

Canadian Club of Montreal

International tourism:
A Vastly Changing Market

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Ladies and gentlemen,

The tourism industry is becoming increasingly important worldwide, including in Canada. The economic benefits of tourism, although subtle in some cases, are nonetheless significant. They are vital to the economies of entire nations, of large cities such as Montreal and, very importantly, to *those of regions*. This will become increasingly true in the future because the tourism market is poised for continued growth. The expansion of economic tourism in the past 50 years can be attributed to four major phenomena:

- Improvements in standard of living; a growing number of people are financially able to and feel the need to travel.
- Travel is becoming increasingly easy.
- The baby boom.
- And, a more recent occurrence, the gradual breakdown of barriers put up by authoritarian regimes.

International tourism, with which I am most concerned because it is my profession, has experienced virtually uninterrupted growth. The World Tourism Organization, a United Nations institution, forecasts that the industry will grow at an annual rate of more than 4%¹ in the next few years.

In Canada, the tourism industry is estimated to contribute more than \$200 billion to the economy². Receipts alone account for \$55 billion.

Over the last few years, tourism economics worldwide has undergone some dramatic changes — even more dramatic than in the past.

Naturally, the terrorist attacks on September 11, 2001, the SARS crisis in 2003, the tsunami in late 2004 and other catastrophes have had a strong impact on the industry. However, what I am referring to as changes in this case are the less dramatic events that don't grab the headlines but bring about or herald transformation that is *sustainable and laden with consequences*.

Market evolution

The first is the *metamorphosis* of the industry's customers.

¹ Exactly 4.1% (Tourism Highlights, 2005 edition, World Tourism Organization).

² World Travel & Tourism Council.

On the one hand, we have the traditional *sources* of tourists that have almost matured and are slowing down in growth, and on the other, the new feeder markets, particularly Asia, that are taking over.

The market is changing and all destinations worldwide, including Canada, are having to adjust their strategies in order to avoid a decline in their share of the international tourism market. In fact, this is already the case here in Canada: our market share is currently melting.

Approximately three-quarters of foreigners who visit Canada hail from the United States. Unfortunately, we are currently experiencing problems with this particular market segment . . . after a few years of near stagnation, it seems to be heading for a *decline*!

In 2004, 15.1 million American tourists visited Canada; this figure is virtually unchanged from 2000 (15.2 million) and only about 1% higher than in 1998 (14.9 million)³! And, more troubling, preliminary data for 2005 point to a decrease of approximately 5%⁴ from 2004! This is bad news and it is of major concern to the industry. This is especially the case because American tourists as a whole are spending more abroad; a fact that suggests they are simply opting to travel to different destinations⁵.

Canada, and especially Quebec, has lived through a golden age for French tourism. We reached the peak of this period in 1996 with approximately 460,000 visitors. Since then, demand has slowed, and in 2004, about 337,000 French tourists travelled to Canada, a decrease of over 25% in 10 years⁶.

In addition to the Americans, the English and the French, Germans, Japanese, Australians, South Koreans and Mexicans currently account for the majority of tourists visiting Canada. In the future, this still-relative blend will become more manifest; that's if we play our cards right.

According to estimates, the number of Chinese tourists worldwide is set to hit 100 million in the near future. In 2004, the volume of tourists from Asia climbed 25%. In 2003, spending by Japanese tourists rose 25%, while Russians spent 15% more.

The population of the Russian Federation stands at 145 million and that of China at 1.3 billion. Russians and Chinese currently spend about US\$15 billion abroad each year⁷. This figure may seem high at first glance. However, you will think quite differently when I tell you that Canadians, with a population four times smaller than that of Russia, spend about the same

³ Industry Canada and the Canadian Tourism Commission.

⁴ Canadian Tourism Commission, preliminary combined data on business and leisure travel for a 10-month period only. Trips completed by road are estimated to drop by approximately 7%.

⁵ A 14.3% increase in 2004 (compared to 2003), according to the World Tourism Organization.

⁶ Canadian Tourism Commission.

⁷ Chinese and Russian tourists spent approximately US\$15.2 billion and US\$15.7 billion respectively in 2004 (WTO).

amount and that the Dutch⁸, who number 16 million in total, spend roughly the same \$15 billion abroad.

In other words, although both gigantic countries, Russia and China are virtual untouched markets where international tourism is in its infancy.

With regard to Canada, there is little doubt that our natural markets are declining and the most significant growth potential lies in emerging markets that we know less well.

The *origin* of tourists is not the only aspect that is changing; their destinations are also changing.

Asia — especially Southeast Asia — Africa and Eastern Europe are becoming increasingly popular destinations. Naturally there are fluctuations when events such as the tsunami occur, but there is little doubt that the general trend is pointing upward.

In 2004, there were 82 million more tourists worldwide than in 2000. In fact, 2004 was a record year with 763 million international tourists. However, during that five-year period, the number of people travelling to America and Western Europe *dropped* in real terms, while the figures for Asia⁹ rose 30%.

The World Tourism Organization even goes as far as to estimate that for the 25-year period between 1995 and 2020, the share of the market held by North America and Europe will *drop* while that of the more exotic regions could in some cases *double*¹⁰! Until 2003, Canada ranked among the world's 10 most popular destinations. In 2004, our decline in relative terms was confirmed ... we are no longer on the Top 10 list¹¹.

In a nutshell, competition is intensifying. Every tourist destination that wants a place among the leaders must revisit *every* single aspect: the product, the strategy, the marketing, the distribution network, and so on.

One aspect that further complicates the matter is the fact that tourism is fast growing into a collection of increasingly specific *niches*. These niches require very *specific, top-quality* products because they are in direct competition with international-calibre products.

Today, the European tourist on a quest for adventure will hesitate between a snowmobile trek in Quebec and climbing Mount Kilimanjaro. Some 25 years ago, North American tourists looking for relaxation and warmth almost automatically headed for Florida. Today, these same tourists can choose from dozens of destinations, ranging from the West Indies to Mexico or elsewhere in

⁸ World Tourism Organization.

⁹ World Tourism Organization.

¹⁰ World Tourism Organization, *Tourism Highlights 2004 and 2005*. North America's market share will drop from 19.3% to 18.1% and that of Europe from 59.8% to 45.9%.

¹¹ World Tourism Organization.

Latin America. They can opt for a tailored cruise or a trip to Tunisia or Thailand, both of which are destinations that, a few years ago, would have been considered very daring choices.

In its recent tourism policy, the Government of Quebec identified 15 niches that our Tourism Ministry has made priorities. The list includes health tourism, snowmobiling, nautical tourism, festivals and events, etc. This approach is completely valid, provided that we understand that we are facing worldwide competition in *each and every niche*.

Do we have what it takes to become a world venue for golfing, rivalling locations like Bermuda? Maybe, but the competition is very intense ... and our golf season is considerably shorter than that of Bermuda. We will therefore have to find a way to add value and pull out all the stops in the marketing department. The government and the industry have been put on notice for the future: we will have to adjust our vision in order to successfully face this multi-dimensional market transformation.

The Internet

Which brings me to another huge trend.

There are few industries that have felt, and continue to feel, the impact of the Internet as significantly as that of travel. The Internet, as a source of information, a marketing tool, a distribution channel, is changing many aspects of the tourism dynamic. The Internet gives tourists access to an incredible amount of information right from the comfort of their homes, 24 hours a day, seven days a week.

Tourists no longer need to scour travel agencies or tourism offices for travel information. The days when a traveller had *to write* to an embassy asking to be sent a series of *brochures and pamphlets by mail* are long gone. Today, we can access 100 times more information with a few simple clicks of the mouse...

Today's traveller is much more informed, increasingly "capable" and more and more "powerful."

One of the greatest trends of recent years is the ability to make last-minute reservations. At first we thought the phenomenon would be fleeting; however, it looks like it's here to stay. Potential travellers watch the market and wait as long as possible before booking their trip because they have learned that prices fluctuate. They know there will be last-minute sales and that they don't need to keep calling travel agencies or scan the newspapers.

The Internet has increased the client's "power" tenfold.

The Internet has also become a marketing tool. Consumers use it to "pull" information and companies use it to try to "push" information to consumers through Web sites as well as, for example, targeted e-mailing campaigns.

And naturally, the Internet came full circle when it became possible to make actual transactions online. It became a fully fledged *distribution channel*. In 2004, some 64 million travellers booked their trips online and almost 45 million of them completed a transaction on the Internet¹². This winter, more than 40% of Canadian travellers plan to buy part or their entire trip online¹³. In the U.S., online travel sales generated more than US\$50 billion in 2004 and continue to grow strongly¹⁴. According to Forrester, this figure will rise to US\$100 billion by 2009¹⁵. Even in Europe, online sales multiplied between 2000 and 2005 to reach nearly 25 billion euros¹⁶. In fact, more and more travellers are making their travel plans online and airplane tickets have become one of the top-selling items on the Internet. Each year, 400 million passengers book their tickets online¹⁷.

These developments are more than spectacular — in a few short years, they have changed the way the tourism industry does business and we have yet to feel all the impacts. I'd like to outline a few of them.

- First of all, by facilitating direct sales to consumers, the Internet is turning the very structures of the industry on its head. Today, some customers still seek advice from travel agencies, however, in general, it is safe to say that the role of these agencies is being redefined. Nowadays, being a travel agent could mean operating a transaction-driven Web site *and* a call centre *and* well-established counters and being able to manage all three. Increasingly, the value of the travel agent will also depend on aspects that cannot be found online, such as the experience of an agent you can trust, who has often seen first-hand the quality of the services, and who can give you all the information you want, face-to-face.
- The Internet has also played a significant role in making the tourism market nearly “perfect” in the economic sense of the word. Never has competition been so fierce. The Internet has given all carriers and tour operators a virtual showcase where competition can be monitored and prices changed in real time.
- The Internet is also a relatively cost-effective tool that breaks down entry barriers. Let's say you operate a three-bedroom bed and breakfast in Barcelona: if you have a fully optimized Web site, you will have the world at your feet, since the Internet can give you the same exposure as the Hilton across the street.

Although the Internet provides many opportunities, as can be expected, it also poses challenges.

¹² Based on a study conducted by the Travel Industry Association of America, quoted in *Tourism, Principles, Practices, Philosophies*, by Charles R. Goeldner and J.R. Brent Ritchie, 10th edition, 2005. (194-195)

¹³ Conference Board of Canada, Canadian Travel Distribution Report.

¹⁴ Research conducted by eMarketer

¹⁵ Forrester Research, quoted by Goeldner and Brent Ritchie op. cit.

¹⁶ Carl H. Marcussen, PhD, Senior Researcher, Centre for Regional and Tourism Research, Denmark.

¹⁷ SITA Information Networking Computing, quoted by Associated Press (Globe and Mail, December 13, 2005).

The first is the inevitable character of the phenomenon. You cannot *not* be on the Internet. And having kind of a “window-dressing” Web site will not do; you *must* use Internet to its maximum potential.

Another risk is that once exposed on the Internet, companies have no choice but to deliver *world-class* service. Customers will expect the same quality of services as those offered by your “peers.” You will have to honour the promises you make. Otherwise, beware: frustrated customers can easily use the Internet against you. They will denounce you by e-mail, post negative comments on specialized sites, create blogs to discuss their bad experience, etc.

Sustainable tourism

The third phenomenon I’d like to discuss is the growing importance of the concept of sustainable tourism.

This is not a new concept; the industry, institutions and governments have been studying it for 10 or 15 years, primarily under the auspices of the United Nations. Over the next few years, the idea that tourism should integrate principles of sustainable development will attract increasing attention.

This is due, firstly, to the effects of globalization. People around the planet are becoming increasingly aware of the long-term effects of all human activity, as well as the gap between the richer and poorer nations. People are becoming increasingly informed, they are demanding more and have more means with which to take action. And they will not hesitate to use them.

The interest — in some cases passion — generated by global warming and the alterglobalist movement have clearly demonstrated that citizens are becoming more sensitive to the challenges of sustainable development. They are determined that their voices be heard.

In addition, the expected growth in the number of travellers will have an impact on the importance of sustainable tourism. The World Tourism Organization expects the volume of international tourists — only the tip of the iceberg — to double by 2020, to 1.5 billion a year.

In other words, the “weight” of the industry, which already accounts for 10% of the world’s economic activity¹⁸, is set to increase. And its “impact” on the planet will be more significant.

This impact can be illustrated in the form of a balance sheet: in the assets column we have primarily jobs, income for the state — in short, economic spinoffs — as well as social and cultural benefits, such as heritage preservation, exchanges between cultures, the strengthening of ties among people. In the liabilities column, we have pressure on sensitive environments and natural resources, the risk of cultural levelling, and the danger of economic dependency.

¹⁸ *Making Tourism More Sustainable, A Guide for Policy Makers*. United Nations Environment Program and World Tourism Organization, 2005.

Therefore, sustainable tourism is tourism that:

- on the environmental level, promotes conservation and biodiversity.
- respects the values, traditions and authenticity of the host communities, by promoting such issues as the conservation of the architectural and cultural heritage.
- generates long-term economic benefits for all the parties involved, including jobs in the host communities, thereby contributing to the fight against poverty.

In terms of sustainable development, tourism is unlike any other industry.

By its very nature, the tourism industry is based on access to a clean environment, intact natural sites, authentic historic and cultural background and welcoming communities.

Now, there is no denying that tourism puts pressure on these environments and communities. For us in the tourism industry, it is therefore not a question of whether or not to adopt a philosophy of sustainable development. *Failure to do so would erode our very foundations.*

One indication is the growing popularity of ecotourism. Regardless of the term used to describe it, ecotourism, adventure tourism or “geotourism” — as *National Geographic* calls it — is a form of tourism that focuses on exploring natural sites without affecting their integrity. Quebec and the rest of Canada have to be especially sensitive to this dynamic, as we happen to be destinations with considerable ecotourism potential.

Managing tourism in a sustainable manner consists first and foremost of having the foresight to recognize the impact, real or potential, of our industry. The next step is to have the desire and imagination needed to establish mitigation measures. It also consists of realizing that investing in solutions means not only protecting the environment and cultural diversity but also fighting poverty and *ensuring the very existence of our single irreplaceable strategic asset.*

As with all other industries, it is our duty to reduce our impact on the planet. However, we also have a direct, tangible and immediate interest in championing sustainable development.

Some suspect that there is a link between the exceptional number of hurricanes we experienced in 2005 and global warming. The hurricanes, in particular Emily in July and Wilma in October, gravely affected the tourist season. They resulted in extensive direct costs and had a negative impact on the current winter season. Wilma was an economic catastrophe for the Cancun region and Mexico in general. Don’t doubt for a minute I am very concerned about global warming; it is as important to me as it is to the owner of a ski centre in the Laurentians!

Sustainable tourism concerns us all, including the tourists themselves and private companies. However, it is the governments that are best-placed to take the lead.

In fact, there are few industries that require such cooperative action from the private sector and governments. The governments control the natural sites, authorize or reject proposals for site development and oversee the development of access infrastructures. The governments adopt fiscal, cultural and environmental policies that have a direct impact on tourism. Most importantly, it is governments that are responsible for the essential tools – regulations and economic policies.

The major challenge for the future will be to ensure that all tourist destinations — which compete fiercely to attract customers — succeed in reconciling “competitiveness” and “sustainability.” They must be able to stand apart by highlighting and leveraging their identity and the environment, not by diluting one and sacrificing the other.

Conclusion

The combination of the three major fundamental trends that I have just outlined illustrates the extent to which tourism is a “globalized” industry. As I was saying, I have a feeling we haven’t seen anything yet.

Our businesses, and especially our governments, must absolutely avoid focusing so exclusively on the trees that they fail to see the forest. The industry may be a very promising one, but it also has many challenges to face.

In Canada, these challenges are all the more serious because we have to deal with some structural obstacles:

- Geographically and culturally, we are isolated from the emerging markets.
- Our climate poses a challenge six months of the year.
- Ours is a vast country, with points of interest located far from one another.
- We have a small domestic market.

Consequently:

- We need a vision and strategy adapted to the new realities.
- We need cohesion; the private sector and governments will have to work hand-in-hand.
- Canada’s tourism industry will have to become an Internet leader; we need to earn our place among the world leaders in this forum — and fast!
- We will have to be very aggressive in our marketing and this will be expensive, very expensive. We will have to *invest*. Having the best ideas in the world doesn’t mean much if no one knows we exist.

In 18 years, Transat has become the largest international tourism company in Canada and a leader worldwide. We are vertically integrated from the travel agency to the airline, and we have a strong presence online.

We are very proud of the progress we have made with the help of our 4,500 employees; however, as I have just outlined, the future is also full of challenges. We recently adopted an ambitious growth plan and have every intention of remaining among the leaders in this extraordinary industry.

Thank you for listening.