Five lessons startups can learn from the pivot of a major online travel brand

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There have been years of negative news, but there has now been a transformation of Travelocity's business model into that of an affiliate of Expedia.

This has led to some encouraging news for Sabre's owners and shareholders.

NB: This is an analysis by David Tossell, vice president of travel and hospitality for DataArt.

Goldman predicted that, by 2015, Travelocity's EBITDA would climb to $49 million — its greatest positive contribution to Sabre since 2010.

Granted, this forecast comes of no consolation to the hundreds of Travelocity current and former employees who tirelessly worked to turn around the company's fortunes – not to mention the thousands of Travelocity alumni who still hold a special place in their hearts for the company.

One Travelocity alumnus perhaps summed-up best the feelings of many in an annual Christmas newsletter:

"It is better to read a Harvard Business Review case study than to witness one firsthand."

Had the company been successful in key areas, Sabre might have handled Travelocity's future differently. However, in preparation for its IPO and after years of losses Sabre needed a path to return Travelocity to profitability.

This scenario set the stage that led to the rather radical pivot of Travelocity becoming an Expedia affiliate.

Going forward, the new Travelocity leverages its best assets in a vastly streamlined, marketing-focused organization – those best assets being its sizable customer list and its Roaming Gnome-fueled brand equity.

The strategy has shifted to leveraging those assets and is no longer about trying to out-gun its rivals using technology as a sustainable competitive advantage. Travelocity's strategic pivot served the dual purpose of helping Sabre prepare for its IPO and setting up a return to profitability after years of losses.

There are several lessons to be learned in Travelocity's reimagined business model as the company did several things exceedingly well that made their new direction possible.

Early and mid-stage startups could benefit by paying attention not only to the strategic course charted by the new Travelocity, but to the precursory elements that were influencers in Travelocity's pivot.

1. Develop an Audience

Throughout its history, Travelocity was generally effective at cultivating an audience. Through the Preview Travel acquisition they became the official online travel agency of AOL and Yahoo.

The strength of the “AOL Keyword: Travel” tag line that Travelocity had exclusive rights to drove substantial brand awareness and became a de facto endorsement of Travelocity as the trusted authority in online travel.

Travelocity built on those cornerstone partnerships by creating Travelocity Partner Network that eventually powered over 2,000 private label web sites, including, American Express, AARP, AAA, Capital One, Royal Bank of Canada and ancillary products for almost every major US air carrier.

In a post-AOL Internet world, perhaps the biggest feather in Travelocity’s cap was 2004’s viral introduction of The Roaming Gnome.

The Gnome at one point was (almost) as ever-present as GEICO’s cavemen and Capital One’s Vikings hawking credit cards.

The Gnome was successful in its goal of cementing consumers’ emotional connection with the Travelocity brand. Travelocity and Expedia will both benefit from Travelocity’s hard earned brand awareness factor and should benefit from continued brand lift for years to come.

The lesson for startups is that you are not just developing a product; you are developing an audience. Startups often over-invest in product development and under-invest in developing their audience.

Ultimately, it is the connection with your audience that will drive success for your product.

2. Have more than one revenue model

Like its competitors, Travelocity monetizes site visitors through a variety of means – commissions, service fees and mark-ups.

Additionally, Travelocity was rather successful in developing revenue streams from on-site advertising, CVB/DMO sponsorships and meta-search CPC ad models helped pad their bottom line.

In Travelocity's case, these ancillary revenue streams added critical runway length needed while addressing the competitive and internal challenges impairing the company's profitability and growth.

Conceiving a new business with only a single primary revenue stream is a recipe for trouble. Underperform on that primary revenue stream and it could very well be game over for a start-up.

Diversity of monetization sources not only helps grow total revenue, but it also creates the financial means by which a startup can survive a business model pivot when their primary revenue stream does not perform to expectations.

3. Don't be unfocused

For years, Travelocity's business in the United States was growing successfully as an OTA via customer direct, branded affiliate business and private label partnerships.

It would seem logical that the acquisitions of Zuji and Lastminute.com (the former was later sold, the latter is now up for sale), to name a few, were logical moves to scale the business and remain competitive with Expedia and Priceline.

However, Travelocity became bogged down in multiple product development attempts to establish a common platform across these distinct brands.

As a consequence of these unsuccessful efforts, both Travelocity's core business and that of its global outposts suffered as their competitors eat away at their market share.

Hence, it has been suggested that one of the drivers behind Travelocity's struggles was that it long suffered from a "trying to boil the ocean" syndrome with its expansion by acquisition and resulting platform consolidation efforts.

A startup whose business model aims to "boil the ocean" runs the risk of ending up in the 90% of startups that end up failing.

Expansion to other markets and verticals is entirely logical within the lifespan of a business, but don't let that expansion get in the way of appropriately supporting your core business.

Keep the business strategy and objectives simple and let expansion be a derivative of a successful core business – not a check-the-box exercise because "your strategic business plan says so".

4. Run a tight ship

Looking at the organizational structure of today's Travelocity, it is a picture of simplicity with just a president and a chief marketing officer in the top leadership roles.

This is indicative that the top focus at Travelocity is (most likely) on the mission of customer acquisition. In the course of re-imagining their business model they have shed layers upon layers of product delivery, product marketing and partner marketing.

Travelocity is re-aligning its capabilities to be laser-focused on leveraging their brand strength and customer list.

Not surprisingly, "Running a tight ship" goes hand-in-hand with "Don't be unfocused".

During the lifecycle of a company there is a time when de-centralizing certain functions and managerial responsibilities optimally serves the needs of a growing business.

Doing so empowers a company to remain nimble and respond to local market conditions or other market forces that require a company to pivot.

However, startups that either de-centralize prematurely, or, fail to run a tight ship often finds themselves in a situation where the “left hand does not know what the right hand is doing”.

5. Don’t be afraid to outsource

Travelocity, in becoming an affiliate of Expedia (and outsourcing nearly all functions save marketing) might make it onto a top ten list of “largest affiliate deals of all time”.

In doing so Travelocity is leveraging their huge audience & brand, preserving their diverse revenue model and stripping the business to focus on only a few functional areas that are essential to driving success.

In the process of doing all the above, Travelocity appears to be well on the path to running a tight ship as they have completed the bulk of the work associated with the Expedia transition.

Provided that Travelocity can deliver the $49 million in EBITA that Goldman projected earlier this year (and deliver additional growth in future years), Sabre will finally reap the rewards of a long awaited financial turnaround at Travelocity.

Conclusions

As a startup, the most unconventional path taken by Travelocity is worth considering as a strategic option. Rarely success in startup land is as simple as a straight line between point A and point B.

And there are more ways to “outsource” than just software development – search engine optimization, social media, e-mail marketing, customer care are all opportunities to leverage outsourcing’s benefits.

While Travelocity’s alliance with Expedia is an extreme example that only a handful of startups could take advantage of, it underscores the importance of how outsourcing could be a path along which your startup may find success.

What do you think are takeaways from Travelocity’s pivot? Are there other lessons that startups could benefit from? Do you have a different point of view on Travelocity’s apparent strategy?

NB: This is an analysis by David Tossell, vice president of travel and hospitality for DataArt.. Tossell left Travelocity in 2009 and has since worked at two startups, CruiseLabs and TimeshareAdvisor. It appears here as part of Tnooz’s sponsored content initiative.