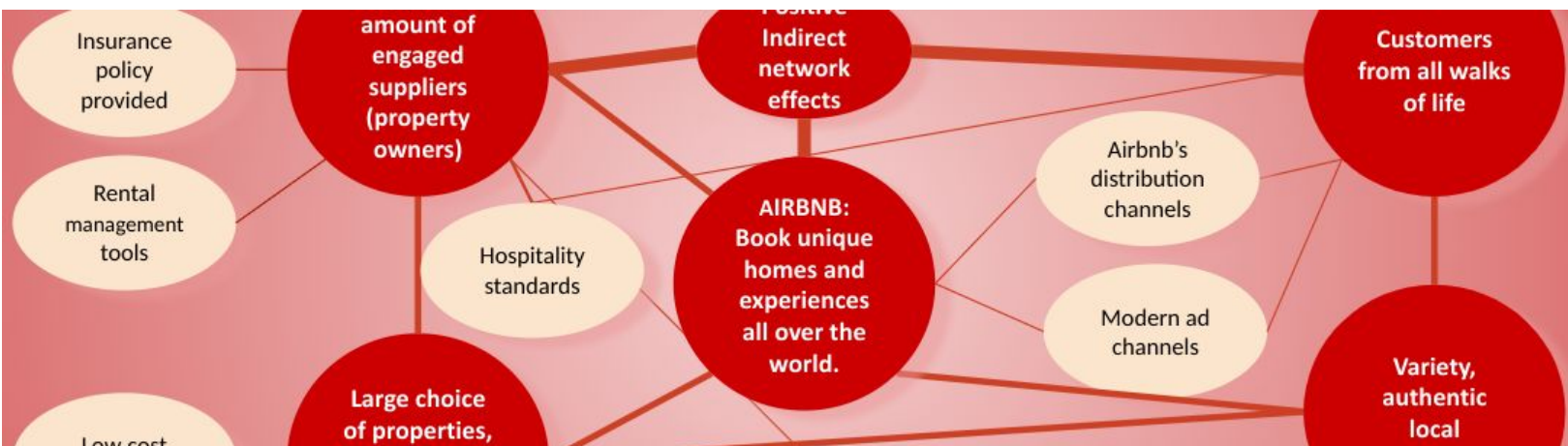


Strategy:

What is strategy? Examples: Uber, Airbnb, TripAdvisor



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Develop Innovation Ideas You can be Proud of

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What is strategy? Examples: Uber, Airbnb, TripAdvisor

If you want to know what strategy is you need to know Harvard Business School professor Michael Porter. He is the foremost strategy scholar. His work is by far the most cited among all strategy experts. He has almost five times as many citations as the second-ranked. Simply put, if you want to understand strategy you need to learn prof Porter's framework.

But here is the question: why does everybody keep using the same old examples? Can Porter's framework explain the strategy of the exciting start-ups of our time? The answer is a resounding yes. In fact, it is the best tool to explain their success!

Come in for an insightful journey!

Porter's framework consists of these 5 elements (not to be confused with his 5-forces framework) which is also the structure of this article:

1. Unique Value Proposition
2. Tailored Value Chain
3. Strategic trade-offs
4. Fit
5. Continuity

(1) Unique Value Proposition

Let's jump straight into it. The first element of strategy per Porter is to have a unique value proposition (UVP) that sets you apart from competitors. It answers the fundamental questions:

1. "Which customers are you going to serve?"
 1. Which users?
 2. Which channels?
2. Which needs are you going to meet?
 1. Which products?
 2. Which features?
 3. Which services?
3. Which relative price will provide acceptable value for customers and acceptable profitability for the company?
 1. Premium
 2. Discount"



Porter: Unique value proposition [source: [ISC webpages](#)] Prof Porter points out that it depends on the situation which leg is the predominant one and as such the starting point. Here are some examples:

- Where a value proposition is based on a specific, innovative product or service, the strategy is built on a customer need. Especially in this case, can the customer segments be quite different to the traditional industry customer segmentation
- Some value propositions will have the relative price as the primary leg of the value proposition. This is likely the case where customers

are overserved with the existing products (anyone thinking of MS Office right now?)

- In other cases, the strategy might start with identifying a customer segment that can be served better by focusing more on them. Airbnb has completely ignored business travellers and focused on leisure travellers (and price) – and only in the recent years started expanding into business travel. Traditional hotels try to please both markets.

Example Uber

Who are Uber's customers, their needs and the relative price?

Let's focus on the most used offering which is UberX (the "normal" Uber that you would know) and apply the UVP framework shown above:

- What customer?
 - End user:
 - users who substitute for:
 - taxi
 - other public transport
 - rental cars
 - car sharing
 - bike sharing
 - or even the own car
 - What channels:
 - Join Uber and hail a ride via the app (of website)
 - The traditional taxi channels, phone or hailing on the street, are not supported at all
 - Uber then comes to your specified pick-up point
 - More details on [Uber's channels here](#)
 - Which needs (see below for more details on the value proposition)?
 - Needs:

-
- Getting from a to b (direct and end-to-end)
 - Which products / features / services:
 - A convenient way of getting *direct* transport, booking and transacting
 - Pick-up & drop-off points:
 - Exactly where you require
 - Waiting times:
 - Typically 3-5 mins
 - Trackability of the car arriving on the app
 - Convenience of interaction:
 - Hailing: tap a button
 - Price certainty prior booking
 - Driver knows destination
 - Cashless payments (no fiddling around with cash at end)
 - Convenience of transport:
 - High
 - Here are more details on [Uber's value proposition](#)
 - What relative price?
 - Cheaper relative price to taxis (here is a [cost comparison Uber vs taxis](#))
 - Cheaper than car rental or even sharing (e.g. Zipcar, here is a comparison of [Uber vs Zipcar business models](#))

-
- Cheaper than your own car as it avoids parking costs, mileage, etc (certainly true for most large cities)
 - (Uber has also premium value propositions with [UberBLACK](#), [UberSUV](#), [UberLUX](#))

UberX's 1-sentence value proposal could read something like this: "Personalised, cheaper direct transport at high convenience"

Uber value proposition comparison				
	Uber	Taxi	Bus/train	Rental/share car
Pick-up & drop-off points	Exact	Exact	Involves walk on both sides	Involves getting to pick-up point
Waiting times	3-5 mins	Depends but generally longer	Walk + waiting time (high range)	Walk + transaction time
Convenience of interaction	Very good	Good	Ok	Rental: ok Share: very good
Convenience of transport	Very good	(Very) good	Low - ok	Very good but requires driving yourself
Cost	Low	10-20% higher	Very low	Rental: very high Share: Low

Assuming cities or major cities (Uber is not in regional/rural areas) and an errand-type ride or commute to work (i.e. 3-8 km distance)

Value proposition comparison Uber vs other forms of personal transport

Note, that on these dimensions there is strong differentiation to other forms of transport. However, there is very little differentiation to other ride-hailing companies, such as Lyft in the US. That makes price an important differentiator *among* the ride-hailing companies. This is why these companies work on brand, advertising, loyalty and feature front running.

Value proposition for drivers

Uber is built on the [platform business model](#) which means they also have to have a compelling value proposition to their key partners (the input side, i.e. the drivers).

The top 3 value proposition for [drivers](#) are:

1. Income generation
2. Choice of work hours
3. No boss, no office

Without a sufficient number of drivers, the value proposition for the customers will erode, e.g. through longer waiting times. Platform businesses are built on powerful [indirect network effects](#).

UNDERSTANDING UBER

COMPARING UBER TO ZIPCAR

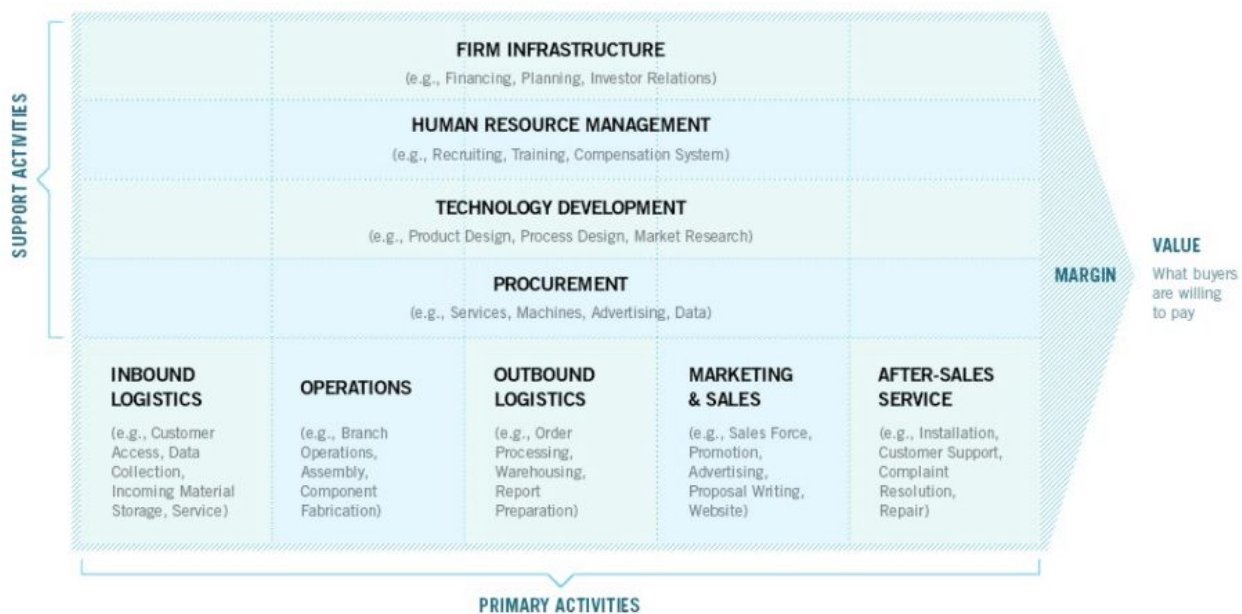
Value proposition examples

Value propositions are more complex. Here are more details (direct links to value proposition section):

- [Airbnb value proposition](#)
- [TripAdvisor value proposition](#)
- [Booking.com value proposition](#)
- [Uber value proposition](#)

(2) A Tailored Value Chain

The value chain is a tool that helps us to understand a company's most important activities in creating and delivering the value proposition. It describes the source of the company's competitive advantage.



Porter's generic value chain [source: [ISC webpages](#)]The image demonstrates the idea, but you need to take it with some caution: not all elements shown are of *strategic* importance. You may do many of these activities in a similar way to your competition. From a strategic perspective, *only those activities that you do differently to deliver your distinctive value proposition are of importance.*

Key Concepts

Porter points out [three key concepts](#) in this context:

1. **Activities:** The activities involved in delivering the distinctive value proposition to the customers and the value chain in which they are embedded
2. **Competitive advantage:** Competitive advantage is composed of the value chain and the activities that make it up
3. **Set of choices:** Which activities you are choosing to do and how they are configured and linked together

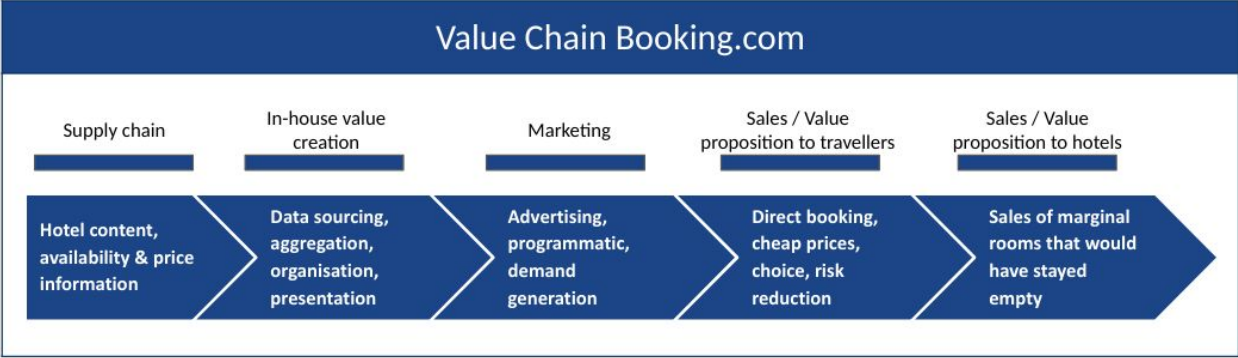
Value chain example: Booking.com

Booking.com is an online travel agency. Like brick-and-mortar travel agencies, they sell hotel rooms and get a commission for that. Their main revenues come from selling rooms. Hotels would much prefer to sell all their rooms through their own websites. But with probably the exception of the main season, they have to use intermediaries such as Booking.com to sell rooms that otherwise would stay empty. This is Booking.com's value proposition to the hotels. And to the travellers, the value proposition is variety, guaranteed cheap prices (for the choice of hotel) and a convenient way of booking (compared to brick-and-mortar agencies).

Thus, Booking.com's value chain looks like this:

1. Hotel content (room information, photos, amenities, etc), availability & price information, sourced from a myriad of distribution channels and (hotel) systems They also allow hotels to very dynamically update availability, price and other information
2. Data sourcing, aggregation, organisation and presentation
3. Reaching potential customers: Advertising through many relevant channels (Google, Bing, TV, radio), targeting, demand generation (programmatic ads)
4. The Booking.com platform is built in a way that it delivers on the customer value proposition of: convenience of the booking process, cheap prices, choice, research, decision support
5. To the hotels it delivers on the proposition of selling of (marginal) rooms that would have (most likely) stayed empty, the ability to

dynamically adjust all relevant room information (availability, prices, etc) at no risk (no booking, no commission). It achieves this through high conversion rates



Value chain Booking.com

Value chain example: TripAdvisor

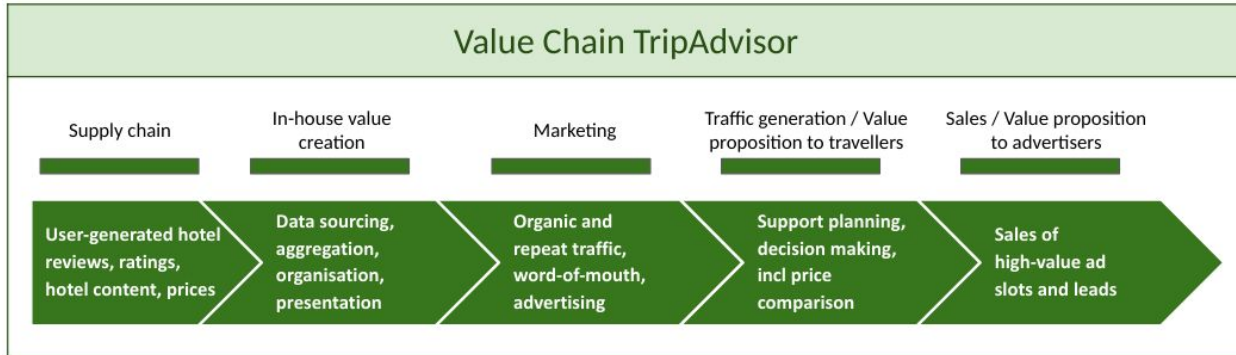
TripAdvisor's value proposition is quite different to Booking.com's. TripAdvisor sells advertising space (and high-value leads), not rooms (bare with me one second on the latter). In a way, user-generated reviews and photos are TripAdvisor's inventory. Thus, the users who pass on reviews and ratings are the supply chain. In return, TripAdvisor makes these reviews available to all users for free.

When you access the reviews for a hotel you will be also shown room availability and available prices. TripAdvisor is also a travel meta search engine that compares prices from hundreds of travel websites (including Booking.com and Expedia). This is also a value proposition for the customers who can have a high amount of certainty of finding the lowest price for the hotel of their choice. Hotels and online travel agencies can bid to be placed higher up on the list which makes it more likely to be clicked. These outbound clicks incur advertising revenues which is TripAdvisor's main income source.

TripAdvisor's value chain looks like this:

1. User-generated hotel reviews, photos, ratings and hotel content (room information, photos, amenities, etc), availability & price information
2. Data sourcing, aggregation, organisation and presentation
3. Support traveller's planning and decision making, including price comparison across many travel websites

-
4. Creation and sales of high-value advertising slots for hotels, online travel agencies and other advertisers
 5. Higher-value leads than other, more generic, advertising channels



Value chain TripAdvisor

A few closing comments for completeness' sake:

- TripAdvisor has expanded into the direct booking space (this is not shown above). However, most of [their revenues](#) (>80%) still come from their earlier business models which are reflected by the above value chain
- TripAdvisor, like Booking.com, has several other revenue streams (e.g. attractions, restaurants, affiliates and more). Again, the majority of TripAdvisor's revenues come from advertising. The majority of [Booking.com's revenues](#) comes from commissions on room sales

Porter's value chain & activities

The value chain links the customer value proposition with the input side which consists of outsourced activities (supply chain) as well as in-house value-adding activities. He stresses the concept of critical activities. Each of the steps in the value chain really is an activity and can be subdivided into further activities (see below). The value chain also comprises the output side, i.e. distribution channels.

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(3) Strategic Trade-offs: The most-dreaded, yet winning move

Strategy is about being different to competing companies in the industry:

- The *distinctive* value proposition,
- a *tailored* value chain and
- key activities

are the ingredients to delivering your strategy.

How do you do things that are *distinctive* and *tailored*? By making choices, i.e. decisions. Trade-offs between all your options and decisions what to focus on are essential to strategy formulation. Trade-offs will lead to a different set of activities than others in your industry (or at least to doing the activities differently than others).

Configuration of activities and strategic trade-off

TripAdvisor, when founded in 2000, had quite a different idea of [how their pages would work](#): “We started as a site where we were focused more on those official words from guidebooks or newspapers or magazines. We also had a button in the very beginning that said, “Visitors add your own review”, and boy, did that just take off. Pretty soon the number of average consumer reviews far surpassed the number of ‘professional reviews,’” Stephen Kaufer, Co-founder.

The founders had to make a lot of trade-offs along the way leaving their original ideas behind. The closest to their original ideas are online travel magazines with content from (semi-)professional contributors and curated content. Take as an example TimeOut.com or even Smartertraveller.com (acquired in the early days by TripAdvisor).

One of the early, counter-intuitive trade-offs would have been to give up on the idea of professional reviews for the sake of (ordinary) reviews. To assume that a large amount of the latter would beat professional reviews was not easy to anticipate (and experimentation has played a huge role). Here are some of the key trade-off that TripAdvisor’s founders had to make in the early days until it became the site that has defined their brand reputation as a trusted advisor.

Comparison of key activities / trade-offs

TripAdvisor User-generated reviews for the purpose of planning & decision making	Online travel magazine (e.g. TimeOut, smartertravel, latter being owned by TripAdvisor) Expert reviews for the purpose of planning & decision making
<ul style="list-style-type: none"> - Reviews created by travellers, highly variability in quality, style and usefulness covering a huge array of hotels - Many viewpoints → highly useful on aggregate 	<ul style="list-style-type: none"> - Industry relevant content created by domain-specific experts covering selected topics - Coherent style, formatting, professional photos - More recently, some curated expert content added
<ul style="list-style-type: none"> - Content integrity/authenticity check (algorithmic & escalating to humans if required) - Content analysis (filters, tags, text mining) 	<ul style="list-style-type: none"> - Editorial review
<ul style="list-style-type: none"> - Presentation in useful ways with filters, segments, searchability and growing over time 	<ul style="list-style-type: none"> - Presented following brand guidelines, mag style
<ul style="list-style-type: none"> - Dynamic ranking of reviews based on usefulness rating from readers 	
<ul style="list-style-type: none"> - Organic traffic (often in planning/high-intention mindset), spread through social, word-of-mouth, email 	<ul style="list-style-type: none"> - Organic traffic, often in low-intention inspiration mindset
<ul style="list-style-type: none"> - Sales of highly relevant ad slots from TripAdvisor's hotel page to hotel's booking page, auction-based CPC model with high-value leads 	<ul style="list-style-type: none"> - Ad space sold to ad intermediaries, CPM model - Ads displayed may be related to the industry or topic as well as loosely related ads, plus retargeting ads

Comparison of key activities TripAdvisor vs online travel magazines

The decision to eventually focus on user reviews required many subsequent decisions, including automating many of the tasks that a traditional review magazine would do manually.

Why trade-offs?

Prof Porter sees trade-offs as crucial and explains [why we have to make trade-offs](#) in the first place:

1. Incompatibility of product features
2. A configuration of activities may not be able to deliver well on two different value propositions
3. Inconsistencies in image, reputation, value proposition
4. Loss of focus within the organisation
5. and more

Fast forward from the early days of TripAdvisor to now. They no longer competing with travel magazines. They have over time evolved into one of the biggest players in online travel agency (OTA) space. Let's look at some more recent trade-offs in the OTA space.

Trade-offs: Example TripAdvisor & Booking.com

Looking from a strategy perspective, these are four key value propositions that account for more than 80% of Booking.com's, Expedia's and TripAdvisor's revenues:

1. User-generated reviews: for the purpose of planning & decision making
2. Meta search engines: convenient price comparison across many travel websites at once for the cheapest price
3. Direct (online) bookings: direct booking from their pages without being directed to the hotel pages (or going to brick-and-mortar agencies)
4. Package deals: discounted packages compared to booking all elements separately (flight, hotel, etc)

Each of them comes with its own value chains and set of activities. Here is which of these value propositions Booking.com, Expedia and TripAdvisor are offering.

Key value propositions for online travel platforms

	Booking.com (Priceline)	Expedia	TripAdvisor
User-generated reviews: for the purpose of planning & decision making	Yes Featured snippets Full reviews hard to find	Yes Full reviews not key proposition	Yes Core value proposition
Meta search engines: price comparison across many travel websites	Kayak.com (separate platform)	Trivago.com (separate platform)	Yes Integrated in TripAdvisor platform
Direct (online) bookings: without being redirected to the hotel pages	Yes Core value proposition	Yes Core value proposition	Yes Increasingly being added
Package deals: discounted bundles compared to booking all element separately	No	Yes Core value proposition	No

Green: core value proposition with corresponding strategy ("Yes" in grey box means non-core proposition). Amber means that the proposition is on a separate (partly rivaling) platform owned by same parent company.

Booking.com is the most focussed platform while TripAdvisor integrates three essential value propositions (and the corresponding strategies) into one platform.

Key value propositions and strategies for online travel platforms

Continuing our comparison TripAdvisor and Booking.com, you see how both companies made different strategic decisions:

1. Booking.com has made extremely focused decisions:

- Booking.com focus fully on direct booking through their sales-optimised pages
- They have also user-generated content but you have to scroll to the very bottom of the hotel page and click a low key link. This shows it is not part of their core proposition
- Priceline, the owner of Booking.com, have also a meta search engine (Kayak.com) but it is a separate platform

2. TripAdvisor has come to other conclusions:

- They started with user-generated reviews to help travellers plan and decide
- A few years later, they added meta search engine functionality into the same platform
- In 2014, they have integrated direct booking into the same platform

Expedia is offering package deals (4), direct booking (3) and also has a separate meta search engine (trivago.com)

Straddling

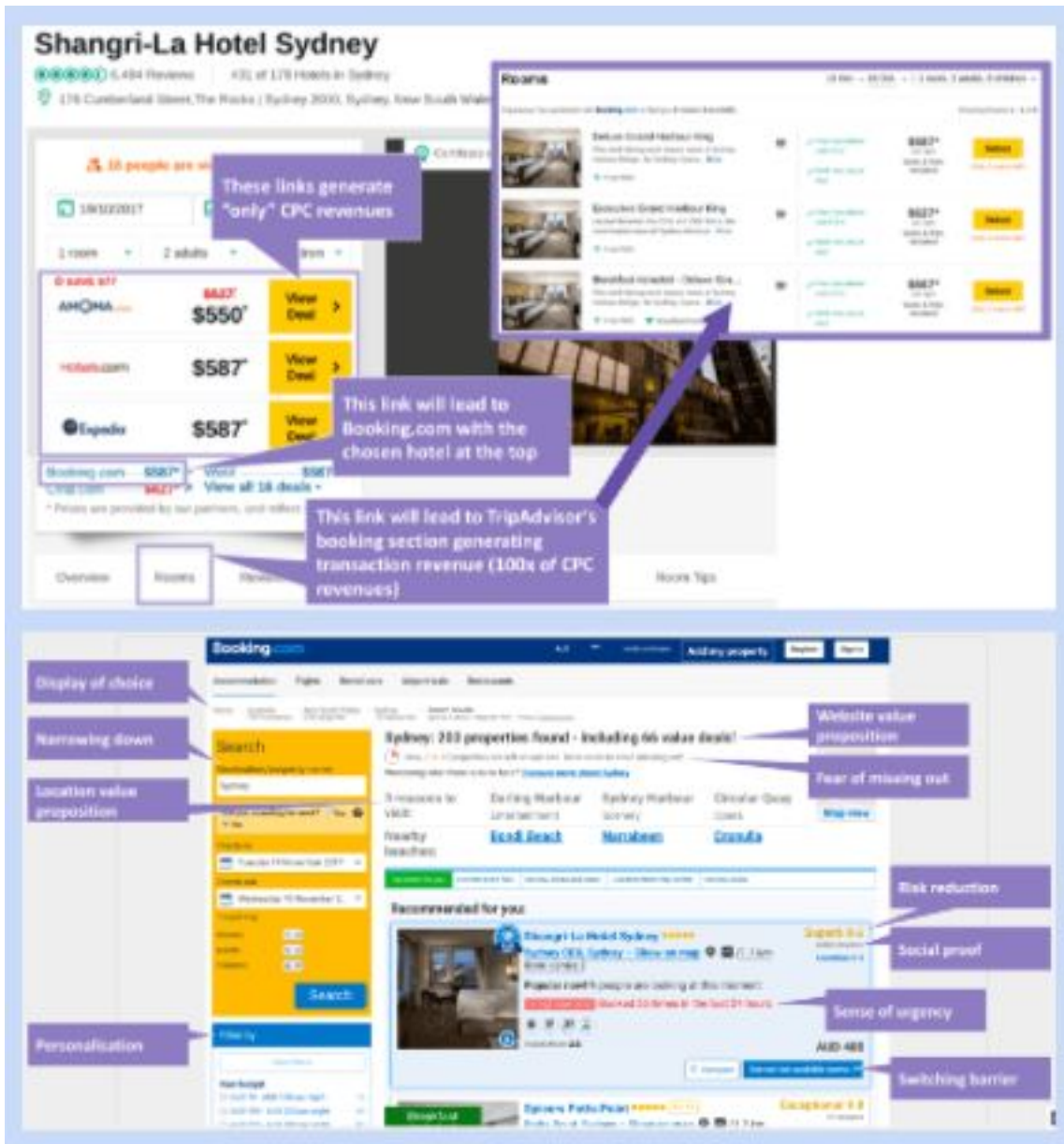
The most dangerous part about trade-offs is not to make them and to embark on too many directions. It is difficult for organisations to say no to revenue opportunities by following more than one strategy. Porter calls this attempt “straddling” and has long pointed out that companies trying to straddle between strategies are likely to flounder (“stuck in the middle”).

“The essence of strategy is choosing what not to do,” Michael Porter

Is TripAdvisor straddling?

It is easy to see in hindsight that an attempt of straddling hasn't worked. But what about foresight? Booking.com is the most focused platform in that they only follow one strategy. TripAdvisor attempts to combine three key value propositions. Will they be able to combine all three into a new, coherent (and not yet existing) strategy?

- E.g., is it possible to combine the value proposition of being a trusted advisor with being a high-converting sales page without confusing the customer (and worse losing their trust)?
- The direct booking model requires an enormous amount of digital advertising, e.g. paid Google ads (Booking.com spends \$3.3b per year on this). For this to pay off it requires very high on-page conversion rates. And this seems only achievable with very strong sales elements on their pages ("last room left," "booked 24 times in the last hour" and so on). In worst case, in some customers' eyes, TripAdvisor may lose the trusted advisor image.
- TripAdvisor is at a point where they have to do things differently. But it may well be possible to integrate direct booking in a different way to how Booking.com and Expedia have done this. I find this a very exciting space to watch.



The image shows the difference. Click here for the full-size versions to understand the details: [TripAdvisor](https://www.tripadvisor.com) and [Booking.com](https://www.booking.com).

With this, we are now moving to our next important criteria and another exciting company: Airbnb.

We are not just glossing over. InnovationTactics offers you valuable knowledge that will help you to develop innovation ideas you can be proud of!

BUSINESS MODELS COMPARED: TRIPADVISOR, BOOKING.COM, EXPEDIA

(4) Fit across the value chain

You can enhance uniqueness and amplify trade-offs when activities combine to reinforce your strategic position. If you make premium technology products,

Porter says *“Fit is Leveraging What is Different to be More Different”*

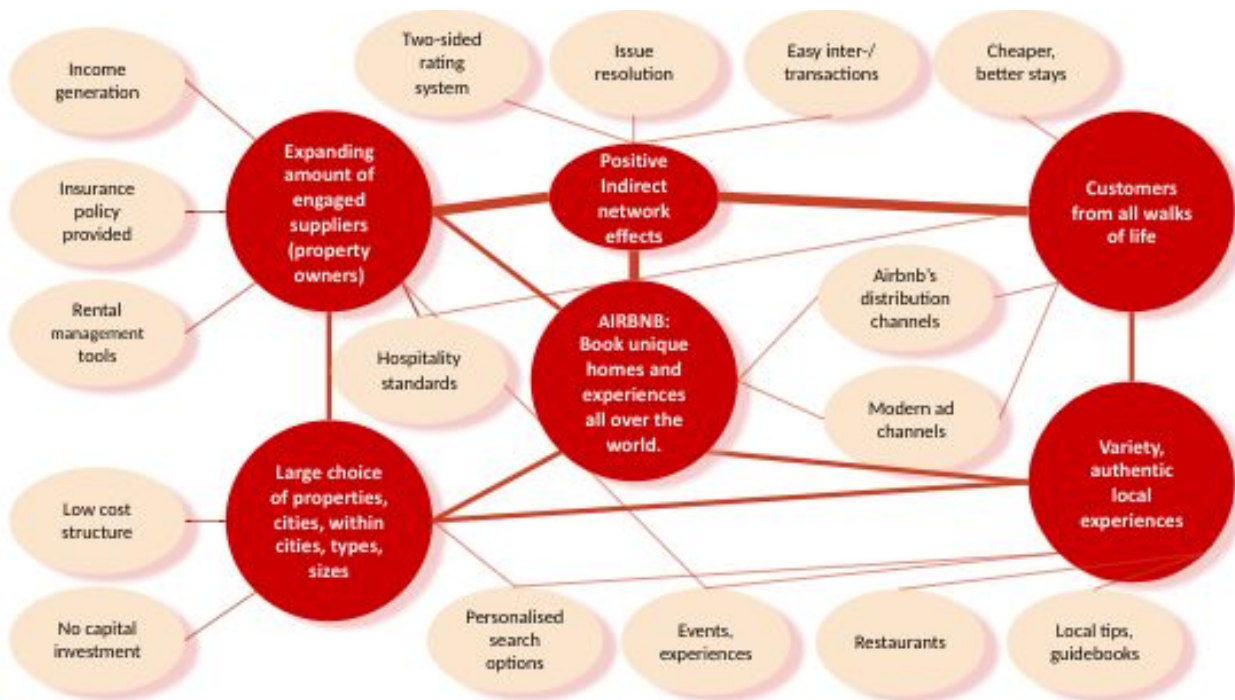
- Fit looks at *how the activities within the value chain relate to each other* and if and how they interact and reinforce each other
- Activities can fit in different ways:
 1. Consistency: each activity is aligned with the company’s value proposition and contributes (incrementally to it)
 2. Combination: activities complement or reinforce each other to further enhance your value proposition
 3. Substitution: performing one activity makes it possible to eliminate others

Joan Magretta points out:

- Fit means that the competitive value of individual activities (and associated skills, competences, resources) cannot be (easily)

decoupled from the system or the strategy and makes imitation more difficult

- Fit means that the whole matters more than any individual part, that many things create value, not just a few things in isolation



Airbnb activities map [click image for full resolution] What are some unique activities that Airbnb does that enhances their unique [value proposition](#):

- Personal connections:
 - A whole lot of travellers as well as property owners like the personal connections that Airbnb enables. And Airbnb enhances this in many ways:

-
- Every participant has a profile where they can share as much or as little as they wish
 - Feedback is shared openly and can be commented on
 - The Airbnb app enables direct personal messages prior, during, after transactions and any time apart from that
 - Airbnb has introduced hosted events where hosts introduce guests to local experiences
 - Hosts make recommendations on the [attractions \(here Sydney\)](#) to be enjoyed in their home city
 - Airbnb has not seen the necessity for personal connections as something to minimise or standardise but has embraced it to make their offering even more unique – this does not mean it is not governed (e.g. to avoid inappropriate behaviours)
 - Authentic local experiences:
 - Hotels try to get you in the door and then make more ancillary revenue within the hotel's facilities, i.e. keep you on the premises. That is, however, conflicting with the idea of experiencing the destination most authentically. Airbnb does the opposite and it is more difficult for hotels to imitate this as the facilities make revenue contributions to the high fixed cost base

-
- Airbnb features local [experiences](#) directly on their home page. And as just mentioned they enable event host to offers their services to guests through Airbnb
 - More recently, Airbnb added a [restaurant](#) section further contributing to local experiences from within their app
 - Own [distribution channels](#):
 - Most hotels are unable to sell all their rooms through their own direct channels (website, app, phone) at least not all year round. Given the perishable nature of hotel rooms and the high fixed cost nature of hotels, hotels often make use of all available distribution channels
 - There is an incredibly complex distribution system for hotel rooms consisting of a myriad of intermediaries (notably the global distribution systems and of course online travel agencies). These intermediaries take their cut of the revenue and it is not a small cut
 - Airbnb owns their own distribution channels being predominantly the app and the website. You could argue that they are the channel (in reality, they are much more). With advertising, they started with a focus on digital ad channels, rather than the traditional channels (TV, print). Engaging users has helped spread the digital word

FULLY UNDERSTAND AIRBNB

(5) Continuity

Porter says that strategy is about making choices and then (drum roll) sticking to them over time! In times that appear to be getting faster by the day, this seems to sound like a tip from our grandfather's world.

But far amiss! Uncertainty? Bah, humbug! Says Porter.

He points out that some of the most successful companies have not changed their strategy in decades despite the uncertainty and change that has been brought upon every and any industry around.

He dismisses the idea of harvesting low hanging fruit when it does not align with your strategy and dilutes your company's value proposition. He also refuses the often observed frequent shifts in direction that confuse the customers, employees, vendors and other partners.

Uncertainty does not require shifts in strategy

One of the most interesting elements is that strategy does not require a prediction of the future.

“Great strategies are rarely, if ever, built on a particularly detailed or concrete prediction of the future.” M Porter

“You need only a broad very broad sense of which customers and needs are going to be relatively robust five or ten years from now. Strategy is implicitly a bet that the chosen customers or needs – and the essential trade-off for meeting them at the right price – will be enduring.”

Examples:

- BMW only had to assume the need of design, driving performance and prestige would be enduring
- Gillette has always been standing for the premium (priced) razor with a sporty image that just cuts a bit closer to the grain
- Nike stands for premium (priced) high-performance sports shoes associated with the top athletes that “just do it”
- Southwest Airlines always stood for cheap fared direct flights at high frequency with no bells and whistles

It gives you an idea what Porter means with continuity. Within these value propositions, there is a vast amount of room to innovate.

The key benefits of [continuity](#) in strategy are

1. Understanding the strategy throughout the organisation
2. Building truly unique skills and assets related to the strategy
3. Establishing a clear identity with customers, channels, and vendors

Joan Magretta clarifies that continuity is not to be confused with standing still: “as long as there is stability in the core value proposition, there can, and should, be enormous innovation in how it’s delivered.”

If you are facing a trade-off that wouldn’t fit the continuity criteria this does not mean you have to can the idea. But it can be a good indication to do this differently than you initially anticipated. That is what many have done:

- BMW has acquired other brands (Rover for the Mini Cooper brand) but never tried to alter vehicles designs as such
- Priceline (Booking.com’s parent company) has also a meta search engine but it runs under a different brand and is an independent

(partly competing) subsidiary. Priceline mentions in their annual report that they intentionally keep these subsidiaries separate and partly in competition to each other

- Expedia has made the same choice
- Premium airlines have figured out that the best way to compete against low cost carriers (LCC) is to have their own LCC but under a *separate* brand. Those that tried to integrate a LCC under the parent brand failed because trying to straddle two vastly different value propositions confused the customers

What does this mean for you?

Strategy and innovation go hand in hand. You have just learned about important strategy frameworks.

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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