Bachelor Thesis

Bachelor of Business Administration in Tourism and Hospitality Management / Tourism, Hotel Management and Operations

The Role of Venture Capital in the Travel and Tourism Industry

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Affidavit

I hereby affirm that this Bachelor's Thesis represents my own written work and that I have used no sources and aids other than those indicated. All passages quoted from publications or paraphrased from these sources are properly cited and attributed.

The thesis was not submitted in the same or in a substantially similar version, not even partially, to another examination board and was not published elsewhere.

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Abstract

This paper is dedicated to venture capital investments in the travel and tourism industry and takes an explanatory approach, starting with investment specifics and strategies of common practice. Industry terms and structures are discussed and analyzed based on historical data. Significant events such as the dotcom bubble and related risks of the current investment cycle are analyzed in detail to allow for the reader's thorough understanding of the subject matter.

As a second part, the paper deals with investments in the travel and tourism industry as a separate investment category, detected trends, successful investment examples and future investment scopes.

The sum of secondary research conducted has shown that travel and tourism as an investment segment is rather new to venture capital and angel investors and hence not yet as common amongst investors, but nevertheless seems to have high potential.

Same was confirmed by the primary research conducted in the form of an anonymous survey with investors of all types as part of the sample. Results revealed considerable investment activities in the segment and confirmed the lucrativeness of the investment segment and activity. The vast majority of respondents has achieved positive returns on startups operating in the travel and tourism segment throughout the last decades whereas further advancements are expected.

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1 Introduction

1.1 Relevance of the Topic and Research Question

Every year, billions of venture capital dollars are invested in startups trying to disrupt industries worldwide (Rowley, 2018). As a result, venture capital has earned its reputation of being a significant driver of innovation in various international markets.

The United States can be considered a prime example, where companies like Google, Intel or Fedex have been funded with the help of venture capital and have undoubtedly significantly impacted the US economy. Venture capital's contribution to the global economy does not only entail its effect on consumer goods and a growing GDP in general, but also its impact on the employment market should not be underestimated: More than four million employees work in public companies initially were backed by venture capital (Gournall & Strebouaev, 2015). Primary research conducted by Gournall & Strebouaev in 2015, namely "The Economic Impact of Venture Capital: Evidence from Public Companies", discovered the impact of venture capital on the US GDP. The study used all companies issuing their initial public offering between 1974 and 2015 as a sample. Results showed that 42 % of the sample were backed by venture capital. Further, out of 1,339 companies 556 entities accounted for 85 % of the sample's market capitalization (Gournall & Strebouaev, 2015).

Venture capital kept gaining influence over the last decades and by the end of 2019, seven out of the 10 largest publicly traded US companies by market capitalization were backed by venture capital. Among those seven companies were technology giants like Microsoft and Apple with market capitalizations of 1,14 trillion US dollars and 1,16 trillion US dollars, respectively, e-commerce pioneer Amazon capitalizing at 865 billion US dollars, Google's mother company Alphabet with 892 billion US dollars, and social networking giant Facebook at 566 billion US dollars are leading the herd (Gournall & Strebouaev, 2015).

Venture capitalism has clearly gained influence and importance throughout the last 2 decades and investment amounts in 2019 reached highs comparable to the 2000 dotcom era, see Figure 1.

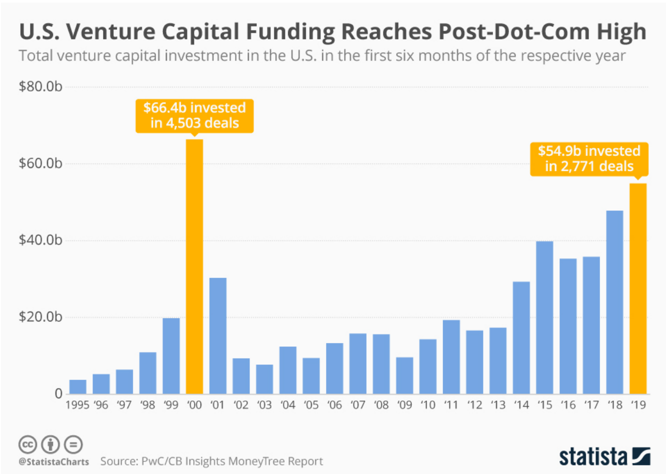

Figure 1: Venture Capital Funding Reaches Dot-Com Era Level (Richter, 2019)

Following the first generation of online travel agencies in the 90's and an era of consolidations and IPOs after the dotcom bubble it seems that according to market data in recent years a new wave of travel and tourism startups has entered the market and gained the interest of venture capitalists. Continuous growth in the number of transactions, over a period of five years with a total invested amount of 5.3 billion US dollars and 348 transactions as illustrated by the chart below, Figure 2. (TechCrunch, 2018).

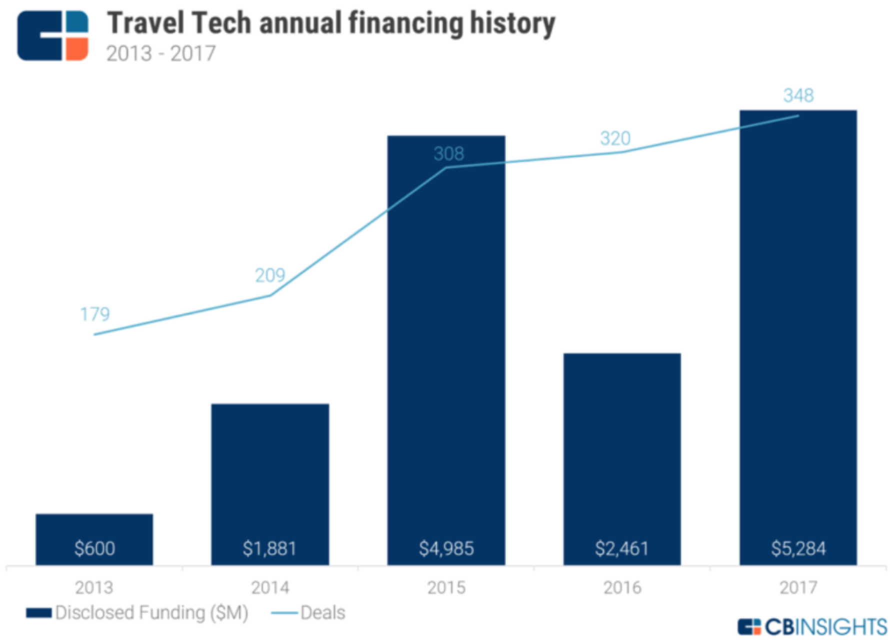

Figure 2: Travel Tech annual financing history (CBInsights, 2018)

Renowned venture capitalist, founder of the world-famous Silicon Valley based venture capital firm Kleiner Perkins and first investor in Amazon and Genentech, Tom Perkins once famously said: "I don't know how to write a business plan, I can only tell you how we read them. We start at the back and if the numbers are big, we look at the front to see what kind of business it is." (Geller, Goldfine, 2011). This quote by Tom Perkins greatly illustrates a venture capitalist's appetite for investments in fast growing companies that are trying to quickly capture market share in billion-dollar industries with the potential to generate extraordinary financial returns. The reason for this strong tendency and focus on very large markets lies in one of the main priorities of a venture capitalists which is achieving high financial returns for their funds and limited partners. (VC 101: The Angel Investor's Guide to Startup Investing, 2019).

To put the size of the travel and tourism industry into perspective, its total contribution to the global GDP amounted to 8,272.3 billion US dollars, i.e. 10.4 % in 2017. By 2028, this figure is expected to rise by 3.8 % per annum to a total of 12,450.1 billion US dollars translating to 11.7 % of global GDP (Travel and Tourism Economic Impact 2018 World, 2018). Considering this significant size and high transaction velocity indicating the opportunity to generate high cash flows within a comparably short time frame, one could assume that this industry is a very promising segment for venture capitalists to invest in.

However, the question arises whether travel and tourism startups have the ability to join the likes of the “Googles and Amazons” of the world. One the one hand side, the category has been historically resistant to the adoption of technology, so there is a lot of inherent inefficiencies in the value chain and, on the other hand side, one of the potential obstacles is the nature of the branch as a people’s business. As opposed to more technology focused industries, for instance, this attribute could potentially limit the room for fast scalability often (if not mostly) achieved through the incorporation of technological innovations. This aspect may result in restricted scalability, which is defined to be an important characteristic of a startup and in turn a major criterion for venture capitalists to deploy their capital (Graham, 2012). These reflections lead to the question whether travel and tourism startups are able to scale fast enough to be considered relevant to venture capitalists in terms of financial returns.

Still, as a matter of fact, the travel and tourism industry has a long history but still operates in an outdated and/or old-fashioned structure asking for innovators to step in and challenge the status quo. Hence, the importance of continuous innovation and new developments in this industry is undeniable (Bilgihan and Nejad, 2015).

There is a number of highly successful and famous startups active in the travel and tourism industry. The majority started on a small scale before growing internationally at a very fast pace – often with the support of venture capital. In the best case, this step helped the founders to rapidly turn their businesses into multi-billion-dollar corporations.

With Airbnb as one of the flagship examples, the foundation was created to prove that the tourism industry and, in particular, the accommodation sector is ready for disruption. Airbnb is clearly an outstanding example not only showing phenomenal growth from its inception but also surpassing traditional and established global hotel chains like Hilton in market value. The startup’s current valuation lies beyond 30 billion US dollars and could, once the company pursues a public offering, lead to very lucrative returns for early investors (Schleifer, 2019). Airbnb is not only a disruptor of an existing industry but more so a great example of a category creator in the sharing economy. As the below chart displays, the number of participants in the sharing economy has steadily increased and this phenomenon is not expected to show any contradictory development in the years to come. In the United States alone the number of people using platforms like Airbnb or Uber at least once a year exceeded 66 million in 2018and displays the power of innovation a successful startup can bring about (Statista, 2019), see Figure 3.

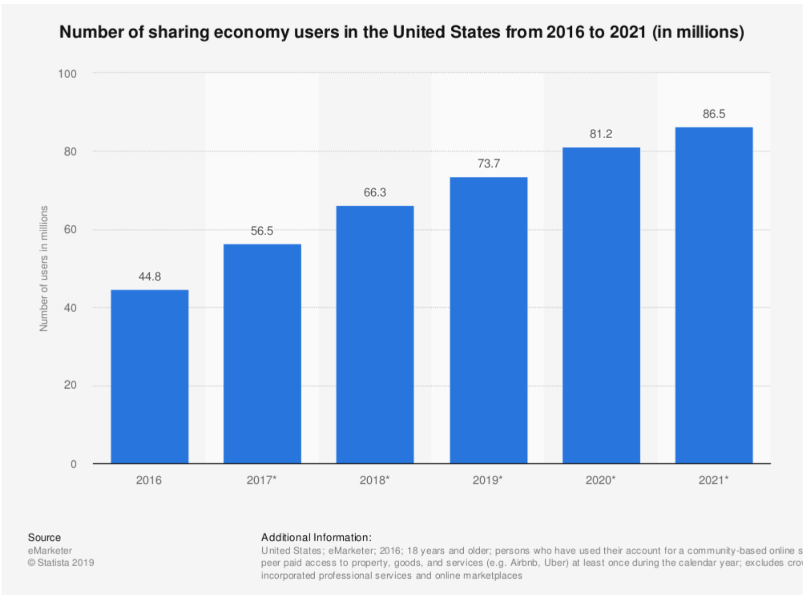

Figure 3: Number of sharing economy users in the United States from 2016 to 2021 (in millions) (Lock, 2019)

The food and beverage sector as part of the tourism industry has established comparable examples of startups rapidly scaling through venture capital investments: the company ‘Open Table’, for instance, has grown to a portfolio of 31,000 operating restaurants and has been facilitating more than 15 million table bookings per month. After selling the business to Priceline, the company achieved a premium of 103 US dollars per share. To put this in perspective, this figure reflects the highest premium paid in an internet deal amounting to more than one billion US dollars since 2007 (Zhang, 2014). Thus, Open Table is undoubtedly a company that met all investment requirements by generating high financial returns for their venture capital investors and a strong growth rate. To allow for further insight on the scope of this investment return, Open Table was able to secure a total of 48 million US dollars from venture capitalists. What made it such a renowned case was the sale of the startup for an amount exceeding one billion US dollars, as shared by the startup data platform Crunchbase (Crunchbase, 2014). In addition to that, the company also significantly impacted the way restaurant owners run and grow their businesses, thereby allowing for considerable technological progress in the industry (The New York Times, 2017).

Another prime example in the travel sector is the well-known review platform TripAdvisor. The company was founded in 2000 during the era of the dot com bubble. The business to consumer product is an information sharing platform for travelers who leave reviews of their experiences. What created today's strong competitive advantage was that the two founders Stephen Kaufer and Langley Steinert were able to build an extremely strong customer base growing on a fast pace with 65 million new visitors per month (Inc., 2012). In 2004, TripAdvisor became part of Expedia/IAC, at a sales price in the amount of 210 million US dollars. The case is particularly significant as the founders built their success with very limited venture capital support of only four million US dollars - a comparably low figure compared to other venture capital funded startups. The acquisition by Expedia/IAC allowed the startup to prosper further by including features and advertisements (Inc., 2012).

Today, TripAdvisor has turned into an independent company and is traded publicly on the NASDAQ. Its market capitalization sits at 3.91 billion US dollars (Macrotrends, 2019).

Considering the likes of Airbnb, OpenTable and TripAdvsior and given the very large and steady growing market one could assume that travel and tourism startups should be a prime category for venture capital investments. The question remains whether the above-mentioned examples remain one off success stories after the dotcom era or whether there is a potential second wave of travel and tourism startups coming our way.

This paper will examine the remainder of the market which shall reveal whether travel and tourism startups could become the next billion-dollar category creators to transform the industry.

1.2 Aims and Objectives

This paper investigates the role of venture capital in the travel and tourism industry. Conversely, the research explores the relevance that venture capital plays in the travel and tourism industry and whether startups operating in this segment achieve sufficiently significant financial returns to be a relevant target for venture capitalists. The following research question is central in this paper: *In which way are travel and tourism startups considered a relevant category for venture capital investments?*

First, the author explores major events that shaped the industry, reviews potential upcoming players and gets firsthand insights from investors about their investments in travel and tourism startups as well as their view of the future for this investment segment. As the category of travel and tourism can be categorized in comparably broad terms the author narrowed down the focus of this paper to travel or tourism startups that fall into the following categories: 'Accommodation', 'Attractions', 'Food & Beverage' and 'Travel' and provide the majority of its products or services to tourists or businesses that cater to tourists.

Furthermore, the reader will gain a better understanding of the history of venture capital in the travel and tourism industry and will gain insights into the landscape of travel and tourism startups throughout the last decades.

In addition, the paper explores which categories of travel and tourism startups are up and coming today and which companies are currently promising players on their way to disrupt the market.

Primary research conducted in the form of semi-structured interviews combined with an online survey will provide first-hand insights into the opinion of investors who made at least one investment in the travel and tourism segment, reveal potential trends and the investment appetite for this segment in the future. The primary research was conducted through a network of investors in the European based Next Floor investment community, and through the authors personal network in the Y Combinator and Pioneer Fund investor community based in the United States.

From a practical point of view, the paper should benefit stakeholders of the industry including but not limited to:

- investors such as venture capital firms which are considering investing in travel and tourism-related startups,
- startup accelerator and incubator programs considering the inclusion of travel and tourism-related startups in their programs,
- corporate venture capital departments,
- entrepreneurs pursuing their dream of funding their own startup in the travel and tourism industry,
- operators of travel and tourism businesses,
- government agencies involved in the travel and tourism ecosystem as well as
- universities, in particular those focusing on the travel and tourism industry.

2 Literature Review

2.1 Definitions

2.1.1 Travel and Tourism

The World Tourism Organization defines tourism as a set of activities of persons travelling to and staying in places outside their usual environment for not more than one consecutive year for leisure or business (Tourism glossary, 2019).

Further, it is important to note that the term 'tourism' has a very broad meaning and includes several sub-industries that play together to form the tourism sector. It has been traditionally divided into eight different areas including accommodation, recreation, attractions, the MICE industry including meetings, incentives, conferences and events and other tourism services including food and beverage, transportation and travel trade (Sectors in Tourism, 2010).

To narrow down the scope, the paper focuses mainly on accommodation, attractions, food & beverage and travel and those companies that provide the majority of their products and/or services to tourists or businesses that cater to tourists. Products can be software or service only or a mix of the two.

2.2.2. Venture Capital

Outside of the United States, the term "venture capital" is often used as a synonym for private equity leveraged buyouts. For this paper the term shall reflect a pool of independently managed capital, focusing on equity investments in privately held, high-growth startups (Lerner, Leamon & Hardymon, 2012).

Venture capital as a form of investment refers to capital managed by institutions or individual business angles that focus on capital contributions for innovative companies that are expected to generate high returns. It is a rather unique asset class within the range of institutional investments. Venture capitalists' risk profile differs significantly from conservative financing methods as venture capitalists are more willing to take high risks: At the time an investment is made, bought shares are predominantly 'worthless' so that the owned equity is normally 100 % illiquid. The actual value of the shares only attains its "real" worth once the respective company is sold or goes public, as only then its 'true' value materializes. Prior to a public offering so-called investment rounds, i.e. companies' calls for additional equity are mostly conducted by young companies as often as on a yearly or dual-annual basis. They are hence linked to a private valuation of the company and neither reflecting the behavior of players on the global investment market nor the respective price per share and associated risk (NVCA, n.d.).

2.2.3. Startup

The term and concept of a "startup" has gained in popularity throughout the last decades. Especially the press has supported the recent recognition startups have gained – foremost in Europe - that researchers and industry experts have not found agreement on a suitable definition to describe a startup. Hence, several definitions have evolved, leaving the interested with a selection to choose from. For the purpose of this paper, the author will lean on two industry leaders' opinions covering a qualitative as well as a quantitative perspective.

As defined by the founder of the startup accelerator 'Y Combinator' Paul Graham, a newly founded entity does not in itself make a company a startup. Paul Graham further discourages the believe that it is a necessity for a startup to work on technology, needs to be financed through the support of venture capitalists or funds or needs to have an exit strategy in place. To put it in a nutshell, Paul Graham defines the sole relevant but major attribute of a startup as its growth development and potential (Graham, 2012).

Alex William, chief editor of Crunchbase, a platform sharing information on startups, has a different definition at hand. For him, a startup is no longer a startup and hence turns into a 'normal' company under the following conditions:

- A total of $100 million in annual recurring revenue (ARR) for the case of a software company, or a total of $100 million in trailing revenue.
- A number of more than 500 employees employed.
- A business valuation of $2.5 billion or greater (Wilhelm, 2018).

The above example clearly shows how varied the definition of a startup can be, depending on the approach taken. Clearly, both definitions may be confirmed for most startups, making it impossible to neglect either of the approaches. At this point it is important to mention that the research conducted on startups is still rather limited as it is a comparably new topic of interest among researchers and industry experts.

2.2 Travel and Tourism Industry

2.3.1. The Development of the Sector

Travel and tourism roots back to ancient times. Originally, the main reason for people travel was religion, war, pilgrimage and trade (Gladstone, 2013). Generally speaking, it was especially advancements in infrastructure that allowed the travel and tourism industry to prosper. With the opening of the first rail service in 1825, transportation became more accessible, high capacity hotels opened around city routes and more people started to travel for leisure. Clearly, it remained to be reasoned beyond pure leisure in the beginning, whereas religion kept playing a predominant role (Taylor, 1951). In 1841, the first business model based on railway transfer was invented when the Midland Railway company allowed for the transportation of more than 500 Baptists, triggered by a deal with Mr. Thomas Cook, a preacher at that time. Cook developed his own business model as one of the first travel agents, by selling packages to travelers and receiving commission per passenger from Midland Railway. This business idea set the cornerstone for the development of the concepts of today’s travel agencies on the one hand, as well as package travels on the other hand. Cook - later described as the father of tourism - was able to scale his business to 165,000 travelers, solely relying on pen and paper processes combined with word of mouth advertisement, which would be unthinkable in today's time (Phocuswire, 2013).

Over the next one hundred years the evolution in travel and tourism was driven by the invention of the plane by the Wright brothers. The first commercial airline service started its operations and marked the evolution of travel for the masses and an era of commercial aviation had begun. Many of the airlines known today such as Delta and American Airlines started their operations around that time (The Economic Times, 2014).

2.3.2. Information Technology and its Early Relevance in Travel and Tourism

With transportation as a fundamental component to facilitate tourism, technology soon gained relevance in this industry. With increased activity of airlines, new approaches and more efficient ways for booking processes were soon required. Systemization allowed airlines to handle passengers and inventory better. Later, in the early years of the 1950s, booking processes were fully automized, saving significant labor costs (Phocuswire, 2013).

With the support of the University of Toronto the Trans Canada Airline made the first big step in that direction: the team introduced an electronic booking system, namely “Reservec”, which allowed for considerably reducing the number of manual steps required for the booking process (ibid, 2013).

Within one decade several similar products were developed, leading to a number of more than five airline reservation platforms available by the 1960s (ibid, 2013).

For the United States the main player resulted to be Sabre, a product developed by tech leader IBM. Over time though, airlines started to fight the monopoly-like structure and joined forces to initiate the development of the general distribution system Amadeus commonly used today still (ibid, 2013).

2.3.3. The Era of Online Travel Agents

After the significant transformation of airline travel achieved through the invention of reservation systems it was only a matter of time until the systems would spill over to other parts of the travel and tourism industry. IBM affiliate Sabre developed EAASY Sabre, which allowed for the extension of the airline booking system to hotels. This evolution of reservation systems entering the hospitality sector advanced processes significantly. Further steps of innovation lead to the introduction of front desk systems facilitating check-ins and the like. To give an example, the broadly used system Fidelio became available in 1987 (Phocuswire, 2013).

The next big milestone was reached after launching an online reservations network, namely the "Hotel Reservations Network" which was to turn into hotels.com at a later stage (ibid, 2013).

From there, it was only a small step to online travel agents as they are known today. The year of 1993 marks the launch of the first graphic web browser. Only three years later, the platform Expedia went into business under the Microsoft umbrella. Expedia aimed to provide a holistic booking experience, covering bookings for travel, accommodation as well as vehicle rental. A real battle between the tech giants started when Sabre fought back with the introduction of the platform Travelocity (ibid, 2013).

With time it became very common for consumers to take care of their travel plans themselves, fully relying on the new platforms. Another company following the big players was Priceline, which entered the market with an alternative business model for hotel bookings and even tried its temporary luck by entering several markets from loans to second-hand goods (ibid, 2013).

2.3.4. Travel and Tourism Today

Taking a closer look at global figures of tourism growth, the sector of travel and tourism undoubtedly accounts for a significant contribution to the worldwide GDP. In the year of 2016, for example, the total direct contribution to the economic performance amounted to about 2.3 trillion US dollars. This is further true in regards to economic growth: As the below graph (Figure 4) shows, it was especially throughout the last years with a rising middle class and resulting spending power, when tourism took on speed and started to grow at a significant pace (Statista, 2019).

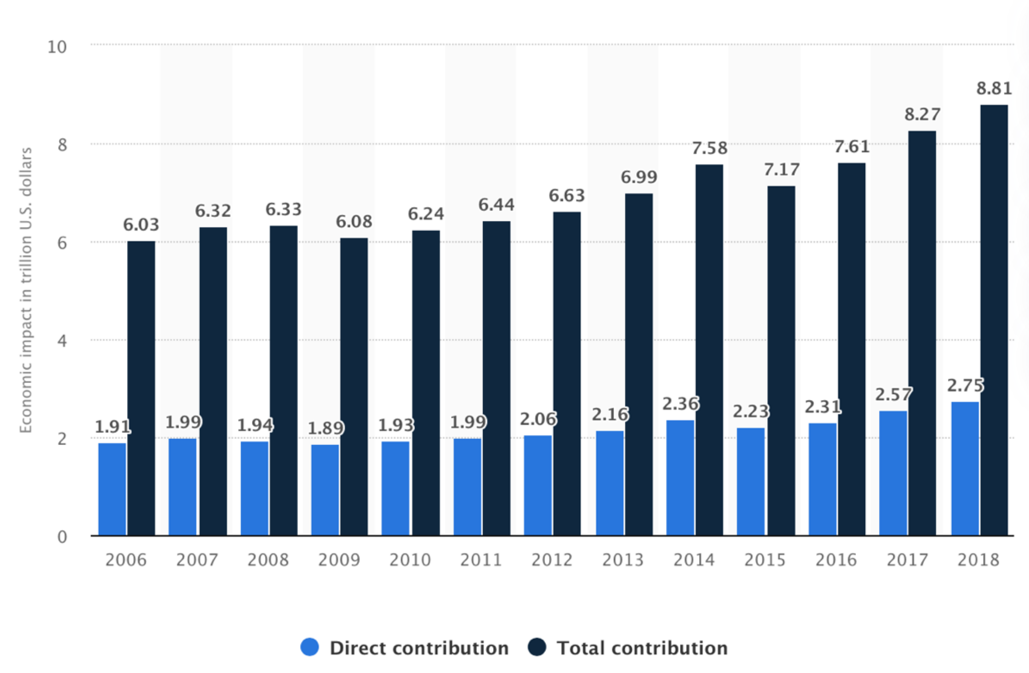

Figure 4: Direct and total contribution of travel and tourism to the global economy from 2006 to 2018

As research by UNWTO summarized in the graph below (Figure 5) further indicates, tourism arrivals have been increasing significantly throughout the last centuries. Interestingly, the graph further indicates how tourism demand fluctuates with the global economic performance: it is the year of 2008/2009 that shows a decrease, triggered from the financial crisis that year (UNWTO, 2018).

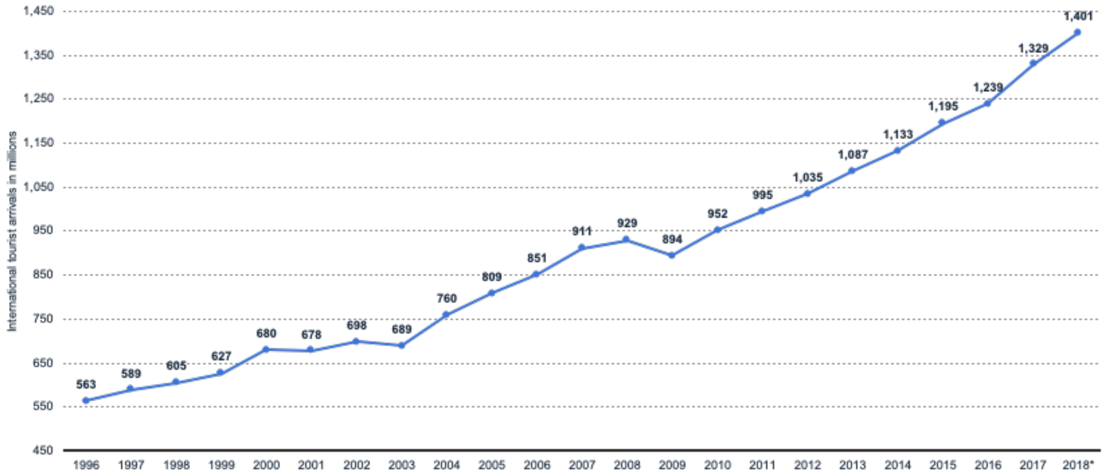

Figure 5: Number of international tourist arrivals worldwide from 1996 to 2018 (in millions) Source(s): UNWTO (Lock, 2019)

A strong indicator of the strong correlation of tourism and GDP are passenger arrivals / departures. Figure 5 indicates the consistent growth recognized by the industry globally. Especially the United States have recorded significant increases in arrivals, benefitting strongly from the global growth: in 2017, the transportation and accommodation sector hit an annual record in revenue of 353 billion US dollars in 2017, followed by steady growth in 2018 (Deloitte, 2018).

This dramatic rise had positive as well as negative implications, whereas over-tourism has turned into a tremendous issue more and more cities are facing today. Many capitals and cultural hubs have a hard time trying to regulate new concepts and keeping the maximum capacity of cities under control. Next to that, municipalities are trying to avoid an imbalanced economic detriment for cities and their local communities (The travel and tourism industry, 2006).

As a matter of fact, tourism is a strong if not the main economic driver of many countries' economy and due to its labor intensity an extremely important contributor to the total job pool (UNWTO, 2014). Municipalities are hence confronted with the challenge of controlling tourism without missing out on the prosperity the sector brings to the national economy. As a result, the reduction of arrivals through monetary barriers and the like is barely a long-term solution, whereas cities are tackling other stakeholders and components affecting tourism (World Economic Forum, 2019). Here, it is especially the topic of infrastructure systems cities have shifted their focus to: as transportation and accommodation providers are expanding their business to more destinations, cities need to be smart to be able to accommodate the demand and benefit from it at the same time. Meeting capacity requirements on the one hand and keeping up with technological advancement and modernization on the other hand, are factors that seem to drive the wrestling for attracting demand generators. For the case of the United States, investments in areas such as waste management or recreational facilities like parks have a strong impact on tourism growth potential besides typical transportation systems. To put it into perspective, the country will have to trigger investments amounting to up to 4.5 trillion US dollars into the infrastructure system by 2025 only to avoid a slow-down of job growth and GDP (Deloitte, 2019).

Next to the straight-forward requirement of handling tourism influx, other components such as the improvement of security systems required with the increase in penetration of available structures demands additional attention. In that regard, stakeholders are trying to balance the need for enhanced security procedures and its effect on the travelers' experience. It is out of the question that technology is already of great importance and will become more important as research predicts (Deloitte, 2019).

Nevertheless, and despite the clear advancement of technology in tourism, the sector remains highly labor intensive. It is the sector of hospitality where brands define their success by their human capital providing incomparable service levels allowing for a competitive advantage. Globally, one in ten employees is active in the sector of tourism, whereas the industry is still suffering from a shortage. Despite this alarming development, there is no end to this issue in sight as the lack in human capital remains to increase. In addition, expected growth within the sector will most probably worsen the situation in the long run. Reasons are diverse, but one of them is the lower educational requirements confronted with younger generations pursuing higher education and aiming for alternative careers and income levels. Hence, the shortage in talent is becoming more and more of a challenge. Operators are aware of the issue and try to fight back by increasing wages to decrease turnover: what used to be about 15 % of revenues accounts for nearly twice as much in today's profit and loss statements (Deloitte, 2019).

Investigating the continuous growth of tourism from another angle, the sector of hospitality has been growing steadily for the last decade, whereas also costs for operations and occupying real estate have kept rising steadily. Slowly but surely, though, the industry has noticed first signs and risks of stagnation. It is the years to come that companies need to prepare for - balancing the risk of missing out on rising demand and an economic downturn expected by many industry experts (Deloitte, 2019).

2.3 Venture Capital

2.4.1. What is venture capital?

Venture capitalists are classified as investors, whereas their risk profile differs significantly from conservative financing methods. Generally speaking, venture capitalists are willing to take rather high risks: At the time an investment is made, bought shares are predominantly 'worthless' so that the owned equity is normally 100 % illiquid. As previously mentioned, the actual value of the shares only attains its "real" value once the respective company is sold or goes public, as only then its 'true' value materializes.

Venture capitalists as well as angel investors follow specific strategies on placing their investments based on previously determined approaches. As previously discussed, venture capital investment criteria and key performance indicators tend to be future oriented. Strategies vary especially in terms of the startup's lifecycle stage.

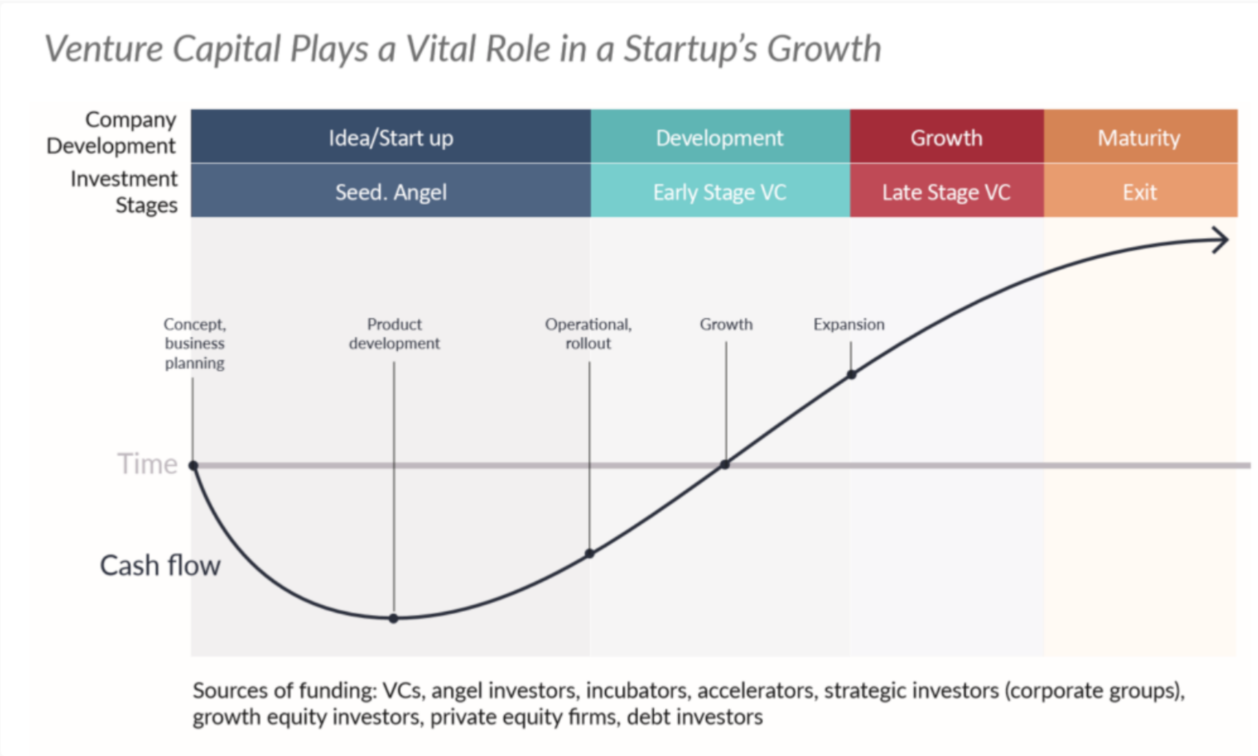

Figure 6: Venture Capital Plays a Vital Role in a Startup's Growth (NVCA, n.d.)

As the graph above (Figure 6) shows, venture capital funded startups are often in a very early stage of maturity when securing seed investments mostly contributed by angel investors. Prior to a company's initial revenues, it is mostly angel investors who help young companies to survive. Angel investors as such are private investors who are able to take even more risk that venture capital fund managers as they are not restricted by investment requirements every institution predefines (AngelList, n.d.).

Typical concepts and ideas venture capital is found in are hence those that are too risky to be financed by conservative capital, and/or introduce new products aiming to innovate and/or disrupt existing industries. Another characteristic of venture-backed firms is their state of growth and expected lifetime of sometimes more than eight years to reach maturity and generate returns. Considering the concept of time value of money, this aspect impacts the investor's risk profile as well. As a result, it does not come as a surprise that return expectations are much higher than for traditional investment products, taking the long-term investment and high risk into consideration (NVCA, n.d.).

The overall goal of a venture capital firm is to place investment in a startup that achieves a so-called 'home run' for the entire fund. The term 'home run' refers to a case where the proceeds of the sale of a startup are sufficiently high to return the entire pool of money invested in the fund (CBInsights, 2019).

In that sense, venture capitalists tend to follow a similar structure when placing their investments: in most cases a joint entity is founded with the investor(s) as limited partners and the founding team itself as general partner(s). In order to mitigate risks and also for reasons of simplicity, firms tend to form separate entities for each fund or portfolio. As concerns limited partners, they often have very different natures and vary from family offices to foundations or pension and insurance funds (Gompers, Gernall et al., 2016).

A dominant component of venture capitalists' activities that tends to stay in the background is fundraising activities. It is only once venture capitalists have collected sufficient proceeds from their (or new) fund investors, mostly referred to as 'capital calls', when a new fund is formed. In that regard every fund is built based on agreed investment profiles and return expectations (ibid, 2016).

Once an investment is placed in a startup, venture capital firms tend to work closely with the founding teams to give advice and monitor their progress and performance. As a rule of thumb, investors account for three to four additional capital contributions to support the startup in its growth and upcoming funding rounds. As previously indicated and as suggested by research by Gompers, Gernall et al. the startup cycle and linked investment support by venture capitalists can continue for up to eight additional years after initial investment (ibid, 2016).

The term 'venture capital' is in general strongly correlated with innovation and fast-growing startups which tend to achieve unusually high financial returns for their investors once pursuing an initial public offering or selling the business in an M&A transaction (Graham, 2012). A study investigating the way venture capitalists make decisions conducted in 2016 revealed that 50 % of portfolios' returns are achieved through mergers, whereas only 15 % of exits result from initial public offerings (Gompers, Gernall et al., 2016). In terms of transaction volume, mergers and acquisitions have remained the preferred exit strategy for startups until 2019. In the same year though, Facebook's and Uber's public offerings proved to be clear exceptions to this rule (KPMG, 2019).

2.4.2. History and Evolution of Venture Capital

As previously discussed, venture capital investments were not very common before the 20th century. The first decade of the 21st century is considered the starting point of venture capital and was dominated by 'family offices' including royalty. Examples are 'the Vanderbilts' or 'the Rockefellers' (Harward Business School, n.d.).

Venture capital firms as known today were first introduced in the 1940s, namely the companies J.H. Witney & Company as well as the American Research and Development Corporation (ARDC), founded by so called 'father of venture capitalism' Georges Doriot (Harward Business School, n.d.). The latter was initially founded for reasons of financing businesses set up by soldiers returning from their service in the Second World War. The most famous success story of ARDC was a home run achieved as a result from the initial public offering of the company 'Digital Equipment Corporation' worth 355 million US dollars in 1968 (ibid, n.d.).

Interestingly, at the same time as the Boeing 707 went into commercial service in 1959, a group of eight Californian engineers in Silicon Valley were unhappy with their current employer Shockley Semiconductors and decided to found their own company. The group met Arthur Rock, a young banker based out of New York, to ask for help to raise money for their new venture. Arthur Rock was able to raise the needed capital to enable for the eight engineers to start their new business. Later, the group became known as the "Traitorous Eight". Over the following decade the Traitorous Eight parted ways and started several multi-billion-dollar companies like Intel and Genentech. Many of the firms were backed by venture capital firms whose founders and partners where students of Georges Doriot

(Geller & Goldfine, 2011).

Many pioneers of the venture capital industry were involved with the Traitorous Eight, such as Arthur Rock, who was an early investor in tech giants like Intel and Apple, Gordon Moore and Robert Noyce, the founders of Intel, or Don Valentine who later founded one of the most famous venture capital firm ‘Sequoia Capital’ and became an early investor in travel and tourism success stories such as Kayak, Airbnb or Tourlane (Sequoia Capital, n.d.).

2.4.3. Evolution Consolidation & Dot Com Bubble

The burst of the dot com bubble in the 2000s has become a strong reference point in the sphere of venture capital and the global economy as a whole. In August 1995, the then young company “Netscape” marked the start of the first tech boom in history when the startup successfully went public despite operating for only 15 months (Vox, 2015).

The number of internet-related IPOs in the 1990s slowly triggered the burst of the bubble, whereas ten public offerings were made in 1995, and with a total of 18 nearly twice as many in 1996. These two years were followed by additional 15 IPOs in 1997 and 40 in 1998 (Vox, 2015). At that point in time, valuations of technology related companies were approximately 40 % higher than the market (McKinsey, 2016). By 1999 the number of initial public offerings reached 272. Finally, despite the stock market crash in at the end of the first quarter of 2000, 148 companies decided to go public (Vox, 2015), paired with a valuation of the sector 165 above the remaining market (McKinsey, 2016). Many, if not most of the young companies went bankrupt during that crash, when the Nasdaq imploded due to a shortage of additional investors. By the end of the year, 280 technology companies listed in the Bloomberg US Internet Index faced a loss of nearly two trillion US dollars in valuation (Vox, 2015 and McKinsey, 2016).

Recent Developments

Since the dot com boom, 2018 was the year when a similar level of venture capital was raised from limited partners which amounted to more than 250 billion US dollars of which 55 billion were placed in funds for travel and tourism tech (KPMG, 2019).
The big difference between the two booming decades is though the investment approach: the dot com bubble was created with the help of the public, whereas venture capital driven tech startups are majorly financed privately and hence do not affect the economy in a comparable way (yet). As the chart below (Figure 9) illustrates, the number of initial public offerings in the technology sector has significantly decreased and remained at a level similar to the time period of the 1980s (Vox, 2015).

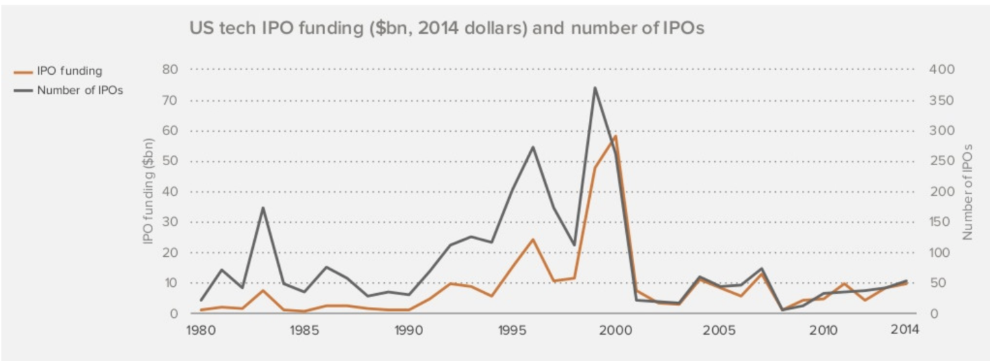

Figure 7: US tech IPO funding and number of IPOs (Lee, 2015)

In addition, the earnings of technology companies increased together with their stock prices, which was not the case for the dot com bubble in the 1990s (Vox, 2015).

Throughout the years, companies have developed a strong preference to run their firms privately and avoid offering their company's stock to the public. Hence, the reason why initial public offerings are performed is often related to states and municipalities forcing entities to go public to provide more investment opportunities to individuals. As an example, the excess of a threshold of 500 shareholders triggers the requirement to go public according to the Securities and Exchange Commission in the United States. Clearly, the driver of such regulations is to avoid the limitation of investment opportunities for the general public. In general, the upside of an investment decreases the later the stock is made available. In turn, this explains the downside of the current trend for the public (Vox, 2015).

2.4.4. Significant Milestones Triggering Growth of Venture Capital

It is worthwhile to note that several forms of venture capitalism have developed throughout the past years. Especially investments at an early stage have increased in the last decades (Ewens et al., 2018). So called "seed investments" are often made even before the startup has recorded any revenues. The next stage is called "early stage", referring to capital contributions where revenue growth can be reported. Investments at growth stage shall help to even further accelerate the growth of a successful company, and is referred to as Series A, following the alphabet for every additional fundraising round (Forbes, 2018).

Throughout the last decade, venture capital funds have started to amend their strategies quite significantly. In the past, when venture capital firms were not as popular and investment opportunities were rarer, venture capital invested was more concentrated: funds tended to invest higher sums in one startup, thereby taking higher risks. By today, this trend has shifted towards more risk averse investment behaviors. To go into detail, firms have started to widen their portfolios, spreading risk and investing smaller amounts in a higher number of startups to achieve diversification (Ewens et al., 2018).

Ewens et al. (2018) argue that several technological shocks triggered the change in investment behavior. One example of such technological shock is *cloud computing*. Amazon was the first company to introduce such technology in 2006. Cloud computing was the first invention allowing to store data elsewhere, i.e. not on investment heavy hardware. This invention allowed companies to invest limited sums in data storage capabilities, allowing for slow and asset-light scaling. This way entrepreneurs could experiment with technological ideas without a major capital commitment. As a result, risk was reduced and allowed for trial and error until a startup would find a product or service that would fit the market. Reversed this means that venture capitalists are no longer in need to invest too high amounts as starting a business has become more cost efficient (Ewens et al., 2018).

Next to cloud computing gaining popularity, activities of new intermediaries have supported the diversification of the startup environment: *Accelerators and incubators* are institutions catering to startups with educational purposes and infrastructure and taking a share of chosen companies in exchange or similar (Ewens et al., 2018). The idea behind accelerators is to create awareness and make it easier to identify potential in startups. In that regard, mentorship is mostly a strong component which also provides investors additional insight into the team and their way of working. An accelerator program can take different forms from online and self-paced to on-site sessions. Typically, every startup's progress is monitored during such program with a so-called 'demo day' at the end of the sequence. This presentation is basically the highlight of the period, where startups pitch their ideas to investors and work hard on fundraising capital on the spot. Being accepted to a renowned accelerator program is usually rather difficult, as demand is very high. Acceptance rates are mostly below five percent. Success of accelerators is usually based on the number of successful performances and exits of the batches, comparable to universities with graduates. Next to Y Combinator based in Silicon Valley, other examples of renowned accelerators are 500 Startups from the same area or Techstars based in Colorado, USA. As a matter of fact, many startups aim to trigger or indeed accelerate their growth by joining a reputable accelerator program, allowing them to build a clear reputation for their fundraising activities (Forbes, 2018).

Next to technology and innovative intermediaries, also more and more diverse financial instruments are used to make investments: most popular remain to be *equity investments and convertible debt,* treating the contributions as common or preferred stock or "loans" converted into equity at maturity (ibid, 2018).

Innovations in strategy and technology as described above allow for the prosperity of the sector, whereas numerous other factors come into play when it comes to the development of venture capital investments in startups.

2.4.5. Most Famous Venture Deals and Returns

This section aims to shed light on industry dynamics and to give the reader a better understanding of the capital bound and involved in startup investments.

Social Network Facebook

Facebook as the first social media network that took off ground was an incredible and initially unexpected success for its investors: the company went public with 16 billion US dollars at a valuation of 104 billion US dollars. At 15% equity share, the early investors Accel Partners and Breyer Capital had initially invested at an amount of 12.7 million US dollars in 2005. At time of investment, Facebook (namely "Thefacebook" at that point in time) recorded a high (private) valuation of 87.6 million US dollars already, which was a high figure by itself. The fact that the same valuation further increased significantly after their IPO speaks for itself, despite the investment appetite took about 12 months to realize among the community. Facebook's next investment round, i.e. its Series B, was backed by strong user growth and revenues and was as high as 27.5 million US dollars boosting the company to a total valuation of 468 million US dollars. As previously mentioned, Facebook is known to be the trigger for seed investor Accel Partners' "Accel's IX" fund as best performing venture capital fund so far (CBInsights, 2019).

Communication Platform Whatsapp

One of the known examples was social media platform Facebook's acquisition of the communication application Whatsapp in 2014. The specific case is worth mentioning as it was, at a total value of 22 billion US dollars, the biggest acquisition of a company with backing from a venture capital firm. Facebook itself wrote history with their initial public offering in 2012 at 16 billion US dollars and at a valuation of 104 billion US dollars. The two seed investors Accel Partners and Breyer Capital reported high returns resulting from initial investments amounting to nearly 13 million US dollars for 15 % of equity shares in 2015. Five years prior to Facebook's IPO Accel had sold 500 million US dollars of its shares, which still left the company with a considerable stake in the company, valued at nine billion US dollars. The outcome was significant, whereas Accel's IX fund is considered one of the best performing funds within the venture capital environment (CBInsights, 2019).

2.4.6. Venture Capital Today

Considering the growth in venture capital throughout the last years, scepticism is slowly emerging and referring to a so-called 'Tech Bubble', similar to the experience made in other industries and sectors. As most of VC investments are long-term, only a handful of deals have provenly turned out to be a great success. Especially the turn from private investments to an initial public offering often reveals the truth behind valuations of startups, as the recent example of co-working giant WeWork has shown (The New York Times, 2019).

Other opponents to venture capital claim that the business model is outdated and will soon be replaced. As data displayed in the chart below (Figure 7) shows, funding of startups has increased significantly, especially within the last two years, whereas also funds of venture capital firms have experienced high capital influx (Suster, 2019).

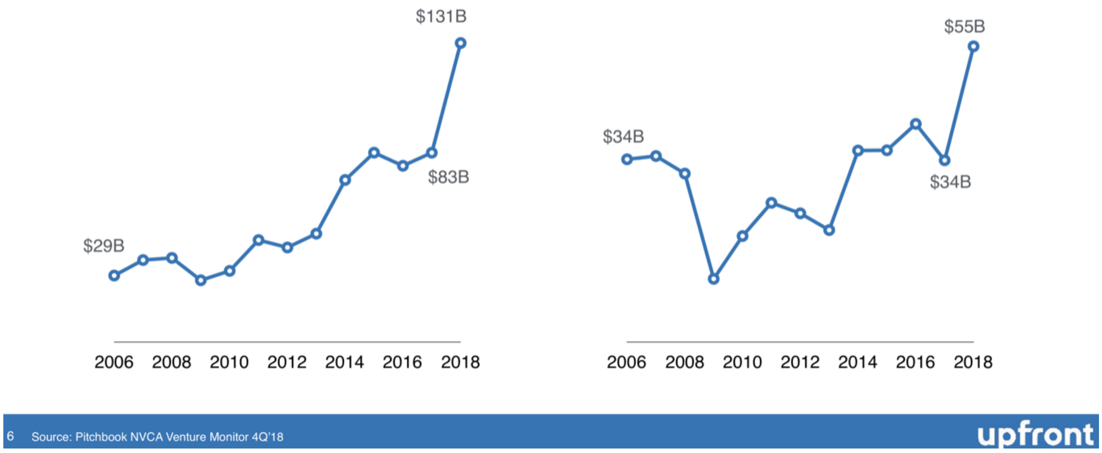

Figure 8: VC Investment in Tech Startups (left) and monies raised by VC funds (right) (Suster, 2019)

An important aspect to take into consideration when analyzing the chart is that most recent investment rounds completed in the last years were late stage investments. Hence, capital was placed in mature startups with significantly higher nominal share prices. Capital requirements per fundraising round would hence be much higher than in early stage rounds and amount to around 100 million US dollars (ibid, 2019).

Another trend in venture capitalism is the shift of public offerings to a later stage, often referred to as *private-market IPOs.* These big investments rounds have practically created a new segment in the venture capitalist's portfolio. As a result, a larger share of the startup's value remains in the private market (under the assumption that the valuation is accurate). So to say 'older' companies founded before the year 2000 like ebay or Amazon initiated their public offering already three years after initial investments. At that time, Salesforce and Google were rather late with their IPOs after five and six years, respectively (ibid, 2019).

The timeline below (Figure 8) shows a selection of public startups founded after 2006. The trend of later public offerings is obvious. Today's benchmark for initial public offerings has risen to twelve years on average. Applying this approach to Google or Amazon would result in additional ca 200 billion US dollars for the private markets (ibid, 2019).

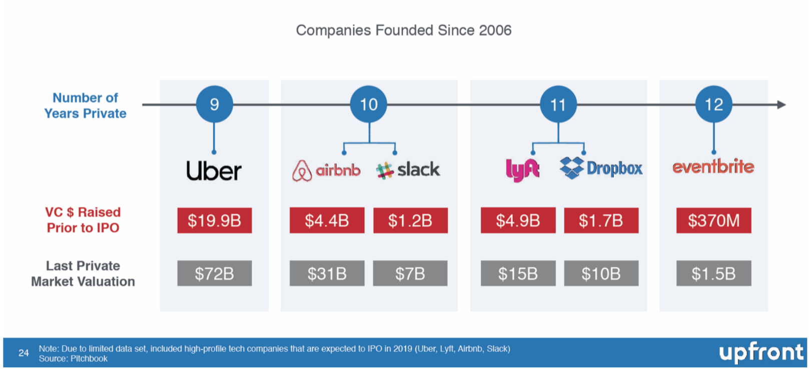

Figure 9: Companies Founded Since 2006 (Suster, 2019)

2.4.7. Recent Outlook - the strong year of 2018

Despite economic uncertainties, venture capital investments have remained steady throughout 2019, as research by KPMG revealed. Despite a decline was reported in comparison to the performance in 2018, the year of 2019 is expected to outperform all years prior to 2018. A considerable success factor of the strong year of 2018 were several massive deals of untypically high tickets ranging beyond 100 million US dollars, as previously discussed (KPMG, 2019).

It is out of the question that venture capitalists are becoming more cautious, paying more attention on the feasibility of business models and expected profitability. The past two years have shown strong results in returns of unicorn startups, i.e. startups achieving a valuation at or above one billion US dollars, allowing for liquidity of venture capitalists for the coming years (ibid, 2019).

The main focus of investment branches are the industries of financial technology, transportation, mobility and healthcare, whereas also biotech is expected to be a focus for the coming years (ibid, 2019).

2.5.2. Venture Capital Investment in Travel-Related Startups

General

The steady increase of tourism and related industries discussed throughout the previous chapters leads to further discussion of the resulting requirements for innovation not only in terms of space, but also technological efficiencies required to handle recent phenomena. This chapter goes into further detail on innovative concepts disrupting the industry and the role venture capital plays therein (The Travel and Tourism Industry, 2006).

Recent research by Deloitte found that it is not only tourism as a whole, but rather tourism tech that has experienced significant growth within the last decade. To go into further detail, the application of technology and innovation in the industry allowed for the establishment of new flourishing segments with a majority of them categorized as startups (Deloitte,2019). Especially artificial intelligence and blockchain technology are making their way into the tourism and travel industry (CBInsights, 2018).

Many of the new developments allow for eased and simplified transactions and (booking) processes and thereby simplify the process of planning and creating one’s experience for the traveler. This is also a clear explanation for the way technological advancements created a more efficient way of travelling, saving costs of intermediaries such as brick and mortar travel agencies and lengthy, insecure or unreliable booking processes (Deloitte,2019).

Recent Investment Behavior and Examples

Going beyond booking and search tools, investments in travel technology have peaked in 2017 after five years of continuous growth in the number of transactions, with a total invested amount of 5.3 billion US dollars and 348 transactions, illustrated by the chart (Figure 10) below. For the year of 2017, the startup ‘Virgin Galactic’ locked the biggest deal of one billion US dollar. The Public Investment Fund of Saudi Arabia entered into the transaction with the space travel company to diversify its investment portfolio (CBInsights, 2018).

Airbnb, with the second largest investment deal in 2017, has been performing top level in travel tech startups since 2014. The amount of 2017 settled close to 450 million US dollars and marked the unicorn's Series F. Interestingly, most investments in the sector of travel technology are early stage investments, i.e. as mentioned performed by angel investors or, if by venture capitalists, at seed or Series A stage. This observation might be a result from the rather young history of tourism and travel technology. Within the time period of 2013 to 2017, the share of early stage investments has decreased, showing development and progress in the sector (ibid, 2018), see Figure 10.

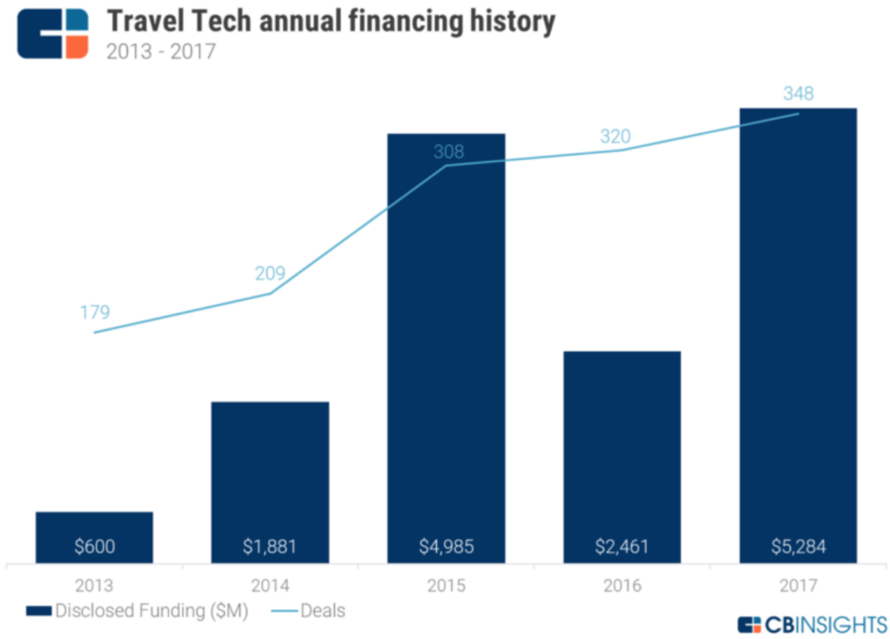

Figure 10: Travel Tech annual financing history (CBInsights, 2018)

As previously discussed, it is not only companies with the investment activity as their main business investing in startups. This also holds true for the sector of tech travel, whereas the number of deals with the involvement of corporations increased from 18 to 88 during the period of 2013 to 2017 only. Known examples are Amadeus Ventures or Expedia, both active in the branch of online travel agencies (OTAs). Amadeus itself is the largest intermediary in B2B travel bookings, i.e. connecting hospitality and air travel providers.

Expedia landed the largest deal in 2017, supporting an Asian startup called Traveloka with 350 million US dollars, whereas the total round amounted to 500 million US dollars. Next to Traveloka, Expedia is also invested in the platform Desegar, a unicorn startup, which issued its first public offering in 2017 (CBInsights, 2018).

For the case of OTAs, it is not only the opportunity to gain easier market entrance - another strong reason for the continuous acquisitions and investments is the urge of staying relevant to the consumer: their business models build on a high market share, which they are constantly trying to preserve (ibid, 2018).

Next to intermediaries, hospitality service providers such as AccorHotels or Hyatt are becoming active in startup investments, too: Hyatt placed investments in the home-sharing startup Oasis, now summing up to an investment of 35 million US dollars. AccorHotels, on the other hand, has been focusing on several rental brands, namely 'onefinestay', 'Travel Keys' and 'Squarebreak', which were merged in late July 2017 (Skift, 2017). Further, Starwood investment arm Starwood Capital decided to back the young budget hotel brand Yotel (CBInsights, 2017).

2.5.3. Travel Technology Investments by Region

The pie chart below (Figure 11) analyzes the investment behavior from a different angle, the US has remained the country hosting most of the startups at 13% of the global amount, followed by India with 10% of tech tourism startups based there. The third biggest host is China, explained by the recent boom of travelers triggered by a rising disposable income and growing middle class (CBInsights, 2018).

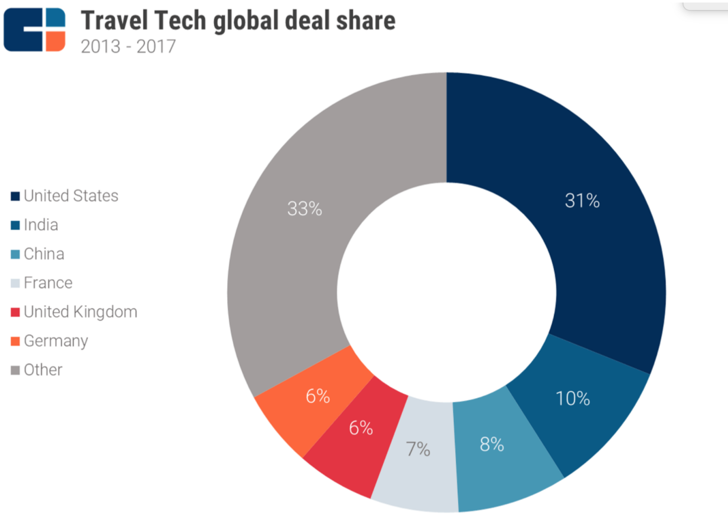

Figure 11: Travel Tech global deal share (CBInsights, 2018)

On a global scale, the top six of the most active venture capital investors in travel tech are illustrated in the spider chart below (Figure 12). Only the Spanish company Caixa Capital Risk and the German venture capital firm Global Founders Capital are not based in the United States. In terms of transaction figures, deals though split rather evenly over the globe, with totals of 17, 17 and 15 located in the United States, Europe and Asia, respectively. This spread indicates that the focus of travel technology is not centralized on one continent or region (CBInsights, 2018).

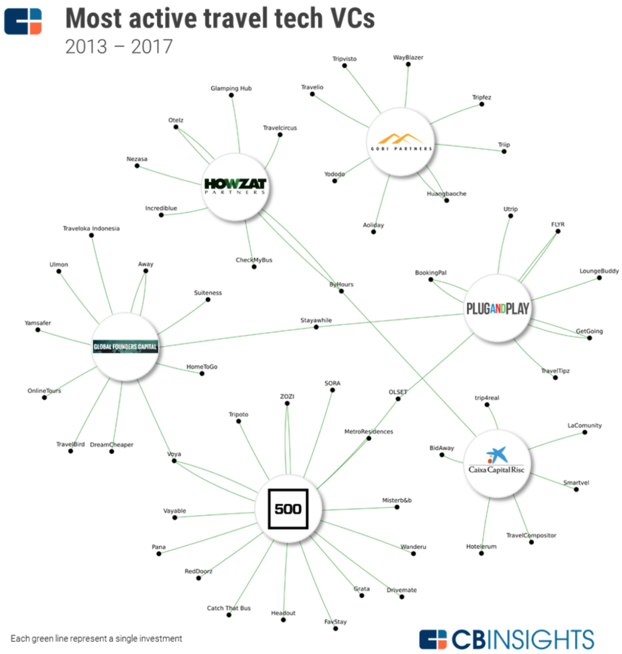

Figure 12: Most active travel tech VCs (CBInsights, 2017)

2.5.4. Venture-backed Tourism Startups

For the purpose of this paper and to shed light on recent developments on the investment side of tourism startups, several tourism startups backed by recent venture capital investments will be discussed.

As mentioned in the previous section, many tourism-related startups have set up their business in the online booking sphere: Connecting buyer and seller by consolidating offers and providing transparency for the end customer. As per the most common business model, every successful purchase contract includes a share for the online intermediary. Alternatively, some OTAs are ready to take higher risks by buying inventory from hotels and airlines and selling them through their platforms (Forbes, 2017). Other areas of tourism expertise and established startups include short-term rental, Android and Apple applications as well as marketplaces. Venture capital firms have become aware of the potential of those new developments and are enhancing their investment appetite therein. In the period between 2013 and 2018 alone venture capital investment amounted to above one billion US dollars. Despite this considerable amount, this shall be put into perspective by mentioning startup Airbnb’s fundraising success of three billion US dollars within the same time frame (TechCrunch, 2018).

Tourism-industry focused research and news organization ‘Skift’ suggests that one of such intermediaries reporting significant growth is ‘Aviasales’, based in Phuket, Thailand. The startup states that it has been reporting a growth rate of 30 % year on year since 2015, while staying profitable (O’Neill, 2019). Interestingly, the venture capital firm iTech invested an amount of ten million US dollars in the startup in February 2014 (Lomas, 2014). Aviasales is so far most prominent in Eastern Europe and Russia and competing with its main rivals ‘Skyscanner’ and ‘Yandex’, based in China and Russia, respectively (O’Neill, 2019).

Another example of a tourism startup that recently raised raised venture capital is so-called ‘Beekeeper’. The company focuses on communication technology, allowing hospitality employers to better connect with their staff. At the same time it facilitates communication with hotel guests. Beekeeper’s flexibility in adjusting to structures clients already have in place. Three venture capital firms, namely Atomico, Keen Venture Partners, and Samsung NEXT injected a total of 26 million US dollars for the scale-up of the Swiss startup (Skift, 2019).

An additional example in a slightly different area of tourism but as well backed by venture capital is Australian startup ‘Typsi’. The company raised 12 million US dollars through angel investors as well as the EHL Group. The latter is involved in their business model, offering online training courses in the hospitality sector to counteract the growing scarcity of human capital in the industry (Skift, 2019).

The above examples show that travel and tourism related startups require rather cash intensive scale-ups. Therefore, experts agree that acquisitions of competitors or mergers with other industry players offering products supporting the extension of offerings are fundamental to gain market power and fast scale-ups, especially when entering into new markets (TechCrunch, 2018). The partnership between the Americal transportation application 'Lyft' with the Chinese provider 'Didi Kuaidi' in 2015 is one creative option of conquering a new territory. Basically, the two ride-hailing companies exchanged their business infrastructure and know-how to allow each partner to start its operation for Lyft in China and Didi Kuaidi in the United States: customers keep using the application they are familiar with so that a passenger booking a ride through Didi Kuaidi in the United States will be picked up by a Lyft driver and vice versa. For the case at hand, the companies are also considering joining forces for product development as they do not see significant overlaps in their customer bases. It is such partnerships that shall allow for growth, whereas the pioneer in ide hailing remains to be US company 'Uber' with a valuation beyond 50 billion US dollars (The New York Times, 2015).

3. PRIMARY RESEARCH - Venture Capital for Tourism-Related Startups

Considering the analyzed data and sources within the Literature Review of this paper, the primary research focuses on a potential correlation between venture capital investments and tourism startups in respect to the overall research question "In which way are travel and tourism startups considered a relevant category for venture capital investments?".
Primary research shall lend its tools to investigate unknown potential or reasons for a misfit of venture capital investments with tourism-related startups.

3.1. Methodology

As outlined above, the intention of this paper is to investigate whether investments in travel and tourism-related startups are financially lucrative for venture capital investors.
A mixed method approach was chosen by the author to collect data and conduct the study. To elaborate on the collection of primary research, the author will use the mixed method design approach which typically includes a combination of qualitative and quantitative research data. On the one hand, including quantitative data for closed-end information and statistical analysis to achieve results of numerical nature. On the other hand, the qualitative data is more subjective and will include open-ended questions which will allow for room for interpretation by the reader (Creswell, 2014). The combination of both approaches allows to cover different aspects, relevant to the overall research question. Hence, the main reason for choosing a mixed research method lies in its ability to provide a more diverse and varied insight into the subject matter of venture capital investments in the travel and tourism industry.

Quantitative data will be collected in the form of an online survey using the application Google Forms. Furthermore, the survey shall serve as a method to validate the responses resulting from the interviews with interviewee Mr Markus Lang in order to strengthen such statements. To provide further detail, the online survey will be based on Likert scale questions combined with dummy (0/1) questions. Appendix A attached shows a copy of the conducted survey.

In terms of sampling, the author's personal network in both the travel and tourism industry, as well as connections to major venture capital players globally shall assure a strong basis for high quality and first-hand information. The author's sample size amounted to about 200, resulting in a response rate of 14 %, based on 27 responses recorded. A selection of all relevant industry stakeholders was included in the online survey, meaning venture capital firms focusing on the travel and tourism sector, startup founders with significant experience in funding companies in this field (currently in the process of growing their own businesses), as well as founders who have foregone an exit process with a company in the travel and tourism industry.

The primary research was conducted in cooperation with the accelerator Next Floor GmbH - an Austrian association consisting of more than 1000 active travel and tourism investors who provided access to its network, startups and partners to enable a solid sample size. Thus, the international composition of the sample consisting of European based investors as well as US-based investors coming from the Y Combinator network allowed for a representative study outcome providing insights into a market-wide scale.

Further, the author conducted one semi-structured interview with industry expert Mr Markus Lang who is partner at Europe's largest seed venture capital fund 'Speedinvest', transcript of which attached as Appendix B. The interviews gave insight into the investor's take on the development of travel and tourism related startups and potential appetite to place monies in this sphere. The next chapter will focus mainly on the (more representative) survey outcomes but will incorporate specific quotes that resulted from the interview conducted.

3.2. Data Analysis

Considering the nature of collected data as nominal data points, a simple survey data structure will be applied.

Throughout the conduction of the online survey and in-depth interviews, the author followed exploratory data analysis in order to keep the option of further adjustments during the data collection process. Next to the aim of thereby collecting as many valuable data points as possible, limitations and/or challenges resulting from the primary research could be detected. The reason for emphasizing the application of exploratory data analysis lies especially in the link between the face-to-face interview and the online survey, whereas information gathered from the first shall impacted the set-up of the online questionnaire (Approaches to the Analysis of Survey Data, 2001).

3.3. Results

Respondents' Demographics

The pool of respondents to the survey amounted to a total of 27. Clearly, the survey was conducted anonymously, whereas the initial survey question targeted a first separation of the investors in terms of investment typology: As it turned out, 44 % of the sample resembled the majority of the respondents as angel investors, i.e. individuals placing their monies privately as previously discussed in this paper. The second largest group were partners of venture capital firms with a main characteristic of rather risk affine investments in the startup world. Finally, a small number of respondents invest corporate venture capital (15 %) and only a selection as part of a family office or business consultancy.
Further to the demographics of the survey sample, nearly two thirds of respondents are based in Europe, 40 % in the United States and 11 % in the APAC region. Slight confusion of the survey outcome shall be avoided by indicating that multiple choices were possible as firms might have offices on several continents.

Respondents' Investment Behavior

Moving on to the respondents´ investment behavior, a total of 78 % confirmed investments in the travel and tourism industry, narrowing down the total sample to 21 respondents. This high figure gives a first indication for the interest of venture capital investors in this growing sector. Interestingly, and taking the composition of investment types into account, a question relating to 'the typical investment amount per startup' revealed a range of 10,000 to 50,000 US dollars as most common, followed closely by a higher amount of 50,000 to 100,000 US dollars. 33 percent invest monies between 100,000 and 500,000 US dollars per startup, and only 25 % of respondents are used to placing investments in the range of millions of US dollars in the same investment opportunity. Of all 21 respondents who have made an investment into a travel and tourism related startup, one third indicated that they have invested in ten to fifteen startups in total. 19 % have indicated a number of five startups in their portfolio. Other respondents count between nine and more than 30 startup investments.

Investments in Travel and Tourism Related Startups

To go into further detail on the respective portfolios, 33 % record a number of six of the total investments related to travel and tourism. Further interpretation on whether this higher figure is linked to those respondents managing larger portfolio cannot be retrieved from the survey data. It can though be concluded that none of the respondents have dedicated their entire portfolio to this investment segment as none of the respondents have invested in more than ten to fifteen travel and tourism related startups. Moreover, 75 % of investors have placed monies in only one to three startups active in the industry of discussion. The reason for this rather low percentage might have different roots: on the one hand, the low number might be related to the investor's investment strategy and related risk diversification or, on the other hand, hesitations could result from the lack of maturity of the investment sector or negative experiences with the branch.

Startup Investment Characteristics: Timing and Location

To gain further insight on the travel and tourism investments made by the sample, respondents were requested to indicate the timing of their investments. As it turned out, nearly all monies were placed in this millennial, whereas the number has been increasing of the 21 respondents, ten invested in travel and tourism as in the dotcom era, i.e. between 2001 and 2010, and 13 invested in such startups within the last 10 years. This increasing figure is clearly promising and confirms a rising interest in the segment. Also, Mr Markus Lang confirmed that tourism related deals are on the rise and pinpointed the two seed investment rounds for the startups ‘Duffel’ and ‘Impala’.

The survey further entailed questions related to the geographical location of investments placed and the industry branch they operate in. Out of the pool of respondents it can be concluded that investments were exclusively made in North America (67 %), Europe (54 %) and limited in Asia (33%).

Travel and Tourism Startup Characteristics

Less than five percent of startups are active in the service industry only, whereas investors seem to see more potential in pure software-based products or the combination of service and software focused businesses. Reasoning for this trend will most probably be the respective scalability of the startup. In terms of segments, respondents were asked to select from the core industries of accommodation, leisure and attractions, food and beverage and travel. Results showed that most monies are placed in the accommodation and travel niche. Attempting the drawing of conclusions in relation to the secondary research conducted, the tendency to accommodation might be linked to the industry of real estate further boosting the segment. Same shall bet true for the area of travel, as transportation and infrastructure are two sectors in constant demand of improvement and efficiency, which is an hypothesis that also Mr Markus Lang assumed: as per his response to his expected developments in the industry, he especially stressed growth in infrastructure developments on B2B level.

Investments Returns

Moving on to the next survey question, the intention was to detect the lucrativeness of travel and tourism related startups. A first filter narrowed the number of remaining respondents down from 21 to 11, as only half of the travel and tourism related startups have gone through a sale or initial public offering. Interestingly, more than 80 % of those startups that were already sold resulted in a return for the investor. Return multiples seem promising ranging from two to twenty, whereas 33 % recorded a return multiple of ten and 22 % a return multiple of five on average.

In terms of timing, 56 % of respondents have made the discussed exits in the time period between 2001 and 2010, and 33% within the current decade.

Future Prospects for Travel and Tourism Related Startups

The final survey questions focused on the future outlook of startup investments related to travel and tourism. The concept of a LIKERT scale was applied to identify the popularity of the rather new and not yet too common investment segment: the vast majority of investors (62 %) indicated a high likelihood for their future investments in the segment of travel and tourism. This result was further underpinned by the final question the individual take on the future of venture capital in the travel and tourism industry. As an example, one of the investors stated that '*the market will increase and that this is not only due to the fact that tourism is still growing, but also that business cases will become more attractive.'* Another respondent indicated that *'a new wave of players will enter the market that will disrupt old travel software incumbents.'*. B. As a conclusion, the future of travel and tourism related startups seems to be very promising as investors are awaiting new concepts and movement in the sector. A similar position was confirmed by Markus Lang, who shares the opinion that tourism related startups gain increasingly in importance and have become an interesting niche. Interestingly, he points out that it is especially the region of Europe, where investors seem to have a greater understanding of the industry's potential and bases this assumption on *'a longer travel tech history of companies like booking.com'*. He further outlines his strong belief and the likelihood that he will place investments in travel and tourism startups within the coming years.

4. Conclusion and Future Research Recommendations

The aim of this paper was to give the reader a general but thorough overview of venture capitalism and its development in recent years, with specific focus on the travel and tourism industry. Focus was put on main structures and principles, but also industry examples lent themselves to achieve a considerable level of understanding.

Primary research conducted in the form of an online survey allowed for the collection of firsthand data from industry experts and their take on travel and tourism startups in today's time. Results showed that investors' overall trust in the strong performance of travel and tourism related startups is high and that investors of all types such as family offices or venture capital funds are active in this field. It shall though be noted that the sample size was subject to time constraints and availability so that results must not lead to excessive interpretation or generalization.

For future research purposes it is recommended to conduct a similar study on a larger scale to gain further understanding on investment behaviors and the future outlook of investments into travel and tourism related startups.

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Appendix A: Survey Questions

Which type of investor describes you best?
Where are you based?
Have you ever made an investment in a travel or tourism startup?
What is your typical investment amount per startup?
How many investments in startups have you made in total?
How many of your investments are travel or tourism startups?
In which time frame have you made investments in travel and tourism startups?
Where are the travel and tourism startups you invested in located?
In which segment of the travel and tourism industry do your investments operate in?
How would you categorize your travel and tourism startup investments?
Have any of your travel or tourism startup investments been sold yet (M&A, IPO)
Have you achieved a financial return on any of your travel or tourism startup investments yet?
What was the average return multiple across all your travel and tourism startup investment?
In which time frame have you achieved the returns?
How many of your travel or tourism startup investments are still active?
On a scale of 1-5, how likely are you to invest in a travel or tourism startup in the next 10 years?
What do you think the future of venture capital investments in travel and tourism will look like?

Appendix B: Transcript of Interview with Investor Markus Lang

Transcript of Interview **Date: 23.12.2019**

<u>**Interviewee: Mr Markus Lang. Partner at Speedinvest, Europe's largest Seed Capital Fund based in Austria.**</u>

As an active angel and venture capital investor, what is your take on the travel and tourism industry as an investment segment?

Definitely growing & super interesting market, especially in Europe where investors understand the potential better and where travel tech has a long history, e.g. booking.com.

Would you confirm that travel and tourism start-ups become more apparent in your deal flow?

Yes -- Especially lately travel tech became a hype. Rounds such as Duffel or Impala, where globally leading vc firms invest at seed stage are good examples.

What do you think the future of venture capital investments in travel and tourism will look like?

More investments will happen, especially in b2b / on Infrastructure level.

On a scale of 1-5 how likely are you to invest in a travel or tourism start-up in the next 10 years?

5.

**For the avoidance of doubt, this interview transcript is composed in bullet point format.*