



Photo courtesy of HNA / Blake Branstad

A monthly update including relevant information on travel industry trends, consumer and meetings market research, competitive intelligence, and Hawai'i's performance as a destination.

SPOTLIGHT ON: TOURS & ACTIVITIES IN THE DIGITAL AGE PG2

MARKET INSIGHTS UPDATE

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Tours & Activities in the Digital Age

When it comes to the latest travel industry news, it is often the big-name airlines and hotel chains that get the most attention. And although they are hardly the only facets of travel, this fixation on corporate doings is not exactly misplaced. Transportation and lodging are the two biggest components of travel spending, accounting for a combined \$1.3 trillion in annual revenue.

Still, when it comes down to it, transportation and lodging are not ends in and of themselves. No one books a trip to Paris to experience the joy of a 10-hour flight, or travels to Bali to spend the week cooped up in a hotel room. It is the sites and activities a destination offers—the culture, food, history, and adventure—that

draw travelers there. In fact, tours and activities account for 10 percent of global travel spending or more than \$135 billion annually.

So, why do tours and activities get so little press compared to transportation and lodging? At least part of the answer is that the segment is fragmented and dominated by small businesses and compounded by a lag in technology adaptation that largely defines the corporate travel landscape. This month's *Market Insights Update* will examine this often neglected segment of the travel industry, and explore how the incorporation of information technology solutions can vault Hawai'i's visitor industry into the Digital Age.

Continued on PG2



Hotel Update

Year-to-date through the second quarter of 2018, Hawai'i hotel statewide performance continues to be positive despite the high cost of accommodating visitors and the ongoing global media coverage of the Kīlauea eruption.

PG4

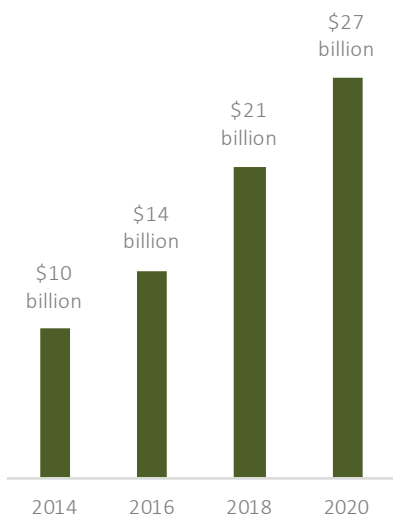




Photo courtesy of Getty / Diego Flores

Tours & Activities in the Digital Age

Global Tours & Activities Online Booking Forecast



Source: HVCB analysis of Phocuswright's "Tours & Activities Come of Age: Global Travel Activities Marketplace 2014-2020"

Small, Independent, and Behind the Curve

While there is a level of guaranteed comfort when flying on legacy carriers and staying at well-known hotel chains, when it comes to exploring a destination, the canned corporate experience it is not necessarily what travelers are looking for when out and about. As large, pre-planned tours are falling out of favor, travelers are increasingly searching for authentic, custom experiences, seeking out the small or individual tours that will help them enhance their travel experiences while exploring local tastes and cultures.

Tour and activity providers are largely small-scale operations. According to a recent study from Phocuswright, nearly two-thirds of these companies generate less than a quarter-million dollars in revenue per year, and more than half employ five or fewer employees. Globally, at least 122,000 companies offer tour and activity services, and this figure is almost certainly understated by a large margin. Compare that to the 5,000 or so airlines in operation, and a clear picture is painted of a small, locally driven market.

Unfortunately, while these small, independent operators are great at providing the authentic, local experience that travelers desire, they have been less successful at bringing their marketing and booking oper-

ations into the Digital Era. The last-minute, touch-of-a-smartphone reservation simply does not exist for tours and activities in the same way travelers have come to expect it of lodging or transportation. Less than 20 percent of all travel activities are booked online, and nearly half of providers offer no online booking options at all.

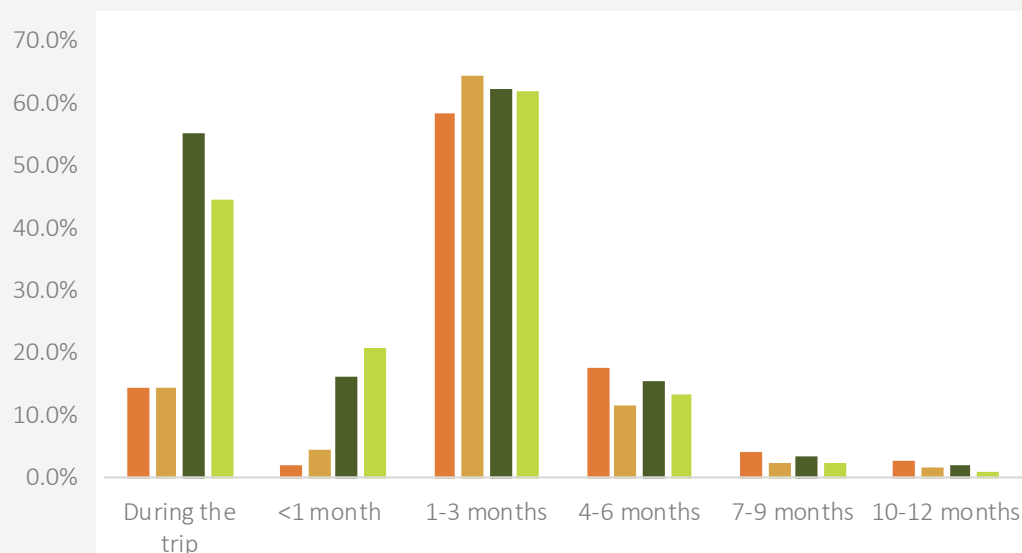
There are several root causes for this slow rate of technology adoption, probably the most important of which is the fragmented nature of the industry. Technology firms are not building a single, massive platform for a few mega-corporations that can shell out tens of millions of dollars; instead, they must design a modular, customizable solution for thousands of small businesses.

Another factor affecting the proliferation (or lack thereof) of online booking and other technology solutions is that many providers cannot afford said solutions or simply do not see the value they provide. After all, with the U.S. economy, and by extension the travel industry, continuing to reach record levels year after year, many of these businesses are already getting by or even thriving. Why invest in costly software or third-party services which may fall short of the promised results? Phocuswright's research found that about 30 percent of small tour and activity companies fall into this bucket.

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Booking Timetable for Tour or Attraction Packages of U.S. Visitors to Hawai'i

■ 2013 U.S. East ■ 2013 U.S. West ■ 2016 U.S. East ■ 2016 U.S. West



Source: HVCB analysis of Hawai'i Tourism Authority data, Visitor Satisfaction and Activity Report 2013-2016

Waves of Change

The good news, at least for travel consumers, is that the vast majority of tour and activity providers are beginning to jump on the technology bandwagon. Adoption may have been and will continue to be slower than in other travel segments, but change is coming as these systems and technologies continue to prove their worth to small business owners.

To put things in perspective, online bookings accounted for just \$10 billion of all tour and activity sales in 2014. By 2017, that had grown to \$18 billion, and it is expected to jump to \$27 billion by 2020. Some of that is due to growth within the tours and activities segment—revenues for the segment are rising faster than those of the travel industry at large.

Indeed, an effective online presence is rapidly becoming a top priority for many tour and activity businesses. Over three-quarters of these companies expressed a desire to provide live, online booking via their websites in the near future, and 61 percent want to extend that service to mobile platforms as well. The use of third-party reservation systems and online resellers is also growing rapidly; whereas just 15 percent of business utilized third-party vendors in 2011, by 2016 that share had grown to 45 percent. The net effect of all these changes cannot be understated: by 2020, 25 percent of tour and activity bookings will be done online, up +10 points from just four years prior.

Hawai'i Visitors in the Digital Age

In many ways, a Hawai'i vacation is synonymous with tours and activities for many

travelers. According to the Hawai'i Tourism Authority's 2016 Visitor Satisfaction and Activity report, 37 percent of first-time U.S. visitors took a boat tour or went whale watching, 25 percent took a bus tour, 26 percent went surfing or paddle boarding, and 55 percent attended a lū'au.

Undoubtedly, the drive to digitize booking processes is not just a matter of convenience for business owners since Hawai'i visitors are growing increasingly reliant on online platforms to plan and book their trips. For one thing, the planning window for Hawai'i vacations and certain activities is becoming shorter. In 2013, five percent of U.S. West visitors (by far the islands' largest market) purchased a tour or activity package less than one month from their departure, while those who purchased during their trip accounted for 14 percent. By 2016, these shares had risen to 21 percent and 45 percent respectively. Similar trends can be seen in the tools visitors are using to plan their trip. In 2013, 21 percent of U.S. West visitors used a mobile app to plan part of their trip. Half of all visitors reported using mobile apps by 2016, including 37 percent who used one during their trip. Usage of social media sites for trip planning among U.S. West visitors has also seen a tremendous growth from 2012 to 2016, soaring from 7 percent to 31 percent.

As Hawai'i's visitors are becoming increasingly tech-savvy, industry partners that are able to accommodate these customers via easy, touch-of-a-button, online purchases are more likely to capture a greater share of this growing market.



Photo courtesy of HTA / Mark Kishimi

Source: HVCB analysis of Hawai'i Tourism Authority (HTA) data, Visitor Satisfaction and Activity Report 2012-2016; TravelStyles 2017-2018 Americans as International Travelers; and Photocuswright's "Tours & Activities Come of Age: Global Travel Activities Marketplace 2014-2020"

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Photo courtesy of HTA, Kristin Abate / @kristinabate

Hotel Update

Sneak Peek at Next Month



Spotlight On:
Golf Traveler Profile



Competitor Update

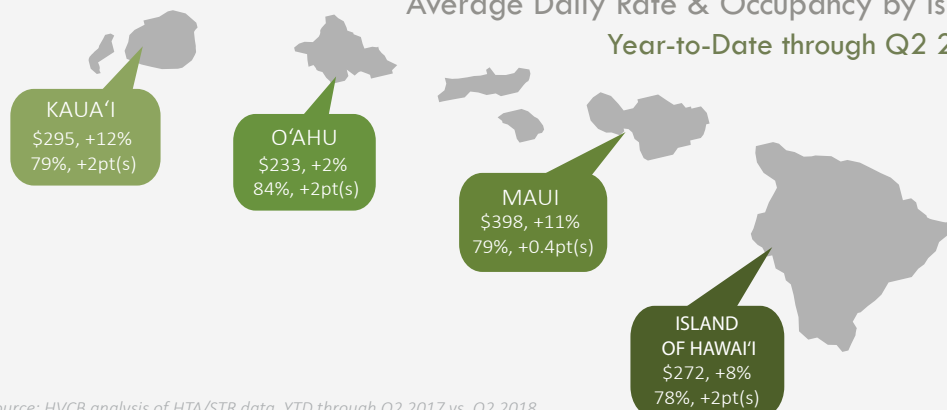
Demand for Hawai'i remains high even as the cost of accommodating visitors (hotel payroll, benefits, utilities, etc.) continues to escalate. Thus far, Hawai'i hotel performance is still positive, though. Year-to-date (YTD) through the second quarter of 2018, the overall statewide occupancy went up +1 percentage point to 82 percent from the second quarter of 2017, while Average Daily Rate (ADR) has jumped +6 percent (\$280), and Revenue per Available Room (RevPAR) grew +8 percent (\$229).

O'ahu remains the busiest market, with year-to-date occupancy increasing +2 percentage points to 84 percent, while Maui County and Kaua'i continue to see double-digit growth in both ADR and RevPAR compared to the same period last year.

While overall the news is good for the in-

dustry, recent success has not been uniform. In June, although O'ahu and Kaua'i saw increased occupancy, statewide occupancy was down -1 percentage point, with the island of Hawai'i recorded a dipped of -6 percentage points (69%) due to initial concerns over the newest phase of Kilauea eruption which was widely covered by global news. So, despite double-digit gains in air seats to the island of Hawai'i, total island hotel occupancy and visitation were down in June. The net loss was due to a substantial drop in visitors choosing to complete their multi-island trips on islands other rather than the island of Hawai'i. Until more data become available, it will be difficult to make definitive conclusions about any long-term effect the eruption is having on the island of Hawai'i hotels and the overall visitor industry.

Average Daily Rate & Occupancy by Island Year-to-Date through Q2 2018



Source: HVCB analysis of HTA/STR data, YTD through Q2 2017 vs. Q2 2018