

Insight. Action. Results.

INNOVATION FUNDING & DISTRIBUTION DYNAMICS

is a world leading travel technology and services provider offering more than twenty software utilities for online booking, reservation, data intelligence, and process automation. We provide patented savings maximization solutions, travel analytics consulting practice, extended management services to travel buyers all over the world. We complement all of these offerings with

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Trip Davis
Co-Founder and Chairman
TRX, Inc.

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Agenda

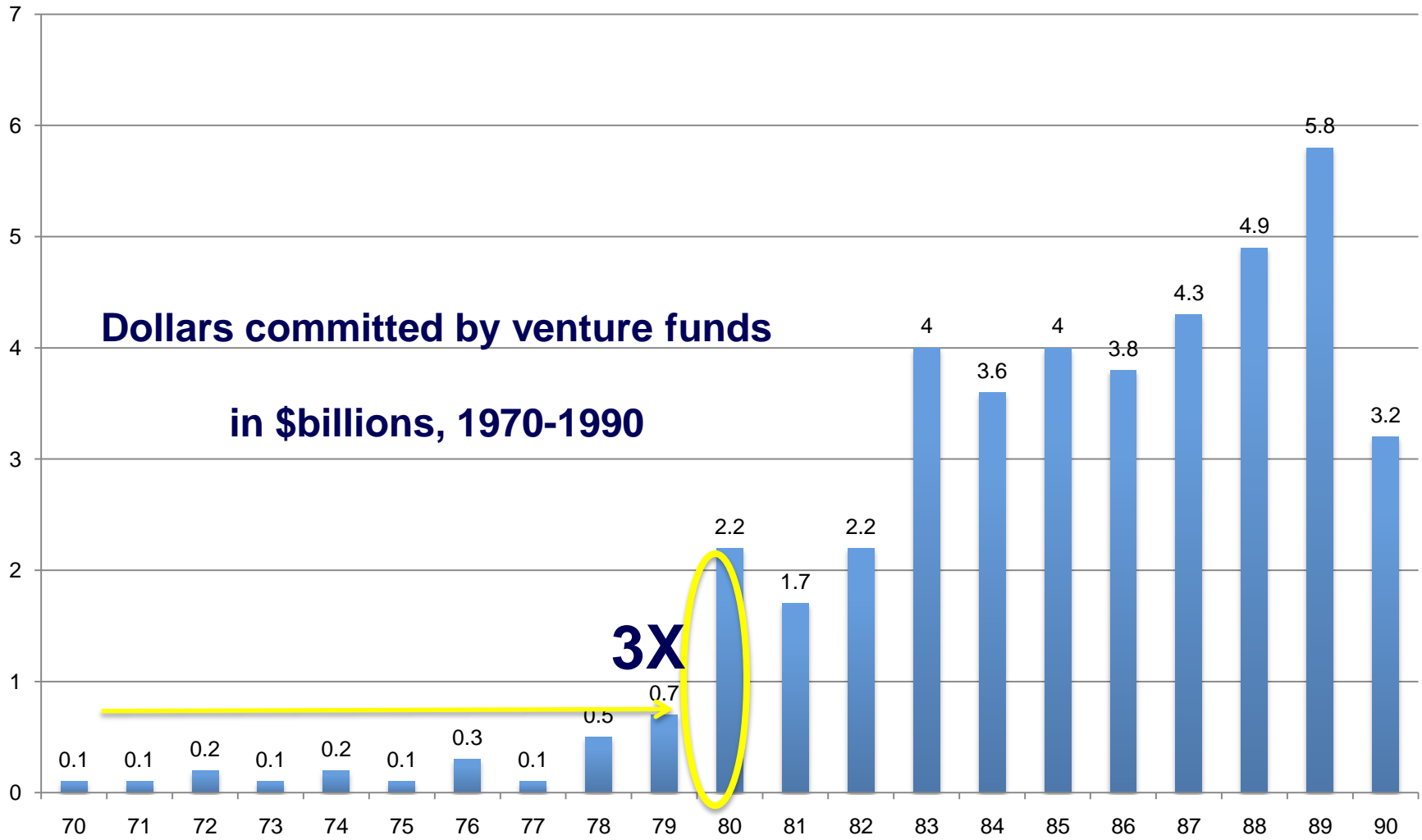
- > **Innovation Funding**

- > **Distribution Dynamics**

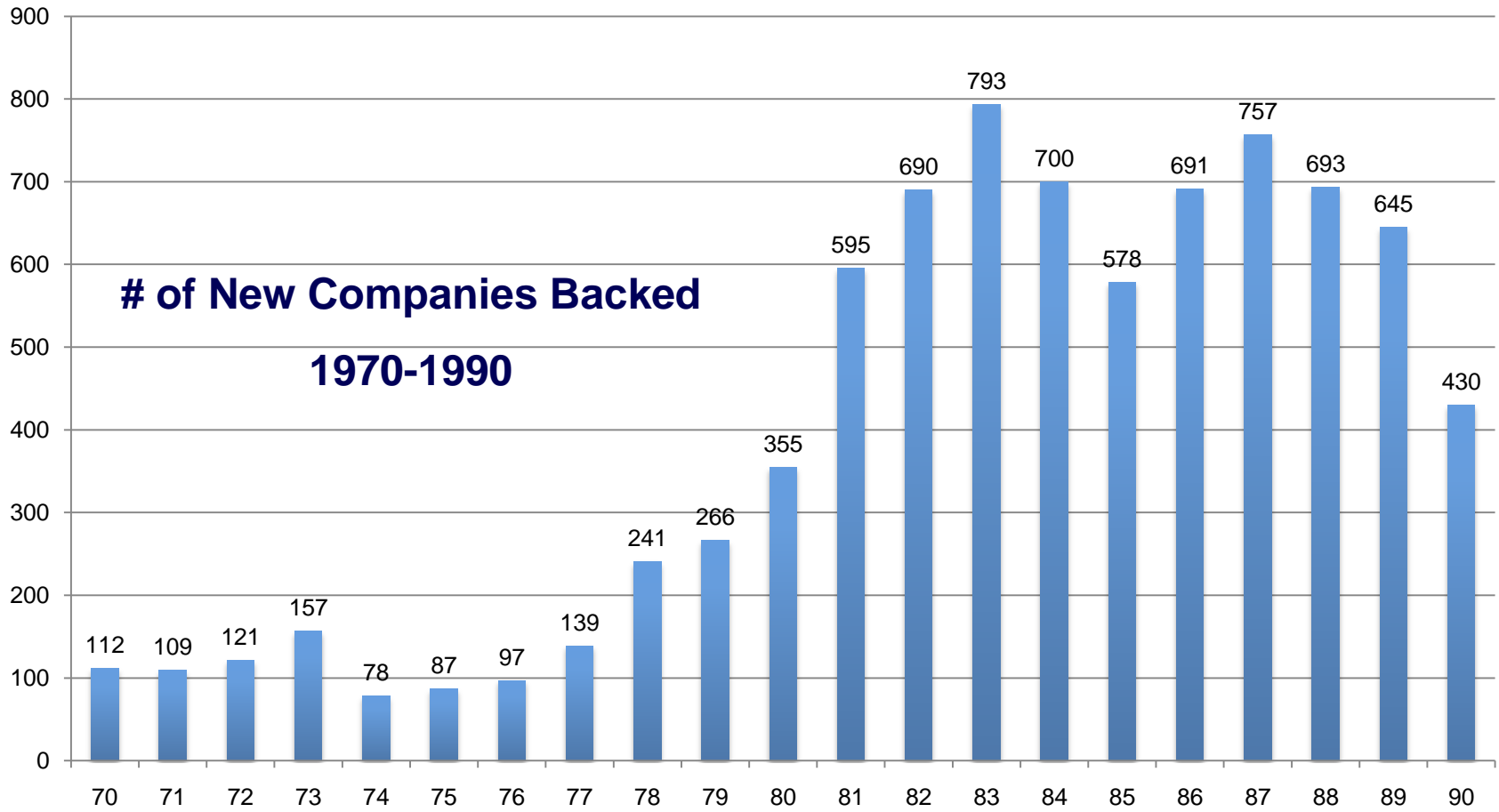
Innovation Funding

- > **Look at venture capital data**
- > **Impact on the entrepreneur**
- > **Impact on travel**

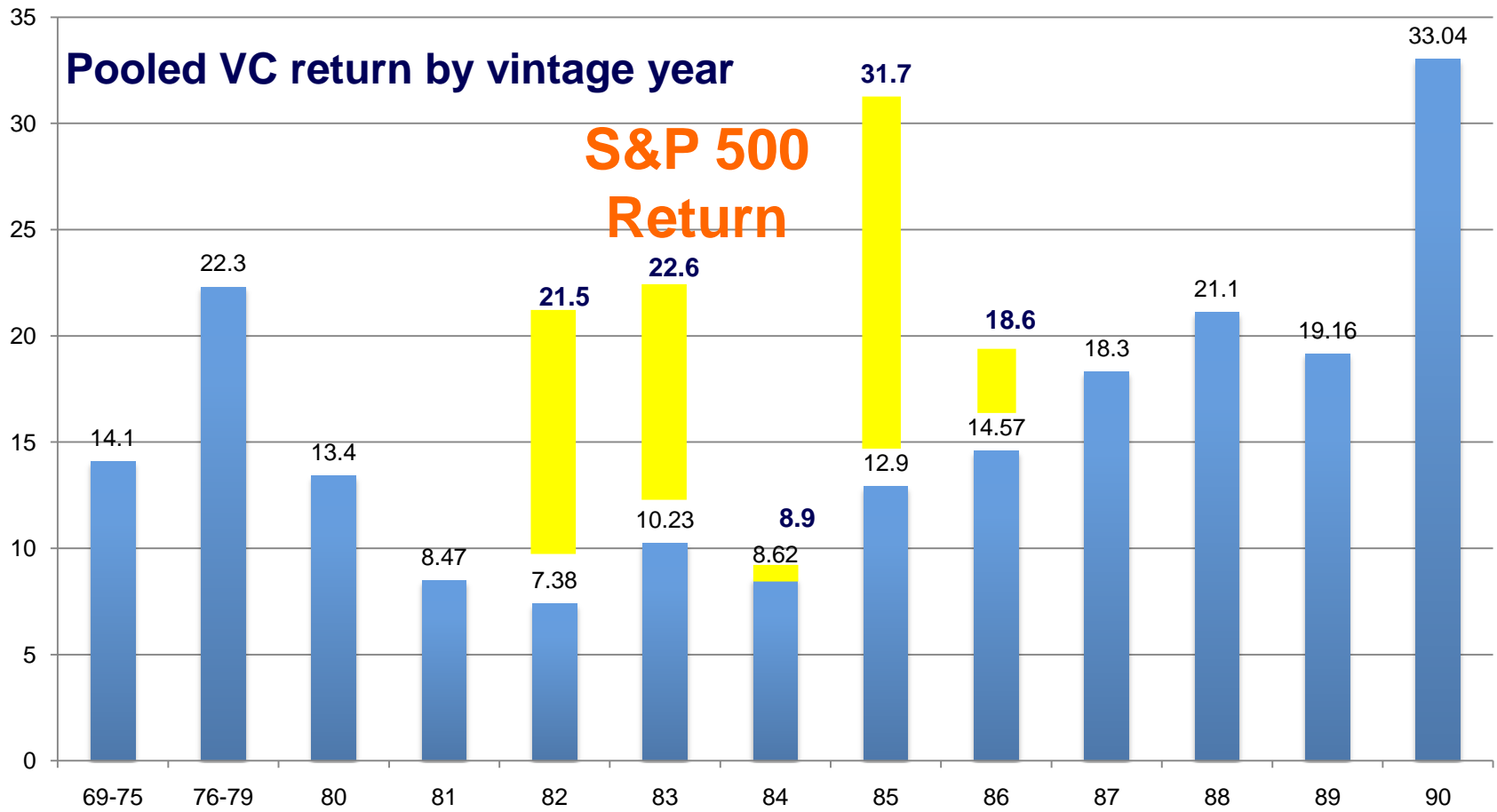
Innovation Funding: What History Teaches Us . . .



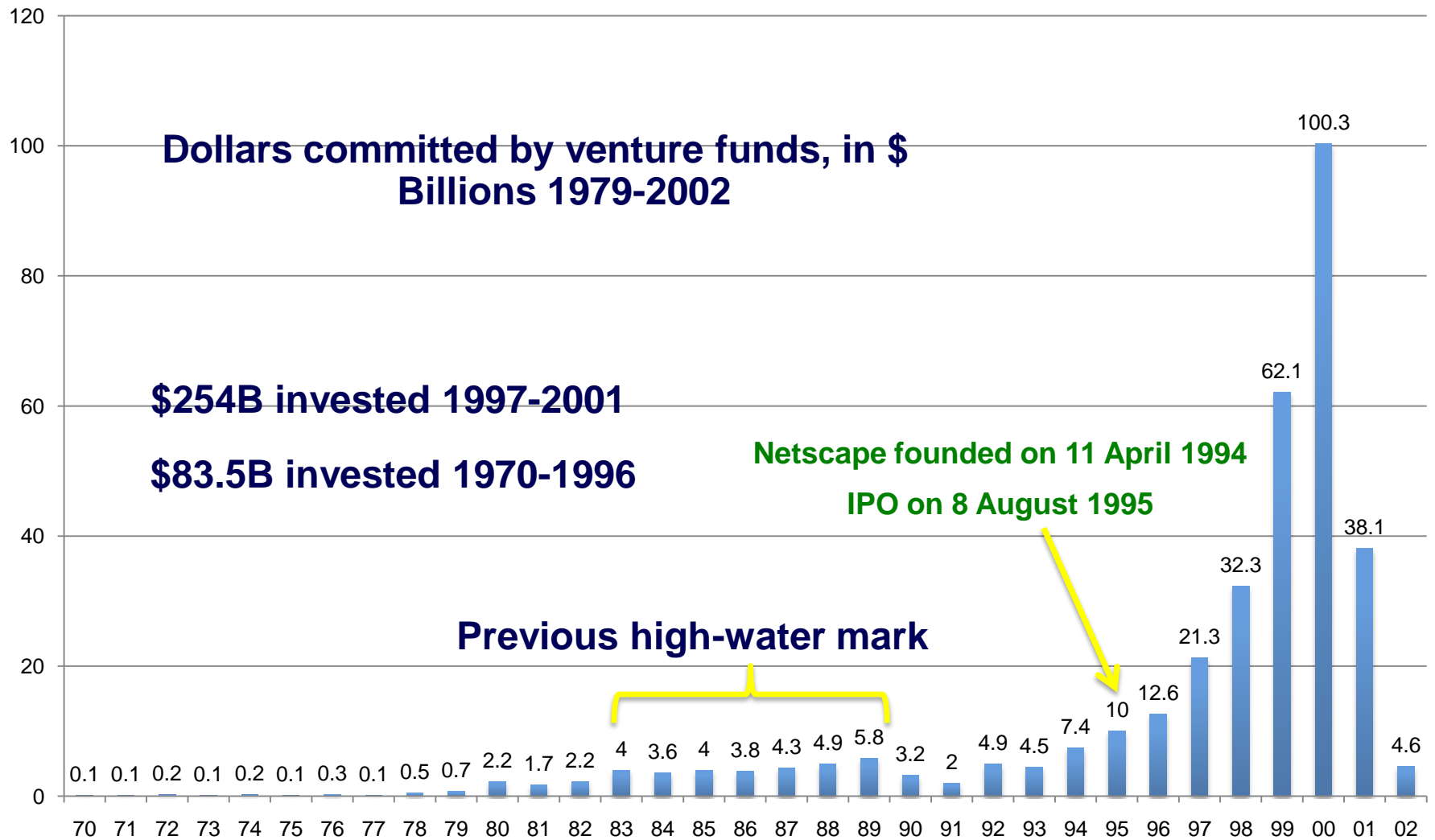
Innovation Funding: Start-Ups Proliferate



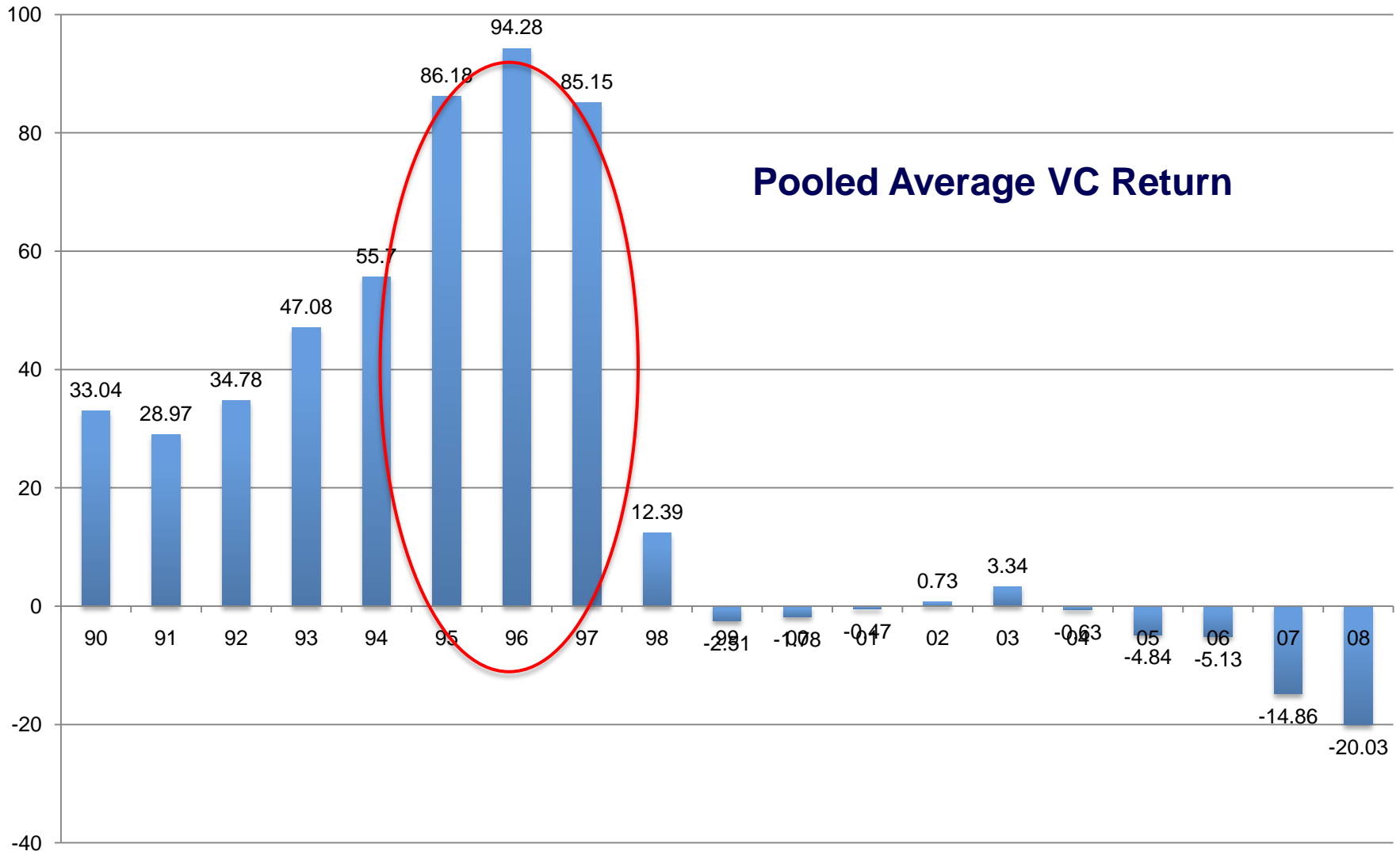
Innovation Funding: Returns Suffer



Innovation Funding: Fast Forward to the 1990's



Innovation Funding: And Returns?



Innovation Funding: Quartile VC Returns

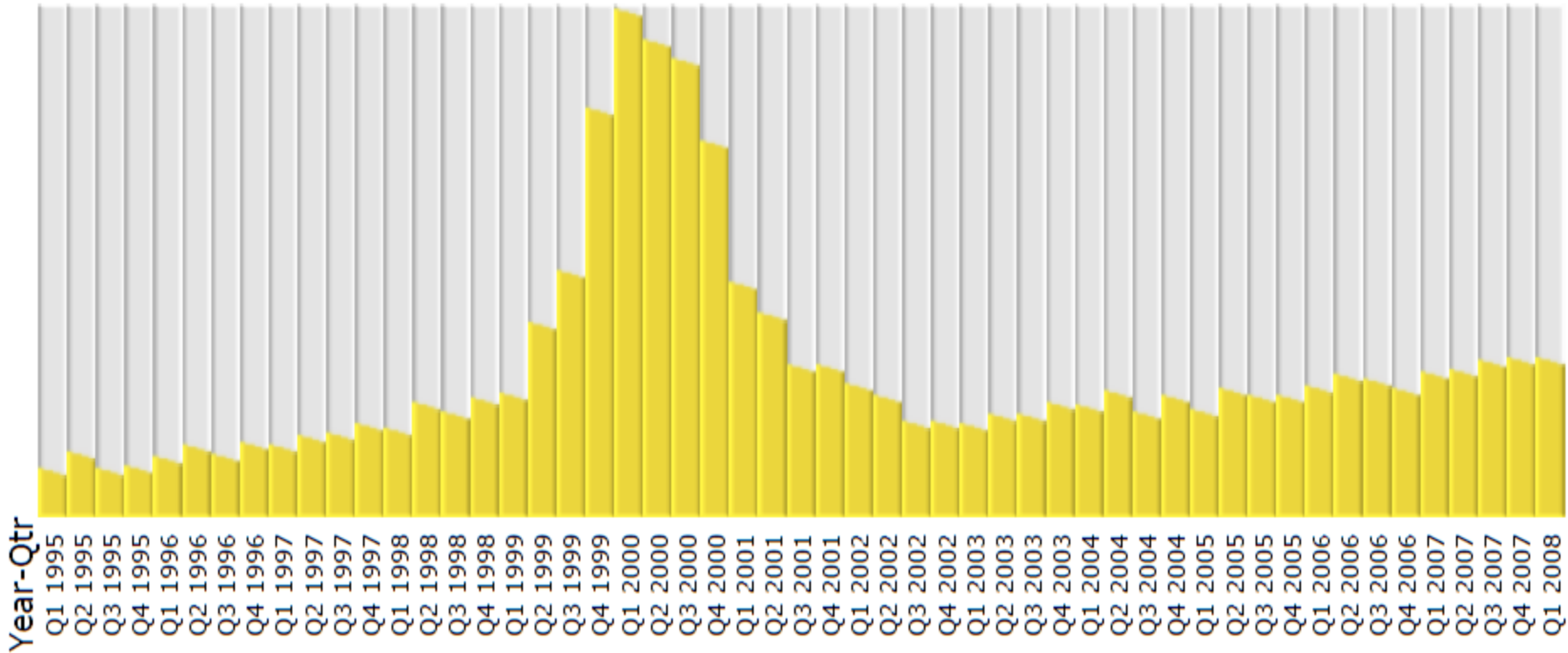


Source: Thomson Venture Economics. n = 904 funds

Courtesy Focus Ventures

Innovation Funding: A Changed Landscape

\$ invested into VC firms



Innovation Funding: Impact on the Entrepreneur

> **The 10-year gravy train for the VC's is over**

- The performance isn't actually all it's perceived to be
- Their investors (LP's) have changed dramatically after 2008
- Watch for significant attrition in the VC sector
- VC's have abandoned the start-up, become more risk averse, and become later-stage investors

> **Entrepreneurs bootstrap their way to market**

- Get to prototypes and actual customer usage right away
- Iterate ... effectuate!
- Tap early-stage incubators, angel investors and corporate partners
- Exploit plummeting technology costs – very low barriers
- Expect to see many more start-ups, moving very quickly, iterating quickly, failing quickly, and/or scaling quickly

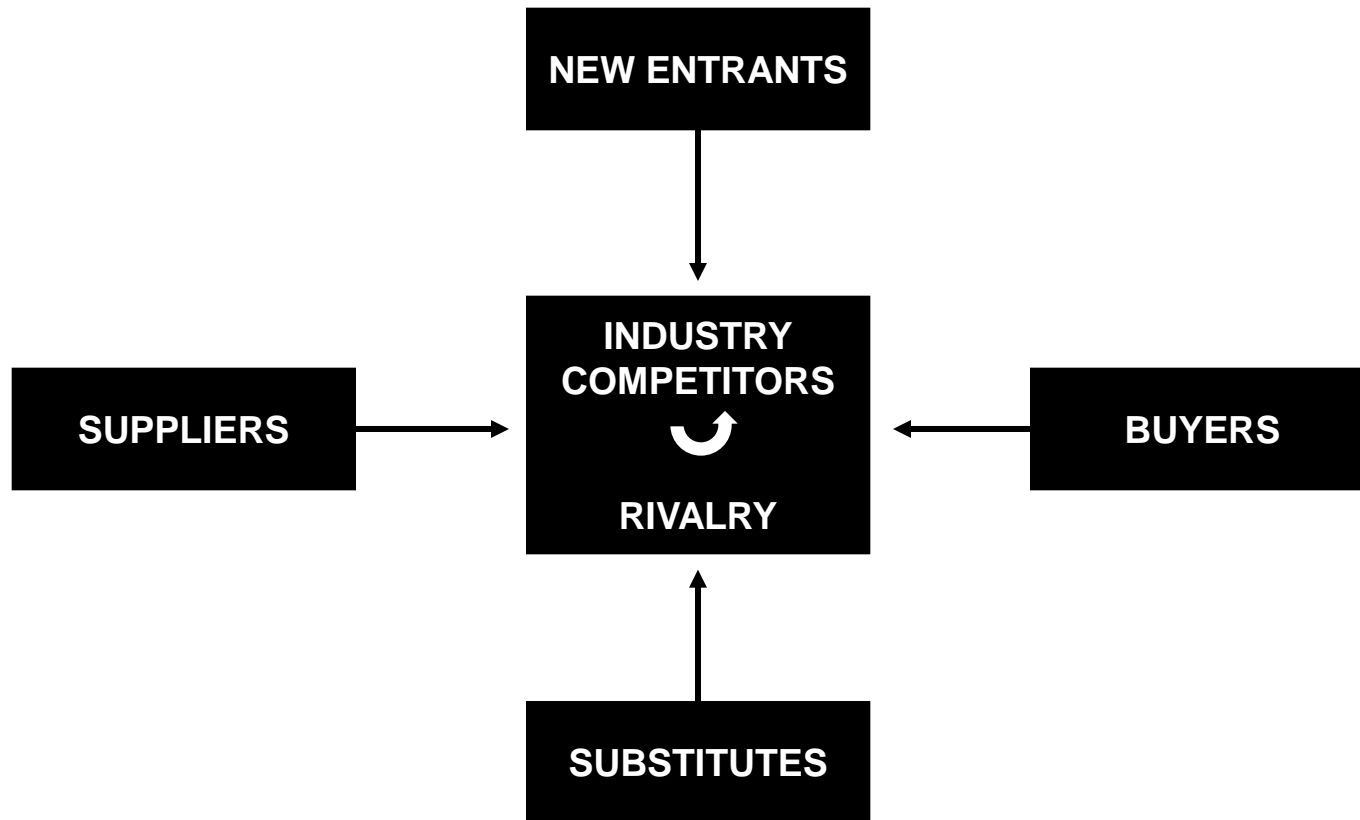
Innovation Funding: Impact on Travel

- > **More start-ups you've never heard of will emerge**
- > **Yes, your travelers will be using these sites, utilities, and apps**
- > **Your world will continue to migrate to information management and data analytics, as compared to “channel management”**

Agenda

- > Innovation Funding
- > **Distribution Dynamics**

Distribution Dynamics



Distribution Dynamics: Porter's Five Forces

Threat of new entrants depends on existing entry barriers and likely reaction of entrenched competitors

NEW ENTRANTS

Intense rivalry often plays out in jockeying for strategic position, using price competition, staging advertising battles, increasing consumer warranties or service, new product introductions

INDUSTRY COMPETITORS
↻
RIVALRY

SUPPLIERS

BUYERS

Suppliers exert power in industry by threatening to raise prices or reduce quality and can squeeze industry profitability if firms unable to recover cost increases

Buyers compete by bargaining down prices, forcing higher quality, and playing firms off of each other

SUBSTITUTES

Products with similar function limit prices firms can charge

Distribution Dynamics: Who Are the Protagonists?

- > **Who's driving the change?**
- > **How are they driving the change?**

Distribution Dynamics: What Happened in Travel?

- > **New entrants succeeded**
- > **Distributors (“buyers”) got big ... fast!**
- > **Most suppliers were slow to the party**
- > **Users liked what they saw and could do**

Distribution Dynamics: Big Distributors

Gross Travel Sales in 2011

(\$ billions)

American Express: \$30

Carlson Wagonlit: \$25

Expedia: \$20

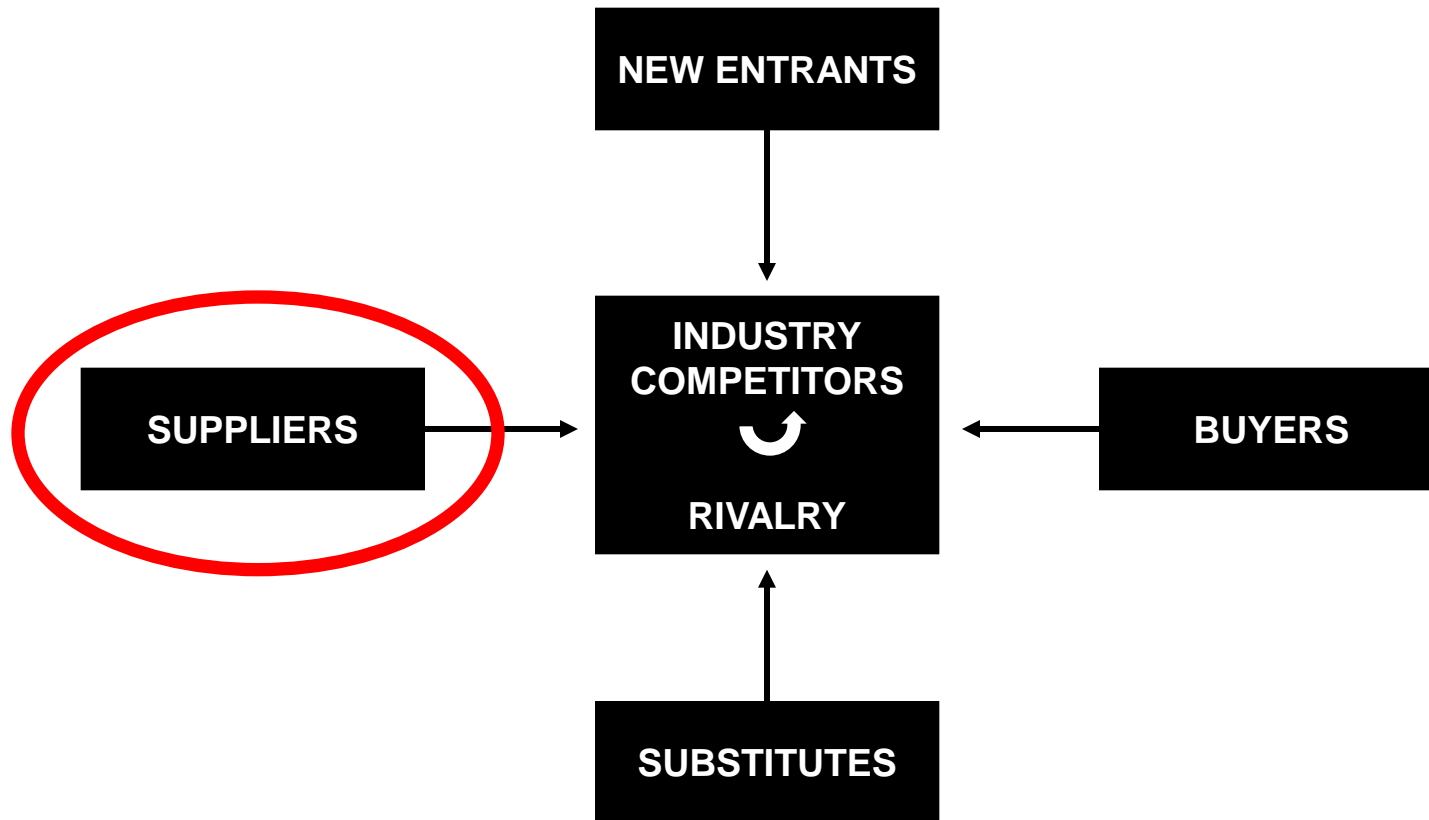
Priceline: \$20

BCD Travel: \$15

Travelocity: \$12

various sources & TRX estimates

Distribution Dynamics: Suppliers Slow to the Party



Distribution Dynamics: Users in Action ... Reviews

- > AAA
- > Forbes (formerly Mobil)
- > TripAdvisor

With all of the recent Internet hoopla, the established ritual of qualified inspectors, scorecards and annual audits has just about gone the way of the proverbial “dodo bird.”

» Larry Mogelonsky, LMA Communications

AAA Hotel Ratings

57% aware of the ratings

19% factored the rating in the booking decision

TripAdvisor Reviews

99% aware of the site

86% factored the reviews in the booking decision

Source: LMA Communications Survey

Customer Decision Journey

Paid media

Owned media

Earned media

Up to 90% of marketing spend goes to advertising and promotions. Yet the single most powerful impetus to buy is someone else's advocacy.

Source: "Branding in the Digital Age" (Harvard Business Review, December 2010)

Distribution Dynamics: Impact on Travel

- > **Explosion of user activity and user generated content**
- > **Proliferation of data – user data, behavior data, transaction data, related data, meta data**
- > **Obsolescence of the gatekeepers as information sources ... unfettered access to information**
- > **Expectations of access, speed, utility**
- > **Expectations for the corporate travel experience – searching + booking + travel + service + expense – to mimic the BEST online retail experience (Amazon ... Google ... Zappos)**
- > **Opportunities for new models and new contracts**

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**TECHNOLOGY EXPO
Barron's E,F,&G**

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