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CHALLENGES *for* CANADA'S TOURISM INDUSTRY

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TOURISM: A CANADIAN GROWTH INDUSTRY

International tourism has been the world's fastest growing business over the last decade, averaging yearly revenue growth rates of 12.5% on an estimated base of $520 billion (CDN) and about 570 million cross border trips in 1995. Even more remarkable is that these average growth rates have been sustained even though the global economy, including the global travel industry, experienced five difficult recessionary years from 1989 to 1993. Barring another major recession, strong growth is predicted for global leisure travel up until the year 2010. Driving factors include the aging of the wealthier "baby boom" population segment in North America and Western Europe plus increased travel by growing middle classes with more disposable incomes in developing regions, especially south-east Asia and Latin America.

Much of growth in the past has come from the Asia/Pacific and Europe where average annual growth rates in international tourism revenue have reached 20.3% and 13.8% respectively. Unfortunately, Canada's share of this huge market has slipped. Despite the fact that international receipts to Canada have grown by 8.8% yearly since 1985, Canada lost more than 25% of its market share over that time. This is a revenue leakage of $3.5 billion for 1995 alone, enough to cover that year's travel deficit of $3.03 billion!

The Canadian Medium Term Outlook for 1996-2000

- Growth in overnight trips from the United States by air is expected to increase at a faster pace (5% to 10% per year) than auto travel and other modes (0% to 1.5% per year), largely a result of the Open Skies Agreement;
- Canada's major overseas markets France, Japan and Germany are expected to grow in the 7% to 9% range per year; the UK will perform at around 4.5% during the same period;
- Strong economic growth and easing travel restrictions, plus untapped potential will result in strong annual growth from Asia (Taiwan and South Korea in the 20% range).

The forecast growth in international tourism, both globally and to Canada in particular, provides an excellent opportunity for Canada to dramatically increase its tourism export revenues. Enough, in fact, to eliminate the persistent travel deficit. A conservative expectation is that world international revenue growth will average 7% per annum until 2005. The World Tourism Organization currently forecasts 4% average annual growth in global tourism arrivals between 2000 and 2010. Historically, international travel receipts have increased at nearly double the rate of arrivals. If Canada only maintains its market share, international visitors will generate incremental revenues of $3.6 billion by 2000 and $8.5 billion by 2005.

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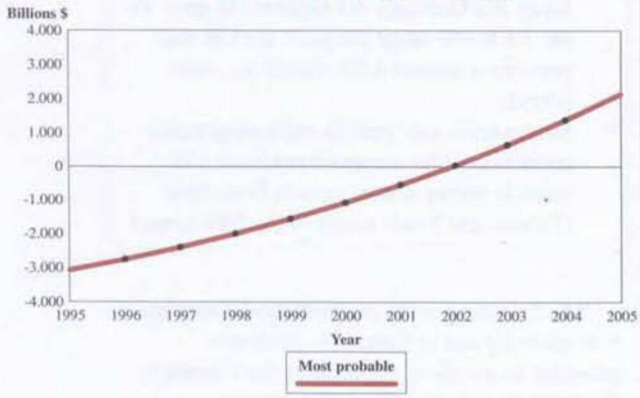
The expenditure side of the travel deficit, Canadian outbound travel, is also forecast to increase but more slowly than in the past decade. Canada's travel expenditures are expected to increase at about 2.5% per annum until 2005. This is higher than the 2.0% rate of the past five years. This will result in additional expenditures of $2.6 billion by 2000 and $3.3 billion by 2005. Since revenues more than offset the growth in expenditures, a positive balance on Canada's travel account will be achieved by 2002.

Deficit eliminated by 2002

Net Revenue Forecast



Obviously, any projection contains an element of risk depending on the strength of the assumptions. One key assumption underlying this analysis is that Canadian currency exchange rates will remain at their current levels of 73 to 76 cents US. Past research has established that a significant relationship exists, particularly with payments to the United States.

Tourism: An Economic Heavyweight

Until recently, skeptics did not consider tourism to have a significant economic impact in the Canadian economy. This credibility gap has been closed with the creation of a Tourism Satellite Account (TSA). The TSA was developed for the Canadian Tourism Commission by Statistics Canada, as a part of the Canadian System of National Accounts, to measure the economic significance of tourism on an equal footing with other industries. National Tourism Indicators and a Tourism Economic Impact Model were developed as extensions of the Tourism Satellite Account. The Tourism Economic Impact Model assesses both the direct and indirect economic effects attributable to changes in tourism demand and supply.

These new tools produce more accurate estimates of tourism's overall contribution to the Canadian economy. For 1995, the period of the federal government's National Tourism Initiative and the creation of the CTC, tourism outperformed both the business sector and the Canadian economy as a whole.

Economic Impacts 1995

- Total tourism spending, $41.8 billion, up $2.8 billion or 7.1% from 1994;
- Total direct effect: tourism GDP of $17.0 billion, up 7.0%; (total growth of GDP in economy in total rose by 3.9%);
- Total overall effect on economy (direct and indirect effects): $27.6 billion of GDP, up 7.1% from 1994;

(Note: For the first nine months of 1996 tourism spending in Canada was up 3.1%).

Public Sector Makes Money on Tourism

Government revenues attributable to tourism — direct revenues from user-pay services such and park and museum fees as well as all direct and indirect taxes (both their direct and indirect effects) on individuals, businesses and commodities — to all levels of government amounted to $13.2 billion in 1996. This works out to about 31 cents of every tourism dollar spent in Canada.

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Growth in Public Revenue

- Projected growth of tourism revenues would increase government revenues by $1.1 billion by 2000 and $2.6 billion by 2005.

Tourism Means Jobs — At All Levels!

The new measurement tools also provide a good view of employment in tourism. The tourism industry has several significant advantages as an employment generator. Its growth, higher than the economy in general, occurred at both the top and bottom of the labour force. Tourism also offers variety in job type, skill, experience level and salaries. Eighty distinct tourism occupations have been identified ranging from air pilots, air transport support occupations, managers, supervisors, cooks and chefs to beverage servers, travel clerks, bartenders and travel guides. The Tourism Satellite Account showed a significant range of variation in tourism salaries depending on occupational category with average compensation per person employed in tourism ranging from a high of almost $50,000 for the air transportation industry to a low of $13,400 for food and beverage workers.

Jobs Created

- Total tourism employment— 488,500 person-years in 1995, up 8,100 over 1994;
- Tourism employment increased 2% in 1995 compared with 0% growth in the overall business sector;
- Projected growth by 2005 in tourism employment — 120,000-130,000 jobs .

Tourism Growth Improves Access and Opportunity in the Labour Force

125,000 more jobs by 2005

Recent research also revealed other unrecognized advantages of tourism job generation. Contrary to popular belief, data show that in comparison with other occupations, tourism improves the overall access and mobility of the labour force. Tourism jobs actually have lower turnover rates than other jobs and have lower involuntary lay-off rates.

Similarly, contrary to another popular myth, tourism has equivalent rates of seasonal departures to other occupations. A 1994 study showed that, seasonality, a characteristic so often associated with tourism jobs, was given as a reason by 13% of people quitting tourism jobs, exactly the same rate as for people leaving non-tourism jobs.

In addition, while much of the tourism labour force is comprised of seasonal positions, many of these seasonal positions are filled by young people who only want temporary work. Furthermore, tourism employment provides easier labour force entry and greater access to the disadvantaged.

Tourism Workers

- have a high proportion of young workers;
- higher representation of the disadvantaged than in the Canadian labour force (visible minorities, people with disabilities);
- offer seasonal work to handle surges in demand at the same time supply surges;
- are more likely to be women;
- are regionally dispersed.

Gaining ground

Ranking Tourism Against Other Canadian Industries

The Tourism Satellite Account enables a comparison of tourism's relative importance with other industries in Canada. The findings of a comparison with 25 leading industries placed tourism in a significant overall position, one not previously realized. Tourism is one of the largest employers in Canada, ranking fifth in terms of persons employed. It leads residential construction, banks, non-residential building construction, electronic products industries, telecommunications, petroleum, forestry and logging. Only retail trade, wholesale trade, business services, and agricultural industries are larger.

Among these 25 industries, tourism is the fifth largest revenue generator in Canada. Tourism receipts exceeded the gross output of such industries as motor vehicles, primary metals, paper and chemicals, as well as all the major resource sector industries in the Canadian economy (agriculture, crude petroleum and natural gas, mining, logging and forestry).

How Does Canada Stack Up Against Other Destinations?

Canada currently lies just outside the world's top ten destinations in terms of global share of volume of arrivals and tourism receipts. The effort building on the National Tourism Initiative and the creation of the CTC, places Canada in a good position to recapture its former competitive position.

Canada's 1995 Global Ranking

- Global market share of tourism arrivals, 3.0% , ranking eleventh in the world, up from twelfth in 1994.
- Share of international receipts, 1.9%, ranking twelfth, up from thirteenth position in 1994.

In both cases, these upswings represent a reversal of earlier downward trends in Canada's market position since the late 1980s and early 1990s. In addition, a number of other key global trends noted by the WTO also support the premise that Canada is uniquely positioned and has additional competitive factors operating in its favour to capture a greater share of the global market.

While Europe's industry continues to grow, its dominant global market position is eroding. Infrastructure developments in other countries, airline deregulation and increased competition generally is speeding up that decline. Only 60% of all international trips were to European countries in 1994, down from 72% in 1960, and the share is expected to fall to 50% by 2010. Canada, with its competitive prices and image of being clean, safe, friendly and unspoiled (outdoors and cities) is positioned particularly well to gain from Europe.

Similarly, WTO predicts that intra-regional travel will account for nearly 70% of all travel flows by 2010 and the recent Canada-US Open Skies Agreement places Canada in a strong position to gain from this regional trend. Further, growth in international business travel will still be dominated by intra-regional travel, the strengthening of regional investment flows, and the growth of regional trading blocks. Canada's active roles in NAFTA and APEC give it a strategic market advantage as a part of this trend.

Asia is the fastest growing destination region. A 50% growth is predicted to continue over the next five years with 65 million visits recorded in 1993, up from 13 million in 1975. China will lead the region, with a predicted 12% average annual growth to 2010. Tourism in other Asian countries such as Taiwan have averaged 10% growth since 1989. Canada has a distinct and positive image in some of these new Asian markets and a strong track record of successful partnership and performance within the Asia/Pacific region.

The Domestic Market Dilemma: Stalled Yet Critical

Despite the growth in Canada's revenue from international visitors, Canadians travelling in Canada still make up the base market for much of the Canadian tourism industry. Domestic revenue historically represents 75% of total spending in the country. While large in volume, most domestic trips generate low average revenue yields, because they involve short distances, are of short duration, and have a heavy non-commercial orientation (visiting friends and relatives).

Despite the domestic market's dominance as the primary source of revenue, its influence has been declining. In part this has been due to Canada's recent successes in international markets. Throughout the 1980s domestic revenue grew more slowly than revenue from international visitors. In the 1990s, that gap widened. Given the Canadian recession and the slow recovery of post recessionary consumer spending, domestic travel has been almost stagnant. Furthermore, what growth that did emerge in the domestic market was restricted to in-province travel.

A constant threat to the domestic travel market is the omnipresence of marketing messages and images by foreign destinations. While Canadian travel to the US declined during the period 1991-1995, Canadians travelling overseas continued to increase. Last year's statistics (1996) show a continued increase in Canadian travel to overseas countries and a reversal of the decline in travel to the United States. The increase in overnight travel to the US is a result not of the slightly stronger Canadian dollar but increased point-to-point air access and cheaper fares arising from the Open Skies agreement. As well, consumers have adjusted their travel selections to accommodate the exchange rate driven price increases.

The domestic market isn't the engine

DOMESTIC TRAVEL MARKET

- While domestic receipts represent 75% of total tourism spending in Canada, growth has lagged international tourism over the last decade;
- Intraprovincial travel accounts for over 80% of all overnight trips;
- In 1995 domestic receipts increased by 4.6% to $30.8 billion, while foreigners spending rose 14.7% reaching $11 billion in 1995;
- Since 1986, domestic receipts have increased 5.6% per year while international visitors' spending rose 7.3% per year;
- Minimal growth since 1990 and concentrated in intraprovincial tourism (up 2%).
- Interprovincial travel has declined by 1% since 1990;
- Domestic trips generate low average revenue yields — $56 per person-night for intraprovincial trips and $71 per person-night for interprovincial trips;
- Dominated by short stays to cottages, camping or to visit friends or relatives.

A major reason for continuing to focus on the domestic market is that research shows most Canadians are not aware of the many tourism possibilities this country has to offer. As such the domestic market represents a readily accessible pool of highly active travellers, with increased latent domestic sales potential. The first step to converting that potential is to focus on raising Canadians' level of awareness of events and activities across the country. Increased domestic marketing will raise Canadians' awareness and knowledge of different destinations and activities and encourage them to visit these attractions all across Canada rather than selecting similar products available in the United States.

A third rationale for maintaining domestic marketing is that it represents the critical mass market for the less developed areas in the country. It also represents the base market for major new resorts or mega-destination or new product lines as they establish themselves in the domestic marketplace before moving to the international marketplace.

Working Together To Deliver Tourism Growth

The goal of the recent National Tourism Initiative, including the establishment of the Canadian Tourism Commission, has been to increase revenues. From that, come profits, investment and jobs. This is being achieved through a new way of managing national tourism marketing: delegating control for marketing Canada from government to the industry itself; concentrating national promotion resources on common goals; and, having industry take the lead on partnered promotion of Canada as a tourism destination. The new organization has seen a dramatic increase in partnered funds — federal funds were to be matched by year three but have been exceeded in year two — and the emergence of a shared approach to marketing Canada.

More To Be Done: Expanding the Partnerships

While these accomplishments are welcome, sustained growth of Canada's tourism industry to ensure its contribution to the nation over the next decade require more than marketing. Challenges constrain the future growth and health of the industry. For one, there is an immediate need to create more high quality products and broaden the existing product mix. Central to this is developing common strategies and actions around a range of well defined tourism products and images for Canada — nationally, regionally and locally.

A tool to help address the challenge of improving our tourism products emerged from the success of the recent partnership experiences and from discussions among industry leaders. In the past, the tendency has been to jump from the core experience right to promotion. However, a sequential process from the supply side following the Product Assessment Model is a better approach.

Destinations, whether geographically defined or product defined, must clearly set out their core experience. Once that's done, an assessment of access must be carried out. Getting there and getting around in an efficient, reasonably priced manner are essential. Then the variety of accommodation options to meet travellers' expectations in terms of quality and availability must be assessed in detail. With that information in hand, it must be remembered that transportation and accommodation are obviously necessary for tourism but they are not the reasons people travel. The "experience" of a destination — the things to see and do and, most importantly, to take home as memories — these are the "goods and services" of tourism. If they exist, and the infrastructure is in place, then the step is marketing the product.

PRODUCT ASSESSMENT MODEL

SUPPLY				DEMAND
CORE EXPERIENCE	ACCESS	ACCOMMODATION	ANIMATION	MARKETING
Defined by each product owner	Getting there Getting around when there	Capacity, quality, availability	Things to see and do The reason people come	Consumers' views Distribution

New Ideas, New Products, New Destinations

Capturing a larger share of the international market won't just happen. If Canada is to attract millions of additional high-yield visitors it will need to develop new destinations capable of catering to their needs. It will require upgrading existing product, developing additional destination resorts and animating the industry in smaller centres across the county. At present, Canada has a limited supply of large, four season international calibre resorts (Whistler, Banff and more recently, Tremblant). If the potential demand from the markets in Asia and Europe, in particular, is to be realized, more of this type of destination must be developed. Financing in the hundreds of millions of dollars will be required. Both the public and private sectors have a role to play in the development of mega destinations. They bring their assets and their investment to the table and having the pubic sector involved may help secure financing at a lower rate than might otherwise be available.

A final key issue for the tourism industry in increasing investment and profitability is the matter of expanding the supply of product and the demand for it in the winter season. Marketing efforts have modestly increased demand during the shoulder seasons but the development of non-ski winter products will require much more than that. Successes already experienced are few in number but they clearly demonstrate what can be achieved. The first step is to change the industry's attitude toward winter, as a marketable product.

This introduction has focused on the broad issues of tourism in Canada in terms of it's current economic importance and future growth potential. There remain several specific concerns that need to be addressed as part of a renewed national strategy.

GETTING HERE ISN'T THE PROBLEM / MOVING AROUND IS

Neither physical nor legal access is a major impediment to visiting Canada. The Open Skies Agreement between Canada and the United States has significantly improved air access to our top market. The agreement, when fully implemented, will provide carriers of either nation unlimited access to transborder routes. Since the signing of the agreement in February 1995, US carriers have commenced service on 46 new routes and Canadian carriers on 23 new routes. These new services have added 140 new flights and some 12,000 new seats per day. Air access to overseas markets, particularly in Asia and Europe, while strained during the peak summer months, is not a major impediment to growth.

Responsibility for the major airports in Canada has been devolved to local airport authorities. The privatization of airport operations and maintenance has resulted in the airports assuming a larger role in the tourism industry. For the first time, the airports see themselves as key stakeholders who stand to benefit from a growing tourism industry. At the same time, they recognize the impact their decisions can have on the industry (airport improvement fees, for example). The airports are also working closely with Canada Customs to apply modern technology to facilitate the processing of international arrivals. A CANPASS Airport pilot program was implemented at Vancouver International Airport in October, 1995. Its extension to other gateway airports is dependent on the conclusion of a cost-sharing agreement between Customs and the private sector.

As a general comment, it should be noted that customs officers are the front line service providers for the tourism industry. As such, their attitude is vital to the whole tourism experience of international visitors. Customs has made great strides in the past few years in inculcating a new service attitude among its officers. It has sought to strike a better balance between security and service.

Automobile is still the major mode of access to Canada from the US— over 64 per cent of overnight trips are by auto. While the pressure on the major border crossing points can become severe in the peak summer months, Customs is working to speed the processing of international visitors with pilot projects to automate the verification of legitimate arrivals. Canada and the US agreed to establish the Accord on Our Shared Border in February, 1995. Under the Accord, the two governments plan to evaluate the use of transponder technology to clear low risk automobile traffic at border crossings in southern Ontario in the spring of 1997. As well, five more Remote Permit Port sites will be opened in addition to the present site at Scobey, Montana/Coronach, Saskatchewan to extend the hours of operation of these border crossings.

Open Skies. The best is yet to come

On the marine side, while no access issue exists there is a legal issue outstanding in the cruise industry. At present, slot machines and casino gambling on a cruise ship on an international voyage while it is in Canadian waters is prohibited by the Criminal Code. Enforcement of the provision is assigned to the Attorney General of each province. Several private, commercial interests have requested an amendment to the Criminal Code to make it possible for slot machines and other casino games to be available for cruise ship passengers while the vessel is in Canadian waters, in particular in the St. Lawrence and in the inside passage between Vancouver Island and the mainland. The Province of Quebec has already passed legislation to permit the provincial licencing of gambling on cruise ships if the Criminal Code is amended. The federal government is canvassing the provinces for their positions on the issue.

The health of the cruise industry in Canada is somewhat dependent on US marine legislation that prohibits cabotage. An internationally registered ship is prohibited from transporting passengers between two ports in the US. This legislation (the Jones Act) is intended to protect the domestic marine industry by reserving service between American ports to American vessels. From Canada's perspective, the legislation positions Vancouver as an intermediate, international port between Los Angeles and Alaska.

A second legal issue is one of access for customers. Visas are required from some countries to limit access to those deemed desirable. This is more the case in developing markets where it is a policy instrument to control entry to Canada. Legal access is not an impediment to visitors from our major markets. There are no visa requirements for visitors from nine of Canada's top ten markets. Taiwan is the only exception. Of the next ten most important markets, visas are required for Brazil, India and China. It is not difficult to obtain visas for residents of Brazil and India. It is more difficult for residents of China where the concern is security and the need to ensure that residents entering Canada on a visitors' visa return home upon the expiration of the visa.

Seamless connections not yet a reality

Recently, another issue has emerged — the price of the visa. In some markets, Canada has priced its visa significantly higher than its major competitors for travellers. While this generates revenue for the Government, it may be shortsighted. It is not clear what impact the price hikes will have on deterring international visitors therefore forgoing the revenue generated by them. It is clear that the removal of visa requirements (and its concomitant fee) spurred rapid growth from the Republic of Korea. It is not clear whether significantly raising the price of visas might have the opposite effect.

Getting Around

Getting around Canada is more of a problem than getting here. At a recent Vancouver forum of leaders in the transportation and tourism industries, chaired by the Minister of Transport and the Chairman of the CTC, the vital role of transportation in tourism was discussed. It was concluded that while many issues need further work, no single one can be considered a major stumbling block to the future growth of tourism.

Air travel in Canada has lagged the growth in international air travel by Canadians. (Through the end of 1995, the number of passengers travelling on scheduled flights within Canada was still below the level recorded before the recession in 1990.) This reflects the nature of the domestic market where the majority of trips are taken within province and by auto. But it also reflects that fact that air travel is expensive in Canada. This is due, in part, to the high cost structure of the two national air carriers. Only recently have lower cost carriers emerged to offer an alternative service. This has been supplemented by the expansion of the service offered by the charter carriers.

The participants agreed that deregulation of the airline industry in Canada was a success and called for its expansion beyond Canada in the international arena. The deregulated nature of that industry was sharply contrasted with the highly regulated intercity bus market. This may be hindering the growth of the tourism industry by restricting competition.

No single component of the transportation infrastructure is as important to tourism as the highway system. Auto travel accounts for nearly two-thirds of intercity passenger trips in Canada. For this market the quality of the highway network is a major consideration.

There is unanimous agreement that Canada's highway system is in need of repair. It was recognized that upgrading the national network will be costly, requiring billions of dollars. The imposition of user fees was seen as one option to fund these infrastructure investment costs. The participants urged caution in the application of fees, fearing the impact this would have on demand. At the same time, they acknowledged that sole reliance for the funding of this investment cannot be placed on the public sector. Upgrading the national highway system was a problem facing all industry stakeholders.

More specifically, the highway infrastructure has two important functions for air arrivals. One is to transfer them from the airports to the downtown core efficiently. The other is to transfer airport arrivals to other distant destinations.

Intermodality, the need for better connections between the different modes of transport, is needed. The immediate payoff lies not in increased returns to the individual carriers but rather in higher customer satisfaction. On the service side, Canada lags its international competitors in the provision of the seamless journey. Visitors arriving by air must still collect and carry their luggage to a taxi or bus for the next leg of the journey, however short that may be. And on departure they repeat the process in reverse. Providing customers with seamless travel so that they aren't responsible for luggage and ticketing on each leg is a challenge not being met in this country.

A second issue is collection/distribution. Using the most efficient method of transportation to collect customers (example: bus to train to air) or distribute them (example: airport, to small city, to resort) makes economic sense but is not the accepted industry practice nor the way the customers see travel in Canada. The parts operate separately rather than as part of an integrated network.

Perhaps the fact that both the intercity bus market and the passenger rail market in Canada are regulated monopolies means there is little incentive for them to work together to provide the intermodal connections that exist in other countries. Changes in regulation may be needed. Another possibility is suggested by the experience of other countries where increased intermodal connections have come about through equity investments in resort destinations by one or more of the carriers. This vertical integration option may not be feasible in Canada in light of the mandates of VIA and the provincial railways, and the financial position of the airlines. Commercial agreements between railway and/or bus companies and the developers of tourist destinations might be an alternative.

STAYING THE NIGHT

Accommodation is an issue. The hotel industry faces the problem of variations in the demand which show up in the rate at which capacity is being utilized. The simplest measure of capacity utilization, the occupancy rate, is the number of room-nights occupied as a per cent of the room-nights available.

Occupancy up
Revenue up
But still room at the inn

Canada's hotel industry has recovered slowly from the downturn of the early 1990s. The occupancy rate was 63.8 per cent for the first ten months of 1996, compared with a rate of 59.9 per cent for the same period in 1992. All regions of the country have seen an increase in occupancy, with some seasonal peaks reaching 90+ per cent.

A higher national occupancy rate is good news in that it says more of the available rooms are yielding revenue than previously, but a national annualized occupancy rate of 63.8 per cent is not enough to reach the break-even point for all. While there is no one break-even point that applies across the county or across market segments (given each property has its cost structure, debt, tax burden, and travel market it caters to), anecdotal evidence suggests that the break even point is an annual occupancy rate in the low 70 per cent range for luxury properties and in the low 60 per cent range for mid-price and budget properties.

Through the last recession and its aftermath both business travellers and leisure travellers became more price sensitive. The hotel industry responded, in part, by discounting prices and moving down market. This resulted in product substitution by the consumer and the industry cannibalising itself. Only in the past two years has the industry been able to raise average room rates to re-establish the market segments and regain some degree of profitability. Average room rates are the key to profits.

The meaningful measure of profitability is REVPAR, the revenue per available room. It is the product of average occupancy and average room rate. Since revenue is the goal, not occupancy, growth in REVPAR is a better gauge of industry profitability than growth in occupancy. (Increases in occupancy have costs associated with them whereas increases in average room rates tend to fall to the bottom line.) For the first ten months of 1996, the REVPAR for Canada as a whole was $47.89, an increase of more than $6.00 since 1992. The growth in REVPAR was thus more than twice the growth in occupancy over the period. The return on investment may still be low, but the situation has improved.

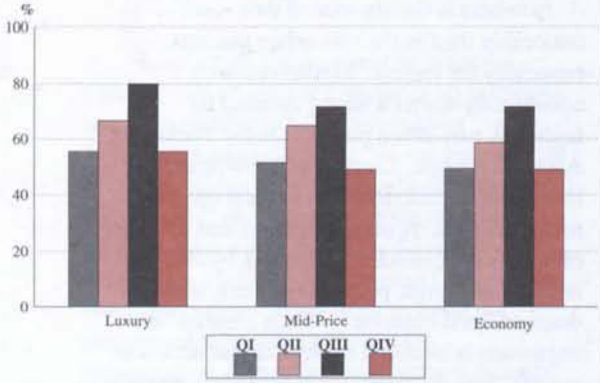
An examination of the performance of the hotel sector across the country is necessary to assess how the market for accommodation services operates. Data on occupancy rates are more readily available so this analysis uses that measure of industry performance, rather than REVPAR. Three price tiers have been selected to segment the market: luxury — properties in the top 30 percent of the market; mid-price — properties in the next 30 per cent of the market; and economy — properties in the bottom 40 per cent.

It is noted that any analysis of accommodation in Canada is hampered by the unavailability of data for certain regions and segments. Occupancy rates exist for the different price tiers in the gateway cities and in some of the other urban centres, but little information exists on the non-urban product for smaller centres. This information needs to be obtained if the demand/supply gap is to be addressed.

Across all tiers, demand peaks in the third quarter when 45 per cent of all international guests arrive and 38 per cent of domestic travel occurs. The national rate for the third quarter was 79 per cent in 1995. Its low point was 53 per cent in the first quarter, climbing to 64 per cent in the second, and declining to 57 per cent in the fourth.

In the third quarter, luxury properties had an occupancy rate of 80 per cent, mid-price had 72 per cent and the economy segment had 73 per cent. The pressure on capacity then eased through the other three quarters falling as low as 49 per cent.

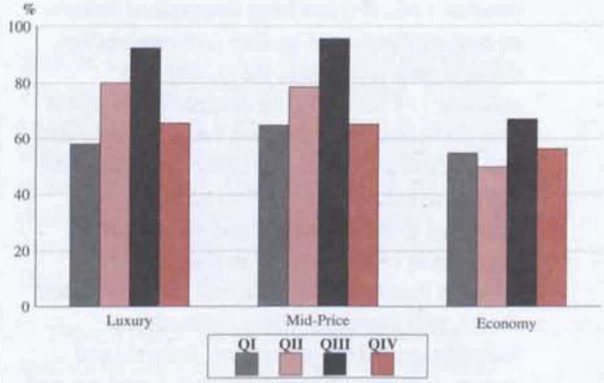
National Occupancy Rates 1995



Properties have to earn enough in periods of high demand to carry them through the full year. This is a challenge for many of them, a challenge that differs in degree in the different centres across the country.

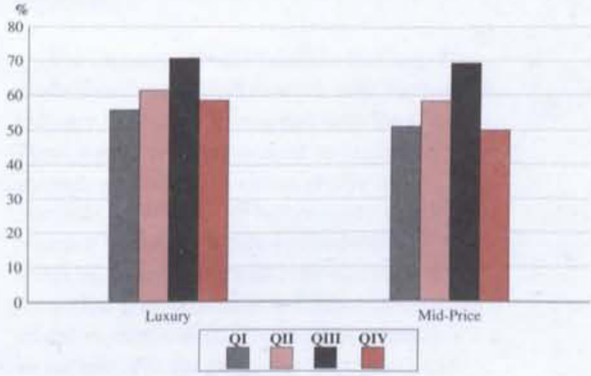
Where information exists to accurately measure how the sector is performing, it demonstrates when increases and upgrading of supply occur. In Vancouver, the occupancy rate for luxury properties averaged 74 per cent in 1995, peaking at 93 per cent in third quarter. Average occupancy was even higher in the mid-price segment, 76 per cent, and hit a high of 96 per cent in the third quarter. The pressure on the budget properties was less, with an average occupancy rate of 57 per cent and a high of 67 per cent. This level of occupancy generates returns sufficient to attract private sector financing for expansion in the luxury and mid-price tiers (a rule of thumb is an annualized occupancy rate in the high 70 per cent range). Since these rates are present, the market is responding and supply will be added.

Occupancy Rates in Vancouver 1995



In cities where demand is not high enough to generate the annualized occupancy rates necessary to attract private sector financing no supply is being added, nor should it. Edmonton is an illustration of this situation. The annual occupancy rate was 61 per cent in the luxury end of the market, with a high of 71 per cent in the third quarter. The annual rate was lower in the mid-price properties, 57 per cent, again reaching a high point in the third quarter of 70 per cent. The problem here is one of deficient demand, not deficient supply.

Occupancy Rates in Edmonton 1995



The first response to insufficient demand is usually a call for more promotion, but it shouldn't be. If it has been determined there is an underutilisation of quality accommodation, the next step is to assess the quality and efficiency of access to the destination. If that is also sufficient, then attention turns to the quality and sufficiency of the animating activities - the "things to see and do". These activities are classified to the recreation and entertainment component of the industry in the Tourism Satellite Account. They include museums, race tracks, golf courses, curling rinks, skiing facilities, gambling operations, festivals and events, amusement parks, botanical gardens, and so on. (In 1995, these activities accounted for 13.6 per cent of the total supply of tourism commodities and 5.9 per cent of tourism employment.) Often it is the absence of these activities/facilities that is the problém. Only if all of the pieces are present, is additional marketing and sales warranted.

Rural Accommodation

Nowhere is the absence of data more noticeable than in the non-urban markets, especially for resorts. Market research consistently shows a strong demand for high-end, non-urban products in the markets of Asia and Europe. Canada lacks sufficient international calibre resorts to meet this year round demand. A major reason is that these type of resorts are considered high risk by financial institutions (single purpose facilities, seasonal demand, rural base, etc.). Their creation or expansion is hindered by insufficient access to capital. Governments could consider addressing this market failure to increase the capital available to those businesses with demonstrable potential. This would increase the supply of resort accommodation. The capital would be available through lending institutions at a rate sufficient to cover their risk and generate a return; it would not be a subsidy program.

ANIMATING THE TOURISM PRODUCT

Canada must present its potential visitors with a vision of Canada as an exciting travel destination offering world class experiences second to none. In the words of the Michelin guides, Canada must be seen as "worth the journey!" With the exception of unique facilities such as the resorts or the rail experience, travellers won't select Canada over other destinations solely to experience our accommodation and transportation infrastructure. Travellers will come to Canada — and Canadians will make the effort to see and experience their own country — if they believe there is lots to see and do here.

Tourism is about customers' experiences. Experiences that combine the basics (transportation, accommodation, and food services) with the things that animate the trip. The former are necessary but not sufficient by themselves. Gradually those core elements are becoming commodities and therefore are price driven. Now the effort is to differentiate the products in the eyes of the consumer. Cultural experiences, heritage sites, shopping, theatre, sports, natural scenery and so on are the differences that attract customers. Even discretionary business travellers (those coming for association meetings, corporate meetings, incentive travel) expect product to be more than an air seat and a hotel room.

Public Sector Heritage Tourism Facilities and Services

Canada has had the foresight to devote considerable effort to preserving and showcasing its cultural and natural heritage. The success of tourism and our heritage resources are closely linked. Without our heritage assets, tourism will find it difficult to grow. Without tourism, many communities will find their ability to preserve our heritage and environment reduced.

By definition, heritage tourism includes a variety of experiences focused on natural, cultural and historic resources. It is important to note the difference between heritage tourism and manufactured attractions. Heritage tourism focuses on the experience of visiting a place with genuine historic, cultural or natural significance. The quality and integrity of the setting, whether natural or cultural, is most important to someone wishing to experience their own heritage or that of another country. Heritage sites are not designed for tourism — they are a "road" to discovery and a way to learn about Canada's land, people, culture and history.

Now that I'm here, what can I do?

From a public sector perspective, heritage tourism includes national and provincial parks, nature reserves, museums, galleries, cultural festivals and special celebrations which highlight our identity (i.e. Canada Day, Festival Franco-Ontarien). It does not include attractions and events that are designed exclusively for recreation or entertainment.

As much of Canada's heritage tourism product is strongly dominated by the public sector, it is important to increase its integration with tourism industry private sector efforts. Cooperation between the two result in improved quality of visitor information, services and overall satisfaction. As well, tourists represent new markets and increased revenue, including increased use during non-peak seasons and a shifting of visitor interest to lesser known experiences.

The Department of Canadian Heritage has made significant effort to work with the tourism industry, including strong ties with the CTC. Their continued involvement in further animating Canada's tourism products is essential. Public sector resources to maintain or enhance heritage tourism infrastructure at all levels of government will continue to be scarce. An action plan is needed to further involve the private sector in managing/operating public sector assets to the benefit of Canadians and visitors alike.

As public sector resources are constrained and cost-recovery is more intensely pursued, there are opportunities to co-manage assets. This would ensure the conservation of the public sector asset while turning its day-to-day operation into a revenue generating opportunity for the private sector, something they do better than governments. As a key factor in the development of most new assets is the original "sunk cost" of the capital investment, it may be feasible for the private sector to enter into agreements whereby they become responsible for the upgrading of a public asset to market standards and operating it on a for-profit basis.

Working Harder Together

Hello? Hello?

Canada's accommodation shows room for growth in most areas of the country although some places are full in summer, tourism's high season. We clearly have summer capacity in the majority of our cities outside Montreal, Toronto and Vancouver as well as in non-urban areas excluding such perennial favourites as Banff. While progress developing Canada's spring and fall "shoulder seasons" is being made, more remains to be done. Even more, there is an enormous opportunity to promote Canadian winter products, in addition to downhill skiing, that only a few operators are exploiting.

The key challenge — as more and more of our partners and travellers themselves tell us — is that we don't offer enough to see and do. Some of our key products, particularly those owned by the public sector, are not open year round or if they are, they don't have all their interpretive services up and running. There is nothing more frustrating to a tourist who comes eager to meet friendly people and take home treasure troves of regional crafts only to find that the businesses are "closed for the season."

People who would like to experience our festivals and other events often can't get information in advance to help them put together their vacations. Even worse, tour wholesaler and operator partners can't get essential information so they can package products enough in advance to be able to do the necessary selling.

Frequently, new "animation" products are developed to run in Canada's already busy summer season. There is little benefit in developing one more festival in July to compete with the many products already in place. Better that a new product be developed for customers who have nothing to do in May or January. Partner support is also more likely to be available from tourism-related companies (hotels, restaurants, sightseeing operations, etc.) at a time they need business.

While some festivals, events and attractions operate on a profit basis, many perform a dual function: local recreation and "loss-leaders" for the tourism industry. This role is particularly critical for areas that are not themselves seen as tourist destinations. Appropriately bundled — both in terms of sufficient things to see and do and from a marketing/sales perspective — tourism attractions and events contribute significantly to the economic development of the area.

Because of their frequent "loss-leader" status, the financing needs of this group are not the same as that required for sectors such as accommodation. Since many are either small and/or not profitable operations, tend to be ad hoc, volunteer driven, short lasting, and have few hard assets, they are not attractive to commercial financial institutions.

And since the public sector can no longer afford its traditional role as a supplier of day-to-day operating funds for operations that can't reach a break-even point on their own, a new way to help these operations become self-sustaining is required. The problem of well-intentioned festival/events supporters, frequently volunteers, not knowing how the tourism industry works or how to make tourism work for them offers an excellent opportunity for the tourism industry to act as a catalyst for the development and enhancement of tourism animators/attractions. The CTC's existing role, of providing timely and accurate information to the tourism industry to assist their decision-making, needs to be extended to those responsible for animating the product.

Animate Canada

Based on the CTC's experience with its Product Clubs program, it is evident that the stimulus required in this instance is not as much money as it is for proactive brokering and information integrating/sharing. In fact, in some instances financial assistance continues the dependency problem. Leadership is required to refocus industry efforts and bring prospective partners together in a united effort.

Any intervention undertaken by the CTC must be in line with its core principles:

- programs/services must be customer-driven and research-based;
- there must be a sound business case for actions taken;
- there must be a partnering approach to ensure a match between customer requirements and Canada's tourism products and services;
- decision-making must be controlled by the private sector;
- actions must have a performance measurement base.

THE BUSINESS OF SELLING CANADIAN TOURISM

Moving from the supply side of the product assessment model to demand, we come to marketing which, for many, means promotion. And of promotion, advertising is the most visible component. The overall program that emerges is the culmination of a process involving many partners, from a broad spectrum of small and large businesses, and the customers themselves. It is a subjective process cloaked in numbers to provide as much objectivity as possible.

It's more than promotion

In today's highly competitive tourism marketplace, there are many decisions to make. What does the customer want? What is the best yield-management practice for the firms? What distribution channels respond to customers' needs? What advertising and promotions are necessary? What partnerships should be developed? Where does sales fit?

Price and Value Are Not Incompatible

Travel, like most products, is price elastic and an examination of exchange rates and international travel flows shows a correlation. But it isn't a perfect one. The traveller still has choices among destinations, many offering similar experiences. Exchange rate swings alter the relative ranking of various destinations but groups of countries will continue to compete with each other for selected customers. It is possible to influence the choice of destination, and it should be kept in mind that customers while cost conscious are not entirely price driven; they are value driven.

Marketing activities under the CTC partnership umbrella help establish a positive customer perception of the value of a Canadian trip. The partnership — like individual businesses — is targeting high value customer segments rather than using a mass market, volume approach. Efforts are also made to shift consumption patterns, to increase traffic in non-peak periods and to increase traffic to Canadian destinations with capacity available. That said, the CTC is not yet really practising yield management.

Sales and Distribution Channels Are Changing

Tour operators and wholesalers work with Canadian suppliers such as airlines, bus companies, hoteliers and attractions to create key partnerships. They package and price all the ingredients that make up a vacation experience. They take risk when assembling these ingredients into products, some of which may take years to deliver significant volumes and yields. For example, winter products are a relatively new venture with operators moving beyond the traditional ski holiday and while progress is being made to fill some of the available capacity, it will take time to create significantly more products and develop larger sale volumes.

Tour operators and wholesalers play the dominant role in shaping the type, quality and supply of tour packages in the marketplace. In Canada, a few control the bulk of inventory for high demand destinations in high season. As well, most new product development is by small and medium-sized Canadian tour operators/wholesalers who work in niche markets.

Having product controlled by a few raises the risk that new producers can't enter the market and therefore new products don't get created. On the other hand, with the advent of public access, Internet-based information systems, a risk to operators has emerged as more product suppliers are dealing directly with the customer.

Information Technology is Changing Industry Dynamics

Traditionally, operators have relied on travel agents as their partners in getting their products to customers. Technology, particularly global distribution systems such as Sabre, offer countless alternatives for agents, but with the dawn of direct sales through Internet, it is unclear what the future will bring for agents in selling services or information and in dealing with customer satisfaction. Agents will be required to provide a value to customers beyond simply processing transactions. They have an opportunity to do this becoming an information provider, at a fee, in a complex market.

Electronic marketplaces are also emerging to compete with traditional marketing tools. They can bring information to operators, agents and the customer on components that can be assembled into packages, thereby reducing the need for marketplaces and site visits — two expensive business methods. Since customers can access information directly the day may come when brochure racks are obsolete. Operators, hoteliers and airlines are responding by selling directly to customers and using agents. The partner mix within the industry is rapidly evolving.

Domestic Marketing: The Cornerstone

Notwithstanding the marketing dynamics, the reality is that Canadians travelling at home are the primary source of business for all CTC partners and the domestic market provides the base to develop product and marketing expertise that can be transferred to the international setting. Domestic travel, however, has stalled, producing low yields. At the same time, more Canadians are travelling outside of the country. Our travel deficit in 1996 swung back up by $0.4B after falling for three successive years by more than $3.4B. With the emergence of Open Skies and a more affluent and well-travelled aging population, travel outside the country could grow sharply as Canadian carriers take advantage of access to new foreign routes.

Few packages for travel by Canadians in this country are assembled and sold by Canadian tour operators, agents, airlines and other partners as the larger operators focus instead on the high volumes of Canadians going to foreign destinations. At the same time, Canadians have limited knowledge of the options available to them. With little choice and little information, it's not surprising that many cannot assemble their own packages so they opt for foreign experiences. This market gap presents an opportunity to small and large partners, including new lower price airline entrants to package and test alternative Canadian products, such as aboriginal, cultural, resort, winter and off-season experiences in smaller cities.

They're out there somewhere

International Marketing: Building Our Future

Canadian partners have relied on growth from five big markets, namely the US, UK, France, Germany and Japan to generate 80% of the international tourism receipts. Growth has and will continue to average 7-9% per year and we intend to capture a larger share of these markets.

The priority market - the US, is producing a smaller share of our total international tourism receipts and we have struggled to exceed the 13M arrivals recorded in 1986. While auto traffic is falling, air travel is expanding sharply with Open Skies, but there is no net gain.

In the mid '80s, the Canadian public sector spent substantially on marketing in the US and enjoyed an awareness level of some 15%. Over the next decade, shrinking budgets and a withdrawal from television advertising saw that awareness level decrease to seven per cent. With the major injection of CTC marketing dollars in 1996, Canada has been able to halt the erosion. Incremental resources are required to recapture and grow beyond the previous 15% level of awareness so Canada can exploit its true US market potential. Americans are bombarded with thousands of messages daily and even with our proximity, we have to increase our penetration to get beyond the clutter.

New business opportunities require investment

In Britain, we have traditionally relied on family ties or friendships and these relationships are disappearing with the aging population. Future business will be highly dependant on partners revitalizing Canada's image with a younger customer segment. By comparison, in Germany, we have been successful with our positive outdoors image and a related product offering and more gains may not be forthcoming as the segment has been fully tapped. Partners have, in the past, shown a reluctance to assume the risks associated with long-term product development and our future growth potential could be jeopardized without new products for first-time and returning customers. France, in contrast, has seen the introduction of new products, particularly in winter and the key is to broaden this offering to include all parts of Canada and expand it to include spring options. In much the same way, Japan offers new opportunities to expand products beyond the known anchors of the Rockies, Niagara Falls and Prince Edward Island to move Japanese visitors to areas with available capacity on a year-round basis.

Developing international markets too, provide business opportunities for Canadian partners, although the developmental risks and costs can be high. In Asia, Korea, Taiwan, Thailand and China offer long-term, untapped potential and any one of these markets could become a major producer. In Europe, Italy is a significant under-performer for Canada despite its potential. South America now has the necessary mass of wealthy customers, benefits from direct air access and good interconnected air service through the US, and customers find travel in the same time zones attractive.

Balancing potential without diluting the efforts in the five biggest markets is a challenge for private and public sector partners. Since tackling developing markets is an investment phase requiring extensive work with the trade, financial returns will be limited initially. However, working with new markets gives us the opportunity to introduce customers to new products immediately and not put them in contention with the primary markets for the already limited access to Canada's product icons.

YOUR VISION OF THE CANADIAN TOURISM INDUSTRY'S FUTURE AND THE CHALLENGES IT FACES IS IMPORTANT.

Please share your opinions and suggestions with the Canadian Tourism Commission. We would appreciate your response to the following general questions, which will help us determine if there is a common view across types of businesses and regions of the country.

- Do you agree with the *Challenges* analysis at the national level? If not, please explain why not.

- Have major challenges been missed or described incorrectly? If so, what is missing / incorrect?

- Do you believe the same circumstances / challenges exist for your province/territory or business?

- What is your vision for the Canadian tourism industry and what roles do you believe should be played by the private and public sectors at all levels if Canada is to sustain a vibrant and profitable tourism industry?

- We may not have asked the right questions for you to fully express your opinion. What other views or information would you like to share with the CTC?

Name

Title Organization Name

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Please return this page by April 30, 1997

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