A Strategy For The Development Of The Northwest Territories Tourism Industry

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1988

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1.0 INTRODUCTION

Tourism is one of the fastest growing industries in North America. By the year 2000 many experts have predicted that tourism will be one of the largest industries in the world.

Rising incomes, longer lifespans, earl ier retirement and reduced airfares are some of the factors impacting on the increasing demand for travel. More and more, North America is perceived as a "safe" destination. The packaging of and product base for tourism have expanded significantly. One of North America's fastest growing travel products is adventure travel, particularly for residents of large urban centres. Travelers want to experience different lifestyles and cultures. There is also a growing trend towards vacations that have an element of physical activity such as hiking, canoeing and treking.

For the Northwest Territories, tourism is rapidly becoming a growth industry. In the future, tourism could become one of the NWT's leading exports. However, unlike mineral export commodities, tourism is a renewable resource that is both environmentally and culturally compatible with the north. The basis for the NWT's tourism industry is really the land, the people and its culture. That is what makes the NWT different and that is precisely what tourists are interested in.

This document is really a situational analysis of the NWT's present tourist industry, describing its structure, impact and its current direction. An assessment of both constraints and opportunities facing the industry are also examined. Lastly, recommendations are made regarding the strategic direction that the industry should take in ameliorating constraints and building on opportunities.

2.0 WHAT IS TOURISM?

Tourism means different things to different people. It is a product that virtually everyone has been exposed to. It is a topic that most people have an opinion on, especial ly in the NWT where most residents have been exposed to travel. However it is an industry that few people understand, especially from the product or operator side. it impacts on several businesses from airlines, to hotels, to crafts producers and to restaurants. The consumer or traveller views travel as a single product but the industry often does not have the same viewpoint and views tourism solely from the perspective of their own individual business.

As a result tourism is one of the most difficult industries to coordinate in achieving economic goals. Consequently, there is a real need to overcome this problem at the industry level through the creation of such organizations as travel industry associations or at the product level where package tours or tour operators can organize, develop and manage travel products that can be consumed by the marketplace.

2.1 A Definition of a Tourist

The currently acceptable definition of a tourist in Canada, as established by Statistics Canada, is anyone who takes a trip of 80 km or greater for whatever reason. Using this definition, it means both NWT residents and non-residents are tourists.

While most of our development efforts focused on attracting non-residents to the NWT, it is important to remember that

NWT residents are also very important to our tourism or travel industry. The same airlines, the same hotels and the same restaurants serve both resident and non-resident travel lers. In most cases it has been the resident traveller that has given rise to the development of basic infrastructure such as accommodate ion and transportation services that also serve the non-resident travel market.

As shown in the following table, the NWT resident travel market is actually the largest travel market currently served by the NWT's travel industry:

TABLE 1

Estimated Annual Resident and Non-Resident Travel Volume To and in the NWT 1986

Travel Market	Number of Person-Trips	%
NWT Resident Travel [1]	101,200	55.7%
Non-Resident Travel		
. Business Travel[2]	46,730	25.7%
. Pleasure and Related Travel [3]	33,688	18. 6%
Total Travel Market	181,618	00.0%

1) Assumes NWT residents make an average 2.3 trips annually within the NWT.

2) Assumes that November to May non-resident business travel is equal to recorded June to September business travel of 23,336 trips to the NWT, 1986.

3) Assumes recorded June through September pleasure and related travel represents 85% of annual non-resident pleasure travel to the NWT, 1986.

Source: A Product Development Plan for the Northwest Territories' Tourism Industry.

Comparatively, the NWT captures a much higher percentage of non -resident trips than sou them Canadian provinces where for most provinces resident travel accounts for 60% or greater of total annual travel volume. Comparative y the NWT's non-resident travel market is more important than in the case of southern provinces.

2.2 Tourism Industry Structure

Tourism is no different than any other industry in that it consists of a demand (market) side and a supply (product) side. As indicated previously the demand side of the NWT's tourist industry consists principally of resident and non-resident travel market demand. The supply side of the industry is composed of a number of sectors as shown in Figure 1.

The impact of tourism on each of these sectors can vary significant y. In the case of accommodation, almost 100% of sales are related to tourists, while in the case of restaurants and taxis 30% of sales revenue is derived from tourists themselves.

The significance of tourism to various regions within the NWT also varies considerably. As shown in the following figure, the Fort Smith region accounts for the vast majority (60%) of visitor expend iture captured by the NW T's travel industry.

FIGURE 1

Tourist Industry Supply Side Components

Accommodation:

- Hotels
- Resorts
- Motels
- Lodges
- Fishing/ Hunting Camps
- Outfitters
- Campgrounds

Attractions:

- Man-made
- Historical
- Cultural
- Biological
- Tours
- National Parks

Events:

- Cultural
- Historical
- Recreational/ Sports
- Sports
- Festivals

Food & Beverage Sector: -

- Restaurants
- Night Clubs
- Theatres
- Take Out/Delivery Food Service
- Accommodation-Related . Food and Beverage Services

Recreational Activities/ Adventure Products:

- Skiing
- Fishing
- Rafting
- Boating
- Hiking

Transportation

- Airlines
- Bus
- Private Auto
- Ferries
- Taxis
- Car Rentals
- RV and ATV Rentals
- Boat Rentals

Travel Trade:

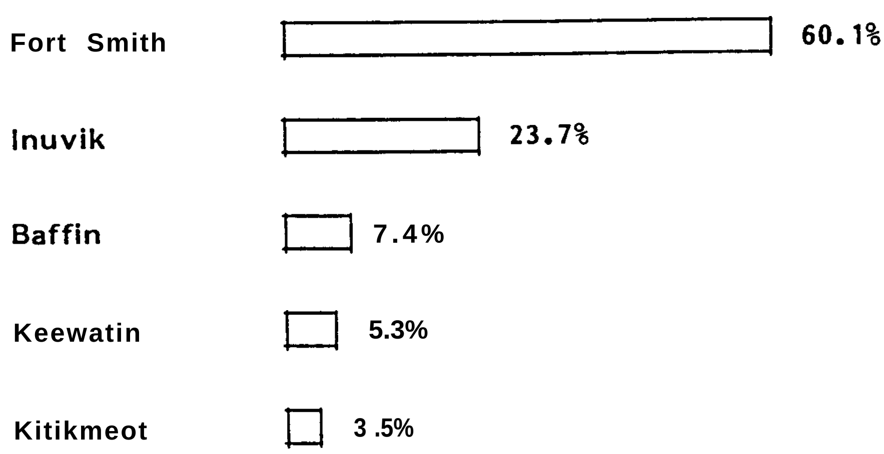
- Tour Operators
- Tour Wholesalers
- Travel Agents
- Consultants
- Tourist Associations

Auxiliary Services

- Outfitters
- Medical
- Souvenirs
- Banking
- Travel Information Services
- other Retail (crafts, gifts, etc.)

FIGURE 2

Distribution of Tourist Travel Expenditures in the NWT



3.0 THE ECONOMIC SIGNIFICANCE OF THE NWT'S TOURISM INDUSTRY

Tourism is a $119.5 Million Industry for the NWT

Annual expenditure that is captured by the NWT's travel industry is estimated to be $119.5 million:

TABLE 2

Estimated Annual Tourism Expenditure Generated by the NWT's Tourism Industry

Non-Resident Travel [1]	**$ 73,348,178**
Resident Travel [2]	**46,172,500**
Total Expenditure	$ 119,520,678

1) Assumes $912.50 per trip.

2) **Assumes resident trip expenditure is 50% of non-resident per trip expenditure.**

Tourism Accounts for Almost 11% of the NWT's GNP

The NWT's GNP is currently valued at $1.1 billion. At $119.5 million in expenditure, tourism accounts for almost 11% of the NWT's GNP.

Tourism Employs an Estimated 2,500 People in the NWT

It is difficult to determine the employment impact that tourism has on the NWT's economy. Tourism impacts on several sectors of the NWT's economy including transportation, accommodation, food and beverage, retail-wholesale, arts and crafts production and tourism travel services such as travel agents, guides and package tour operators.

For 1986, Statistics Canada's Labour Force Survey estimated that there were an estimated 1,310 persons in the NWT's accommodation, food and beverage sector. Generally, the accommodation, food and beverage sector accounts for 54% of total tourism industry employment.[1] As a result, the NWT's tourism industry would employ 2,426 people, making it one of the largest private sector empioyees in the NWT.

Another measurement instrument to determine tourism employment in the NWT is tourism expenditure impact models developed by Tourism Canada. The total economic value of the NWT's tourism industry measured in tourism expenditure generated by both resident and non-resident travel is estimated to be $119.5 million annually. Based on Tourism Canada's TIM model where $1 million in tourism expenditure results in 21.62 person years of direct employment, the NWT's tourism industry would directly employ 2, 583 people.

As a result given that these two measurement instruments have produced similar estimates of tourism employment, it would be reasonable to assume that the NWT's tourism industry employs 2,500 people.

Table 3 shows the distribution of the NWT's tourism industry employment by sector and by zone.

Tourism is the **NWT's** Largest 'Private Sector Employer

There are an estimated 20,950 people in the NWT's employed labour force (1986 estimate). As a result tourism accounts for almost 12% of the NWT's employed labour force.

1 Tourism Canada's Tourism Impact Model.

TABLE 3

ESTIMATE OF NWT TOURISM INDUSTRY EMPLOYMENT

1986-1987

Zone	Hotel/Motel Sector					Lodge/Tent Camp Sector				Outfitting Sector				Restaurant Sector	All Other Tourism Industry	Total	
			Employment			Employment				Employment							
	#	# of Rooms	Perm.	Temp.	Person Years	#	Perm.	Temp.	Person Years	#	Perm.	Temp.	Person Years	Employment in Person Years	Employment in Person Years	Employment in Person Years	%
Baffin	16	274	77	36	86	4	19	47	31	20	50	66	67	86	90	360	14.3
Keewatin	12	90	37	17	41	11	33	83	54	14	35	46	47	41	61	244	9.7
W. Arctic	14	250	77	36	86	5	15	37	24	9	10	28	17	86	71	284	11.3
Big River	16	392	116	55	130	13	33	52	46	17	20	53	33	130	113	452	18.0
N. Frontier	10	415	192	73	210	21	56	571	199	22	88	101	I 13	210	244	976	38.9
Arctic Coast	6	57	31	27	38	5	16	36	25	14	35	46	47	38	49	197	7.8
Total	74	1,478	530	244	591	#91	172	826	379	96	238	340	324	591	628	2,513	100.0

1. Hotel, lodge and outfitting sector employment estimate derived from NWT Product Development Strategy, 1987.

2. Temporary employment is assumed to be 25% of one person year of permanent employment.

3. The NWT restaurant sector is assumed to employ the same person years of employment as the hotel/ motel sector.

4. All other industry employment is assumed to be 25% of total industry employment. It includes the following kinds of businesses:

   . Retail / Crafts Sales

   . Transportation

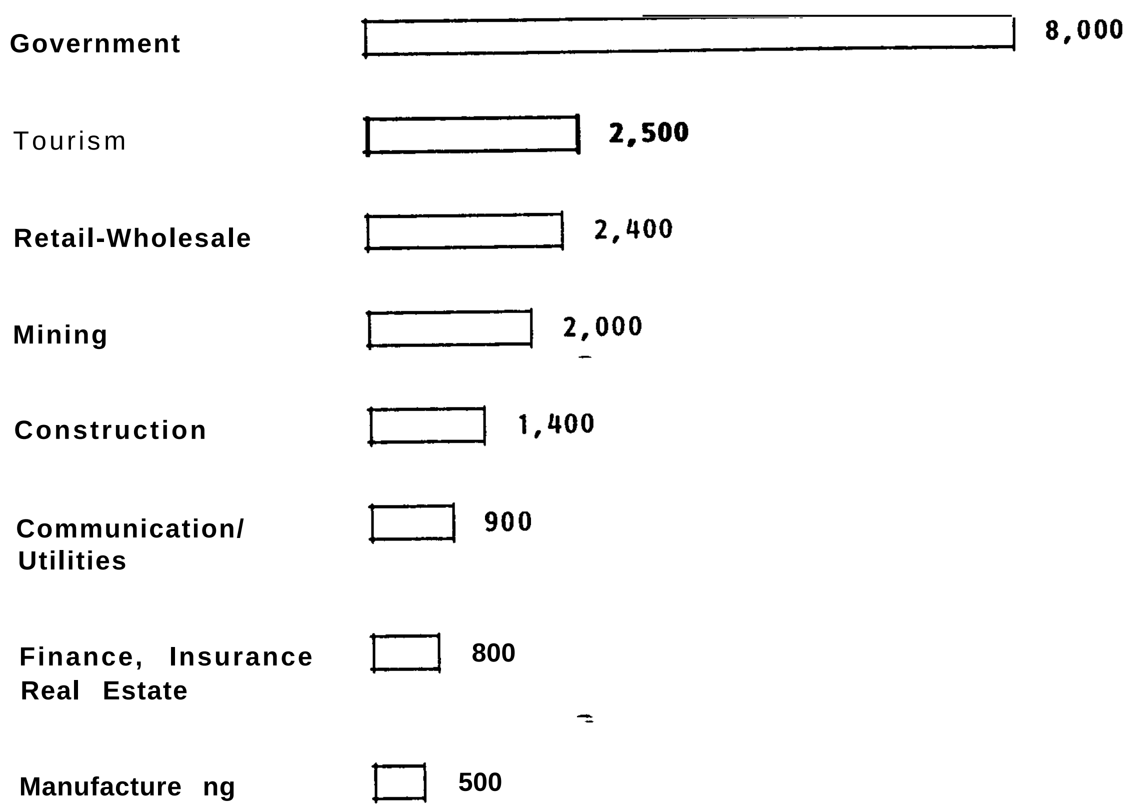
     - Airlines/Charters
     - Taxis
     - Rentals
     - Buses

   . Travel Associations and Travel/Tour Companies

   . Other Employment not elsewhere classified.

FIGURE 3

Employment by Industry Sector in the NWT



The NWT's Travel Industry Generates $56.2 Million in Tax Revenue Annually to Government

Lastly, both the Territorial and Federal governments are major stakeholders in the NWT's tourism industry by way of the revenue it creates for government through taxation and licensing. As shown in the following table the federal government is the principal beneficiary.

TABLE 4

Government Revenues of the NWT's Travel Industry
1986

	(in 000, 000's)
Federal Government Revenues [1]	**$ 35.9**
Territorial Government Revenue-s [1]	**$ 20.3**
Total Government Revenue	$ 56.2

1) For every one dollar of tourism expenditure 30¢ in federal tax revenue is created.

2) For every one dollar of tourism expenditure 7¢ in territorial tax revenue is created.

4.0 TOURISM AS AN EXPORT INDUSTRY FOR THE NWT

The Non-Resident Pleasure Travel Market Presents the Best Opportunity for Industry Travel Export Developments

The growth in the NWT's tourism industry is dependent upon both the domestic (NWT resident) and export (non-NWT resident) markets. The domestic market for the NWT's travel industry is largely dependent upon such factors as population growth and the general health of the NWT's economy. As a result it is difficult, as a Government, to strategically intervene in the domestic market to influence the development and growth of the industry as most factors affecting the domestic travel market are beyond Government's control.

Virtually all economies achieve real economic growth through export development. While the NWT's domestic market (especially NWT business travel) has been–important to the NWT in establishing tourism infrastructure such as hotels and restaurants, it will be the non-resident pleasure travel market that will provide opportunities for industry growth and export development.

The Current Level of Summer 'Pleasure Travel to the NWT is Only 26,000 Person Trips Annually

Non-resident pleasure travel to the NWT is highly seasonal. It is estimated that the period June through September accounts for 85% of all annual non-resident pleasure travel to the NWT. There has been only limited success in developing shoulder season pleasure travel.

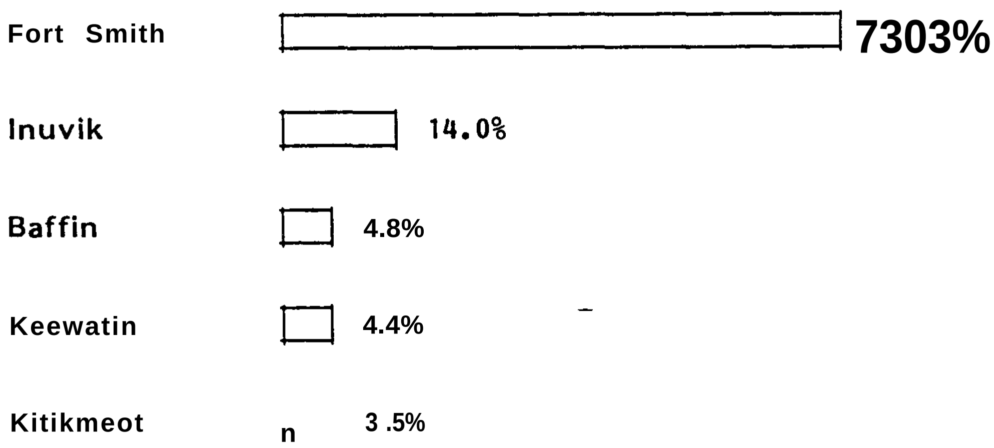
It is currently estimated that there were 25,718 pleasure travel trips made by non-residents to the NWT in 1986.

The Fort Smith Region Accounts for the Vast Majority of Non-Resident Pleasure Travel Trips Captured by the NWT

As shown in the following figure, the Fort Smith region captures 73% of all non-resident pleasure travel trips made to the NWT.

FIGURE 4

Distribution of Non-Resident Pleasure Trips to the NWT



The Value of Summer Pleasure -Travel to the **NWT** is $24.6 Million

The average trip expenditure associated with non-resident travel to the NW T during the summer is very high at $958.10 per trip. Based on an estimated summer travel trip volume of 25,718 visitors, the expenditure value for non-resident pleasure travel is $24,640,416. While non-resident pleasure travel to the NWT represents only 14% of all resident and non-resident travel volume to and in the NWT, it accounts for almost 25% of total travel receipts captured by the industr-y.

NWT Pleasure Travel Exports Should be Based on Value Not Volume

Comparatively the volume of non-resident travel to the NWT is very low. At the present time, non-resident travel volume to the NWT represents only 11% of the Yukon's non-resident travel volume. However, in terms of actual visitor expenditure captured, the NWT does significantly better than the Yukon as the average trip expenditure for NWT pleasure travel is almost five times as great as in the case of the Yukon. Clearly the NWT should not necessarily be seeking travel volume as much as it should be seeking markets for the type of higher-valued tourism experience it has to sell. This is also desirable in terms of the NWT's community structure as many NWT communities could not accommodate (nor would they want to) large volumes of tourists.

5.0 THE NWT'S PLEASURE TRAVEL PRODUCTS

The NWT's pleasure travel products fall into two broad categories:

- Outdoor/ Adventure Travel
- General Touring

5.1 Outdoor/Adventure Travel

At the present time 45% of all pleasure travel to the NWT could be described as outdoor/adventure travel. Outdoor /adventure travel is further segmented along consumptive and non-consumptive product lines.

Consumptive Outdoor/Adventure Travel

- Fishing
- Hunting

Non-Consumptive Outdoor/Adventure Travel

- Wildlife Viewing
- Outdoor Recreation (Camping, Hiking, Canoeing)
- Naturalist Expeditions
- Photo Safaris
- Adventure Experiences (Rafting, Kayaking, Dog Sledding)

5.2 General Touring

General Touring is currently the NWT's most popular product, accounting for 55% of all 'pleasure travel to the NWT.

There are two types of touring: independent and packaged touring trips. Independent touring is more characteristic of the Yukon and southern markets. It is dominated by the "rubber-tire" traveller which accounts for over 75% of the touring market. For the Western Arctic and Fort Smith Regions it has been the largest pleasure travel market. Independent touring is largely associated with auto touring the MacKenzie and Dempster Highways.

Packaged touring is more typical of the NWT's non-road accessible regions such as the Baffin. General packaged touring contains the most overall product providing a broad interpretation of the NWT's wildlife, scenery, culture and history. Tours have been developed from day-trips to five-day tours. The Keewatin and the Baffin have been the most active zones in the NWT in terms of developing packaged tour products. Table 5 indicates the current distribution of travel products by type of trip taken to each of the five zones.

TABLE 5

Zone Pleasure Travel Products by Type of Trip Taken

(Estimate for 1986-87)

(Person Trips)

	Baffin		Keewatin		Fort Smith		Inuvik		Kitikmeot		Total NWT	
	#	%	#	%	#	%	#	%	#	%	#	%
Outdoor Adventure Travel												
. Fishing/ Hunting	**200**	**1 2'.3%**	**70$ '**	**47. o%**	**4,060**	**22! 2%**	**637**	**14. 5%**	**200**	**33. 3%**	**5,745**	**21. 8%**
. Adventure Travel	**700**	**50. 7%**	**45**	**3. o%**	**5,000**	**27. 8%**	**50**	**1. 1%**	**400**	**66. 7%**	**6,195**	**23. 5%**
General Touring	**900**	**37. o%**	**752**	**50. o%**	**9,000**	**50. O%**	**3,720**	**84. 4%**	**o**	**0. o%**	**14,372**	**54. 6%**
Total	1,800	100.0%	1,505	100.0%	18,000	100.0%	4,407	**100.0%**	**600**	100.0%	26,313	100.0%

Sources: Baffin and Keewatin - Economic. Development and Tourism, Regional Offices.
Western Arctic - Consultants Estimate, Western Arctic Tourism Development and Market Strategy (Draft) - MacLaren Plansearch.
Fort Smith, Kitikmeot - DMCA estimates.

Note: Baffin pleasure travel includes non-peak pleasure travel. The shoulders, especially Spring, account for 30% of the Baffin's annual pleasure travel visitation. Also in the case of Baffin these estimates are based on 1987 packaged pleasure travel.

6.0 DEVELOPMENT OPPORTUNITIES

6.1 Development Potential

In 1987, the Government of the Northwest Territories and the Tourism Industry Association of the NWT jointly undertook the development of a Product Development Plan for the Northwest Territories' Tourism Industry. The following table displays existing trips, by product, currently captured by the NWT's pleasure travel industry against the actual trip potential that is available in North America for the type of travel products offered by the NWT.

TABLE 6

Estimated Pleasure Travel Trip Potential for
NWT Tourism Products "

	Existing Pleasure Travel Trips Captured	Estimated North American Market Potential			Current **NWT** Penetration Rate
		Canada	U.S.	Total	
Outdoor / Adventure Travel	--				
. Fishing/ Hunting	5,745	5,620	22,480	28,000	**20. 4%**
. Non-Consumptive Adventure Products	6, 195 -	14,600	32,000	46,600	**13. 3%**
General Touring	14,372	32,636	46,000	78,636	**18. 3%**
Total	26,313	52,856	100,000	153,336	**17.2%**

Clearly, the NWT has significant market potential to develop its pleasure travel industry. In the case of outdoor/adventure products, the U. S. holds the greatest market potential. In the case of general touring, the U.S. market is still the

largest market but Canadian pleasure travel, especially the prairie provinces and Ontario, will be important to future industry growth. This will vary at the individual zone level. For the Keewatin and Baffin the U. S. packaged touring market will be considerably more important than in the case of the Fort Smith region in capturing general touring travel. In the case of the Western Arctic, the American independent touring market wil I be an important market segment, whereas the Fort Smith zone will continue to rely primarily on the prairie provinces, especial ly Alberta, for independent road travel.

6.2 Economic Impact

The following table displays the principal economic benefits that would result from improved market penetration. Three scenarios are displayed ;- the current industry market penetration, a doubling of current market penetration and finally moving towards a point where the NWT captures 50% of the potential market that is available for NWT travel products. The second scenario could be achieved in the next five years through aggressive marketing and further product development. The third scenario is really a longer term goal requiring not only greater awareness in the marketplace but also significant improvement to both- tourism product and tourism product delivery such as the development of world class attractions and tour packages of acknowledged world stature.

Clearly, the development of the NWT's pleasure travel industry holds significant economic potential. The employment impacts I isted in Table 7 are measured in person years (i.e.

full time/year round employment). [n reality, most employment that is associated with the NWT's pleasure travel industry is part time which is largely due to the seasonal nature of the industry in the North. As a result the actual emp loyment impact in terms of job creation wit I be four times as great as shown in this table.

TABLE 7

Economic Impacts Resulting from the Development of the NWT's Tourism Industry

	Scenario		
	#1	#2	#3
	Current [redacted] Market Penetration	Doubling Current Market Penetration	Achieving 50% of Available N.A. Market Potential
Market Penetration Rate	17. 2%	34.4%	50. o%
Number of Pleasure Trips	26,313	52,626	76,668
Estimated Tourism Expenditure	$ 25,210,485	$ 50,420,971	$ 73,455,611
Direct Employment (in person years)	529.2	1,058.4	1,543.5
Tax Revenue	$ 9,327,880	$ 18,655,759	$ 27,178,567

Tourism offers a number of advantages for economic development. The industry is labour intensive in areas which are compatible with many existing native skills (eg. guiding). [t offers substantial spin-off benefits for related resident industries, including native arts and crafts, aircraft charters, support industries and many others. Small firms can enter the industry with comparatively little capital and remain small but profitable. And it is one of the few sectors in which an exotic northerly location is as much a benefit as a hindrance to development.

Moreover, tourism has a solid record of weathering economic declines in the NWT. Gross tourism revenues remained constant from 1982 to 1983 in the face of real economic declines in other sectors, reflecting the inherent stabi lity of the tourism industry. The tourism industry may slow down but serious reversals are race and the industry is quite resilient.

This record for economic stability is particularly attractive *now* that slumps in world mineral and petroleum prices have caused severe recession in the industrial sector. Minerals and hydrocarbons rank first and second in their contribution to the economy of the NWT, thus the need for diversification is particular-l y urgent.

Although tourism is seasonal, the revenues it generates can be expected to augment many business incomes rather than make them fully dependent upon tourism. Similarly, the seasonality of tourism employment dovetails wel I with other territorial wage and traditional pursuits, and can provide young people, especially, with the employment experience and skills they require to move later on to higher paying full-time employment in other sectors or to entrepreneurial ventures of their own.

The following summarizes the key strengths and opportunities for the development of the industry.

- The identified market potential is clearly there for the NWT to build its pleasure travel industry.
- The industry is labour intensive involving modest entry level skills, thereby offering job opportunities for NWT residents.
- Many tourism businesses can be small scale, offering realistic entrepreneurship opportunities for NWT residents.
- The tourism industry is renewable and essentially non-polluting.
- Tourism can provide both economic stability and diversity of the" NWT's economy.

7.0 DEVELOPMENT CONSTRAINTS

The NWT's pleasure travel industry, at this point, is still a nascent industry. It is also a relatively new industry to some zones and to many communities. The NWT faces major problems in both market awareness and product delivery. In order to realize both market potential and resulting economic benefits the NWT will have to overcome a number of constraints.

Market Awareness

As a tourist destination, the NWT has a low awareness in the U.S.A. and other countries. Even within Canada, the NWT has to overcome its lack of awareness as a pleasure travel destination.

Limited Development of Packaged Tours

For many NWT destinations, packaged tours represent the only viable approach to developing pleasure travel. For the most part, package tour products have been slow to develop in the NWT.

Several NWT Destinations and-Attractions Can Not Absorb Greatly Increased Pleasure Travel Volume

Both the quality and quantity of accommodate ion facilities cur rentl y available does not p-rovide the NW T with the capacity for increased pleasure travel volume. For some destinations there is a further constraint in that summer also means that there are conflicts bet ween the construction crew and tourist demand for accommodate ion faci l i ties. In addition some of the NWT's best attractions, such as the Nahanni and Auyuittuq National Parks, can only experience limited visitation due to Park Management policies.

Human Resources Are a Major Constraint to an Expanded Pleasure Travel Industry

Perhaps the single largest constraint to tourist industry development in the NWT Is the ability of the NWT to deliver tourism products. Training is required at virtually all levels of the industry from marketing to management and to servicing tourists.

Tourism Organizations, Sales and Distribution Systems Are Inadequately Developed

The NWT must compete in world markets **for the outdoor, adventure travel market. This requires the development of sophisticated sales and distribution systems for the NWT tourism products.** However, **such systems have been slow to develop.**