

RESEARCH

# CANADIAN TRAVEL ARRANGEMENT SERVICES SURVEY

YEAR 2002 REPORT

Research  
report  
2004-3

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# **Canadian Travel Arrangement Services Survey**

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Year 2002 Report

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The Canadian Tourism Commission

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As with any endeavour of this nature, a large number of people are involved both directly and indirectly in its completion. The following individuals from Service Industries Division are responsible for the processing of the data and the preparation of this report: Janine Stafford, Joan Farnworth, Ron Browne, Francine Laurence and Adib Farhat.



# Table of Contents

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<b>Introduction .....</b>	<b>1</b>
<b>Chapter 1: The Travel Agencies Industry .....</b>	<b>3</b>
Highlights: The industry in 2002 .....	3
Concentration of the industry .....	3
Sources of revenue .....	5
Revenue by Destination .....	6
Revenue by Client Base.....	6
Operating Expenses.....	7
Employment Profile .....	8
<b>Chapter 2: The Tour Operators Industry .....</b>	<b>9</b>
Highlights: The Industry in 2002.....	9
Concentration of the industry .....	9
Sources of revenue .....	11
Revenue by Destination .....	12
Revenue by Client Base.....	13
Operating Expenses.....	14
Employment Profile .....	14
<b>Chapter 3: Market Conditions in 2002 .....</b>	<b>15</b>
Positive Factors.....	16
Negative Factors .....	17
<b>Chapter 4: The Internet’s Growing Role in the Travel Arrangements     Industry .....</b>	<b>19</b>
Survey results .....	19
<b>Summary .....</b>	<b>21</b>
<b>Appendix A: Concepts and Methods .....</b>	<b>23</b>
<b>Appendix B: Glossary of Terms .....</b>	<b>27</b>



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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 – packagers (tour operators and wholesalers) and retailers (travel agencies). This report profiles the supply side of the travel services industry.

The report provides an analysis of the travel agencies industry, and the tour operators / wholesalers industry<sup>1</sup> in two separate sections. Each section provides tables and analysis of general characteristics, revenue and cost structures, client base, marketing methods, and trade patterns. The findings included in this document are based on the surveyed establishments, which represent 89% of total industry revenues. Special care should be exercised when using the data to project to the industry level.

The last two chapters of the report set forth data from new sections introduced to the Annual Survey of Travel Arrangements in 2002.

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<sup>1</sup> Throughout the report, the term tour operator refers to both tour operators and wholesalers.



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# Chapter 1: The Travel Agencies Industry

## Highlights: The industry in 2002<sup>2</sup>

- In 2002, the number of travel agencies increased to 5,397 establishments, up from 5,342 in 2001.
- Travel agencies earned \$1.87 billion in operating revenues, a 2.2% current dollar increase over the previous year.
- Operating profit margin before taxes was 5.0%, up from 4.8% in 2001.
- Wages, salaries and benefits accounted for 56% of operating expenses.
- Almost 84% of employees were classified as full-time, full-year.<sup>3</sup>

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, and providing assistance with reservations and bookings.

The travel agency industry continued to struggle in 2002 against a general economic downturn and the changing nature of its business. Consumer preferences and travel patterns changed dramatically after September 11<sup>th</sup>. Consumer confidence was further shaken by the uncertainty caused by the looming Iraq war and the threat of terrorism. With personal safety concerns, and longer delays through airport security and at the border, North American travellers preferred destinations which were closer to home and could be reached by land.<sup>4</sup> Nevertheless, travel agents continued to sell travel products, often at bargain prices, to foreign destinations.

The airline industry underwent considerable changes in 2002 such as increasing consolidation within the industry, and growth in the low-cost airlines segment of the industry. As well, consumers demanded value pricing (pricing which emphasized perceived value instead of set market prices)<sup>5</sup>. To trim costs and remain competitive, a number of major carriers cut their commissions to travel agents and some encouraged customers to buy their tickets directly from the airline's web site. Travel agents adapted to the loss of commission revenue by charging service fees to clients.

## Concentration of the industry

In current dollars, operating revenue for the travel agencies industry reached \$1.87 billion, up 2.2% from 2001 despite the looming war in Iraq, terrorism attacks, and a global economic decline. This small gain is attributable to a rebound in the travel industry led by the leisure traveller towards the end of 2002.<sup>6</sup>

Travel agency activity, measured in revenue, is typically concentrated in Ontario, and Quebec, where the majority of Canadians live (Figure 1.1).<sup>7</sup> In 2002, these two provincial markets made up two-thirds (66%) of total operating revenues, down slightly from the previous year (67%). The provincial distribution has been relatively unchanged over the past five years.

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<sup>2</sup> Results are for the entire industry unless otherwise indicated.

<sup>3</sup> Employment data are based on the survey portion of the universe. The establishments in the survey portion account for 67% of the travel agencies industry revenues. See Chapter 5: Concepts and Methods.

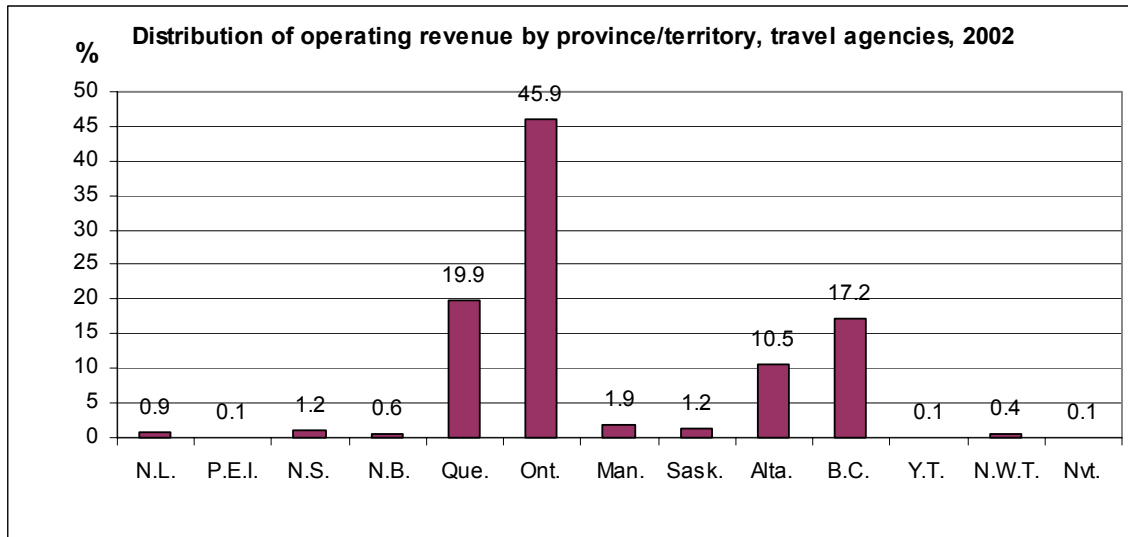
<sup>4</sup> Source: World Tourism Organization (WTO)

<sup>5</sup> Source: CTC Tourism Intelligence Bulletin – Issue 9: October 2002 “Customers demand value pricing”.

<sup>6</sup> Source: CTC Tourism Intelligence Bulletins, 2003.

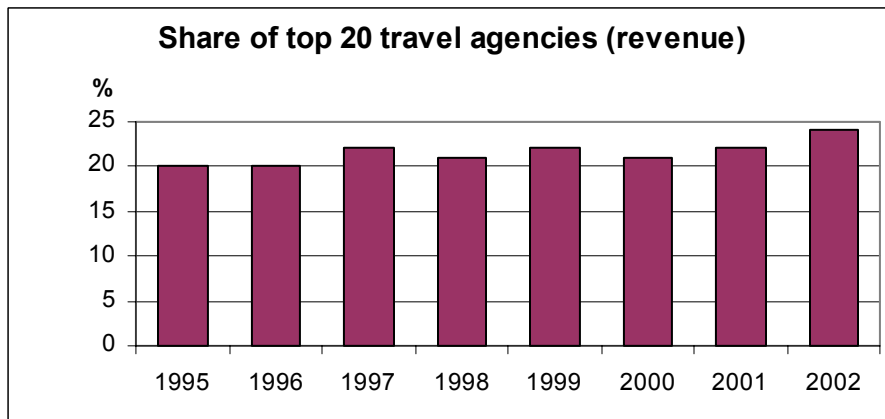
<sup>7</sup> Results are based on a panel of businesses that responded to the Travel Arrangement Survey, Statistics Canada.

Figure 1.1



In 2002, there were about 5,400 establishments operating in the travel agencies industry, accounting for 78.3% of all establishments offering travel arrangement services<sup>8</sup>. The industry can be characterized as highly competitive and having relatively small operations. Unlike tour operators, business acquisitions and mergers have a nominal effect on this industry. In 2002, the top 20 travel agents had a 24% share of operating revenues, up slightly from 22% in 2001 (Figure 1.2).

Figure 1.2



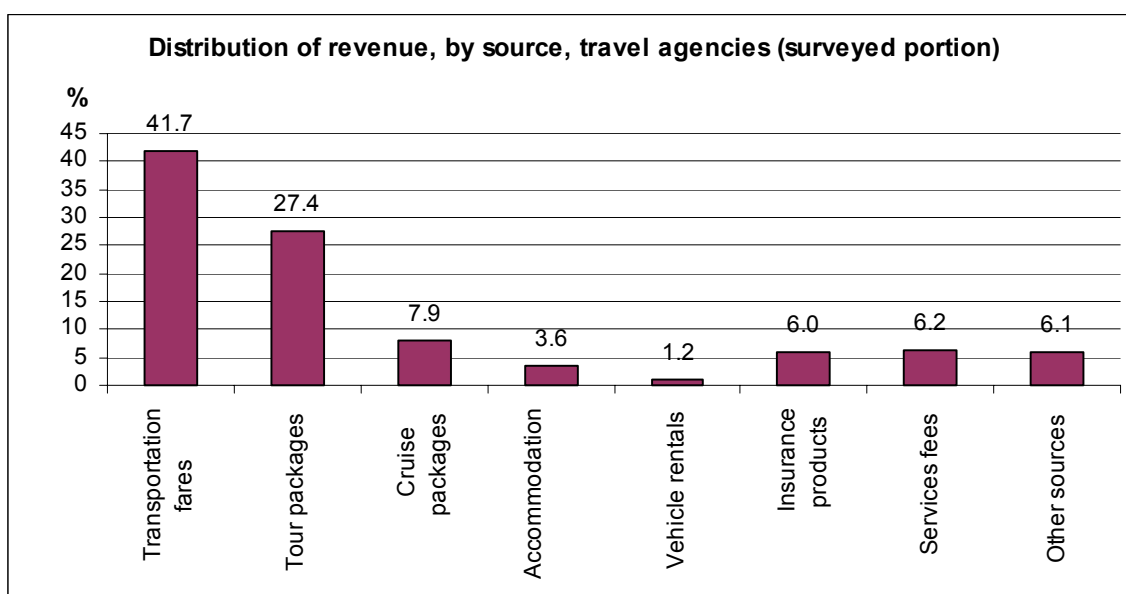
<sup>8</sup> Tour operators made up the remainder of the travel arrangements industry.

## Sources of revenue<sup>9</sup>

Travel agencies continued to rely heavily on commissions charged from suppliers in 2002.<sup>10</sup> As shown in Figure 1.3, about two-fifths (41.3%) of total revenue for this industry came from selling and reserving transportation fares, the largest component of total industry revenue. Commissions obtained for selling tour packages (27.1%) and cruise packages (7.9%) followed in relative importance.

To offset losses due to cuts in airline commissions, a number of travel agencies responded by charging their clients nominal service fees and by placing a greater emphasis on selling non-traditional products and services. In 2002, service fees accounted for just over 6% of total revenue. A similar portion of revenue came from sales of insurance products (6.0%), followed by commissions derived from accommodation reservations (3.6%) and vehicle rentals (1.2%).

Figure 1.3



<sup>9</sup> Results are now based on the survey portion of the industry universe, while results in previous years were based on a panel of businesses that responded to the Travel Arrangement Survey, Statistics Canada.

<sup>10</sup> In 2002, the Travel Arrangement Survey underwent a major redesign. As a result of questionnaire revisions, the share of revenue by source for the industry in 2002 is not directly comparable to data for previous years.

## Revenue by Destination<sup>11</sup>

Revenue from travel to foreign destinations other than the United States remained a mainstay for the travel agencies industry (Table 1.1). In fact, its share increased from 45% to 49% in 2002 despite the impending Iraq war and threat of terrorism. This may be explained by price-competitive travel suppliers offering better deals to attract both wary and thrifty customers.

The sale of travel products for Canadian destinations generated the remainder of revenue (27%), down slightly from 30% in 2001. The revenue share generated from travel to the US remained steady at 25%.

**Table 1.1: Operating revenue by destination, travel agencies (surveyed portion)**

DESTINATION	2001 (%)	2002 (%)
<b>CANADIAN DESTINATIONS</b>		
Tour and cruise packages	9.8	7.1
All other travel	19.8	19.3
Total Canadian destinations	29.6	26.5
<b>USA DESTINATIONS</b>		
Tour and cruise packages	12.0	12.8
All other travel	13.4	12.2
Total US destinations	25.4	25.0
<b>FOREIGN DESTINATIONS (NON-US)</b>		
Tour and cruise packages	21.0	21.3
All other travel	23.9	27.2
Total foreign destinations (non-US)	45.0	48.5
<b>Total</b>	<b>100.0</b>	<b>100.0</b>

## Revenue by Client Base

Canadian leisure travellers continue to be the largest clients of Canadian travel agents (Table 1.2). In 2002, 63% of operating revenue came from selling leisure products to Canadian individuals and households, relatively unchanged from the previous year (64%). The share of business travellers was also down a little, as this group's share fell from 32% in 2001 to 30% of operating revenue.

<sup>11</sup> Results are now based on the survey universe, while results in previous years were based on a panel of businesses that responded to the Travel Arrangement Survey, Statistics Canada. Where comparative 2001 data are presented, they have been revised to reflect the surveyed portion.

**Table 1.2: Revenue by client base, travel agencies (surveyed portion)**

CLIENT BASE	2001 (%)	2002 (%)
Clients in Canada - leisure	63.6	62.9
Clients in Canada - business	31.9	30.0
Clients in Canada - government	2.2	2.4
Foreign clients	2.3	4.6

Revenue share increased for foreign clients, with most of the increase generated by US customers (Figure 1.4). After the events of September 11<sup>th</sup>, many Americans picked travel destinations that they could reach by automobile and where they would feel safe. In 2002, the number of overnight US visitors to Canada increased 3.8%<sup>12</sup>.

**Figure 1.4**



## Operating Expenses

In current dollars, operating expenses for the industry increased to \$1.77 billion in 2002, up 1.9% from the previous year. Table 1.3 shows the percentage distribution of the operating expenses for 2002<sup>13</sup>. The single largest operating expense was salaries and wages (52%). The share of salaries and wages was up 4% percentage points since 2001. The Statistics Canada Survey of Earnings, Payroll and Hours also indicated that weekly earnings rose in the travel arrangement industry by 0.5% to \$596.20 in 2002.

<sup>12</sup> Source: National Tourism Indicators, Statistics Canada. Overnight visitors refer to travellers who stay one or more nights in Canada.

<sup>13</sup> Results are based on the surveyed portion of the travel agency industry universe.

**Table 1.3: Operating expenses, travel agencies (surveyed portion)**

ITEMS	2001 (%)	2002 (%)
Salaries and wages paid	47.9	52.2
Employee benefits paid	3.2	3.7
Office expenses	3.4	3.8
Telephone, telecommunications...	3.5	3.6
Rent and/or lease of premises, equipment and vehicles	10.7	10.0
Write-offs, valuation adjustments...	0.0	0.80
Advertising and sales promotion	5.9	6.2
Total cost of all units of travel purchased from suppliers	5.9	4.6
Commission paid to travel agents	0.3	0.4
Taxes, permits and licenses	1.9	2.3
Depreciation and amortization	2.1	2.5
All other expenses	15.1	10.6
<b>Total operating expenses</b>	<b>100.0</b>	<b>100.0</b>

## Employment Profile

Most employees (84%) worked full-time, full-year in the travel agencies industry (Table 1.4).<sup>14</sup> This percentage is relatively high as the key to a travel agency's competitiveness is to provide good customer service to encourage repeat business and "word of mouth" referrals. Similar to other years, there were comparatively few part-time workers in the industry during 2002 at only 12%.

**Table 1.4: Employment profile, travel agencies (surveyed portion)**

EMPLOYMENT CATEGORIES	2001 (%)	2002 (%)
Paid employees - Full-time full year	84.9	83.7
Paid employees - Full-time part year	2.5	4.5
Paid employees - Part-time full year	10.4	9.8
Paid employees - Part-time part year	2.2	2.0
<b>Total</b>	<b>100.0</b>	<b>100.0</b>

<sup>14</sup> Results are based on the survey portion of the universe (see Chapter 5: Concepts and Methods).

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## Chapter 2: The Tour Operators Industry<sup>15</sup>

### Highlights: The Industry in 2002<sup>16</sup>

- In 2002, the number of tour operators numbered 1,206 establishments, up from 1,147 in 2001.
- Tour operators earned \$5.87 billion in operating revenues in 2002, a 2.3% current dollar increase over the previous year.
- Operating profit margin before taxes was 1.0%, a slight increase from 0.8% in 2001.
- The cost of travel purchased (goods and services sold) from suppliers accounted for 84% of operating expenses.
- Wages, salaries and benefits accounted for 4.8% of total operating expenses, or 46.3% of indirect operating expenses (with cost of travel and commissions paid to travel agents removed)
- About 82% of employees were classified as full-time, full-year<sup>17</sup>.

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.

Like travel agents, tour operators were affected in 2002 by a worldwide economic downturn and traveller uncertainty brought about by the impending Iraq war and the threat of terrorism. Since the industry assumes ownership of the goods and services that comprise tour packages, they are particularly vulnerable to these types of events. Hit especially hard were tour operators who traditionally derived a significant portion of their revenue from tours to foreign destinations. In 2002, Canadians made an estimated 39.4 million trips outside of Canada, down 8.7% from 2001<sup>18</sup>.

Due to the decrease in consumer demand, many travel suppliers were forced to lower their prices throughout the year to attract customers. During 2002, it was not unusual for travellers to adopt a “wait and see” attitude<sup>19</sup> with their purchase decisions. Consumers either felt uneasy about making travel plans or they were willing to wait for the next big deal offered by the travel industry.

### Concentration of the industry

Like the travel agencies industry, total operating revenue for tour operators grew marginally (2.3%) despite economic and political shocks. Although some consumers avoided airplane trips and stuck closer to home, people continued to travel throughout the year. The tour operating industry recorded a 1.0% profit margin (a marginal increase from 0.8% in 2001) and generated \$5.87 billion in operating revenue.

Tour operators earn most of their revenues in Quebec, Ontario and British Columbia (Figure 2.1). About 94% of the industry is concentrated in the three provinces, a fairly typical breakdown over the past few years.

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<sup>15</sup> Previously known as the tour operators / wholesalers industry.

<sup>16</sup> Results are for the total industry universe unless otherwise indicated.

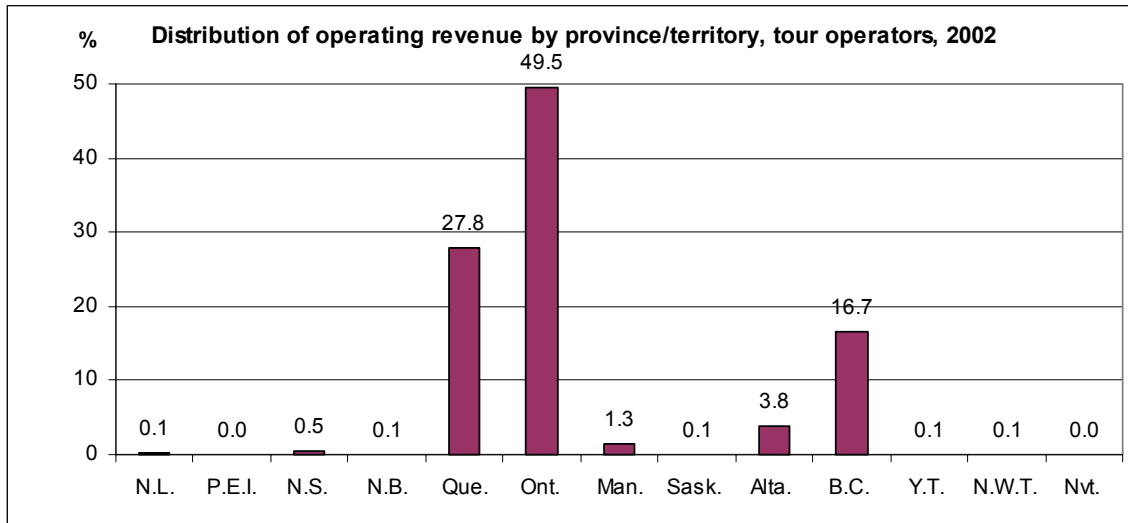
<sup>17</sup> Employment profile data are based on the survey portion of the universe. The establishments in the survey portion account for 97% of the tour operators industry revenues.

<sup>18</sup> Source: International Travel Survey, Statistics Canada

<sup>19</sup> Source: World Tourism Organization (WTO)

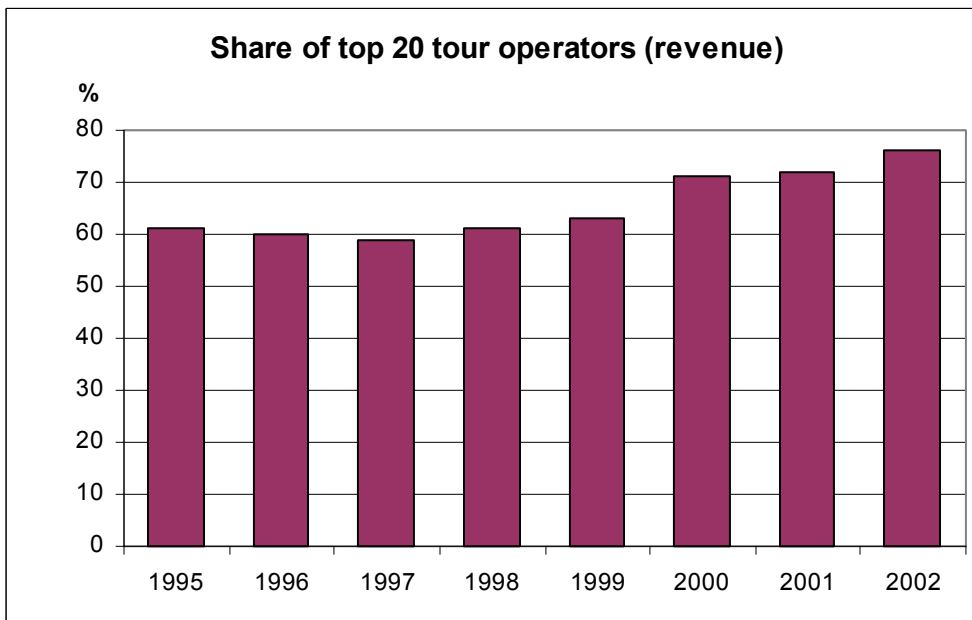


**Figure 2.1**



In total, there were just over 1,200 tour operators working in Canada in 2002, which accounted for 18.3% of all travel arrangement service providers<sup>20</sup>. As in previous years, the tour operating industry continues to be highly integrated through business acquisitions and mergers. In 2002, the top 20 tour operators generated 76% of tour operating revenue, up from 72% in 2001 (Figure 2.2).

**Figure 2.2**

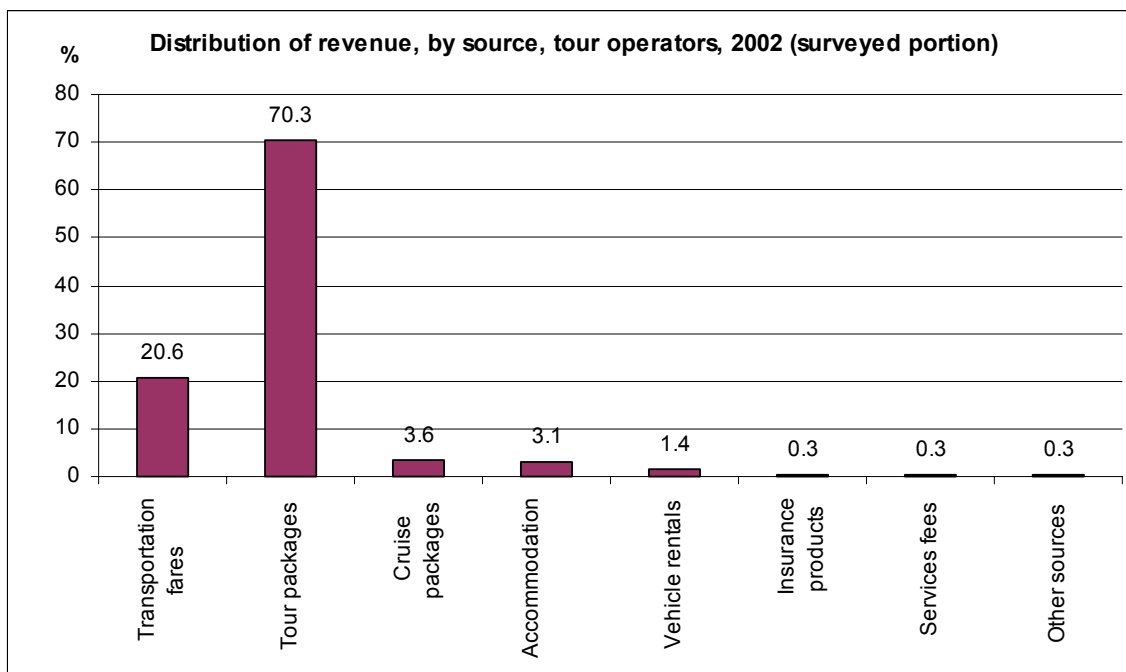


<sup>20</sup> Travel agencies comprised 81.7% of the travel arrangements industry.

## Sources of revenue<sup>21</sup>

As expected, the largest revenue source of the tour operating industry came from sales of tour packages, either directly to clients or to travel retailers (70%)<sup>22</sup>. Figure 2.3<sup>23</sup> shows that transportation fares ranked as the second most important revenue source (21%). Unlike the travel agencies industry, inconsequential levels of revenue came from charging service fees (0.3%) and selling insurance products (0.3%).

Figure 2.3



<sup>21</sup> Results are now based on the survey universe, while results in previous years were based on a panel of businesses that responded to the Travel Arrangement Survey, Statistics Canada. The establishments in the survey portion account for 97% of the tour operators industry revenues.

<sup>22</sup> In 2002, the Travel Arrangement Survey underwent a major redesign. As a result of revisions made to the questionnaire, the share of revenue by source for the industry in 2002 is not directly comparable to data for previous years.

<sup>23</sup> Due to the questionnaire redesign, operating revenues are now combined and are no longer broken down by tour operating, wholesaling, or travel agency activity.

## Revenue by Destination<sup>24</sup>

The tour operating industry was faced with difficult challenges in 2002, as consumers became somewhat apprehensive to travel and the worldwide economy declined. However, sales of packages to foreign destinations remained the foundation of tour operators' revenue (Table 2.1). In general, people who travel closer to home (within Canada or the US) are less likely to purchase packaged tours than people who travel abroad.

In 2002, over three-quarters of total revenue (78%) came from package sales to foreign destinations other than the US, an increase from 70% in 2001. This would suggest that the industry's value pricing efforts caused a shift towards the sale of packages to foreign destinations.

At the same time, the relative revenue shares of total travel to Canadian and US destinations decreased. The share derived from Canadian destinations was down almost five percentage points to 15%, while the US share declined from 11% to 8%. This decline in the US share may be partly attributable to the fact that, on average, the value of the Canadian dollar vis-à-vis the US dollar dropped slightly during 2002, making it relatively more costly to vacation in the US.<sup>25</sup>

**Table 2.1: Operating revenue by destination, tour operators (surveyed portion)**

DESTINATION	2001 (%)	2002 (%)
<b>CANADIAN DESTINATIONS</b>		
Tour and cruise packages	12.4	9.2
All other travel	6.7	5.2
<b>Total Canadian destinations</b>	<b>19.1</b>	<b>14.5</b>
<b>USA DESTINATIONS</b>		
Tour and cruise packages	8.8	5.8
All other travel	2.2	2.3
<b>Total US destinations</b>	<b>11.0</b>	<b>8.0</b>
<b>FOREIGN DESTINATIONS (NON-US)</b>		
Tour and cruise packages	57.6	57.2
All other travel	12.2	20.3
<b>Total foreign destinations (non-US)</b>	<b>69.8</b>	<b>77.5</b>
<b>Total</b>	<b>100.0</b>	<b>100.0</b>

<sup>24</sup> Results are now based on the surveyed portion of the universe, while results in previous years were based on a panel of businesses that responded to the Travel Arrangement Survey, Statistics Canada. Data for 2001 have been revised to reflect the surveyed portion.

<sup>25</sup> Source: Bank of Canada, Financial Markets Department, Year Average of Exchange Rates, [www.bank-banque-canada.ca](http://www.bank-banque-canada.ca)

## Revenue by Client Base

The most important client base for the industry is the Canadian leisure traveller. In 2002, sales to Canadian households and individuals provided 80% of tour operator revenues, a slight decrease (81%) from 2001 (Table 2.2). Foreign clients accounted for a slightly smaller percentage of revenue, falling from 13.6% to 12.7%. However, the revenue share from US clients grew to 4.6%, up from 1.4% in 2001.

**Table 2.2: Revenue by client base, tour operators (surveyed portion)**

CLIENT BASE	2001 (%)	2002 (%)
Clients in Canada - leisure	81.1	80.3
Clients in Canada - business	5.0	6.8
Clients in Canada - government	0.4	0.2
Foreign clients	13.6	12.7

This increase in US revenue share caused US clients to become the largest source of foreign revenue (Figure 2.4). Almost 36% of the revenue earned by tour operators through sales to foreign clients could be attributed to the US. In contrast, US sales as a percentage of foreign-derived revenues in 2001 were substantially lower (10.2%).

**Figure 2.4**



Revenue generated from clients based in Japan has remained steady over the past two years. In 2001, Japan had the distinction of being the largest foreign client with 36.0% of foreign revenue. This percentage dropped marginally to 31.9% in 2002.

## Operating Expenses

Table 2.3 shows the operating expense breakdown (indirect costs) for the tour operators industry in 2002<sup>26</sup>. In current dollars, operating expenses for the industry increased to \$5.8 billion, up 2.1% from the previous year. Salaries and wages (44%) were the largest indirect costs borne by the tour operators industry. Following in relative importance were advertising and sales promotion (14%) and rent and/or lease of premises, equipment and vehicles (6%).

**Table 2.3: Operating Expenses (indirect costs),  
tour operators (surveyed portion)**

TOTAL OPERATING EXPENSES	2002 (%)
Salaries and wages paid	43.6
Employee benefits paid	2.7
Office expenses	5.5
Telephone, telecommunications...	4.7
Rent and/or lease of premises, equipment and vehicles	6.1
Write-offs, valuation adjustments...	0.4
Advertising and sales promotion	14.4
Taxes, permits and licenses	1.6
Depreciation and amortization	5.9
All other expenses	15.4
<b>Total</b>	<b>100.0</b>

In terms of total operating expenses, about 85% consisted of the cost of travel purchased from suppliers. Just over 5% of total operating expenses were spent on the commissions paid to travel agents.

## Employment Profile

Like the travel agencies industry, most tour operators' employees worked full-time and full year (82%) in 2002 (Table 2.4). Comparatively few individuals worked on a part-time basis. In 2002, about 8% of workers were employed part-time, either full year or seasonal.

**Table 2.4 Employment profile, tour operators (surveyed portion)**

EMPLOYMENT CATEGORIES	2001 (%)	2002 (%)
Paid employees - Full-time full year	82.5	82.3
Paid employees - Full-time part year	7.8	10.0
Paid employees - Part-time full year	4.4	4.9
Paid employees - Part-time part year	5.4	2.9
<b>Total</b>	<b>100.0</b>	<b>100.0</b>

<sup>26</sup> This table measures indirect costs, as it excludes the cost of travel purchased from suppliers and commissions paid to travel agents.

## Chapter 3: Market Conditions in 2002 <sup>27</sup>

A market analysis section was introduced to the Annual Survey of Travel Arrangements in 2002. Tour operators and travel agencies were asked for their opinions about what may have impacted their business growth, either for the better or for the worst, over the year. The question asked the respondent to rank their growth for nine factors using the following qualifiers: very negatively; somewhat negatively; somewhat positively; very positively; or no effect. The question also contained an “other” fill-in response factor. The results are presented in Table 3.1.

**Table 3.1: Respondent Opinion of Market Conditions, 2002**

TRAVEL AGENCIES (PERCENTAGE OF RESPONSES)						
	NO EFFECT	VERY NEGATIVELY	SOMEWHAT NEGATIVELY	SOMEWHAT POSITIVELY	VERY POSITIVELY	TOTAL
Internet reservations	17.6	13.9	49.6	11.8	7.1	100
Competition	23.3	12.3	47.5	11.9	5.1	100
Event of September 11, 2001	3.3	57.7	28.2	4.6	6.2	100
Relationship with suppliers	10.9	17.6	23.9	34.0	13.4	100
Business affiliations	35.8	2.6	6.0	44.4	11.2	100
Access to financing	61.4	7.6	9.7	15.9	5.5	100
Economic conditions	6.4	31.5	42.1	13.2	6.8	100
Lack of qualified staff	51.9	11.6	27.5	6.9	2.1	100
Service Charges	21.8	10.1	39.5	16.0	12.6	100
Other	42.4	42.4	12.1	0.0	3.0	100
TOUR OPERATORS (PERCENTAGE OF RESPONSES)						
	NO EFFECT	VERY NEGATIVELY	SOMEWHAT NEGATIVELY	SOMEWHAT POSITIVELY	VERY POSITIVELY	TOTAL
Internet reservations	43.7	4.6	9.2	34.5	8.0	100
Competition	17.0	8.0	45.5	22.7	6.8	100
Event of September 11, 2001	4.5	59.1	27.3	1.1	8.0	100
Relationship with suppliers	21.8	10.3	16.1	35.6	16.1	100
Business affiliations	41.2	3.5	5.9	32.9	16.5	100
Access to financing	54.4	5.9	8.8	25.0	5.9	100
Economic conditions	4.6	36.8	41.4	13.8	3.4	100
Lack of qualified staff	51.2	5.8	34.9	4.7	3.5	100
Service Charges	33.0	14.8	42.0	8.0	2.3	100
Other	36.0	52.0	8.0	4.0	0.0	100

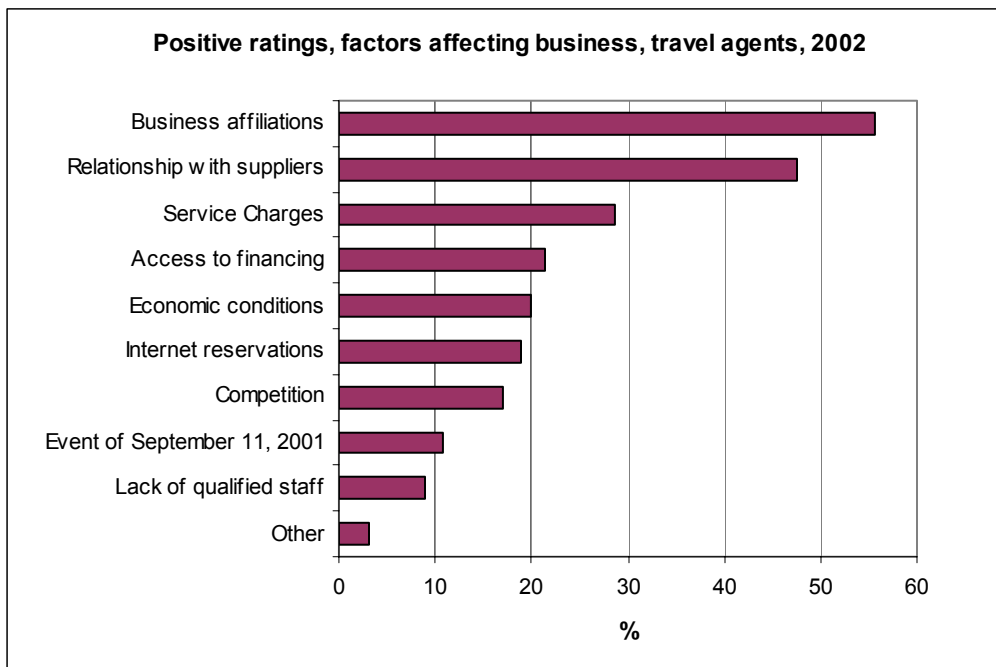
<sup>27</sup> Results are based on a panel of businesses that responded to the 2002 Survey of Travel Arrangements Services.

## Positive Factors

About one-half of all tour operators and travel agencies gave their business affiliations and their relationships with suppliers a positive rating (Figures 3.1 and 3.2).<sup>28</sup> Approximately 49% of tour operators and 56% of travel agencies ranked their business affiliations as very positive or somewhat positive for business growth. The group expressed similar satisfaction with their relationships with suppliers; 52% of tour operators and 48% of travel agents indicated a positive relationship. However, it should be noted that almost as many travel agencies (42%) gave a negative opinion of their relationship with suppliers. This may reflect the increasingly unfavourable commission arrangements travel agencies have entered into with their suppliers, most notably with the airline industry.

Tour operators and travel agencies differed on their opinions about the impact of Internet reservations on their respective industries. More tour operators (43%) than travel agencies (19%) believed Internet reservations made a positive impact on their bottom line. The Internet gives the average consumer unprecedented access to reservation and booking systems for accommodation and travel. As a result, more Internet-savvy travellers are bypassing traditional retailers (i.e. travel agencies), and booking directly from the source (perhaps even the operators' own web site). It should be noted as well that Internet purchases made at some online travel agencies may not be included in the results<sup>29</sup>.

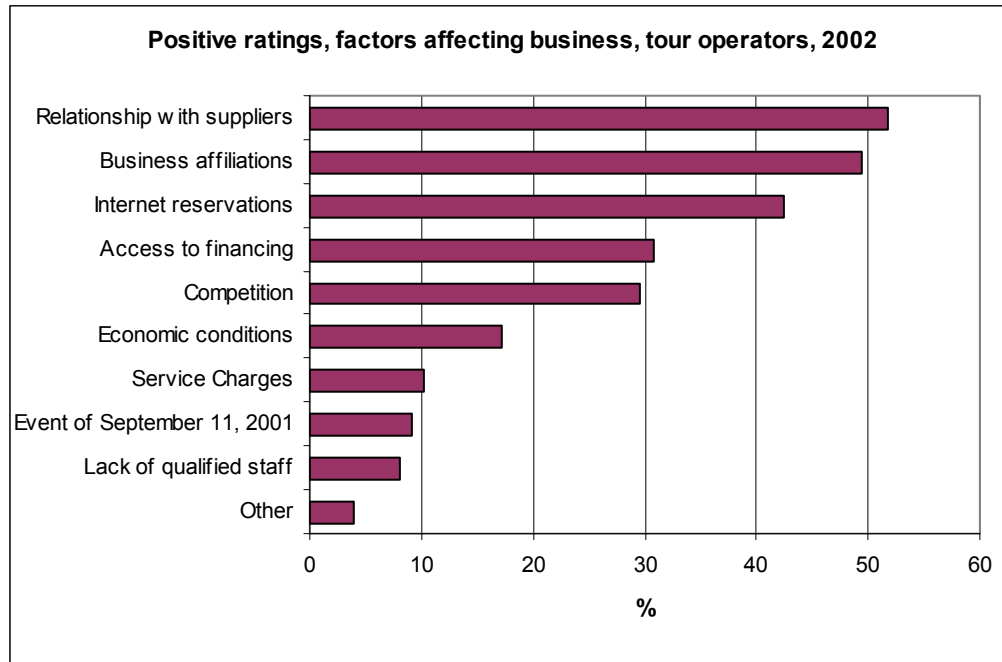
Figure 3.1



<sup>28</sup> Derived by adding the percentage shares of "Somewhat positively" and "Very positively" together

<sup>29</sup> Online travel agencies are a rapidly expanding sector, and many are headquartered and operated out of foreign countries. Thus, these types of businesses are not in scope to this survey.

Figure 3.2



## Negative Factors

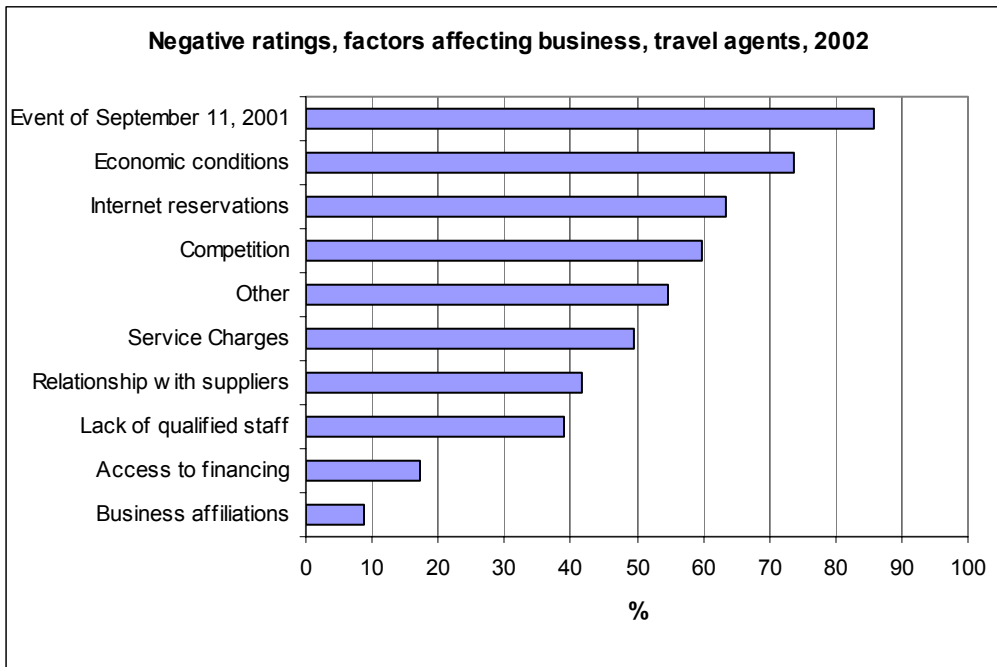
Not surprisingly, the September 11<sup>th</sup> terrorism attacks in the United States were the most frequently cited difficulty faced by travel agencies and tour operators in 2002 (Figures 3.3 and 3.4). When asked about these events, 86% of both groups indicated a very or a somewhat negative impact. About one in ten travel agencies (11%) and tour operators (9%) said that September 11<sup>th</sup> made a positive impact on their overall growth. Perhaps these units catered to Canadian and US clients who were interested in staying closer to home.

Poor economic conditions were also listed as being detrimental to growth. Almost three-quarters (74%) of travel agencies and marginally more tour operators (78%) indicated economic conditions were unfavourable to their business activity. In 2002, consumer demand was weakened by a global economic slowdown and a decline in world equity markets. This, combined with geo-political issues and the increasing role of the Internet, led to a general trend of consumers adopting a “wait and see approach” to booking travel.<sup>30</sup> This trend placed a downward pressure on prices and bookings for most travel products, including but not limited to transportation fares, accommodation, and tour packages.

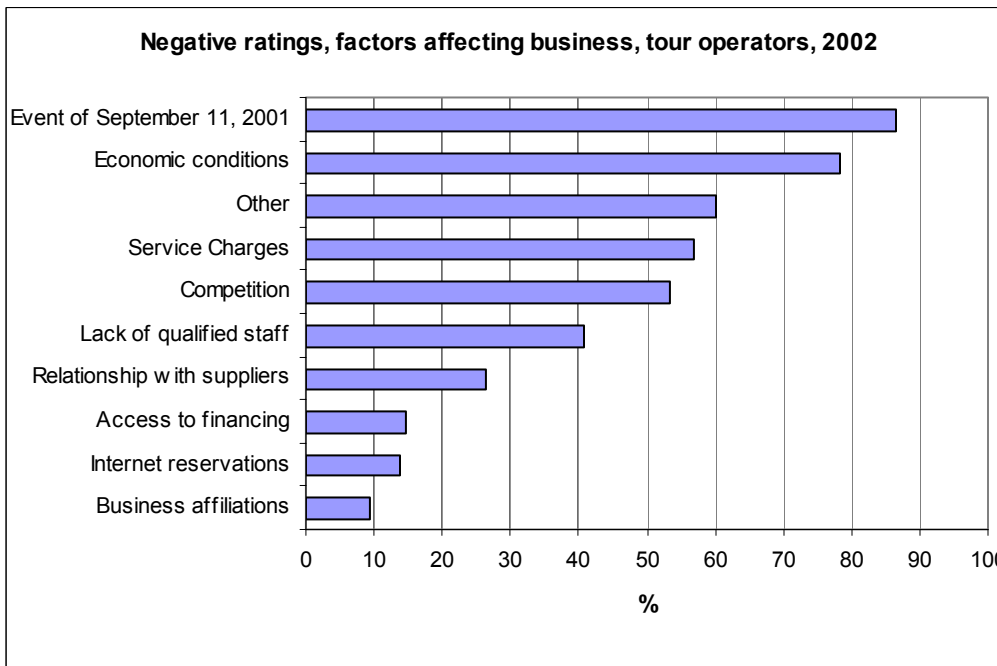
<sup>30</sup> Source: World Tourism Organization (WTO)



**Figure 3.3**



**Figure 3.4**



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## Chapter 4: The Internet's Growing Role in the Travel Arrangements Industry <sup>31</sup>

In 2002, about 62% of Canadian households had at least one member who was a regular Internet user, either at home, work, or another location<sup>32</sup>. Households with children living at home, high incomes, and people with higher levels of education tend to be the most prevalent Internet users.

An estimated 2.8 million (23% of total) Canadian households placed \$2.4 billion in orders over the Internet in 2002. Although this represents only a fraction of the \$656 billion in total personal expenditures in Canada, it seems that we are becoming increasingly comfortable using the Internet as a method of purchasing goods and services from Canadian and foreign retailers.

An additional 1.7 million households were exclusively “window-shoppers,” where the Internet was used strictly as a means of information to help with purchasing decisions. In this group, Internet users did not place orders or make online purchases. However, almost one-half of window-shoppers indicated that they later made purchases directly from the retailer.

In a relatively short time, the Internet has made a major impact on the travel industry in Canada. In response to consumer demand, the industry has dramatically increased its Internet presence over the past few years. Travellers can now pick a destination, decide on a vacation package, rent vehicles, reserve accommodation, and purchase airline tickets from the comfort of home. As a result, the “do-it-yourself” e-traveller is becoming more prevalent, particularly for mature and experienced travellers<sup>33</sup>. In 2002, travel arrangements became the second most popular item ordered online, eclipsed only by reading materials, as 18% of households reported making travel arrangements over the Internet, up from 16% in 2001<sup>34</sup>.

### Survey results

For the first time, the 2002 Annual Survey of Travel Arrangements Services asked respondents about their business web sites. The results indicate that tour operators (36%) were more likely to have their own Internet web site than were travel agents (29%). However, the Internet presence of travel agencies could be much higher than the results indicate. There has been an emergence of travel agencies run solely as online ventures over the past few years. 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.

This survey's results indicate that the most popular use of the company's web site was to advertise travel products and services. Of businesses with web sites, 88% of travel agencies and 89% of tour operators used them for advertising. Following in popularity, a larger percentage of travel agencies (64%) than tour operators (52%) indicated that their web site was used to enhance customer relations. Over one-third of businesses used their web sites to sell travel goods and services. Moderately more travel agencies (39%) than tour operators (35%) ran an online store.

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<sup>31</sup> Results are based on a panel of businesses that responded to the 2002 Survey of Travel Arrangements Services.

<sup>32</sup> Source: 2002 Household Internet Use Survey, Statistics Canada (The Daily December 11, 2003).

<sup>33</sup> Source: World Tourism Organization “Tourism Highlights Edition 2003”

<sup>34</sup> Source: 2002 Household Internet Use Survey, Statistics Canada (The Daily December 11, 2003).

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A relatively small proportion of operating revenues were generated through the company's web site. Of those using the Internet to generate sales, about 3.2% of travel agencies' revenue<sup>35</sup> and 31.4% of tour operators' revenue were conducted over the company's web site. However, the overall impact of Internet-based sales on the industry is somewhat greater, as businesses often sell their travel products and services on third-party web sites.

Almost all of the revenues (97.1%) generated by travel agencies over their web sites were made to clients outside of Canada. In comparison, sales to Canadians made up the bulk of tour operator's web site revenues. Less than a third (31.3%) of tour operator's revenue was made to foreign clients in 2002.

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<sup>35</sup> Revenue for some online travel agencies may not be included in the results. Online travel agencies are a rapidly expanding sector, and many are headquartered and operated out of foreign countries. Thus, these types of businesses are not in scope to this survey.

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## Summary

Travel agencies and tour operators are highly interrelated businesses. Tour operators purchase a range of tourist products and package them together for sale. In turn, the travel agent sells many of these packages on behalf of the tour operator for a commission.

In 2002, revenue for travel agencies increased 2.2%, almost identical to the 2.3% gain for tour operators. This positive growth can be attributed to the leisure traveller, who led a small rebound in the travel industry towards the end of the year.

The industry faced a number of challenges in 2002. The fallout from the events of September 11<sup>th</sup> continued to have a negative impact on travel suppliers. Poor economic conditions also affected the travel industry. As a result, many consumers became more cautious about making travel plans. While some felt uneasy about global security and the economic climate, others were willing to wait for the next big deal that might be offered by a competitive travel industry.

This was facilitated by the increased presence of travel arrangement websites on the Internet. The role of the internet on the travel industry has expanded greatly over the past few years. Travellers are becoming increasingly comfortable organizing and booking their own trips. In 2002, travel arrangement purchases were one of the most popular items ordered on-line in Canada.

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## 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 level<sup>36</sup>. 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 (53%), but its contribution to the overall industry revenue is only about 11%. 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.

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).

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<sup>36</sup> 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.

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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 2002, 740 questionnaires were mailed to the industry with special emphasis on large companies. The response rate was 61% 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 this 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 1<sup>st</sup>, 2002 and March 31<sup>st</sup>, 2003 also are included in the 2002 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 year 2002 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.

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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).



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## 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 2002 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, 2002.

### **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.