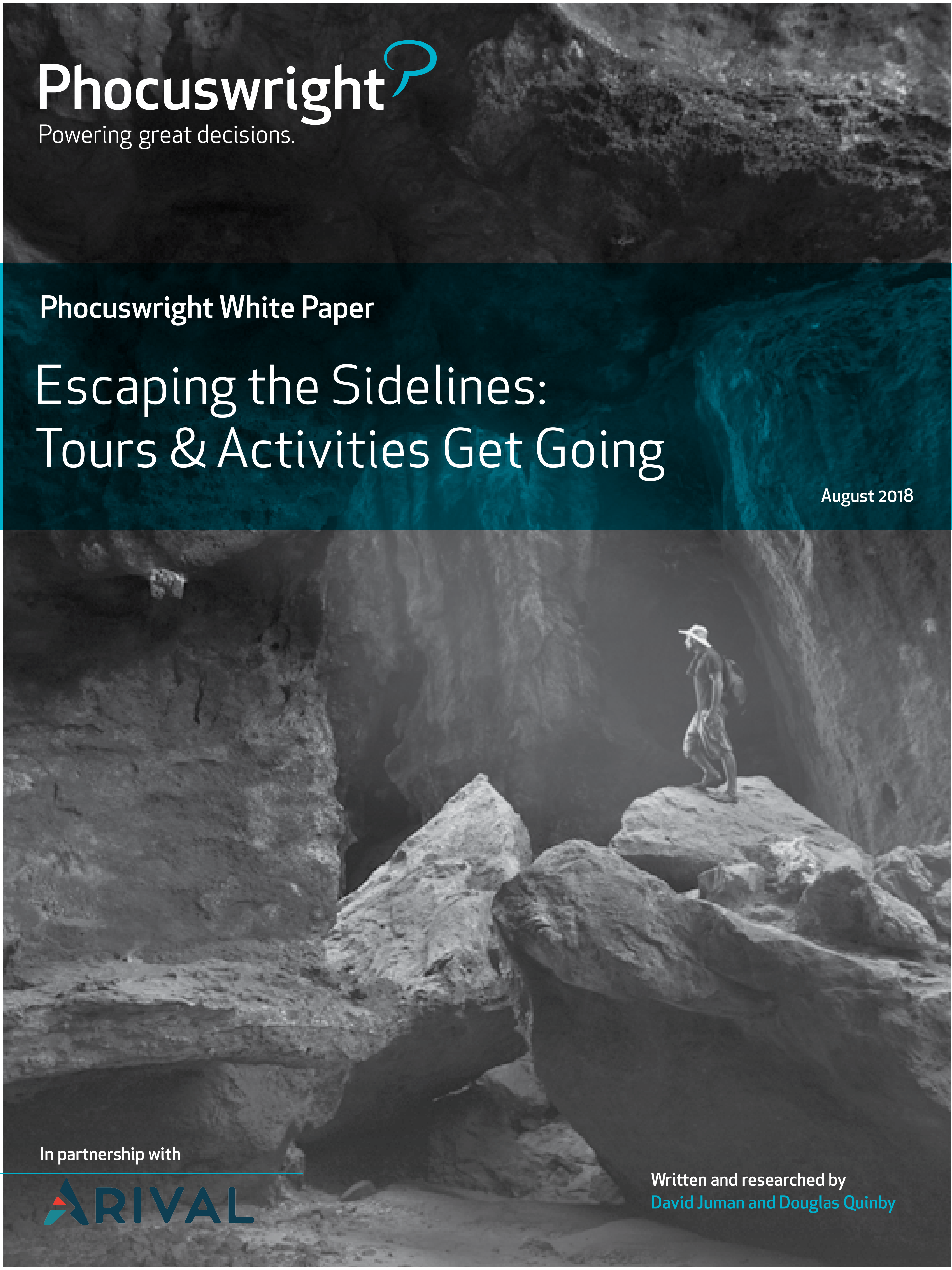

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Phocuswright White Paper

Escaping the Sidelines: Tours & Activities Get Going

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Written and researched by
David Juman and Douglas Quinby

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Escaping the Sidelines: Tours & Activities Get Going.

About Phocuswright

Phocuswright is the travel industry research authority on how travelers, suppliers and intermediaries connect. Independent, rigorous and unbiased, Phocuswright fosters smart strategic planning, tactical decision-making and organizational effectiveness.

Phocuswright delivers qualitative and quantitative research on the evolving dynamics that influence travel, tourism and hospitality distribution. Our marketplace intelligence is the industry standard for segmentation, sizing, forecasting, trends, analysis and consumer travel planning behavior. Every day around the world, senior executives, marketers, strategists and research professionals from all segments of the industry value chain use Phocuswright research for competitive advantage.

To complement its primary research in North and Latin America, Europe and Asia, Phocuswright produces several high-profile conferences in the United States, Europe and India, and partners with conferences in China and Singapore. Industry leaders and company analysts bring this intelligence to life by debating issues, sharing ideas and defining the ever-evolving reality of travel commerce.

The company is headquartered in the United States with Asia Pacific operations based in India and local analysts on five continents.

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Introduction

For many of those in the business of assessing the overall health and state of the travel industry, just two key segments have attracted the lion's share of attention: air and hotel. The disproportionate attention given to how travelers get where they're going and where they sleep once they arrive is not unwarranted; indeed, air and hotel combined account for nearly three fourths of global travel market share, and distribution in each of these segments has been completely upended by advances in technology over the last two decades.

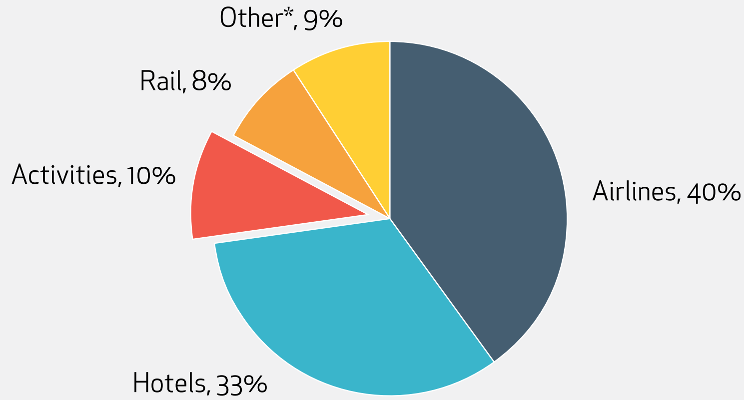
But it's what travelers do after they get to their destination that can make or break the experience. Whether it's getting up close and personal with priceless art treasures, snorkeling on a pristine coral reef, or getting first-hand cooking tips from a renowned chef, in-destination activities are often the most memorable parts of the travel experience, and the reason for leaving home in the first place. No wonder, then, that the tours and activities category has begun to grab its share of the limelight. Over the past several years, some of the biggest names in travel (along with hundreds of technology startups) have turned their attention to the segment, while hundreds of millions in investment dollars have flowed to tours and activities aggregators, online resellers, reservations systems and other online intermediaries.

This paper, drawing on key research and insights from Phocuswright's *Tours & Activities Come of Age: Global Travel Activities Marketplace 2014-2020*, explores the state of the tours and activities segment. We shed light on the massive in-destination activities opportunity; reveal key challenges the segment faces; outline how technology is fundamentally reshaping the tours and activities distribution landscape; and explain why, though online bookings clearly represent the future for tours and activities, not all online booking platforms are created equal.

A Market on the Move

The global travel activities market – the amount travelers spend in destination while traveling – includes tours, attractions, events, activities (excluding dining and shopping) and transportation. This segment represented 10% of the global travel market in 2016, a larger share than either the rail, car rental and cruise segments (see Figure 1).

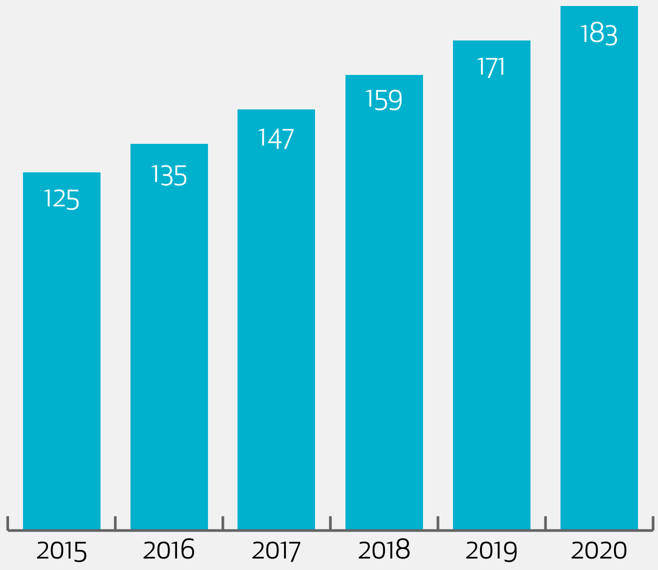
Figure 1:
Global Travel Market Share by Segment



Notes: Data as of 2016. *Other includes car rental and cruise and package tour operators in select markets.
Source: Phocuswright's *Tours & Activities Come of Age: The Global Travel Activities Marketplace 2014-2020*

Tours, activities and attractions (henceforth referred to as tours and activities, or T&A) represent 70% of the global travel activities segment, with the remainder including sporting events, performing arts and ground transportation. Both the global travel activities market, and the tours and activities sub-category are growing faster than the overall travel industry. Steady advances over the next several years will take the worldwide travel activities market to $183 billion by 2020 (see Figure 2).

Figure 2:
Global Travel Activities Bookings (US$B), 2015-2020



Source: Phocuswright's *Tours & Activities Come of Age: The Global Travel Activities Marketplace 2014-2020*

An Uphill Climb?

Despite these strong indicators, the tours and activities segment will need to overcome some hurdles to fully realize its potential. For starters, the category consists of nearly 125,000 suppliers worldwide, representing a vast array of products: walking tours, scuba diving excursions, museums, day cruises, art classes and much more. These products often have very little in common with each other in terms of the size of their operations, inventory management, frequency of departures/activities offered, etc. While this diversity is in many ways a strength of the T&A segment, it also represents a major challenge in terms of aggregating and distributing dissimilar products online.

In addition, most of the tours and activities suppliers and independent guides that make up this segment are small companies, many of which are mom-and-pop operations that are reluctant to change how they do things: manually. Two in five T&A suppliers do not accept online bookings, and more than 80% of global tours and activities are booked offline. This lack of support for online bookings represents a challenge for the segment, since most travelers tend to book their activities at the last minute – often after they have arrived at their destination. As a result, a large share of the industry is missing the huge opportunity associated with last-minute or close-to-departure bookings, while travelers often have little choice but to purchase in-person on the day of the activity.

The Online/Offline Opportunity

There are clear signs that digital distribution is taking hold in the tours and activities segment. Suppliers have begun to recognize the importance of having their products available where travelers increasingly search for and purchase travel products: online, either on activity provider websites or via online aggregator/reseller sites. To facilitate the transition to online distribution, T&A providers now have a wealth of reservations and online booking software at their disposal. While these tools vary in the extent to which they enable access to live inventory in real time (more below), at the very least they enable activity providers to establish a more robust online presence with some e-commerce capabilities. Because of these advances in technology and suppliers' increasing interest in capturing online bookings, booking-enabled supplier websites and apps are expected to be the fastest-growing sales channel for the tours and activities segment in the near term, followed by online resellers.

Despite the healthy outlook for online resellers, this channel still accounts for just 3% of global tours and activities sales. The fact is that most tours and activities are booked offline, frequently via traditional travel agencies or other offline resellers. In the past, travel agents have relied on a patchwork of inefficient tools and processes when selling tours and activities. Products were presented in printed brochures; dates and availability were determined through a combination of emails and phone calls with the supplier and traveler; and booking confirmations might be delayed 24-48 hours.

In addition to enabling direct online bookings by consumers, T&A providers that embrace automated booking technology have an excellent opportunity to streamline and enhance these offline distribution channels. By providing agents with access to live, bookable inventory – either through a booking-enabled website, reservations system or booking software – tour operators can significantly reduce or eliminate some of the gross inefficiencies that have long plagued the offline distribution of their products. And with better access to suppliers' live inventory and far more efficient processes for handling bookings and confirmations, travel agents will be more inclined to sell these types of products.

Big Names Stake Their Claim

As tens of thousands of smaller activity providers dip their toes into online waters, some of travel's biggest online intermediaries are diving head first into the segment, underscoring the opportunity and raising the competitive stakes. Through its Local Expert and Things to Do divisions, Expedia sold roughly $400 million in tours and activities in 2017, with a strategy to more than quadruple that amount in the near future. Meanwhile, Booking.com signaled its intentions to capture a share of the growing T&A pie with its April 2018 purchase of FareHarbor, a tours and activities software company that helps local tours and attractions bring their products online.

And it's not just traditional OTAs that are committing to the segment. In April 2018, TripAdvisor acquired Bokun – another technology company servicing the T&A segment – as it seeks to solidify its leadership position among online tours and activities intermediaries. Meanwhile, after thoroughly disrupting the global online accommodations marketplace, Airbnb has its sights set on local activities with its Experiences platform. After launching the product in late 2016, Airbnb plans to invest $5 million in the Experiences product in 2018, expanding its offerings to 200 cities in the U.S. alone.

Investments and acquisitions by major B2C online intermediaries are a clear indicator that these premier brands mean business when it comes to tours and activities. At the same time, these developments place considerable pressure on the many technology firms seeking to carve out a niche for themselves in the rapidly evolving T&A segment.

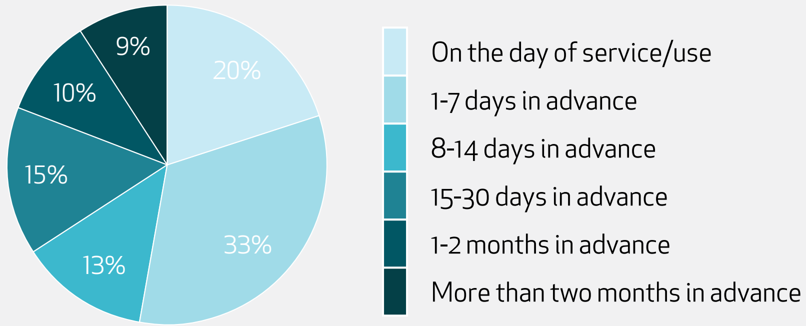
At the same time, niche intermediaries focused exclusively on tours and activities are beefing up their offerings. GetYourGuide announced it would begin offering its own branded tours in August 2018, to complement the wide range of tours it offers from other suppliers. Other B2C tours and activities booking platforms such as Musement and Klook have attracted major investments, and hope to capture their share of online T&A bookings.

Tech Takes It Forward

A wide range of companies – both startups and established players – now offer reservations systems, inventory management and booking software capable of bringing T&A supply online, making it distributable and bookable. By utilizing an online reservations system, tours and activities suppliers can upload their content to OTA channel partners and other intermediaries, and enable direct booking capabilities on their own websites and mobile apps as well. These capabilities promise to transform the T&A segment into a well-organized, online marketplace, similar to the end-to-end online fulfillment that has come to characterize other travel segments such as air, hotel, car rental, rail and cruise.

More than any other segment, tours and activities tend to be booked at the last minute, often after the traveler has departed, and frequently on the same day as the activity. A recent Phocuswright survey of more than 1,500 destination activity businesses found that one in five bookings occur on the day of the activity, and that an additional 33% of transactions occur just 1-7 days in advance (see Figure 3). As travelers become more comfortable booking tours and activities via their smartphones and other mobile devices, the share of last-minute bookings is likely to grow. This presents a huge opportunity for suppliers and intermediaries, provided they are enabled with live inventory that they can make available to their traveling customers. While online T&A bookings made well in advance certainly represent real value, the last-minute potential is enormous.

Figure 3:
Destination Activities Booking Window Distribution



Question: What percentage of your sales are booked by travelers within the following time periods?
Base: Total destination activity businesses: (N=1,636)
Source: Phocuswright's *Tours & Activities Come of Age: The Global Travel Activities Marketplace 2014-2020*

The technology platforms and application programming interfaces (APIs) currently offered by T&A aggregators and reservations systems vary considerably. Though many appear to offer pure online bookings, what's happening under the hood tells a different story. Often, systems will provide access to a supplier's inventory, but the inventory itself is not live and therefore activities cannot be booked in real time. Instead, some human intervention (often in the form of an email or phone call) is needed to confirm availability and complete the transaction.

This historical lack of real-time, online bookings (based on actual live inventory) is highly inefficient for travel agencies – both OTAs and traditional agents. It represents a missed opportunity for T&A suppliers, online resellers and other intermediaries to capture additional bookings, and a potential source of frustration for travelers looking to secure last-minute tickets for tours and attractions. Conversely, the benefits of enabling access to live inventory are a potential game-changer. For traditional travel agents, in particular, access to live inventory brings significant efficiencies, including the availability of instant booking confirmations, irrespective of the booking window.

The API environment in the T&A segment is still evolving. But an opportunity now exists for online resellers and their technology providers to leverage new technology to truly serve customer needs, without being constrained by earlier limitations. From a technology standpoint, flexibility and transparency are key. Any prioritization of products or providers should be dictated by the resellers, and the technology they employ should enable that approach. The leaders in this evolving space – including Expedia, Viator and GetYourGuide – have either built or are building connectivity to reservations system APIs in order to automate their entire booking process.

Some reservations system companies, including Bokun, Peek and Rezdy, have extended their supply offerings beyond a standard API to provide a marketplace of products that OTAs or other travel websites can access. As B2C online resellers and B2B reservation technology companies refine their boundaries, other companies continue to pursue innovation in the T&A segment. Sydney-based Livn has created a unified API that connects more than 20 reservations system companies directly to travel agencies, OTAs and other resellers.

Conclusion

Highly fragmented and composed primarily of small suppliers who have been slow to embrace change, the tours and activities category missed the tech-fueled wave that swept across the travel industry and reshaped the air, hotel, car and other segments. Unlike those verticals, the T&A segment has lacked the technology tools and platforms capable of transforming the game for suppliers, intermediaries and travelers alike.

But the T&A segment languishes no longer. At their core, tours and activities are what motivate travelers to get up and go; travel activities now represent the third-largest travel segment worldwide, and the category is growing faster than the overall travel market. And despite some notable challenges, change is clearly afoot in the segment.

The big names in travel know a good opportunity when they see one, and more than a few are taking tours and activities seriously, acquiring or partnering with technology providers to deliver consumers a powerful online T&A shopping and booking experience. For their part, a slew of software companies now promise to facilitate digital distribution of tour and activity content on suppliers' own websites and apps, or to resellers and travel agencies – both online and offline. And most importantly, T&A suppliers themselves have begun to recognize the value of automation and digital distribution of their products.

These developments clearly represent new opportunity to bring an untapped travel category into the digital travel ecosystem for consumers. As importantly, they promise to streamline existing sales of these products by improving system integrations and eliminating the inefficient manual processes that weigh on the segment, such email, phone calls and more.

Despite the massive upside, this won't be a segment where everyone winds up a winner. Already, technology companies are feeling the heat as competitors get snapped up by premier B2C brands, and pressure mounts to enable real-time transactions based on live, immediately bookable inventory. And unfortunately, T&A suppliers who continue to ignore the possibilities of digital distribution will likely find themselves watching from the sidelines awhile longer, if not permanently.

Despite this lingering uncertainty, one group will come out on top: travelers. With more T&A content moving online and competition in the space fueling better integrations and online experiences, travelers will have at their disposal an array of choices for effortlessly searching, shopping and buying tours and activities.

Most importantly, these choices will be increasingly well-aligned with how consumers think about and purchase their travel activities. The future generation of tools and platforms will enable travelers to confidently shop for and book tours and activities at any time before or during their trip, including while in-destination, on the same day of the activity, and via mobile device. The segment may not be quite there yet, but judging from the monumental advances that have transformed shopping and buying in other travel categories, it's just a matter of time.