:** Booking.com offers an option for [corporate travel managers to make bookings on behalf of their employees](#). They have not entered the travel market business in earnest. But surely, it will be an area of interest to drive growth even if not top on the strategy agenda right now.
6. **Technology partners:** I classify only those tech providers as key partners that provide cutting-edge, proprietary (and ideally exclusive) technology and actively collaborate as key partners. There are not many as such as Booking.com develops most of their software in-house and relies on acquisition where

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complementary platforms emerge. Global distribution systems, channel managers and reservation systems as such are in my mind not key partners as we are talking about well-established interfaces in this space.

7. **Meta search engines:** Meta search engines are becoming increasingly important. Priceline own one of the biggest ones, Kayak.com. [Booking.com collaborates with TripAdvisor](#) and Google Hotel Ads who are two of the other big ones.
8. **Lobbyists:** lobbyists play a big role in the tug-of-war that I have linked to above.

## Global Supply Advantage Drives Scale Benefits

As of September 16<sup>th</sup>, 2016 the Booking.com website offered over 1,035,000 accommodations; up 30% year-over-year

Included more than 515,000 vacation rental properties (villas, apartments, aparthotels, chalets)

Covered over 96,000 destinations in over 225 countries and territories



Accommodation providers are key partners of Booking.com and key to positive indirect network effects [source: [Priceline investor presentation](#)]

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## Key activities

The biggest difference between traditional business model and the platform business model are [indirect network effects](#). Key activities have to aim to enhance these. Of course, Booking.com knows this very well. From their investor presentation, you can see how they see the positive indirect network effects.

1. **Enhance positive network effects** and customer experience by increasing:
  - the number of bookable accommodations at an increasing amount of locations
  - the types of bookable properties (variety)
  - useful content, such as user reviews, pictures, etc
  - and by enhancing customer experience
2. Provide great **customer support**
3. **Improve the websites and the app** based on the captured data and evolving technology, trends and feedback
4. **Improve conversion rates** based on data and [over 1000 experiments at any given time](#)
5. [Accompany the micro moments](#) on the traveller's customer journey
6. **Search engine visibility:** Maintain top rankings on paid advertising and improve on organic search rankings
7. **Observe** the moves of **hotel chains** who want to increase direct bookings
8. **Grow loyalty programs** to counter the hotel chains loyalty program and to obtain valuable customer data

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9. **Develop new travel-related services** to grow partner and customer base
  10. **Observe regulatory landscape** and moves of lodging lobbying groups
  11. **Observe industry landscape** for new entrants and adjacent industries for new/potentially disruptive approaches (e.g. meta search engines)
  12. **Observe** the moves of the known **direct competitors**
  13. **Stimulate demand** through promotions/notifications to subscribers

### Creating a Best in Class Mobile Experience



Technological lead helps Booking.com to accompany the traveller's journey to hotel selection across devices and micro moments [source: [Priceline investor presentation](#)]

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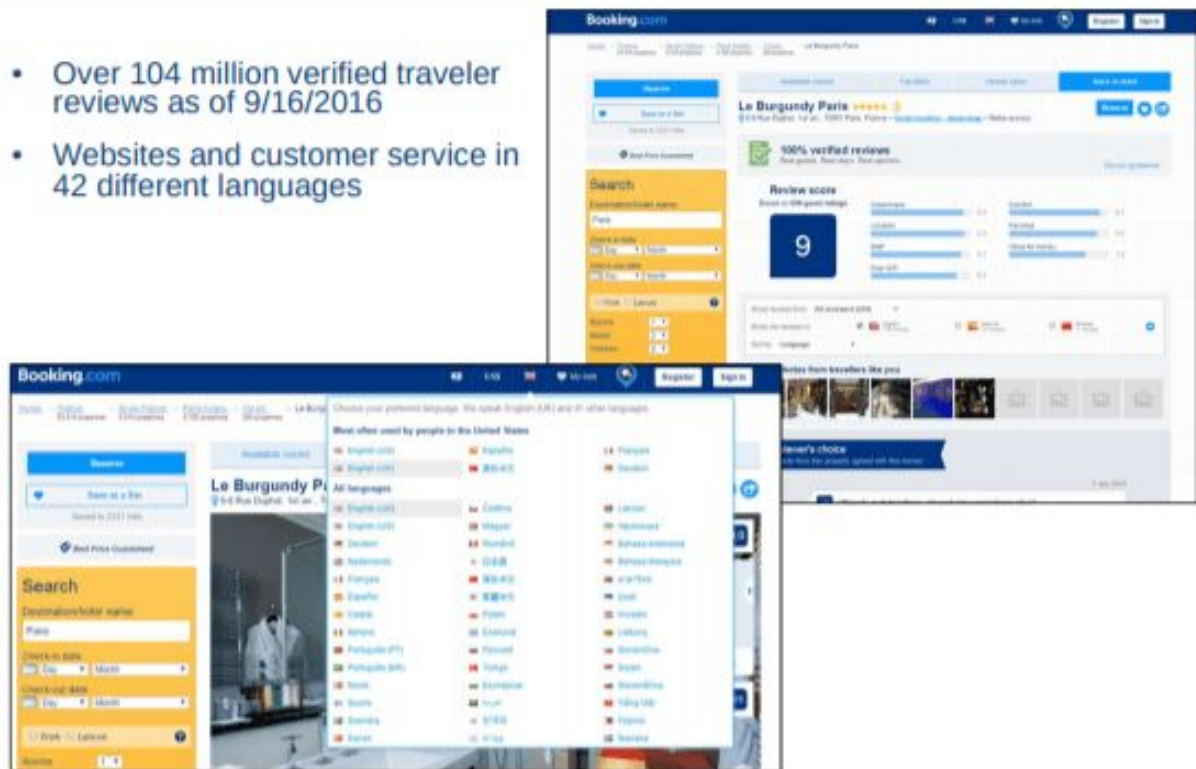
## Key resources

The master resource of your platform are its [network effects](#) which are enabled by the participants, the content, the data/algorithms, skilled staff and the website/app infrastructure:

1. **Number of hotels** and other accommodation partners available for booking
2. **Number of locations** covered
3. **Engaging content:** high-quality, professional photos, good hotel descriptions incl all amenities&facilities
4. **Fresh user-generated content:** reviews, ratings
5. The **captured user data** and proprietary algorithms
6. **User experience (UX)** of the website and app
7. **The global network** of Priceline-owned peer-platforms
8. **Skilled [technology staff](#)** (>2500 technology staff)
9. The **loyalty program** and its members
10. **Affiliate** program members
11. Trained **customer services staff** (2/3 of all employees)
12. The **website and app infrastructure** and all the interfaces to the various hotel/flight/rental car/ etc distribution systems

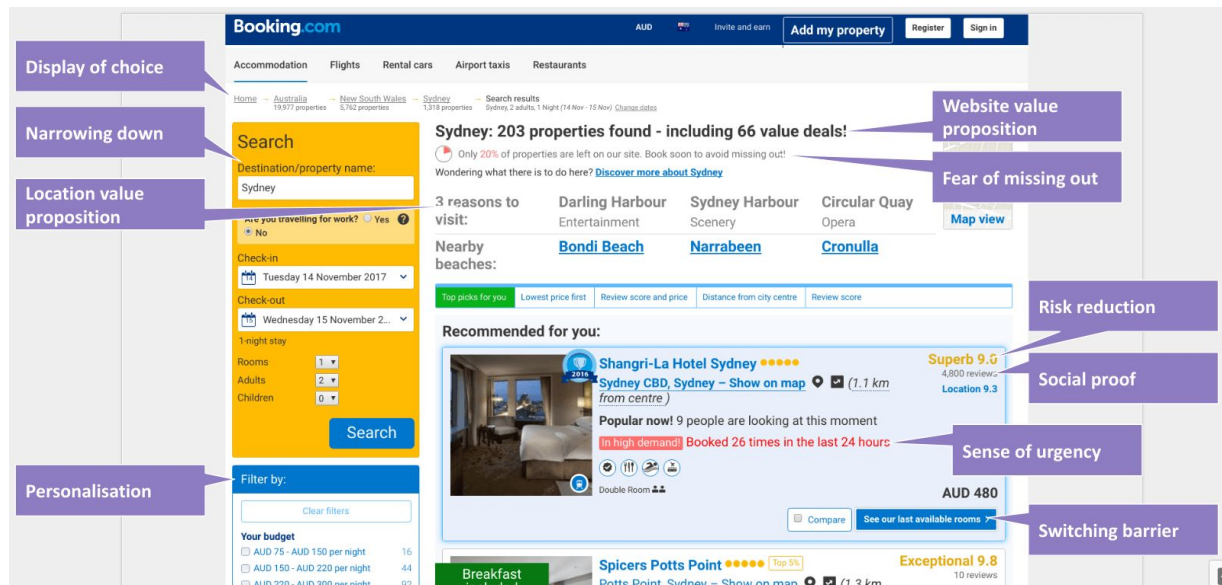
## Differentiated Content Drives Conversion Gains

- Over 104 million verified traveler reviews as of 9/16/2016
- Websites and customer service in 42 different languages



Choice, content, localisation allow high conversion rates thus enable Booking.com to auction cost-per-click advertising higher than others and get traffic and bookings [source: [Priceline investor presentation](#)]





The Booking.com webpage key to achieving high conversion rates that allow auctioning for rank #1 in Google and Bing advertising spots. It is full of persuasive webelements to close the sale. Click image for full size.

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## Customer Segments

In the platform business model, there are two or more sides that should be considered customers (or partners and customers). Let's start with ways to **segment accommodation providers**:

1. **Property types**: hotel, resort, apartment, villa, Hostel, motel
2. **Room types** offered
3. **Star rating** 1-5; **user rating** -10
4. **Amenities** (fitness, sauna, jacuzzi, pool, beach), **facilities** (wifi, restaurant, cafe), **room facilities**
5. **Proximity** to sights (or remoteness)
6. **Type of hotel**: Independent, small chain, large chain,
7. **Locations**: Single location, multi-location, multi-national
8. **Type of infrastructure**: property management system, central reservation system, channel manager, etc

There are many ways to **segment travel customers**. Here are a few examples:

1. **Travel motivation**: Leisure, business, group
2. **Demographics**: Age group, gender, marital status, kids, income bracket, lifestyle, etc
3. **Booking details**: length of stay, how many days prior booked, booking device, booking location, package/accommodation only
4. **Employment**: income bracket, full-time/part-time, retiree
5. **Spending behaviours**: ancillary bookings/spending



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The issue with this is that the data required for the above type segmentation is disbursed across the multitude of players in the industry (or not known) and will not satisfy the recommendations of [effective segmentation](#):

- **identifiable** so that they can be measured & tracked
- **accessible** by communications and distribution channels
- **substantial** so as to be profitable
- **durable** to maintain stability of cost and impact to profits

Therefore, traditionally you will find a [more transaction-centric way to segmentation](#).

All this said you can sense that there is a great opportunity in this space (and some airlines have built their capabilities in this space very well through their loyalty programs).

Once you have a rich data set, you can segment and micro-segment depending on the problem you are trying to solve. For traditional advertising and targeting purposes, segments should be at least 10-15% of your visitors. But for more innovative and personalised purposes, your micro-segments can be smaller.

Let's conclude with the reminder that good segmentation is a powerful enabler for effective revenue management.

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# Customer Relationships

## Relationships with hotels

- The relationships with the hotels is that of a love-hate relationship
- Hotels are unhappy about the amount of commission they have to pay for bookings through the OTAs
- Due to this ambivalence, Booking.com makes it very easy to join their platform
- They make sure there is no risk for the hotel (no booking, no fees, no set-up fees at all, etc)
- They give “instant gratification” to those that join by making them visible globally, translation to other languages, etc at no cost

## Relationship with travellers

- Customer service (two Third of Booking.com employees are in customer services)
- Ensure content and reviews are representative of the actual accommodation
- Remove all friction and risk
- Transparency
- Privacy

Owning the customer relationship is one of the most important things that all platform businesses have to keep in mind. And when we say that we, most tangibly, mean their contact data (i.e. email address). This is crucial for the ability of repeat-, up- and cross-sales.

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Hotels would love to have the customers email-address once they book through Booking.com. This would give them ample opportunity to build a customer relationship, to cross and up-sell themselves and get ancillary revenue etc. This is one of the reasons why hotels entice their guests to sign up to their loyalty program.

But it also is an area of trials. As an example, [Expedia and Red Lion Hotel have started collaborating on their loyalty proposition](#) as part of which Expedia shares more information with Red Lion (most notably the customer's email address).

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# Channels

Booking.com's **sales channels** to their customers:

- The Booking.com webpage
- The mobile-optimised webpage
- The Booking.com app
- TripAdvisor (Cost-per-acquisition model)

## Ad channels:

- General search engines, Google, Bing:
  - paid advertising
  - organic search ranking through useful content
- other OTAs
  - TripAdvisor (Cost-per-click model)
- Meta search engines:
  - Kayak.com
  - Google Hotel Ads
  - other

## Communication, content and other channels:

- iTunes **App Store**, Google Play Store, etc for their app
- **eMails** for direct communication with their customers
- **Useful content**, e.g. [Booking.com's destination finder](#) pages
- [User generated travel guides](#)
- They have a broad range of [inspirational articles](#) with links to city overview pages and hotels

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## Cost Structure

Let's look at [Priceline's annual report](#) to understand their operational cost structure. Note, that they don't split out Booking.com's costs separately. Hence, we have to take things at an aggregate level. With Booking.com being the largest entity, we still get a good feel for the numbers.

### Operating expenses

[Priceline's operating expenses](#) from their annual report (pg 71):

- **Performance advertising:** \$3.4b
- **Brand advertising:** \$0.29b
- **Sales and marketing:** \$0.43b
- **Personnel, including stock-based compensation** of \$0.24b, respectively \$1.3b
- **General and administrative:** \$0.45b
- **Information technology:** \$0.14b
- **Depreciation and amortization:** \$0.3b

### Capitalised costs

[Priceline's capital expenses](#) from their annual report (pg 71)

We are not interested in all their capital costs (capex). But let's have a quick look at capex in relation to their website/app development shows **overall capitalised costs of \$54.2m**. In the balance sheet, direct website/app assets are recorded as property & equipment.

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- **Property & equipment:** \$347m
  - **Intangible assets:** \$2b
  - **Goodwill:** \$2.4b

## Priceline Acquisitions

You may be surprised about the low operational expenses to Priceline's website/app development capex given their portfolio of brands (and in relation to the assets listed). To get the complete picture on this you need to look at their major [acquisitions of travel-related platforms](#).

#	Yea	Company	Price	Ref(s).
	r			
1	2004	Major stakes in Travelweb and Active Hotels		<a href="#">[13]</a>
2	2005	<a href="#">Booking.com</a>		<a href="#">[14]</a>
3	2007	<a href="#">Agoda.com</a>		<a href="#">[15]</a>

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4	2010	TravelJigsaw / <a href="#">Rentalcars.com</a>		<a href="#">[16]</a>
5	2013	<a href="#">Kayak.com</a>	\$1.8 billion	<a href="#">[17]</a>
6	2014	<a href="#">OpenTable</a> *	\$2.6 billion	<a href="#">[18]</a>
7	2014	MBuuteeq and Hotel Ninjas	\$98 Million	<a href="#">[19]</a>
8	2015	Rocketmiles		<a href="#">[20]</a>
9	2017	<a href="#">Momondo</a> and <a href="#">Cheapflights</a>	\$550 million	<a href="#">[21]</a>
10	2017	Mundi		<a href="#">[22]</a>

[Source: [Wikipedia](#), Dec 2017]

\* In their annual report 2016, Priceline accounted for impairment to goodwill in relation to OpenTable of 94om.

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## Revenues

The Online Travel Agency business is characterised by two [predominant business models](#) and then some other:

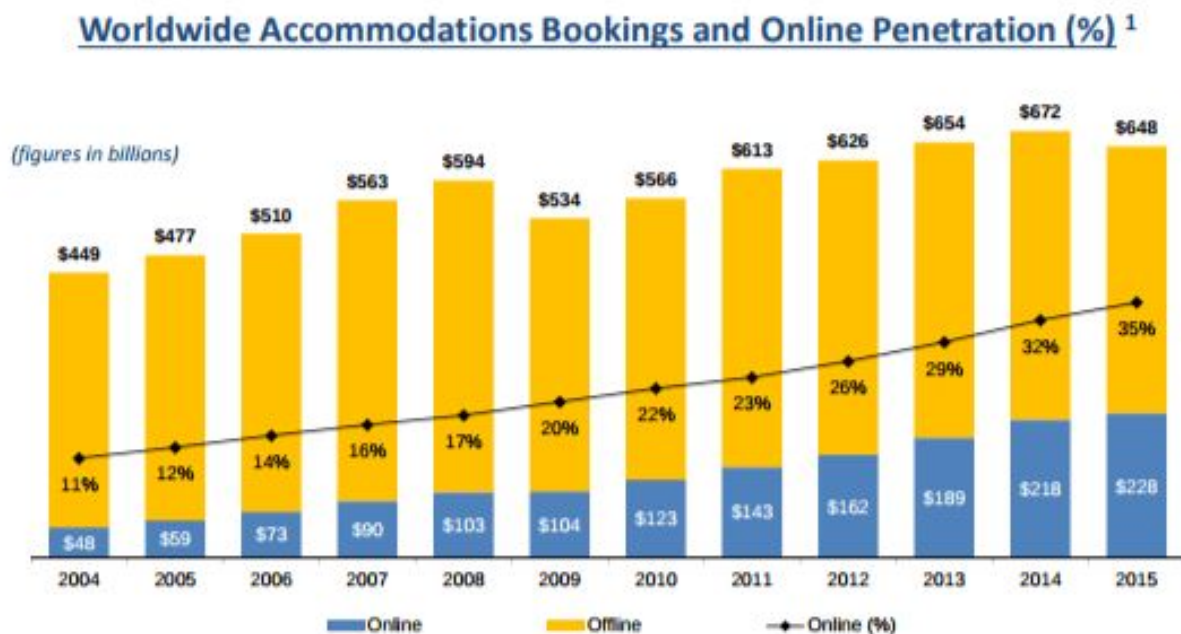
1. [Agency business model](#)
2. [Merchant business model](#)
3. [Advertising business model](#)
4. **Subscription** business model
5. Other (e.g. travel insurance fees, marketing and business analytics services)

Booking.com generates most of its revenue through the agency model where each reservation incurs a commission (they also generate some ad, merchant and other revenues but these are a very small percentage). Here are some examples where Booking.com and the other subsidiaries of the Priceline Group use the above business models:

- Reservation of accommodation, rental cars, etc generate commissions and fall into the agency business model
- Priceline's Name Your Own Price and package deals fall under the merchant business model
- Their meta search engine Kayak.com earns advertising revenues on a cost per click pricing model



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- OpenTable earns commissions but also subscription services for their reservation management system (see my [article on Yelp](#) for this)
  - Travel insurance fees which for now I am not going to elaborate further on
  - Revenues generated by Booking.com's BookingSuite accommodation marketing and business analytics services



Online travel booking is capturing an increasingly larger share of the >\$650b accommodation booking market [source: [Priceline investor presentation](#)]

Priceline believes that travel booking is in a secular shift from offline to online booking. On global level online booking accounts for <40%. In the US, online bookings have now captured over 50% market share. Some analysts expect that it will now taper but that other countries will catch-up to similar levels. A

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case might be made that where there is no strong tradition of offline travel agencies, the online space may capture an even large share.

From their annual report, you can see that the majority of [Priceline's revenues](#) come from Booking.com using the agency business model:

1. **Agency business model:**  $\$7.98\text{b}/\$10.7\text{b} = 74\%$
2. **Merchant business model:**  $\$2\text{b}/\$10.7\text{b} = 19\%$
3. **Advertising and other revenues** =  $\$0.7\text{b}/\$10.7\text{b} = 6.6\%$

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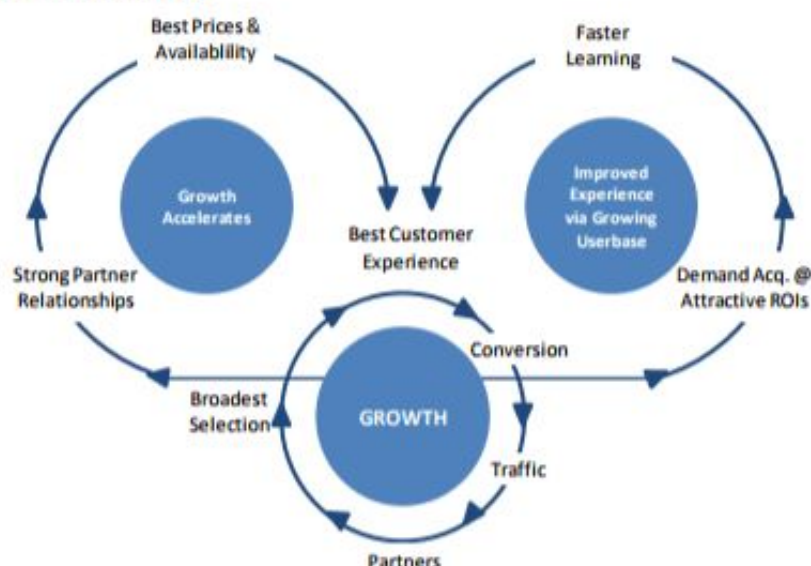
## Network effects

Platform business models have indirect network effects at their core. Here is how Priceline describes these for their own business.

### Our Virtuous Cycle

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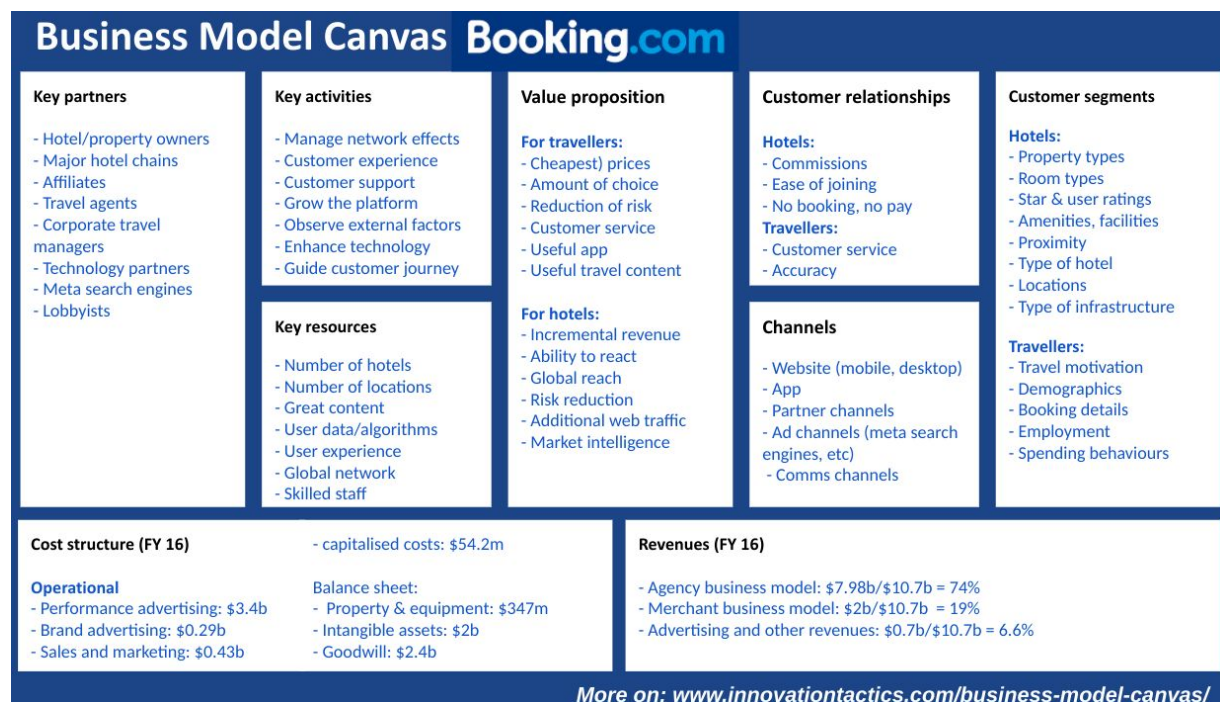
- Strong partner relationships allows us to provide the customer with best-in-class property selection
- An enhanced customer experience drives increased conversion and traffic
- Increased traffic allows us to test and iterate more to further improve customer and partner satisfaction



**Priceline and Booking.com indirect network effect fueling a virtuous cycle** [source: [Priceline investor presentation](#)]

# Business Model Canvas Booking.com

And here is finally the summary Business Model Canvas for Booking.com.



## Business Model Canvas for Booking.com

Download as pdf: [Booking.com Business Model Canvas \[pdf\]](#) and/or as a Powerpoint file: [Booking.com Business Model Canvas \[pptx\]](#).

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## Valuable links

I have more in-depth articles in this series of travel platform businesses:

1. [Business models compared: Booking.com, Expedia, TripAdvisor](#)
2. [Customer journey comparison: TripAdvisor, Booking.com, Expedia, Google](#)
3. [Micro moments: how Booking.com, Expedia, Airbnb, TripAdvisor, Google guide the customer journey](#)
4. [Business model canvas Expedia](#)
5. [Business model canvas TripAdvisor](#)
6. [Business model canvas Airbnb](#)

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## What does this mean for you?

It was not anyone from the travel industry who came up with the idea of TripAdvisor, Expedia, Airbnb or Booking.com. It was passionate innovators and entrepreneurs. But it could have also come out from a bunch of engaged intrapreneurs from within the industry. This only means anyone from within or outside of an industry can come up with great ideas.

You can either use some of the ideas in this article as individual innovation tactics or even a platform business model. The knowledge you have gained in this article gives you the opportunity to develop innovation ideas that you can be proud of!

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