



Tourism Industry Survey in Advance of the Canadian Tourism Marketing Summit

March 2014



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Introduction

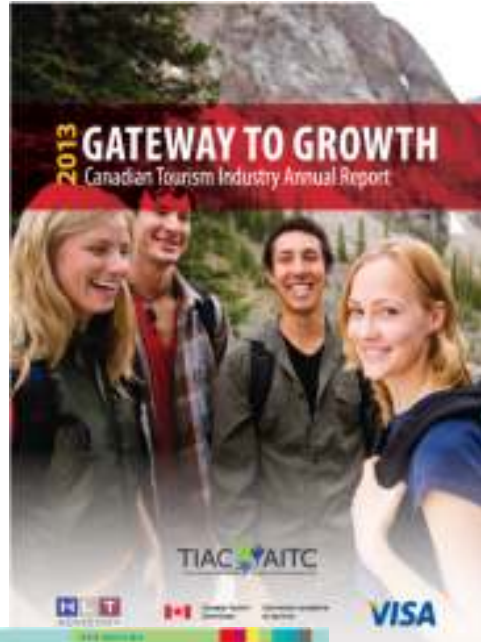
In 2012, together with the Tourism industry Association of Canada and Visa Canada, HLT produced the first annual report on Canadian tourism. The report was intended as a useful compendium of tourism statistics as well as a form of report card: “how is the industry doing?” Last year, with the Canadian Tourism Commission as a third partner, HLT produced the second annual installment. The second report looked beyond historical facts and figures by discussing future visitor targets as well as potential strategies to achieve these targets.

Both documents can be obtained at <http://tiac.travel/publications.htm>

In preparation for the 2014 Canadian Tourism Marketing Summit, an annual event hosted by HLT and attended by 300+ Canadian tourism industry participants, HLT initiated an industry survey to understand views and opinions on several relevant issues including historical visitor levels, new initiatives to spur visitation and the targets set in the 2013 annual report.

The following pages contain a summary of the industry survey and relates the key survey findings to data, trends and targets outlined in the 2013 annual report.

For further information and contact details please see the last page.





Background

The 2012 and 2013 annual reports identify several challenges and/or areas of concern within the Canadian tourism industry, including:

- A growing reliance on domestic travel (i.e., the proportion of domestic travellers—and spending—is an ever increasing proportion of the overall tourism industry).
- A decline in international visitors to Canada. With the exception of several emerging markets that have produced significant percentage increases in visitation, our traditional “bread and butter” markets are producing fewer and fewer trips. Nowhere has the decrease in visitation been felt as hard as the U.S. market where overnight visitation has declined by about 25% (3.6 million overnight visits) since 2000.
- A lack of alignment in areas affecting travel to and within Canada including airport operations and visa issuance policies as well as the exemption limits (on goods purchased by Canadians when travelling outside the country).
- A fragmented approach to marshalling tourism marketing dollars to increase visitation.
- The reduction in international inbound visitation and the growing interest by Canadians to travel internationally (as well as domestically) has resulted in tourism producing one of Canada’s largest sectoral/industry deficits...and one of the largest travel deficits in the world.
- The need for immediate and ongoing investment in tourism product.

While some might debate the degree of impact from declining international overnight visitation, all regions of Canada and all tourism businesses have been affected. By the same measure, an increase in international visitation will be felt across the country.

Background—A Lost Decade?

Spending by international visitors to Canada, as well as Canadians traveling within Canada reached \$75.1 billion in 2012, a 1.8% increase over the previous year. This spending resulted in:

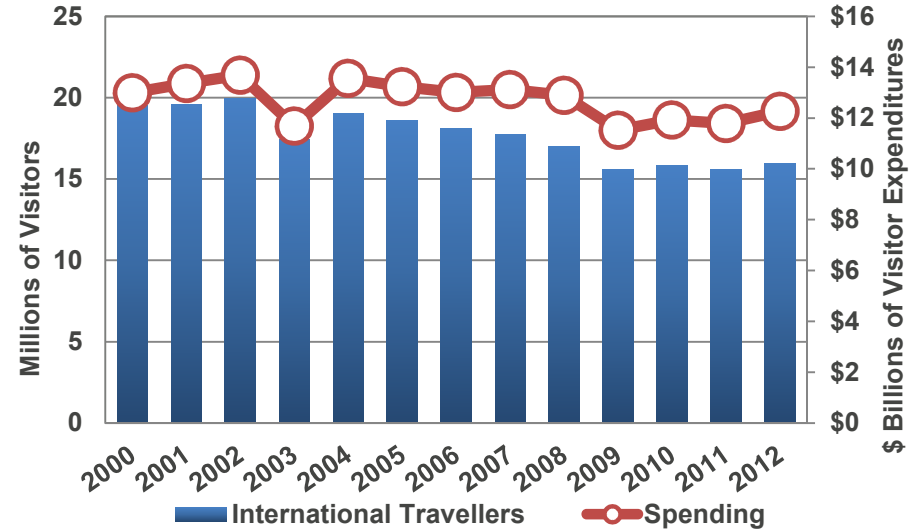
- Gross Domestic Product (“GDP”) of \$29.3 billion (in constant 2007 dollars).
- 609,500 jobs.

Canada continues to hold a spot among the top twenty most-visited international destinations. The UNWTO’s worldwide rankings place Canada at Number 16, two positions ahead of Canada’s 2011 18th place showing but far behind the 8th place showing in 2000. In 2012, the U.S. was the star performer, posting a 7% gain in international overnight visitors.

Key characteristics of Canada’s visitor industry include:

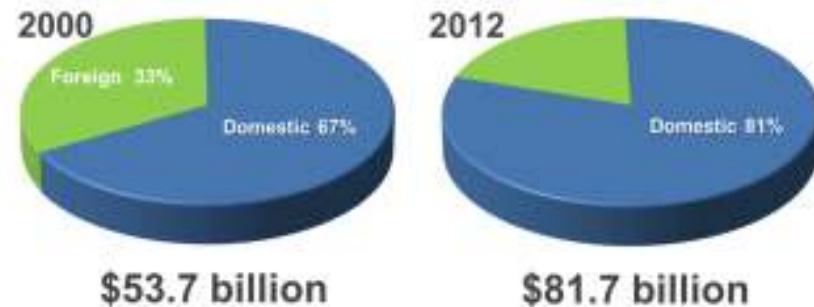
- Excluding the United States the greatest generators of visitors to Canada are the United Kingdom, France, Germany, Australia and China.
- Overnight visitation from the U.S. has fallen about 25% since 2000.
- On a percentage basis, the most significant increases have been posted by visitors from China, Australia, Mexico and Japan (although still not back to historical levels).
- Ontario, British Columbia and Quebec were the gateway for 80%+ of the international visitors.

Overnight International Travellers to and Spending within Canada



Source: Statistics Canada, ITS and TSRC

Tourism Spending within Canada

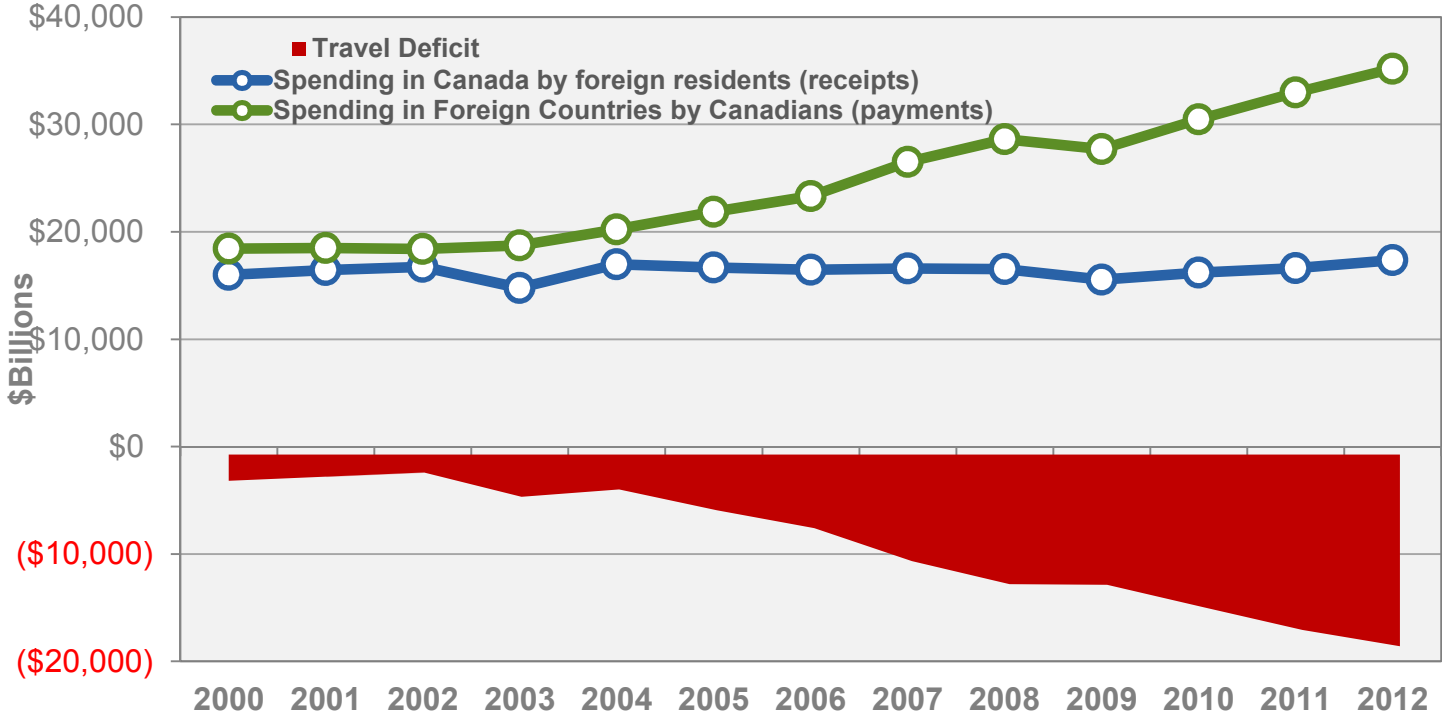


Source: Statistics Canada Table 90-1002. Tourism Domestic Spending & the Spending it Generates by Canadian Resident Domestic and Foreign Visitors. Foreign Visitor Spending is Spending by Foreign Visitors on Canadian goods and services. It includes spending that may take place outside of Canada, for example, the purchase of a cruise ticket from a Canadian resident in the United States.



Background—Canada's Growing Travel Deficit

Canada's travel deficit--\$17.6 billion in 2012—is among the largest of any developed country whether on a per capita or aggregate basis. Only Germany's travel deficit exceeds Canada's. From an industry perspective, travel is surpassed only by "machinery and equipment" and "consumer goods" in the quantum of annual trade deficit.



Source: Statistics Canada. Table 387-0005 - Receipts and payments on international travel account



Background—Comparative Travel Deficits

The number of outbound trips is a significant contributing factor to the national travel deficit. Canada generates 8 times the number of outbound overnight trips when compared with the U.S., on a per capita basis. On an aggregate number basis Canada, with a population of about 10% of the U.S., generates almost as many international outbound overnight trips.



Travel deficit (B)	(\$17.6)	(\$45.7)	(\$15.9)	\$16.5
Inbound O/N Trips (M)	16	30.7	31.1	66.7
Travel Deficit/Capita	\$515	\$563	\$251	\$250
Population (M)	34.2	80.6	64.2	316.7
Outbound O/N Trips (M)	55	86.9	56.5	60.7
Outbound Trips/Capita	1.6	1.08	0.88	0.19

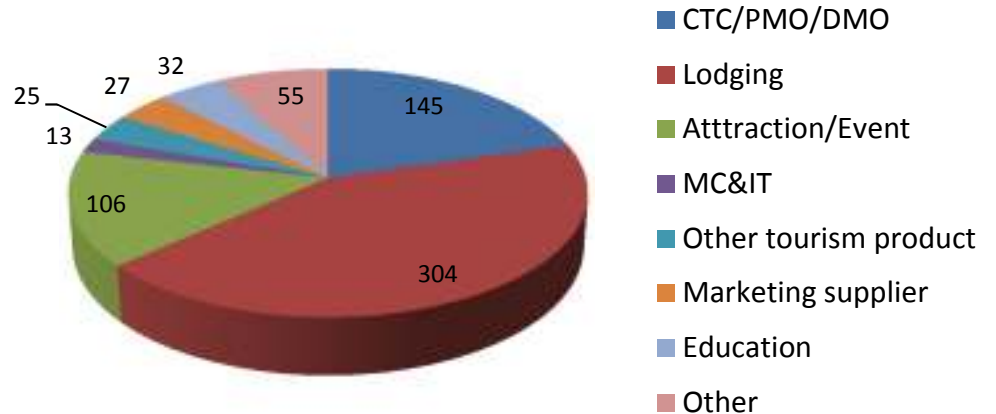
Source: Statistics Canada, United Nations World Tourism Organization, UK Office of National Statistics, Deutsche Bundesbank, CIA FactBook.



The 2014 Canadian Tourism Marketing Summit Survey Respondents

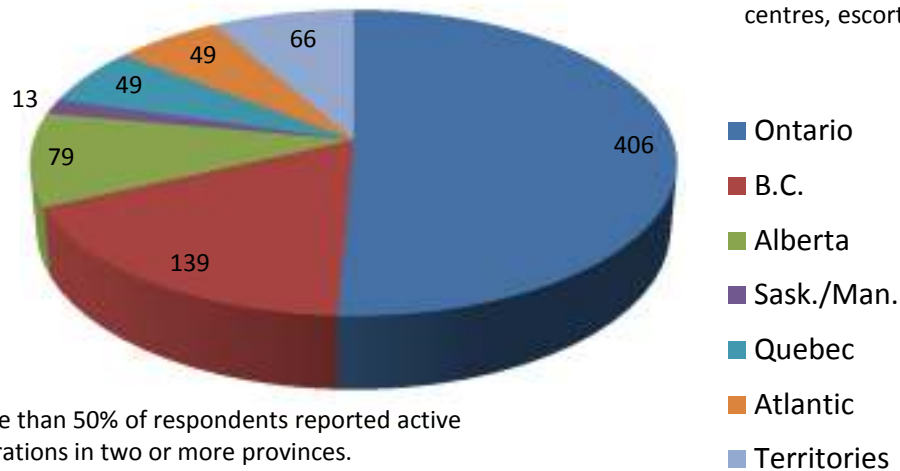
The electronic survey was sent to HLT's 13,500-person database covering all sectors of the Canadian tourism industry. The survey was sent on January 8, 2014, with one reminder sent on January 13, 2014. Within 24 hours 420 completed surveys had been received. A total to 826 (partial and full) responses were received at the cut off date January 17, 2014.

Type of Tourism Business



Other tourism product includes sport organizations, photography, travel centres, escorted tour operators, transportation.

Headquarters Location



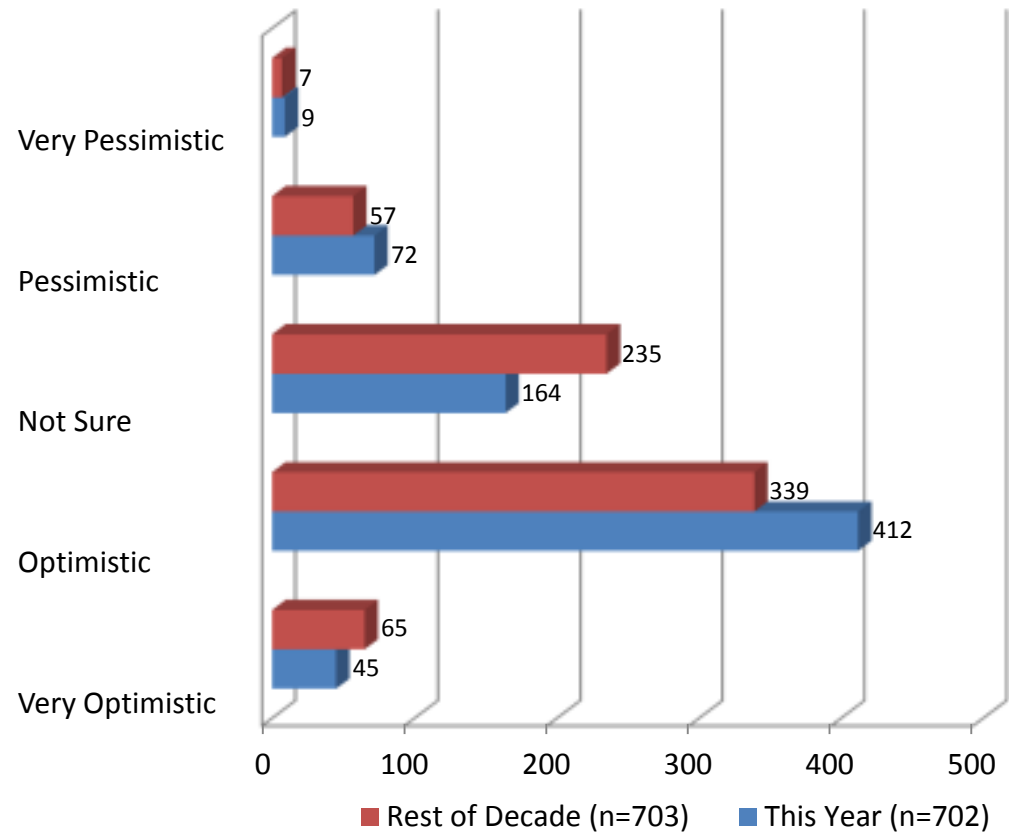
More than 50% of respondents reported active operations in two or more provinces.

A Degree of Optimism

Respondents were asked about their sense of optimism for the Canadian tourism industry for the coming year as well as through the end of the decade (i.e., by 2020). Representative quotes from the survey include:

- “Current improvement to the U.S. economy should result in more outbound travel”
- “2013 showed good growth over 2012; 2014 pace is stronger”
- “Apparent interest by industry to work together...renewed focus on U.S. market is key.”
- “Big conventions coming to our city in next five years.”
- “Canada is a safe haven for global travellers.”
- “Canada has the product but needs more marketing leverage.”
- “Too many variables to forecast as far out as 2020.”
- “Canada is a place outsiders want to visit.”
- “Global economic uncertainly.”
- “Too much focus on high-yield travellers and not on the bread and butter visitor that kept the industry going for years.”
- “The Visa problem...is still a problem.”

All things considered, how optimistic are you about the performance of Canada's tourism industry in 2014? How about a little further out, say 2020?



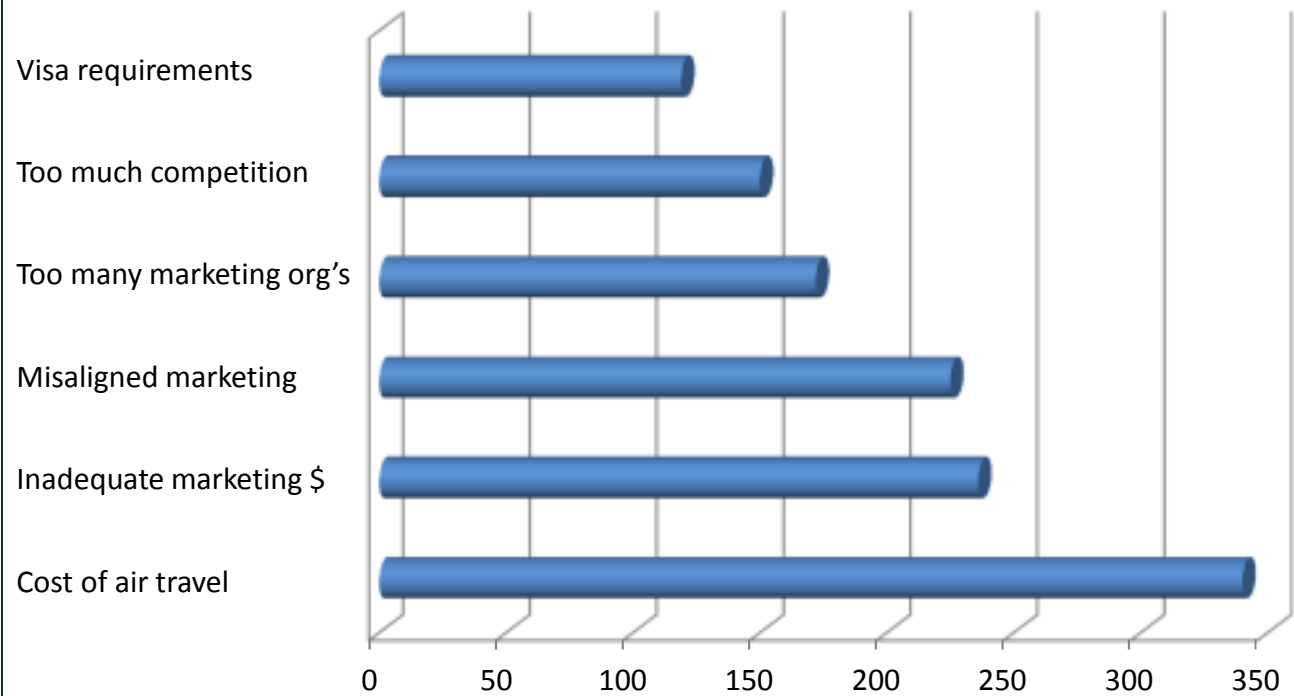


The Most Significant Challenges Are Not New

Respondents were asked to choose two challenges from a list (as shown in the chart below) and/or write in their own views on potential barriers. Cost of air travel was the most frequently chosen challenge. Marketing, both inadequacy of funds and misalignment of marketing spending, was the second most mentioned challenge. Frequently suggested “write-in” challenges included:

- Government policies that fail to recognize importance of tourism
- Urban transportation infrastructure
- Too much focus on marketing: not enough on product development
- Smarter competitors
- High taxes
- Higher cost structure for a variety of travel purchases
- Air access
- Labour shortages; lack of skilled talent pool
- Limited “five star” products (hotels, events, destination experiences)
- Access barriers (passports, visas)
- Over regulation
- Apathy

What are the two biggest challenges to the future success of Canadian tourism?





Re-entering the U.S. Market

The CTC currently allocates the majority of its base funding to those marketing initiatives directed to a few core and emerging countries, leaving almost no allocation to the United States marketplace. While this decision was made for all the correct reasons, and after wide consultation, re-entering the U.S. market on a significant scale is increasingly seen as necessary.

The Tourism Industry Association of Canada and the Canadian Tourism Commission are the catalysts behind "Connecting America", a three-year coordinated, targeted and measurable tourism marketing co-investment initiative. This proposal seeks to invest \$210 million (a \$105 million federal government investment matched by provincial, local and private-sector investment for a total of \$210 million).

David Whitaker (Tourism Toronto) and Wayne St. John (Publicitas) have been leading an early initiative to provide insight and perspective on the important question "how should Canadian vacations and short-stay getaways be marketed to accelerate the rate of growth of US Leisure travel to Canada?"

The survey sought input on this specific initiative, as well as the overall interest in re-entering the U.S. might be implemented.

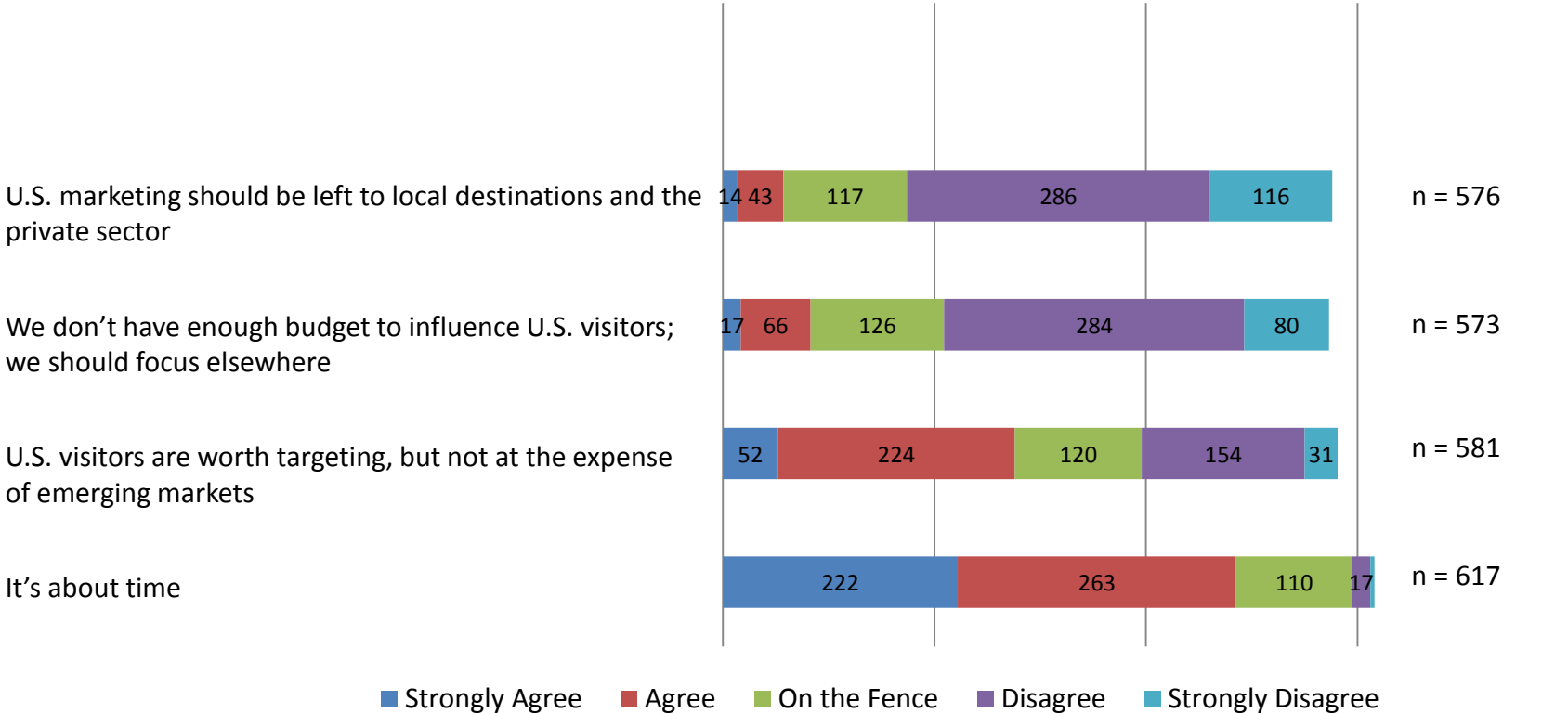




Overwhelming Support for Re-entering the U.S. Market

Survey respondents showed overwhelming support for the Connecting America initiative and the prospect of re-entering the U.S. marketplace with a coordinated marketing campaign(s).

What are your thoughts on the Connecting America Initiative?





Re-enter America, Yes. But...How Best to Mobilize?

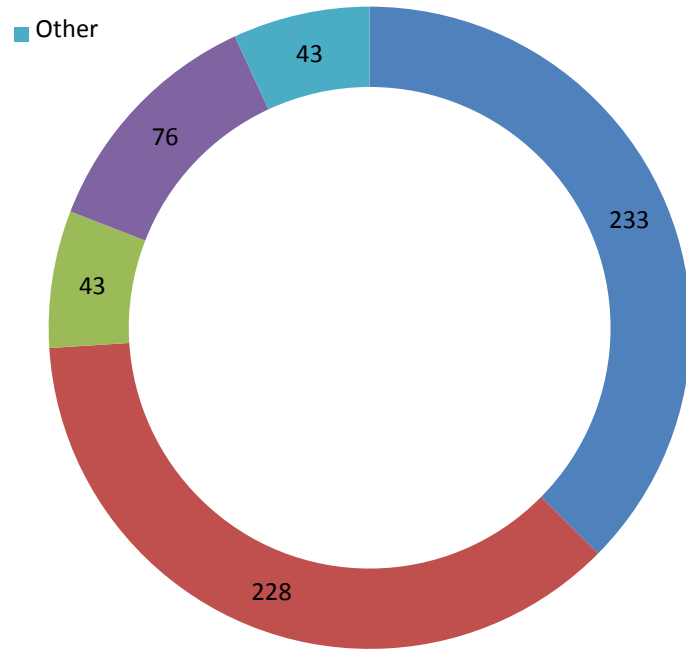
While “re-entering” America was an almost universal preference, the approach to mobilization varied substantively. Respondents in Ontario, Quebec and Atlantic Canada tended to favour a decentralized approach while those in the western provinces were more likely to favour centralization.

Comments provided by respondents included:

- “I prefer a single entity, but the entity should be more involved with cities and provinces to understand regional needs/opportunities.”
- “Canada is too big and diverse for a single entity.”
- “This needs to be a partnership approach...federal and provinces.”
- “Let’s agree on a single plan/strategy and push it out via the decentralization options at the province and individual cities.”
- “Let’s centralize what needs to be centralized (e.g., brand, overarching strategy) and decentralize the delivery.”
- “Centralized and decentralized sound like polar opposites...how about coordinated and facilitated.”
- “Just don’t get caught up in trying to sell everything to everyone..just because it’s politically correct.”

How should the industry best align itself to approach the U.S. market?

- A centralized approach led by a single entity such as the CTC?
- A decentralized approach with key regional players (e.g., city or province)?
- A single or consortium of private sector tourism entities?
- A third-party hired through a competitive process and dedicated to this initiative?
- Other



n = 623



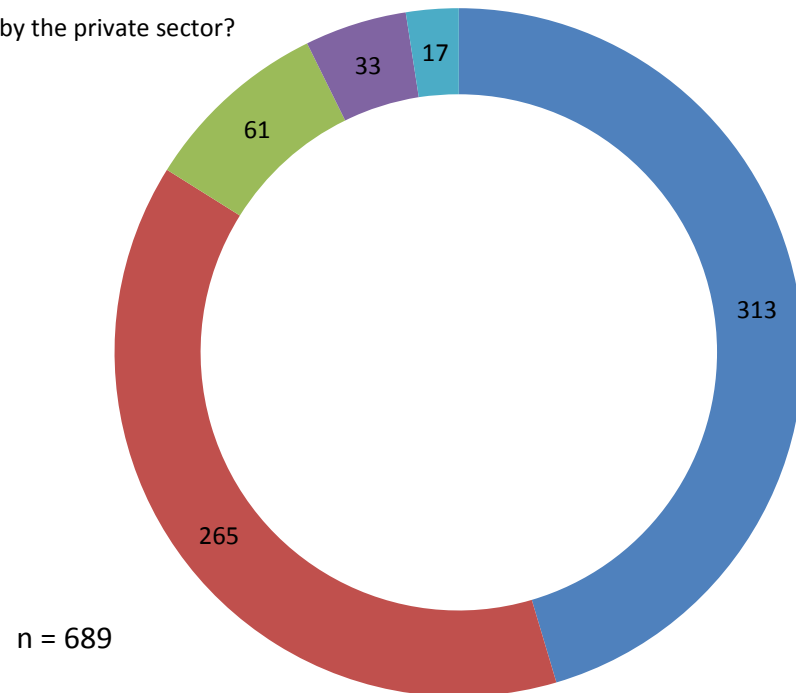
And How to Best to Fund a U.S.-Focused Marketing Program?

The question of sourcing marketing funds produced some of the strongest write-in comments although a consensus seemed to emerge over joint public and private sector responsibility. Selected comments included:

- “Raising the cost to enter Canada conflicts with marketing efforts.”
- “Quantum of dollars is not nearly as important as consistency. The CTC and provincial/ municipal marketing entities need to know their budgets well in advance.”
- “The government has benefited from years of collecting tourism taxes - its about time they invest for the future!”
- “STOP talking about new taxes. Stop it, stop it, stop it.!”
- Canada needs to adopt the best practice of implementing a tourist tax on international visitors...providing predictable and stable funding for the long-term.”
- “May not be 50/50; but both public and private sectors should have skin in the game.”
- “The best approach is to re-examine existing budgets and refocus/align them across the board.”

How should such an approach be funded?

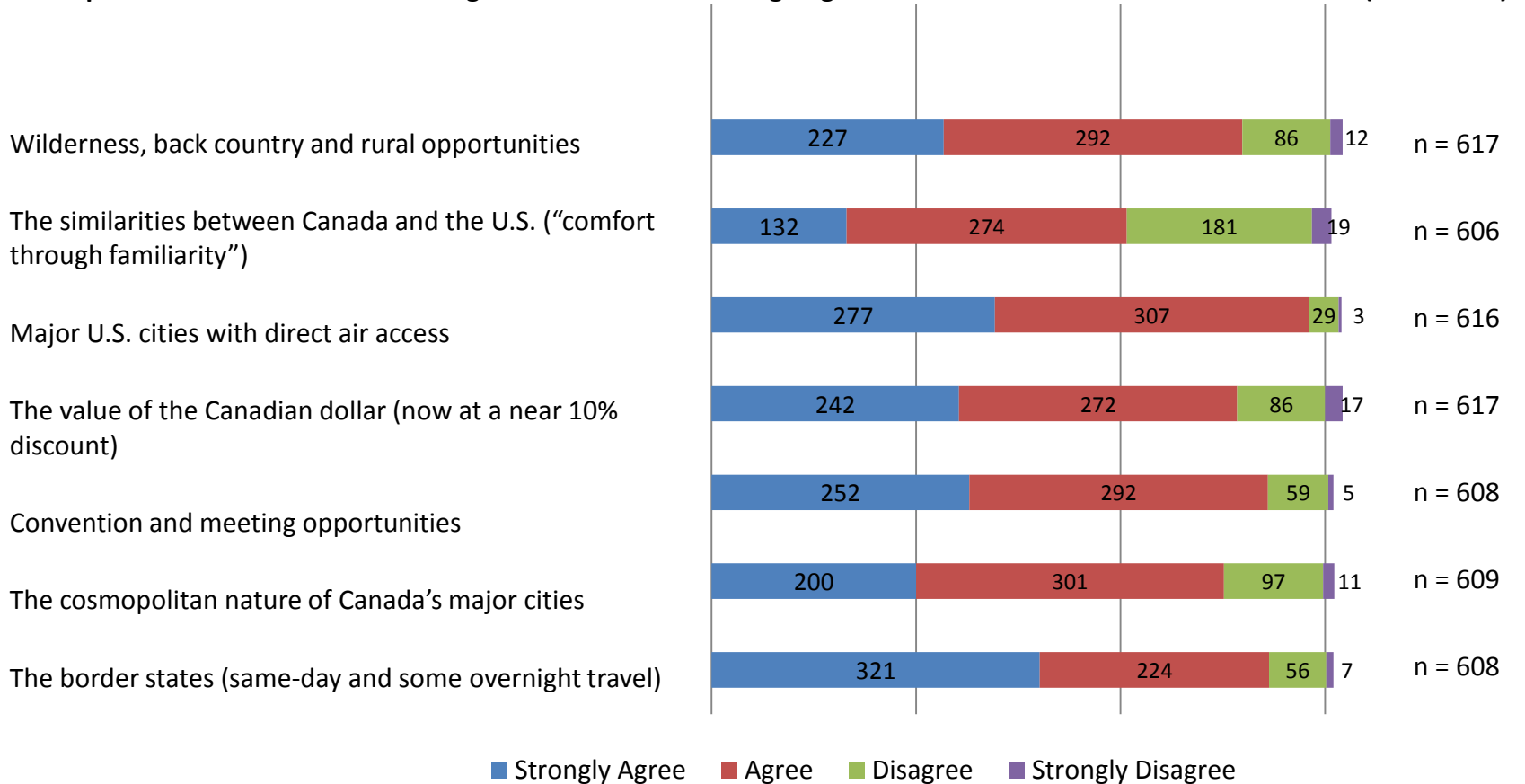
- On a 50:50 basis (or some other ratio) between private and public sector?
- Wholly by the federal government as well as those jurisdictions most likely to benefit from increased visitation?
- Through a new tax and/or fee raised from international tourists only?
- Through a new tax and/or fee raised from tourists as well as Canadians?
- Wholly by the private sector?





How should Americans be enticed to travel to Canada?

How important are each of the following focus areas in convincing large numbers of Americans to travel to Canada (and return)?

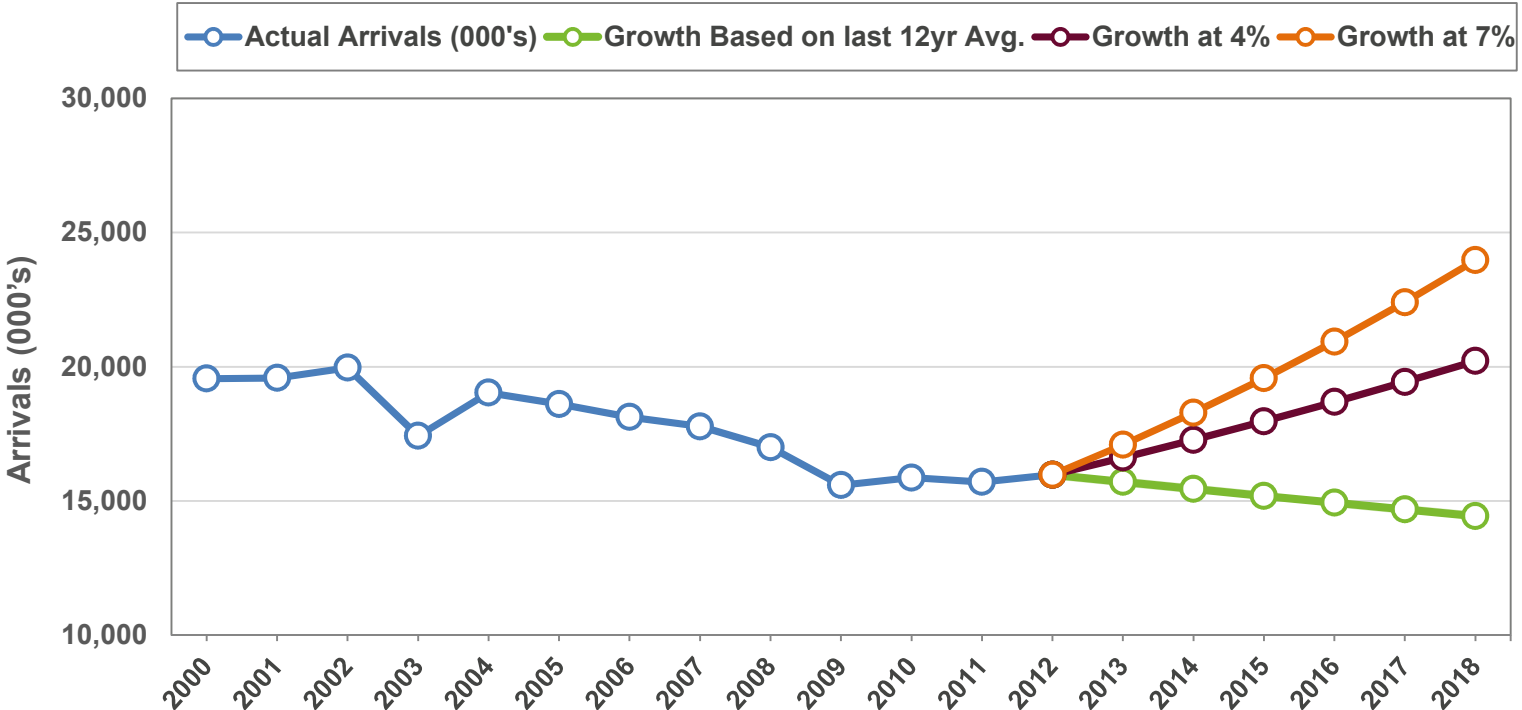




Three Growth Scenarios

The 2013 annual report described three possible international visitor growth scenarios for Canada through 2020: 1) grow at the average rate experienced over the last then years; 2) grow at the World Tourism Organization’s international forecast of 4%/annum or; 3) grow at the 7% rate achieved by the United States in 2012. A rate between 4% and 7% would return Canada to 2000 levels of visitation by about 2017.

International Tourist Arrivals to Canada



Source: HLT Advisory Inc. based on Statistics Canada. International Travel Survey and HLT estimates



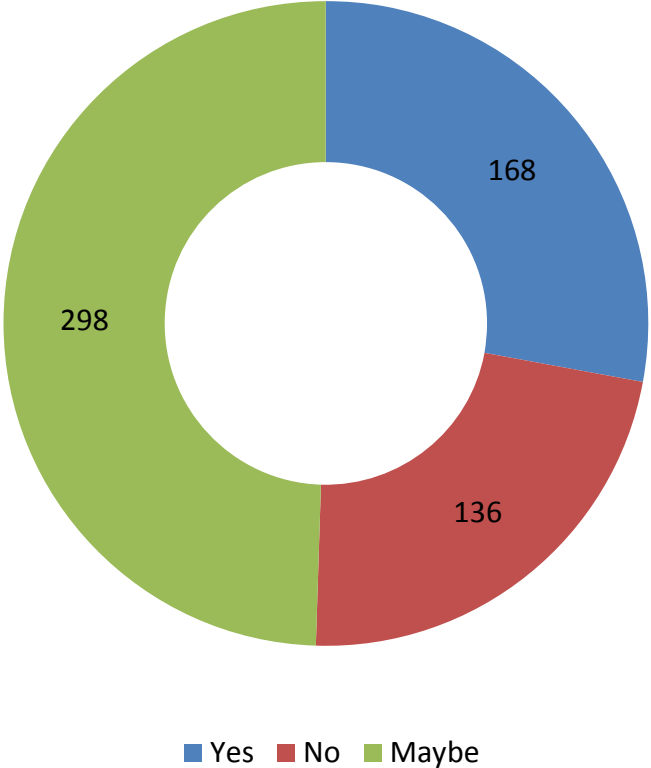


Indecision Reigns Over Optimism with respect to Future Targets

Despite an optimistic view of the industry by most survey respondents (i.e., 65% were very optimistic/optimistic about the Canadian tourism industry through 2014), only 28% responded “Yes” to achieving a target of 19.6 million visitors by 2017 (the number of visitors Canada welcomed in 2000). The most common answer (almost 50%) was “Maybe” as reflected in some of the concerns identified below:

- “An increase of 4 % is simply not realistic under the current marketing programs.”
- “The cost of travel is rising by 2017 we will see less travellers.”
- “A significant improvement in the global economy would be required.”
- “Not realistic if we don’t change our way of doing things.”
- “Not without a strong strategy.”
- “Maybe if cross border travel becomes easier.”
- “The cost of travelling to Canada is expensive.”
- “The global economy is not recovering as fast as one would want - I would temper those expectations for and estimate overall growth at less than 5%.”

Is a target 19.6 million international visitors to Canada realistic?



n = 602



HLT Advisory

HLT is widely-recognized as one of Canada’s leading hospitality, leisure and tourism industry advisory firms. HLT was formed in 2005 by Lyle Hall and Rob Scarpelli. Prior to the creation of HLT, Lyle was Managing Director/Partner of KPMG’s National Hospitality and Leisure practice area and Rob was Managing Director/Partner of PricewaterhouseCoopers’ National Hospitality and Leisure practice area. Both Lyle and Rob left their respective partnerships and formed HLT Advisory Inc., which now includes a total of eight professional staff. HLT’s core competencies are in the following sectors:

- Tourism and attractions – HLT provides strategic planning, operations, market analysis and marketing support to major attractions and events as well as assisting the public sector in the development of tourism marketing and investment plans and Request for Proposal processes.
- Convention Centres – HLT has unsurpassed qualifications in the meeting and exhibition industry including preparation of market substantiation assignments for almost every major Canadian convention centre/tradeshow facility (and corresponding economic impact assessments) opened over the past two decades (as well as several in the planning stages).
- Lodging – HLT has worked across Canada, and internationally, for a cross section of hotel companies focusing on development, marketing and operations planning for major mixed-use projects..
- Gaming – HLT has played a significant role in the growth and development of the Canadian gaming industry through involvement, in one fashion or another, with almost every major land-based gaming project in every region of Canada, over the past two decades.
- Sports and Entertainment Facilities - HLT has worked on numerous spectator and community sports/entertainment venues preparing market assessments and business plans as well as providing acquisition and related transaction services.

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