

T2RL'S First View is our rapid analysis of breaking news. It helps provide perspective, putting the facts in the context of our wider and deeper knowledge of the market.

Zuckerbergs's New Clothes

T2R Staff

The Facts

The imminent IPO of Facebook on 18 May has caused a rash of speculation about the likely future impact of this and other social networks. A wave of self-proclaimed experts in Web 2.0 has emerged to announce that applications must be "Social by Design" if their owners are to have any hope of survival in the new media world.

The Analysis

T2RL is not a Luddite organisation. Our very existence is predicated on the intelligent application of technology to the business problems of the travel industry. Despite this we find ourselves feeling somewhat like the little boy in the story who proclaimed that the Emperor's new clothes did not in fact exist.

There is little doubt that the so-called Web 2.0 is driving a bubble, just as the late 1990s dotcom craze drove a bubble. When that bubble eventually burst it destroyed a lot of wealth and there is little doubt that the same will happen again. If we could only predict exactly when and where, we could make a fortune. Since we can't, we should at least try to understand what is actually going on.

In the 1990s the early success of businesses such as Amazon and eBay led many otherwise sensible business people to believe that the road to riches involved little more than building a web site and adding ".com" to the company name. This applied to both start-ups and to mature businesses. In the case of the airlines - in North America and Western Europe at least - a kind of mania took hold in which the reduction of distribution costs by a shift to direct online sales became the overriding priority. What almost nobody considered was the impact of a wholesale shift to a distribution channel that was almost totally transparent and in which the consumer could switch preferences in a matter of seconds to achieve a dollar off the fare. The resulting impact on achieved yields was such that it is now the received wisdom in the industry that most airlines cannot be profitable simply by selling seats on flights. The only ones that can are the genuine lowest-cost operators in each market. They now set the market price and woe betide any airline whose costs are too high to allow it to make money at that price.

Not everything that came out of the .com bubble was bad of course. Airlines were able to establish relationships with their customers more effectively than in the days when travel agents jealously guarded customer information, supplying the airlines with the bare minimum needed to populate a PNR. As the fight back against yield erosion began to take shape, the airlines were able to use their online presence to promote a range of ancillary fees and services that allow them the hope of returning to profitability. The world has moved forward and much as some airline managers might like to return to the good old days, that isn't going to happen. Online merchandising and selling are here to stay and the airlines that do it well are the ones that will survive and prosper.

Now we have the explosion in social networking. Facebook has almost a billion members while by February this year 290 million tweets per day were posted on Twitter. These numbers would be higher still if it were not for the Great Firewall of China. RenRen, the "Chinese Facebook" has over 160 million users and Sina Weibo, a microblogging site similar to Twitter claims 300 million. Other social networks including Qzone and Kaixin also have tens of millions of members.

This number of users - a significant proportion of the entire population of the planet - must drive business opportunity. That at least is the assumption that is driving the wildly speculative valuations being placed on the companies involved. In turn these are pushing the commentating community into a frenzy of pronouncements such as the one referred to above about the absolute necessity of being "social by design".

Airlines and other travel companies can absolutely exploit social networks as part of their overall communications strategy. At times of disrupted service Twitter can be the best way to communicate rapidly with large numbers of travellers. A Facebook fan page is an ideal location to advertise a seat sale or to respond to adverse publicity. But the core business of an airline remains the safe and efficient transport of passengers from origin to destination at a price and a service level that the customer finds attractive enough to buy. No amount of "social design" is going to change that, nor alter the fact that price, schedule and service levels are the key competitive differentiators that will drive consumer choice of service provider. Intelligent schedule planning, effective inventory control and efficient distribution channels are the key systems for airline executives to worry about. Social network strategies are certainly not without value but they come quite a long way down the priority list.

The Speculation

The IPO will go ahead in two weeks time and Mark Zuckerberg will become immensely wealthy. Millions of people will use Facebook to post videos of cute kittens and plan their next night out on the town while being bombarded by increasingly intrusive advertising. Airline marketing executives will find innovative ways to use social networks for customer communication and over time Twitter, RenRen and the rest will become an important, but not dominant, part of the market communications portfolio.

And Mr Zuckerberg might buy a new suit to wear with his trademark flipflops.