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TEACHING CASE

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Strategy Transition and Marketing Innovation of a Vertical Search Engine: The Case of Kuxun Company

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Abstract Kuxun is an online travel search company in China. This paper describes the transition and innovation of the company's marketing strategy, from comprehensive information search to online travel search. It shows how Kuxun has successfully achieved strategic market transition from "all-round" to "specialized" through efficient market segmenting, targeting, and positioning (STP). The case also illustrates how Kuxun has become the top brand of Chinese online travel search by carrying out various types of innovative network marketing,

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including interactive experience marketing, precision marketing, and cooperative marketing.

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1 Introduction

With the fast development of Internet applications, the world has entered an era of information explosion, and search engines have become an important tool for Internet users to acquire information. Though the online search market is dominated by a couple of huge players, e.g., Baidu and Google, new search engines, as represented by vertical search engines, are rising fast and reshaping the structure of online search market.

As a specialized travel search engine and travel community website, Kuxun aims at providing users with services of searching, comparison, and smart filtering, etc., in the form of a series of travel products including flight ticket, hotel, vacation package, train ticket. At the same time, Kuxun provides communication and interaction services such as travel experience sharing and social networking. Since its establishment in 2006, Kuxun has maintained a rapid pace of development. By June 2010, Kuxun became the leader in China's online travel search engine market with more than 40 million independent visitors every month. Throughout the course of Kuxun's development and expansion, its marketing strategy transition went through segmenting, targeting, and positioning (STP), and the marketing innovations have been implemented. The company is a witness of the status quo of China's Internet search engine market, especially the vertical search engine market. It has gone through problems of target market selection that vertical search engine companies encounter, and shown how new emerging enterprises can successfully realize marketing strategy transition and innovation through effective STP.

2 Vertical Consumer Search: A Unique Vantage Point

2.1 Origin of Kuxun: A Former Train Ticket Search Provider

Different from other Internet companies imitating foreign business models, Kuxun originated from an accurate understanding of market needs in the mainland of China. During the Spring Festival traffic peak season of 2006, it was difficult for

travellers to buy train tickets, as over one hundred million people scrumbled for railway transportation. To help relatives and friends buy tickets, Chen Hua, the founder of Kuxun, developed an online service system offering instant information about exchange of train tickets among users. By submiting search items to the engine, users could receive the latest information of tickets via cell phone or E-mail according to their own needs. Although highly appreciated by its users as a trial, this system was inferior to other general search engines because the latters were easier to use. Based on the feedback from early users, Chen decided to provide more friendly search services and registered a domain name: www.kooxoo.com. From then on, Kuxun gradually evolved as a specialized online search tool for train tickets exchages.

After improvement in the website layout and technology, Kuxun provided better services in helping users find the latest information about train tickets exchanges from thousands of different websites in seconds. The new features attracted more than ten thousand visits per day without any marketing promotion. By 23 January 2006, Kuxun has got more than 500 000 accumulative visits per day, and entered the Alexa Top 2000 in the world. Starting from providing information on train tickets, Kuxun sets its unique position in the Internet search market.

Afer the Spring Festival, Chen was intrigued by his invention and the huge potential and market value of vertical search. He decided to quit from Microsoft Research Asia in China, to found Kunxun Company. Because of Kunxun's success with train tickets, the company soon gained traction from venture capitalists. On March 11, 2006, following a merely three hour negotiation, venture capitalists from the USA made the decision to invest two million US dollars in the startup. The decision was mostly based on the high calibre of Kunxun's technical team and their ability to seize market opportunties.

2.2 Rapid Development of Vertical Search

The market of search engine has a great growth potential due to the dramatic increase of Internet users and search engine users in China. As the *Chinese Search Engine Market Report in 2005* reveals, Baidu ranked No.1 in the domestic market with 56.6% of market share, and Google took the second place. These two biggest comprehensive search engines took up almost 90% of the whole search market, and in fact monopolized China's online search market.

As the needs of Internet users grow from entertainment to daily life, more people are used to doing their daily business online, such as house hunting,

chatting, job hunting, or even shopping. Baidu and Google, however, could not respond to this change of needs effectively, because they usually display a large amount of irrelevant information in search results. Therefore, the market opportunity for vertical search arose.

Vertical search engines aim to provide information and services in a specialized domain, for a target group or a specific demand. They are speciliazed, technologically sophisticated, with great market potential.

2.3 Segmention by Consumer Information

Based on the trend of the vertical search market and the market needs of consumer information search, Kuxun decided to segment the whole search market vertically and position itself as a provider of consumer informaiton. Aiming at providing search service with direct, specific, and in-depth information, Kuxun created a new image, "the biggest consumer information search engine in China."

Within such a clear-cut market segmentation, Kuxun expanded its product lines vigorouslly. To offer information of professional quality related to different aspects of life, Kuxun added a series of products such as house hunting, job, private tutoring, shopping, car, and restaurant information, in addition to its original business of train tickets between 2006 and 2007. Among all these products, housing information search, including house leasing and second-hand house transactions, are the most successful ones. Thanks to Kuxun's outstanding search performance and the increasing trade volume in the real estate market in China, Kuxun's housing search business became the nation's most influential leader in several months after its introduction in 2006.

Due to its speciality and accuracy, Kuxun gained support from users and investors alike, and grew rapidly. In September 2006, it received 10 million dollars' of venture investment from SIG and CEYUAN. Kunxun's employees increased from 20 plus to over 100, including graduates from top universities in China and former staff of Baidu and Microsoft. With this financial support, Kuxun futher expanded its product lines.

2.4 Competition-Avoidance Positioning: Consumer Information Search Engine

After segmenting the search market, Kuxun adopted a differentiated marketing strategy by providing search service for different kinds of consumer information to satisfy users with different demands. This positioning could not only meet consumers' personal needs but also avoid direct competition with the powerful

comprehensive search engines such as Baidu and Google.

Having analyzed the Internet users' search demands and its own competitive advantages in vertical search technology, Kuxun decisively adopted a strategy that could avoid confronting its strong rivalaries: It positioned itself in the long-neglected market segment by providing professinal and in-depth information, and helped users solve a great deal of problems concerning their daily life. Hence Kuxun has become the top brand of consumer information search in China.

However, managerial and marketing problems arose as the continuous expansion of product lines. First of all, aggressive entry brings about excessive competition in the market. Some product lines could not acquire enough technological support and resources. Second, the requirement of basic search technology kept increasing. That is, building a search engine which can deal with many different types of data rapidly and efficiently requires more complicated technology in respect of data discovery and capture, semantic analysis, and structuring. Third, the broad expansion strategy adopted by Kuxun did not bring in enough profit to guarantee a sustainable development. A business model which is appropriate for the company's long-term development has not been established.

To cope with these problems, the management of Kuxun examined its search product portfolio and adjusted its product lines in mid-2007. They decided to close several relatively weak search channels such as car, shopping, and restaurant, whereas keeping the search channels which have a large body of users such as train tickets search and job search. The management also integrated the train tickets search service and the new air tickets search service into the Kuxun's early travel search product. Considering the market potential of housing search, Kuxun decide to take it, together with travel information search, as the core business in future development. Based on these adjustment and integration (as shown in Fig. 1), Kuxun's strategic position of consumer information search became clearer and more focused than before. Meanwhile, its brand image became more distinguished and unique.

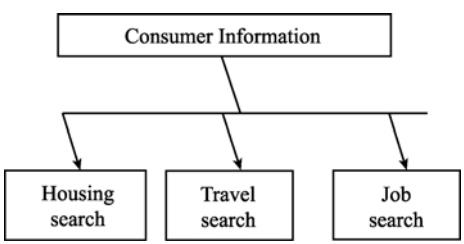

Fig. 1 Kuxun's New Structure in Consumer Information Search Strategy

3 Transition of Marketing Strategy: Toward the "Largest Global Chinese Traveling Search Engine"

3.1 New Problems and Opportunities

3.1.1 Difficulties Facing Post-Diversified Kuxun

Following the new direction, Kuxun began to focus on the remaining four product lines. However, Kuxun did not get any substantive achievements in these fields in terms of growth rate, market competitiveness, or the profitability until the end of 2007. Neither the profit model of the product lines nor its internal financial management was satisfactory. What was worse, it seemed that Kuxun was stuck in a bottleneck:

First, it became extremely important for Kuxun to find a better business model for future growth. Taking the housing search as an example, it focused on the information about house leasing and second-hand house transactions, as well as the new house trading information search service. According to a survey conducted by Kuxun, most users of the housing search services were individuals who wanted face-to-face meetings with the house owners. However, it was hard for Kuxun to meet this need. For example, the introduction of a bid ranking system into its search engine in collaboration with real estate agents was a failure, which made Kuxun's housing search business unprofitable. More specifically, for new house search, online information sources were not able to compete with various creative advertisements by the real estate developers (sellers). The situation in the leasing and second-hand home trading market was equally difficult. The need for information was clearly there, which was the opportunity for Kuxun. However, Kuxun tried but failed to build a suitable revenue model for its own growth. In addition, along with the constant expansion of the core businesses, requirements for capital resources and the decrease in cash flows made it urgent for Kuxun to obtain a strategy transition.

Second, the core business, housing search service was challenged. Users' satisfaction tended to decrease while the need for housing information increased. One reason was the large amounts of fake information released by brokers and agents to entice consumers in the online market. As a result, consumer confidence in online sources was devastated. The other was a lack of professionals who understood the real estate industry in Kuxun. Thus, it was vital for Kuxun to guarantee the accuracy and reliability of housing information.

Lastly, Kuxun's positioning as a consumer information search engine in

market has brought it into a dilemma: On the one hand, its core services were still unable to support the concept of "comprehensive consumer information search" though they worked better after the adjustment and integration; on the other hand, emphasis on several unrelated search services simultaneously made it hard for Kuxun to take a clear brand positioning in the market.

3.1.2 Transition: Opportunities from the External Environment

The rapid growth of China's travel industry and Internet industry has provided great opportunities for Kunxun's transition. For one thing, both the number of travelers and the revenue of tourism were growing; for another thing, the wide application of Internet and rapid growth of Internet users in China have created a promising market for Internet companies. In addition, electronic tickets became the first choice for more and more travelers. These factors brought important features to the domestic online travel industry.

Consumers in online travel market. Online travelers tend to search travel information more actively. Given the development of search engines, more online travelers start to directly contact travel service providers, rather than contact travel agencies. This kind of direct interaction helps to reduce information asymmetry between travelers and service providers. It also provides Kuxun with a great opportunity for its transition towards a travel search engine provider.

Online consumers prefer to purchase travel packages. The "ticket + hotel + trip" one-stop service have become increasingly popular among online users. However, few companies provide services of travel packages or travel information. Therefore, Kuxun may get a considerable market share if it can further improve its travel services on the basis of its travel search engines.

Online consumers like to communicate and interact with other travelers online. They hope to contact with other travelers through a trustworthy communication platform, so that they can share travel information and experience with others. This trend provides a new opportunity for Kuxun in the travel search engine area.

Restructure of online traveling industry. When Kuxun integrated its product lines in 2007, the online travel booking market experienced a structural transition. The direct selling by hotels and airlines imposed a strong impact on traditional booking firms. Specifically, in traditional online reservation business, users usually booked rooms or flight tickets through online travel agents (e.g., www.ctrip.com and www.elong.com). These online agents obtain their profits in the form of commissions from travel service providers (e.g., hotels and airlines).

When adopting the direct selling strategy, however, hotels and airlines also started to release travel information on travel booking websites for direct communication with customers. Different from the online travel agents, most travel booking websites providing travel information are not involved in the whole booking transaction process. They make profits by charging fees for publishing the information. In this way, direct selling can not only keep customer information to improve the efficiency of reservation, but also increase potential profit for hotels and airline companies.

As direct selling gradually becomes the mainstream of online travel booking market, the emergence of travel search engines provides proper channels and platforms.

3.2 Re-Segmentation: Housing Search or Travel Search

3.2.1 Debate: Transit or Not

In 2007, top managers of Kuxun frequently debated over whether the company should implement a transition. Conservative managers insisted that although Kuxun was the same as other Internet enterprises, which would inevitably come across a bottleneck in the process of growing, they would eventually find an appropriate solution to earn profit during the course of transition as long as the company sticks to the original marketing strategy. However, if they exited from the existing market, the whole company would have to face greater risks in the new market.

Kuxun occupied considerable market share in online consumer information search market. Considering the market risk, Kuxun would undoubtedly give away current market share to its rivalries if it exited the market. Moreover, although Kuxun has accumulated a certain amount of resources and experiences due to its previous development, it was deemed unwise to put all the eggs in the online travel search market, especially when it was wandering at the edge of loss.

Regarding the brand risk, those conservative managers argued that Kuxun had become the top brand in consumer information search market after two years' development. If it gave up the consumer information search products such as housing and job search, and retained only online travel search business, the user base of Kuxun would decrease and Kuxun's brand value would also be severely weakened. Then the loss of Kuxun's marketing strategy transition might overweigh the gain.

However, those who advocate the transition argued that the online travel

industry had a great potential for future development, as the domestic travel industry and the Internet industry grew rapidly. Having good external opportunities, Kuxun should decisively give up unprofitable products like housing and job search since they had not yet brought any profit. Additionally, Kuxun should concentrate its limited resources on the online travel search market to seek new growth. As a representative of this argument, Mr. Zhang Haijun, the current CEO of Kuxun, commented on company resources and the industrial environment of Kuxun:

First, Kuxun's train and flight tickets search business provide a substantial user base for its comprehensive transition towards an online travel search engine. Zhang claimed, "the train tickets search service, in which Kuxun started, is now mature and has accumulated important customer resources for Kuxun. In addition, our new online air tickets search service started in 2007 is also developing rapidly and has gained a good reputation. These two services will certainly provide our market transition with a substantial user base."

Second, extant enterprise resources and technology owned by Kuxun make its marketing strategy transition more competitive. As Zhang put it, "online travel search engines are new to Internet users, and for Kuxun, it is an opportunity as well as a challenge. We can appropriate existing search technologies, enterprise resource, user base, and Internet entrance for travel search engine to lower the market risk which might be caused by the market transition."

Finally, in the current online travel search market, there is large room for development given the difference in price information provided by various online travel search engines. Kuxun has a great deal of technology advantages, such as web-wide searching, fast grabbing, data mining, semantic analysis, and structural processing, which could help its targeted users get information about travel deals faster with lower cost. In this way it might exert a strong impact on traditional travel information websites.

Whether giving up the market transition because of potential risk and continuing to explore a suitable profitable business model for its existing business such as housing search, or taking the risks, grasping the opportunity, and advancing towards a comprehensive online travel search engine was a tough decision to make for Kuxun at that time.

3.2.2 Focus: Change to Win

After fierce debates, the management in Kuxun decided to take a moderate path. That is, it selectively gave up some of its existing businesses to reduce losses,

and also gave up its previous marketing strategy which made the limited enterprise resources excessively scattered. Specifically, both housing and travel search business were retained temporarily and future steps would be contingent on their performance. Hence, from the fourth quarter of 2007 to the first quarter of 2008, the housing and travel search business in Kuxun progressed in parallel with each other. Kuxun has focused on exploring a suitable profitable model for future growth during this period.

After nearly a half-year operation, Kuxun established a complete product line of travel search services and attracted lots of users. The more important issue was that Kuxun made breakthroughs in the exploration of travel search business model. By contrast, the business model of housing search service was still not clear and problems of customer loyalty were not solved well. Given the fact that there was little overlap between users of housing search and those of travel search, it soon became obvious that Kuxun needs to focus on online travel search and give up housing search business.

Based on a comprehensive investigation and analysis of both internal and external environments, Kuxun eventually completed its re-segmentation in consumer information search market. The emerging online travel search market was then identified. Besides, the flight tickets search and hotel search business were added to the original train tickets search business. By means of this transition, Kuxun intended to make itself an all-round travel search engine.

3.3 Repositioning: The World's Largest Chinese Travel Search Engine

In June 2008, Kuxun officially released its new domain name (www. kuxun.cn) and announced the transition of its marketing strategy. After the transition, the new Kuxun positioned itself as a Chinese travel search engine. At the same time, the housing and job search services were lowered to a secondary section or outsourced to other websites. Kuxun hoped that, in doing so, it could concentrate on developing travel-related search services and make itself an all-round travel search engine concerning all elements of travel, such as food, hotel, trip, shopping, and entertainment.

3.3.1 Travel Search Products

The core concept of Kuxun is to help users find useful information about valuable travel products with high efficiency and low cost from a vast sea of online information, including buying discounted tickets, reserving hotel rooms,

or picking individualized vocation products. In this way, Kuxun expects to finally realize its mission of providing one-stop travel information search service for online users.

Air tickets. Kuxun's "low price" and "save money" air tickets search service is characterized with a wide range of accurate information. With this tool, users can acquire the latest and current month's ticket price information, book discounted air tickets, and keep track of flights. All of these make online air ticket booking service time-saving, convenient, and low-cost.

Train tickets. As one of the earliest train ticket search service providers, Kuxun has added online selling service of tickets in addition to providing transferring tickets information. Its model of "online searching + online purchasing + offline delivery" saves user time. It also provides other relevant products such as train schedule which are useful to travelers.

Hotels. Relying on its powerful search technology, Kuxun has built the largest and most comprehensive domestic hotel information database. In this channel, users can make precise and easy decisions by using filtering criteria such as price range, star standard and so on. Besides, this channel also involves hotel reviews and pictures. All of them can provide credible and vivid information for users to make the best decision. In the future, Kuxun aims to build the largest hotel direct selling platform in China.

Vacationing. To build a comprehensive travel search brand, Kuxun has created the vacation service. It provides information about travel strategy, travel notes, pictures, and vocation package of destination to help users make a better trip plan. Now it has become an indispensable search tool for online users in travels planning.

3.3.2 Innovation of Profit Model

Operating differently from the traditional profit model through which online travel service providers get commissions from airlines and hotels, Kuxun obtains most of its profits on the demand of transaction for each search. Specifically, Kuxun's profit model consists of two profit sources: the bid ranking, which is similar to that of Baidu, and pay-per-click (PPC).

Slightly different from that of Baidu, the bid ranking of Kuxun is primarily determined by the preference of downstream users. The bid ranking is on top of the search results which first satisfy users' search needs to protect the interests of users to a large extent. In other words, bid ranking takes effect among services providers of equivalent product and price.

PPC refers to a profit model that online travel agents and direct selling operators charge fees based on online users' clicks on the links that lead to certain websites. Through providing information of travel service providers, Kuxun attracts users to visit its websites. However, Kuxun only charges for clicks created by itself, which does not "swallow up" the profit margins of upstream travel service providers. As Zhang said, not only does this model effectively guarantee the interests of travel service suppliers, but it also plays a positive role in constructing a fair competition environment for online travel industry.

3.3.3 Success

At the beginning of the transition, Kuxun offered free search flow to airlines and hotels in order to collect product information from these travel providers and establish cooperative partnership with them. As Kuxun's travel search engine gradually got accepted by more and more users, a growing number of service providers became more aware of the value of Kuxun. In early 2009, several airlines, including Air China, started to purchase Kuxun's search flow and keywords in the bid ranking, indicating an initial acceptance of Kuxun in the travel industry. In the middle of 2009, the number of Kuxun's daily visits jumped to the top three of Chinese online travel search engines. Kuxun completed its transition successfully and started to make profit two months later. After this transition, Kuxun has developed so fast that it attracted the attention of Expedia, the largest online travel agency in the world. Then in October 2009, Kuxun was acquired by Expedia and became a fully-owned subsidiary.

4 Marketing Innovations

After its transition into an online travel search company, Kuxun has constantly sought innovation in its marketing mode and eventually developed a new Internet marketing mode, including interactive experience marketing, precision marketing, and cooperative marketing.

4.1 Interactive Experience Marketing

Interactive experience marketing refers to a participatory and interactive experience created by a firm for customers. This strategy can increase customer satisfaction and loyalty through customer participation and meeting their

personal requirements. For example, in June 2009, Kuxun officially launched a new interactive tourism community "Tour-Together" (http://yiqiwan.kuxun.cn), in which interactive services are provided for the youth who like traveling and sharing their trips online. The community offers not only sharing such as travel notes, photo albums, and groups, but also the comments on ticket agents, hotels, and travel sites. It provides a platform for travelers to share their opinions.

Based on this virtual community, Kuxun began to build a nation-wide tourist online community with its technology of capturing information from the Internet. In September 2010, Kuxun officially launched the Travel Guide Channel (TGC) which collected 15 million travel tips and notes from more than 300 million travelers to provide first-hand information for users' personalized travel plans. Meanwhile, tourists could share their travel stories with others and give suggestions for other tourists on their blogs, which generates a positive cycle of information sharing. The TGC not only builds up a rich and accurate travel-related database for online travel users, but also gives new ideas for online travel lovers.

During the period between the introduction of tourism community "Tour-Together" and the launch of TGC, a series of innovations on interactive experience marketing greatly improved the brand loyalty of Kuxun as well as provided new ideas to the future development of China's vertical search engine companies.

4.2 Precision Marketing Strategy

Precision marketing is a firm's delivery of information to target groups through various new media in order to achieve precise, measurable, and high return from investment on marketing communication. The key to precision marketing is to identify accurately the different needs of a specific target group.

Kuxun's target groups include upstream clients and downstream users. Clients are the travel service suppliers, such as airlines, ticket agents, and hotels, which are the primary sources of profits for Kuxun. Users are tourists who search travel information via Kuxun and they are also the foundation of advertisement income for Kuxun. According to the uniqueness of each group, Kuxun adopt different precision marketing modes accordingly.

For online travel service suppliers, Kuxun helps them identify and accumulate target customers and implements the PPC advertising model, which effectively ensures that the advertising expense of clients actually brings in customer purchase. This demand indicates real purchase power. For example, according to

Kuxun's record, the transaction completion rate of leading the users to a third-party web by Kuxun is 8 to 10 times higher than that of other similar search websites. Thus Kuxun effectively helps clients achieve accurate delivery of advertising.

For users of travel search, Kuxun claims to provide them with detailed information while enhancing their search experience through continuous service innovation, and increased accuracy, and intelligence of information search. Taking the train tickets search as an example, the new 2010 version of ticket search system not only updates ticket price and schedule, but also adds new functions of correcting ticket price and updating schedule, which further improve the precision of information search service. In addition, Kuxun applies intelligent search of train tickets, which allows the tickets search to be more accurate, intelligent, and informative.

4.3 Cooperative Marketing Strategy

Cooperative marketing refers to several firms' joint engagement in a marketing activity, such as marketing communication, brand building, or product promotion, to share marketing resources, consolidate marketing network, or reduce marketing cost.

To increase the number of visits and strengthen its position as the top brand of online travel search, Kuxun has cooperated with a variety of companies and media. In May 2010, Kuxun successfully started to cooperate with Kaixin (www.kaixin001.com), which is the biggest SNS website for white-collars in China. As a result, users can search, compare, and book discounted tickets directly through the built-in application of Kuxun on Kaixin. As Zhang said, the cooperation of Kuxun and Kaixin perfectly represents the combination of entertainment and search service due to the overlap of users. According to Zhang, Kuxun will share search technology with more Internet platforms to gain access to complementary resources and to achieve win-win situation with these websites.

In June 2010, Kuxun started to collaborate with Sony China. Users of SONY VAIO P series computers could directly search travel information through pre-built links of "Kuxun Air Ticket Search" and "Kuxun Hotel Search" in the favorite folder of IE in these laptops. This collaboration is motivated by the concepts of "portable and fashionable" which are shared by both SONY VAIO and Kuxun. Therefore, this collaboration brings more valuable and convenient services to their mutual users. As Zhang put it, "we can bring our travel search

service to more users through the products of SONY. This is a great market opportunity for us."

The cooperation with Kaixin and SONY covers both online and offline marketing. Also, the cooperation helps Kuxun build a stronger brand image. Based on the complementary resources, Kuxun has not only realized the increase of website visits, but also accumulated valuable experience for future cooperative marketing.

5 Conclusion

The successful development of Kuxun, from a train ticket search engine to a comprehensive brand of consumer information search in the domestic market, and eventually the leader in online travel search industry, suggests that a careful selection of target market by STP, timely adjustment to marketing strategy and continuous innovation of marketing modes are very important for newly-built dot-coms. The case of Kuxun also helps provide culture-specific suggestions for other vertical search engine companies in China.

It is vital for vertical search engine companies to choose accurately a specific market to enter and the specific customers who they intend to serve. STP can work as an essential tool to adjust marketing strategy. Companies should continuously conduct Re-STP (re-segmentation, re-selection, re-positioning) so that they can better identify potential markets and customers.

In addition, search engine companies may enhance their survival and growth on the integration of information value chain. The criteria of selecting target markets and positioning include both users' increasing demand for information search and the possibility of a profitable win-win cooperation model with others in the value chain. Moreover, marketing innovations are also a strong driving force for sustainable development of vertical search engine companies.

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