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**The Challenges In Tourism Product
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THE CHALLENGES IN TOURISM PRODUCT DEVELOPMENT

A DISCUSSION PAPER

prepared by

TOURISM CANADA

for

A MINISTERS' SYMPOSIUM

with the

TOURISM INDUSTRY

at

THE FEDERAL-PROVINCIAL/TERRITORIAL

CONFERENCE OF TOURISM MINISTERS

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I. INTRODUCTION

Over the last few years, federal and provincial governments have increasingly focussed their attention on the tourism product in order to ensure that Canada continues to offer competitive, unique and superior tourism products to a growing and more sophisticated market at home and abroad.

At the last Conference of Tourism Ministers in June of 1987, each jurisdiction agreed to produce a product development strategy. Parameters for these product strategies were drawn up by the Ministers whereby it was agreed that product development should be based on the researched needs of domestic and international markets and that the overall objectives of product development are to improve international competitiveness, stimulate investment and create new jobs in all areas of Canada. At the same time, Ministers expressed the need for a forum where product development issues could be discussed with industry.

As a preliminary step towards the development of a federal product development strategy, Tourism Canada has undertaken an analysis of trends in the marketplace which have implications for product development across Canada. The state of the product and its potential for development have also been reviewed.

This paper presents, very briefly, the preliminary results of this work and identifies the main product development challenges that the industry and government are facing in the years ahead. If Canada's product is to remain competitive, we must meet these challenges through the collective efforts of the industry working collaboratively with the federal and provincial governments.

The industry/government symposium of March 21, 1988, is being held in conjunction with a federal-provincial/territorial meeting of ministers. This symposium marks the beginning of a new co-operative approach to product

development. The paper is intended as background for an open and frank discussion between tourism ministers and industry representatives at the symposium. The paper does not attempt to allocate roles and responsibilities. Rather, it focusses on what needs to be done.

II. CANADA IN THE WORLD MARKET

World wide tourism is a high growth sector. The aggregate number of world tourist arrivals increased by 15% between 1981 and 1985. Between 1975 and 1986, tourism receipts were growing at an average annual rate of 5.4%, one of the fastest growing rates among items of world trade. One just has to compare annual growth rates for that period:

International tourism receipts (1)	5.4%
Gross Domestic Product in OECD (2)	2.9%
Total World export (3)	3.5%
World export of agricultural products (3)	2.5%
World export of minerals	3.2%
World export of manufactures (3)	3.6%

(1) WTO, Review of World Tourism

(2) OECD, Economic Indicators

(3) GATT, International Trade

This growth in world tourism is expected to continue. According to several tourism analysts, it is predicted that tourism will be the world's largest industry by the turn of the century. For instance, world passenger air transport is projected to increase at an average annual rate of 8% to 1995.

Economic forecasts indicate that economies in the industrialized world will continue to grow at a rate of 2% to 3% for the next one to two years. Continuation of economic prosperity will spur the growth of international tourism.

Canada can also expect growth in the tourism sector due to a number of other factors such as the continuing favourable exchange rate, increased trade liberalization and airline deregulation.

The Canadian Tourism Research Institute predicts growth in the accommodation and food sectors of between 3.5% and 4.5% in 1988 and 1989 and for the amusements and recreation sectors for the same period of approximately 2.5%. The tourism industry should continue to outperform other industry sectors in Canada.

Canada's tourism performance has not always been commensurate with the world's growth; its share of world tourism receipts dropped from 4% in 1975 to 2.4% by 1980. Fortunately, since 1980, Canada has reversed this downward trend and regained some of the losses i.e. its share of world tourism receipts reached 4.0% again in 1986. This level represented a 0.7 percentage point gain over 1985, a huge gain within a one year period. This 1986 performance moved Canada into eighth place among all world countries for its share of international tourism receipts, ahead of countries such as Australia, Japan and Switzerland, but behind the United States, Spain, Italy, France, United Kingdom, West Germany and Austria.

World share figures for 1987 are not yet available. However, the use of Canada's international tourism receipts for last year to extrapolate its share of the world market tends to indicate that the gain that was made since 1980 will be maintained in 1987. While Canada's international tourism receipts in 1987 dropped by 0.7% when compared to 1986, they remain however some 87.8% higher than in 1980 and 25.6% higher than in 1985.

Despite a high level of international visitation in 1987, Canada's travel deficit reached an all-time peak of close to \$2.5 billion, a travel deficit increase of \$1.3 billion over 1986. More than 96% of the travel deficit increase was the result of increased spending by Canadians travelling abroad.

Increasingly, analysts are of the view that the international travel balance is not a good indication of the economic performance of the tourism industry in Canada. The healthy Canadian economy resulted in higher disposable income which in turn led to more Canadians travelling abroad and therefore increased travel payments. The net result was a tendency to move the international travel account to a deficit position. However, this situation has not prevented the Canadian tourism industry from growing in terms of receipts. Given that the growth is largely the result of increased expenditures from foreign visitors, the strategy of the federal government is to increase international visitation and expenditures, thereby increasing world market share.

III. ECONOMIC IMPACT OF TOURISM IN CANADA

The contribution of the tourism industry to the Canadian economy is considerable. In 1986, foreign visitors and Canadian travellers spent nearly \$20 billion in Canada, or approximately 6.7% of the total personal expenditures on consumer goods and services for that year. Stated in other terms, the \$20 billion represents 4.5% of Canada's Gross National Product in 1986.

Tourism is a major source of foreign exchange (\$6.3 billion in 1986), earning more than all other commodities and services except automobile and automotive parts.

Approximately 600,000 jobs are directly related to tourism in Canada and more than 60,000 businesses depend on tourists for their existence. As the base of North American economies shifts from the production of goods to the provision of

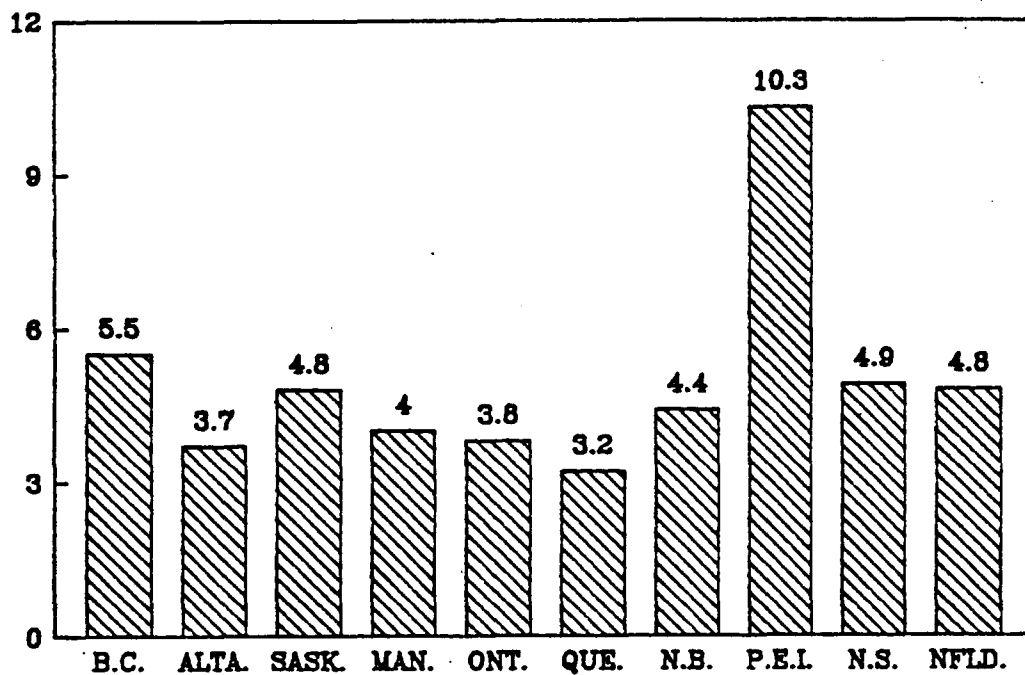
services, these numbers will undoubtedly grow. The Canadian Tourism Research Institute of the Conference Board of Canada predicts that employment in tourism will increase by 18% by the year 1992.

**DIRECT TOURISM EMPLOYMENT AS A PERCENTAGE
OF TOTAL PROVINCIAL EMPLOYMENT - 1986**

Newfoundland	3.4%
Prince Edward Island	5.4%
Nova Scotia	4.7%
New Brunswick	4.6%
Quebec	2.9%
Ontario	3.7%
Manitoba	3.9%
Saskatchewan	3.4%
Alberta	5.3%
British Columbia and the Territories	7.3%

Source: Tourism Canada - Tourism Impact System

Tourism generates economic growth for all provinces and territories across the country, ranking among the major industrial sectors in terms of provincial output. Tourism receipts expressed in percentage of the Gross Provincial Product ranged in 1986 from a low of 3.7% in Alberta to a high of 10.3% in Prince Edward Island.



Note: % of GPP is based on receipts for 1986 and GPP for 1985.

Tourism is an important source of government revenue, generating some \$9 billion annually in taxes for all levels of government. Tourism activity in Canada also

requires an annual level of \$3.1 billion investment in new buildings, equipment and repairs to meet the current level of demand.

Given this growth potential and the significant economic contribution of tourism in Canada, the key question is whether or not Canada can meet the expectations of the marketplace in the future, particularly with respect to the quality of its tourism product which will play a large part in determining the future success of the tourism industry.

IV. MARKET TRENDS

Recent Tourism Canada research studies (Longwoods, Market Facts and CTS) indicate that market trends will cause some significant shifts in the demand for the Canadian tourism product. Some of these changes are described below.

A. Different Sources for Market Growth

Since 1980, international receipts have represented an increasing proportion of total Canadian tourism receipts. Revenues from U.S. visitors rose from 15% to 22% of total revenues and revenues from overseas visitors rose from 6.7% to 7.1%. Canadian receipts have accounted for a declining proportion of total revenues generated by tourists. Domestic tourism revenues fell from 78% of total revenues in 1980 to 71% in 1986. This does not represent reduced consumption by Canadians, but increased revenue generation from U.S. and overseas markets.

Continuing growth in global international tourism and continuing strength in the Canadian economy suggest that this trend will continue and that the major part of increased Canadian revenues will be generated in the future by international visitors.

The majority of international visitors to Canada have traditionally come from the U.S. and Europe - mainly the U.K., West Germany, and France - and more recently from Japan.

Research indicates that major shifts are occurring. The share of total overseas visits to Canada from Europe declined from 66% in 1977 to 58% in 1986. The share from Asia has dramatically increased from 15% in 1977 to 25% in 1986. Research indicates that this trend will continue.

Growth potential still exists in our traditional markets, especially in France and in secondary U.S. markets, such as the South Atlantic and West South Central census regions. However, the best prospects for growth come from the Japanese and Pacific Rim markets.

B. Socio-Demographic Changes

The populations of the industrialized countries, which provide the vast majority of international travellers, are aging. In the American market, for example, the 55-64 age group will grow by 78% by the year 2015. This group now represents 25% of all U.S. travellers and accounts for 30% of U.S. visitors to Canada. These persons have more discretionary income than any other age group with better health than that age group has had in the past, and more leisure time.

Family structures are changing, too. Families often have two income earners giving more discretionary income for travel. Obtaining the maximum benefits from free time has become important. Finding mutually convenient holiday periods has become more difficult, however, resulting in more frequent trips of shorter duration. These families often travel with children.

Higher income professional people, often single, are under increasing pressure in the workplace. Their jobs involve longer hours in a high pressure environment. These people are seeking short getaway trips and longer, exotic, escape-type vacations where expense is not a determining factor. As "baby boomers", raised with high expectations for success in the workplace, reach a plateau in the corporate pyramid, they seek their rewards elsewhere - and it is often in adventure and exotic travel.

Increasing urbanization of the world's population will also result in the search for open spaces, clean air, forests, rivers, and lakes, all of which Canada has in abundance.

Increasing numbers of visitors from new Asian markets will pose a challenge for the provision of services, in that the Canadian industry is not familiar with these cultures and languages.

C. Different & More Demanding Customers

Advances in communications technology has made the world a more familiar place. The traveller has more wealth, is better educated and is more sophisticated. He/she is comfortable travelling and is more frequently travelling independently. A higher standard of service and value for money are becoming more important.

The traveller's increased sophistication places new demands on still-popular activities such as shopping and dining. Attractions and entertainment must constantly be rejuvenated to have lasting appeal.

These travellers are also seeking new product experiences such as a wilderness adventure, a themed tour (wine tours, retracing the steps of an explorer), cruising, and all-inclusive recreational resorts.

Increasing numbers of our international visitors will be from very different cultures, will speak different languages and have different expectations in terms of service, food and product packaging, e.g. the Japanese prefer structured tours, and are uncomfortable in a completely foreign setting (this has implications for food, and language used in information, etc.).

D. Changes in the Environment

As the industrialized nations increasingly focus on the services sector of their economies and thus on tourism to generate income, competition for the international traveller has intensified. Tourism advertising and promotion budgets have significantly increased. For example, U.S. state tourism office budgets almost doubled between 1981 and 1986, from \$119 million to \$234 million.

Many countries in Europe and Asia are considering tourism as one of their primary industry sectors, and their governments are focussing more resources on tourism product development as well as on marketing.

These are also the areas of the world experiencing the highest growth rates in international arrivals - Far East and Pacific, 58% growth since 1981; and Europe, 15% since 1981.

Trade liberalization (FTA/GATT) and new economic unions such as the European Economic Community are expected to result in more international business travel to North America. However, in the case of pleasure travel, the EEC has removed barriers to the movement of goods, services, and persons, and European destinations are now more attractive for European travellers who are being more actively pursued by EEC countries.

The deregulation and privatization of transportation companies will also have a significant impact on tourism around the world. Increased competition from deregulation and privatization has already resulted in the spawning of "mega-carriers", improved regional service, and greatly increased availability of discount fares.

V. THE IMPLICATIONS OF SHIFTING MARKET DEMAND ON:

A. Business Travel

Approximately 11% of trips and 18% of tourism revenues (or approximately \$3.6 billion) are generated by business travel. It is believed that approximately \$700-\$800 million is attributable to meeting and convention travel from the U.S., the remainder being accounted for by domestic and international independent business travellers (international travellers originating mainly from the U.S.).

Independent business travel is not discretionary and therefore has fewer implications for development than the discretionary meeting, incentive and convention travel. Increasing competition amongst maturing industrialized economies, new trading unions in Europe and North America, and a trend towards deregulation and privatization will force business to look outward for new markets. This situation will provide opportunities for increased independent business travel to Canada.

Canada now attracts approximately 2% of the total U.S. meeting and convention market. This is a growing market which is increasing its expenditures on meetings held outside the U.S. In that market, Canadian locations are perceived to be costly, difficult to access and lacking facilities.

Toronto, Montreal and Vancouver can accommodate large international conventions. Canada also has convention facilities in provincial capitals across the country for smaller conventions. High quality meeting facilities in major hotels are located in gateway cities and resort areas. Many of these facilities were built during the last seven years. Most of this capacity is under-utilized.

Opportunities exist to increase the Canadian share of the meeting, incentive and convention travel market, particularly in the U.S. The challenge will be to increase our promotional efforts in this area.

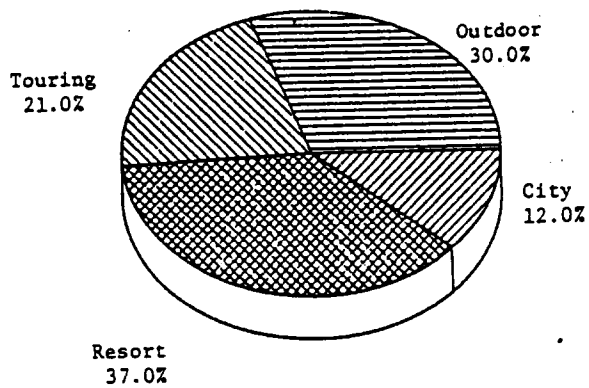
B. Pleasure Travel

The remaining 82% of tourism revenues come from VFR (visiting friends and relatives) (26%) and pleasure travel (56%) to Canada. It is expected that VFR travel will decline due to changing immigration patterns (immigrants coming mainly from less developed countries). The rest of this section of the paper will discuss the product consumed by pleasure travellers.

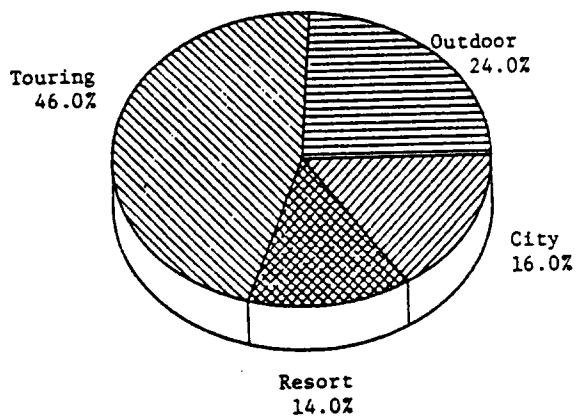
Approximately 83% of pleasure travel trips to Canada are taken by domestic travellers, 15% by Americans and 2% by overseas travellers.

The **tourism product** consumed by pleasure travellers can be grouped under four broad headings: touring, city, outdoor/sport/adventure, and rural/resort.

The **touring product**, a trip through areas of scenic beauty, cultural or general interest, is by far the most important for Canada in the international marketplace. Demand for the tour product accounts for 46% of total international demand and 18% of total domestic demand.

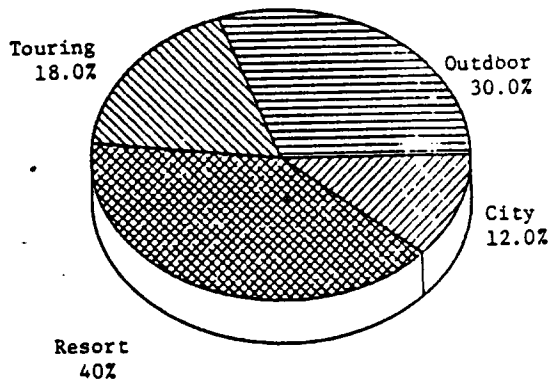


TOTAL DEMAND FOR
CANADIAN TOURISM PRODUCT



INTERNATIONAL DEMAND
FOR CANADIAN TOURISM
PRODUCT

DOMESTIC DEMAND
FOR CANADIAN TOURISM
PRODUCT



The **outdoor/sport/adventure product**, a trip to a single destination to experience nature and outdoor activities accounts for 24% of total international demand and 30% of total domestic demand.

The **city product**, usually a short trip of 2 to 4 days, accounts for 16% of international market demand and 12% of domestic demand.

There is a growing demand in the international marketplace (14% of total) for a **resort product**. This demand relates primarily to a sun/beach vacation as the market equates "resort" to that type of vacation. In the domestic market the rural/resort product is mainly the Canadian summer vacation to a campground or cottage and thus reflects a large proportion of domestic demand for Canadian product (40%).

C. Specific Product Lines

1. Touring

The touring vacation is a trip by car, bus or train through areas of scenic beauty, cultural or general interest. The tourist comes to experience a different culture and to see well-known landmarks. The important elements of a touring trip are historic sites, national parks, scenery and wildlife, cities, and cultural attractions such as museums and art galleries.

Approximately one fifth of trips in Canada are touring trips. Canadians account for 77%, 21% are U.S. and 2% of total touring trips are by overseas visitors. There is a strong demand for this product in international markets and from the growing market of retired persons in the U.S.

Canada has a strong competitive advantage in the marketplace in terms of scenic attractions and national parks. We are perceived as lacking some amenities and cultural attractions.

Canada's internationally competitive touring product is located in three areas of the country:

- (a) The central Canada corridor extending from Quebec City to Windsor lacks scenic attractions but has four major cities (Quebec City, Montreal, Ottawa, Toronto) and a rich cultural and ethnic flavour. It is well suited to touring as it is serviced by an extensive road network.
- (b) The Rocky Mountain National Parks - Calgary circuit offers spectacular scenic beauty, the facilities of the national parks and two major cities (Calgary, Edmonton).
- (c) The B.C. lower mainland - southern Vancouver Island region again offers the scenic beauty of the West Coast, and two major cities (Vancouver, Victoria).

A touring product with the potential to be internationally competitive but needing further development is located in the Maritimes, the southern Rockies, the B.C. interior, the Alaska Highway and the Prairies. In all areas, many elements of a competitive touring product are found (e.g. Canadian/Loyalist history in the Maritimes, cities and the frontier spirit/ attractions in the Prairies, and the scenic attractions of the B.C. interior). Development of the potential touring product would also provide opportunities for increased economic benefits in less-advantaged regions of Canada.

In many of these areas there are gaps, particularly outside major centres, in the quantity and quality of attractions and services. In some areas there is a lack of cultural and historical attractions and general points of interest. There is also a

lack of a complete range of accommodation and foodservices to cater to the lower and higher spending segments of the touring market. This is exacerbated in many instances by seasonal operations (Labour Day closings).

The key to a sellable, marketable touring product is in the integration of product elements and packaging for both the escorted tour and the independent traveller. Canada is at a disadvantage in this area as there are relatively few Canadian tour operators compared with the U.S., which is our main competition. The trend towards shorter vacations and the long distances and different time zones in Canada will present a challenge to tour operators.

2. City

The city product includes a variety of sightseeing, entertainment and dining experiences, combined with shopping. Cities can be destinations in and of themselves, part of a tour or a stopover to break a long trip.

The important elements of the city product are: a full range of accommodation, quality restaurants, nightlife, theatre, concerts, spectator sporting events, historic sites, museums, galleries, zoos and shopping.

Demand for the city product represents approximately 12% of total product demand. Demand for the city product comes 11% from the U.S. market, 87% from the Canadian market and 2% from the overseas market. This represents demand for a short trip and as such the demand in long-haul markets will probably not translate into consumption of this product in Canada. However, the city product remains an important element of a touring vacation in the long-haul market.

Canadian cities do not have a clear image in any of our markets - domestic, U.S. or overseas. American and overseas cities are generally rated higher. The U.S. market

views Canadian cities as relatively inexpensive, clean, safe, uncrowded and friendly, but we are not seen as having many important city product attributes such as quality restaurants and accommodation, shopping, cultural attractions and entertainment.

Many of these perceptions clearly are not representative of our major gateway cities of Toronto, Montreal and Vancouver. Other cities such as Quebec City, Calgary, Winnipeg, Halifax, Ottawa and Victoria are also major attractions on a touring vacation.

Toronto has become a world-class city destination. Montreal and Vancouver have attributes that make them very attractive also (the coastal setting of Vancouver, the French flavour of Montreal), but they lack attractions (museums, theme parks) and activities - things to do. Visitation to Montreal has declined since the '76 Olympics. Efforts are now under way to rejuvenate the tourism product in Montreal. Vancouver may face a similar situation. Cultural and historical attractions, entertainment and satellite tours are lacking in other Canadian cities. Integration of the various product elements - accommodation, restaurants, museums, theatre, etc. - and packaging of the city product are also inadequate.

The lucrative business market will make most of its expenditures in one of the major cities, and as indicated previously there are many opportunities to increase meeting and convention travel to our cities.

The main challenge is to promote our cities more effectively for the domestic and U.S. pleasure and meeting and convention markets.

3. Outdoor/Sport/Adventure

This is a single destination trip to a natural area to engage in activities such as hiking, rafting, kayaking/canoeing, hunting, fishing, or skiing. A large proportion of this market will camp or stay in budget accommodation, visit parks and participate in recreational activities. A small market segment, preferring a wilderness/adventure type of experience, is willing to spend much more to access a wilderness location or to participate in an expensive or risky sport, e.g. rafting, skiing.

The bigger market seeks an easily accessible destination for a two to three day trip. The small wilderness/adventure market will take a longer trip and accessibility, in the accepted sense, is not a factor.

Demand for the outdoor product represents approximately 30% of total demand (8% from U.S., 91.7% domestic, 0.4% overseas).

Canada is well known as a fresh-water and deep-sea fishing and trophy hunting destination and is well-perceived as having wilderness product. Canadians prefer to consume this product in Canada. The U.S. market also shows a preference for the "close to home" product.

There are approximately 2700 hunting and fishing lodges in Canada, almost 70% of which are in Quebec and Ontario. It is estimated that about 40% of these establishments offer a superior product and that they are located in almost every province/territory. Revenue earned from foreign anglers in 1985 was \$446 million out of total revenues of \$4.4 billion.

Canada's image in the U.S. as a ski destination is poor. The overseas market, on the other hand, has a good image of the Canadian ski product. Canadian product has stiff competition from a large number of high quality ski resorts in the United States (Colorado, Vermont, New York, California).

There is international calibre ski product at Whistler, Blackcomb, Banff/Lake Louise, Mont Ste-Anne and the Laurentians. Canada has, over all, close to 300 ski centres for downhill skiing, over 50% of which are in Quebec and Ontario.

Skiing, hunting and fishing are very seasonal activities. The most competitive establishments operate at near capacity in the peak seasons but close or operate significantly under capacity in the off-peak seasons. Trends indicate that the market for these products is unlikely to grow significantly and that there is limited opportunity to increase revenues in this product area. However, opportunities may exist for these operations to develop off-peak season adventure/recreational activities and non-consumptive hunting/fishing.

Market trends suggest that there is potential to expand the market and increase revenues from the small, high-spending market segment interested in the wilderness/adventure product.

Canada has a definite competitive advantage in this area in terms of perception and in the quality of the product offered, particularly through its parks system. Parks in remote areas such as Baffin Island, the Queen Charlotte Islands, and Gros Morne in Newfoundland offer significant potential.

Our understanding of the market for the adventure/wilderness product and the status of the product in Canada is not sufficient. This product appears to offer significant potential for economic benefits particularly in less developed regions of Canada. One of our priorities should be to determine the extent of this potential,

with a view to developing and effectively packaging the adventure/wilderness product for the domestic and the international market.

4. Rural/Resort

A rural/resort vacation in Canada is a single destination trip to a rural area where the visitor is offered all vacation requirements (relaxation, sport, entertainment) at one facility. The market breaks into two distinct segments: one at the low end of the price scale which is the largest part of the group; the other a high-spending, sophisticated group. 96% of the market for this product is domestic and represents mainly campers, cottagers and farm/ranch vacations. The remaining 4% comes from the U.S. and overseas markets.

The important elements of the resort product sought by the smaller, higher-spending group are: water (oceans/lakes), beaches, high quality cuisine, nightlife, entertainment, water sports, golf, tennis, and shopping.

A resort is considered by the international market to be located in a hot, sunny climate by the ocean. Although Canada has an internationally competitive four-season resort product at Banff, Whistler and the Laurentians, these resorts are not perceived in the marketplace as "resorts" because of the lack of sun and sand. At the present time there is very little consumption of the Canadian product by international visitors.

In all markets there is a growing demand for some sort of resort product - the short getaway vacation for relaxation and recreation. This demand may be restricted to destinations that are close to home due to its relatively short duration, e.g. weekend travel. The potential market for Canada's resort product may therefore be restricted to North America, but this could be a large market segment in the future.

D. Other Product Elements

1. Parks

Canada's national parks, national historic parks and sites, Canadian heritage rivers and heritage canals are prime tourist attractions. In particular the 34 national parks and national park reserves are major generators of both domestic and international tourism and in fact dominate Canada's image abroad.

The national parks receive roughly 25 million visitors annually, who spend approximately \$300 million in and around the parks. Of this, \$50 million is spent by 2 million foreign visitors.

The contribution of the park system, natural and historical, federal and provincial, could be greater still. Opportunities exist for the tourism industry to work with park officials to develop interpretive services within parks which respond to and change with the market. For example, recent Parks Canada studies reveal a demand for retreats and safaris. The quality of amenities and services adjacent to parks, the packaging of park visits within tours, and the extension of operations into non-peak/shoulder seasons may also present opportunities to increase tourism.

2. Cruise

At the present time the cruise component of travel to Canada is very small representing approximately 1% of total revenue generation. The world cruise industry is expanding rapidly, with \$3 billion expected to be invested in the next five years. Cruise line marketing budgets are increasing at a rate of 25% per year and passenger counts are growing by 10% annually.

The cruise industry in Canada is in its very early stages of development. The major market for the Canadian product is in the U.S. Cruising is establishing itself primarily on the Pacific and Atlantic coasts, and along the St. Lawrence River, with some small operations on the Great Lakes. The economic costs and benefits are not fully understood of developing the cruise product in Canada either as a point of embarkation/supply with pre-and post-cruise tours, or as a series of stopovers.

Increasing demand, combined with the existence of rugged, scenic coastlines on both Canadian coasts, may offer an opportunity to attract increased visitation and revenues.

3. Heritage/Culture

An important component of the Canadian product is cultural distinctiveness. The results of the U.S. Pleasure Travel Market Study indicated that Americans come to Canada to see a foreign country which offers a different culture and way of life. This is, in large measure, what all foreign tourists expect to see.

The most important cultural attribute is heritage, as presented in museums, art galleries and historic sites. Canada's image in all markets in this area is not strong.

Canada has rich native and multicultural heritage, frontier and British/French historical origins with great appeal to the domestic and international visitor alike (Fortress Louisbourg, Upper Canada Village, Batoche National Historic Site, Fort Langley). Canada has more than 80 major national and many provincial/territorial historic parks and sites. The performing arts which offer another cultural dimension are also strong in many parts of Canada.

Events and attractions such as the Montreal Jazz Festival, Folklorama in Winnipeg, The Gathering of the Clans in Nova Scotia, and the Calgary Stampede are important cultural/heritage products. These events have a substantial economic benefit. Expenditure impacts are estimated to be approximately ten times the original investment for production and promotion. It has been concluded that these festivals and events are more effective in attracting visitors from outside the region than major international events.

Canada's cultural distinctiveness is not adequately highlighted or showcased. The development challenges are complex in this area as a new partnership is required to define the tourism cultural product and to link distribution and marketing efforts.

4. Major Events

Major events such as Expo '86 and the 1988 Calgary Winter Olympic Games have played an important role in tourism in Canada.

Although the events themselves are not always profitable, it is generally acknowledged that there are significant benefits in economic spinoffs and in creating awareness of the Canadian product. Huge costs are associated with staging Olympic Games with relatively little international visitation. However, the increased awareness of millions of television viewers around the world is well beyond our ability to create through other means.

Smaller, less-costly international exhibitions (King Tut, Picasso) are considered to be the most effective in generating increased tourism as they contribute considerably to the attractiveness) and "international calibre" of that destination.

VI. HORIZONTAL ISSUES

Financing/Investment

Access to adequate and appropriate financing is a key component of tourism product development. The prime source of both debt and equity capital is the private sector, although pools of capital available for the equity financing of small projects have also been provided by government programs. Recent government-industry studies have shown that access to debt financing, given the competitive environment in lending markets and governments' broad supplementary range of lending services, is not a problem for a tourism business with a viable and well-prepared business plan. Debt financing can be a problem for small operations located outside major urban centres where financial institutions are lacking the expertise/knowledge to properly evaluate tourism development proposals. Debt financing is also a problem where a business has an inadequate equity base (high debt to equity ratio).

Similarly, the concepts of equity and adequate capitalization are not always well-understood by small, less sophisticated businesses. Venture capital investments are concentrated around our major urban centres and do not usually address the needs of many early-stage companies or those seeking investments under \$500,000. For example, over a two year period ending in March 1987, offshore capital inflow for large projects is estimated at more than \$400 million, accounting for 42 acquisitions of existing plant and 25 new tourism installations.

Other factors identified as clearly hampering the industry's access to both debt and equity financing are: the lack of mechanisms to link the entrepreneurial opportunity with the investment funds available; the industry's low profile and image with the financial community; the lack of managerial skills in segments of the industry to prepare informed and convincing business plans; the lack of information or knowledge on the part of the entrepreneur to seek out creative financing

vehicles; and, of course, the "seasonality factor" and real and/or perceived below-average return on investment.

Every government jurisdiction, as well as the private sector, has in place financing instruments to meet some of the special needs and financing requirements in tourism development (e.g. FBDB, COIN, SBDCs, etc.). A federal-provincial working group has recently completed an inventory of the tried financing instruments in all jurisdictions and has assessed the applicability of 19 relatively new or yet untried financing schemes suggested by industry and financial community representatives in the Niagara Institute Study last year.

While the prime role of governments is to create a favourable climate for private sector and foreign investment, joint efforts with the industry and the financial community may be required to facilitate access to capital for vigorous product development and where necessary to bridge the gap between opportunities and the market's reaction to these opportunities with investment dollars.

Level of Service - Human Resources

Service is the key component of the tourism product. Unfriendly or poor service, untidy/unclean facilities, bad food, poorly organized excursions, lack of tourist information, a foreign visitor's inability to communicate, etc. will discourage a return visit and may lead to that person telling friends not to visit as well.

A superior level of service is dependent on two factors: an atmosphere of hospitality projected by the employees of the industry and by others encountered as the visitor travels in Canada; and the professionalism and level of skills possessed by the industry's employees.

In the realm of hospitality, Canada is perceived as a warm and friendly nation by the marketplace. Governments across Canada have implemented hospitality awareness programs for the general public and for industry such as Superhost in British Columbia, Goodness Gracious Prince Edward Island, "Bonjour" in Quebec and the Ambassador Program of Tourism Canada.

It is generally acknowledged that the hospitality extended by Canadians at major events such as Expo '67, Expo '86, Olympic Games, and the Quebec Winter Carnival is of the highest calibre. It is interesting to note that vast numbers of people working at these events are volunteers.

However, this high standard of hospitality does not always extend to the day-to-day business carried on in tourism establishments, and in businesses indirectly related to tourism such as taxis and retail stores.

Canada's tourism labour force is not well trained, is not well compensated, and suffers from high turnover levels, a lack of mobility, a lack of career opportunity and a poor image. Impending labour shortages will exacerbate these problems. This is not a situation conducive to the provision of superior levels of service.

Governments and industry have begun to turn their attention to these problems. Standards are being developed to define acceptable levels of service and to describe the skills and knowledge required to perform specific jobs in the industry. New organizations are being set up to address the education and training needs of the industry. Industry is beginning to try to change its poor image as an employer and to encourage prospective employees to consider tourism as a career choice. Much, however, remains to be done in this area.

One means of encouraging, implementing and communicating a high standard and level of service is through grading or classification of tourism operations - the

"Michelin" approach. Such standards are well known by the travelling public and by industry. They attract visitors, and provide an incentive to operators to achieve higher standards.

Integration and Packaging

Individual sectors are responding to market shifts. For example, large hotels are providing the business traveller with an environment which facilitates modern business requirements. However, the various sectors - hotels, restaurants, theatres, museums, etc. - are not putting their products together to provide easy access to them by the tourist.

Most international visitors want to see as much as possible during a trip. All elements of the product must be integrated so that they are available and easily accessible to the visitor. Operators must be sensitive to the desires and requirements of their clientele and match product elements to market demand. This is particularly challenging in terms of the growing numbers of independent travellers.

Asian markets have tended to travel as part of organized escorted tours. As this market grows there may be more demand for this kind of packaging.

Innovation and Technology

The tourism industry has not been an industry sector quick to adapt new technologies to its business practices. Large hotel chains and airline companies are the exceptions with computerized front office reservations systems, cost control and inventory systems, and airline reservations systems. The small operations, 85% of tourism businesses, are not making optimal use of these advanced technologies.

The labour-intensive tourism industry with relatively inexpensive labour costs has not needed to adopt new technologies in the past in order to remain competitive. This situation will change as the traditional pool of young, part-time labour dries up and is already becoming serious in certain parts of the country. It is in these areas that some dishwashers are now being paid \$12.00 per hour to operate advanced dishwashing machinery, and micro computers are allowing reservations personnel to work at home. The labour shortage is forcing industry to find innovative ways of delivering the same service with fewer employees.

Information technology could be adopted to assist in packaging and product integration in the same way that travel agents use airline reservations systems. Climate-controlled environments can also be considered to extend seasons by making certain products more attractive in the shoulder and winter seasons.

The industry should also begin to plan for changes in consumption patterns that will be brought about by aircraft, now on the drawing board, which by the year 2000 will reduce travel time across the Atlantic and Pacific oceans to two to three hours.

Seasonality/Capacity

Much of the industry is operating at near capacity during peak seasons. In some areas business is being turned away because of a lack of sufficient capacity during peak seasons. However, these same operations are closed or are operating well under capacity during non-peak seasons.

Do we build more capacity for the peaks or should we concentrate on spreading business more evenly over the entire year?

The importance of touring which is easily a spring, summer and fall activity, the disappearance of the traditional summer traveller, the trend toward shorter, more frequent vacations, and the potential for the four-season resort product, all suggest that expansion can take place through extension of the peak seasons. Tourism Canada, with its advertising partners, has had some success in encouraging increased visitation in the shoulder spring and fall seasons.

Operators who would normally close in an off-season must have a reason to remain open. If all elements of the product were carefully linked and promoted, all operations could remain open. Climate controlled environments, and product integration and packaging would be key to the success of this approach.

The Environment

Canada's strength in international markets is its scenic beauty, its wide open spaces and clean, safe cities. It is obvious that the environment in which the product is situated is important to the marketplace. Increasing urbanization of the world's populations will increase the demand for our wide open spaces. This environment is one of our major assets and must be preserved for Canadians and for tourists alike.

Conflict often exists between tourism developers and environmental protectionists with seemingly conflicting objectives. Protection of the environment has traditionally been one of the primary concerns of Canadians. Regulation and control of the environment reflects the importance that governments place in this area in response to these concerns. A well-balanced approach to development, concerned with maximum benefits for visitors and, ensuring complete protection of our environment must be our goal.

A large proportion of the market has also expressed its desire to walk and stroll

through small towns and villages. Here again the man-made environment should be maintained at its peak to provide a pleasing experience for residents and tourists.

Information on Product and Competition

The level of knowledge in government and industry of the product in Canada and its relative competitiveness against similar product in other countries is not high.

In a very competitive tourism market, good quality information is essential for rigorous tourism development planning, and to create a climate which attracts capital. Good information exists concerning the market, but information on the product is inadequate.

Improved information would help to remove boundaries imposed by municipal, provincial and federal jurisdictions which hinder development of natural tourism regions which cross those boundaries and which confuse the tourist.

A number of initiatives have been taken - the National Task Force on Tourism Data, the resulting Satellite Account, and the Canadian Tourism Research Institute. However, much more needs to be done, particularly in the area of competitive analysis.

VII. TO MEET THE CHALLENGES

In a global environment where our existing and potential markets present us with our strongest competition, the success of the Canadian tourism industry resides in its capacity and willingness to:

- adapt the existing product to changes in the demands of the market place;
- develop new product for "gaps" where significant revenue-generating potential exists; and,
- provide the best possible service to a clientele with a variety of distinct needs and changing tastes.

In order to meet the challenges, it is proposed that Canada should:

- **enhance** established international touring destination regions: Windsor-Quebec City Corridor; the Rocky Mountain National Parks; the B.C. Lower Mainland/Southern Vancouver Region;
- **develop** potential touring products in distinctive areas such as the Maritimes, the Southern Rockies, the B.C. Interior, the Alaska Highway and the Prairies;
- **package and integrate** product in our major gateway cities (particularly Montreal and Vancouver, to a lesser extent Toronto) as stop-overs on international tours, as part of the Canadian touring product, and for the short-trip traveller;
- **upgrade, develop and package** attractions and events within other cities such as

Quebec, Ottawa, Halifax, Winnipeg, Calgary, Edmonton, and Victoria - particularly as part of the touring product;

- **increase** the use of the parks system, historic sites and natural preservation areas mainly through the development of complementary services in surrounding areas, the positioning of the parks product in general interest and themed tours and for adventure travel, and through the extension of seasons;
- **develop** major exotic and unique destinations in Newfoundland, the Queen Charlotte Islands, and the North;
- **upgrade** the Canadian resort product to international calibre, offering a full range of recreational activities, and special services such as local cuisine and health/fitness facilities on a year-round basis;
- **assess** product development costs and benefits of specialized market segments, such as adventure and cruise (West and East coasts, Seaway and Great lakes);
- **identify and eliminate** constraints to the increase of tourism in the shoulder seasons and explore ways in which the winter, spring and fall products can be upgraded and packaged.
- **improve** the match between development opportunities and capital available by: ensuring rigorous tourism development planning around destination areas by industry and government; gathering and analysing improved product and market information; and, enhancing the image and awareness of the industry in the financial community;
- **improve** the quality of service through human resource management and development;

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- **stimulate** innovation and technology application within the tourism sector, mainly in the small and medium-sized businesses;
 - **introduce** consistency in the design and application of classification standards particularly within touring regions.