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The Proliferation of the Online Sales of Tourism Activities

Abstract

The online sales of tourism activities are increasing despite once-sluggish growth, especially in contrast to other tourism segments, i.e., transportation and accommodation, which already had a more significant share of online sales. This article aims to provide a narrative as to why tourism activities took longer than other travel segments to be sold online and why the trend of being sold increasingly online will continue into the future. The article concludes that two key factors, the nature of tourism activities (i.e., subjective and customizable) and technological advancements, have contributed to this trend. These technological advancements include tourism activity booking software, innovation in payments technology, application programming interfaces (APIs), big data, and dynamic packaging. Additionally, the COVID-19 pandemic further accelerated this trend.

Keywords: tourism activities, FinTech, payments, ICT, tourism technology

1. Introduction

Travel-related ICT companies, e.g., Expedia, TripAdvisor, Booking.com, and Trip.com, describe tourism activities using the expressions such as ‘things to do’, ‘tours’, or ‘attractions’. Tourism activities can be viewed as one of the three core tourism segments, together with accommodation and transportation - albeit there may be some overlap. Despite that as of 2017, the vast majority of tourism activities (more than 80%) were still booked offline, e.g., in person or by the phone (Jong et al., 2017), tourism activities appear to be finally shifting to online sales channels starting in the 2010s. On the other hand, accommodation and transportation have been sold heavily online for many years now. Furthermore, there is a wealth of research about how accommodation and transportation are sold and distributed, but similar research on tourism activities is often overlooked and scarce (Sigala, 2005; Toh et al., 2011; Beritelli & Schegg, 2016; Martin-Fuentes & Mellinas, 2018).

This article aims to provide a narrative as to why tourism activities took longer than other travel segments to be sold online and why the trend of being sold increasingly online will continue. The article elaborates how the two key factors (the nature of tourism activities and technological advancements) have contributed to this trend. Additionally, this article discusses the impact of the COVID-19 pandemic on this trend. In explaining these key factors, the article identifies two prevailing online sales channels of tourism activities: direct online booking provided on activity operators’ websites and indirect booking on third-party websites, such as online travel agencies (OTAs) that sell other tourism services.

2. What is the nature of tourism activities?

The nature of tourism activities is subjectively perceived and customizable. As tourism activities are experienced very differently per person, they also have subjective buying preferences per customer (O’Dell, 2007). Furthermore, buying behavior for experience can be argued to be emotional-driven (Morgan et al., 2009). For example, deciding which tourism activity to purchase is often much more subjective than booking a train ticket. A potential tourism activity buyer could have many options for vastly different activities. Choosing
between these activities would be subjective to that individual. For instance, whether the potential buyer wants to go skydiving, attend a cooking class, or just relax at the beach is quite personal and subjective.

On the other hand, booking a flight often may heavily focus on schedule and price differentiation. In the context of customisability, since buyers have different demands from what they want to experience in these activities, these activities often have different customizable, bespoke options. For example, a scuba diving tour could have many different dive spots, locations, boat types, levels of difficulty, and so on, which tailor to the subjective nature of the tourism activity. On the other hand, the customizability of booking a train ticket is often limited to options such as the origin, destination, and seat. Additionally, bespoke accommodation stay options could be limited to dates and room type - a hotel might only have one type of room.

3. Which sales channels are most critical to the acceleration of the online sales of tourism activities?

The largest sales channel of tourism activities is direct offline sales. According to Rezdy (2016), 60% of activity reservations were made in person or over the phone. While there are also other sales channels involving third-party resellers that are offline, 48% of activity bookings are made once the traveller is already at their destination (Delgado, 2019). Unfortunately for tourism activity operators, there are risks to relying on these offline sales channels (Xie & Shugan, 2001), such as no guarantee of a sale until the time of the activity. With this economic risk in mind, there has been an advent since the mid-1990s of online travel agencies (OTAs) that exclusively sell activities. These activity-focused OTAs websites include, but are not limited to, Viator (founded in 1995), GetYourGuide (founded in 2008), Musement (founded in 2013), and East Asia-focused Klook (founded in 2014) (Quinby, 2019). Nevertheless, these activity-focused OTAs lack comprehensive traveller/customer data from the sales of accommodations and transportation segments to improve sales, e.g. cross-selling. Additionally, these OTAs charge high commission rates, often as high as 20-30% to operators (Tsverkov, 2018). Last but not least, many activity-focused OTAs cannot customize the listing of activities on their website with the vast number of variations that activities can have. For example, a boat tour could have many different time slots, time length, boat speed, indoor/outdoor options, seat options, and meal options.

4. What are the emerging online sales channels of tourism activities?

The current shift in how tourism activities are sold is related to two specific emerging sales channels: (1) direct bookings sold on the websites of activity operators and (2) indirect bookings cross-sold on third-party websites with accommodation, transportation, or both.

Direct bookings on the websites of activity operators have gained traction because of the advent of tourism activity booking software (TABS) and support by the customizable nature of tourism activities. Examples of TABS companies include FareHarbor, Rezdy, Xola, Checkfront, Bokun, and TrekkSoft (Software Advice, 2020). TABS companies offer two critical capabilities to activity operators for their reservations. First, online booking enablement allows tourists to make direct bookings on the operator’s website, generally with an online cashless payment to the operator. Second, availability calendars capabilities are digital calendars that maintain operators’ free and booked time slots in one central place. They are sometimes called ‘channel management’ capabilities, which differentially allow operators to toggle on and off bookings from third-party websites and other features (FareHarbor, n.d.).

Notably, direct online bookings allow activity operators to sell online with less relative costs than third-party resellers such as activity-focused OTAs. TABS companies’ pricing models vary from monthly subscriptions, such as 49-249 U.S. dollars plus 1%-5% per booking, to ‘free’ software solutions, excluding payments processing costs and a single-digit percentage B2C fee paid by the customer (Kow, 2018a; 2018b).
Nevertheless, the recent increased adoption of TABS has only been possible because of innovations in payments technology. Historically, activity operators had to go through a complicated process of signing up and working with a payment service provider (PSP) or bank in addition to TABS to accept online paid bookings. However, payments technology saw a shift towards technology architecture starting in 2012. Software providers started partnering with technology-forward PSPs that also operated as payment facilitators. In 2012, Stripe, a PSP based in California, launched a product called Connect (Krausz, 2015). One year later, major competitor Braintree (owned by payments giant PayPal) launched its competing ‘partner solution’ (also known as a ‘marketplace solution’) with other companies following their lead (Perez, 2013). This kind of technology allows TABS (and other platforms) to more seamlessly onboard tourism activity operators with one PSP. In these ‘partner’ solutions and other payments solutions designed for small and medium-sized enterprises (SMEs), the bureaucratic burden (e.g. identity, security, privacy, and compliance requirements) and financial uncertainty (e.g. pricing) of accepting payments by the TABS or the activity provider are significantly lessened by the PSP taking on this burden in a more scalable manner (Krausz, 2015). This ease and level of technological control were simply not possible before. For example, FareHarbor has been largely reliant before: relied on Stripe Connect for payment services since its inception in 2013. This spread of ‘partner’ payments solutions has made it significantly easier for TABS to onboard new operators in a less complicated and less time-consuming manner. It has also allowed for more comprehensive integrations of the payment functionality, for example, withholding commission directly out of transactions rather than relying on other revenues, namely, subscriptions.

Moreover, the customizable nature of tourism activities draws customers to book directly on the websites of tourism operators. Williams and Palmer (1999, p. 267) stress, ‘[o]nce the website for a favored activity is found, that website may suggest other attractions in the area that might appeal to the needs of the type of person who typically takes part in the preferred activity’. TABS allows customers to make direct personalized bookings, selecting from many different travel options on operators’ websites. However, this personalized experience might be lacking on a third-party website that could sell a handful of the most popular activities. For example, a scuba diving tour operator could have videos, images, and in-depth descriptions of what a potential buyer might see on the activities. This approach could be argued to be more enticing to a potential buyer than a couple of images and a quick description common on OTAs. On the other hand, not many visuals and not much in-depth description of an airplane would be needed to sell a flight ticket, which has standardized seating arrangements and services across the airline industry. One could speculate that most travellers who have bought a flight or train ticket have never seen a visual of the airplane or train itself until they come to the airport or train station, respectively.

5. Second emerging sales channel

The second critical emerging sales channel for tourism activities is on third-party websites, such as OTAs, which sell other tourism segments, i.e. accommodations, transportation, or both. These websites have experienced further incremental growth because of (a) TABS’ availability calendar capabilities, which can share data with third-party websites, and (b) big data addressing the subjective and emotional customer preferences of activities. To start, availability calendars allow operators to share their availability calendar into multiple third-party websites via application programming interfaces (APIs) or indirectly through existing activity-focused OTAs (Schaal, 2020), thus bringing activity ‘inventory’ online. This ability makes it easier for these websites to acquire and list additional activity operators on their platforms as this ‘inventory’ is already connected to the internet. Furthermore, OTAs can expand into tourism activity sales channels more efficiently because of ‘inventory’ their existing traveller data. Websites such as OTAs that sell other types of tourism services can utilize big data to address the subjective and emotional customer preferences of activities. A major advantage for these third-party websites that focus on accommodations and transportation is that they have other data points about the traveller. ICT travel companies already utilize the concept of ‘dynamic packaging’, which
allows 'for the automated online configuration and assembling of packaged travel products for individual customers' (Cardoso & Lange, 2007, p. 27).

Furthermore, the COVID-19 pandemic has accelerated the trend of tourism activities' sales channels moving online. It has applied pressure and legal requirements on activity operators to make bookings in advance. With the concern for social distancing (Centers for Disease Control and Prevention, 2020), activity providers are turning to require online bookings to limit the number of guests at certain times (The Local, 2020). The availability calendar functionality of TABS can ensure that the operator does not have too many customers than what may be allowed legally and safely. The changes in the perspectives of these operators and the customers could make the transition more permanent. Operators could find that direct online bookings lower their overhead costs and improve ease. Customers could also have a lasting change in behavior as they could become accustomed to booking online, as seen with consumer behavior in the accommodation and transportation segments.

6. Conclusion

This article contributes to the literature on tourism activities by identifying the key factors (the nature of tourism activities and technological advancements) influencing the rise of online sales of tourism activities. Additionally, the article also identifies two emerging online sales channels, i.e. direct online booking provided by activity operators and third-party websites (e.g. OTAs) that also sell other tourism services. Innovations in online payments solutions have empowered direct online bookings with TABS, which have finally met tourists’ highly customizable expectations regarding booking tourism activities on operators’ websites. With advancements in dynamic packaging and big data, API connectivity of TABS has led to third-party websites as another emerging sales channel. Furthermore, the COVID-19 pandemic has exacerbated the decline of offline sales of tourism activities. One could argue that offline sales could return when the safety laws and regulations of the COVID-19 pandemic fade in the future. However, the narrative outlined in this article makes the case that the increased online sales of tourism activities are likely here to stay. Therefore, this article implies that we have entered a new era in which the three core tourism segments (accommodation, transportation, and now activities) will be led by online sales channels. More specifically, the implications of this article show that tourism activities will play a larger share and role than previously in tourism e-commerce.

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