



**Arctic Development
Library**

Comments On Tourism Development In Canada

Type of Study: Analysis/review

Date of Report: 1988

**Author: The Tourism Industry Association Of
Canada**

Catalogue Number: 11-35-13

11-35-13

**COMMENTS ON
TOURISM
DEVELOPMENT
IN CANADA**

Prepared For
THE MINISTERS' SYMPOSIUM
With The
TOURISM INDUSTRY
CALGARY, Alberta
March 21, 1988

COMMENTS ON TOURISM DEVELOPMENT IN CANADA

TABLE OF CONTENTS

Recommendations on Tourism Development	i
Background on Tourism Development in Canada	1
1. Government Role	1
2. "Fixing" Regional Economic Disparity	2
3. Cooperative Planning	4
4. Tourism Industry Statistical Base	5
5. "Winners Versus Losers" Concept	6
Key Challenges and Solutions	7
Issues Raised by the Discussion Paper, "The Challenge In Tourism Product Development"	7
Planning	8
Marketing	11
Financing	14
Human Resources	16
Infrastructure	17
Final Thoughts	18



March 17, 1988

The Ministers of Tourism, attending
The Federal - Provincial/Territorial
Conference of Tourism Ministers, at
Calgary, Alberta

Dear Ministers:

The Tourism Industry Association of Canada is pleased to be involved in this historic meeting with Tourism Ministers and Industry leaders to discuss the future of tourism development in Canada. In support of our attendance, and as background to TIAC delegates remarks at the Symposium, we offer the following comments in response to the Symposium's Discussion Paper - prepared by Tourism Canada.

A review of the more significant Tourism Industry reports to federal and provincial tourism ministers during the past decade reveals a remarkable consistency in the perception of the challenges and opportunities facing the tourism industry. The 1978 Report of the Tourism Sector Consultative Task Force, TIAC's 1985 Comments On A Canadian Tourism Strategy and the current response to The Challenges in Tourism Product Development demonstrate that, with respect to Governments' roles in tourism industry development, the more significant philosophical views of Canada's tourism business leaders have not changed.

For example:

1. Then and now, the industry "opposes handouts" and believes that government's primary role is to address infrastructural requirements so that viable development opportunities can be met and realized by the industry and the businesses which serve it.
2. Then and now, the industry has recommended that scarce government financial resources earmarked for tourism development programs be applied to high potential regions or zones rather than being dissipated in "fixing" regional disparities.

**Canada Grows
With TOURISM**

3. Then and now, a "National Tourism Plan" or a "Canadian Tourism Strategy" or "Product Development Strategies" (by jurisdiction) have been requested of government by the industry as cooperatively, produced planning tools.
4. Then and now, industry has asked government to establish a better statistical base for the tourism industry in order that it may make its case competently with, for example, private sector lenders or governmental taxing authorities.
5. Then and now, industry has lobbied governments at both the federal and provincial level to establish separate ministries or departments from which to better administer governmental support and promotion of tourism.
6. Then and now, the industry has recommended that government support and assistance programs, be focussed on the "winners" within the tourism industry in order to ensure the establishment and maintenance of a high quality tourism plant.

These recommendations by the industry have been addressed to varying degrees by governments.

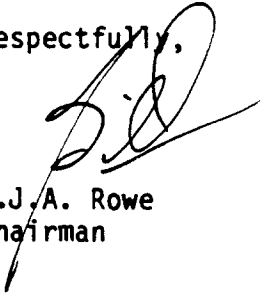
There has been an encouraging increase in the level of cooperation between the private and public sectors during the past few years. It is especially gratifying to continue the process through cooperative consultation rather than via confrontational rhetoric. While many challenges and some disagreements remain, governments have responded positively in many ways and the industry, for its part, has become more self-reliant and successful as a result.

In 1977 our \$10 billion dollar industry had slipped to a travel account deficit of \$1.6 billion. Ten years later, revenues had doubled in size to \$20 billion, while we experienced a relatively smaller travel account deficit of about \$2 billion. And Tourism had climbed from being Canada's sixth largest earner of foreign exchange to second place behind the combination of automobiles and automobile parts. So, together, we have been doing some things right.

In the paper you will read a variety of plaudits (some explicit; some implicit) for government initiatives either accomplished or which are underway. You will also find some suggestions for improving or hastening various government activities which support tourism development and, we offer some recommendations for additional steps which we believe will assist in the achievement of our common goals.

We wish you well in your deliberations and look forward to a communicative and fruitful "shirt sleeve" session during the afternoon of March 20.

Respectfully,



W.J.A. Rowe
Chairman

RECOMMENDATIONS ON TOURISM DEVELOPMENT

1. A Tourism Development Council should be formed to study development policies of federal and provincial governments and to critically assess the state of tourism development in Canada. The Council should be similar in form to the Tourism Marketing Council with both private and public sector members. The Council would recommend development initiatives which would be fostered by government for eventual private sector implementation.

2. As its first project, the new Tourism Development Council should act as the catalyst to the preparation of a national tourism development strategy. Since Provincial/Territorial product development strategies are currently underway, the national strategy should be a compendium of regional strategies. The final national strategy should incorporate the concept of designated tourist areas, destination zones and link zones, the development and marketing of which should be unfettered by political boundaries or borders.

3. Provincial/Territorial, national and international tourism research studies should be funded by governments. Research findings and resulting data should be made available to the private sector which, initially, would also benefit from in-depth explanations of "how to use" the data and their significance. Funding of broad-based market research by government is preferable to direct government investment in the tourism plant (excluding infrastructure) in the absence of the ability to do both.

4. Governments, working with appropriate tourism industry leaders and financial experts, should continue their research leading to the formulation of innovative financing concepts for tourism development which would appeal to the financial markets. The results of the federal-provincial working group, which has been studying material produced by the recent Niagara Institute Study, would constitute an excellent first step in the process.

5. Continuation and acceleration of public relations initiatives, such as TIAC's Tourism Awareness Program in cooperation with Tourism Canada, are needed to firmly establish an attitude among Canadians that tourism is in the national interest and further that a successful tourism image is beneficial to all Canadian industry, particularly exporters.

6. The proposals outlined by Tourism Canada in the section of the Discussion Paper entitled, "To Meet The Challenges", supplemented by points 1 to 5 above, if implemented, would constitute a quantum leap forward for Canadian Tourism Development. The proposals dealing with corridor and zone development, product packaging human resources issues, enhanced use of national parks and emphasis on unique natural or historical attractions, financing issues and technological innovation are particularly important in the face of increasingly sophisticated competition throughout the world. We strongly endorse these proposals and urge their adoption by the Tourism Ministers.

BACKGROUND ON TOURISM DEVELOPMENT IN CANADA

1. Government's Role

It is evident that since the change in government at the federal level in 1984, the role of the federal government in the tourism development process has changed significantly. From a highly interventionist position characterized by extensive grant programs of various kinds, regional incentives and tax shelter legislation, the federal government position has changed to that of a supportive role as a result of the removal of many of these stimulative tools. Hence, private sector tourism businesses have, of necessity, become more self-reliant with respect to development options and, consequently, more aware of market conditions and competitive factors.

During the "interventionist" era, some of the private sector investment in the industry was not based on intrinsic tourism industry market factors but rather on artificial tax savings as well as economic benefits flowing from grants to investors for projects in economically depressed areas. Much of the investment in the industry was made by individuals and corporate entities seeking the tax shelter or similar benefits who otherwise, had no reason for investment in the tourism industry. As a result, the supply of motels, hotels and resorts grew disproportionately relative to demand.

Ironically, the process of restoring equity to the federal income tax system has become a factor in restoring equilibrium to the supply and demand of tourist accommodation. Because a similar set of circumstances and governmental responses have occurred in the United States, no significant cross-border competitive advantages or disadvantages have resulted.

Perhaps one of the positive side effects of the over development of the early 1980's was an overall upgrading of the accommodation sector. By virtue of the threat of the new competition, many established resorts, hotels and motels were renovated. The physical improvements were accompanied by a renewed awareness of service factors, resulting in increased attention to staff training.

The Canadian tourism industry lost much of its market share during the past two decades. The tourism plant must grow and attractions must be developed or be made more accessible to travellers if we are to recapture our lost share. Governments must continue to play a major role in providing the infrastructure required to support private sector development initiatives.

2. "Fixing" Regional Economic Disparity

A retrospective look at the many provincial and federal government assistance programs which have come and gone over the past twenty years reveals, not surprisingly, some exceptionally good programs and some which, because they were politically inspired, dissipated scarce resources under the well-meant objective of improving regional disparities.

Occasionally the unproductive programs (when viewed in retrospect) constituted a government response to the representations of elements of the tourism industry or self-appointed "champions" of the tourism cause at the local level. Often, the industry got what it asked for, however unwise the requests.

Unfortunately, the failures which resulted captured media attention and contributed to the poor reputation of the tourism industry within the financial community.

We hope that the tourism industry and governments have learned from past mistakes and that future initiatives will be built on sounder bases. Tourism development should only be encouraged in the more depressed economic areas if and when they constitute a viable tourism resource and after the provision of appropriate infrastructural links and facilities.

3. Cooperative Planning

Reliable market research, as a basis for "predicting" the future, is the most important element in development planning. It is evident from the Discussion Paper prepared by Tourism Canada for this Development symposium that international competition for tourism spending is heating up and as a competitor, Canada must equip itself to face the challenge.

The market research which was done to produce the information reported in the Discussion Paper is a classic example of an area of activity by government upon which the Canadian tourism industry is reliant. There are very few tourism-oriented Canadian companies out of 60,000 businesses in the industry which could afford to undertake the level of international and domestic market research which underlies the Discussion Paper. Of the existing companies, one is a crown corporation and one is a multi-national conglomerate. Therefore, it is very clear that the industry's pooled resources, represented by government, must handle the research task.

The research results, if effectively communicated to all industry participants, can be used by the key players to strategize for the common good.

Frequent and continued dialogue between government and the industry in the form of strategic planning for development and marketing is essential. Forums such as the Tourism Marketing Council and the Canadian Tourism Research Institute are proving to be excellent examples of this cooperation.

Politicians must understand that Government support of tourism research is essential. There is no option or cheaper alternative if Canada is to compete internationally. Only those industries which are comprised of a very few, very large member businesses could even begin to contemplate replacing this government role of market research and communication. The Tourism industry, with 60,000 small business members, is **not** such an industry.

4. Tourism Industry Statistical Base

In response to a statement of the need in both the 1978 Tourism Sector Consultative Task Force and again in TIAC's reaction to the 1985 Tourism Tomorrow document, the Federal Government established the National Task Force on Tourism Data. This has led to the creation, by Government and the industry, of the Canadian Tourism Research Institute and also, by government, the production of a Satellite Account for tourism data.

We note with mild concern, differences in data reported recently. For example, TIAC, in a recent report on Tax Reform, cited Tourism Canada's Tourism Impact System which reported national tourism revenue for 1986 at \$22 billion. However, the Discussion Paper reports 1986 revenue at \$20 billion. These differences highlight the need for the Satellite Account initiative which we applaud. We look forward to an early completion of the task so that both government and industry may communicate through the media and with other government departments using fully credible data.

5. "Winners Versus Losers" Concept

Finally, in this review of the more important philosophical tenets espoused by TIAC relative to governments' role in tourism development, we reiterate the "Winners versus Losers" concept. This is one of the several areas where, in recent years, we believe that governments have adopted a strongly-held principle of TIAC and most members of the industry.

There is a strong political temptation, particularly at local, regional and provincial/territorial levels to provide improvement programs for the industry which, despite well-meaning motivation, serve to perpetuate mediocrity. We applaud the toughening of the criteria and their application which we have seen recently.

KEY CHALLENGES AND SOLUTIONS

Issues Raised By The Discussion Paper, "The Challenges In Tourism Product Development"

As a general opening comment, TIAC is impressed with the quality of thought and insight reflected in the Discussion Paper. The Tourism Ministers and the industry, it appears, are being well-served by the officials who collaborated in the document's preparation.

The development-related challenges facing the industry, and the reasons therefor, are well-explained in the Paper. Although many of them appear to be daunting, there seems to be a discernible thread of optimism and self-confidence running through the Paper's various sections leading to the solutions proposed. This reaction perhaps serves to reconfirm TIAC's support of the continuing role for government involvement in research and innovative thought as well as government's leadership role along with TIAC, in fostering communication within the industry and between governments and the industry.

In more specific terms, the Discussion Paper implicitly indicates that effective tourism development is dependent on a full range of disciplines including:

- Planning
- Marketing
- Financing
- Human Resources
- Infrastructure Development

PLANNING

Challenges

Planning is the key to success, as many an entrepreneur who has failed due to inadequate planning can attest. Beginning with the preliminary feasibility study, through market analysis, site selection, physical planning and financial analysis, careful and professional planning is essential.

Planning is not only required at the project level, it is also essential at the national, provincial and municipal levels. A developer may have an excellent concept for an attraction or resort. However, in the absence of a coordinated national or regional tourism product master plan, there is high risk that the project may be situated in an inappropriate location. Unfortunately, there are such examples in Canada of major tourism projects having their site selections based on political, rather than reliably researched, practical, considerations. They have subsequently failed or have required ongoing government support.

It is apparent from the Discussion Paper that a highly sophisticated research base has evolved within Tourism Canada and its provincial/territorial counterparts. It seems evident that the analysis of the wealth of information, contained within and flowing from the "Longwoods Study" and others like it is re-shaping the marketing thrust of Tourism Canada.

What logically follows from this re-shaping of marketing is a re-shaping of the product being marketed. Some of this will evolve from changing patterns of demand. Some will require significant government expenditure on infrastructure **including** a degree of education of both large and small businesses within the industry so that tourism entrepreneurs may seize the opportunities.

One example of a recent disappointment involves the inability of Tourism Canada to proceed with a very important study of consumer perceptions of tourism product pricing in Canada and Canadian competitiveness in this regard. Industry did not generate sufficient financial support from among its members to complete the necessary funding of the study.

This occurrence raises many questions which both government and industry must ask themselves and each other. Notable among them would be, "who should pay?" for this type of research. TIAC would argue that this is precisely the type of research which government should fund as opposed, for example, to making a direct investment in an active tourism industry business, eg: a hotel or motel. What is certain, however, is that dialogue must continue between government and the industry relative to the problems surrounding this type of situation.

Solutions

The Tourism Industry Association of Canada favours the preparation and implementation of a coordinated national tourism development strategy. The Strategy should be prepared in close cooperation among federal, provincial and private sector interests.

The strategy should: -Set out broad national and regional tourism development objectives.

-Identify tourism destinations and corridors to receive preferred treatment in government programming to attract appropriate private sector development.

-Clarify government programs and initiatives at all levels to support tourism industry development.

Tourism developers should be encouraged to carry out thorough feasibility and planning studies before embarking on new projects and, where government funding is involved, they should be required to do so. Federal and Provincial Governments currently have financial and technical assistance programs to help with these studies. These programs should be expanded, publicized, their criteria tightened and made more readily available to the private sector in all provinces and territories.

Governments should continue to play a prominent role in the development of research and statistics in support of tourism industry planning.

MARKETING

Challenges

There are two key elements to marketing. They are:

1. Market identification and promotion.
2. Having the right product in the right place at the right time and at the right price.

Since the subject of market identification and promotion is being dealt with through the Tourism Marketing Council, it has not been discussed here other than to confirm the view that a development strategy must be based on a strong market analysis and followed up by an integrated marketing strategy.

The questions of what product to develop and where to locate it are highly complex. As the Discussion Paper indicates, they require careful analysis of:

- Primary and secondary markets
- Competition
- Environmental factors
- Availability of suitable sites
- Community acceptance
- Supporting infrastructure

Project timing is critical. Major projects can take three to five years to plan and construct. Market and economic conditions may change over that time. To reduce the risk of being out of phase with the market, high quality forward looking market and economic research is required, both at the macro (national) and micro (project) levels.

The phrase "right price" is synonymous with "value". Value is a highly subjective term which may vary according to the expectations of each customer. The one component of value which tends to remain reasonably predictable is that of competitive pricing. Typically, if a tourist can obtain a comparable experience at two locations, he will tend to select the less costly package. Because some may choose to dispute this premise, it is all the more regrettable that the Consumer Pricing Perception Study has not been funded.

The product cost, and ultimately the price, is dependent on many factors. Some of these factors are controllable by the developer/operator through improved efficiency and solid purchasing policies. Other factors such as taxes, minimum wage rates, alcoholic beverage and transportation costs, are beyond the control of the enterprise. These uncontrollable costs can become particularly onerous for businesses competing against similar U.S. based products.

Solutions

As mentioned above, thorough market research is essential to national or regional tourism development strategies. The private and public sectors must work together to strengthen both the Tourism Marketing Council and the Canadian Tourism Research Institute to ensure that these bodies respond to industry needs. Other communication vehicles may be necessary to ensure that the output of valuable government research into tourism market trends will reach industry users in an understandable format and on a timely basis.

Because Government approvals can significantly affect the timing of a tourism project, developers should carry out detailed market analysis before receiving government approvals and development assistance. Therefore, mechanisms are required to improve the response time of government agencies at all levels - federal, provincial and municipal.

Governments must also address the implications of increasing tax rates, minimum wages and regulation on the cost and competitiveness of tourism products and services.

FINANCING

Challenges

One of the greatest challenges facing tourism developers is that of financing. For some time, many Tourism project types have been viewed by banks and other financial institutions as high risk with limited return in the early years of operation. This perception has been too often a reality in recent years because of a few, high profile tourism projects which have not proven financially viable within a reasonable period of time.

Because of the traditional difficulty of attracting equity and debt financing, there has been a tendency for many tourism projects to be funded through disproportionately high cost debt (i.e. high interest rates). Fortunately there is a trend, albeit slow, toward financial institutions and investors assessing tourism industry projects on their own merits. Also the long-standing prejudices, built up through years of, for example, FBDB loans to non-viable tourism industry businesses, are gradually disappearing. The growing size and importance of the industry and its significant role in the national economy are beginning to be noticed by lenders and investors.

There are many forms of government assistance for the infrastructural or quasi-infrastructural elements of tourism development projects. These include forgivable loans, no interest loans, interest subsidies, delayed payment loans, loan guarantees, grants, short and long term equity participation and tax based incentives, although the latter have all but disappeared. All of these forms of assistance have their advantages and their drawbacks.

There has been a tendency for governments to use financial and tax incentives to attract tourism development to locations which might not otherwise prove viable. This can lead to long term financial difficulties when the support runs out and to the further consequence of perpetuating the bad image which the industry has had in the financial community.

By the same token frequently changing tax and incentive policies of governments often lead to an uncertain investment climate. This causes investment decisions to be made in response to incentives rather than being based on sound planning, market analysis and the intrinsic economic merits of the development.

Solutions

The image of tourism projects as viable investment opportunities needs to be improved. This can be achieved by providing information to the financial community on the growing importance of tourism in the Canadian economy. Developers can also contribute to their own success by producing more thorough and professional plans for presentation to potential investors and lenders.

As part of a development strategy, the Federal and Provincial/Territorial Governments should review their various incentive programs to ensure that they are encouraging the development of tourism projects that are viable over the long term. Tough criteria developed in cooperation with the industry and strictly enforced, are a prerequisite.

Finally, continuity of government programs is also essential to successful expansion of Canada's tourism plant. Ideally, these programs should be funded and remain in place for at least five years.

HUMAN RESOURCES

Challenges

Canada's tourism industry is expanding faster than any other sector of the economy. This is happening at a time when the industry's traditional labour force is declining. There are fewer young people entering the workforce, creating a crisis for tourism employers in some parts of the Country. In competition with other industry sectors, tourism is seen as an industry with few career opportunities, paying low wages and having generally poor working conditions.

Often, formal education and training are overlooked by employers when setting compensation policy for new employees. This discourages young people entering the workforce from seeking formal training.

Solutions

Many provinces are currently establishing tourism education and training councils to bring the industry and educators together. At the national level, the national trade associations, in cooperation with the Federal Government, are developing Standards and Certification Programs.

It is essential that these national and provincial efforts be carried out in close collaboration to ensure that the provincial programs are consistent with the national industry standards. A strategy or forum is needed to bring this about.

INFRASTRUCTURE

Challenges

The Geography of Canada is such that it is difficult for a single project, such as an attraction or a ski centre to stand alone. The tourism product is an integration of attractions such as a national park or a man-made theme park and services such as accommodation, transportation, food and beverage, etc. The Challenge often is to attract sufficient of these various essential components to an area, thereby creating the critical mass for a tourism destination or total product.

Many tourism projects are only viable if appropriate municipal and regional services are in place. These include sewer, water, power and access. If a developer is required to install these services at his cost, it is very unlikely that he would be able to justify the project.

Solutions

By designating tourism development zones in a regional or national strategy and by focussing government incentives on these zones, governments can encourage developers to locate there. In this regard, it is necessary for governments to cooperate in the creation of such zones as they often cross political boundaries. This cross-border characteristic of tourism development zones may inspire a greater degree of federal government involvement including domestic marketing of the resulting products.

By providing the necessary service infrastructure in cooperation with developers, governments can further contribute to the creation of complete destinations.

Some Final Thoughts:

TIAC and the industry are very concerned that the **EXPORT** and **IMPORT - REPLACEMENT** characteristics of the Canadian tourism industry be recognized by politicians. We believe that Tourism Ministers will be required to employ all of their persuasive skills with their colleagues to ensure that these concepts are fully understood.

The consequences are far-reaching. The tourism industry must, under sales tax reform, be accorded export industry status or be subject to more difficult international pricing competition. Also, failure by governments to recognize these important aspects may lead to an understatement of the value of government support for the industry. For example, the limited marketing of tourism at the federal level within Canada is missing much of the "import-replacement" opportunity. What better salesman and ambassador for the Canadian tourism product could there be than a happy Canadian user describing his Canadian touristic experiences to an American during a Florida vacation.

As stated at the outset, subject to the recommendations which we have made, TIAC is pleased with the level of awareness of the challenges, opportunities and problems, as expressed in the Discussion Paper. There is enough substance and insight shown to cause us to be very optimistic that the resolutions reached at the Minister's Conference and the measures which will flow as a result should address the real issues faced by the tourism industry in an effective way.