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Outlook for the Packaged Travel Industry

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WHITE PAPER

Outlook for the Packaged Travel Industry

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With members in more than 40 countries, including every U.S. state and every Canadian province, the National Tour Association is the leading association for travel professionals who package travel to, from and within North America. NTA's more than 2,300 member organizations include 700 tour companies, which have a diverse business model evident from the fact that the majority serve multiple markets: Seventy-two percent of these NTA tour operators package travel within North America, 44% package travel outbound from North America and 35% package travel into North America from abroad. Collectively, NTA tour operators serve more than 12 million travelers each year.

The state of the packaged travel industry, which encompasses both group tour and FIT travel, is strong and growing according to NTA tour operators. In the 2015 NTA Tour Operator Profile survey, the companies, on average, did approximately \$14 million in business and as a whole had more than \$9.6 billion in sales in 2014. And when you look at the first six months of 2015, they reported that business was greater than the same period in 2014. Fifty-five percent of operators reported the number of clients they served in the first six months was up and 59% said their sales volume was greater than it was in 2014.

Looking forward to 2016, NTA operators continue to see the industry growing and gaining strength. In open-ended responses to the Mid-year Business Survey, one operator commented: *"Great year and more international business coming in. Tour prices are more expensive but there is more money to spend by my clients. It is a good year and 2016 looks even better."* Another operator responded: *"The fall has been strong and looks to continue into winter and spring 2016."* But, NTA and operators are closely watching domestic and international matters. Related, fluctuations in the global economy and currency exchange rates are impacting international travel: negatively for inbound to the United States, whereas outbound from the United States has benefited. Also, fears of erratic violent weather, terrorism, disease outbreaks, government shutdowns and unrest in the Middle East continue to create uncertainty in the travel industry and could impact business growth and travel.

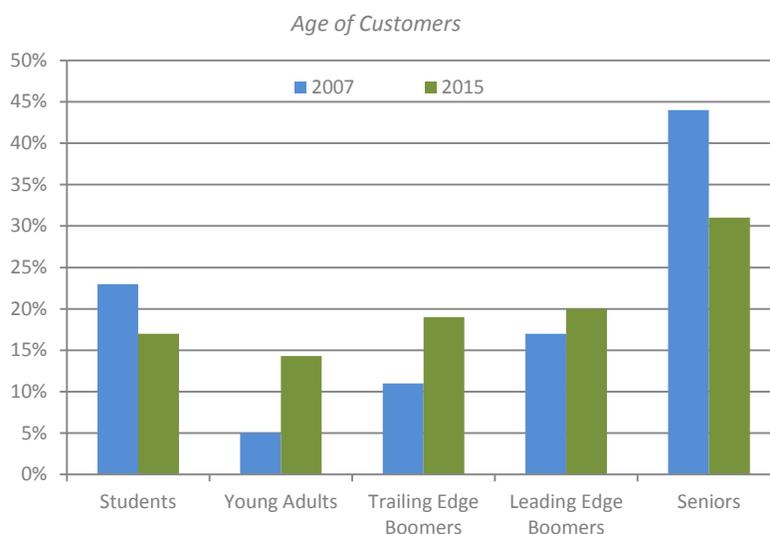
Adjusting and adapting to today's travelers is critical to tour operators. In NTA's 2015 Mid-year Business Survey, operators were asked to identify the current trends they foresee changing the way they do business. The five trends mentioned most frequently were: 1) smaller groups, 2) FIT or independent travel, 3) demand for higher quality products/services/amenities, 4) unique/special experiences, and 5) adapting and incorporating technology.

Today, consumers are using the internet extensively to research travel. These travelers no longer rely solely on an operator or travel agent to provide information; they are researching on their own and are a much savvier consumer than travelers of the past. They want experiences and are requesting more upscale amenities and dining experiences than ever before. They book late, and want a unique and individualized experience with a greater degree of freedom from the traditional itinerary of sightseeing. Experiential travel is nothing new but more and more traditional groups want the level of customization and flexibility once afforded only to FIT, or independent travel, and small groups. One NTA tour operator put it succinctly in an open-ended response: They *"transfer the traditional tour into a personal private tour."*

Travelers today are not measuring the success of their vacations by the number of things they see and do, or the price they pay, but by the experiences they have. And they're willing to pay more for great

experiences, amenities and service. One tour operator described what his company must provide: *“experiential, different, off the beaten path, exclusive.”* These new demands challenge the traditional tour operator to find a balance between individual experiences, or choice, and inclusive elements so that their clients not only have a special experience, but also feel they received it for a price they could not have arranged on their own.

How is all of this changing an NTA operator’s business? In large part, they are responding by working harder, which was a consistent theme. They are working harder because the majority is adapting their tours and packages to add value with new amenities and experiences, enhanced quality and more choices. And, this demand by the savvy traveler of higher quality and authentic, local experiences is not a trend, it is the new norm and it’s here to stay. On a positive note, younger generations prioritize travel higher than their parents, but the younger travelers have different preferences and in large part are driving the current waves of change the industry is experiencing.



The changing landscape is not limited to the experiences travelers are expecting from operators. As technology, the internet and social media change the way everyone accesses information, operators will need to adapt. In 2007, a large percentage of NTA operators’ customers were seniors. Today, more operators are reporting their clients are boomers and young adults. These tech-savvy consumers have expectations far beyond past traveler’s

expectations. They don’t necessarily pay attention to traditional marketing and are more finicky when it comes to traditional marketing messages. They are constantly bombarded with advertising and sales pitches and they can easily see through these messages. As a result they are more often ignored. To reach these consumers, operators will need to not only adjust where they are marketing, shifting away from a traditional marketing mix to more digital and social media platforms, but also shift their messaging and content. Today’s marketing messages should focus more on providing information and sharing experiences and less on making a sale. The vast amount of information consumers have at their fingertips will require tour companies to provide extraordinary information as well as outstanding customer service to earn and retain loyalty. Companies that can provide fun, fulfilling experiences through excellent customer service and online platforms will be able to capture more repeat customers instead of one-off sales where consumers are only looking for the best deal.

Not only are consumers using the Internet to research and plan travel, operators, too, are using the same sites for itinerary/product development, market/product expansion, price comparison and booking. According to the 2015 Mid-year Business Survey, operators primarily used TripAdvisor, search

engines, NTA Online, airline, DMO and hotel websites for itinerary/product development and market/product expansion research. A few operators indicated they used OTAs to book components of their packages, but many were using them for price comparison. When it comes to booking, operators prefer to go directly to the source's website (hotels, airlines and attractions). NTA operators like the relationships they build with representatives from these companies through their association membership and at trade shows/business building events. These face-to-face meetings give operators a level of comfort when booking components of their tours online. They know with whom they are dealing and know their clients will be in good hands during their trip.

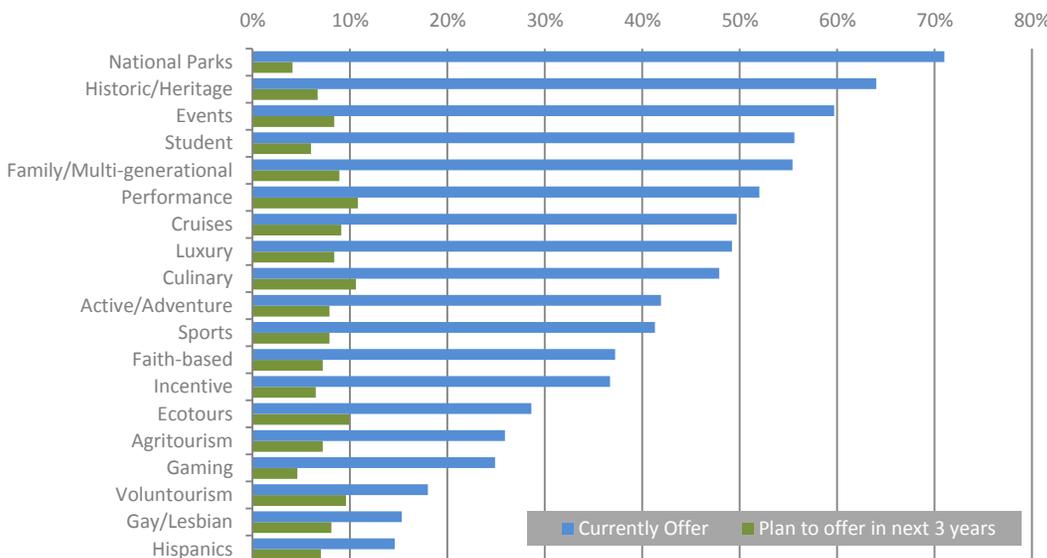
Currently, NTA tour operators offer travel packages in a wide range of markets from adventure to voluntourism. The top five markets served or package components offered by NTA tour operators are: National Parks (71%), Historic/Heritage (64%), Events (59%), Student (56%) and Family/Multi-generational (55%). In the next three years, operators identified these five markets where they plan to develop new product: Performance (11%), Culinary (11%), EcoTours (10%), Voluntourism (10%) and

Cruises (9%).

Operators did not state these were the fastest growing, yet that they saw potential growth for their businesses.

Since 2008, NTA has had a leading role in facilitating leisure group travel inbound from China to the United States through its China Inbound Program. This

NTA Tour Operator Markets/Packages Offered and Future Growth



program upholds the tenets of the Memorandum of Understanding signed in 2007 by the U.S. and Chinese governments to open this market. NTA registers U.S.-based tour companies qualified to work with Chinese travel agents to facilitate inbound group leisure travel. In the first quarter of 2015, more than 9,400 Chinese groups visited the United States and accounted for more than \$1 billion in economic impact. The areas most visited include: California, Nevada, New York, Washington, D.C., and Montana. These destinations tend to be entry points, yet many second- and third-tier cities have reported growing numbers of Chinese tourists. This is anticipated to grow with the U.S. and Chinese governments' recent extension of the validity of tourist and business visas to 10 years.

The positive news is that NTA operators are seeing their businesses grow. And many are experiencing better year-over-year growth and expect that growth to continue into 2016. The changing consumer demographics and demands will continue to challenge the industry but NTA's operators are adapting and offering product that will appeal to the exacting standards of today's travelers.