

Canadian Travel Arrangement Services Survey

Year 2003 Report

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Introduction

This report is designed to provide an overview of the Canadian travel distribution sector. It focuses on two key players – retailers (travel agencies) and packagers (tour operators). The latter purchase a range of tourist products from suppliers, such as transportation, accommodation and attractions, and package them for sale through travel agents or directly to clients. Tour operator companies can exist under different identities or designations. For example, a number of operators work as receptive tour operators. They sell a range of Canadian vacation products abroad, mainly to international tour operators and agents. Others sell Canadian travellers holiday packages to international destinations.

The report provides an analysis of the travel agencies industry, and the tour operators industry in two separate sections. Each section provides tables and analysis of general characteristics, revenue and cost structures, client base, and trade patterns. Where indicated, some of the findings included in this document are based on a panel of surveyed establishments and not the entire industry. Special care should be exercised when using this data to project to the industry level.

The last two chapters of the report set forth two years worth of data about market conditions and the impact of technology on the travel arrangement industry. These new sections were introduced to the Annual Survey of Travel Arrangements in 2002.

Chapter 1: Travel Agencies

Highlights: The industry in 2003¹

- Travel agencies earned \$1.51 billion in operating revenues, a 1.9% current dollar decrease over the previous year.
- Operating profit margin before taxes was 1.7%, down from 6.9% in 2002.
- Wages, salaries and benefits accounted for 55.9% of operating expenses.
- Almost 81.2% of employees were classified as full-time, full-year².
- In 2003, the travel arrangement industry maintained the previous year's count of almost 5,400 establishments.

The primary role of travel agencies is to assist travellers in planning trips and to provide the necessary and relevant information related to travel products and services. Travel agencies also act in their traditional role as agents for tour operators and transportation companies, by providing assistance with reservations and bookings.

The Canadian travel agency industry continued to be challenged in 2003 and faced a number of major setbacks. In addition to the fallout from SARS and the war in Iraq, travel agencies also had to contend with commission losses, the increasing influence of the Internet on their industry, and travellers' penchant for last-minute travel bargains.

The travel agency industry generates most of its revenue from commissions charged through travel suppliers. However, commission revenue has been threatened in recent years by several factors outside the industry's control. For example, the airline industry remained competitive in 2003 as low-cost air carriers continued to gain market share. To trim costs, many eliminated or reduced the commissions they paid out to travel agencies in return for booking fares. As well, the airlines and a number of other travel service providers are bypassing the travel agency entirely and sell directly to consumers via the Internet. To help offset this loss, several travel agencies are charging their clients service fees in return for their personalized expertise.

¹ Results are for the entire industry unless otherwise indicated.

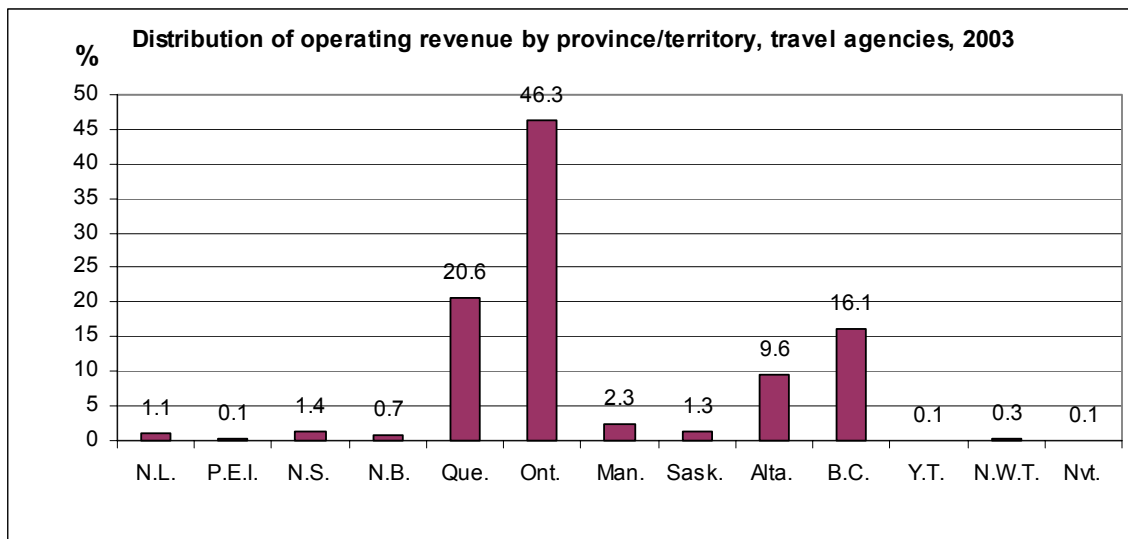
² Employment data are based on the survey portion of the universe. The establishments in the survey portion account for 70% of the travel agencies industry revenues. See Chapter 5: Concepts and Methods.

Concentration of the Industry

Total operating revenue, measured in current dollars, decreased to \$1.51 billion dollars; down from \$1.54 billion in 2002. Most of this drop can be attributed to an across-the board decrease in revenue earned through commissions, such as the commission earned on tour and cruise package sales.

The Canadian travel agency industry generates most of its revenue in Ontario and Quebec (see Figure 1.1). In 2003, the two most populous provinces accounted for 67% of the Canadian market; up slightly from 66% in 2002. The provincial distribution of revenue has remained fairly constant over the past six years.

Figure 1.1



The travel agencies industry is characterized by having relatively small operations and being very competitive. Unlike the tour operator industry, business integration through mergers and acquisitions has had a relatively small effect on the concentration of the industry. In 2003, the top 20 firms accounted for 27% of total revenue generated by the industry³. The number of establishments operating as travel agencies remained at about 2,400 in 2003.

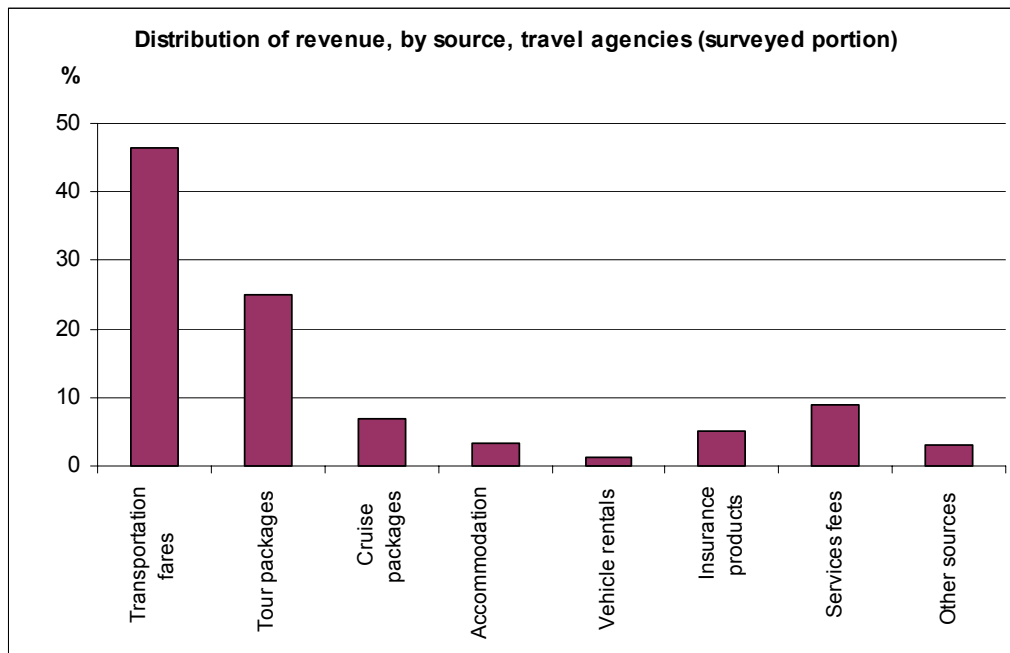
³ This result is based on the collection entity with the establishment as the sampling unit. An establishment is the smallest business unit that provides financial information (ie. employment, salaries and wages, operating revenues and expenses). A collection entity can combine establishments that belong to the same company and the same industry.

Revenue Sources⁴

In 2003, the travel agency industry remained highly reliant on commissions earned from travel suppliers. As shown in Figure 1.2, almost half of the revenue (46%) earned in 2003 came from selling and reserving transportation fares. This was followed in relative importance by sales of tour packages (25%).

To help combat the loss in commission earnings, some travel agencies have responded by charging their clients nominal service fees for their personalized travel expertise. In 2003, about 9% of travel agencies' revenue came from service fees; up from 6% in the previous year. Although service fees only accounted for a small portion of overall travel agency earnings, this represented a 26% growth in service fees revenue over 2002.

Figure 1.2



⁴ Results are based on the survey portion of the industry universe.

Revenue by Destination⁵

Despite the impact of SARS and the war in Iraq, the breakdown of revenue by destination for the travel agency industry has remained steady over 2002 and 2003 (see Table 1.1). Sales to travellers destined for foreign destinations (excluding the US) made up almost half of travel agency revenue (48%) in 2003; down slightly (49%) from 2002. On the other hand, the sale of travel products for US destinations marginally grew to 26% in 2003.

Interestingly, all three groups (Canada, US and foreign) experienced a shift away from tour and cruise packages to the “all other travel” category in 2003. This reflects the increased popularity of taking independent travel with an itinerary tailored to the client’s wishes, as opposed to more traditional pre-packaged tours.

Table 1.1

DISTRIBUTION OF REVENUE, BY DESTINATION, TRAVEL AGENCIES (SURVEYED PORTION ONLY)	2002 %	2003 %
Canadian destinations		
Tour and cruise packages	7.1%	4.9%
All other travel	19.3%	21.9%
Total Canadian destinations	26.5%	26.8%
USA destinations		
Tour and cruise packages	12.8%	10.3%
All other travel	12.2%	15.4%
Total US destinations	25.0%	25.7%
Foreign destinations (non-US)		
Tour and cruise packages	21.3%	18.1%
All other travel	27.2%	29.5%
Total foreign destinations (non-US)	48.5%	47.5%
Total	100.0%	100.0%

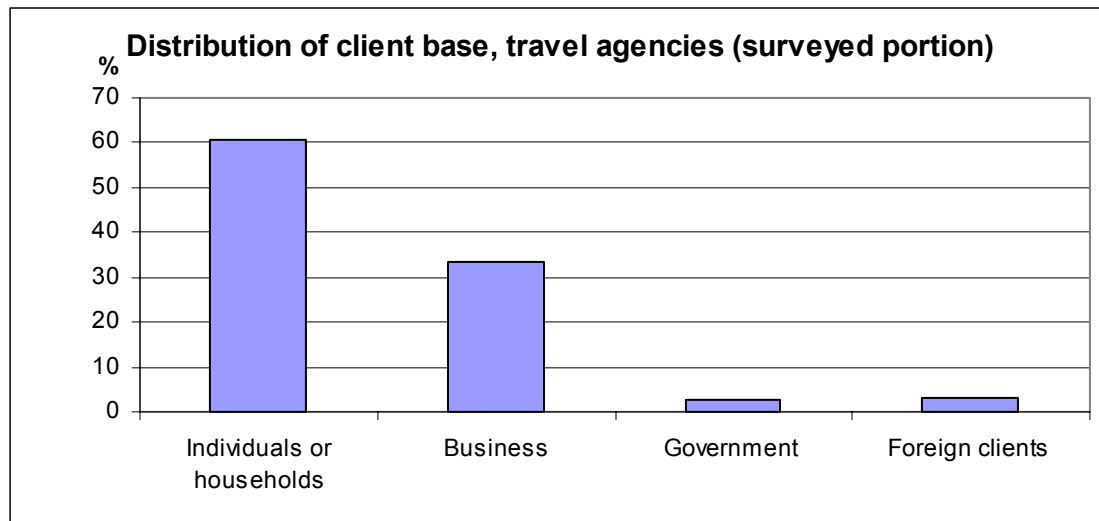
⁵ Results are based on the survey portion of the industry universe.

Revenue by Client Base⁶

The most important market to travel agencies, in terms of revenue, is the Canadian household leisure market. As shown in Figure 1.3, sales to leisure travellers made up three-fifths (61%) of revenue in 2003; a small decrease from the previous year (63%).

In 2003, the market share held by business clients moderately grew from 30% in 2002 to 33%. Despite fairly tight corporate travel budgets over the past few years, business travel levels seem to have stabilized in 2003⁷.

Figure 1.3



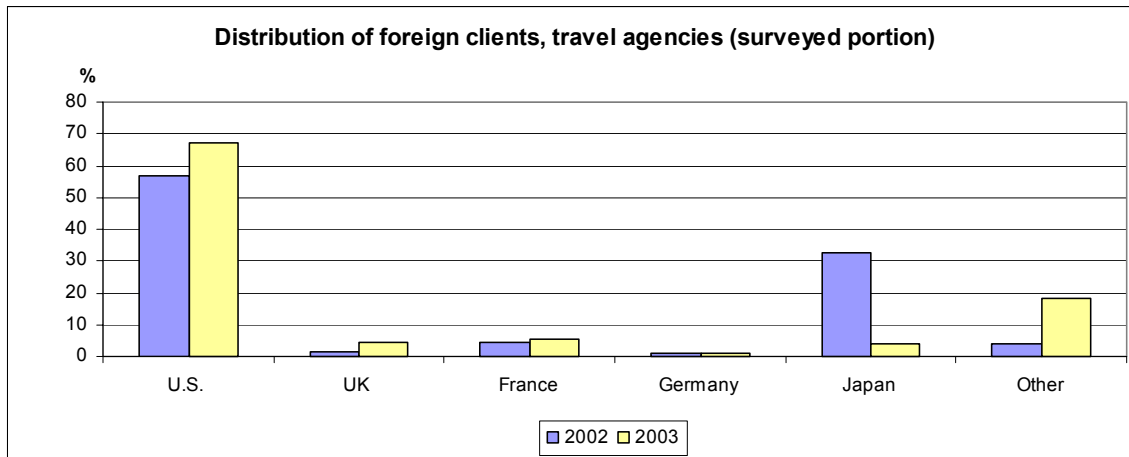
Traditionally, sales to foreign clients make up a small share of the overall market for travel agency services in Canada. In 2003, this segment accounted for 3% of travel agency's revenue; down from 5% in 2002. Not surprisingly due to their close proximity, American clients (67%) comprised the largest share of the foreign market in 2003 (see Figure 1.4). In comparison, the relative importance of the Japanese client, in terms of revenue share of the foreign market, fell significantly from 32% in 2002 to 4% in 2003. This follows a SARS-related decline (39%) in the number of Japanese travellers to Canada between 2002 and 2003.⁸

⁶ Results are based on the survey portion of the industry universe.

⁷ Source: CTC Tourism Intelligence Bulletin – Issue 20: January 2004

⁸ Source: Statistics Canada: International Travel Survey: Frontier Counts. Table: “Number of non-resident travellers entering Canada, by country of residence”

Figure 1.4



Operating Expenses

In current dollars, operating expenses for the travel agency industry increased to \$1.49 billion in 2003; up from \$1.44 billion in the previous year. As shown in Table 1.2, the share of salaries and wages, the largest expense item for the travel agencies, accounted for 52% of total operating expenses in 2003. Following in relative importance were rent and/or lease of premises, equipment and vehicles at 9% and advertising and sales promotion (6%).

Table 1.2

ESTIMATED OPERATING EXPENSE ITEMS (SURVEYED PORTION)	2002	2003
Salaries and wages paid	52.2%	52.2%
Employee benefits paid	3.7%	3.6%
Office expenses	3.8%	4.0%
Telephone, telecommunications...	3.6%	3.6%
Rent and/or lease of premises, equipment and vehicles	10.0%	8.6%
Write-offs, valuation adjustments...	0.8%	0.6%
Advertising and sales promotion	6.2%	5.8%
Total cost of all units of travel purchased from suppliers	4.6%	1.4%
Commission paid to travel agents	0.4%	0.8%
Taxes, permits and licenses	2.3%	2.0%
Depreciation and amortization	2.5%	3.3%
All other expenses	10.6%	14.9%
Interest expense	2.1%	1.4%
Total operating expenses	100.0%	100.0%

Employment Profile⁹

Despite the setbacks which occurred in the tourism industry in 2003, there was very little change in the percentage of full-time, full-year employees who worked at travel agencies (84%) between 2002 and 2003 (see Table 1.3). Arguably, this is the largest segment of workers, as customers tend to repeatedly patronize businesses and make referrals based on the relationship they have established with a particular agent.

In 2003, the share of part-time workers in the industry increased slightly to 14%; from 12% in 2002.

Table 1.3

EMPLOYMENT CATEGORIES	2002	2003
Paid employees - Full-time full year	83.7%	83.8%
Paid employees - Full-time part year	4.5%	2.6%
Paid employees - Part-time full year	9.8%	10.4%
Paid employees - Part-time part year	2.0%	3.2%
Total	100.0%	100.0%

⁹ Results are based on the survey portion of the industry universe.

Chapter 2: The Tour Operators Industry¹⁰

Highlights: The Industry in 2003¹¹

- Tour operators earned \$6.11 billion in operating revenues in 2003, a 6.5% current dollar increase over the previous year.
- Operating profit margin before taxes was -0.4%, a decrease from 0.9% in 2002.
- The cost of travel purchased (goods and services sold) from suppliers accounted for 85.1% of operating expenses.
- Wages, salaries and benefits accounted for 4.4% of total operating expenses, or 43.1% of indirect operating expenses (with cost of travel and commissions paid to travel agents removed)
- About 76% of employees were classified as full-time, full-year¹².
- In 2003, the number of tour operators numbered over 1,200 establishments, up by 2.5% from the previous year.

The purpose of the tour operators industry is to arrange and assemble a range of tourist products and package them for sale, through travel agents or directly to individuals.

Tour operators were faced with many of the same challenges that affected the travel agency industry in 2003. However, the Canadian tour operator industry was in a somewhat better position due to the timing of two key events. Although their impacts were felt keenly throughout the year, the outbreak of war in Iraq and SARS occurred during the spring/summer travel season. Since the larger tour operators in Canada tend to specialize in North-South travel; they had the benefit of a “cooling off” period from the initial onset of these events. Also, another advantage at this time was the favourable exchange rate, as many southern destinations are valued in US dollars. In 2003, the number of trips taken by Canadians overseas increased by 8.4% over the previous year. Much of this growth can be attributed in increases in the number of people travelling to popular sun destinations: Mexico (18.1%), Cuba (49.3%) and the Dominican Republic (29.9%).

¹⁰ Previously known as the tour operators / wholesalers industry.

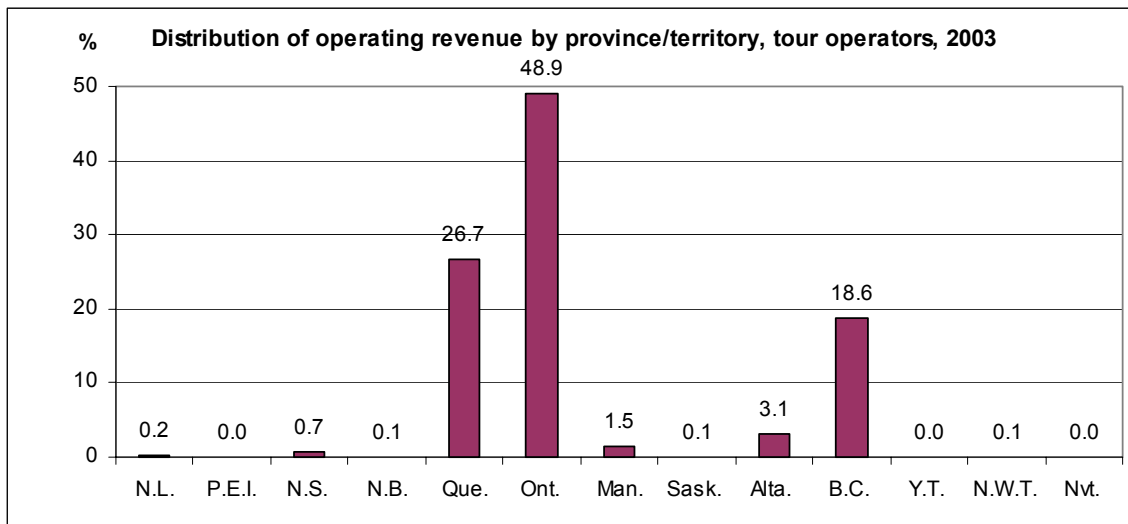
¹¹ Results are for the total industry universe unless otherwise indicated.

¹² Employment profile data are based on the survey portion of the universe. The establishments in the survey portion account for 97% of the tour operators industry revenues.

Concentration of the Industry

Total operating revenue, measured in current dollars, increased to \$6.11 billion dollars; up from \$5.74 billion in 2002. Most of this revenue is generated in Quebec, Ontario and British Columbia (see Figure 2.1). In 2003, about 94% of the industry is concentrated in these three provinces, with almost half of total industry revenue earned in the province of Ontario (49%).

Figure 2.1



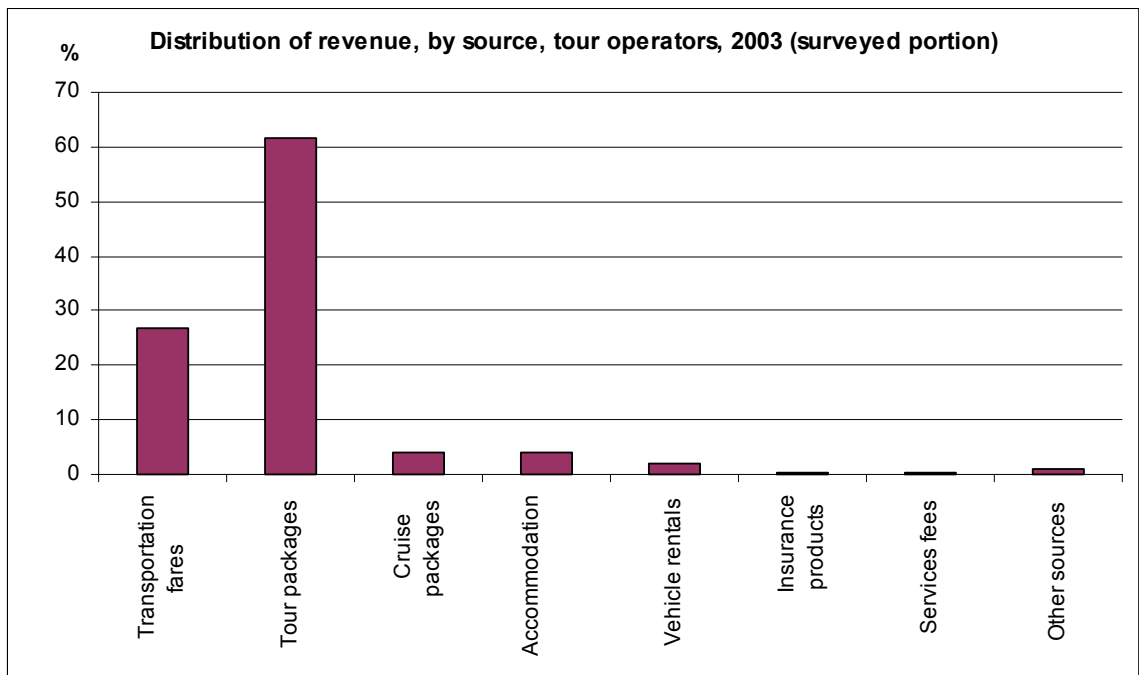
In 2003, there were over 1,200 establishments in the Canadian tour operating industry. Unlike the travel agencies industry, the tour operating industry is highly integrated, with the top 20 firms accounting for 72% of the industry's total revenue in 2003¹³. This type of concentration is reflected across many industries and is seen as a way of adapting to the growing globalization of markets.

¹³ This result is based on the collection entity with the establishment as the sampling unit. An establishment is the smallest business unit that provides financial information (ie. employment, salaries and wages, operating revenues and expenses). A collection entity can combine establishments that belong to the same company and the same industry.

Revenue Sources¹⁴

Figure 2.2 shows a fairly typical revenue breakdown for the tour operating industry in 2003. As expected, sales of tour packages (62%) and transportation fares (27%) made up the lion's share of tour operator's total revenue in 2003. Unlike the travel agencies industry, inconsequential levels of revenue came from charging service fees (0.3%) and selling insurance products (0.3%).

Figure 2.2



¹⁴ Results are based on the survey portion of the industry universe.

Revenue by destination

As shown in Table 2.1, revenue from travel to foreign destinations other than the United States continued to be a mainstay for the tour operating industry. In 2003, three-quarters (75%) of operating revenue was generated from sales to clients travelling outside Canada and the United States.

The sale of travel products for American destinations generated 13% of the industry's revenue; up marginally from 8% in 2002. In 2003, the value of the Canadian dollar, relative to the US dollar, rose for the first time in over a decade, making it relatively less expensive to vacation in the US¹⁵. The share derived from Canadian destinations (13%) was down slightly from the previous year.

Table 2.1

DISTRIBUTION OF REVENUE, BY DESTINATION, TOUR OPERATORS (SURVEYED PORTION ONLY)	2002 %	2003 %
Canadian destinations		
Tour and cruise packages	9.2%	8.3%
All other travel	5.2%	4.3%
Total Canadian destinations	14.5%	12.6%
USA destinations		
Tour and cruise packages	5.8%	6.7%
All other travel	2.3%	5.7%
Total US destinations	8.0%	12.4%
Foreign destinations (non-US)		
Tour and cruise packages	57.2%	52.4%
All other travel	20.3%	22.7%
Total foreign destinations (non-US)	77.5%	75.0%
Total	100.0%	100.0%

¹⁵ Source: Bank of Canada, Financial Markets Department, Year Average of Exchange Rates, www.bank-banque-canada.ca

Revenue by client base

The most important client of the Canadian tour operator is the leisure traveller (Figure 2.3). In 2003, eight out of every 10 dollars (83%) earned was made through sales to Canadian individuals or households. In comparison, foreign clients produced 12% of revenue in 2003, despite being the second largest client in terms of generated revenues.

Figure 2.3

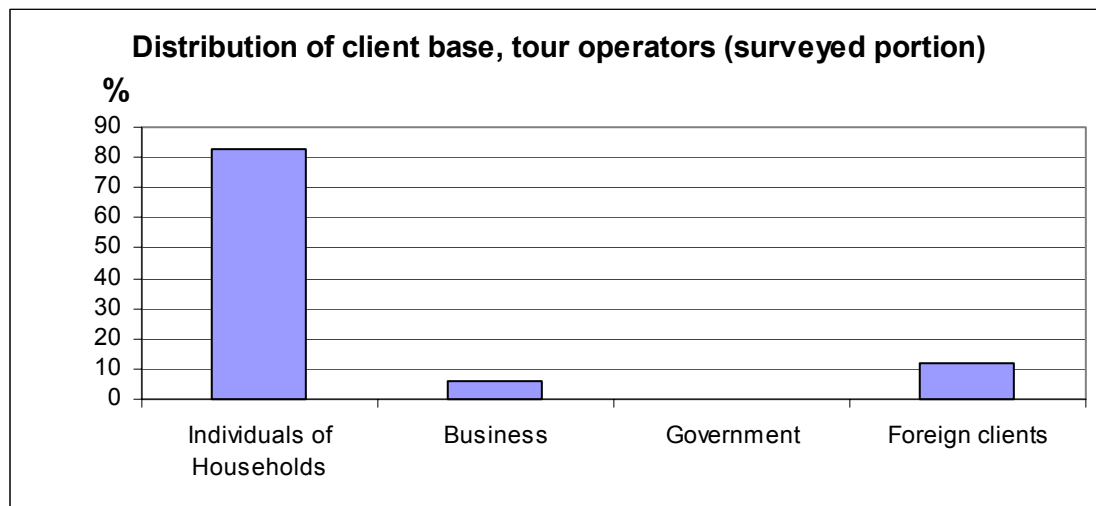
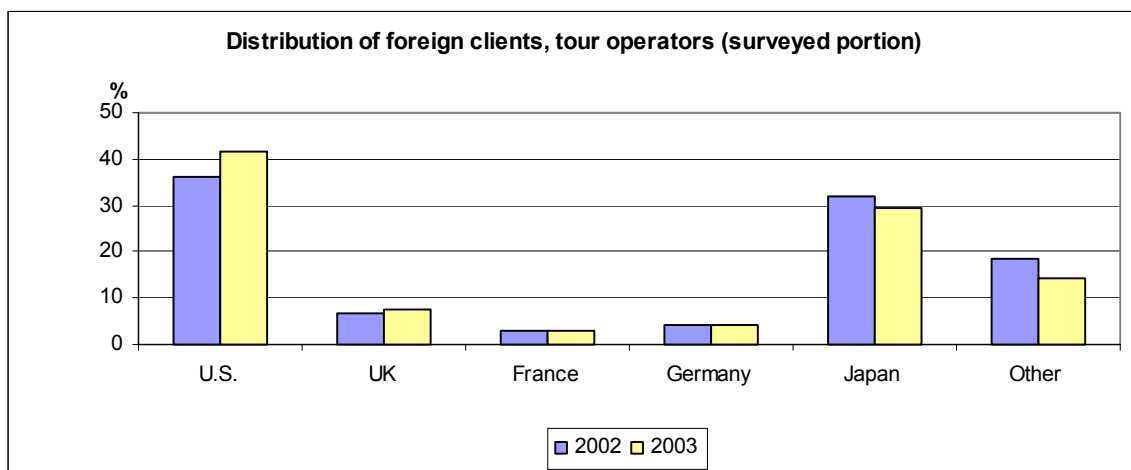


Figure 2.4 shows that the share of revenue generated from clients based in the United States, the largest foreign buyer of Canadian tour operating services, increased to 42% in 2003, up from 36% in the previous year. In comparison, almost 30% of the revenue earned by tour operators through sales to foreign clients could be attributed to Japan – a decrease from 32% in 2002. Arguably, this reflected the SARS-related decline in the number of visitors from Japan

Figure 2.4



Operating expenses

Total operating expenses have increased by 7.9% from 2002 to \$6.13 billion in 2003. Most of this increase can be attributed to the rising costs associated with travel purchased from suppliers and other costs of goods sold. In terms of operating expenses, about 85% consisted of the costs of goods purchased from suppliers in 2003.

Table 2.2 presents the distribution of operating expenses (indirect costs) for the tour operating industry in 2003.¹⁶ Salaries and wages (41%) were the largest indirect costs borne by the tour operators industry down three percentage points from 2002. Following in relative importance were expenses incurred through advertising and sales promotion (13%).

Table 2.2

TOTAL OPERATING EXPENSES	2002	2003
Salaries and wages paid	43.6%	40.7%
Employee benefits paid	2.7%	2.5%
Office expenses	5.5%	4.3%
Telephone, telecommunications...	4.7%	3.6%
Rent and/or lease of premises, equipment and vehicles	6.1%	5.4%
Write-offs, valuation adjustments...	0.4%	0.8%
Advertising and sales promotion	14.4%	13.3%
Taxes, permits and licenses	1.6%	0.7%
Depreciation and amortization	5.9%	5.2%
All other expenses	15.4%	23.5%
Total	100.0%	100.0%

Employment profile

In 2003, a smaller percentage of workers (87%) were employed full-time (either full or part year) in the tour operating industry; down 5 percentage points from the previous year. However, like the travel agency industry, most of the tour operator workforce was employed full time and worked throughout the year (78%). Comparatively few individuals worked part-time, although their share increased to 13% in 2003.

Table 2.2

EMPLOYMENT CATEGORIES	2002	2003
Paid employees - Full-time full year	82.3%	78.1%
Paid employees - Full-time part year	10.0%	9.0%
Paid employees - Part-time full year	4.9%	4.8%
Paid employees - Part-time part year	2.9%	8.1%
Total	100.0%	100.0%

¹⁶ This table measures indirect costs, as it excludes the cost of travel purchased from suppliers and commissions paid to travel agencies

Chapter 3: Market Conditions in 2003¹⁷

Tour operators and travel agencies were asked to indicate how a series of nine factors affected their growth, either negatively or positively, during 2003. The question asked the respondent to rank their growth using the following qualifiers: very negatively; somewhat negatively; somewhat positively; very positively; or no effect. Tables 3.1 and 3.2 present some of the results obtained from 2002 and 2003 for the travel agencies and tour operators industries.

Table 3.1

<i>TRAVEL AGENCIES</i> (PERCENTAGE OF RESPONSES)	<i>NEGATIVELY</i>		<i>POSITIVELY</i>		<i>NO EFFECT</i>	
	2002	2003	2002	2003	2002	2003
Internet reservations	63%	64%	19%	19%	18%	17%
Competition	60%	65%	17%	20%	23%	15%
Event of September 11, 2001	86%	84%	11%	8%	3%	8%
Relationship with suppliers	42%	39%	47%	45%	11%	16%
Business affiliations	9%	8%	56%	61%	36%	31%
Access to financing	17%	17%	21%	25%	61%	58%
Economic conditions	74%	66%	20%	26%	6%	8%
Lack of qualified staff	39%	51%	9%	13%	52%	36%
Service Charges	50%	46%	29%	37%	22%	17%
Other	55%	60%	3%	17%	42%	23%

Table 3.2

<i>TOUR OPERATORS</i> (PERCENTAGE OF RESPONSES)	<i>NEGATIVELY</i>		<i>POSITIVELY</i>		<i>NO EFFECT</i>	
	2002	2003	2002	2003	2002	2003
Internet reservations	14%	17%	43%	38%	44%	45%
Competition	53%	69%	30%	19%	17%	12%
Event of September 11, 2001	86%	84%	9%	6%	5%	10%
Relationship with suppliers	26%	18%	52%	60%	22%	22%
Business affiliations	9%	6%	49%	61%	41%	33%
Access to financing	15%	20%	31%	27%	54%	53%
Economic conditions	78%	63%	17%	27%	5%	10%
Lack of qualified staff	41%	48%	8%	8%	51%	45%
Service Charges	57%	58%	10%	4%	33%	38%
Other	60%	62%	4%	12%	36%	27%

¹⁷ Results are based on a panel of businesses that responded to the 2003 Survey of Travel Arrangements Services.

Positive Factors

Business affiliations were ranked by travel agencies (61%) and tour operators (61%) as the most positive factor influencing business growth in 2003. This is not surprising considering affiliation programs can increase cost-effectiveness and grow a company's profile. For example, affiliation benefits could include bulk buying, favourable commission levels, and marketing support.

The relationships travel agencies and tour operators have with their travel suppliers were also given an overall favourable rating. The percentage of tour operators who gave a positive rating to travel suppliers increased to 60% in 2003; up from 52% in the previous year. However, travel agencies were of two minds on the topic of their travel suppliers. In 2003, 45% of agencies thought of their relationships as a positive; while an almost equal amount (39%) considered them to be detrimental to their business. This may reflect the increasingly unfavourable commission arrangements travel agencies have entered into with their suppliers, most notably with the airline industry.

About two-fifths (38%) of tour operators were in favour of Internet reservations and 45% said they had no effect on their business growth in 2003. Conversely, two in three travel agencies (64%) saw Internet reservations as detrimental to their business. As people become more comfortable making purchases over the Internet; they tend to bypass travel agencies, especially those without an online presence.¹⁸

Negative Factors

The fallout from the Event of September 11th continued to be felt in the Canadian travel arrangement industry in 2003. About eight in ten travel agencies (84%) and tour operators (84%) indicated it was detrimental to their business. Yet, a small share of travel agencies (8%) and tour operators (6%) indicated that September 11th was favourable to their businesses. Perhaps this response reveals the opinions of firms that cater to travel within Canada, and are benefiting from the reputation of Canada as a safe tourism destination.

The share of tour operators who felt that the markets were highly competitive in 2003 increased to 69%, up considerably from 53% in the previous year. A comparable share of travel agencies (65%) also felt that competition in 2003 was unfavourable to their business. For example, there was increased capacity of airline seats on some routes, especially from the growing Canadian low-cost carrier segment.

Many also considered the economic climate to be poor in 2003 – which arguably had the greatest effect on those offering their services to travellers destined for Canada. For the first time in over a decade, the Canadian dollar rose in value relative to the US dollar in 2003. As well, there were fewer foreign visitors (-13.3%) and Canadian visitors (-8.3%) travelling within Canada in 2003 over the previous year¹⁹. About two-thirds of travel agencies (66%) and tour operators (63%) listed economic conditions as being unfavourable to their growth.

However, the share of travel agencies (26%) and tour operators (26%) who cited the economy as a positive agent on their business was up from 2002. Canadian residents spent a record \$18.9 billion on travel abroad, up 1.7% from 2002.²⁰ The stronger Canadian dollar may have contributed to the increase in Canadian travel abroad.

Travel agents and tour operators are very sensitive to changing market conditions in the specialized markets they serve.

¹⁸ More information on the effects of the Internet on the travel arrangement industry can be found in Chapter 4: Technology

¹⁹ Source: Statistics Canada, Canadian Travel Survey (CTS)

²⁰ Source: Statistics Canada, International Travel Survey

Chapter 4: Technology²¹

Traveller demand for the Internet

The Internet's increased popularity has had a major impact on the travel industry over a relatively short period of time. In the beginning, travel suppliers went online to provide information to Internet-savvy consumers. Now, major on-line travel sites are much more likely to offer a booking option which can go beyond simple transactions such as point-to-point air and hotel reservations. In fact, package product options are accounting for an increased share of online business.²²

The “do-it-yourself” or independent traveller is becoming more prevalent in the Internet age. Consumers can take greater control over their travel plans if they are on-line. Not only is the Internet a useful tool for information gathering, but it allows people to compare prices and options to obtain what they feel are the best deals available.

The Internet influences the travel decisions of many Canadians. According to an Ipsos-Reid survey, 35% of online Canadians have used the Internet as the primary source of information for planning upcoming travel. As well, a majority said they will use the Internet to research a trip or vacation in the future (87%).²³

Demand for on-line travel arrangement services has been steadily growing in Canada. Travel arrangement services continue to be one of the most frequently ordered items over the Internet, eclipsed in popularity only by reading materials. In 2003, 22% of households²⁴ reported making travel arrangements over the Internet, up from 18% the year before²⁵. As well, referring to the Ipsos-Reid study, 55% of online Canadians say that they will likely use the Internet in the future to book travel directly on-line²⁶.

About 64% of Canadian households had at least one member who was a regular Internet user, either at home, work, or another location²⁷. Households with children living at home, high incomes, and people with higher levels of education tend to be the most prevalent Internet users. As well, baby-boomers are coming of age where they have more time to travel, and more and more of them are using the Internet.

Impact on the Industry

The increasing popularity of the online travel arrangement services has brought about a major shift in how travel arrangement providers operate – not least of which is the industry's need to reconcile the online business model with the traditional bricks and mortar strategy. Although some consumers are demanding online booking capability, others still want to consult face-to-face with an agent, especially once they get to the reservation stage.

²¹ Results are based on a panel of businesses that responded to the 2003 Survey of Travel Arrangements Services.

²² Source: “Exploding myths: online travel spreads its tentacles”, (Bob Mowat, baxter.net, September 15, 2003).

²³ Source: “More Canadians booking travel on-line: Study”, (globeandmail.com, August 28, 2003).

²⁴ Data refers to households that made online purchases in 2003.

²⁵ Source: 2003 Household Internet Use Survey, Statistics Canada (The Daily September 23, 2004).

²⁶ Source: “More Canadians booking travel on-line: Study”, (globeandmail.com, August 28, 2003).

²⁷ Source: 2003 Household Internet Use Survey, Statistics Canada (The Daily September 23, 2004).

Online agencies have had a huge impact on the travel market. A very popular service is ‘dynamic packaging’; where consumers put together their own holiday by purchasing their flight, hotel, or car rentals separately.

Whether Canadian travel arrangers meet with their clients face-to-face, on the telephone or over the Internet, most have found themselves an online option that works for their firm. For example, travel service providers may want or need to know how to use Internet tools such as B2B systems²⁸ to increase their overall efficiency. Many firms also use the Internet to have access to data provided by other travel-based Web sites.

Survey Results

In 2003, the share of tour operators who ran their own company web site increased to 42%, up from 36% in the previous year. In comparison, the share of travel agencies with their own web sites remained steady at 29%.

The most common purpose of the company web site was to advertise travel products and services in 2003 (see Table 4.1). Of businesses with web sites, three-quarters (75%) of travel agencies and 84% of tour operators used them for advertising purposes. More travel agencies (60%) than tour operators (49%) used their web sites to enhance customer relations. Over one-third of travel arrangers use their web site as a sales channel. In 2003, 35% of travel agencies and 34% of tour operators sold goods and services over their own web site.

Table 4.1

USES OF THE COMPANY WEB SITE:	TRAVEL AGENCIES	TOUR OPERATORS
Advertise travel products and services	75%	84%
Sell travel goods and services	35%	34%
Enhance customer relations	60%	49%
Other	6%	9%

For travel agencies, a relatively small amount of revenue was generated over their company’s web site (1%)²⁹. However, this figure should be interpreted with caution as it may underestimate the true value of Internet sales. In the past few years, a number of travel agencies run solely as online ventures have started up. As such, it is problematic to estimate the overall value of the Internet component of the industry, particularly when the company which runs the online agency is operated out of another country.

About 14% of tour operator revenue was generated over the company’s own web site. The majority of the online sales were made to Canadian clients (88%), while travel agencies generated most of their online revenue (78%) by selling services to clients located outside the country.

²⁸ Business to business systems include Internet bookings on an airlines’ Web site

²⁹ This section refers to the surveyed portion only.

Summary

In 2003, revenue for tour operators increased by 6.5%. Much of the positive growth can be attributed to leisure travellers destined for foreign destinations, especially to popular vacation spots down south such as Mexico, Cuba, and the Dominican Republic.

Over the same period, revenue fell by 1.9% for travel agencies as this industry is more dependent on revenues generated from commissions through travel suppliers.

Travel arrangers have faced a number of challenges affecting the travel industry: SARS, the war in Iraq, competitive pressures, and recent technological developments. However, travel agencies and tour operators have found ways to adapt and continue to play an essential role in the Canadian tourism industry.

Both travel agencies and tour operators have found ways to differentiate themselves in the market. Some have offered a specialized product, such as trips for honeymooners or golf vacations; while others have increased their on-line presence to appeal to the time-crunched and Internet-savvy.

Appendix A: Concepts and Methods

Survey objective

The principal objective of the annual *Survey of Travel Arrangement Services* is to collect data on revenue and expenses by type of product and service, employment, clientele and marketing. The data profiles the travel agencies and tour operators industry and reflects the effects of the industry on the Canadian economy.

Methodology

The survey covers businesses classified according to the North American Industrial Classification System (NAICS) category 561510 for Travel Agencies and 561520 for Tour Operators. The survey questionnaire comprises financial characteristics such as sources of revenue, expense detail, employment characteristics and distribution of revenue by type of client.

Commencing in reference year 2000, the survey was conducted at the establishment level³⁰. The methodology employs a random sample stratified by type of industry, province, and establishment revenue size, designed to achieve a balanced representation of establishments from across travel arrangement services. Although the basic objective of the survey is to produce estimates for the whole industry—all incorporated and unincorporated businesses—not all businesses are surveyed. Prior to the selection of a random sample, establishments are classified into homogeneous groups (i.e. groups with the same NAICS codes) and then each group is divided into sub-groups called strata: take-all, must-take, and take-some.

The take-all stratum includes the largest firms in terms of performance (based on revenue) in an industry. Every firm is sampled in the take-all strata. However, smaller establishments in the take-some stratum are subjected to simple random sampling. To contribute to industry total estimates, these sampled units are then multiplied by a sampling factor (i.e., “weighted up”) to represent all the smaller units in the stratum. The excluded portion represents a substantial proportion of the industry in terms of number of establishments (56%), but its contribution to the overall industry revenue is only about 8%. These excluded establishments are accounted for in the final “universe” estimates through the use of administrative data. However, only basic information is obtained from administrative sources; i.e., total revenue, expenses, depreciation and salaries, wages and benefits. Detailed characteristics such as client base, revenue by type of service and by destination, and detailed expense items are collected only for surveyed establishments.

Several checks are performed on the collected data to verify internal consistency and identify extreme values. Where information is missing, imputation is performed using either a “nearest neighbour” procedure (donor imputation), using historical data where available or finally, using administrative data as a proxy for reported data.

³⁰ An establishment is considered the lowest operating entity for which accounting records can provide the basic production elements i.e. employment, salaries and wages, operating revenue.

Prior to publication, combined survey results are analyzed for comparability; in general, this includes a detailed review of: individual responses (especially for the largest companies), general economic conditions, historic trends, and comparisons with administrative data (e.g., income tax, goods and services tax, payroll deductions records, industry and trade association sources).

For national accounting purposes, the original sample is drawn to obtain a significant coverage of total revenue. Support from the Canadian Tourism Commission allows for additional questionnaires to be mailed to establishments beyond the number required for national accounting.

In 2003, 797 questionnaires were mailed to the industry with special emphasis on large companies. The response rate was 57% of total industry revenue. The remainders were either out of the scope of the industry or not returned.

In 2002, after consultation with respondents and data users, including the Canadian Tourism Commission, some revisions were incorporated into the questionnaire in order to reflect the nature of the industries surveyed. The changes were field tested to ensure that they were reasonable and sustainable.

Interpretation of results

Statistics Canada advises that caution should be exercised in the analysis of travel agencies' revenues. On the questionnaire, travel agencies were asked to report commissions earned (i.e. net revenue) when reporting revenue. However, some agencies inadvertently reported gross revenue with offsetting cost of goods sold in the expenditure section. While every effort was made to identify and correct such occurrences, revenue data could be somewhat overstated by this practice.

Prior to the 2002 report, previous reports were based largely on an unweighted panel of businesses that responded to the Travel Arrangement Survey, and year-to-year comparisons were made between survey panels that were not statistically identical. Some of the data presented in this report are now based on the survey portion of the industry universe (see Methodology notes above). Where the previous year's data is also presented, it has been revised to reflect the use of the survey portion rather than the panel data. Chapters 3 and 4 of this report are based panel data.

Please note that while the majority of businesses report a December fiscal year end, businesses with a fiscal year reporting period ending anytime between April 1st, 2003 and March 31st, 2004 also are included in the 2003 survey data. The data for fiscal year ends other than December are not "calanderized."

For survey reference year 2002, the Travel Arrangement Survey underwent a redesign. As a result of revisions made to the questionnaire, some cross-tabulations for reference years 2002 and 2003 are not directly comparable to data for previous years.

Data quality

While considerable effort is made to ensure high standards throughout all stages of collection and processing, the resulting estimates are inevitably subject to a certain degree of error. These errors can be broken down into two major types: non-sampling and sampling.

Non-sampling error is not related to sampling and may occur for many reasons. For example, non-response is an important source of non-sampling error. Population coverage, differences in the interpretation of questions, incorrect information from respondents, and mistakes in recording, coding and processing data are other examples of non-sampling errors.

Sampling error occurs because population estimates are derived from a sample of the population rather than the entire population. Sampling error depends on factors such as sample size, sampling design, and the method of estimation. An important property of probability sampling is that sampling error can be computed from the sample itself by using a statistical measure called the coefficient of variation (CV). The assumption is that over repeated surveys, the relative difference between a sample estimate and the estimate that would have been obtained from an enumeration of all units in the universe would be less than twice the CV, 95 times out of 100. The range of acceptable data values yielded by a sample is called a confidence interval. Confidence intervals can be constructed around the estimate using the CV. First, we calculate the standard error by multiplying the sample estimate by the CV. The sample estimate plus or minus twice the standard error is then referred to as a 95% confidence interval.

Generally, the more commonly reported variables from the 2002 Travel Arrangements Survey obtained very good CVs (10% or less), while the less commonly reported variables were associated with higher but still acceptable CVs (under 25%). The CVs are available upon request.

Panel data are subject to only non-sampling errors, while the survey portion estimates and the total universe estimates are subject to both sampling and non-sampling errors.

Prior to publication, combined survey results are analyzed for comparability, in general this includes a detailed review of: individual responses (especially for the largest companies), general economic conditions, historic trends and comparisons with administrative data (e.g. income tax, industry and trade association sources).

Appendix B: Glossary of Terms

Depreciation

The proportion of the book value of tangible fixed assets that are charged to the current year for bookkeeping purposes. This would include any amortization of leasehold improvements.

Establishment

A statistical concept used to denote the smallest business unit capable of providing a basic set of industrial statistics (e.g. a mine, store, factory, hotel, farm, airline).

Full-time, Full-year Employee

A regular employee who worked more than 30 hours per week for a full year as observed by the business.

Full-time, Seasonal Employee

A regular employee who worked more than 30 hours per week for only part of the year (seasonal) as observed by the business.

Operating Profit Margin

A financial performance measure calculated by dividing the difference between operating revenue and operating expenses (operating profit/loss) by total operating revenue. Interest (both long-term and short-term) and depreciation are excluded from operating expenses.

Part-time, Full-year employee

One who is employed for less than 30 hours per week for a full-year as observed by the business.

Part-time, Seasonal employee

One who is employed for less than 30 hours per week for only part of the year (seasonal) as observed by the business.

Profit

A financial performance measure calculated by dividing the difference between total operating revenue and total operating expenses (operating profit/loss) by total operating revenue. Depreciation and interest expense on short-term loans are included. (Interest on long-term loans and mortgages are excluded as well as other non-operating expenses such as write-offs, valuation adjustments and capital losses).

Reference Year

For the 2003 Annual Survey of Traveller Arrangement, businesses are asked to report for the calendar year or for the most recently completed fiscal year ending no later than March 31, 2004.

Salaries, Wages and Benefits

Include the commissions, bonuses, vacation pay, and employers' contributions to pension, medical, unemployment insurance and worker's compensation plans.

Survey Universe

Statistics Canada maintains a list of establishments in the travel agencies and tour operators industry from which the survey sample is taken.

Appendix C:
Travel Arrangement Services Questionnaire



Service Industries Division

Annual Survey of Travel Arrangement Services, 2003

▼ Reference number ▼

This information is collected under the authority of the *Statistics Act, Revised Statutes of Canada, 1985, Chapter S19.*

Completion of this questionnaire is a legal requirement under this Act.

This document is confidential when completed.

Français au verso

If necessary, please correct pre-printed information using the corresponding boxes below:



0001	Legal name	0004	Address (number and street)			
0002	Business name	0005	City	0006	Province or State	
0003	C/O	0053	Country	0007	Postal code / Zip code	

Please read carefully before completing the questionnaire

A. General Information

Survey Purpose

This survey collects financial and operating data needed for the statistical analysis of the Travel Arrangement industry. The information from the survey can be used by organizations involved in research or policy making such as the Canadian Tourism Commission.

Coverage

Please complete the questionnaire for the business unit(s) in the pre-printed area above. For this purpose, a "business unit" is defined as the lowest level of the firm for which separate records are kept for such details as revenue, expenses and employment.

Data-Sharing Agreements

In order to reduce response burden and to provide consistent statistics, Statistics Canada has entered into data sharing agreements with the statistical agencies of Quebec, Manitoba and British Columbia under Section 11 of the *Statistics Act*. For business locations operated in Quebec, Manitoba and British Columbia, the agreements authorize Statistics Canada to forward a copy of the data collected in this survey to the statistical agencies of these provinces. The *Statistics Act* of these provinces include the same provisions for confidentiality and penalties for disclosure of information as the federal *Statistics Act*. As well, Statistics Canada has entered into a data sharing agreement with the Canadian Tourism Commission under section 12 of the *Statistics Act* for the sharing of information from this survey. Under section

12 of the *Statistics Act* you may refuse to share your information with the Canadian Tourism Commission by writing to the Chief Statistician and returning your letter of objection along with the completed questionnaire in the enclosed return envelope. The agreement with the Canadian Tourism Commission requires that they keep the information confidential and use it only for statistical and research purposes.

Confidentiality

The *Statistics Act* protects the confidentiality of information collected by Statistics Canada.

Fax or Other Electronic Transmission Disclosure

Statistics Canada advises you that there could be a risk of disclosure during the facsimile or other electronic transmission. However, upon receipt, Statistics Canada will provide the guaranteed level of protection afforded to all information collected under the authority of the *Statistics Act*.

Reporting Instructions

- Report for all operation(s) and/or location(s) pre-printed in the above address area. If it is not possible to report for the above business unit(s), please explain the reason(s) in the comments section at the end of the questionnaire.
- When precise figures are not available, please provide your best estimates.

Return of Questionnaire

Please mail the completed questionnaire(s) in the enclosed envelope or fax it to Statistics Canada at 1 888 605-2493 within 30 days of receipt.

Lost the return envelope or need help? Call us at 1 800 916-9316 or mail to:

Statistics Canada, Operations and Integration Division, 120 Parkdale Avenue, Ottawa, Ontario K1A 0T6



1. Business Activity

- a) Please describe the nature of your business activity in 2003: 0141 _____
- b) Is this a change from the previous year? 0142 1 Yes 3 No
↓
If yes, please provide details in the "Comments" section on page 8.
- c) Please check (✓) below the one industry which most accurately describes your firm's principal source of operating revenue.
- 0057 Travel Agencies, NAICS 561510
- 0058 Tour Operators / Wholesalers, NAICS 561520
- 0040 Other (please specify) 0041 _____

2. Form of Organization

- a) Type of organization (please check one only):
- 0024 1 Sole proprietorship 2 Partnership 3 Incorporated company 4 Co-operative
5 Joint venture 6 Government business entity 7 Government 8 Non-profit organization
- b) Is the sole purpose of this business unit to provide services to your parent company, an affiliated company or a professional practice?
0029 1 Yes 3 No
If yes, please name the company or professional practice 0030 _____
- c) Is this business affiliated with a chain or franchise group?
0789 1 Yes 3 No
If yes, please provide name 0790 _____

3. Reporting Period

- a) Please report for your **fiscal year** ending between April 01, 2003 and March 31, 2004.
- 0011 From

YYYY	MM	DD

 0012 To

YYYY	MM	DD
- b) **Period of Operation.** If you did not operate this business for a full year, please check (✓) the reason below:
- 0042 Seasonal operation From

YYYY	MM	DD

 To

YYYY	MM	DD
- 0032 New business in 2003, effective date

YYYY	MM	DD
- 0034 Change of ownership (please provide name, address of other owner and effective date)
- 0124

YYYY	MM	DD
- 0035 Ceased operation (please specify), effective date 0019

YYYY	MM	DD
- 0036 Temporarily closed (please specify), effective date 0049

YYYY	MM	DD

Please report for your 2003 fiscal year, as indicated in section 3.
Please exclude GST and all other taxes collected by you for remittance to a government agency.

4. Revenue

	(\$ CDN)
a) Revenue from travel agency activity If your business unit sold retail travel products (e.g. sales of tickets, tour and cruise packages, etc.) on a commission basis, please report total commissions here	2219
b) Revenue from tour operating activity If your business unit earned revenue from tour operating activity, please report the gross value of tour and cruise packages sold	2232
c) Revenue from wholesale of travel products activity If your business unit sold travel products (e.g. airline seat tickets, tour or cruises packages) to other travel agencies on a wholesale basis, report the gross value here	2236
d) Other operating revenues (guides, maps, luggage, etc.)	2228
e) Total operating revenue (sum of items a, b, c and d)	2080
f) All other revenue include interest revenues, dividends, investment income, capital gains, etc.	2097
g) Total revenue (sum of items e and f)	2098

5. Revenue by Type of Goods and Services

What percentage of your **total operating** revenue reported in cell 2080 is from:

	Percent (%)
i) Transportation fares (e.g. air and rail tickets bookings)	2220
ii) Tour packages	2221
iii) Cruise packages	2222
iv) Accommodation	2223
v) Vehicle rentals	2224
vi) Insurance products (e.g. health, baggage and cancellation insurance)	2225
vii) Services fees (include non-commission charges to clients, e.g. research charges, calls)	2226
viii) Other sources (e.g. attractions, travellers' cheques, etc.)	2233
Total	100%

6. Revenue by Destination

Please indicate the percentage of your **total operating** revenue (cell 2080) from travel to:

	Percent (%)
Canadian Destinations:	2243
a) Tour and cruise packages	2270
b) All other travel to Canadians destinations	2271
USA Destinations:	2272
c) Tour and cruise packages	2273
d) All other travel to American destinations	2274
All Travel to Other Foreign Destinations:	2274
e) Tour and cruise package travel	2274
f) All other travel to other foreign destinations	2274
g) Total	100%

7. Web Site

Did your business operate a website during your 2003 fiscal reporting year?
If yes, please answer the following questions:

2275 1 Yes 3 No **If no, go to Question 8.**

a) What were the uses of your web site (check (✓) any that apply)

2276 Advertise travel products and services

2277 Sell travel goods and services

2278 Enhance customers relations

2279 Other (please specify)

2280

b) What percentage of your **total operating** revenue (cell 2080) was conducted over your web site?

2281	%
------	---

c) What percentage of your web site sales (cell 2281) were made to clients outside Canada?

2282	%
------	---

8. Distribution of Operating Revenue by Type of Client

Please indicate the percentage of your **total operating** revenue (cell 2080) derived from the following clientele:

Clients in Canada

a) Individuals or Households (for leisure purposes)

Percent (%)
2283

b) Individuals or Companies (for business purposes)

2284

c) All levels of government (e.g. federal, provincial, territorial and municipal)

2285

Foreign clients

d) All foreign clients (for leisure or business purposes)

2286

Total

100%

Please indicate the percentage breakdown of operating revenue from sales to **foreign clients** (cell 2286).

U.S.

2287

UK

2288

France

2289

Germany

2291

Japan

2292

Other foreign

2293

Total

100%

9. Expenses

Please report expenses for your 2003 fiscal year in **Canadian dollars**.
Do not include income taxes.

(\$ CDN)

	4368
a) Total cost of all units of travel purchased from suppliers (carrier, hotel, sightseeing, etc.)	4369
b) Commission paid to travel agents	3010
c) Salaries and wages	3040
d) Benefits paid to employees	4115
e) Rent and lease of premises, equipment and vehicles	4365
f) Advertising and sales promotion	4102
g) Telephone, telecommunications, postage, courier fees and Internet	3303
h) Office expenses	4410
i) Taxes, permits and licences, royalties and franchise fees	4520
j) Depreciation and amortization	4630
k) Interest expenses (both long and short-term)	4349
l) Write-offs, valuation adjustments, capital losses	4569
m) All other expenses, (please specify significant amounts) 4561 <input type="text"/>	
	4699
n) Total Expenses (sum of items a to m)	

10. Employment

a) Paid Employees	
Please report the average number of persons employed during the reporting period to whom you paid Salaries and Wages (as shown in section 9 Expenses, cell 3010).	Number
i) Full-time full-year Worked more than 30 hours per week	6071
ii) Full-time part year (seasonal) Worked more than 30 hours per week	6072
iii) Part-time full-year Worked less than 30 hours per week	6074
iv) Part-time part year (seasonal) Worked less than 30 hours per week	6075
v) Total number of employees	6312
	6321
b) Working proprietors and/or partners of unincorporated businesses	6320
c) Contract Workers (individuals engaged only for the duration of a specific project or term)	

11. Market Analysis

a) Demand for products and services (fiscal year 2003)

i) Please check (✓) all the products / services that you typically sell.

Airline tickets only	<input type="checkbox"/>	9685
Adventure tours / Ecotours / Outdoor	<input type="checkbox"/>	9686
Education / Cultural tours	<input type="checkbox"/>	9687
Sports packages	<input type="checkbox"/>	9688
Resorts packages	<input type="checkbox"/>	9689
Other (please specify)	<input type="checkbox"/>	9690
<input type="text"/>		

ii) Please check (✓) the products / services which generated the greatest demand for your business (**check only one**)

Airline tickets only	<input type="checkbox"/>	9692
Adventure tours / Ecotours / Outdoor	<input type="checkbox"/>	9693
Education / Cultural tours	<input type="checkbox"/>	9694
Sports packages	<input type="checkbox"/>	9695
Resorts packages	<input type="checkbox"/>	9696
Other (please specify)	<input type="checkbox"/>	9697
<input type="text"/>		

b) What is your busiest season (fiscal year 2003)?

Summer 9698 Fall 9699 Winter 9700 Spring 9701

c) Factors affecting your business growth (fiscal year 2003).

Please indicate how the following factors affect the growth of your business unit.

	No effect	Very negatively	Somewhat negatively	Somewhat positively	Very positively
9702 Internet reservations	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>	5 <input type="checkbox"/>
9703 Competition	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>	5 <input type="checkbox"/>
9704 Event of September 11, 2001	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>	5 <input type="checkbox"/>
9705 Relationship with suppliers (e.g. airlines)	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>	5 <input type="checkbox"/>
9706 Business affiliations	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>	5 <input type="checkbox"/>
9707 Access to financing	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>	5 <input type="checkbox"/>
9708 Economic conditions	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>	5 <input type="checkbox"/>
9709 Lack of qualified staff	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>	5 <input type="checkbox"/>
9711 Service charges	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>	5 <input type="checkbox"/>
9713 Other (please specify)	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>	5 <input type="checkbox"/>
<input type="text"/>					

12. Provincial/Territorial Distribution Table

a) Please report the number of business units operated in Canada during the reporting period. "Business unit" is defined as the lowest level of the firm for which separate records are kept for such details as revenue, expenses and employment.

Number
5001

b) Do you have permanent business locations in **more** than one province or territory?

9966 ³ No – Please go to Section 13

¹ Yes – Please complete 12 c)



c) Please report the following data for the provinces or territories in which you have business units.

Province or Territory	Business units (Number)	Total Revenue (\$ CDN)	Salaries, Wages and Benefits (\$ CDN)	Employees (Number)	Total Expenses (\$ CDN)
Nfld.Lab.	5002	4824	4826	6225	4925
P.E.I.	5003	4829	4831	6230	4930
N.S.	5004	4834	4836	6235	4935
N.B.	5005	4839	4841	6240	4940
Que.	5006	4844	4846	6245	4945
Ont.	5007	4849	4851	6250	4950
Man.	5008	4854	4856	6255	4955
Sask.	5009	4859	4861	6260	4960
Alta.	5010	4864	4866	6265	4965
B.C.	5011	4869	4871	6270	4970
Yukon	5014	4874	4876	6275	4975
N.W.T.	5013	4879	4881	6280	4980
Nunavut	5012	4884	4886	6285	4985
Canada total	5015	4889	4891	6290	4990

Should equal Box 5001, Section 12	Should equal Box 2098, Section 4	Should equal the sum of Boxes 3010 and 3040, Section 9	Should equal Box 6312, Section 10	Should equal Box 4699, Section 9
---	--	---	---	--

13. Certification

I certify that the information contained herein is complete and correct to the best of my knowledge.

Signature of authorized person	Title 0014	0015 Date		
		Year	Month	Day

Name of person to contact for further information (please print) 0026	0013	First name									
	0054	Last name									

1 Mr. 2 Mrs. 3 Miss 4 Ms.

E-mail address: 0018	Web site address: 0020
-------------------------	---------------------------

Telephone number: () 0017	Extension: 0027	Fax number: () 0016
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How long did you spend collecting the data and completing this questionnaire?	9910 hour(s)	9909 minute(s)
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