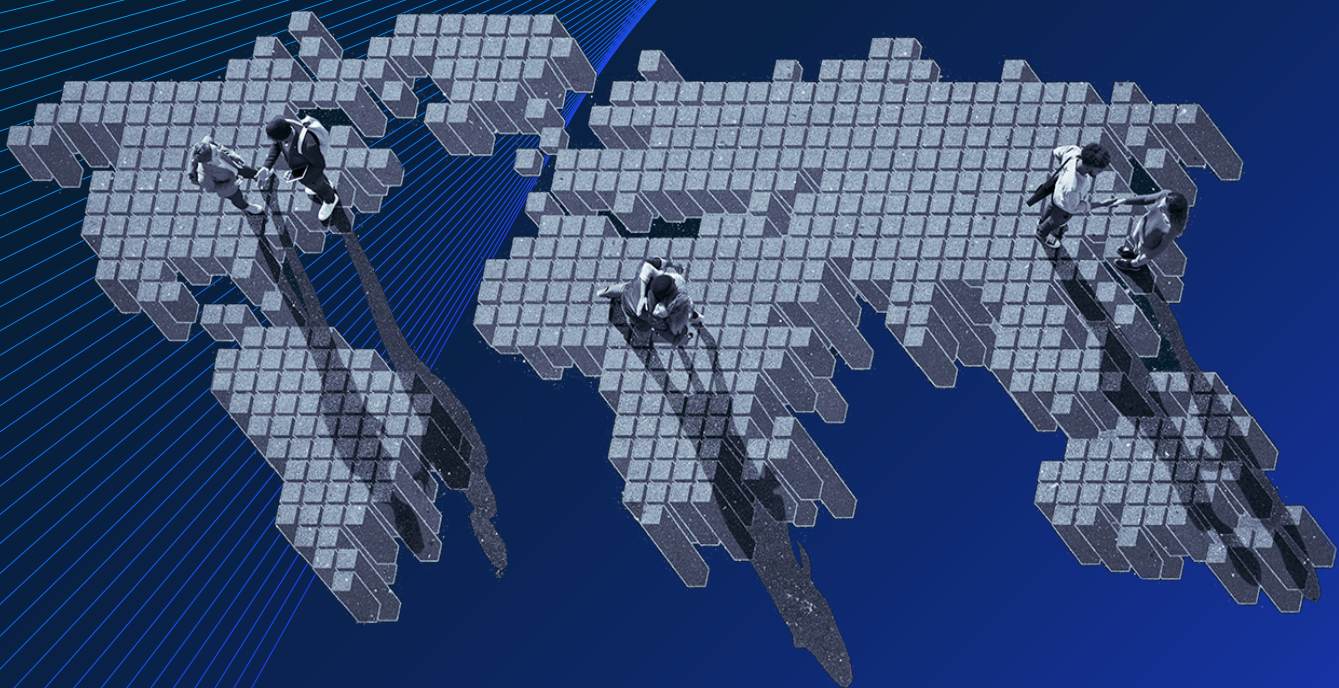


Travel startups: Disruption from within—or not?

February 2023



In many industries over the past 20 years, startups have played an essential role in spearheading innovation that benefits both consumers and industry participants. The same is true for the travel industry. For instance, the rise of booking platforms has increased transparency and convenience for travelers, and new software platforms have helped incumbents and independent providers to serve their customers better.

Historically, travel startups have been underfunded when compared to startups in other sectors. Looking back over the past 15 years, the travel and tourism industry received around one percent of funding for startups across all industries.¹ This relatively low level of investment stands out in contrast to the industry's size: Travel and tourism contributed to over 10 percent of global GDP in 2019.² These factors suggest that it's a tough industry in which to raise money.

Despite these funding challenges, and unprecedented industry uncertainties, over \$27 billion worth of investments were poured into travel companies from 2020 to 2022. In fact, in 2021, investment set a new record of just under \$11 billion—indicating that investor appetite has not only returned to pre-COVID-19 levels, but even surpassed it.

Many success stories exist of travel startups that attracted considerable investment throughout the pandemic, and emerged stronger from the crisis. This was likely due to the way these businesses catered to shifting traveler preferences—such as the demand for short-term rentals and new experiences—and that the market consolidated as larger incumbents acquired startups with unique value propositions and growth potential.

Although the South Korean startup Yanolja is not known to many travelers outside of Asia, its pandemic funding of \$1.7 billion—constituting 85 percent of its funding since inception in 2005—was second only to Airbnb between 2020 and 2022. This full-stack hospitality service provider sells accommodation, transport, and leisure activities. Investors believed in the company's vision of becoming a one-stop shop for South Korean travelers and providing technology solutions to digitize hospitality in the region. Similarly, the virtual corporate travel and expense management company TripActions received \$1.8 billion in funding since 2020, accounting for around 79 percent of its total funding. TripActions emerged as the funding leader of the struggling business travel segment, receiving funds to consolidate a distressed market. AvantStay attracted \$0.8 billion by targeting niche luxury short-term rentals and facilitating investor participation in rental properties. Several private equity (PE) firms were convinced by AvantStay's value proposition in times of rising short-term rental demand—a trend accelerated by the pandemic. In another example, On Location Experiences, that offers premium packages for major sports and entertainment events, was acquired by entertainment giant Endeavor for over \$0.7 billion, possibly fueled by consumers' increasing desire for unique experiences and events.

Given this context, this report presents an overview of the travel startup environment and how the funding landscape has evolved across geographies and categories of travel startups. It also examines the types of investors funding these businesses and the types of travel startups they choose for investment. The report concludes by considering how the overall travel startup landscape could evolve in the coming years and what it would mean for travel companies and stakeholders in the startup space.

The analyses in this report are based on information obtained from the Phocuswright startup database and draw on industry insights from executives in leading travel startups and business incubators, as well as experts on travel technology.

¹McKinsey analysis based on PitchBook Data, Inc.

²"Travel & Tourism: Economic impact 2022," World Travel & Tourism Council, June 14, 2022.

Despite recent peaks, travel startups remain underfunded due to a challenging market environment

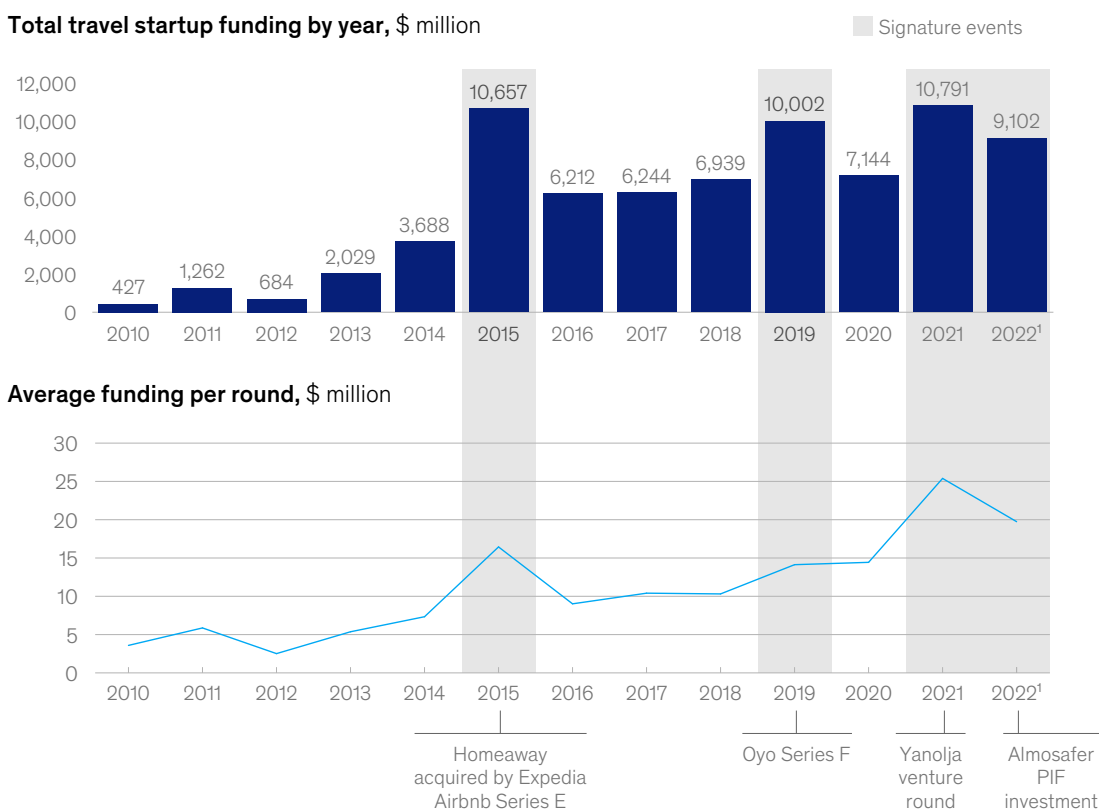
Funding for travel and tourism startups tends to lag behind other sectors. Not surprisingly, pharma and healthcare startups attracted the lion's share of funding during the pandemic, accounting for around 40 percent of all startup funding since 2020, attracting almost 40 times the level of investment compared to travel and tourism startups. And this pattern of comparatively low funding for travel is fairly consistent. Since 2005, travel startups received between 0.5 and 1.5 percent of all startup funding, one of the lowest percentages across all industries.

Even though funding may be hard to come by, investors are interested in travel and tourism. Perhaps the industry was slow to digitize or embrace technology compared to other sectors, and now that digitization is increasing, travel startups are catching investors' attention. Whatever the reason, investment in travel startups has returned to pre-pandemic levels and has even surpassed record-breaking years in the past, such as 2015.

Furthermore, funding per round has increased over the past decade from an average of around \$4 million in 2010 to \$20 million in 2022, with the steepest increase seen during the pandemic (Exhibit 1). This indicates that fewer travel startups could be attracting funding, but when they do, they secure a substantial amount. In essence, the relatively small amount of funding that exists is shifting toward fewer, more established, players in the sector. And the recent trend of investment shifting towards later stages in the funding cycle shows that investors are focusing on more established businesses. While travel funding used to be heavily focused on the growth phases of Series A onwards, it has shifted in large parts to later phases of acquisitions or joint ventures.

Exhibit 1

Funding per round has increased, especially during the pandemic.



¹YTD: Data available until November 2022.
Source: Phocuswright, McKinsey & Company

To put these figures into perspective, 2015 and 2019 were record years for investment in travel, attracting between \$10 billion and \$11 billion. These peaks were achieved through significant acquisitions that consolidated the market. For instance, the online travel agency Expedia acquired HomeAway for \$3.9 billion in 2015. The Expedia-HomeAway combination was expected to provide Expedia with access to HomeAway's 1.2 million properties around the world.³

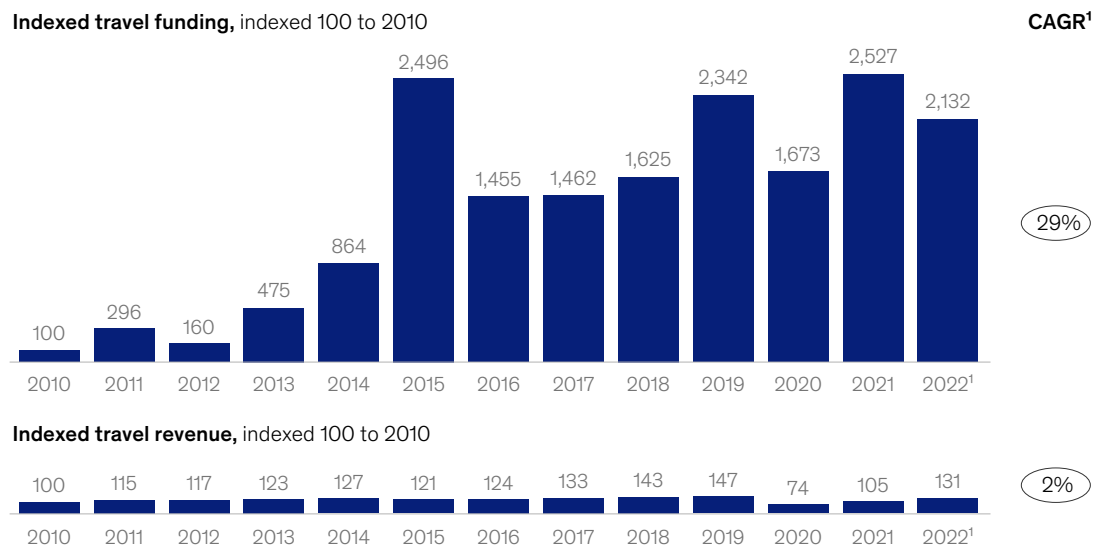
These acquisitions that contributed to peaks in travel funding could be symptomatic of a trend: Investors may want to back category leaders that have reached scale, rather than potential disruptors in an industry that is difficult to disrupt. As Johannes Reck, CEO of the online travel booking platform GetYourGuide, explains, "there are category leaders emerging in many areas, such as flights, accommodation, and experiences. I think investors have no appetite to pour money into a number three or four in any given category. And because of the global network effect in travel, it's really difficult to design a new category." (See sidebar, "Q&A with Johannes Reck, CEO of GetYourGuide").

It is also interesting to note that startup funding in the travel sector has outpaced industry revenues (Exhibit 2). While revenues grew by 2 percent from 2010 to 2022, funding for travel startups surged by nearly 30 percent. The difference between funding and revenues was greatest in 2020 and 2021. This demonstrates that despite the impact of the pandemic on travel and tourism, interest in travel startups remains high, specifically those emerging as leaders in their categories.

Exhibit 2

Startup funding outperformed industry revenues in travel and tourism.

Historical development of investments vs industry value pool



¹2010–2022.

²YTD: Data available until November 2022.

Source: Phocuswright, Oxford Economics, McKinsey & Company

³ "Expedia to acquire HomeAway, Inc.," Expedia media statement, PR Newswire, November 4, 2015.

Q&A with Johannes Reck

Johannes Reck is CEO of GetYourGuide, a Berlin-based online travel agency and online marketplace for tours, attractions, and excursions. The company's website and app connects travelers with activity providers around the world, offering thousands of products in more than 20 languages, and 40 currencies. He shares his views on the investment landscape for travel startups.

What patterns have you noticed regarding investment in travel startups?

At a high level I would say that too little VC money flows into travel altogether, probably due to the market cap that has been realized, and that startups in the scaling phase still have to demonstrate profitability to attract funding. It's also important not to generalize the way we think about startups—they range in size and maturity from two employees to major disruptors. Essentially, if innovation is not yet proven, then there is little or no money coming in, and this is especially true in Europe.

Are certain types of startups attracting more investor interest than others?

There are category leaders emerging in many areas, such as flights, accommodation, and experiences. I think investors have no appetite to pour money into a number three or four in any given category. And because of the global network effect in travel, it's really difficult to design a new category. For instance, the chance that a new company could fundamentally disrupt an established concept such as Airbnb, or Booking.com, is limited because of the network effect that locks in global supply and demand—and that's what makes category leaders so defensible.

Furthermore, there is a perception that as large firms are so big, they can do everything, and that may scare away a lot of investors from betting on a smaller innovative company. The presence of large incumbents may stifle innovation—but startups have a central role to play in this regard and can benefit the entire industry.

What role do you think travel companies could play in the startup landscape?

I think travel companies have to invest in innovation now, otherwise they could be worse positioned in a future crisis. Essentially, travel companies could look at how investing in startups could strengthen all areas of their value chain. They could also focus on the value that innovation will bring to the industry, instead of investing only with profit in mind.

That said, there may be room for travel companies to look at M&A. There is much less competition, compared to pre-COVID-19, and acquisition is now much more efficient. This means that companies could be in a position to grow—much faster and with less effort.

North American startups received the most funding in recent years

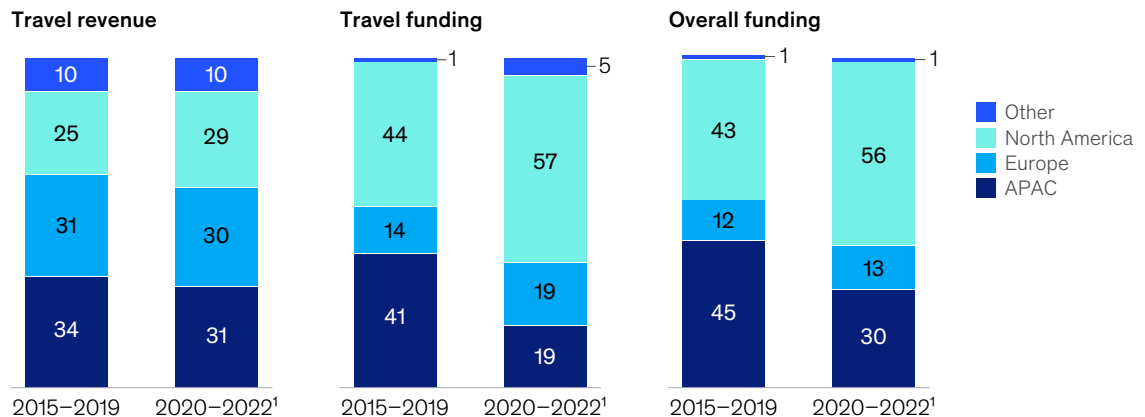
There are regional variances in startup funding. From 2015 to 2019, overall startup funding was at a similar level in Asia-Pacific and North America, but between 2020 and 2022, North American startups received a greater portion of overall funding compared to other regions. This trend is reflected in travel funding too, with North American travel startups attracting almost 60 percent of investments between 2020 and 2022.

This unprecedented increase in funding was likely driven by the less fragmented American market compared to other regions and investors' greater appetite for funding and innovation. The vast majority of M&A activity occurred in North America, accounting for 95 percent of acquisition funds including deals such as Getaroom.com and On Location Experiences. By comparison, European funding has lagged North America and Asia-Pacific, and this trend is most pronounced when considering that travel revenue has been evenly split between these three regions (Exhibit 3).

Exhibit 3

Europe is underrepresented in startup funding, especially in travel and tourism.

Startup funding by geography vs overall industry revenue, %



¹YTD: Data available until November 2022.

Source: PitchBook Data, Inc. (Data not reviewed by PitchBook analysts), Phocuswright, Oxford Economics

Funding has shifted toward more mature startups

In general, investors have shown interest and willingness to invest in every stage of a travel startup's development: early, growth, and the stage when it's ready to either go public or be acquired. Across industries, later-stage funding (i.e., Series B, C, D) made up the majority of startup investment, and this trend is most pronounced in Europe. Startups with a proven track record have been funded for faster growth and expansion (Exhibit 4). Between 2020 and 2022 more acquisitions (e.g., Getaroom.com and On Location Experiences) and public financing rounds (e.g., Sonder and Vacasa) took place than in previous years which could be due to the perception that investing in startups at these stages is less risky than for those in the early stages—especially in the wake of COVID-19. It may also point to investors wanting to back more established companies, for instance Airbnb received over \$2 billion worth of funding since the pandemic began.

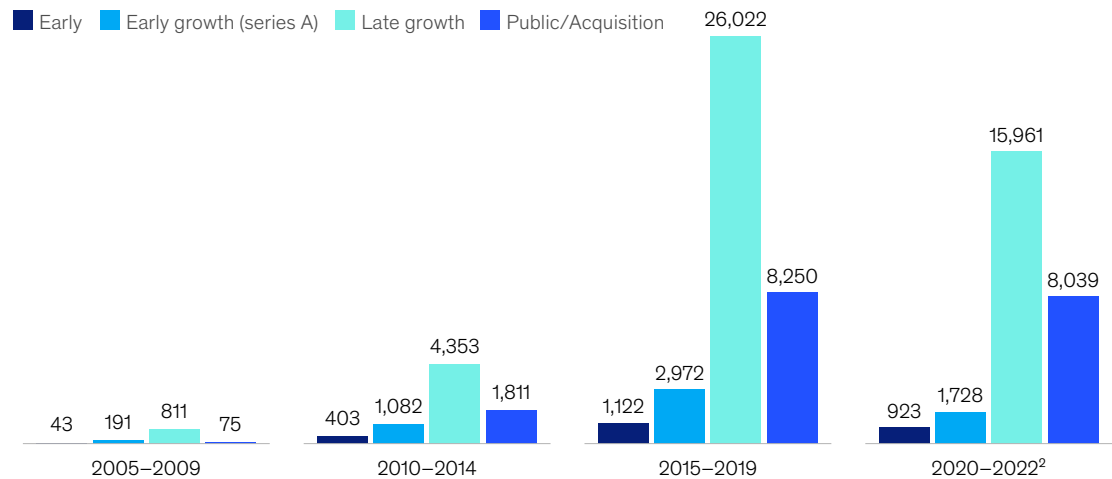
Hospitality startups remain the leading category for investment

The analysis for this report focused on funding received by various types of travel startups, each catering to different aspects of a traveler's journey. These businesses range from the pre-trip stage (including inspiration, insurance, and itinerary) to booking, transport (car rental, air, and rail), hospitality (short-term rentals, hotels, hostels, and cruise ships), in-trip (tours, activities, and experiences) and business travel (including corporate travel and the meetings, incentives, conferences, and exhibitions (MICE) segment).

Exhibit 4

Most funding is concentrated on growth rounds, with an increasing trend towards public and acquisition rounds.

Historical investments in travel and tourism by round type,¹ \$ million



¹Excluding convertible notes, undisclosed, corporate and non-equity assistance rounds.

²YTD: Data available until November 2022.

Source: Phocuswright

Most recent funding has been channeled to hospitality startups, making up 49 percent of investment between 2015 and 2019, and 41 percent between 2020 and 2022. This is likely due to the rising popularity of short-term rentals. Startups providing services for short-term rentals such as Airbnb or AvantStay accounted for 55 percent of hospitality startup funding since 2020.

In-trip and business travel startups doubled their share of investments during the pandemic (from 7 to 15 percent, and 5 to 11 percent respectively). Within the business travel category, startups in the corporate segment, such as expense-management software provider Divvy, secured 98 percent of funding between 2020 and 2022. The MICE segment received the remaining 2 percent, including B2B booking platforms such as Groups360, likely due to the decrease in events during the pandemic.

In the same period, booking and transport startups lost some share of funding (from 16 to 13 percent, and 14 to 12 percent) as investor priorities may have shifted during the crisis. The only transport startups that attracted considerable funding were peer-to-peer mobility providers such as the online car-sharing service Getaround. In the booking category, online travel agency businesses secured 90 percent of funding.

Overall, the pre-trip category (including online travel guides and platforms such as Culture trip) remains the least funded, having attracted 1 percent of total funding in the past seven years. Within this category, startups in insurance attracted 72 percent of funding since 2020 (Exhibit 5).

Exhibit 5

Funding has mostly been focused on hospitality due to the emergence of short-term rentals.

Startup funding distribution by time period,¹ %



¹Pre trip: Inspiration, Insurance, Itinerary. Booking: OTA, Packaging. Transport: Car Rental, Air, Rail, Airport. Hospitality: Short-Term Rental, Hotel & Hostels, Cruise. In Trip: Tours & Activities, Events, Destination Content, Outdoors, Food, Local. Business Travel: Corporate, MICE. Other: Multiple Verticals, Other.

²YTD: Data available until November 2022.

Source: Phocuswright

Another emerging trend is that across these categories, startups that specialize in areas such as search and distribution, software as a service (SaaS), payments, and data and analytics have attracted more funding than others. Possible reasons for this could be that these are asset-light, tech-enabled businesses. Funding has been concentrated on startups that provide search and distribution capabilities, most notably in hospitality. Such businesses received almost \$5.5 billion in funding between 2020 and 2021, representing 30 percent of total funding during this period.

The pandemic increased funding penetration across all travel categories

During the pandemic, funding penetration increased across all travel startup categories, but varied significantly across categories. (Funding penetration is measured as funding received by particular category, expressed as a percentage of that category's revenue.)

Between 2015–2019, hospitality had the highest funding penetration, at approximately 0.5 percent of the hospitality industry's revenue. This was around four to five times higher than the booking, transport, and in-trip categories—showing that investors had more trust that hospitality startups could deliver growth and profitability compared to other categories. Investment was likely driven by the emergence of short-term rental startups.

In pre-trip, the emergence of monetizable travel guides and inspiration drove initial investor interest, and funding penetration was at just over 0.4 percent. In transport, startups were primarily focused on an asset-light sharing economy and software—with asset-heavy incumbents making barriers to entry tough.

In the same period, business travel's funding penetration was at 0.05 percent—by far the lowest penetration across all sectors (Exhibit 6).

The pandemic increased funding penetration for all categories due to a drop in revenues, combined with somewhat stable funding—evening out the investment landscape. Some categories benefited more than others, with business travel and in-trip seeing the greatest increase.

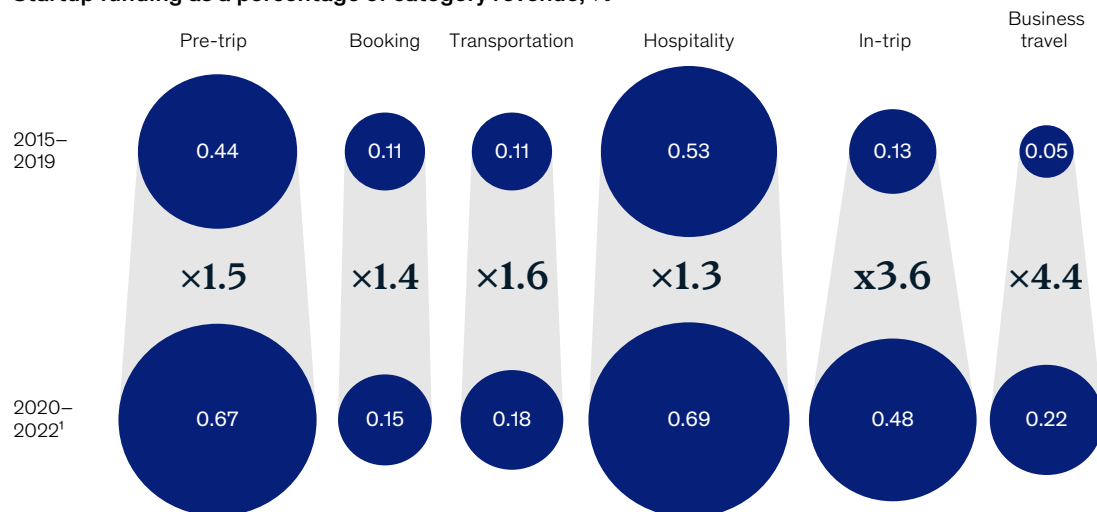
Business travel startups experienced a spike in funding as investors tried to consolidate the industry during plunging demand. In-trip startups attracted investor interest, possibly due to the rising trend of travelers looking for unique, local experiences. This new demand helped companies such as GetYourGuide to rebound quickly to pre-pandemic levels.

Investors supported booking startups as the pandemic increased the complexity in the traveler's journey, and many intermediaries, such as booking startups, stepped up to alleviate this complexity. Aggregators, such as Yanolja also caused the increased focus on booking startups, that aim to create a one-stop shop for all local travelers. Another contributing factor was the overall increase in online booking, accelerated by the pandemic.

Exhibit 6

Funding compared to revenue has increased across all categories.

Startup funding as a percentage of category revenue, %



¹YTD: Data available until November 2022.
Source: Phocuswright

Funding has consolidated since the pandemic: Ten startups received close to 50 percent of funding

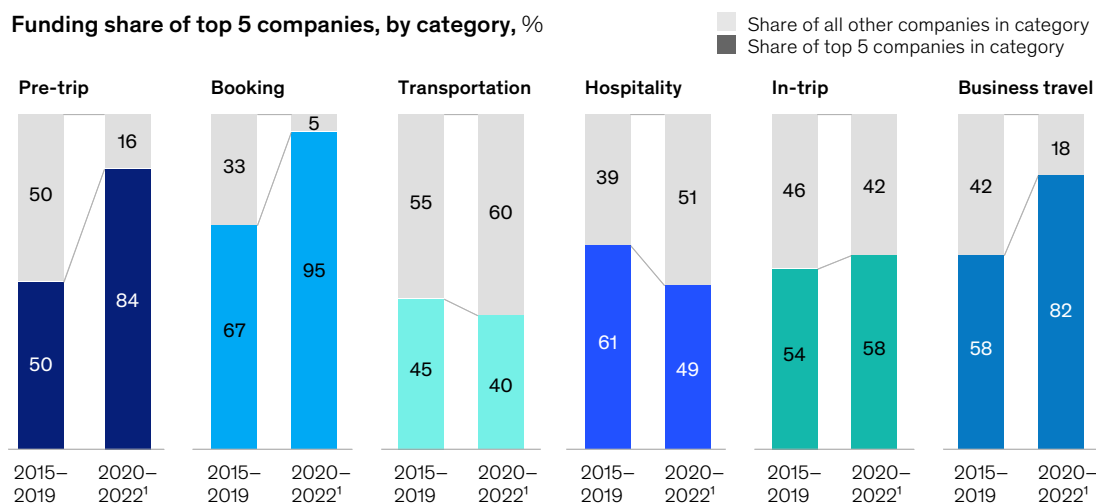
The investment landscape between 2015 and 2019 indicated high fragmentation as a larger number of startups received funding in each category. Accordingly, individual startups accounted for a smaller portion of the funding received for each category. By contrast, between 2020 and 2022, fewer startups received a larger share of funding in each category, indicating that the funding landscape became less fragmented. In fact, ten startups received close to 50 percent of total travel funding (up from 40 percent for the top-ten in the five previous years). However, fragmentation remains beyond these category leaders.

Three categories now have a single startup that accounts for the majority of funds allocated since the pandemic. Cover Genius, Yanolja, and TripActions received the majority of funding in the pre-trip, booking, and business categories, respectively. Pre-pandemic, these categories did not have a funding leader (Exhibit 7).

From 2020 to 2022, funding flowed to relatively mature startups that investors were betting on to become leaders in their fields. Recent signature deals benefitted established players, such as Yanolja and TripActions. TripActions has also acquired other travel management companies, such as Reed & Mackay in 2021, and the Berlin-based startup Comtravo in 2022.⁴ Such mergers and acquisitions are further consolidating the market.

Exhibit 7

Funding is focused on fewer companies and category leaders.



¹YTD: Data available until November 2022.
Source: Phocuswright

⁴ "TripActions moves deeper into Europe with Comtravo acquisition," PhocusWire, February 8, 2022.

Occasionally, less established startups attract funding too, especially if they position themselves as responding to market trends or consumer interests. Select new players, such as Soul Community Planet, founded in 2018, have secured significant funding. Soul Community Planet received \$0.21 billion in 2020 and 2021, representing 95 percent of its total funding. This hospitality company focuses on holistic experiences and prioritizes sustainability through energy efficiency and low-waste strategies.

VCs and PEs represent around 46 percent of funding, but are becoming increasingly conservative

Analysis of investment patterns since 2015 suggests that five categories of investors are funding startups in the travel industry:

- *Angel and private investors.* Alongside professional angel groups, this class of investor includes friends and relatives of the startup entrepreneurs who invest at the early stages. Between 2015 and 2021, these investors led 138 rounds of capital raising, amounting to \$3.6 billion.
- *Banks and the public sector.* Financial institutions and government bodies provide grants to accelerate and incubate startups that have some track record. In the six years from 2015, they led 125 funding rounds, totaling \$6.4 billion. Much of this funding took place in 2021, likely due to pandemic-related bailouts and large rounds of debt funding.
- *Venture capital (VC) and VC-oriented private equity (PE) firms.* Dedicated PE funds for startups harnessed the power of their expansive networks to raise 2,090 rounds of funding between 2015 and 2021. This category seems to be the most willing to spend—raising \$72 billion over the same period.
- *Travel companies.* These tend to be in-house incubators or joint ventures, offering direct support and partnerships to promising startups. This group accounted for \$7.8 billion in funding over 389 rounds from 2015 and 2021.
- *Non-travel companies.* This group performs a similar function as travel-company investors, incubating startups and offering direct support and partnerships. Even though these companies don't form part of the travel industry, they raised more money—\$12.5 billion—than their travel-industry counterparts in 264 rounds.

Overall, VCs have been the leading investor category, and spent nine times more than travel companies in 2021. Since 2015, travel companies accounted for a relatively small percentage of startup funding, and this has decreased in recent years, dropping from 18 percent in 2020 to 5 percent in 2021.

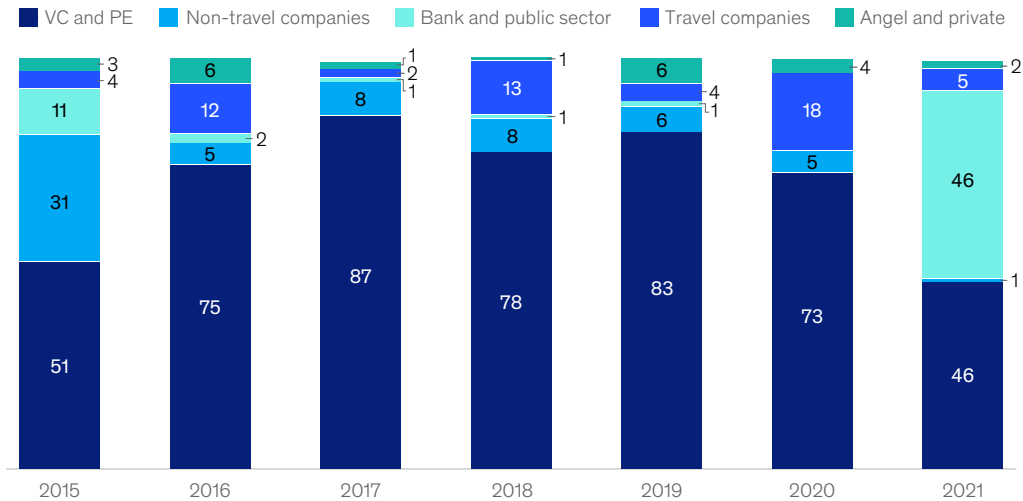
Between 2015 and 2019, VCs and PEs invested at least twice as much per funding round compared to travel companies. Average funding size was roughly \$37 million for VCs and PEs, compared to \$17 million for travel companies. This leveled out between 2020 and 2021 where both groups invested approximately \$30 million on average per funding round.

In 2021, banks greatly increased their investment share and matched VC investments, likely driven by increases in debt funding (Exhibit 8).

Exhibit 8

Travel companies accounted for up to 18% of funding; banks increased their share to 46% in 2021.

Startup funding by leading investor type, %



Note: Large debt rounds in 2021.
Source: Phocuswright, McKinsey & Company

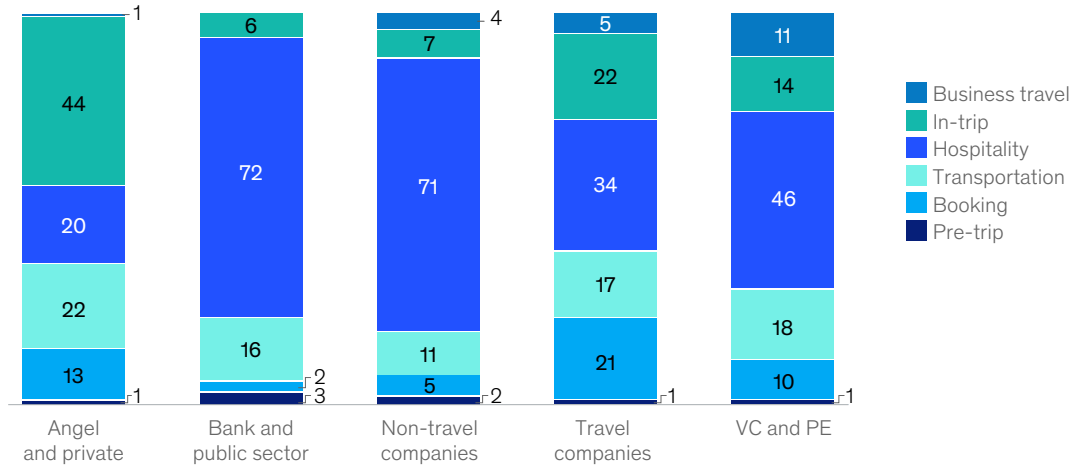
Pre-pandemic, most investors focused on hospitality, while angel and private investors funded in-trip startups. Travel companies, VCs, and PEs had a more even distribution of funding across categories, while banks, the public sector, and non-travel companies placed heavy funding into hospitality—potentially driven by the popularity of short-term rentals (Exhibit 9).

During the pandemic, however, the investor landscape changed substantially. Banks, public sector, and angel investors chose to invest more into business travel startups, while travel companies invested mainly in booking companies. VCs showed a distributed startup investment pattern across all categories, with a focus on hospitality and business travel (Exhibit 10). Yet travel companies' investment in the industry decreased, and they are still investing less than others—at 5 percent of funding in 2021, compared to 46 percent from both banks and the public sector, and VCs and PEs.

Exhibit 9

Pre-pandemic, most archetypes focused on hospitality verticals, while angel and private investors funded in-trip.

Funding by vertical and investor type, 2015–2019, %

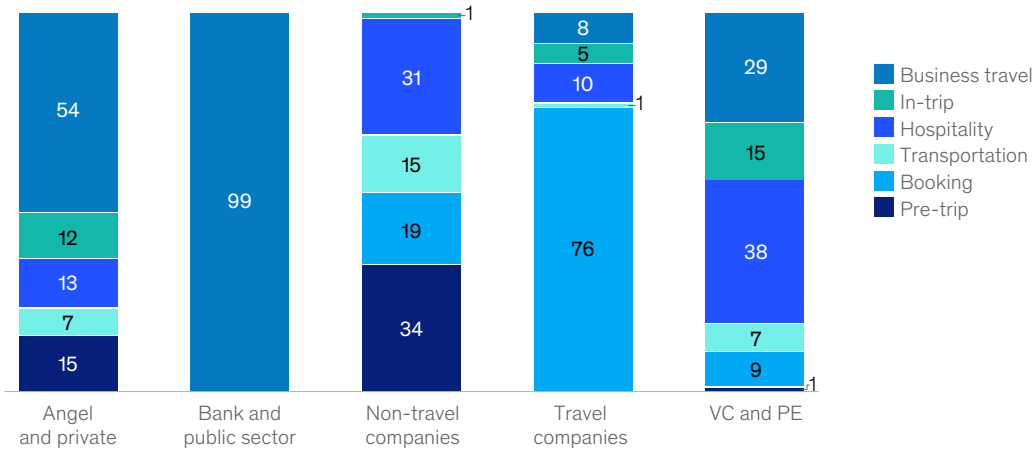


Note: Figures may not sum to 100%, because of rounding.
Source: Phocuswright, McKinsey & Company

Exhibit 10

Post-pandemic, banks, public sector, and angel investors funded business travel startups; travel companies invested in booking; and VCs funded hospitality.

Funding by vertical and investor type, 2020–2021, %



Note: Figures may not sum to 100%, because of rounding.
Source: Phocuswright, McKinsey & Company

The travel industry could benefit from supporting startups

Over the past seven years, travel companies have contributed a relatively small percentage of travel startup funding, and this amount is decreasing. This suggests that travel companies may be missing an opportunity to invest in the industry and foster innovation to the benefit of all participants. Conversely, if travel companies' investment in the industry continues to fall, who will own the next generation of travel businesses?

Travel companies could become more involved in investing in the industry and bring their expertise to bear on innovation and the sorts of capabilities and technologies that may be needed. And travel companies could stand to gain from leveraging startup capabilities in-house. McKinsey research into collaboration between corporates and startups in other industries shows that both parties stand to benefit. Startups can benefit from corporate funding, resources, and customer access, while corporates may need the innovation that startups offer to stay ahead of competitors and disruption, and also to access new technology. Often, corporates find startups that are ahead of them in their markets and may want to bring them in-house. They might want to gain early insights into experimental technologies and new verticals, or may be looking to transform how they work to become more agile. Access to top talent is also a frequent rationale for corporates to invest in startups, and, of course, there is the potential return on investment.⁵

Regarding innovation, industry participants have suggested that travel companies seem to be inwardly focused on developing new technology rather than supporting external entities like startups to help them do so. A broader focus across the travel ecosystem could foster innovation across the industry.

Investing in startups, or engaging, supporting, or partnering with players across the travel spectrum could ensure that travel companies are an integral part of the next generation of travel businesses. And travel companies could partake in the growth that startups are driving across the industry. For instance, between 2015 and 2019, the largest five hospitality startups accounted for 10 to 20 percent of category growth; the largest five in-trip startups accounted for 14 to 25 percent of category growth; and the largest five business travel startups accounted for 5 to 15 percent of category growth.

Startup funding scenarios and implications for travel companies

Moving forward, the investment landscape may become more challenging for startups across all industries. In the spirit of minimizing uncertainty, investors may move away from startups in a growth phase that show a promising trajectory and business model but have yet to demonstrate success.

Venture capitalist firm Sequoia Capital noted that “with the macro uncertainty around inflation, interest rates, and war, investors are looking for companies that can produce near-term certainty. Capital is becoming more expensive, while the macro is becoming less certain, leading to investors de-prioritizing—and paying less—for growth. With the cost of capital (both debt and equity) rising, the market is signaling a strong preference for companies that can generate cash today.”⁶

Given this global trend, VCs and other financial institutions may want to back travel companies that are already established, pursue proven business models, and are a safer bet for generating short to medium-term return on investment.

VCs and PE firms have funded the bulk of travel startups thus far. If they pull back, this may open up opportunities for other types of investors, particularly travel companies or VC arms of travel companies.

Considering the trends observed in travel startup funding over the past seven years, especially recent developments since 2020, three potential scenarios could emerge in the future.

⁵ “Collaborations between corporates and startups,” McKinsey, May 2020.

⁶ “Adapting to endure,” Sequoia Capital, May 2022.

Incumbent-driven consolidation: In this scenario, sustained emphasis on short-term profitability due to inflation and increasing cost of capital will make it difficult for travel startups to attract funding and gain ground in the industry. Overall funding levels would remain flat or even decrease. The sheer number of startups moving up the development curve means that funding rounds will be reduced due to early exits, closures, bankruptcies, or consolidation by established and scaled technology-driven players. This would likely have an impact on the diversity of the startup landscape and potentially on business models, too. Established players will focus more on developing products and services that can be scaled globally and that have the technology to do so (i.e., intermediary businesses with scale benefits) and less on optimizing backend processes where rapid scale-up is potentially more challenging, such as manual check-in processes in hotels. This situation would lead to less innovation across the industry.

What this would mean for travel companies and incumbents: Competition from large-scale intermediaries and venture arms may increase across all categories, including in-trip and business travel. This would require travel companies to either partner with intermediaries or find new ways to differentiate themselves and compete against them, for instance, through more direct-to-consumer offerings. Acquisitions of startups under pressure may be possible in the short-term, which could help incumbents to build a differentiated offering faster. In the long run, reduced innovation due to less startup diversity may require more in-house innovation for optimizing backend processes and technology.

The emergence of multiple niche startups:

In this scenario, early-stage startups would see sustained and potentially increased funding, while funding for startups in the later stages would plummet. This could lead to an exit wave across later-stage startups due to bankruptcies. At the same time, a wave of new, more diversified startups would emerge that aim to tackle a variety of niche problems in the industry—such as backend processes or core technology elements. The result could be an even broader but more fragmented ecosystem of new industry players, leading to higher levels of innovation throughout the industry.

What this would mean for travel companies and incumbents: Travel companies would have opportunities to acquire distressed startups at lower valuations, boosting in-house innovation and allowing incumbents to provide new offerings. Additionally, the diversity and fragmentation of the startup ecosystem may require a new collaboration model for incumbents to sustain innovation levels. This could include new scouting and match-making capabilities to find the right partner for collaboration and ensure that both parties could cooperate across all areas including technological connectivity, data exchange, and governance. Companies with better capabilities to leverage this upcoming ecosystem would perform better than their peers and increase market share.

Travel startups' golden 20s: In this scenario, travel startups across all growth stages would see a continuous increase in funding, and all travel categories will experience growth. There would also be an increase in more significant investments aimed at developing technology and core industry processes such as AI-enabled fulfillment and disruption management. Innovation will flourish across the industry.

What this would mean for travel companies and incumbents: In this fast-growing landscape, competition for funding would intensify, and investors' expectations around performance could increase. At the same time, collaboration would become more complex due to the diversified landscape of partners and suppliers, and the market may see further consolidation. Established businesses would need to build in-house innovation capabilities organically or acquire them at higher valuations. Differentiation would become more difficult, and several leading incumbents may be replaced by new challengers in the market.

To date, travel companies have played a very small role in investing in their industry. As startups generally spearhead innovation, travel companies could pursue opportunities to support startups—and reap the benefits. Furthermore, by not supporting, or finding ways to engage other players in the industry, travel companies may be missing an opportunity to shape the next generation of travel businesses.

And as the investment landscape becomes tougher, travel companies are well placed to ensure that the innovation pipeline continues to flourish, even if VCs and larger players withdraw. In this global sector, with a large number of businesses of all sizes, industry bodies can play a critical role in crafting partnerships, standards, and platforms to enable far reaching and scalable adoption of the innovative solutions that startups can bring to the industry.

Given these findings, support for startups can be a win-win situation for all industry participants.

Giuseppe Genovese is a senior knowledge analyst in McKinsey's Dallas office, **Evgeni Kochman** is an associate partner in the Frankfurt office, **Vik Krishnan** is a partner in the San Francisco office, and **Nina Wittkamp** is a partner in the Munich office.

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Methodology

The analyses in this report are based on information obtained from the Phocuswright startup database. Funding was analyzed from 2005 to 2022 YTD (including November 2022) based on a sample of 3,865 startups. This included 6,395 funding rounds, accounting for \$76 billion in funding (Exhibit 11).

Exhibit 11

Analyses based on Phocuswright startup database

Funding rounds included:

- Accelerator
- Acquired
- Acquired (Majority stake)
- Angel
- Award
- Convertible Note
- Corporate
- Crowdfunding
- Debt
- Equity
- Grant
- ICO
- Incubator
- IPO
- Joint Venture
- Merger
- Non-Equity Assistance
- Pre-Seed
- Private Equity
- Secondary Markets
- Seed
- Series A
- Series B
- Series C
- Series D
- Series E
- Series F
- Series G
- Undisclosed
- Unknown
- Venture

Horizontals included:

- Advertising
- AR/VR
- Artificial Intelligence
- Blockchain
- Booking
- Chat
- Content Play
- Data/Analytics
- Deals
- Direct Booking Tools
- Distribution
- Expense Management
- Fractional Use
- Group
- IoT/Smart Tech
- Loyalty
- Manufacturer/Software
- Mapping
- Marketplace
- Metasearch
- Mobile
- Multimodal
- Payments
- Rich Media/ Video
- SaaS/PaaS
- Safety/Security
- Search
- Service Provider
- Social Networking / UGC
- Subscription/Membership
- Sustainability / Wellness
- Voice

Verticals included:

- Air
- Airport
- Car rental
- Corporate
- Cruise/Boat
- Destination Content
- Events
- Food/Dining
- Hotel and Hostel
- Inspiration
- Insurance
- Itinerary
- Local/Hyperlocal
- MICE
- Multiple Verticals
- OTA
- Packaging/Tour
- Rail
- Short-Term Rental
- Tours & Activities

Verticals not included:

- Bike/Cycle
- Bus
- Ground Transportation
- Local/Urban Transportation
- Luggage
- Ride-Hailing
- Taxi-Hailing

Business focuses included:

- B2B
- B2C
- B2B2C
- P2P

Company Status included:

- Acquired / IPO
- Acquired and Closed
- Acquired and Operating
- Closed
- IPO
- Merged
- Operating

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