2005 Japanese Travel Consumer Study

An Analysis of Travel Trends and Canada's Competitive Market Position
Executive Summary

A study undertaken for the Canadian Tourism Commission
by GlobeScan

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Canadian Tourism Commission
Commission canadienne du tourisme

Background

Canada's Japanese leisure tourism industry has been severely depressed for the last five years as the combined impact of the outbreak of Severe Acute Respiratory Syndrome (SARS), the Iraq War, weak economies in Japan and abroad, a soaring Canadian dollar, and ongoing problems in the airline industry have caused a substantial decline in spending by Japanese international visitors since 2000.

This is the backdrop against which the Canadian Tourism Commission (CTC), and its regional partners will be launching a new Canada brand into Japan in 2006. To plan for marketing activities the CTC understands that it must obtain a read of the current market environment. Past consumer research conducted in Japan in 1995 and 2000 needs to be updated to account for recent geopolitical and economic events.

The objective of this study was to conduct a survey of Japanese long-haul pleasure travellers to ascertain their purchasing patterns. More specifically, the research objectives were to conduct:

- An examination of Japanese perceptions of overall price/value issues related to Canadian tourism products;
- An analysis of Japanese consumers' perceptions toward package cost components in Canada and other destinations;
- An analysis of trip planning and booking patterns;
- A review of consumers' buying habits in terms of package tour purchases;
- An analysis of consumers' purchasing patterns;
- An examination of trip types being purchased:
- An investigation of current challenges and opportunities for Canada in the Japanese market;
- An analysis of the Canada travel brand in Japan.

The CTC engaged GlobeScan to update current consumer research and conduct an analysis of the Canada brand relative to that of Canada's international travel competitors.

The following report outlines the key findings of this research.

Key Results

The Japanese Long-Haul Market

Market Size and Current Issues

The incidence of long-haul pleasure travel in Japan is 16.7 percent of the adult population. This includes those who have taken a long-haul pleasure trip in the past three years and those who are planning such a trip in the next year. This represents an estimated market of approximately 17.5 million potential long-haul pleasure travellers in Japan.

Incidence Rates of Long-Haul Travel 1995-2005

Population	1995 N=1,200	2000 N=915	2005 N=1,461
Total Japanese population	123,611,000	125,860,000	127,611,000
Total Japanese adult population (18+)	94,794,000	102,466,000	104,637,000
Incidence Rates			
Pleasure travelers to Canada (past 3 years)	1.7%	1.6%	0.9%
Pleasure travelers other Long-Haul destinations	18.3%	19.6%	14.8%
Planners (next year)	6.1%	4.3%	1.0%
Total Long-Haul pleasure travel incidence	26.1%	25.5%	16.7%
Potential Market Size			
Total adult Long-Haul pleasure travelers	24,741,000	26,128,000	17,474,000

Overall since 2000, the total incidence rate has dropped from a rate of 25.5 percent to 16.7 percent. This represents a major loss of approximately 8.7 million adult Japanese consumers. The loss is attributable to a substantial decrease in the incidence rate for those Japanese planning to travel long-haul within the upcoming year and a decrease in the incidence rate of Japanese who travelled to destinations other than Canada within the last three years. The incidence rate of Japanese who travelled outbound to destinations other than Canada is 14.8 percent of the total adult Japanese population. This represents a decline of 25 percent over 2000 (incidence rate of 19.6% in 2000). The incidence rate of Japanese planning to travel within the next 12 months is 1.0 percent of the adult population. This represents a decline of 76 percent since 2000 (incidence rate of 4.3% in 2000). Based on the data the overall long-haul travel incidence rate appears to be greatly constrained by the substantial decrease in anticipated trips.

Concern about terrorism is clearly constraining Japanese travel, at least to some destinations. With the present state of political and security tension in the Middle East and parts of South East Asia, 75 percent of respondents agree that “concern about terrorism is a very important factor in [their] travel planning.” Events such as 9/11, the Bali bombings and the Iraq War all significantly impacted on the Japanese long-haul market in terms of travel confidence and preferred destinations.

The threat of Avian Flu, although important, is considered a less important barrier to travel plans than the threat of terrorism, with 27 percent of respondents agreeing with the statement that they are, “waiting for the threat of Avian Flu to disperse before taking an overseas holiday.”

Negative views regarding the economy have diffused substantially since 2000, with only 21 percent of respondents now agreeing with the statement that they are “waiting until the economy improves before taking an overseas holiday”, versus 73 percent recorded in 2000. It should be noted, however, that the sustained slump in the Japanese economy has greatly impacted the overall travel market in terms of the perceptions of value and cost.

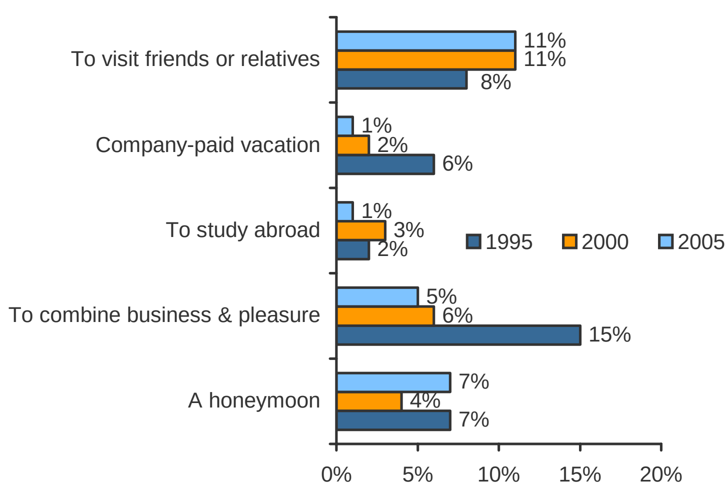
Travel Patterns and Trip Characteristics

In terms of Japanese respondents’ most recent trip, the most popular outbound destinations are Hawaii (14%) and Mainland USA (13%), followed by countries in Europe (10%) and China (8%). Travel to the USA has fallen six points from 1995, with Canada dropping two points.

China is the most popular Asian destination with 8 percent of respondents mentioning that they have travelled there, a doubling of its 1995 share. Of great interest is the 7 percent of respondents mentioning that they have travelled to Thailand. Travel to Asian destinations has increased dramatically since 2000. Canada now faces a much more dynamic competitive environment as a result.

Japanese long-haul travellers overwhelmingly travel on vacation for pleasure travel reasons. The number of pleasure trips combined with business, however, has declined notably. This is not surprising considering the sustained challenges in the Japanese economy since the mid 1990’s, resulting in decreased business travel and company-sponsored vacations.

Main Purpose of Most Recent Trip Taken by Japanese Long-Haul Pleasure Travellers

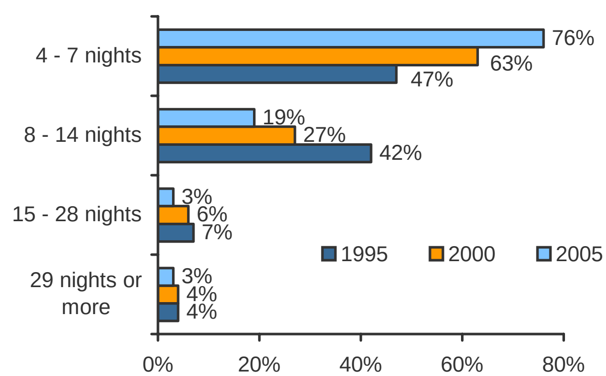


Japanese long-haul travellers are travelling more with spouses and significant others versus friends and business associates. Although less so, travel with children has increased. Additionally, the number of Japanese travelling alone versus in groups has increased consistently since 1995. This suggests the growing importance of the fully-independent traveller (FIT) segment. The relatively high use of packaged vacation travel has remained consistent, yet the number of Japanese reporting 'group' travel has decreased.

Since 1995 there has been a very large trend towards shorter long-haul pleasure trips of 4-7 nights, and away from two-week trips. In 2005, 76 percent of recent travellers travelled for 4-7 nights on their most recent long-haul trip outside of Japan. Some of this may be a function of the reduced number of outbound business trips and a corresponding decrease in opportunities to extend business trips by adding vacation time in the destination country.

The shift towards shorter vacations suggests that overall Japanese spending on individual long-haul travel should also be decreasing; the analysis proves this hypothesis. Japanese are taking shorter trips and spending less per person per trip.

Number of Nights Away from Home On Most Recent Long-Haul Trip

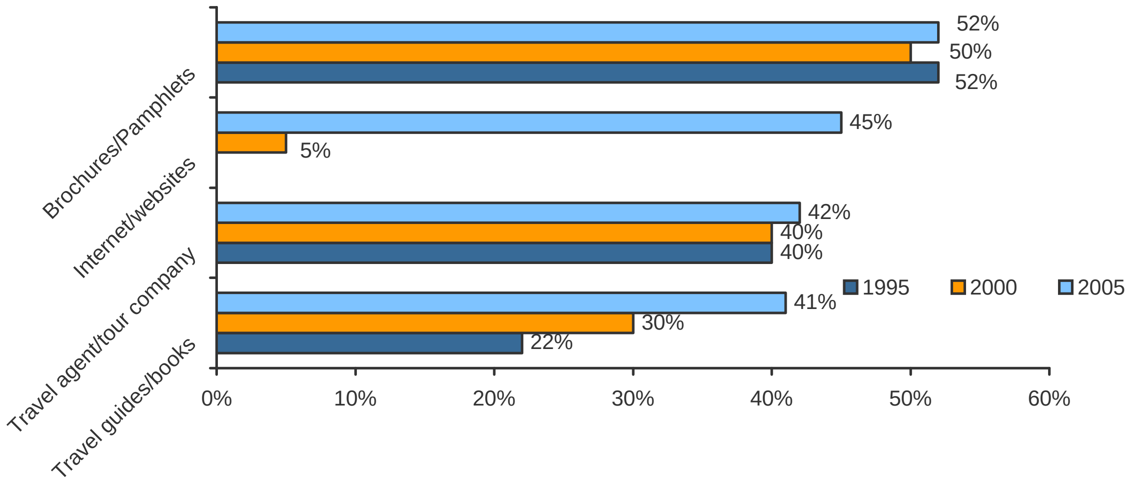


Trip Planning and Decision Making

When asked who decided on the destination for their most recent long-haul pleasure trip, two-thirds of respondents mention themselves, up sharply from 2000. The influence of spouses and partners has also increased.

The percentage of Japanese travellers who consider the Internet to be among the most important sources of information for trip planning has grown nine-fold since 2000 to 45 percent. After the Internet, and consistent with previous years, brochures and family/friends are the primary sources of information used to plan trips.

Top Sources of Information Used for Planning Most Recent Long-Haul Pleasure Trip



While a large majority of Japanese travellers continue to book their long-haul pleasure trips one to two months in advance, there has been a slight shortening of the travel horizon. This may be indicative of a decline in confidence in future capacity to travel as family, employment, cost and other constraints contribute to uncertainty.

Recent Travel to Canada

The Vancouver region and Niagara Falls continue to be ranked as top travel destinations for Japanese travelling to Canada, although many locations appear to have experienced a decline in visits. Central Canadian destinations such as Ottawa, Montreal, Quebec City and Muskoka/Algonquin Park, however, have gained in importance as destinations visited. These findings suggest that Japanese travellers may be exploring new Canadian destinations. Popular destinations such as Vancouver, Victoria and Banff have seen significant declines in Japanese visitors.

Japanese travellers to Canada overwhelmingly travel to Canada for pleasure travel purposes. In fact, the proportion of Japanese travelling to Canada mainly for pleasure vacations has increased to 75 percent in 2005 from 58 percent in 1995, and from 69 percent in 2000. The increase is a direct result of fewer Japanese travellers coming to Canada for business purposes.

Consistent with long-haul pleasure travel to destinations other than Canada, Japanese travellers to Canada are increasingly travelling with their spouse/significant other at the expense of travelling with friends and children. Additionally, a growing number of Japanese travellers to Canada are choosing to travel alone as opposed to travelling within a group or with business associates.

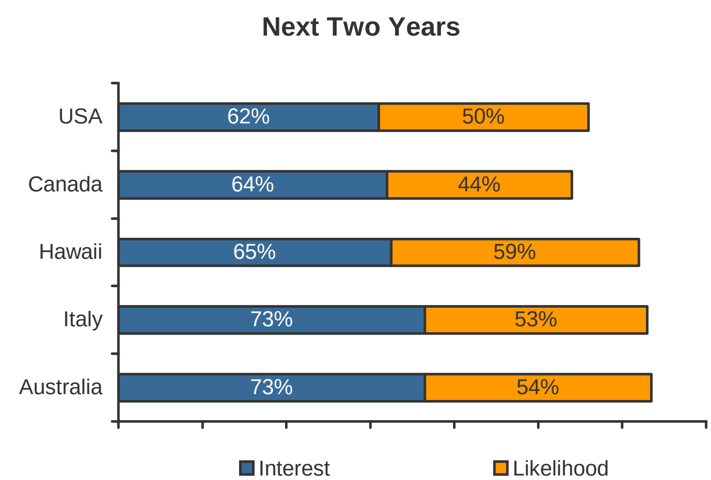
Per person trip expenditures have decreased significantly from 2000 levels. While this finding is not unique to travel to Canada, it is slightly more pronounced given the appreciation of the Canadian dollar relative to the Yen and the subsequent loss in Japanese spending power.

Despite Canada's image as a destination for outdoor activities and nature, large percentages of Japanese are engaging in typically urban activities while in Canada. Shopping, fine dining, and taking in culture or historical sites are each activities that two in ten or more Japanese travellers report having done while in the country.

Future Potential Travel

When long-haul travellers are asked to indicate their interest in travelling to select destinations within the next two years, Italy and Australia rate highest, with Canada, Hawaii and the rest of the USA attracting relatively equal interest. When asked how likely they are to visit these same destinations, Canada ranks last.

Interest & Likelihood of Travelling to Select Destinations within the Next Two Years



Almost four in ten Japanese travellers to Canada indicate that they would be very likely to travel to Canada again within the next five years. A similar proportion say they would be somewhat likely.

Travel Motivations and the Canada Brand

Respondents were asked to rate the importance of a series of attributes that they might consider in selecting an overseas holiday destination. Overall, safety-related attributes are ranked as most important by Japanese consumers, with over 50 percent describing 'personal security' and 'being free from the threat of terrorism' as "extremely important." Clearly, many Japanese do not feel at ease travelling in the current geopolitical climate.

Trip and activity related attributes are ranked as moderately important, with attributes related to urban and outdoor experiences, such as nice scenery, good food, having fun and being entertained and experiencing a different culture considered top in these categories. The availability of flights and all-inclusive packages are considered less important, suggesting that consumers first look for a desirable travel experience, and then concern themselves with logistics.

With improved economic conditions, price-related attributes are deemed to be of less importance. This is also reflected by the decrease in the number of Japanese consumers since 2000 who agree that they are waiting for the economy or the exchange rate to improve before taking a vacation. Issues of value though, are top of mind when consumers decide on a destination.

Based on advanced analysis, two key drivers of Canada's travel brand were determined. Cultural experience and Outdoor environment stand to have the greatest impact on Japanese consumers' perceptions of Canada as a premier long-haul travel destination. Canada is well known for its outdoor environment, wilderness and nature in Japan, but less so for its urban attractions. There is evidence that the country's current brand image does not extend beyond the outdoor environment. The fact that entertainment and shopping are among the top elements driving Canada's overall image is crucial insight for positioning in the Japanese market. Informing travellers that Canada delivers well in these areas will help expand Canada's brand image from 'natural and safe' to a 'complete package' involving safe and entertaining cities, blending urban amenities with beautiful wilderness and the outdoors.

Strategic Implications and Conclusions

Key Market Segments

Based on the analysis, there exist five key market segments representing 57 percent of the total Japanese long-haul population with a potential to visit Canada. These market segment groups are:

- <u>Fun Seeking Market</u>: 11 percent of the total Japanese long-haul population. This market segment is motivated by food and shopping related trip attributes.
- <u>Cost Concerned Market</u>: 12 percent of the total Japanese long-haul population. This market segment is motivated by cultural experience related trip attributes offered at competitive prices

- Value Seeking Market: 4 percent of the total Japanese long-haul population. This market segment is motivated by cultural experience related trip attributes and value-priced product.
- Safety Seeking Market: 6 percent of the total Japanese long-haul population. This market segment is motivated by cultural experience related trip attributes and destinations considered safe and secure. This market is explained in more detail below.
- Demographic markets: 24 percent of the total Japanese long-haul population. These demographic segments as a whole are motivated by cultural experience related trip attributes and Canada's outdoor environment. They can be specifically targeted based on the profile of the interest and demographic segments they belong to.

Safety and Security

The challenges experienced since 2000 in the Japanese travel market are not specific to Canada, but rather systemic to the total Japanese outbound travel market. While economic issues were the primary factor that caused the erosion in Canada's market share in 2000, evidence exists to suggest that the economy is taking a backseat to issues of safety and security as a travel constraint in 2005 and beyond.

Seventy-six percent of respondents in 2005 agree that concerns about terrorism are very important factors in travel planning, while 51 percent agree that the political/security unrest in the Middle East has decreased their overall interest in overseas travel. Additionally, factors associated with safety and security rank highest among all attributes respondents believe are important when selecting an overseas holiday destination (personal security: 56%, and free from the threat of terrorism: 55%).

An important factor driving Canada's travel brand in Japan is Safety and the associated attributes which define this factor, namely being free from the threat of terrorism, personal security and having a safe and clean environment. Japanese travellers identify Canada as performing well in these areas. Overall, however, safety related themes are not the primary motivating factor for Japanese long-haul travellers' destination choices. As the analysis demonstrates, safety themes resonate with a relatively small percentage of the total Japanese long-haul population, namely 10 percent (Safety Concerned and Safety Seeking market segments).

Recommendation

- Safety as a competitive advantage for Canada could form a part of the overall communications message to potential long-haul travellers from Japan, but should not be a main positioning message. The risk of heightening anxiety about travel generally should be carefully weighed. Safety must not convey dullness as well. Literal communications about safety should be avoided, but subtle reassurances about Canada's strength in the area may be effective.

Shorter Trips and Repeat Travel

Japanese are taking shorter trips. This presents challenges for Canada's tourism industry in sustaining volume market share. The fact that the incidence rate of travellers to Canada has decreased to 0.9 percent of the population from 1.7 percent of the population recorded in 1995 suggests that repeat travel to Canada may be becoming rarer than in the past. It is important to note that frequency of trips to Canada was not tested. The growth of travel to Asian destinations could be both driving this trend to shorter trips and also meeting demand in terms of package offerings.

Recommendations

- Marketing in Japan should focus on higher spending segments of the market (e.g. Outdoor Enthusiasts). Indeed, the segmentation analyses indicate that the market segments that are most likely to travel to Canada tend to spend more than others.
- While Japanese travellers are in Canada, marketing should encourage repeat travel by highlighting other additional signature destinations within Canada. Compared with Australia that occupies a similar brand space to Canada's, Canada is less likely to be perceived as a single-purpose destination. Testimonials by past travellers to Canada, especially by travel opinion leaders, and word-of-mouth viral marketing could be tactics employed to raise interest in repeat travel to Canada.
- Additionally, communications messaging should highlight to Japanese travellers that Canada is a suitable destination for one-week trips. This is dependent, however, upon the marketplace providing services and packages that fit that timeframe.

Independent Travellers

A growing segment of the Japanese travel market is choosing to travel alone rather than with organized groups or with business associates. The number of Japanese travelling alone on trips to Canada has increased substantially from 11 percent in 2000 to 20 percent in 2005. At the same time, an increasing number of Japanese travellers mention that they themselves decided on their trip destination (76% in 2005 versus 51% in 2000), suggesting an increasing focus on the individual. The Internet and the availability of 'self-searching' capabilities for travel ideas and products is a contributing factor to the trend towards independent travel.

While consumers are increasingly travelling alone or in smaller parties and their use of packages has decreased, they still have a high likelihood of using package vacation products for travel to Canada. Overall, however, the market has matured in both age and experience, has gained travel confidence, and has adopted and maintained the new forms of independent and less expensive travel that travellers first made use of during the economic downturn.

Recommendations

- The makeup of the Japanese travel party has become narrower and more concentrated, made up of very close relations. Marketing and package design should be optimized to these characteristics. Package offerings which focus on the ability to tailor experiences to individual preferences and those that also focus on the needs of solitary travel should be made available and promoted.
- The research also suggests that the Canadian tourism industry has a good opportunity to access the Japanese market directly (rather than through intermediaries in Japan) as a result of the increased use of the Internet and independent behaviour. It is crucial that the CTC and its partners ensure an effective Internet presence with e-commerce capacity in Japan.

Couples Travel

A growing segment of the Japanese travel market is choosing to travel with their spouses or significant others.

Recommendation

- In addition to marketing package travel for solo travellers, packages focusing on ‘couples’ travel and their specific needs and preferences should be promoted.

Urban Travel

Japanese travellers are looking for a balance of outdoor experiences and urban attractions while on vacation. Two key elements factor into destination choices, value for money and overall satisfaction. The belief that Canada provides a good outdoor environment is more important in driving perceived value for money than overall satisfaction. Spending time in nature or outdoors is seen as a low-cost, high return activity. When it comes to overall satisfaction, however, good food and shopping (more aligned with urban activities and entertainment), play a greater role than the outdoor environment. Hawaii is viewed as the top international destination to experience both outdoor and urban attractions, but Canada is well positioned to deliver in this area as well.

Recommendation

- Canada's value proposition in Japan should focus on how Japanese travellers can not only experience Canada's outdoors, but also enjoy Canada's quality urban attractions such as good food and accommodations. To take advantage of the importance of safety to Japanese travellers and Canada's positive performance in this area, subtly (but not literally) positioning Canada as offering safe cities could attract visitors. Personal safety is most an issue in urban environments.

Weather

Perceptions of Canada's climate are hindering the brand, despite the country's seasonality and regionality that provide ample opportunity to experience moderate and favourable conditions and engage in climate-specific activities.

Recommendation

- The comfort of high-quality urban amenities and accommodations should be coupled with communications about Canada's natural beauty and awesome wilderness. Wherever possible, imagery of natural beauty should include undertones of outdoor personal comfort. Further research should be undertaken to better understand how to overcome perceptions about poor weather.

Other Markets

Other outbound travel markets in Asia, such as Thailand, South Korea and China may also be undergoing some of the changes found by the present study in Japan. Specifically, these include a maturing market in terms of both age and travel experience, a shift toward independent travel, shortened trip durations, and anxiety about security.

Recommendation

- To assess the risk that challenges found in Japan are not unique to that country, past research in other countries should be updated and enhanced to measure new dynamics.

Annex

Methodology

The 2005 study was based on the questionnaire of two previous CTC studies conducted in 2000 and 1995. To account for recent changes in Japan's consumer privacy laws and to minimize costs to the CTC, a combined two-phase telephone and online survey methodology approach was used. To obtain the current incidence rates of travel, 2,649 respondents completed the telephone screener of approximately three to five minutes. Respondents 18 years and older from the metropolitan areas of Tokyo, Osaka and Nagoya were chosen through random selection using current adult Japanese phone records. These markets were chosen to replicate the sample from the 2000 and 1995 studies. These three cities are also the pre-dominate regions of focus for the CTC in Japan.

Respondents were screened to meet set travel criteria; respondents had to have travelled for a long-haul pleasure trip to Canada or another overseas destination within the last three years or to intend to take a similar trip within the following year. These data were used to determine travel incidence rates, to enable accurate weighting of results of the second phase of the research.

Next, a total of 1,461 respondents completed a core online questionnaire of twenty minutes, during the first two weeks of December 2005. The survey sample was obtained from the online panel of 70,000 adult Japanese consumers hosted by Nikkei Research. The survey focused on Japanese long-haul pleasure travel. Long-haul pleasure travel was defined as a trip of four nights or longer, by plane, outside of Japan.

Results of the telephone screener were weighted to match current Japanese census data. The census data was obtained from the Japanese Census Bureau, Ministry of Internal Affairs and Communications. Using this weighted data, the findings were next segmented according to age, gender and travel profile (Long-haul travellers to Canada, Long-haul travellers to other destinations and Planners). The online survey data were also segmented to match the telephone screener segments. Using the weighted telephone data segments as a guide, the online survey data was weighted proportionally. This weighting methodology resulted in data comparable to previous CTC research.

The study sample was as follows: Tokyo: 807; Osaka: 442; Nagoya: 212; for a total of 1,461

Respondent quotas were as follows:

- Travellers to Canada: 334 (23%);
- Travellers to other countries: 832 (57%);
- Consumers who did not travel in the last three years, but plan to travel in the next year: 295 (20%);
- Total: 1,461 (100%)