

Digital Tourism in Japan's Inbound Travel Sector

By Terrie John Lloyd



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Tourism is one of the world's largest industries, if not the largest, and it continues to grow. In 2010 global direct spending was about \$1 trillion and by 2016 this had grown almost 50% to \$1.45 trillion. If you include indirect economic impacts for that 2016 number, according to Statista.com, the travel business was worth an incredible \$7.6 trillion to the global economy! Likewise, Japan's inbound tourism sector has seen similar impressive growth, with spending rising from 1.15 trillion yen in 2010 to 4.52 trillion yen in 2018 (figures from Statistica.com).

I believe that most of this growth in the last decade has been due to the impact of two main contributors: cheaper international transport and more accessible digital travel content. Since most of us can't afford to start an airline, I will focus on the digital content side of the industry – "content" meaning not just articles and reviews, but also things to buy, in-trip services and support, convenience, foreign language handling, data selection and accuracy, competitive prices, and other points that stimulate the tourism experience.

Digital Touch Points

I would define "digital tourism" as the online support of a traveler throughout the lifecycle of their trip, from when they first hear about Japan, through to when they return home again. In my own company I tell potential clients that there are four major touch points we as a travel company have to focus on:

- Exploration Phase – Customers are seeking inspiration and while they may have already decided on Japan, they are still open to deciding which places to go and what to see. For the average visitor, this is done 3-6 months before travel.
- Booking Phase – The customer has decided which major locations to see, and now needs to deal with the logistics. As I explain below, this is where most of the players in the travel digital economy are clustered, because clearly it's when customers make their biggest financial outlays (airline tickets and hotels).
- Travel Phase – Now customers are in-country and their needs tend to be defined by uncontrolled events, such as "It's raining, can we find something more interesting to do?" or they need help, like "We missed our train and we don't know how to get back to our hotel." This is the hardest stage for online marketers to make money out of because customers are widely dispersed and their needs can be very specific. But with AI, I believe this stage offers the greatest potential for development.
- Post-travel Phase – Customers have returned home and if they

have had an amazing experience (we hope) or a terrible one, they will let their friends and family know. *Kuchi-komi* or word-of-mouth is just as powerful abroad as it is in Japan, and smart travel companies know that they need to have a strong communication channel with the customer to ensure top ratings in the customers' own social circles.

Needless to say, the Booking Phase is where most of the commercial action is. When a customer is making a booking, the enabling factors for a rich experience are straightforward but often very difficult to deliver. Not coincidentally, these same enabling factors also separate the successful suppliers from the also-rans.

- Actionable content which is timely, accurate, and present in breadth and depth.
- Products and services that can be bought on impulse (i.e., immediately) online and paid for conveniently – credit cards for Americans, WeChat Pay for China, etc.
- Real-time confirmation, fulfillment, and updating of bookings by the suppliers, so as to maintain efficiency and profits.

Starting with the customer side of digital tourism, according to the most recent July-September 2019 statistics (preliminary) from the Japan Tourism Agency's very useful quarterly International Visitor Survey, we learn that 69.8% of all inbound travelers booked their trip through a website, mostly Online Travel Agency (OTA) sites, while a much smaller 26.4% booked at a travel agency or in conjunction with their airline tickets. This tells us very clearly that if a Japanese travel company fails to engage with the traveler online, it will lose 70% of its business to a competitor.

Unfortunately for Japan, I can't think of a single successful domestic travel company which has world class online marketing capability. There are some excellent sites for travelers in the exploration phase, but in e-Commerce there isn't anyone who has all the pieces of the puzzle – the customer traffic, the inventory, the price competitiveness, etc. – to compete with the major foreign players.

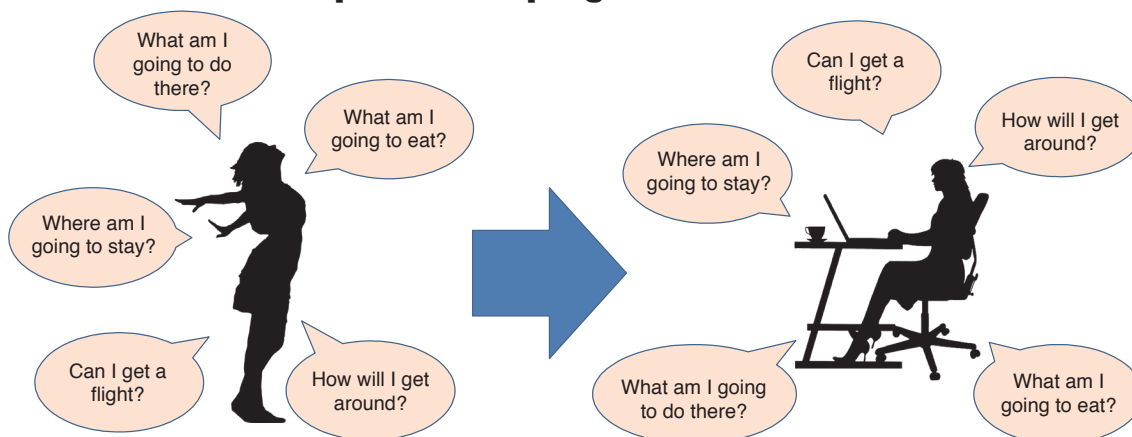
From Customer's Point of View

Let's take a look at the hotel rooms industry. From my experience as a mid-size online travel agency owner (we do both package and custom travel), most of our customers planning a trip to Japan for the first time have one clear set of concerns, only for these to change when it comes time to buy the trip (*Chart 1*).

Why are traveler considerations different at each part of the buying cycle (Inspiration vs. Booking)? It's because when people are planning a trip, their inspiration is not yet grounded in practicality.

CHART 1

Transition from inspiration to pragmatism



Source: Compiled by the author (Images courtesy of www.pixabay.com)

Rather, they are often stimulated by escapist media – such as manga, anime, music, history, food shows, and personal interests – which although not very practical are nonetheless extremely powerful motivators. To understand such motivators, you need to understand each international user's preferences and culture – something Japanese marketers have not yet mastered.

On the other hand, when it comes to actually booking the trip, people become far more concerned about physical comfort and logistics, since getting these things wrong could impair the “romantic” objectives of the trip or, worse still, prevent them from going at all. Those foreign OTAs who lead the world in web marketing and customer intention technology fully understand and can anticipate these progressions in human behavior. It is no coincidence that they focus on airline tickets and hotels, where the biggest travel spending takes place, and where compelling images and relevant content coupled with easy purchase and logistics allow users to engage in impulsive buying.

Why Foreign OTAs Control the Hotel Booking Market

Globally the hotels data and bookings business has exploded, and there are literally thousands of providers around the world selling rooms. They all operate on one of two business methods:

- They have received large investments and will spend time and money acquiring large inventories of collaborating hotels who will allow them to resell their rooms at compelling prices. Players with highly recognizable brands include Booking.com and the Priceline group, Airbnb, and others.
- They want to move fast and will work in partnership with wholesalers in each country who already have inventory, offering high-volume business in return for price discounts. Companies in this category include Hotelbeds.com, Amadeus, and others.

From what I can see, most of the major Japanese travel firms appear to have given up competing against the global OTAs, so are working as inventory wholesalers to those same foreign OTAs

instead. This means slim margins but at least guaranteed revenues, and of course fast implementation for the OTAs. Almost without exception, the data of all of these hotel rooms is flowing by means of Application Programming Interfaces (APIs), which have become the lifeblood of the travel industry internationally.

There are of course major Japanese travel players who want to compete under their own brands. But in reality, while they may have international ambitions, they are also mostly handicapped by their Japanese-customer focus and lack of international traffic and marketing power – so I honestly can't see any of these companies becoming major global OTAs without resorting to acquisitions. And even these companies are hedging their bets by wholesaling to the foreign OTAs.

In effect, this leaves the foreign OTAs with the lion's share of Japanese hotel room sales. My best guess, based on discussions with various hotel chains that actually accept foreign inbound travelers (because still about half of Japanese hotels and *minshuku* do not take direct foreign bookings) about 50%-60% of all hotel rooms sold to foreigners in Japan are sold through Booking.com and other Priceline-related companies, Expedia, and Airbnb.

This is a phenomenal market share, and as I try to tell my Japanese colleagues, it's almost a kind of “tax” on inbound travelers, as foreign OTAs are well known for having higher commissions than their Japanese competitors. Indeed, I can remember just three years ago the local players were only charging 8% commission to hotels for local room sales, while the foreign OTAs were charging 20%. Things have settled down a bit now, thanks to the spread of hotel inventory via APIs to smaller players and thus significantly greater competition.

More than Just Hotels

While I have used hotels as my main example here, in fact there are many other promising market segments. We are already seeing a significant boom in activities, with local players like Voyagin (owned by Rakuten) and Veltra making strides in creating unique and interesting activities all over the country. These companies are betting

CHART 2

Continuum of travel services in Japan inbound market



Source: ©www.japantravel.com

that they can move quicker and more intimately with local suppliers, than can the global majors like Viator, Get Your Guide, Klook, and KKDay.

Other consumer-side segments that I believe have promise are restaurant bookings, events, baggage handling, guides, translators, and many other services and products such as those detailed in [Chart 2](#) (this chart is by no means complete).

Beyond the consumer side, there is of course the B2B space, such as assisting local travel agents and suppliers with systems and content. There is a wide range of technological needs, including social and Search Engine Optimization marketing, foreign-language direct sales, international payments, efficiency tools (Chatbots, consumer behavior-driven AI, Augmented Reality, and niche search), business and web analytics, sales channel management, facilities IT, operations IT, product interface design, and translations, etc.

Why APIs Are Slow to Take Hold

So if APIs are the lifeblood of the international travel business sector, why are Japanese suppliers so slow on the uptake to implement them? I put this down to a cultural impediment versus a technological one. Historically, Japanese companies have been vertically integrated and reluctant to share business information with other firms. This was originally a survival trait where high walls and moats were more important than wide roads, but while the rest of the

world has discovered that pairing large inventory owning companies with nimble start-ups with marketing ideas can lead to breakthrough products, Japan has yet to get around its concerns of trust and control. I have personal experience in this area.

To be sure, there are exceptions, but since corporate cultures are hard to change I believe the renaissance of Japanese travel firms will come once start-ups get bigger funding rounds and are thus able to make larger investments into their own inventory and technology, so that they can rise to the best-practice levels of the international firms. AI is going to play a particularly important role in Japan, because language, the culture gaps, and the ongoing labor shortages will ensure a ready acceptance of anyone who comes up with a workable solution.

I believe that these start-ups will have a strong chance against the big foreign OTAs, because they will have the local connections and willingness to try creating new content, while the big guys have built billion dollar money machines leveraging other people's stuff. This approach is working for now, but once Japan's inbound travel market matures and is dominated by repeat visitors, they will start demanding more unique and interesting experiences, and the nimbler start-ups will be in a prime position to create original content and satisfy that demand. To be honest, it's going to be really exciting. **JS**

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