Quebec MBA Association

Notes for a speech by Jean-Marc Eustache
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Good day, ladies and gentlemen.

Eight years ago, in 2003, I had the privilege of speaking at this same Quebec MBA Association forum.

On that occasion, I had an opportunity to provide you with a profile of international tourism and of Transat. And I even went out on a limb, somewhat, in terms of predicting what the future held in store for us—or, at least, I mentioned up a number of trends and issues that I believed merited our attention.

The first phenomenon that I highlighted back then was the growth in international tourism, and Canada's relatively strong performance. For even though 2003 had been a difficult year because of the SARS crisis, in 2002 we had welcomed some 20 million foreign visitors to Canada—a record. Growth was being achieved year after year, and there was every reason to believe in bright times ahead.

Overall, international tourism has indeed continued on its upward curve since then.

We climbed from 700 million tourists in 2002 to 940 million in 2010, an increase of 34%. . . and that was in spite of wars, terrorist attacks, tsunamis, avian flu, hurricanes, pirates, volcanoes, economic crises and other upheavals—all phenomena that have pretty much become common currency today.

Tourists, we've always said, are thick-skinned, and our industry is extremely resistant to recessions, among other challenges.

Which is a good thing, in fact, because at the rate things are going, we're likely to be up against another test within the next 12 to 24 months.

In short, all countries, or almost, were invited to the party. And it is quite a party. Spending by all these tourists, which amounted to $480 billion US in 2002, were expected to total $919 billion in 2010, or practically double.

When it comes to Canada, what I couldn't know in November 2003 is that we weren't invited to the party. We had reached a tipping point.

While the market was expanding by a factor of one-third, international tourism to this country declined by 20%. Our share of the world market, which was around 3% in 2002, gradually slipped below the 2% mark. We are the only country in the world to have suffered that ignominy during these years—something that is all the more distasteful given that we were once on the list of the world's Top Market destinations. Those days are gone now.

It is still true today that, when you ask people which countries they would like to visit—which countries are attractive to them—Canada makes the list. The problem is that when the time comes to buy, for whatever reason they tend to say, "Canada? It's so far away. We'll go another time."

And eight years later—unless you count people in the industry themselves, who are all too aware—people have remained fairly indifferent while all this has transpired.

Of course, the reasons are manifold. No one factor can explain this situation. But when we look for potential solutions, they are there.

Studies conducted by the World Economic Forum, for example, show that Canada is not very competitive as a destination when it comes to prices—and that includes things like airport fees, which are a factor in making accessibility complicated.

But if I had to zero in on one factor that matters more than the rest, I would say that the great tragedy of tourism is that few people, few decision-makers, understand its economic weight, its importance and its potential. This is spite of the fact that for Canada, today, tourism translates into revenues of $73.4 billion, GDP of $29.4 billion, or 1.9% of overall GDP, and close to 600,000 jobs.[1]

On that note, I was pleased to see the Government of Canada announce its national tourism development strategy a week ago. This is something we in the industry have been awaiting for a long time, and we were pleasantly surprised to see three things, among others, in the document:

- One, an acknowledgement of tourism's importance to our economy and to job creation.

- Two, the setting of a specific target, that is, growth in tourism revenues of the order of 35% by 2015. That's ambitious. It's measurable. We like that.

- And three, acknowledgement of the fact that a host of different government departments and agencies have an impact on tourism and that we have to considerably improve co-ordination if we want to truly achieve a strategy that brings results.

This is a good start, and we have assured the government of our support.

I remember that in 2003, I also raised a few eyebrows when I pointed out that the World Tourism Organization had forecast that there would be 100 million tourists from China by 2020, and that we could expect 1% (or one million) of them to visit Canada.

What I was doing, in my own way, was illustrating a more widespread phenomenon—that of the sweeping changes affecting our industry in terms of source markets and destination markets. Where, historically, tourists had come mainly from about 15 industrialized countries, and consistently visited pretty much the same traditional destinations, more and more travellers were coming from all over the world, and the list of competing destinations was growing ever longer.

[1] Canadian Tourism Commission, Tourism Snapshot, 2010 Year-in-Review

This phenomenon has considerably established itself and remains a strong trend. Our industry and our market are rapidly changing, and that is precisely the reason for their vitality. Some of the reasons for growth include the emergence of a new middle class in countries where they were practically non-existent, and the arrival on the market of travellers from the former Eastern Bloc countries.

Ten years ago, there were more international tourists from North America than from Asian countries, despite the population gap. In 2010, there were 28% more Asian than North American travellers.[2]

Russians spent $11 billion on trips abroad in 2002; by 2010 that figure had reached $27 billion.

As for China, Canada welcomed a little less than 200,000 tourists from that country in 2010, but there is every reason for optimism, since Canada has only been an approved destination by the Chinese government since... 2010.

In short, more people are travelling, and more often. And while Canada was losing 20% of its visitors between 2002 and 2010, along with a third of its market share, elsewhere there were some pretty spectacular gains.

- For example, Turkey, with its 27 million visitors in 2010, recorded a 111% increase since 2002; Peru posted a 166% gain; Egypt, 186%; and Thailand, 146%.[3]

- In 2002, 130 million people visited Asia. By 2010, it was 204 million, or 57% more.

- In 2002, 77 million people visited North America. In 2010, there were 98 million, or 27% more.

- In 2002, 20 million people visited Canada. In 2010, there were barely 16 million. That's a drop of 20%.

- Non-traditional destinations are all the rage. Over the past 10 years, the emerging economies have seen their tourism grow by an average of 5.6% per year, compared with 1.8% for the so-called advanced economies.[4]

Among the factors that have propelled tourism development, and that are still in play, we have, of course, the ever-increasing accessibility of air travel. Technology, competition, the emergence of low-cost airlines—all these factors combined have meant both a considerable increase in the number of passengers and a significant drop in prices.

[2] 197 million Asian tourists, versus 154 million from the Americas; UNWTO Tourism Highlights, 2011 edition
[3] UNWTO Tourism Highlights, 2011 edition
[4] UNWTO Tourism Highlights, 2011 edition

Of course, the Internet has played, and continues to play, a central role in all this, by facilitating the flow of information and making it easier to hunt for the best bargains.

Today, the consumer—the traveller—is king as never before. If we disregard inflation, airfares have decreased by around 50%—more, even—over the past quarter century.

The consumer is king, yes... but this royal status poses a real challenge for companies, which must fight tooth and nail to develop their product lines, enhance quality of service, reduce their costs and earn a profit—while their customers board aircraft feeling increasingly frustrated, among other things by airport ergonomics that are tantamount to obstacle courses.

I'm flabbergasted that things have come to this point, early in this 21st century, and that there doesn't seem to be any improvement on the horizon. At any rate, the International Air Transport Association has put out some ideas, and I sincerely hope they will be picked up on. An entire swath of the global economy stands to benefit. In terms of security, for instance, current efforts are largely focused on searching for objects. By steering those efforts more toward identification of suspicious individuals, we could, with the help of technology, arrive at much more fluid passenger flows in airports.

Studies also demonstrate the importance of working on our product—in our case, on the destination. I mean the product taken as a whole, but also the richness of the offerings found on the ground, whether it's services like accommodations and restaurants, or the tourist attractions themselves.

Everyone agrees that Canada has an excellent stock in trade. But there is also a consensus within the industry that some tweaking needs to be done. Our customers have changed, the competition is more intense than before, and we cannot hope to make a go of it without a change of strategy.

The product, as well as how it is marketed, were topics that I touched on in 2003, and while some progress has been made, to my mind we have been, collectively, rather slow to change. More than ever, we need our governments to show leadership when it comes to tourism development.

On that score, I would like to mention the work of the Tourism Industry Performance Committee, which tabled its report this past May, and which has put forward a vision and a framework, at least where Quebec is concerned.

The goal is to become, by 2020, an international-calibre destination, and to achieve this mainly by focusing on the product. Three strategic priorities were put forward in the report.

- First, acknowledge that we have two gateways, two major attraction centres: that is, Montreal and Quebec City. And bolster the potential of each. In other words, there can be no international tourism without a strong personality defined for each of our two main attractions.

- Next, the St. Lawrence River. Both physically and metaphorically. Quebec literally revolves around the St. Lawrence. Its geography, its morphology, our culture—in a broad sense, everything can be connected to the river.

- Third: intelligently strengthen and leverage the potential of Quebec's regions in all seasons, fully embracing our northernness.

Obviously, this is a starting point, and over the next few years we will have to tackle the details—and, as everyone knows, "the devil is in the details." We'll see how things play out. But the working group responsible for the report, chaired by Gilbert Rozon, has done a remarkable job in a short time. The foundations are there; all that remains is to build.

Since our earliest days as a tour operator, at Transat we've always sought to take advantage of those tourist flows I mentioned earlier—and, especially, the way they evolve. Although today we remain quite dependent on three main source markets, Canada, France and the United Kingdom, the fact remains that we have always taken actions meant to expand both our source and our destination markets.

The most tangible manifestation of this approach today is our unique position on the transatlantic market, with no less than 70 routes linking 9 Canadian cities to 36 European cities in 12 countries. No one else—no tour operator and no air carrier—has built a product supply that is so rich, and so well adapted to the tourism market. It comprises about 1.2 million seats, and has made us the number one tour operator for travel to France and the United Kingdom.

We would not have been able to deploy this "war machine" without a solid footing in Europe. A good half of all these seats is sold to travellers from France, Britain, Spain, Italy, Belgium, Germany, etc.

Today we operate companies that are firmly entrenched in four European countries, we have agreements with sales partners who distribute our products, and the Air Transat web site is accessible in eight languages.

We have also remained faithful to a distribution model that has always served us well, and that relies in large part on travel agencies. Because yes, in 2011, travel agents do still play a fundamental role with customers.

Another component of the strategy is that we attract our customers, in Canada as well as in Europe, with product offerings that extend way beyond air travel.

First, when it comes to the European (and international) market, we are the leading incoming tour operator in Canada, with close to 500,000 passengers a year, a good number of whom not only buy seats on airplanes from us, but also all-inclusive packages, tours and other tourism services. As such, we are therefore a major partner for the Canadian tourism industry. Hundreds—thousands, even—of tourism service providers count on us to represent them abroad. We are an active participant, together with other industry players and governments, in promoting Canada.

Second, as a Canadian-based outgoing tour operator, over the past 25 years we have continually expanded our product supply, both in terms of types of product and variety of destinations. For example, we sell nearly 80,000 cruises per year, and with Transat Discoveries, we market escorted and independent tours all over the world.

Third, in spite of the challenging economic conditions, we are laying the groundwork for development of new source markets. Hence, for example, the opening in 2010 of Eleva Travel, in Monterrey, Mexico. Eleva Travel's customer base is Mexican travellers.

Canadians are continuing to travel, and that's a good thing.

In Canada, Transat Tours Canada, our flagship, markets a host of travel destinations to Canadians, including in Mexico, the Caribbean and Europe, and it sells its products through three well-known brands: Transat Holidays, Nolitours and Air Transat.

What has changed since 2003, on the Canadian outgoing market, is that the competition has grown much fiercer, and because of the Internet, the market has become extraordinarily efficient, economically speaking. In other words, it is now very easy for consumers to find the best deals, and there is a mad dash among tour operators to win over travellers.

And that takes us right back to the concept of the consumer as king.

This is particularly true on the Sun destinations market, where price remains a major part of the equation for the consumer.

All tour operators, including those in our category, which have a critical mass of international customers, are therefore under all kinds of pressure, which is driving them to rethink their operating models and their structures.

This is not something we've only just discovered. Our organization has changed a great deal over the past 10 years. But the reality is simple: we must continually go back to the drawing board, as the saying goes.

Another aspect that was in the air in 2003, but that has now become a core concern, is the whole question of the environment: among other things, greenhouse gas emissions related to aviation, and by extension to the tourism industry.

Generally speaking, it is believed that tourism, in its various forms, accounts for 5% of greenhouse gas emissions. Aviation, which depends only in part on tourism, is estimated to represent about 2% (incidentally, that's one-12th the proportion taken up by deforestation).

The industry has a keen interest in operating planes that burn less fuel, and manufacturers understood this some time ago. Today's aircraft are 20% more efficient than those of a decade ago, fuel consumption per passenger has decreased by 14% during that time, and our current objective is a further 25% reduction by 2020 (compared to 2005).[5]

[5] International Air Transport Association

Historically, fuel consumption per passenger, per kilometre, has never stopped decreasing.

Eventually, the ideal is to arrive at zero growth in aviation-related CO_2 emissions. Various strategies will be deployed in combination to achieve this. The emergence of biofuels is one example—but so is more efficient management of air traffic. Estimates show, for instance, that easing sky congestion, if the necessary means can be implemented, could lead to a reduction in emissions of some 10%.

Travel and tourism generate more than 200 million jobs around the world. The industry has always shown itself to be quite responsible, and frankly I don't believe that measures aimed at stifling our industry are in the public interest. Rather, such measures, adopted in various places around the world—I'm thinking of taxes, for example—speak to a lack of imagination.

Back in 2003, Air Transat had already implemented a fuel management program, as a means of cutting our costs as well as our emissions. We studied a whole host of measures, and measured the potential gains for each of them. The solutions implemented range from more frequent engine washing to changes in braking techniques to acquisition of software enabling more efficient flight plans to, of course, a whole array of measures to reduce onboard weight. It is estimated that, so far, this program has led to a 5% reduction in fuel consumption and in emissions.

We are not the only air carrier, of course, to have implemented these kinds of measures. But we have been recognized for our rigorous management and our transparency. We began disclosing our emissions in 2007, and we continue to do so; this is not yet standard practice among North American airlines. At 3.3 litres per passenger per 100 kilometres, our performance ranks among the best in the world.

You needn't take my word for it. Early in 2011, an independent organization based in Germany conducted a study indexing the performance of some 100 air carriers around the world. Air Transat came in third overall, and was number one in the long-haul category.[6]

But our commitment to the future goes much further than CO_2.

This is something that was absent from my talk in 2003, because it was only in 2006 that we at Transat resolutely made the shift to sustainable development.

All over the world, the travel and tourism industry, or part of the industry at least, has woken up to the fact that the way it operates has to evolve. And this means, among other things, working in concert with partners and destinations to ensure that social, economic and environmental issues and impacts, which are all interrelated, are considered as a whole. For the good, and in the interests of, all stakeholders.

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[6] www.atmosfair.de

For Transat, this has been a priority for five years now. We've been happy to see the extent to which our employees have embraced this vision. Same for many of our partners, who were already working toward similar goals, and were encouraged to see us taking action.

And, I would venture to say, the same is true of many of our customers—although, truth to tell, much remains to be done in this area.

Today, our efforts are being deployed in several directions, and I will provide just a few examples:

We have taken measures to encourage our thousands of suppliers and partners to improve their working methods. In terms of eco-friendly initiatives, for instance, but not only that. We have implemented a program aimed specifically at our hotelier partners. We've also instituted a responsible procurements policy; each year, we purchase some $2 billion worth of tourism services, and as a tour operator we can exert true leverage.

We work in concert with our destinations much more than before, to ensure that local communities share in tourism's benefits. This work takes several different forms. We have committed approximately half a million dollars in financial support to sustainable tourism projects in 10 countries; we have partnered with SOS Children's Villages, which cares for tens of thousands of disadvantaged children all over the world; and we are working with the organization Beyond Borders to fight together against child sex tourism.

Lastly, of course, together with our extremely committed employees, we are working to reduce our environmental footprint and make people more aware of the importance of changing behaviours.

To sum up, being part of this industry is no easy ride. Far from it. Margins are slim. Very slim.

Transat is a vertically integrated international tour operator, ranked number five or six in the world for annual sales (depending on the exchange rate of the day). We are number one in Canada, and number four in France. Year in year out, we serve 3 million travellers, and our revenues in 2010 stood at $3.5 billion.

Over the next few months, we are going to reinvent ourselves once again—and our customers, our employees, our shareholders and our partners, including those at destination, will reap the benefits.

Thank you.