

Chapter 4 SWOT analysis of Chinese OTA

In this chapter, I will discuss on the analysis of the three major OTA companies which is Ctrip, Tuniu and LY.com. introducing their Strengths, Weaknesses, Opportunities and Threats respectively. Through comparison and SWOT analysis, I present the performance of these companies and competitive strength in the market.

4.1 Strengths

The strengths of Ctrip as 4 points:

1) professional

The universality and professionalism of Ctrip strengths, covering most of the needs of online travel for users, and providing users with the one-stop of full online travel services. At the same time, Ctrip has the largest call center in tourism companies of china with more than 10,000 Tel-customer service assists. It has established long-term cooperation relationships with hundreds of thousands of hotels in nearly 200 countries in the world, most of them can be ordered flight, tickets and hotels. Presents features such as interactivity, experience, and tools.

2) Differentiation

Differentiated Brand Advantage As an all-round integrated OTA, Ctrip has been a leader in the industry for years with highly reputation and brand name advantages. As we know the OTA industry including Airline, hotel booking, vacation, business travel Etc. Ctrip began to establish systems such as independent research development and technological innovation, and through product innovation to further segment the market, currently keeping current business leadership, it continues to develop new business areas such as conference reservations and membership. Through differentiation strategy, further deepen the demand for OTA market.

3) technological

Technical Advantages of Ctrip that historically has focused on technology research development, Ctrip follows the principle of technical support services to developed management systems such as airline reservations, processing, hotel room management, customer management, and service quality inspection. Such as Ctrip's E-TEL reservation hotline which combines traditional telephone shopping and e-commerce; CTMS business travel management system that help corporate members manage and control travel costs; E-BOOKING system, through the Internet to connected hotels, it can be accurate real-time conditions and real-time prices.

Secondly, Ctrip has opened up a real-time and convenient payment, which

has provided tremendous support for the development of its business by integrating online and offline payment channels. today, users can use China Merchants Bank to pay by cash, tell-transfer, postal remittance. They can also use a credit card to book airline tickets and hotels offline. When people booking, they only need to provide information such as name and card number. The person can sign and confirm it, without swiping the card.

4) Integration

Integration advantage of ctrip that attaches great importance to collaborated online, offline resources and channels, enhanced brand advantages through resource integration, establishing a cooperative relationship with Baidu. When users log in to Baidu maps, they can directly search for route to Ctrip. Thousands of member hotels' profiles, locations, routes, etc., and it can be transform booking directly. By integrating search engines and tourism information, Ctrip increase the volume of orders, and also provide comprehensive content support for Baidu's travel information, thereby it was achieved a "win-win" situation.

The strengths of Tuniu

1) Capital

On 10th May, 2014, Tueniu Tourism Network officially listed on Nasdaq, with a market value of approximately US\$500 million.

On November 24, 2015, Tueniu Tourism Network and HNA Travel Group announced a strategic alliance. HNA plans to invest 500 million U.S. dollars in tourism strategy. The two sides will use their respective high-quality resources to conduct in-depth cooperation in online travel, airline business, and hotel services. Adequate capital and Hainan Airlines' resource support are the advantages of Tuniu.

2) Reputation and advertising

As a well-known OTA platform, Tuniu's user base is very extensive, truly necessary to enhance user stickiness. Therefore, accumulating reputation is the key to success. Tourism as a kind of mass consumption, its consumer group covers all social classes. Tuniu's brand spokesperson is Jay Chou. The theme of consumption is mainly young and middle-aged people who are used to accessing the Internet. Catering to consumer preferences looking for spokespersons that is the most effective way to attract fans.

The strengths of LY.com

1) Offline consumers

In the early stage development of Ly.com was promoting 10 million of low-cost tourism consumers who through the activities of "one yuan for play attractions" and "10 yuan for weekends" to enter the sub-sectors travel

markets, and now LY.com transfer those huge number of consumers to Online business with memberships.

2) Discounting strategy

Domestic scenic spots and hotels have ticket discounts for team tours, And individual travel is basically full price. Ly.com through the business model of discounting to cooperation of various scenic spots, the discounts set was attracted thousands of tourists, it also attracting more ordinary tourists in terms of quantity and involve More mid-to-high-end potential consumers.

4.2 weaknesses

The weaknesses of Ctrip

1) Pricing disadvantage

Previous the Ctrip booking price has advantages. However, within other OTAs into the market, the entire OTA industry has become more pricing competitive. Airlines and OTA companies have established cooperative relations, and they also cooperated with Qunar.com that through the implementation of the operating model of direct sales on the Internet. The low-cost strategy has become the main means of online tourism industry competition. The emergence of the information provided support for the implementation of low-cost strategies, which is a great impact to Ctrip. In order to maintain its existing market share, Ctrip has joined the “price war” competition, implemented a series of price reduction measures. Although the market share has decreased after the price reduction, the overall profit level of Ctrip has shown a downward trend.

2) Highly operating cost

Standardization of operating costs of flight ticket and hotel business are the two most important businesses of Ctrip. From the time of booking to the completion of the transaction, there are very few links for human intervention. However, Ctrip had previously invested a large amount of costs, research development of "6 Sigma service process" standardization system and 20,000 employee service call center system, when demand for online booking rising, customs pursuit of transparency, price parity, and high price sensitivity, users are more concerned with the quality of service of airline tickets and hotel suppliers. In the situation, Ctrip's call center increase in the cost of human resources, it has made ctrip in a drop-in profit levels.

The weaknesses of Tuniu

1) Net loss

From 2011 to 2015, Tuniu's revenue has been rising sharply, almost double every year. In 2014, the revenue was 3.5 billion RMB, which doubled to 7.6 billion RMB in 2015. Tuniu's revenue goes up, and the net profit falls and the

revenue rises. 2014-2016 Tuniu loss of RMB 500 million every year; however, until 3Q 2017 Tuniu succeed net earnings

2) Productivity

Tuniu's main business is package tours, it only makes profit from the price difference between suppliers and consumers. Tuniu does not have its own production line, even the vertical plates have been done great performance, but few profitable segments are true, it can't be an integrated platform like Ctrip. Also, it cannot achieve comprehensive plate profitability during that time.

The weaknesses of LY.com

1) Technological

Ly.com was the founder of the sales traveling channel company. The company's technical team is not strong enough. When the company developing, the web system disadvantages always affect the user experience, because the web page architecture is huge, it cannot be re-made, it makes online sales volume always less than offline sales.

2) Capital

Ly.com is the only non-listed company among the three major OTA companies. Although the sales performance has been excellent, but there still the lack of funds. In 2016, Wanda invested 6 billion yuan into Ly.com, However, due to the enhance expansion of Chinese domestic market, the capital chain has been under great pressure. LY.com still seeking the capital to balance the operating.

4.3 Opportunities

The Opportunities of Ctrip

1) internationalization

In 2017, the number of global tourists was about 11.9 billion, while Ctrip accounted for less than 5% worldwide. Under the global market, Ctrip's internationalization is in the early stages, it is growing in high gear. In 2017, including China's outbound tourism and skyscanner, international revenue contributed more than 20% of Ctrip's overall revenue. Ctrip began to enter overseas markets just a few years ago, but it has already felt the benefits of overseas sales growth. Ctrip's overseas business is mainly driven by the growing growth of overseas travel in China.

2) Merging

Ctrip has a large amount of capital and professional teams. In recent years, Ctrip has been more inclined to acquire other companies' businesses rather than building it themselves. The cases of skyscanner acquiring and Tongcheng ly.com and e-long mergers to show business strategies. Having the right global strategy, sufficient capital, and excellent operations will make Ctrip ahead of the OTA industry.

The Opportunities of Tuniu

1) Merging production line

In 2015, Tuniu also announced that it has invested in Beijing Wuzhouxing International Travel Agency Co., Ltd. Wuzhouxing Established in 1994, it is one of the leading wholesalers of packaged travel products in China. It provides outbound and domestic travel products for online and offline travel agency retailers. The company's products cover more than 100 destination countries.

Investing in wuzhouxing will help the Tuniu into the upstream resources of the tourism supply chain, also it improves the direct mining capacity and provide users with more quality tourism products. The direct purchasing accounted for 25% of the total trade volume of Tuniu in 2015. With its own product companies, it is a strategy for Tuniu to increase its market position by strengthening the specialization of package tours, lowering purchase prices and improving services.

2) charter flight

In 2016, Tuniu order charter flight business to solve the pain points of marketing. The charter flight platform integrates various types of resources such as charter flights, cuts and inventory, and partners can better serve the users through multiple channels, packages tours. the way can speed up the layout in the fighting. Online cooperation includes Air China, Capital Airlines, China Eastern Airlines, Fuzhou Airlines, Beibu Gulf Airlines, Hainan Airlines, Xiang Peng Airlines, Jiuyuan Airlines, and Hong Kong Airlines. Tuniu build advantage of tourism products based on the flight pricing advantage of charter flights. In addition, Tuniu also able to sell remaining chartered planes tickets by OTA, it makes significant increase in sales of Tuniu.

The Opportunities of LY.com

1) IPO

Ly.com has served more than 200 million person-times in 2017, and the combined transaction volume has exceeded 100 billion RMB. It has achieved a large-scale profit of more than RMB 500 million annually. After Ctrip and Yuniu IPO in US successively, it is final IPO timing for OTA industry. LY needs capital register that makes LY more competitive. however, LY's employees also need to be listed to encourage themselves and shareholders to obtain returns.

2) Insurance business

In Chinese tourism industry, LY occupies a large number of low-end customer groups, Older people account for most of them. Senior citizens travel needs higher security, Seniors travel insurance spending maintains 95% purchase rate. In fact, the profit rate of travel insurance actually higher than profit rate of tourism products. LY.com should highly cooperate with insurance companies to customize travel-related insurance products, with a

higher payout rate and more favorable prices, then more customers and senior citizens would like to purchase travel insurance and achieve new growth points of company.

4.4 Threats

The Threats of Ctrip

1) price war

For obtaining the customer sources, OTAs respond to market competition and "price wars" will go on. From the beginning of the promotion and discounts, then directly into own money refunds, discount, coupons...LY.com even launched 1-yuan tickets, OTA turned the allowance from several million yuan to several tens of millions, and it has directly become several hundred million yuan. Since 2015, the marketing price of several hundred million yuan in price warfare has become a "basic fund", and Ctrip's wealthy CCP has invested more than one billion yuan in "price wars" in one year. Donkey mom continued to fund "transfusions" and chanted. Several hundred million yuan were used for "price wars."

Ctrip lost a lot of customers in the price war, also losing profits to do allowance for it. However, low-price competition has reduced the quality of products in the market, Sometimes the pricing had been chaotic, many OTA companies will lose income in the vicious competition environment. Ctrip lost more than others, and the price war did not promote the tourism market much in goods. Ctrip never wants to see the tourism industry going to be this way.

2) Innovation

Ctrip has many platform boards, complete OTA systems and leading annual sales volume in China; Its department have entered a mature period, Unsuccessful departments have been gradually disbanded. In the OTA industry, if new companies, new businesses, and new business models enter the market, Ctrip will follow or take over acquisitions, and invest heavily in the layout to ensure the integrity the business, but it will also result in more attempts or failures, although Ctrip's structure is large, it needs to be considering about the risk, even inside ctrip that is no innovation, because departments of Ctrip have been stable.

The Threats of Tuniu

1) resource monopoly

In recent years, Ctrip's acquisition of oversea companies has caused the important resources, including in-depth cooperation between airlines and Ctrip and Elong. Travel companies rely more on resources and resources to control the market. TUV's capital is not the strongest among OTAs. However, if many

important resources in the market are acquired by other companies, the product line operated by Tuniu will be greatly challenged because Tuniu is too dependent on suppliers, airlines, and overseas travel agency resources.

2) politics

China's outbound tourism development factors are more complex than other countries in the world. In fact, China may have influenced the OTA industry. Among the factors affecting the normal China's outbound tourism, the most important one is of course the political factor. The boycotting tourism in a country that might be a political tool has been used by China. For several years in the practice of boycotting traveling, such as France traveling Philippines, and Japan. In 2017, South Korea and the United States deployed SSM missiles in Seoul, which resulted in the package tours of South Korea which did not send any tour from China by the whole of 2017. The South Korean business is also a very important source of profits for Tuniu, so Tuniu will be affected from political factors to its own profits.

The Threats of LY.com

1) supply chain

Supplier competition has always been an issue between TUNIU and Ly.com. After TUNIU has established its own product line, charter flights, dependence on suppliers that is weaker, but LY has absolutely no own product line. Sales volume is an important strategy to keeping good relationship with supplier. If suppliers turn to support Ctrip and Tuniu, LY needs to pay a lot of effort to maintain supplier relationships, and Ly.com also acquires discount prices from suppliers very often. This relationship is very wonderful, half squeeze half cooperative relationship, because Ly requires vendor support strongly.

2) Offline competition

For the last 4 years, Ly.com has been proud of their sales team, low-priced products and a large number of low-cost customers, brought a huge group of members, their offline stores have been prosperous. Since 2017, Ly has begun to shrink due to the insignificance of the capital chain. Meantime, Ctrip and Tuniu saw the opportunity. In 2017, Ctrip began to open more than 300 joint venture offline stores. The Tuniu stores had opened and maintained at 200 stores in this year. LY's offline market was impacted, with multiple guests being diverted, some members were lost, because the capital chain was weak, they could only wait to see what's going on after. It has always been a major threat to Ly's long-term development. Nowadays, Tuniu and Ctrip have realized the offline battle has great significance for the market.