WHEN THEY GET THERE (AND WHY THEY GO):

ACTIVITIES, ATTRACTIONS, EVENTS AND TOURS

Executive Summary

®

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PhoCusWright®
MARKET RESEARCH • INDUSTRY INTELLIGENCE

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Overview

For more than a decade, PhoCusWright has sized and assessed the U.S. travel marketplace and the major trends that shape how travelers shop for and purchase travel. Distribution trends across air, lodging, car rental, cruise, packages, and rail are well understood. But the travel industry has lacked essential market data on a central element of the travel landscape: what leisure travelers do "when they get there."

Air travel is a major engine of industry revenue, accounting for 43% of the total U.S. travel market in 2010. But the flight itself is often a means rather than an end. The activities, events, tours, and attractions that travelers experience in-destination are what make the vacations. These activities are often at the core of the leisure travel experience, and sometimes even drive the trip itself.

This landmark study uncovers a surprisingly large market: nearly twice the size of car rental and significantly larger than the cruise and tour operator segments combined. Travelers spent nearly $27 billion on activities, attractions, events and tours in 2009. Yet travel activities have failed to meaningfully penetrate and participate in the broader travel distribution ecosystem. There are three important and somewhat dependent reasons:

1. **Fragmentation:** the in-destination activities[1] landscape is incredibly fragmented, comprised largely of small, local providers.

2. **Technological sophistication (or lack thereof):** Most activity providers generate sales of well under $1 million annually and lack the resources to invest in modern distribution technology. Some four in five providers do not even have a website.

3. **Economics:** With an average value per transaction across all activities of not much more than $100, ceilings are low for margins to fund intermediaries and technology investment.

These three factors bring inherent challenges to aggregation: connectivity to myriad small operators is painstaking; limited technical capability means high costs for aggregators; harmonization of content is manual and labor-intensive; low transaction value puts a ceiling on margins and creates business model challenges.

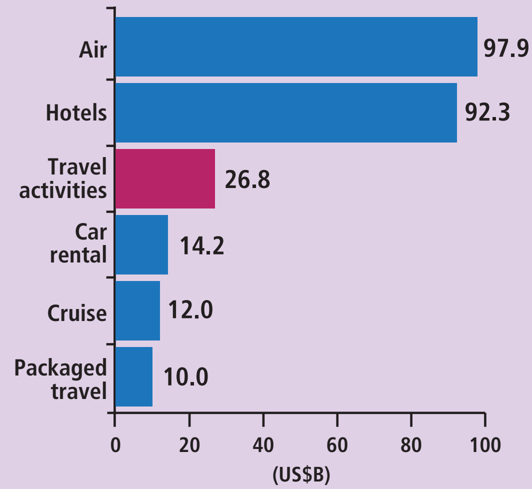
But such challenges also create opportunity for technological and commercial innovation. Over the past decade or more, several companies have amassed significant portfolios of

1. This report uses the term "activities" to refer broadly to all activities, attractions, events and tours that travelers purchase and participate in while traveling in destination.

activities content, built one provider at a time. These aggregators connect providers to other intermediaries (such as travel agents, online sellers and hotel concierges) and consumers, opening the door to significant growth in advance bookings and online distribution.

Activity aggregators have been building an increasingly important distribution network, giving even small providers access to wider markets, online travel shoppers, and more advance bookings. Technology delivered through a software-as-a-service model is lowering the cost of entry for smaller providers to take advantage of electronic reservations, inventory management, and online selling. These developments are bringing more of the Long Tail of activity providers into the travel distribution ecosystem, offering new potential for travel suppliers and distributors to monetize activities content. At the same time, a flood of innovation related to local search, social media, and mobile devices is creating unprecedented opportunities to influence travelers both before departure and in-destination.

Figure 1:
Size of the U.S. Travel Activities Market and Total Travel Market by Segment, 2009 (US$B)



Source: *When They Get There (and Why They Go): Activities, Attractions, Events and Tours; PhoCusWright's U.S. Online Travel Overview Tenth Edition*, November 2010

Figure 2:
Activity Groups, Types, and Subsegments

Activity group	Activity type	Activity type Detail
1. Activities and tours	Tours	• Sightseeing tours by land, water, and air • Cultural tours • Shore excursions
	Adventure/ recreational activities	• Walking tour • Riding, land-based, and water-based adventure and sporting activities • Hunting/fishing
	Skiing	
	Spa and wellness	
2. Attractions	Amusement parks	
	Museum, zoo, or aquarium	
	Cultural/historical attractions	
	Natural attractions (parks, gardens, reserves, etc.)	
3. Events	Performing arts events	
	Spectator sports	
4. Ground transportation (prearranged shuttles, taxis, and transfers; excludes transient taxi)		

Source: *When They Get There (and Why They Go): Activities, Attractions, Events, and Tours*

Key Findings

- The U.S. travel activities market totaled $26.8 billion in 2009, a significant portion of all leisure travel spend. While the segment is only one quarter the size of both the air and hotel markets, it is nearly twice as large as the car rental segment and larger than the cruise and packaged travel segments combined (see Figure 1).

  The diverse activities market is comprised of a broad range of activity types. PhoCusWright studied some 20 types of activities and organized them into four major activity groups: activities and tours, attractions, events, and ground transportation (see Figure 2). The numerous activity types within these groups illustrate the breadth of the market, which is truly a collection of distinct verticals with varying degrees of automation and reliance on travel.

- Distribution dynamics vary dramatically by activity type. Of the 20 types of activities addressed in this study, each one could be treated as its own industry segment. The difference in distribution dynamics between museum tickets and helicopter tours are comparable to that between flights and cruises (if not more so).

- Distribution in some activities types, such as spectator sports and performing arts, is largely controlled by suppliers or specialized aggregators, limiting potential for sales via the travel distribution ecosystem. The "addressable" travel activities market in 2009 was $20.8 billion.

- Provider direct offline distribution represents nearly 60% of sales, but online distribution is growing rapidly. The addressable online travel activities market is $4.1 billion, or 20%.

- Online intermediary distribution is extremely fragmented, with multiple providers both selling directly to consumers and distributing across a range of outlets. Online activities specialists (OASs) play a pivotal role in aggregating content and are well positioned to support growth of online and mobile bookings.

- Activities that travelers consider most important to their trip are more likely to be drivers of travel and advance booking, while activities perceived as less important have a lower incidence of advance booking. Sporting events, skiing and other snow activities are most likely to be trip makers – important activities that are often booked before any other travel component.

- Several important factors drive activity importance and booking chronology (when a traveler books one component in relation to other components). Traveler passion and strong brands boost activity importance, while inventory constraints, higher cost, activity popularity and the expectation of crowds make an activity more likely to be booked in advance.

- The Internet plays a major role in how travelers shop for activities. Four in five active travelers usually shop for travel activities online, with general search engines, destination websites and online travel agencies the most likely websites used.

- The activity landscape is comprised mostly of small providers. Three out of five report under $1 million in revenue, with one third reporting less than $250 thousand.

- Fewer than four in 10 activity providers offer bookings on their website and one in five have no website at all. Implementation of more sophisticated technology, such as reservations systems, CRM or mobile applications falls well below 15%.

- Active travelers are increasingly accessing activities content in-destination via their mobile device, and the influence of mobile websites and applications will grow. Nearly four in five active travelers use a mobile device while traveling, and nearly two-thirds say that they are likely to use their mobile device in the future to research and book activities.

- The convergence of local, social and mobile technologies and tools has significant potential to influence travel activities selection and distribution. While there has been a recent influx of innovative websites and mobile applications relevant to in-destination travelers, most fall short of achieving the goal of true local-social-mobile MOJO: delivering the right product to the right person in the right place at the right time.

Research Background and Overview/Methodology

When They Get There (and Why They Go): Activities, Attractions, Events and Tours charts the in-destination activities landscape. This study has the following objectives:

1. Size the travel opportunity for events and activities in the U.S., both in aggregate and by activity type

2. Understand traveler behavior in relation to in-destination services, including research, shopping and booking trends; key drivers and inhibitors; and demographic patterns

3. Understand the role and impact of emerging technologies, including reservation and distribution technologies, social media and mobile

4. Identify opportunities and challenges for travel suppliers, distributors and technology providers

PhoCusWright took a multifaceted approach to studying the travel activities market, conducting in-depth interviews with senior executives across the activities and travel distribution landscapes, conducting quantitative surveys of both consumers and activity/events suppliers, and compiling and analyzing extensive third-party data across the 20 types of activities addressed in this study.

Consumer Survey

- Online survey of U.S. active travelers

- Source: GMI (Global Market Insite Inc.), a leading online panel company. GMI provided 1,283 qualified responses in July of 2010
  - 2.7 point margin of error at the 95% confidence level

- Additional incidence testing to project to U.S. traveler population

Activity and Event Supplier Survey

- Online survey of suppliers/providers to the global travel activity market (tours, activities, events, attractions, etc.)

- Survey fielded via email by Adventure Travel Trade Association (ATTA), CityDiscovery, RezGo, Southeast Tourism Society, TripAdvisor and Viator for the months of June-August 2010.

- 340 qualified respondents, of which 164 operate exclusively in the U.S., 176 operate internationally
  - 5.3 point margin of error at the 95% confidence level

- The majority of respondents were tour providers (64%), with attractions and events underrepresented at 12% and 4%, respectively.

PhoCusWright also conducted interviews with 45 senior executives across the activity provider and travel distribution landscape, including online travel agencies (OTAs), online activity specialists (OASs), activity providers and technology companies.

PhoCusWright developed market and channel sizing across all activity categories and segments through projections from the consumer survey to the U.S. traveler population and validated through corroboration with the following:

- Activity supplier survey
- Executive interviews
- U.S. Economic Census and other third-party data
- *PhoCusWright's Consumer Travel Report Second Edition* and *PhoCusWright's U.S. Online Travel Overview Tenth Edition*

U.S. Active Traveler spend includes expenditures for all activities while traveling both domestically and internationally. U.S. Economic Census data reflects gross receipts of U.S.-based companies, which include both U.S. traveler spend and spend by U.S. international arrivals (i.e., inbound tourists). PhoCusWright assumes that U.S. traveler spend abroad and international arrivals spend are comparable.

Key Terms & Definitions

Travel Activities Market: All activities, tours, events and attractions consumed by U.S. travelers while traveling.

Addressable Travel Activities Market: Excludes a portion of spectator sports and performing arts (the Events activity group) that is not addressable, or sellable, via travel distribution channels.

U.S. Traveler: Adult (18 or above) with online access who has traveled for leisure purposes at least 75 miles from home and either flown by commercial air or stayed in paid accommodations within the past year.

U.S. Active Traveler: A U.S. traveler who has purchased or participated in an activity, tour, event or attraction while traveling in the past year.

Activity Provider: A supplier or seller of a travel activity, such as a tour operator, museum, amusement park, or airport shuttle operator. PhoCusWright uses "provider" to avoid confusion with other travel industry terms, such as a packaged tour operator (e.g., Apple Vacations, GoGo).

DMO: General acronym referring to any destination marketing organization, whether privately or publically funded, such as a tourism bureau or convention and visitors bureau (CVB).

Online Activity Specialist (OAS): Websites and travel distribution platforms (B2B) such as BeDynamic, CityDiscovery, Isango and Viator that focus on aggregating, marketing and selling travel activities.

Online Intermediary: General term referring to any websites that offer travel activities from third-party providers, such as websites of airlines, hotels, cruise lines, DMOs, OASs, or OTAs.

These are just a few of the findings from *When They Get There (and Why They Go): Activities, Attractions Events and Tours.* Purchase the full report here: http://www.phocuswright.com/store/1559.

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