
Canadian Travel Arrangement Services Survey

A Report for the Year 2004

Canadian Tourism Commission

Ottawa, 2006

Acknowledgements

The *Survey of Travel Arrangement Services* is a significant undertaking by Statistics Canada. It reflects the investment of considerable effort and resources by the travel arrangement industry. The co-operation from the responding business operators in completing the sample survey questionnaire is undoubtedly the key-contributing factor to the success of this survey. Without their support, the execution of our data collection program would not have been achievable at all. We would like to express our most sincere appreciation to them.

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Introduction

The travel arrangement services industry plays an essential role in Canada's tourism industry, and has ripple effects on other sectors of the Canadian economy. In 2004, the Canadian travel arrangement services industry was worth \$8 billion¹, representing an increase of 3.9% over 2003. Businesses offering travel arrangement services recorded a before tax-operating profit margin of 2.5% after earning zero profits in 2003.

Travel arrangement service providers primarily fall into two main groups: tour operators (packagers) and travel agencies (retailers). This report provides an analysis of the tour operators industry and the travel agencies industry in two separate sections. Each section provides tables and analysis of general characteristics, revenue and cost structures, and the client base. Where indicated, some of the findings included in the 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.

Chapter three of this report further explores market conditions affecting tour operators and travel agencies in 2004. Continuing in this vein, chapter four provides insight to the role that technology, and specifically the Internet, plays on the travel arrangement services industry. Findings come from a relatively new section introduced to the *Survey of Travel Arrangement Services* in 2002 and are based on a panel of surveyed establishments.

¹ *Based on revised estimates.*

1. Tour Operators

1.1. Highlights: The Industry in 2004²

- Tour operators earned \$6.4 billion in operating revenues in 2004, representing a 4.8% current dollar increase over the previous year.
- The tour operator industry makes up the largest component, in revenue terms, of the Canadian travel arrangement services industry³. Tour operators contributed almost four-fifths (79%) of travel arrangement service revenues in 2004.
- Tour operators recorded a before-tax operating profit margin of 1.6% in 2004 after earning negative profits (-0.4%) in 2003.
- In 2004, the tour operator industry maintained the previous year's count of over 1,200 establishments.
- The cost of travel purchased (goods and services sold) from suppliers accounted for 85% of operating expenses.
- Wages, salaries and benefits accounted for 4% of total operating expenses, or 40% of indirect operating expenses (with cost of travel and commissions paid to travel agents removed).
- About 69% of employees were classified as full-time, full-year⁴.

Tour operators 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 who 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 Canadian tour operator services industry continued to expand in 2004, as it earned 4.8% more revenues over the previous year and made a 1.6% before-tax profit margin return after facing a negative profit margin in 2003. The tourism industry faced a series of adverse conditions in 2003 including SARS and the war in Iraq.

² Results are for the total industry universe unless otherwise indicated.

³ The travel arrangement services industry comprises 3 major groups: Travel Agencies (NAICS 561510), Tour Operators (NAICS 561520) and Reservation Services (NAICS 561590).

⁴ Employment profile data are based on the survey portion of the universe. The establishments in the survey portion account for 96% of the tour operators industry revenues.

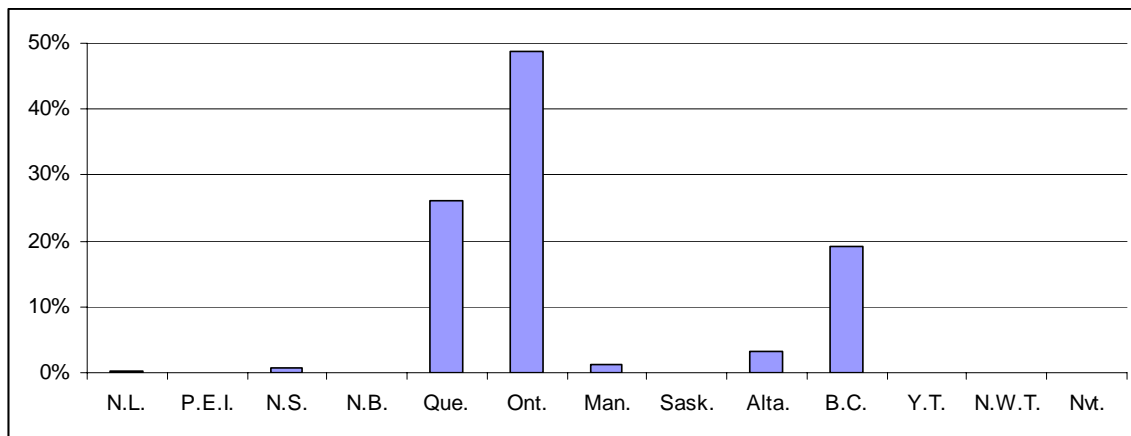
A record number of Canadians travelled to overseas destinations in 2004, spending \$8.8 billion dollars; a 15.5% increase over the previous year⁵. Travel between Canada and the US also recovered with increases in overnight trips in both directions. About 9 out of every 10 dollars earned by tour operators came from sales to clients travelling outside the country.

1.2. Industry Concentration

The tour operating industry is highly integrated, with the top 20 companies accounting for three-quarters of the industry’s total revenue in 2004, but only 5% of total establishments. This type of concentration is reflected across many industries and is seen as a way of adapting to the growing globalization of markets. There were about 1,200 tour operator businesses in total in 2004.

As shown in Figure 1.1, the industry is concentrated in three provinces: Ontario, Quebec and British Columbia. Together businesses located in these provinces generated 94% of total revenue, with almost half (49%) of total industry revenue earned in Ontario. As with the travel agencies industry, the provincial distribution has been relatively stable over the past five years.

Figure 1.1: Distribution of revenue, by province/territory, Tour Operators, 2004



1.3. Revenue Sources⁶

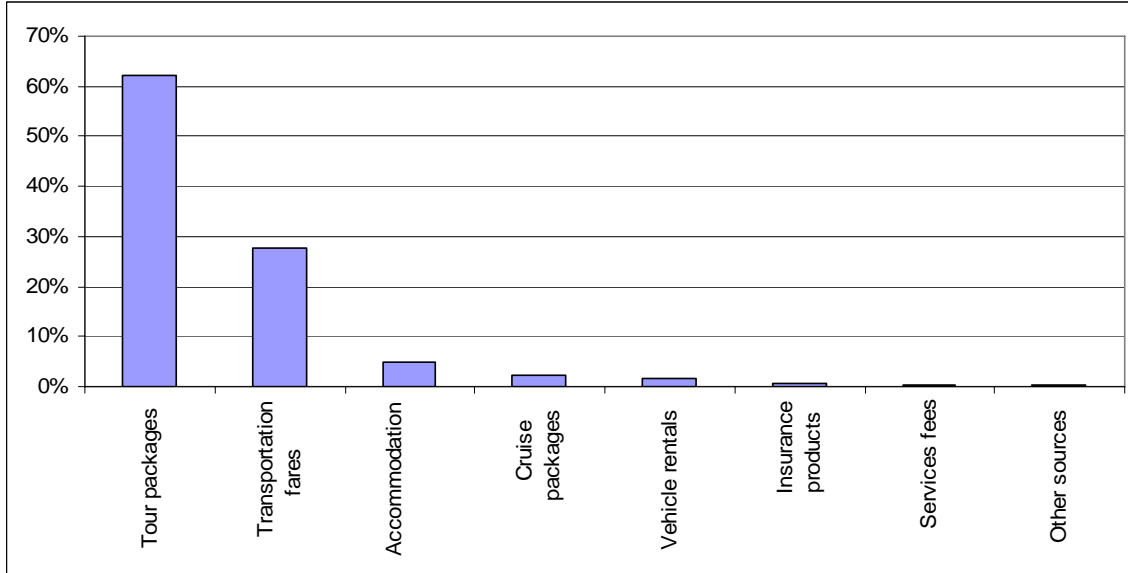
The revenue breakdown for tour operator revenues usually follows a typical pattern year after year. As expected, tour package sales continued to be the largest revenue source (62%) in 2004 (see Figure 1.2). Revenue generated from sales of transportation fares followed in

⁵ Source: Statistics Canada, *International Travel Survey, 2004*.

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

relative importance, as it comprised almost three of every ten (28%) dollars earned by this industry; a slight increase from the 27% share recorded in 2003.

Figure 1.2: Distribution of revenue, by source, Tour Operators, 2004 (surveyed portion)



1.4. Revenue by Destination⁷

The market for foreign destinations outside the United States grew noticeably from 75% in 2003 to 81% in 2004 (see Table 1.1). This is not surprising considering that a record number of Canadians travelled to overseas destinations in 2004 and spent \$8.8 billion dollars; a 15.5% increase over the previous year⁸. Most of this growth can be attributed to an increase in sales of tour and cruise packages. In fact, this segment grew 8 percentage points from 52% in 2003 to 60% in 2004.

The relative importance of travel within Canada as a revenue source continued to fall in 2004. Only 8% of tour operator revenue came from travel to Canadian destinations; a drop from 13% in the previous year and from 15% in 2002.

⁷ Results are based on the survey portion of the industry universe.

⁸ Source: International Travel Survey, Statistics Canada (*The Daily*, May 27, 2005).

**Table 1.1: Distribution of revenue, by destination,
Tour Operators (surveyed portion only)**

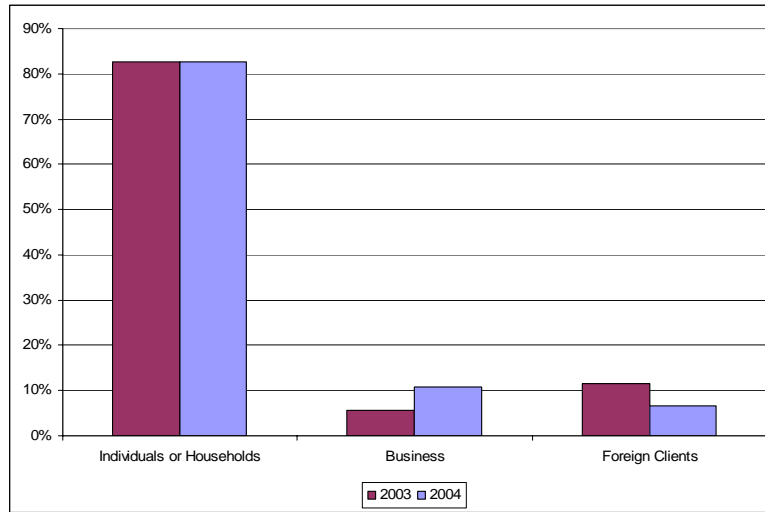
CANADIAN DESTINATIONS	2003 %	2004 %
Tour and cruise packages	8.3	5.7
All other travel	4.3	2.3
Total Canadian Destinations	12.6	8.0
US Destinations		
Tour and cruise packages	6.7	7.1
All other travel	5.7	4.1
Total US Destinations	12.4	11.2
Foreign Destinations (non-US)		
Tour and cruise packages	52.4	59.5
All other travel	22.6	21.4
Total Foreign Destinations (non-US)	75.0	80.8
Total	100.0	100.0

1.5. Revenue by Client Base⁹

As shown in Figure 1.3, the largest purchasers of tour operator services are Canadian households and individuals. This group accounted for 83% of tour operator revenues in 2004, holding steady over the previous year. In contrast, the business market for tour operator services nearly doubled over 2003-2004. Business clients made up 11% of the tour operator client base in 2004; up from 6% in the previous year. Over the same period, revenues generated from sales to foreign clients dropped from 12% to 7%. Most of this decline can be attributed to a decrease in the American market for Canadian tour operator services.

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

Figure 1.3: Distribution of client base, Tour Operators (surveyed portion)¹⁰

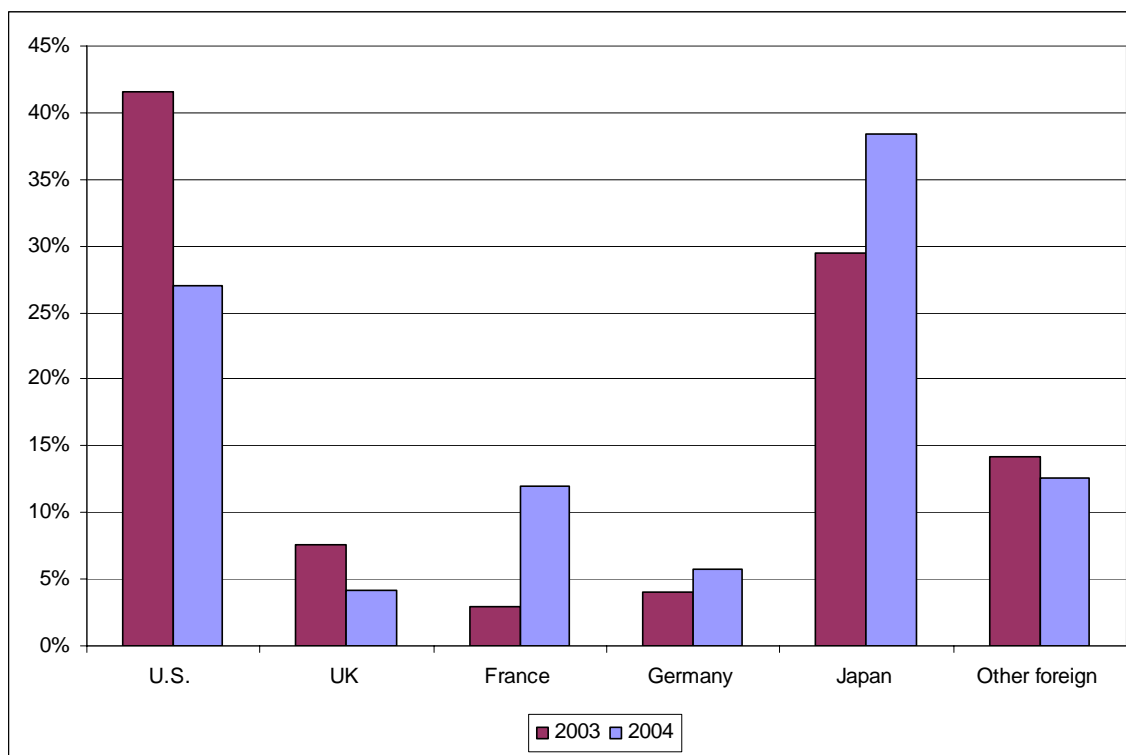


American demand for Canadian tour operating services was down in 2004 as U.S. clients spent approximately \$190 million less than they did a year earlier. In 2004, the United States accounted for just over one-quarter (27%) of the foreign clients market, a significant drop from the 42% market share generated by this group in 2003 (see Figure 1.4). Some of this decline could be attributed to the weakened U.S. dollar making Canadian travel products relatively more expensive.

Japan was the largest foreign market for Canadian tour operator services in 2004, accounting for 38% of the foreign clients market; representing an increase from 30% in 2003. However, in current dollar terms, overall revenue generated from Japanese clients was down in 2004.

¹⁰ Revenue from Government clients was negligible so it was not included in this figure.

Figure 1.4: Distribution of foreign client revenue, Tour Operators (surveyed portion)



1.6. Operating Expenses

Total operating expenses increased to \$6.4 billion in 2004, growing by 4.8% from the previous year. Direct costs made up the bulk of operating expenses for this industry. Costs of good sold, including travel purchased from travel suppliers, were the single largest operating expense incurred by tour operators (85%). This was followed in relative importance by commissions paid to travel agencies for selling tour packages (5%).

Table 1.2 presents the distribution of operating expenses (indirect costs)¹¹ for the tour operator industry in 2004. The salaries and wages paid to employees accounted for 40% of the indirect costs borne by firms in the tour operating industry; a slight decrease from the previous year. Costs associated with advertising and sales promotions also declined slightly to 12% in 2004.

¹¹ Indirect costs do not include the total cost of travel units purchased from suppliers and commissions paid to travel agencies.

**Table 1.2: Distribution of estimated operating expenses, Tour Operators
(surveyed portion only)**

	2003 %	2004 %
Salaries and wages paid	41.0	40.0
Advertising and sales promotion	13.4	12.1
Rent and/or lease of premises, equipment and vehicles	5.5	5.7
Office expenses	4.3	5.5
Depreciation and amortization	5.3	4.0
Employee benefits paid	2.4	3.2
Telephone, telecommunications ...	3.7	3.0
Taxes, permits and licences	0.7	2.1
All other expenses	23.7	24.4
Total operating expenses	100.0	100.0

1.7. Employment Profile

In 2004, a similar percentage of individuals worked full-time in the tour operating industry (88%) compared with the previous year (see Table 1.3). However, more full-timers worked less than the full year in 2004. The share of employees working full-time and for part of the year grew from 9.0% in 2003 to 19.0% in 2004.

**Table 1.3: Employment categories, Tour Operators
(surveyed portion only)**

	2003 %	2004 %
Paid employees - Full-time full year	78.1	68.6
Paid employees - Full-time part year	9.0	19.0
Paid employees - Part-time full year	4.8	3.6
Paid employees - Part-time part year	8.1	8.8
Total	100.0	100.0

2. Travel Agencies

2.1. Highlights: The Industry in 2004¹²

- In 2004, travel agencies earned \$1.5 billion in operating revenues, a slight increase of 0.4% from the previous year.
- The travel agencies group earned 18% of all revenue generated by the travel arrangement services industry in 2004.
- Before-tax profit margin grew to 5.8% in 2004.
- Salaries and wages were this industry's single largest expense, accounting for over one-half (57%) of all operating costs.
- About 85% of employees were classified as full-time, full-year¹³.
- In 2004, there were almost 5,000 establishments operating in the Canadian travel agency industry.

Travel agencies are first and foremost retailers of travel arrangement services. One of their main roles is to help travellers plan trips and to provide the necessary and relevant information related to travel products and services. They also act in their traditional role as agents for tour operators and transportation companies, by providing assistance with reservations and bookings.

After encountering several challenges in 2003, 2004 was relatively promising for the Canadian travel agency industry. The before-tax operating profit margin regained some of its previous strength, rising to 5.8%; up from 1.7% in 2003. In 2002, the industry's profit margin stood at 6.9%. Also, travel agencies earned \$1.5 billion in operating revenues in 2004, a 0.4% rise over the previous year.

Like the tour operating industry, travel agencies also benefited from an increase in the number of Canadians who travelled to the United States and to overseas destinations in 2004. About three-quarters of travel agency revenue was earned through sales to clients travelling outside the country in 2004.

Four out of every five revenue dollars generated by the travel industry were derived from commissions charged through travel suppliers in 2004. Such commissions have been greatly impacted by factors outside their control over the past few years. A number of travel suppliers (such as the airlines) have reduced or eliminated the commissions they pay out to travel agencies in a bid to remain competitive. Some travel agencies have also lost out on

¹² Results are for the total industry universe unless otherwise indicated.

¹³ Employment profile data are based on the survey portion of the universe. The establishments in the survey portion account for 78% of the travel agencies industry revenues.

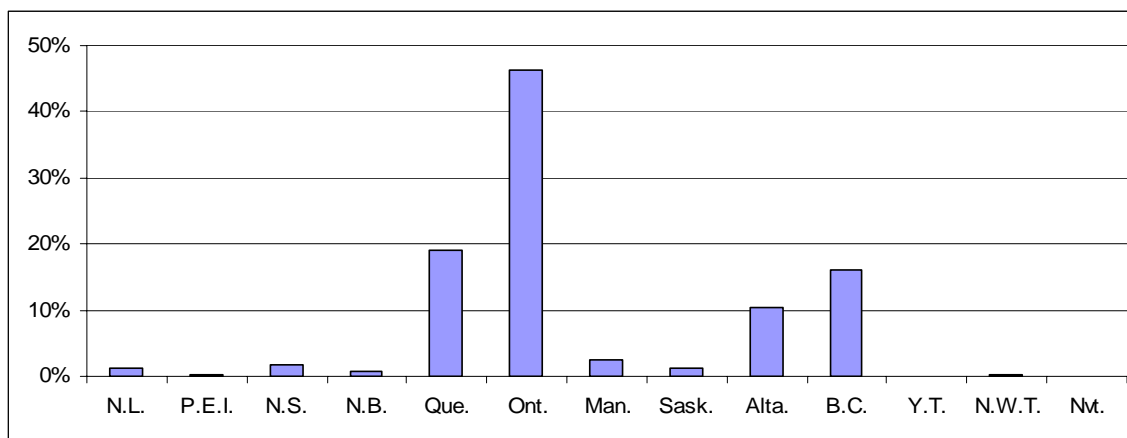
commissions as the result of travel suppliers selling directly to consumers over the Internet¹⁴.

2.2. Industry Concentration

The travel agencies industry is characterized by relatively small operations. Business integration through mergers and acquisitions has had a relatively small effect on the concentration of the industry. In 2004, the top 20 firms accounted for 36% of total revenue generated by the industry.

As shown in Figure 2.1, travel agencies' activity is concentrated primarily in the more heavily populated central Canada. In 2004, Ontario and Quebec generated 65% of the industry's total revenue. The provincial distribution has been relatively stable over the last several years.

Figure 2.1: Distribution of revenue, by province/territory, Travel Agencies, 2004



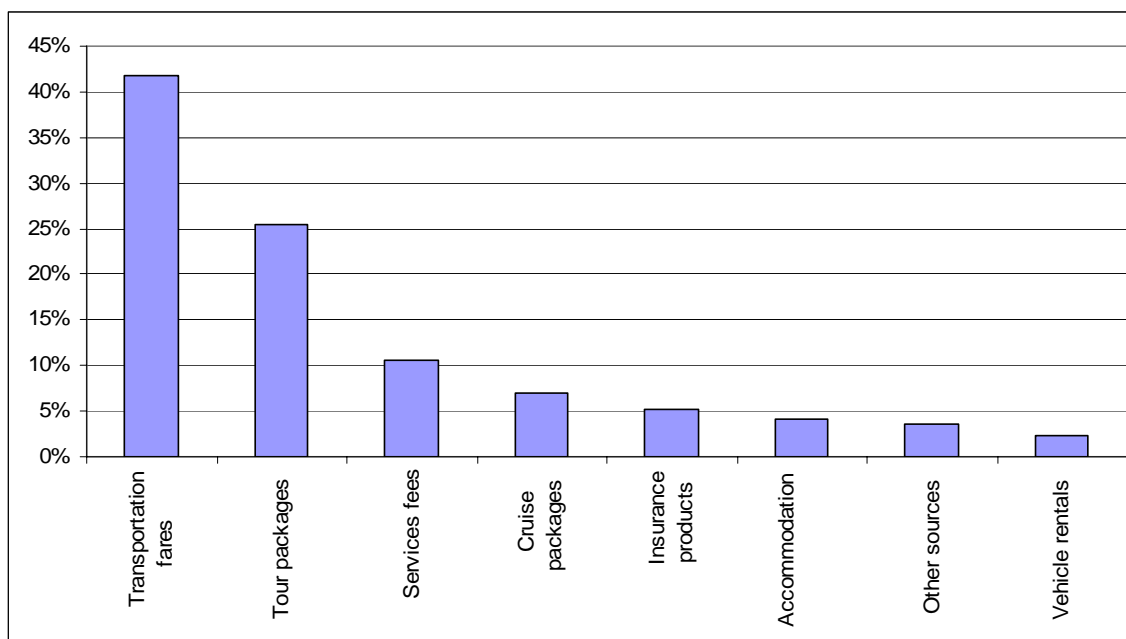
2.3. Revenue Sources¹⁵

Revenues earned from charging customer fees for travel arrangement services was up for the third consecutive year (see Figure 2.2). In 2004, about 11% of earned revenues came from service fees, an increase from 9% in the previous year and 6% in 2002. This steady increase can be at least partly attributed to a reduction in commission rates set out by a number of travel suppliers. With the increased availability of other distribution methods, i.e. Internet reservations, the traditional role of travel agency as the chief intermediary between consumer and travel supplier is no longer certain.

¹⁴ Chapter 4 provides greater detail about the role of the Internet on the travel agency industry.

¹⁵ Results are based on the survey portion of the industry universe.

Figure 2.2: Distribution of revenue, by source, Travel Agencies (surveyed portion)



However, commissions still accounted for the bulk of travel agency revenue. In 2004, about \$4 in every \$10 earned dollars came from selling and reserving transportation fares (42%); down from 46% in 2003. At the same time, the revenue share of tour (25%) and cruise package sales (7%) remained constant over 2003.

2.4. Revenue by Destination¹⁶

The breakdown of revenue by destination for travel agencies has remained fairly constant over the last few years. As shown in Table 2.1, almost one-half (49%) of sales came from clients destined for foreign locations (excluding the United States). The remainder was more or less evenly split between sales to those travelling within Canada (26%) and those going to the United States (24%).

¹⁶ Results are based on the survey portion of the industry universe.

**Table 2.1: Distribution of revenue, by destination, Travel Agencies
(surveyed portion only)**

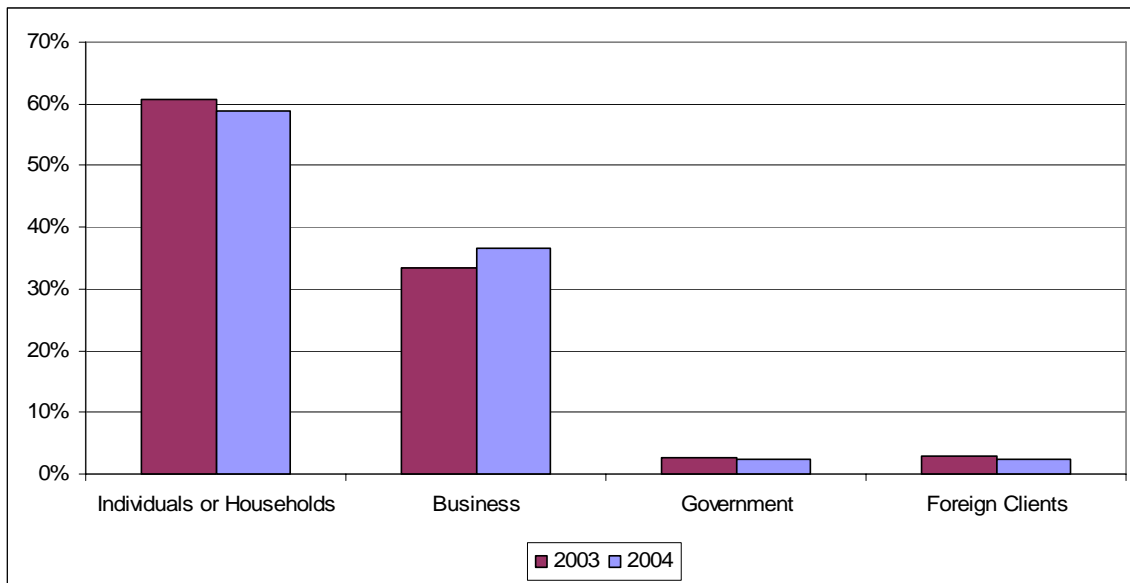
CANADIAN DESTINATIONS	2003 %	2004 %
Tour and cruise packages	4.9	6.1
All other travel	21.9	20.2
Total Canadian Destinations	26.8	26.3
US Destinations		
Tour and cruise packages	10.3	10.5
All other travel	15.4	14.0
Total US Destinations	25.7	24.6
Foreign Destinations (non-US)		
Tour and cruise packages	18.1	21.2
All other travel	29.5	28.0
Total Foreign Destinations (non-US)	47.5	49.2
Total	100.0	100.0

2.5. Revenue by Client Base¹⁷

Canadian households and individuals were the largest market, in terms of revenue, for travel agency services in 2004 (see Figure 2.3). About three-fifths (59%) of travel agency sales were generated through sales to the Canadian leisure market, a small decrease from the 61% share recorded in 2003.

¹⁷ Results are based on the survey portion of the industry universe.

Figure 2.3: Distribution of client base, Travel Agencies (surveyed portion)

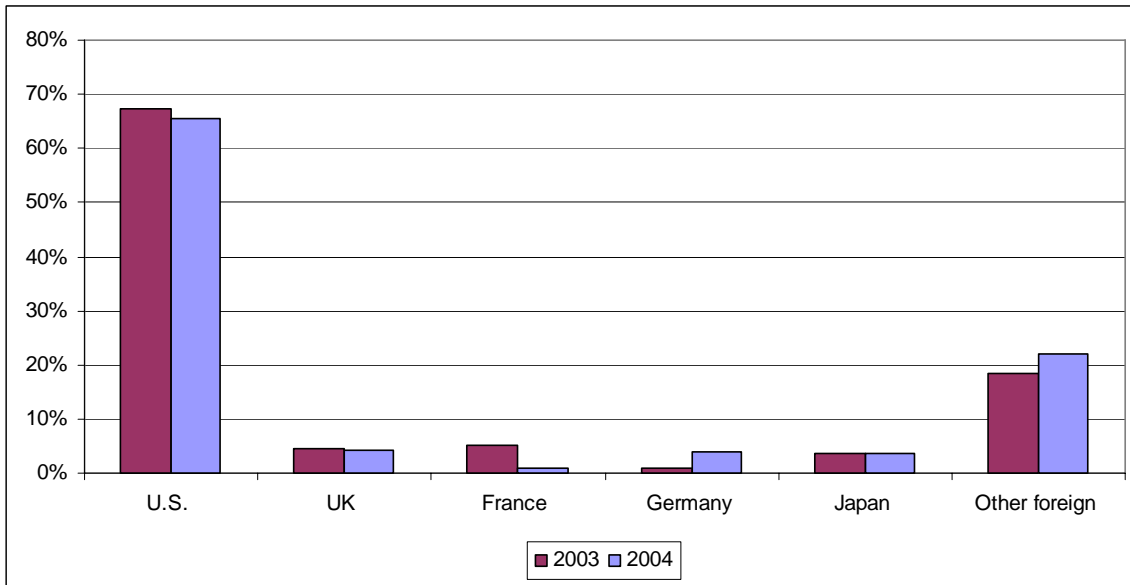


The portion of revenue earned from business clients grew modestly to 37%; an increase of four percentage points from 33% in 2003. This reflects an upswing in the Canadian business travel market after a period of tighter corporate travel budgets. In 2004, Canadians made 2.5% more domestic trips for business or to attend a convention, taking 20.1 million trips compared to 19.6 million in 2003, which was the lowest level in seven years¹⁸.

Only a small portion of travel agency revenue came from sales to foreign clients (2%). As shown in Figure 2.4, the main foreign buyer of Canadian travel agency services was the United States. In 2004, sales to American clients accounted for two-thirds (66%) of the foreign travel market for travel agency services; a small drop from 67% in the previous year. The “other foreign” category comes a distant second (22%) in relative importance to this industry.

¹⁸ Source: Canadian Travel Survey, Statistics Canada (*The Daily*, June 1, 2005).

Figure 2.4: Distribution of foreign client revenue, Travel Agencies (surveyed portion)



2.6. Operating Expenses

In current dollars, travel agencies incurred \$1.4 billion in operating expenses in 2004, a 3.8% decrease over 2003. As shown in Table 2.2, the distribution of these expenses changed little over the previous year. Almost three in five expense dollars (57%) went towards employee salaries and benefits; up slightly from the 56% recorded in 2003. Rent and/or lease of premises, equipment and vehicles (9%) were the second largest outlay in 2004, followed by advertising and sales promotion (7%) in relative importance.

**Table 2.2: Distribution of estimated operating expenses, Travel Agencies
(surveyed portion only)**

	2003 %	2004 %
Salaries and wages paid	52.2	52.8
Rent and/or lease of premises, equipment and vehicles	8.6	8.6
Advertising and sales promotion	5.8	6.5
Employee benefits paid	3.6	4.4
Telephone, telecommunications ...	3.6	4.2
Office expenses	4.0	4.0
Depreciation and amortization	3.3	2.2
Taxes, permits and licences	2.0	2.1
Total cost of all units of travel purchased from suppliers	1.3	1.4
Commission paid to travel agents	0.8	0.3
All other expenses	14.9	13.6
Total operating expenses	100.0	100.0

2.7. Employment Profile¹⁹

Full-time employment continues to be the standard in the travel agency industry (see Table 2.3). About nine in ten employees (88%) were hired as full-time workers in 2004; a slight increase from 86% in 2003. Not surprisingly, relatively few employees in this industry worked on a seasonal basis (5%) as travel plans are made throughout the year.

**Table 2.3: Employment categories, Travel Agencies
(surveyed portion only)**

	2003%	2004%
Paid employees - Full-time full year	83.8	84.8
Paid employees - Full-time part year	2.6	3.0
Paid employees - Part-time full year	10.4	9.9
Paid employees - Part-time part year	3.2	2.3
Total	100.0	100.0

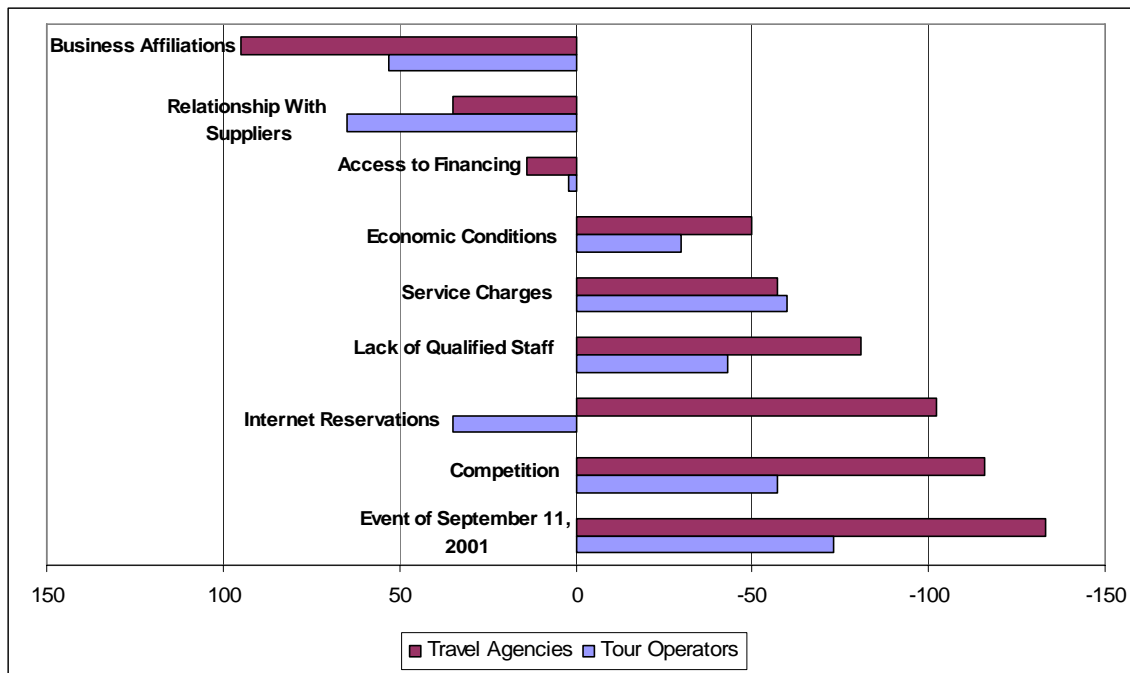
¹⁹ Results are based on the survey portion of the industry universe.

3. Market Conditions in 2004²⁰

Participants in the *Survey of Travel Arrangement Services* were asked how a series of nine factors affected their growth, either negatively or positively, during the year. The question asked the respondent to rank their growth using the following qualifiers: very negatively; somewhat negatively; somewhat positively; very positively; or no effect.

Figure 3.1 illustrates the opinions associated with each category by obtaining the “balance of opinion” figure for each of the nine factors. The balance of opinion²¹ is determined by subtracting the number of respondents who chose “negative” from those who chose “positive”. Hence, a negative number denotes a general feeling of pessimism, while a positive number indicates an optimistic take on a particular factor.

Figure 3.1: Balance of opinion rankings, by factor, 2004



Tour operators and travel agencies held similar opinions in 2004 concerning the favourable ratings given to their business affiliations and relationships with travel suppliers. The two groups also agreed about the damage incurred by their businesses from overcapacity concerns and the lingering aftermath of the event of September, 11th 2001. In comparison, opinions diverged about Internet reservations. Tour operators were more inclined to rate

²⁰ Results are based on a panel of businesses that responded to the *Survey of Travel Arrangement Services*.

²¹ This is an unweighted measure. The relative size of the respondent’s business in terms of revenue is not taken into consideration in its calculation.

Internet reservations as a positive to their business, while travel agencies were more likely to consider them as detrimental.

Tables 3.1 and 3.2 present some of the results obtained from 2003 and 2004 for tour operators and travel agencies.

Table 3.1: Market conditions results²², Tour Operators

TOUR OPERATORS (PERCENTAGE OF RESPONSES)	NEGATIVELY		POSITIVELY		NO EFFECT	
	2004	2003	2004	2003	2004	2003
Internet Reservations	15	17	45	38	40	45
Competition	67	70	19	19	14	11
Event of September 11, 2001	73	84	12	6	16	9
Relationship With Suppliers	9	18	63	60	28	22
Business Affiliations	8	6	52	60	40	34
Access to Financing	22	22	24	21	55	57
Economic Conditions	57	63	32	28	11	10
Lack of Qualified Staff	48	47	12	8	40	45
Service Charges	60	58	9	4	31	37
Other	54	59	7	11	39	30

Table 3.2: Market conditions results, Travel Agencies

TRAVEL AGENCIES (PERCENTAGE OF RESPONSES)	NEGATIVELY		POSITIVELY		NO EFFECT	
	2004	2003	2004	2003	2004	2003
Internet Reservations	66	64	18	19	16	17
Competition	71	65	16	20	13	15
Event of September 11, 2001	67	84	6	8	27	8
Relationship With Suppliers	35	40	52	45	13	16
Business Affiliations	9	8	54	61	36	31
Access to Financing	15	18	22	21	63	61
Economic Conditions	56	67	33	26	11	8
Lack of Qualified Staff	47	51	9	13	44	35
Service Charges	54	46	28	37	18	17
Other	51	62	9	18	40	21

²² Table results are unweighted. The relative size of the respondent's business in terms of revenue is not taken into consideration in the data calculations.

3.1. Positive Factors

The majority of tour operators and travel agencies have established profitable relationships with suppliers. In 2004, 63% of tour operators surveyed, and 52% of travel agencies gave their relationship with travel suppliers a favourable rating. The share of respondents who believed that this relationship was positive for business grew over the previous year for both industry groups.

Business affiliations were also frequently cited by tour operators (52%) and travel agencies (54%) as being beneficial for business. However, in comparison with 2003, fewer respondents from both groups ranked business affiliations as a positive; instead the share of businesses that indicated that they had “no effect” to business growth increased in 2004.

Business opinion about Internet reservations was split between tour operators and travel agencies. Over twice as many tour operators (45%) than travel agencies (18%) believed Internet reservations was a positive factor. On the other hand, two-thirds (66%) of travel agencies gave this category an unfavourable rating in 2004. This is not surprising considering that traditional travel agencies often lose out on commissions if their travel suppliers sell directly to consumers through their own web sites. In fact, the share of tour operators who gave this category a positive rating increased by 7 percentage points over the previous year. This would seem to indicate that tour operators with an Internet presence are able to cut costs by selling directly to travellers.

3.2. Negative Factors

Most tour operators (67%) and travel agencies (71%) indicated that excess competition was detrimental to their business growth in 2004. Overcapacity in the travel market has been a significant issue for the travel arrangements industry over the past few years. In response to consumer demand, tour operators tend to go to the same destinations leading to crowding in some markets. Although overcapacity is good for the consumer because it keeps prices down, it can negatively affect the bottom line for tour operators and other travel suppliers, and reduce the commissions earned by travel agencies.

A number of travel arrangement businesses, especially travel agencies, charge service fees to their clients in return for their personalized expertise. This practice has become an ongoing trend in the industry, in part to recoup commission losses. In 2004, three-fifths (60%) of tour operators and 54% of travel agencies felt that service charges impacted negatively on their establishments. For the latter group, this was a notable increase from the 46% of respondents who felt similarly in 2003.

The negative effects brought about by the event of September 11th, 2001 continued to reverberate in the Canadian travel arrangement services industry in 2004. However, the overall scope of the difficulties brought about by this event seemed to have diminished somewhat during the year. Almost three-quarters (73%) of tour operators cited September

11th as being detrimental to their business in 2004; down from 84% in the previous year. A similar share of travel agencies (67%) held the same view as their tour operator counterparts. This was a significant decrease from the 84% of travel agencies who felt this way in 2003.

4. The Company Web Site²³

How has the internet impacted the travel arrangement services market?

The Internet has revolutionized the business model for travel arrangement providers, with its' unprecedented direct access to online consumers. Before, would-be travellers visited their local travel agent or sent away for brochures when planning their next vacation. Enquiries about price, destinations, or availability can now be answered within minutes and in the privacy of one's home or office.

A number of travel suppliers have established an online presence and market their goods and services directly to individual consumers. With a direct sales approach, travel suppliers are no longer as reliant on travel agencies, the traditional travel retailers. In fact, some travel suppliers, such as airlines, have eliminated or reduced the commissions paid to travel agencies in return for selling airplane seats.

The demand for travel agents that simply take orders, such as booking tickets for a specific date and time, is on the decline. To remain competitive, the travel agencies industry has had to adapt to changes within the travel industry. Due to the loss of commission revenues, many travel agencies charge fees to their clients in return for their services. Travel agencies, to encourage clients to arrange trips through them, have become more focused on promoting their own personal-based approach to travel arranging. Travel professionals can offer reliable advice and expertise to consumers, based on their own specific needs, and can look out for their client's best interest.

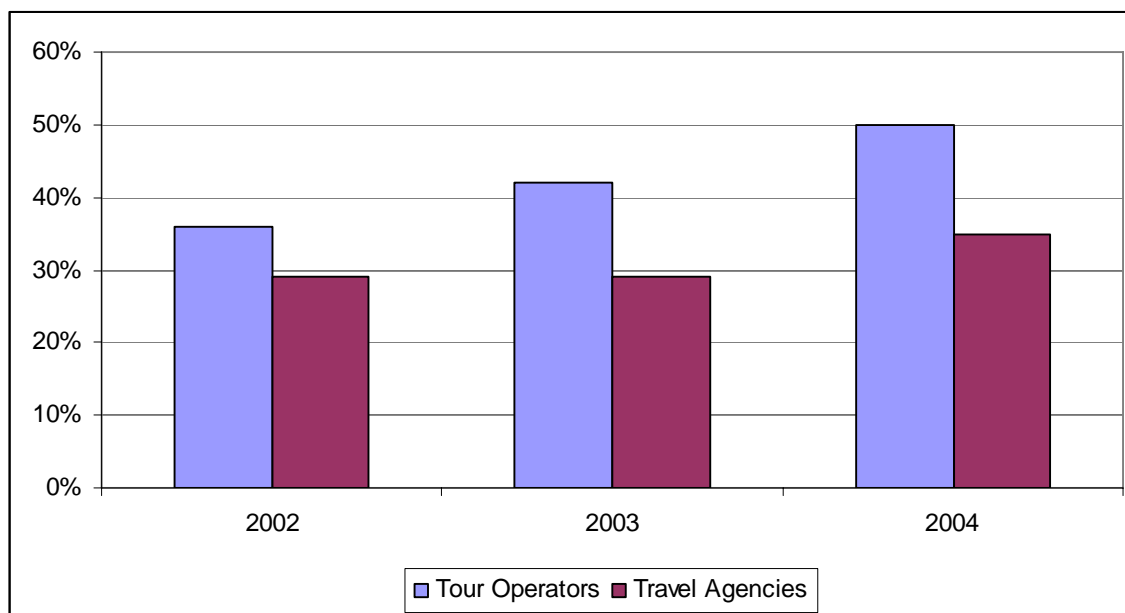
Today, travel is a popular activity open to all segments of the population, and there are many opportunities available throughout the world for the willing traveller. As travellers become more knowledgeable about what is available to them, the industry is becoming more and more specialized. Some travel arrangers offer products geared solely towards specific destinations or market their products to specific groups, such as golfers, baby boomers, or luxury travellers.

²³ Results are based on a panel of businesses that responded to the Annual Survey of Travel Arrangement Services.

4.1. Survey Results

As shown in Figure 4.1, the share of travel arrangers who operate their own company web site has been steadily increasing over the past few years. One-half (50%) of tour operators had a web site in 2004, an increase from 42% in the previous year. Similarly, over 1 in 3 (35%) travel agencies ran their own website; up from 29% in 2003.

Figure 4.1: Share of businesses who operated their own company web site, 2004



The majority of tour operators and travel agencies used their Internet presence to advertise and market products and services in 2004 (see Table 4.1). Of businesses with web sites, 84% of tour operators and 85% of travel agencies used them for advertising purposes. In comparison, a greater percentage of travel agencies (63%) than tour operators (53%) used their Internet sites to enhance consumer relations. About one-third of businesses sold travel products and services over their web sites.

Table 4.1: Uses of the company web site, 2004

USES OF THE COMPANY WEB SITE	TOUR OPERATORS %	TRAVEL AGENCIES %
Advertise products and services	84	85
Sell travel products and services	39	36
Enhance consumer relations	53	63
Other	7	5

Much of the potential for Internet sales remains untapped for the travel arrangements industry. Concerning those with an Internet site, about one of every ten dollars earned by tour operators in 2004 was derived through this medium. The earnings share was even lower for travel agencies, with 6% of revenues coming through the web. Unlike 2003, travel agencies generated most of their online revenue from sales to clients within the country. About one-quarter (27%) of travel agency online sales were made to customers outside Canada in 2004; a significant drop from 78% a year earlier. The tour operator industry followed suit, with 21% of its Internet sales made to those living outside the country.

Summary

The tour operator and travel agency industries had a relatively better year in 2004, after experiencing complications in 2003 such as the threat of SARS and the war in Iraq. Revenues continued to grow for the tour operator industry, and unlike 2003, the industry earned a positive before-tax profit margin in 2004. Over the same period, travel agency revenue slightly increased. However, due to a decrease in operating expenses, the industry regained most of its' pre-2003 profit margin level.

Some problem areas continued to impact travel arrangement providers in 2004. For instance, many felt that there was too much competition within the industry for a limited number of travellers. As a result, some businesses adapted by lowering their prices while others offered specialized services and new destinations to entice potential clients.

The new Internet-based business model brings its own set of benefits and challenges to the travel industry. Many companies have found ways to use the Internet to their advantage, i.e. as a sales and advertising medium. Others have been slower to adapt and have not established a presence on-line.

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 which comprise the travel arrangements industry.

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 is conducted at the establishment level²⁴. 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.

²⁴ *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.*

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).

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 2004, 639 questionnaires were mailed to the industry with special emphasis on large companies. The response rate was 63% 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 on panel data.

Please note that while the majority of businesses report a December fiscal year end, all businesses whose fiscal year end falls between April 1st, 2004 and March 31st, 2005 are

included in the 2004 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 onwards are not directly comparable to data released before reference year 2002.

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 2004 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.

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 2004 *Survey of Travel Arrangement Services*, businesses are asked to report for the calendar year or for the most recently completed fiscal year ending no later than March 31, 2005.

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.