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CTC Tourism Intelligence Bulletin – Issue 9: October 2002

The Tourism Intelligence Bulletin continues to monitor the tourism industry around the world. This issue reveals tourism intelligence gathered in July and August 2002.

Customers demand value pricing

Executive Summary

- In the past, tourism suppliers were able to segment their customers easily. As a result, radically different pricing policies remained insulated from a true value comparison. Business-travel pricing reflected what the market could bear while leisure travel was, essentially, subsidized. While the economic slowdown had already started to put pressure on business-travel pricing prior to the terrorist attacks, September 11th ultimately provided the catalyst for change.
- For the tourism industry, the pressure is now on pricing policies to emphasize value. To corporate and individual customers alike, this means no more set market prices. Instead, the price must be tied to the value received. However, to appreciate the value that they are receiving, many customers will need to understand the services for which they are paying. In addition, travellers need to be able to choose the service enhancements they value most. As the industry recovers, value pricing is expected to play a significantly bigger role.

Emerging Trends and Issues- Meetings market still facing challenges

- Conventions and meetings serve different purposes for business travellers. This, by itself, suggests that their recovery processes may differ. Meetings are often regular affairs between groups of people who know and are comfortable with each other. Technologies such as Webconferencing or videoconferencing are well suited to this type of situation and may be seen as viable alternatives to these face-to-face meetings. On the other hand, conventions tend to be annual events that appear less likely to be delegated to technology.
- The rebound in convention travel has generally been stronger, particularly in the larger population centres across Canada. While the industry suffered immediately after September 11th, the pent-up demand seems to have been released and, once again, people desire the experience that only a large gathering can provide. In fact, for most major Canadian cities, the number of conventions booked for the upcoming fall and winter season is up compared with last year. However, competition from U.S. convention centres is stiff. On top of slashing prices, many U.S. cities either have expanded or are expanding their convention facilities and now feel the pressure to fill that extra space.

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- Corporate economic concerns have led to budget constraints for meeting planners. A survey conducted by the Meeting News reported that more than 60 per cent of meeting planners surveyed had their budgets cut last year. This meant selecting less-expensive hotels, destinations and amenities, a practice known to meeting planners as "trading down." The trading-down phenomenon usually results in meetings that are shorter, closer to home and attended by fewer registrants. It often also means meetings that are booked closer to the actual meeting date.

Consumer (traveller) overview

- Economic concerns continue to hold back the recovery in business travel. Primarily due to the weakness of the business-travel market in Ontario, Canada is not expected to experience a full recovery until 2003. While the Tourism Industry Association of America (TIA) forecasts that U.S. business-and-convention travel will increase slightly this year (1.4 per cent), it is not expected to climb back to 2000 levels until some time in 2003-this after three straight years of decline. In fact, domestic-travel spending in the U.S. is expected to take until 2004 to reach 2000 levels because of sagging air and business travel, discounted travel prices and the trend toward shorter trips.
- Meanwhile, leisure travel is well on its way to recovery. Nearly a year after the terrorist attacks, surveys reveal that leisure travellers' desire for out-of-town travel remains strong. Concerns about personal safety and security are diminishing-at least for domestic travel-while travel inconvenience and concern about the economy are once again major reasons not to take a trip. However, travel patterns have changed in the past year as travellers book later and generally take shorter, more frequent trips. When travelling internationally, Americans are heavily favouring countries that speak English and have a similar culture.

Travel supplier overview

- All things considered, airlines in Canada are recovering well-especially compared with their counterparts in the U.S. Second-quarter results were positive for WestJet, Jetsgo and Air Canada. Despite the slow rebound, the positive results suggest Canadian carriers were actively implementing and experimenting with methods to further improve their financial situations. Unfortunately, the short-term future of the U.S. air industry remains gloomy as major carriers continue to fight for survival. While some major airlines are expected to further streamline costs through scheduling and fleet changes, others are considering operating different brands, under one parent company, to targeting different market segments.
- Like the airlines, Canada's hotel industry continues to fare better than its counterpart in the U.S. Still, the level of recovery varies by region. In general, most parts of Canada are showing strong signs of recovery and even growth-fueled primarily by domestic travellers. In fact, the majority of Canadian hotels posted profits for the second quarter of 2002. Meanwhile, the slow recovery of the U.S. hotel industry has meant that for most properties, revenues are flat or even down compared with last year. According to PricewaterhouseCoopers, the biggest deterrents now facing the U.S. hotel industry are the weak state of the economy, the sharp decline in stock values, eroding consumer confidence and fears of U.S. action against Iraq. These factors are expected to push back the recovery of the U.S. hotel industry until 2004.
- Travel agents continue to struggle against a soft economy and changing revenue sources. These changes mean that travel agents must start implementing fees-if they haven't done so already-based on the value or worth that they bring to a client. Travel agents have come to accept that it is not the job of the client to provide an agent with a decent profit but rather it's the agent's job is to be compensated for the quality of the service provided. Unfortunately, according to IATA's Bank Settlement Plan (BSP) and the Travel Industry Council of Ontario, both the number of tickets sold through agencies and the number of agency outlets continue to decline.

Economic overview

- The Conference Board Inc.'s Index of Consumer Confidence tumbled by over nine points in July, fueled by stock-market declines, weak labour markets and corporate scandals. It was the largest decline in consumer confidence in the U.S. since last October. Even with stock markets and consumer confidence tumbling and weaker-than-expected real gross domestic product (GDP) growth, the U.S. economy is not expected to be headed for another severe slump. In fact, the rebound in U.S. economic activity this year has boosted economic prospects for both Canada and Mexico.

Customers demand value pricing

- Euroland inflation remained stubbornly high in early 2002, partly due to higher food and energy prices as well as a "rounding up" effect from the introduction of the euro in January. For the U.K., the consumer sector remains strong because household wealth has increased dramatically in line with the rapid rise in housing prices. In France, the outlook for the economy is generally positive as manufacturers have been increasing production in line with higher export orders. However, a weak domestic economy in Germany is reflected in the country's rising unemployment rate.
- Because of its very open economies, no part of the world has more at stake as economies recover worldwide than the Asia-Pacific region. In general, economic recovery will be very difficult for countries with large foreign sectors and high concentrations of information technology. However, for countries like South Korea that have a diversity of exports and large domestic economies, the short-term outlook is more positive.

Opportunities

- Facing weak business-travel prospects and an onslaught of regional and low-cost competitors, it is not surprising that airlines are looking at or adopting value-based pricing policies. Value-based pricing policies will become more popular as travel decisions become based increasingly on perceived value. However, knowing what consumers value from you-and how much they will pay you for that service-will involve experimenting. In addition, a company should not only evaluate its worth to a customer but how it values its suppliers.
- Changing to value pricing does not necessarily mean simplicity. In fact, it will more likely involve more options to meet the different needs of different market segments. Ultimately, basing pricing on value rather than cost or a set market price will shift the focus from making a profit based on markup to successfully meeting underlying customer needs.

In Brief

In the past, tourism suppliers were able to segment their customers easily. As a result, radically different pricing policies remained insulated from a true value comparison. Business-travel pricing reflected what the market could bear while leisure travel was, essentially, subsidized. While the economic slowdown had already started to put pressure on business-travel pricing prior to the terrorist attacks, September 11th ultimately provided the catalyst for change.

For the tourism industry, the days of applying radically different pricing policies to various segments of the market are over. Now, the pressure is on pricing policies to emphasize value. To corporate and individual customers alike, this means no more set market prices. Instead, the price must be tied to the value received.

In the end, the difference paid by a business traveller and leisure traveller should reflect the tangible and valued difference in the service they receive. For example, while it is reasonable to expect to pay a premium for the ability to make changes to your flight arrangements or to book a flight at the last minute, the cost of this enhanced service should equal the perceived value.

However, to appreciate the value that they are receiving, many customers will need to understand the services for which they are paying. Case in point: while many business travellers have switched to low-cost air travel and accepted the limitations of that service, many others have come to find these too restrictive. Travellers need to be able to choose the service enhancements they value most. As the industry recovers, value pricing is expected to play a significantly bigger role.

Emerging Trends and Issues - Meetings and Conventions Market

Meetings market still facing challenges

There is still a fair degree of turbulence in the meetings-and-convention market one year after the events of September 11th. And everyone is feeling the pressure. Meeting planners, perhaps more than ever, are expected to produce a low-risk product with a tangible return on investment that is also on time, on budget and hassle-free.

Now well into 2002, it appears the recovery process for the meetings-and-convention market is, once again, back on track. The rebound in convention travel has generally been stronger, particularly in the larger population centres across Canada. For major cities, the number of conventions booked for the upcoming fall and winter season is up compared with last year.

When the going gets tough, the tough drop their prices

While people may still want to convene, many companies continue to face economic uncertainty and in that climate, travel is seen as one expense that can be cut. For destinations, this means fierce competition-from both Canadian and American competitors-in a shrinking market.

While it is true that Canada attracts some American organizations because of our relatively weak dollar and the perception that Canada is a safe location, competition from U.S. convention centres is stiff. Destinations such as Boston and Orlando are offering space at fire-sale prices in an effort to win bids and keep U.S. convention business closer to home. On top of slashing prices, many U.S. cities either have expanded or are expanding their convention facilities and now feel the pressure to fill that extra space. Winning bids from American organizations often means offering prices that match those U.S. deals.

Meetings "trading down"

Corporate economic concerns have meant that meeting planners must not only stick closer to specified corporate-meeting goals when planning their events, but they must do it with ever-tightening budgets. A survey conducted by Meeting News reported more than 60 per cent of meeting planners surveyed had their budgets cut last year. Almost one out of three respondents reported experiencing decreases of 11 to 15 per cent while 25 per cent of respondents saw their budgets chopped by 16 to 20 per cent. This meant selecting less-expensive hotels, destinations and amenities, a practice known to meeting planners as "trading down."

The trading-down phenomenon usually results in meetings that are shorter, closer to home and attended by fewer registrants. It often also means meetings that are booked closer to the actual meeting date.

Meeting recovery not as strong as conventions

Sales staff at Convention and Visitors Bureaus report that their customers are fully aware that competition is fierce between destinations and hotel properties and are making the most of this opportunity. Competition has risen significantly since September 11th and both destinations and hotels have elevated the number of free trips, dinners, board meetings and other offerings in an effort to book business.

The one thing that appears certain in this recovery process is that increasingly, companies worldwide will demand a positive return on investment from business travellers involved in meetings or conventions.

Conventions and meetings serve different purposes for business travellers. This, by itself, suggests that the recovery processes may differ. Meetings are often regular affairs between groups of people who know and are comfortable with each other. Technologies such as Webconferencing or videoconferencing are well suited to this type of situation and may be seen as viable alternatives to face-to-face meetings.

On the other hand, conventions tend to be annual events that appear less likely to be delegated to technology. While the industry suffered immediately after September 11th, the pent-up demand seems to have been released and, once again, people desire the experience that only a large gathering can provide. While there may be calls for content, program or educational changes, the process-the gathering of people to learn and share-will remain the foundation that propels the convention business to recovery.

Consumer overview - Canada and the United States

Business Travellers

Economic concerns continue to hold back the recovery in business travel. Until business travellers see value in travelling again, they will stay home. Primarily due to the weakness of the business-travel market in Ontario, Canada is not expected to experience a full recovery until 2003. While the Tourism Industry Association of America (TIA) forecasts that U.S. business-and-convention travel will increase slightly this year (1.4 per cent), it is not expected to climb back to 2000 levels until some time in 2003-this after three straight years of decline. In fact, domestic-travel spending is expected to take until 2004 to reach 2000 levels because of sagging air and business travel, discounted travel prices and the trend toward shorter trips.

A recent survey commissioned by Orbitz for the Travel Business Roundtable in conjunction with NYC & Company and the Washington Convention and Tourism Corporation, reveals that nearly 90 per cent of Americans are now travelling more or at about the same level as before September 11th. However, a survey of both leisure and business travellers revealed that 29 per cent are less inclined to take an international trip since September 11th. While 9 per cent have actually cancelled an international trip, male business travellers cancelled the most international trips-16 per cent. Meanwhile, female business travellers were the most likely to have reduced their level of flying because of the hassles of security (31 per cent) compared with 12 per cent of the general population and 4 per cent of male business travellers.

Meanwhile, Yesawich, Pepperdine & Brown reported in a recent survey that 18 per cent of business travellers will not travel on or around September 11th due to anxiety. This finding suggests that 82 per cent of travellers will not alter their travel plans. The American Traveller Survey, completed by Plog Research, stated 23 percent of business travellers took fewer international business trips between September 11th and April 2002, with the largest decline among those whose travel is mostly business-related. All travellers, frequent or otherwise, anticipated a significant reduction in international business travel for 2002.

Leisure Travellers

Leisure travel is well on the its way to recovery. Nearly a year after the terrorist attacks, surveys reveal that leisure travellers' desire for out-of-town travel remains strong. Concerns about personal safety and security are diminishing-at least for domestic travel-while travel inconvenience and concern about the economy are once again major reasons not to take a trip. However, travel patterns have changed in the past year as travellers book later and generally take shorter, more frequent trips. When travelling internationally, Americans are heavily favouring countries that speak English and have a similar culture.

The fifth wave of information from the International Travel Confidence Index from NFO Plog Research since September 11th stated nearby and English-speaking locations earned the highest ratings from respondents. Those questioned were asked to weigh the perception of safety for various domestic and international destinations. Among those who said they currently resist overseas travel, 23 per cent cited safety issues as a reason.

Harris Interactive reports that world events in 2002 and the fear of terrorism have changed American preferences regarding countries they would most likely visit "if you did not have to worry about cost."

Compared with last year, more respondents chose English-speaking countries. While Australia retained its number one position for the sixth year in a row, Great Britain moved up from third to second. Canada jumped from ninth to fourth place, Italy moved down from second to third and Israel and Japan dropped off the top-15 list.

This year's changes were the largest reported since the survey began six years ago. A survey by the U.S. Tour Operators Association stated that for those actually booking tours and package holidays, Britain is the most popular international destination for the first time in eight years. Outside of European destinations, Australia was the most popular.

In August, a study by Travelocity reported that only 2.6 per cent of survey respondents cited "concerns for their personal safety" as the reason for avoiding travel. This, compared with 14.4 per cent immediately after the attacks. As well, while 25 per cent of respondents avoided travel immediately after the attacks, almost 90 per cent have taken a trip since then. Overall, government-issued security alerts have not played a major role in affecting travel-related decisions. More likely to affect travellers' decisions are worries about debt and job loss.

Customers demand value pricing

According to Opinion Research Corporation, of those respondents who said they will spend less or otherwise scale back their 2002 summer plans compared with last summer, 28 per cent did so because they are either at or near credit-card limits or are carrying too much debt. A further 17 per cent stated reasons that involved being out of work or being worried about a layoff.

Meanwhile, the American Society of Travel Agents (ASTA) reported 66 per cent of respondents to its survey said consumers are taking shorter vacations this year compared with last year. Only 8 per cent said consumers were taking longer vacations.

The Travel Industry Association of America forecasts a 1.3 per cent increase for leisure travel this year compared with last year. In 2001, leisure travel increased 3.1 per cent compared with the previous year. Fortunately, a recent survey by Yesawich, Pepperrine & Brown reported that the travel intentions of both investors and non-investors between August and the end of 2002 remain strong. More than 90 per cent of non-investing and investing adults who planned a trip for that time period still intend to take those trips-despite the decline in the stock market.

Travel-supplier overview - Canada and the United States

Airlines - Canada

All things considered, airlines in Canada are recovering well-especially compared with their counterparts in the U.S. Second-quarter results were positive for WestJet, Jetsgo and Air Canada. Despite the slow rebound, the positive results suggest Canadian carriers were actively implementing and experimenting with methods to further improve their financial situations.

Air Canada also posted a profit for the second quarter with a net income of \$30 million compared with \$44 million during the same period a year earlier. This made Air Canada the only international North American carrier to post a net profit in the second quarter. The company attributed the results to changes started over a year ago that included cost reductions and shifting excess capacity from the business-travel market to sun-and-leisure markets. Nevertheless, Air Canada announced in August that it intends to layoff 1,300 staff on a temporary basis as demand for seats falls after the summer peak period. Staff affected include 900 flight attendants and 400 airport-services workers.

Meanwhile, WestJet posted a 44.7 per cent increase to \$12.3 million in net earnings for the second quarter of 2002 compared with a year ago. Even with the slowdown in the tourism industry, WestJet increased its capacity during this period by 55.4 per cent. WestJet introduced a new structure for its collection of the Nav Canada fees that follows the philosophy of value pricing. Westjet claims it had been previously paying an unfair portion of charges as its flights are mostly short-haul and NavCan charges a flat-fee rate. Westjet changed the calculation method to a fee based on the distance flown, a method WestJet says will not unfairly burden its short-haul customers and will add to the value of the Westjet ticket.

Jetsgo also reported a profitable month for July-its first full month of operation. The new carrier had a 72 per cent load factor, 8 per cent higher than in June. In comparison, Air Canada's load factor in July was 76.2 percent. Jetsgo also announced that 85 per cent of its bookings are conducted via the Internet-up 50 per cent over what it had anticipated. Jetsgo attributes the popularity of Internet bookings to its policy of paying a 10 per cent commission to travel agents who book through the Internet compared with a 5 per cent commission paid for bookings via a computer reservation system (commonly called a CRS). Travel agents account for 50 per cent of all Jetsgo bookings.

In addition, a new airline, Canada West, announced it will begin operations in December. Based out of Edmonton, Canada West will fly two Boeing 757s to sun destinations in the winter and Europe during the summer. While passengers won't be treated with fancy meals, Canada West does promise to have a bigger seat pitch than its competitors.

Airlines - U.S.

Unfortunately, the short term future of the industry remains gloomy as major carriers continue to fight for survival. It appears that major changes are on the horizon. Flyers can expect to see fewer flights at peak hours, longer wait times, fewer frills and smaller, more cost-efficient planes as airlines try to streamline costs by reducing capacity and spreading out fewer planes. Airlines are also expected to stop distinguishing themselves based on in-flight services. Niche markets for airlines are emerging as carriers stop their attempts to be everything to everyone. Increasingly, we will see different brands, under parent companies, targeting different market segments.

The Air Transport Association reported that airline traffic continued to decrease in July, down 8.4 per cent) compared with the same month a year earlier. Capacity continued to decline as well, down 7.2 per cent in July.

Customers demand value pricing

U.S. domestic revenue passenger miles declined 7.1 per cent while international revenue passenger miles decreased 11.6 per cent compared with the same period one year ago. The average domestic airfare in June was US\$ 118.50 (CDN\$ 184.56), down 9.8 per cent compared with the same period a year ago. Meanwhile, international airfares remained flat for the same period.

In July, carriers reported their second-quarter results for 2002. Losses were primarily attributed to traffic and capacity declines and widespread airfare discounting. In fact, average fares hit 15-year lows in the second quarter.

Table 1. Airline revenue and net profit/loss

Airline	Revenue, Q2 2002 vs. 2001 (in U.S. \$)	Net Profit/Loss Q2 2002 (in U.S. \$)	Net Profit/Loss Q2 2001 (in U.S. \$)
Southwest Airlines	- 5%	+ \$102 million	+ \$176 million
America West Airlines	- 7%	- \$8.5 million	- \$43 million
Delta Air Lines	- 8%	- \$186 million	- \$90 million
Northwest Airlines	-11%	- \$93 million	- \$55 million
Continental Airlines	-15%	- \$139 million	+ \$42 million
America Airlines	-20%	- \$495 million	- \$105 million
US Airlines	-24%	- \$248 million	- \$24 million

The airfare wars designed to woo travellers continued during the summer. All major carriers reduced their fares in August for both business and economy classes. This, after failing to raise economy-class rates earlier in July. Northwest Airlines thwarted the rise in leisure-class fares while American Airlines started the business-class fare reductions. Most majors also eliminated their seniors' discounts in July—at least in the North American and Caribbean markets.

In July, 13 U.S. airlines applied for financial aid under the U.S. government loan-guarantee program that was set up to help the aviation industry recover from the effects of last September's terrorist attacks. Most were smaller carriers but among the bigger players, United Airlines, US Airways, American Trans Air and America West applied. United Airlines applied for the largest amount of aid.

In August, American Airlines announced that it would eliminate 7,000 jobs, cut capacity by 9 per cent, simplify its fleet and de-peak its Chicago hub. "De-peaking" involves spreading arrivals and departures throughout the day to make better use of gates and personnel. The moves are designed to slash operating costs.

Also, US Airways filed for bankruptcy protection. As it restructures, US Airways will continue to fly although some flights will be eliminated. US Airways was hit particularly hard with the prolonged closure of its Washington Reagan National Airport hub after the terrorist attacks.

Continental Airlines announced that it was introducing more than one hundred cost-cutting, revenue-increasing measures worth over US\$ 350 million (CDN\$ 545 million) annually once fully implemented. Measures include everything from charging for paper tickets to the elimination of free parking for Continental executives.

In recognition of the first anniversary of the terrorist attacks, several smaller carriers, such as Sprint and National, offered free or almost-free flights on September 11th. Meanwhile, others, such as American and United, reduced the number of flights operating for the entire work week.

Hotels - Canada

Like the airlines, Canada's hotel industry, for the most part, continues to fare better than its counterpart in the U.S. Still, the level of recovery varies by region. In general, most parts of Canada are showing strong signs of recovery and even growth-fueled primarily by domestic travellers. Ontario, however-with the possible exception of the North Central and North Western regions-appears to be one province that is lagging behind.

According to Pannell Kerr Forster Consulting Inc. (PKF), the average daily room rate for Canadian hotels in June increased a modest 1.7 per cent compared with last year. Fortunately, the revenue per available room (RevPAR) still managed to increase 0.8 per cent, despite lower occupancy rates. According to PKF, Ottawa West suffered the biggest decline in RevPAR, down 14.4 per cent in June compared with last year, while Edmonton West managed to increase its RevPAR the most-jumping 33.8 per cent compared with last year.

Still, the majority of Canadian hotels posted profits for the second quarter of 2002. Fairmont announced that its Canadian properties continue to outperform its international properties in terms of RevPAR. Meanwhile, Four Seasons suggested that its results reflect the continued global slowdown in the lodging industry-specifically the continued weakness in corporate travel. Royal Host announced it was hurt by a poor performance in Ontario, especially in the Ottawa and Toronto markets.

Table 2. Earnings, Q2 (in CDN \$)

Company	2002	2001
Fairmont Hotels and Resorts	\$53.2 million	\$64.4 million
Four Seasons Hotels	\$18.1 million	\$28.2 million
CHIP REIT	\$15.3 million	\$14.4 million
Royal Host REIT	\$10.7 million	\$12.2 million

Hotels - U.S.

The slow recovery of the U.S. hotel industry has meant that for most properties, revenues are flat or even down compared with last year. The added pressure to reduce average daily room rates is coming partly from on-line travel Web sites. These agencies give consumers more options and make hotel rates transparent, just as they did to leisure airfares a few years ago. In response, hospitality companies are launching lowest-rate guarantees for their corporate Web sites.

On a more positive note, research by Torto Wheaton Research and The Hospitality Research Group reveals that the effect of September 11th on hotel-room sales has disappeared in all but 13 major U.S. cities. And even in these 13 cities, the effects have decreased substantially. Only a small effect directly attributed to the attacks is expected to remain by the end of this year.

According to PricewaterhouseCoopers, the biggest deterrents now facing the industry are the weak state of the economy, the sharp decline in stock values, eroding consumer confidence and fears of U.S. action against Iraq. These factors are expected to push back the recovery of the U.S. hotel industry until 2004.

According to HVS International and Smith Travel Research, in the first six months of 2002, occupancy rates were down 3.6 per cent, the average daily rate decreased 4 per cent and RevPAR fell by 7.4 per cent compared with the same period a year earlier. Still, Smith Travel Research expects full-year 2002 performance will be up slightly compared with 2001.

Customers demand value pricing

For the majority of hotels in the U.S., second-quarter results reflected decreases, albeit less-dramatic than those seen in the first quarter of this year. Results were attributed largely to the weakened worldwide economic environment and the slower-than-expected return of the independent business traveller. While the leisure-travel market continues to lead the rebound through occupancy rates, generally this market pays a lower average daily rate and does not generate ancillary revenues such as banquet and catering. Luxury and boutique properties continued to experience the softest demand.

Table 3. Revenue per available room (RevPAR), Q2 2002 vs. Q2 2001

Starwood Hotels and Resorts	-10.2%
Wyndham International	-9.8%
Host Marriott Corporation (REIT)	-9.8%
WestCoast Hospitality	-8.2%
Marriott International, Inc.	-8.0%
Prime Hospitality	-7.8%
Hilton Hotels Corporation	-7.5%
Candlewood Hotel Co., Inc.	-4.5%
Jameson Inns	-2.4%
Arlington Hospitality Inc.	+5.3%

The 2002 Hospitality Investment Survey, conducted by PKF Consulting and its affiliate, The Hospitality Research Group, indicated that by mid-2001, the majority of lenders had stopped providing long-term financing for most hotel properties. The slowdown began in the third quarter of 2000 and continued through the end of 2001. As a result, the average holding period of hotel properties increased from 8.6 years in 2000 to 9.1 years in 2001. The report states that uncertainty still exists for investors in the lodging market because there is little evidence that RevPAR will increase past historic levels in the near future.

In August, Starwood Hotels and Resorts announced that it relaxed the criteria for granting corporate customers national-account or global-account status, the first among the major multi-brand hotel companies to do so. The move is seen as an acknowledgement of the effect of the economic downturn and slow recovery in the corporate-travel market.

Travel Agents

Travel agents continue to struggle against a soft economy and changing revenue sources. These changes mean that travel agents must start implementing fees-if they haven't done so already-based on the value or worth that they bring to a client. It is not the job of the client to provide an agent with a decent profit but rather the agent's job is to be compensated for the quality of the service provided.

Unfortunately, both the number of tickets sold through agencies and the number of agency outlets continue to decline. In fact, the Travel Industry Council of Ontario reported that the number of registered retailers was down 3 per cent in April 2002 compared with a year earlier. At the same time, the percentage of travel agencies adopting e-ticketing and electronic reporting continues to climb as agencies attempt to reduce costs.

Customers demand value pricing

IATA's Bank Settlement Plan (BSP), the system of tracking airline tickets sold through travel agencies, reported that the cost of domestic and international air travel for Canadians continues to increase. In July, the average domestic airfare paid by leisure travellers increased 10 per cent while domestic business-travel airfares rose 8 per cent, both compared with the same time period a year earlier. While, international business airfares also increased 7 per cent, leisure airfares declined 7 per cent, again compared with the previous year.

In the U.S., the Airlines Reporting Corporation (ARC) reported that average weekly sales-per-travel-agency for the month of July posted a 1 per cent improvement to US\$ 38,193 (CDN\$ 59,325) compared with the same month last year. However, ARC attributes the increase to a 16 per cent decrease from January to July in the number of accredited agency locations compared with a year earlier. While the average international airfare paid in July dropped 5 per cent compared with a year earlier, domestic U.S. fares dropped 20 per cent during the same period.

On a positive note, Expedia Inc. reported its gross bookings in the second quarter increased 66 per cent to US\$ 1.33 billion (CDN\$ 2.03 billion) while its adjusted earnings increased by 94 per cent to US\$ 29.2 million (CDN\$ 45.6 million). Expedia also announced that it will launch a dedicated corporate-travel service division by the end of the year.

International overview - Overseas

United Kingdom and Ireland

Low-cost carriers are coping with their own success as passenger numbers continue to grow. With the merger of GO and easyJet underway, easyJet became Europe's largest-low cost carrier. The integration is expected to take 18 months. In the 12 months ending June 2002, the combined airline carried just under 14 million passengers, more than almost any of Europe's largest national airlines.

Growth has not come without problems, however. In July, easyJet cancelled some flights while in August, it cut flights on less-popular routes. The changes are designed to create stability for pilots and cabin crews as the airline struggles to cope with rapid growth.

In June and July, low-cost carriers outperformed British Airways easily in terms of passenger-load increases. U.K. tour operator My Travel announced in August that this winter it, too, will launch a low-cost carrier.

Table 4. Percentage change in the number of passengers

Carrier	June 2002 vs. June 2001	July 2002 vs. July 2001
British Airways	-12%	-13%
Ryanair	+34%	+41%
GO	+72%	+59%
easyJet	+52%	+62%

For its first quarter ending June 30, 2002, Ryanair recorded record profits of EUR39 million (CDN\$ 60 million). This represents an increase of 29 per cent compared with the previous year. As well, the number of passengers increased during the first quarter by 38 per cent compared with the same period a year earlier. Ryanair credited this to both traffic growth on new and existing routes and disciplined cost-management-including low distribution costs (Ryanair sold 91 per cent of its tickets over the Internet in June). However, Ryanair is cautious about future growth as the airline's CEO stated it does not expect to continue at first-quarter levels for the rest of the fiscal year.

It's worth noting here that according to survey results from American Express, many U.K.-based businesses-perhaps much like other businesses around the world-have added low-cost carriers to their corporate-travel policies in an effort to keep costs down.

In response to the low-cost carriers, British Airways slashed airfares by more than 80 per cent on 37 European routes in July. It also removed the Saturday night stay-over restriction and the need to book in advance to obtain the cheapest fares. Plus, it now allows the combination of peak and off-peak fares.

Customers demand value pricing

British Airways experienced its highest Internet booking day ever in July. British Airways also surprised analysts by posting a £65 million (CDN\$ 155 million) profit for its first quarter (April to June), up 62.5 per cent compared with the same period a year ago. However, the airline warned it expects full-year revenues to be lower than last year.

British airport operator, BAA, reported a 4.7 per cent decrease in profits for its first quarter ending June 30, 2002, compared with the previous year. BAA attributed the decrease, in part, to increases in insurance and security charges. In July, BBA's seven U.K. airports handled 0.4 per cent more passengers than it did in the previous year. The Official Airline Guide (OAG) reported Heathrow and Frankfurt (Germany) airports are now operating the same number of transatlantic flights as they did prior to the terrorist attacks.

The leisure-travel sector would see more activity in the U.K. if not for the fact that 44 per cent of U.K. workers simply don't take their full holiday entitlements because of the workload. The U.K. also has the fewest number of statutory holidays in Europe.

However, when British residents do take their holidays, the average British tourist overspends the holiday budget by £235 (CDN\$ 561) according to a survey by First Direct Bank. The survey found also that men were more likely than woman to overspend. Twelve per cent attributed their holiday overspending to mistakes made when converting sterling into local currency.

The British Tourist Authority announced that the number of visitors from North America dropped 4 per cent in June compared with a year earlier. Overall, overseas visitation, including business travel, rose 3 per cent. Meanwhile, the British Incoming Tour Operators Association (BITOA) reported a drop of 1 per cent in June compared with the same time last year—a slight improvement over May when numbers were down 5 per cent. The BITOA figures do not include business travel. Finally, the Office of National Statistics reported package holidays taken in June cost 10 per cent more than they did a year earlier.

U.K. tour operators are experimenting with pricing options. At Thomson Holidays, for example, customers can choose their options. Since offering this choice, 88 per cent have selected transfers but only 60 per cent chose in-flight meals. On the other hand, Airtours Holidays launched a brochure in July that shows the full price of the tour—all taxes, transfers and extras are included. This pricing option came in response to a Travelcare Holiday Report survey indicating that 85 per cent of respondents felt that the price you see in a brochure should be the price you pay.

The Which? Online Annual Internet survey for 2002 reported in July that travel is the third most-popular on-line purchase. In 2001, travel ranked second. While the percentage of people who had booked travel on-line didn't change from 16 per cent in 2001, more people purchased CDs this year over last.

The International Hotels Environment Initiative reported that 90 per cent of British travellers surveyed at airports in the U.K., U.S. and Australia believe tourism development is in danger of destroying the environment. While no British respondent reported actually asking if their hotels have an environmental policy, 53 per cent are very likely to choose hotels with equipment such as renewable power supplies and biological wastewater-treatment systems. As well, 80 per cent indicated that they are prepared to pay an additional £30 to £70 (CDN\$ 72 to \$ 167) every two weeks to book a hotel with a plan that is sensitive to the environmental.

Finally, it seems that overwhelmingly, U.K. business travellers favour the euro according to a survey by Carlson Wagonlit Travel. Almost nine out of every 10 respondents believe that the single European currency simplifies the travel experience in Europe.

France

The government of France is preparing to privatize Air France. The government announced it will reduce its 54.4 per cent stake in the airline, although it plans to retain a substantial holding—most likely around 20 per cent. The sale is expected to generate around EUR1 billion (CDN\$ 1.53 billion) for the French government. Air France welcomed the announcement, one that will allow it to strengthen its alliances and accelerate its fleet modernization.

Air France reported total sales of EUR3.32 billion (CDN\$ 5.07 billion) for the quarter ended June 30, 2002, down 1.7 per cent compared with the same period a year earlier.

The French Tourism Board reported that visitors from the U.K. will be the saviors of French tourism this year as travellers from the U.S. and Japan increasingly stay at home. France is expecting a record-setting 13 million British visitors this year, an increase of as much as 10 per cent.

When Germans book holidays in France, they tend to congregate in a handful of resorts. The British, meanwhile, travel throughout the country. Tourism accounts for approximately 8 per cent of the French gross domestic product (GDP) and the increase in British tourists should allow France to remain the world's most popular holiday destination.

Customers demand value pricing

Accor reported that as of July 15, more than 2 million room nights had been booked through its Web site. This is more than were booked during the entire year in 2001. Since the beginning of the year, Accor has recorded 25 million visits to all of its hotel Web sites, representing an average of 120,000 visitors per day.

Germany

In August, Lufthansa raised its 2002 operating profit forecast by 25 per cent in response to better-than-expected economic conditions. Lufthansa now expects to make EUR500 million (CDN\$ 763 million), up from EUR400 million (CDN\$ 610 million). As a result, it has placed an order for 10 new aircraft. Results for the first six months of this year indicate Lufthansa posted a profit of EUR332 million (CDN\$ 507 million), more than triple its profit for the same period last year.

Eurowings, a budget-airline affiliate of Lufthansa, is expected to start flying in October. The move will give Lufthansa an indirect connection to the budget-airline market. In order to compete against increasing competition from other budget airlines, Lufthansa cut the price of flights by up to 30 per cent on 19 routes between the U.K. and Germany in both economy and business classes.

In June, passenger traffic on Lufthansa fell 6.7 per cent compared with a year earlier. For the first six months of 2002, passenger traffic was down 9 per cent compared with last year. Even with the declines, Lufthansa became "the world's favourite airline" according to IATA statistics. Lufthansa is expected to carry a million more international passengers than British Airways—the airline that held that title previously.

Frankfurt Airport opened a new air-rail service that provides high-speed service between the airport and Germany's most populated region, Rhine-Rhur.

Preussag, Europe's largest leisure-travel group, cut 2,200 jobs which will save EUR120 million (CDN\$ 183 million) this year. Most of the job reductions were realized as a result of mergers. According to an annual survey of European tour operators, after years of growth and expansion, major tour operators are concentrating on cutting costs as bookings plunge below last year's levels. Germany, the largest market for European tour operators, experienced a drop in sales of 16 per cent in May for air-based holidays compared with the same month one year ago. Sales are expected to be 10 per cent lower this year for the German market compared with 2001.

The Rewe Touristik charter holiday brands have unveiled price cuts of up to 22 per cent for their winter 2002-03 package holidays compared with last winter. Large early-booking discounts are also available for products purchased before October 31. While the three Rewe Touristik brands have suffered a decrease of 11.5 per cent in sales for the nine months ended July 31, 2002, the price cuts are expected to result in growth of at least 6 per cent for the winter season.

Competition for German visitors to North America is heating up stateside. Five U.S. southern states—Alabama, Georgia, Louisiana, Mississippi and Tennessee—have launched a new marketing association targeting the German, Switzerland and Austrian markets. In addition to a German Web site, a new travel guide has been produced.

Italy

Alitalia announced a first quarter profit in August of EUR100 million (CDN\$ 153 million) compared with a loss of EUR51.4 million (CDN\$ 78.4 million) for the same period last year. The sale of its Rome headquarters is expected to help the company report a full-year profit for this fiscal year.

The airline announced it will remove its Saturday night stay-over restriction, giving travellers access to its cheapest fares.

In August, Alitalia was fined EUR1.58 million (CDN\$ 2.41 million) for orchestrating tariff hikes with other Italian airlines to battle increasing fuel costs.

A proposal by Alitalia and Air France to build a multi-hub system based around Paris, Milan and Rome has been scuttled by the European Union, at least for now. To get the approval the two airlines are seeking, they may have to give up aircraft slots.

ENIT, Italy's tourism board, announced in August that the number of tourist arrivals this year will probably be below 2001 levels due to weak economies and terrorist threats. In the first five months of this year, revenue from visitors fell 11 per cent compared with the same period a year ago. Tourism accounts for approximately 3 per cent of Italy's GDP. ENIT also released 2001 business-travel figures from a joint study by the University of Bologna and Business Travel Italia. Of the 26.1 million business-travel trips taken last year, 26 per cent were international trips, with short-range international trips accounting for approximately 78 per cent of all international trips.

A survey by the Centax consumer group reported that one out of three foreign tourists prefer to shop rather than visit museums while in Italy (see Table 5).

Table 5. Foreign tourists' ideal day in Italy

Shopping	4 hours
Visit the beach	2-3 hours
Museum visit	1-2 hours
Tour historic buildings	1 hour

The Netherlands

KLM reported a net profit of EUR11 million (CDN\$ 17 million) for the quarter ended June 30, 2002, down from EUR19 million (CDN\$ 29 million) a year earlier. Still, the results beat analysts' forecasts. While sales and traffic levels dropped, operating costs were also reduced. According to KLM, revenue management plus its decision to gradually add capacity allowed the company to post a profit.

In July, KLM, like other European airlines, reduced fares on European routes by up to 40 per cent. In addition, its service between London Stansted and Amsterdam will become a low-fare operation in October by using KLM's low-fare carrier called Buzz. KLM altered its fare structure in response to a sharp increase in leisure traffic.

Japan

In July, Japan Airlines (JAL) announced that there will be a decrease in the number of flights, especially local flights, after it integrates operations with Japan Air Systems (JAS) in October. All Nippon Airways stated that it will cut its domestic fares by around 10 per cent in anticipation of the merger, triggering what's expected to be a domestic price war. The newly merged JAL has announced that it will match its competitors' decreases.

According to the Ministry of Land, Infrastructure and Transport, the number of departures and arrivals on flights to and from Japan for the fiscal year ended March 31, 2002, decreased 13.5 per cent from the previous fiscal year. This was the first decrease since 1990.

A survey by Dentsu Research reported Japanese workers plan to take an average of 6.6 days off during the summer, down from 7.1 days last year. The survey also revealed that Japanese workers will spend 10 per cent less than they did a year earlier. The majority of workers planned to return to their hometowns for their summer vacations.

The Japan Travel Bureau (JTB), Japan's largest travel agency, reported that the number of Japanese planning to travel overseas between July 15 and August 31 fell 6.6 per cent compared with a year earlier. While the agency attributed part of the reluctance to travel on lingering nervousness regarding overseas travel, many Japanese seem reluctant to splurge on vacations at a time when the economic outlook remains uncertain and salaries and summer bonuses are falling.

The Institute for Free Time Design announced in its annual report that Japan's leisure market shrank 2.3 per cent last year. This is the third consecutive year of contraction.

But when people from Japan do travel, they are good at it according to a survey by Expedia. Along with the Germans, Japanese tourists are the best behaved, most polite, biggest spenders, most likely to attempt to speak the local language and most likely to try the local cuisine.

According to a survey by the Japanese Association of Travel Agents (JATA), overseas package-tour sales are steadily recovering since plunging last fall. In particular, tours to Oceania and China continue to be in great demand (see Table 6).

Table 6. Sales of package tours this year compared with last year

Region	Actual Sales			Reservations		
	April	May	June	July	Aug	Sept
U.S. and Canada	60.5%	78.6%	62.9%	57.2%	53.5%	67.8%
Hawaii	79.1%	94.2%	84.7%	68.8%	76.9%	78.1%
Europe	89.2%	95.6%	88.7%	87.6%	91.8%	103.4%
Oceania	112.7%	131.2%	113.4%	102.9%	97.5%	117.4%
Asia	103.3%	111.4%	84.1%	95.2%	87.6%	91.8%
China	121.5%	117.5%	105.8%	98.7%	115.0%	114.5%
Total	88.3%	95.1%	84.7%	82.7%	80.9%	89.0%

Source: JATA. Survey conducted in July.

Canada and the U.S. continue to lag behind in their recovery. JATA also stated more family-package tours are being offered and new types of nature experience packages are also available. As well, consumers continue to book closer to their departure dates.

In July, the Japan Broadcasting Corporation's Ohayou Nippon, Japan's top-rated morning news and talk show, broadcast from locations throughout Canada. The event was organized by the Canadian Tourism Commission, VIA Rail and industry partners. Expected viewers numbered 20 million a day.

Korea

Korean Air reported significant gains in the first half of 2002 as total operating revenue increased 7 per cent while operating expenses decreased 1.4 per cent compared with the same period a year ago. According to Korean Air, the gains are the result of better passenger and cargo numbers, better exchange rates, stabilized fuel prices and the company's efforts to focus on high yield routes such as China, Japan and Southeast Asia.

South Korea is starting to emerge as a serious competitor to Hong Kong as China's most important gateway for air travellers. According to June traffic statistics from Korean Airlines, capacity to China increased 66 per cent compared with a year earlier. Passenger numbers increased 33 per cent during the same period. Students travelling to and from the U.S. and China via Seoul is a particularly strong market.

The Korean Tourism Research Institute announced an improvement in business conditions for the third quarter of this year compared with the second quarter. The announcement was based on a survey of Korean tourism firms. Particularly strong recoveries are expected for hotels, tour agencies and ski resorts as a result of post-World Cup measures and the new five-day work week.

Hong Kong

A steady recovery in market conditions has allowed Cathay Pacific to bring previously grounded aircraft back into service and, as a result, the airline reported a 6.3 per cent increase in profits for the first six months of 2002 compared with the same period a year earlier. Cathay Pacific announced in August that airfares on flights between Hong Kong and Taipei are expected to fall amid increased competition on the heavily travelled route. Part of the competition will result from Dragon Airlines, a Hong Kong company, being granted rights to fly the route. Previously, Cathay Pacific and Dragon Airlines had avoided direct competition on routes.

Adding more flights has enabled Dragon Airlines to announce an increase of 14.7 per cent in the number of passengers it carried in June compared with a year earlier. Dragon Airlines also announced plans to buy more planes to expand its share of the market in China as more people from mainland China travel overseas.

Customers demand value pricing

The Travel Industry Council is trying to convince mainland China tourism authorities to open up China's market to Hong Kong tour operators. Currently, Hong Kong tour operators can set up mainland China joint ventures but cannot directly sell tours to mainland China residents. China's entry into the World Trade Organization may well lead to a liberalization of the Chinese travel market.

Hong Kong outbound tour operators have registered a 6 per cent decline for the first six months of this year compared with a year earlier and sales to mainland China residents would boost results. As a result of the sales decline, operators have cut outbound package-tour prices by an average of 20 per cent since the beginning of the year.

According to the Hong Kong Tourism Board (HKTB), Hong Kong continues to register increases in the number of visitors. June experienced 6 per cent growth compared with same month last year-Canada contributed 6.8 per cent more travellers to Hong Kong. In the first six months of 2002, visitor arrivals increased 13 per cent compared with the same period a year ago. This was well ahead of the 8 per cent growth forecasted by HKTB.

Taiwan

EVA Airways announced that sales increased 21 per cent in June compared with a year earlier to TWD\$ 5.56 billion (CDN\$ 260 million), the highest this year. For six months ended June 30, EVA Airways experienced a 13 per cent increase in sales compared with the same period a year ago. Taiwan's largest carrier, China Airlines, announced that its June sales fell 10.5 per cent compared with the same month a year ago, the largest monthly decline this year. China Airlines attributed the disappointing results to the crash of one of its planes in May.

According to a survey by ACNielsen, after email and news, travel information and on-line booking are the most sought after on-line services for regular Internet users in Taiwan. To meet the demand, China Airlines has revamped its Web services.

The government of Taiwan announced it will meet its goal of doubling the number of tourists to Taiwan by 2007 by introducing package tours and working with the central and local governments to solve problems related to traffic, the environment and the safety of tourists. Tourists from neighbouring countries such as Japan, Malaysia, South Korea and Hong Kong will be the first markets targeted.

Australia

Qantas announced a 3 per cent increase in profits for its year ended June 30, 2002 compared with a year earlier. The recovery was driven by the carrier's domestic services but international traffic showed a vast improvement in the second half of 2001-2002, as well. Qantas plans to raise AUD\$ 800 million (CDN\$ 688) to upgrade its fleet this fiscal year.

Regional Express, Australia's new regional airline, launched in August. The airline will serve cities in New South Wales, Victoria, South Australia and Tasmania.

The Australian Tourism Commission (ATC) reported that overall arrivals dropped 4 per cent in the first six months of this year compared with the same period a year earlier. While 8 per cent fewer visitors from the U.S. arrived in the first six months, the number of Canadian visitors was flat compared with 2001. The disappointing results translates into a AUD\$ 430 million (CDN\$ 370 million) decrease in expected export earnings for the first six months of 2002.

The ATC launched a business-tourism advertising campaign in July-a first for the ATC. The AUD\$ 1 million (CDN\$ 860,000) campaign will promote Australia as a business event destination. The campaign will include television and newspaper advertisements in Asia, the U.K., Europe and the U.S. plus print advertisements in the Financial Times, Business Week and The Economist. There will also be targeted television advertisements on CNBC.

The ATC also launched a tourism marketing campaign in July aimed at increasing the number of Italians travelling to Australia. The AUD\$ 500,000 (CDN\$ 430,000) campaign includes on-line advertising and a 14-page travel supplement in leading Italian newspapers that will feature Australian model Megan Gale. The campaign targets Italians who have never visited Australia.

According to the ATC, wine tourism continues to grow in Australia as approximately 30 per cent of all inbound visitors over the age of 15 visit wineries while in Australia. Research by the ATC reported that wine enthusiasts are predominately from Canada, the U.S., the U.K., New Zealand and Japan.

New Zealand

Air New Zealand (ANZ) announced in July that with the start of its new low cost operation, Air New Zealand Express, air fares will be reduced by 50 per cent on selected routes. ANZ promised to reduce ticket prices across its domestic network by an average of 20 to 28 per cent. The new low-cost carrier will begin operations on November 1.

Tourism New Zealand announced that June visitor-arrival figures increased 3 per cent compared with a year earlier. While visitors from Australia registered a 5 per cent decrease, visitors from Canada and the U.S. registered 1 and 7 per cent increases, respectively.

A marketing campaign by Tourism New Zealand designed to stimulate travel from Japan was deemed successful as visitor arrivals from Japan during the campaign period increased 3 per cent. The campaign period of January to May came at a time when outbound trips from Japan to the world fell by nearly 13 per cent. Tourism New Zealand also reported that it opened an office in Bangkok to help reach its goal of doubling the number of Thai visitors to 50,000 by the year 2005.

Ninety-five per cent of all visitors would recommend New Zealand as a holiday destination to others, according to results from new International Visitor Survey (IVS) questions. Dissatisfaction, when expressed, was largely due to a summer of bad weather. Dominant themes from satisfied visitors included the friendliness of New Zealanders, the variety of activities, the beautiful scenery and the clean and unspoiled landscape.

Economic overview

North America

Even with stock markets and consumer confidence tumbling and weaker-than-expected real gross domestic product (GDP) growth, the U.S. economy is not expected to be headed for another severe slump. However, in July, The Conference Board Inc.'s Index of Consumer Confidence tumbled by over nine points, fueled by stock-market declines, weak labour markets and corporate scandals. It was the largest decline in consumer confidence in the U.S. since last October. Still, the rebound in U.S. economic activity this year has boosted economic prospects for both Canada and Mexico. As a result, real GDP growth for North America is expected to be 2.7 per cent.

Europe

Euroland inflation remained stubbornly high in early 2002, partly due to higher food and energy prices as well as a "rounding up" effect from the introduction of the euro in January.

For the U.K., the consumer sector remains strong because household wealth has increased dramatically in line with the rapid rise in housing prices. The strength in consumer spending combined with the upturn in manufacturing activity and exchange rate depreciation suggest a tightening of monetary policy.

In France, the outlook for the economy is generally positive, with real GDP growth of close to 1.5 per cent anticipated this year. Manufacturers have been increasing production in line with higher export orders.

In Germany, however, the weak state of the economy has hampered overall growth prospects for the Euroland area. The weak domestic economy is reflected in the country's rising unemployment rate.

Asia-Pacific

Because of its very open economies, no part of the world has more at stake as economies recover worldwide than the Asia-Pacific region. It is expected that this recovery will be very difficult as countries with large foreign sectors and high concentrations of information technology (IT) will not experience a strong surge of economic activity in 2002 and 2003. Countries in the Asia-Pacific region such as South Korea, with its diversity of exports and large domestic economies, will perform the best in the short term.

In Japan, things are starting to improve even though Moody's Investor Service downgraded its rating for government bonds. A small economic turnaround was led by an increase in export sales that helped push up Japan's trade balance.

Opportunities

Determining value pricing involves asking questions of both your customers to determine their underlying needs, and your suppliers to ensure that they fit your underlying needs. Continental Airlines in the U.S. is one airline that is questioning everything. It announced in August that low-fare customers will have to start paying for some services they used to get for free while those purchasing full-service airfares will continue to receive them.

Tour operators in the U.K. are also experimenting with value pricing. Some, by letting consumers pick and choose the services they want with each service clearly priced. Others, by providing packages where each service or amenity provided is clearly defined and where everything—even taxes—is included in the price. Changing to value pricing does not necessarily mean simplicity. In fact, it will more likely involve more options to meet the different needs of different market segments.

According to J.D. Power and Associates' 2002 Meeting Planner Satisfaction Index study, hotels looking to increase business travel are advised to maximize meeting planners' satisfaction as happy meeting planners are loyal meeting planners. According to respondents, planners who rate a hotel with the highest satisfaction scores are significantly more likely not only to return to that hotel, but also to return to the chain and recommend the brand to others. And the best way to obtain high satisfaction scores is to provide a trouble-free event.

Business and leisure travellers surveyed by All-Hotels, an on-line hotel reservation service, suggest that hotels can increase customer satisfaction by taking care of the little details. For both men and woman, the top complaint of hotel guests is poor-quality toilet paper. And 48 per cent of Americans inspect the bathroom as their first order of business upon entering a hotel room. Therefore, a clean bathroom is not an option. Women, suggests the survey, are more like to complain about the size of a room so knowing which rooms are bigger and selecting those for woman might reduce complaints to staff.

According to a survey by the International Hotels Environmental Initiative, approximately 80 per cent of American travellers feel that it is important for hotels to be proactive in taking steps to preserve and protect our earth's natural resources. As many as seven out of 10 U.S. travellers are willing to pay an extra US\$ 50 to \$150 (CDN\$ 78 to \$233) for a two week stay in a hotel with a responsible environmental attitude and 55 per cent are more likely to book a hotel with a similar attitude. Ten years ago, surveys showed that hotel guests did not care about saving energy or the hotel's commitment to local communities or preserving ecosystems.

Summary

Value-based pricing policies will become more popular as travel decisions become based increasingly on perceived value. However, knowing what consumers value from you—and how much they will pay you for that service—will involve experimentation.

Value pricing also looks at a company's suppliers. In this respect, a company should not only evaluate its worth to a customer but how it values its suppliers. For all parties involved, the perceived value should exceed the price paid. Ultimately, basing pricing on value rather than cost or a set market price will shift the focus from making a profit based on markup to successfully meeting underlying customer needs.

Facing weak business-travel prospects and an onslaught of regional and low-cost competitors, it is not surprising that airlines are looking or adopting value-based pricing policies.

Against the backdrop of pricing change, Canada's tourism industry continues to rebound. Convention business in Canada, which suffered dramatic declines in the days after September 11th and continues to face increasing competition from the U.S., is already rebounding strongly as the need is still present for people to gather, share and learn. While regional discrepancies do exist, the industry remains poised for strong growth in the remainder of this year and on into 2003.

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