RESEARCH

CANADIAN TRAVEL ARRANGEMENT SERVICES SURVEY

Year 2001 Report

Research report 2003-7

Discover our true nature

Canadian Tourism Commission
Commission canadienne du tourisme

Canada

Canadian Travel Arrangement Services Survey Year 2001 Report

Canadian Tourism Commission

Ottawa, July 2003

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For further information on this report. Please contact:
Adib Farhat
Services Division
Statistics Canada
Ottawa, Ontario,
K1A 0T6
Telephone: (613) 951- 6306
Fax (613) 951- 6696

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Introduction

This report is designed to provide an overview of the Canadian travel distribution sector. It focuses on two key players, packagers (tour operators and wholesalers) and retailers (travel agencies). The purpose of this report is to present to the Canadian Tourism Commission (CTC), a profile of the supply side of the travel services industry. The report provides an analysis in two separate sections: the first section covers the travel agencies industry, while the second deals with the tour operators / wholesalers industry[1]. Each section provides tables and analysis of general characteristics, revenue and cost structures, client base, marketing methods, and trade patterns. The findings included in this document are based on the surveyed units. Special care should be exercised when using the data to project to the industry level.

[1] *Throughout the report, the term tour operators refers to both tour operators and wholesalers.*

Concepts and Methods

Survey objective

The principal objective of the survey of the travel arrangement services is to collect data on revenue and expenses by type of product and service, employment, clientele and marketing. The data profiles the travel agencies and tour operators / wholesalers industry and reflects the effects of the industry on the Canadian economy.

Methodology

The survey covers businesses classified according to the North American Industrial Classification System (NAICS) category 561510 for Travel Agencies and 561520 for Tour Operators / Wholesalers. For reference year 2000, the survey was conducted at the establishment level[2]. In April 2001, 813 questionnaires were mailed to the industry with special emphasis on large companies. The response rate was 68 per cent of total industry revenue. The remainders were either out of the scope of the industry or not returned

Interpretation of results

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

In preparing this report based on panel data, Statistics Canada follows a thorough editing procedure with respondent follow-up for reported data but does not undertake any imputation for non-responding survey units. For this reason, and because of a change in sample design, panel data are compiled based only on reporting businesses, and year-to-year comparisons are made between survey panels that are not statistically identical.

Data quality

Errors can occur in almost every phase of the survey. These can include respondents' errors, data capture errors and edit and imputation errors. These errors should be recognized as contributing sources of data limitations. However, errors have been minimized through the use of quality assurance programs that have been applied at the data capture and tabulation levels.

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

The Travel Agencies Industry

Highlights

- In 2001, the number of travel agencies declined to 5,342 establishments[3], from 5,500 establishments in 2000.
- Total operating revenue decreased by 3.3 per cent in 2001 to $1.73 billion.

Panel data results:

- 32 per cent of travel agencies operated at a loss in 2001, reflecting the declining fee structure paid to travel agencies by major carriers and tour operators, and the effect of electronic ticketing and on-line booking services available to travellers.
- Operating profit margin[4] before taxes was 3.2 per cent in 2001.
- Wages and salaries accounted for 50.4 per cent of expenses.
- 45 per cent of revenue was generated from travel to Canadian destinations.
- 88 per cent of employees were classified as full-time, full-year.
- Establishments included in the 2001 panel account for 38 per cent of total industry revenue.

Changing nature of the travel agencies industry

Historically, the travel agencies industry existed to assist transportation companies, especially airlines, and tour operators, in the distribution of their travel products and services. Travel agencies acting as intermediaries between travellers and suppliers of travel products and services were given direct access to most of the relevant information related to the reservation and booking systems. Travel agencies traditionally dominated the distribution and reservation of travel products and services.

The nature of the travel agencies industry began to change when airline deregulation (1988) paved the way for the open skies[5] treaty signed in 1995. The treaty has created a competitive environment in the form of added air carriers and lower fares. To remain competitive, the airlines industry started cutting the commission rates they paid to travel agents, and began to promote their own electronic ticketing.

Canadian travel agencies immediately began seeing their commissions from transportation fares decline significantly, from 56 per cent of revenues in 1997 to 43 per cent in 2001.

[3] An "establishment" is defined as the smallest operating unit, which can provide data on the value and cost of production of the business output. An establishment can have more than one location.
[4] Operating profit margin = (total operating revenue minus total operating expenses)*100 divided by total operating revenue.
[5] The Open Skies Treaty was preceded by the Airline Deregulation Act, 1988.

Nevertheless, these events did not change the primary role of travel agencies, which is to assist travellers in planning trips and to provide the necessary and relevant information related to travel products and services. However, as overheads remained relatively constant and revenues began to fall, these events changed the way business was conducted. Travel agents began charging travellers fees for their services in order to recover some of the lost commissions. Increasingly, travel agents are putting more emphasis on the sales of non-traditional products and services to generate revenue, such as car rentals, insurance and accommodation.

If commission revenues continue to diminish, travel agents may increasingly levy additional charges on their customers in order to cover the cost of their services. The effect of these additional charges will be measured to see if customers resist them and, instead, opt for booking their travel themselves via the Internet.

Sources of revenue

In 2001, travel agents continued to draw their primary source of revenue from commissions charged to suppliers, as shown in Table 1.1. The largest source of commission revenue was from transportation fares (42.5%).

The share of total revenue from sales of tour packages declined to 25 per cent from 32 per cent in 2000. This decline may be attributed to the economic slowdown in 2001. Normally, during an economic slowdown, travellers adjust their consumption and expenditure habits by taking shorter vacations or changing destinations and modes of travel, such as driving instead of flying. The events of September 11, 2001 exacerbated the impact of the economic slowdown by adding the element of risk and uncertainty to the consumption of travel products and services.

Increases in the share of total revenue were recorded in commissions from accommodation and car rentals. This is an indication that travellers opted to use land transportation to get to their destinations.

Table 1.1 Percentage Distribution of Revenue, by Source

Source of revenue	2000 (%)	2001 (%)
Tour Package	32.0	25.0
Cruise Package	5.8	5.3
Transportation Fares	37.2	42.5
Accommodation	3.1	4.2
Auto rentals	1.8	2.5
Insurance products	7.8	8.4
Other Commissions	5.9	6.1
Revenue from other sales	0.3	0.5
Service fees	4.1	3.5
All other revenue	2.0	2.0
Grand Total	100.0	100.0

Revenue by destination

In 2001, the travel agency establishments included in the survey panel generated 45 per cent[6] of its total revenue from selling travel goods and services to Canadian destinations. The revenue distribution by destination remained similar to that observed in 2000 (Table1.2).

Despite the unfavourable rate of exchange with the United States dollar, the results from the panel show a slight increase of travel to American destinations. Travel agents' revenue generated from travel to US destinations increased to 24 per cent of total revenue, compared to 22 per cent in year 2000. This slight increase may be explained by the observation that most American "sunshine" destinations are becoming more price competitive relative to other foreign destinations, in addition to the conveniences offered by their proximity to Canada[7].

Revenue from foreign destinations showed a marginal decrease from the previous year. In 2001, the industry generated 31 per cent of its total revenue from travel to foreign destinations other than the US, down from 32 per cent in 2000.

Table 1.2 Percentage Distribution of Revenue by Destination

DESTINATION	2000 (%)	2001 (%)
CANADIAN DESTINATIONS:		
Tour and Cruise	17	16
All other travel	29	29
Total Canadian destinations	**46**	**45**
AMERICAN DESTINATIONS:		
Tour and Cruise	10	10
All other travel	12	14
Total American destinations	**22**	**24**
ALL OTHER TRAVEL TO FOREIGN DESTINATIONS:		
Tour and Cruise	15	15
All other travel	17	16
Total foreign destinations	**32**	**31**
Total	**100**	**100**

[6] Panel results are based on surveyed respondents; the composition of the panel may not be identical from year to year.
[7] Tourism, Competitiveness, and Social Prosperity, Journal of Business Research, Vol 44, P 137, 1999.

Concentration of the industry

Total operating revenue of the industry declined 3.3 per cent in 2001 to reach $1.73 billion. The major contributor to the weak rate of growth was the economic slowdown combined with the September 11th terrorist attacks. The travel agencies' activity, as measured by revenues, is concentrated primarily in central Canada. Ontario and Quebec generated 66 per cent of the industry's total revenue. The provincial distribution has been relatively stable over the last four years. Chart 1.1 indicates the percentage share of revenue by province / territory.

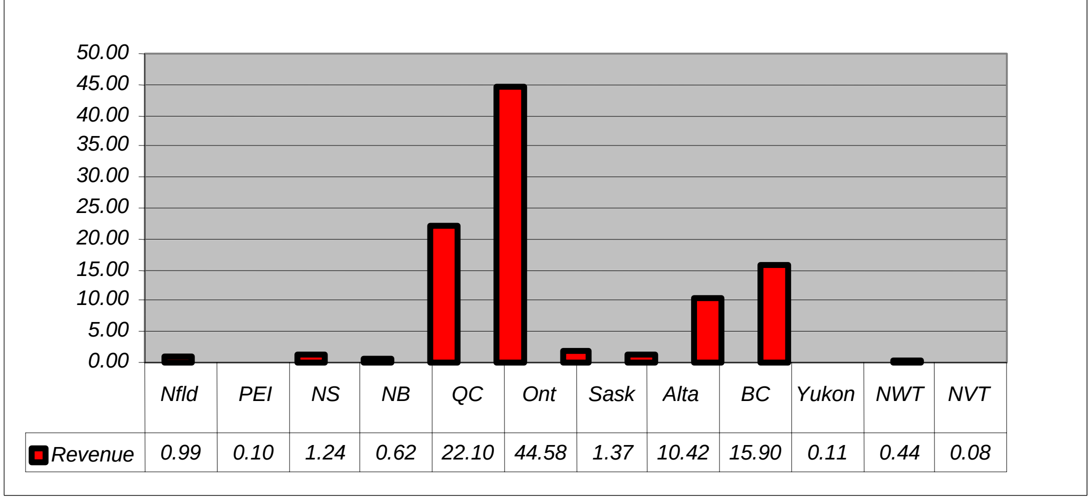


Chart 1.1 Distribution of revenue by province / territory (%)

The travel agencies industry is characterized by small operations. Business integration through mergers and acquisitions has had a relatively small effect on the concentration of the industry. In 2001, the top 20 firms accounted for 21 per cent of total revenue generated by the industry (Chart 1.2).

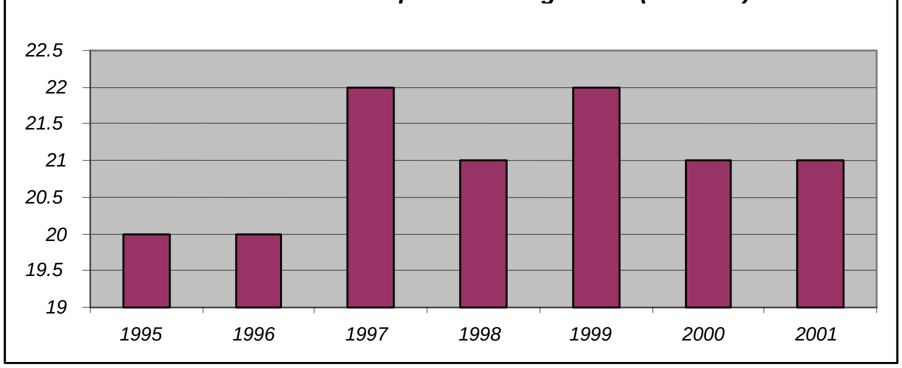


Chart 1.2 Share of top 20 travel agencies (revenue)

Revenue by client base

Travel agencies draw most of their revenue from selling travel products and services to residents in Canada travelling for leisure purposes. In 2001, travel agents generated 65 per cent of their revenue from sales to households. This represents a slight decline from 68.8 per cent, the level recorded in 2000. Similarly, the share of revenue generated from sales to foreign clients, although insignificant, decreased to 1.1 per cent in 2001, from 2 per cent in the previous year. The share of revenue from sales of travel products and services for business travel rose to 32 per cent of total revenue in 2001, from 26 per cent in 2000. This can be partly explained by the fact that business travel is often less discretionary than leisure travel.

Operating expenses

Nationally, the outlay for salaries and wages was the largest single operating expense for travel agencies. In 2001, wages and salaries commanded 50.4 per cent of their total operating costs, a decrease from 53 per cent in 2000. This was followed by rent / lease of premises at 8.6 per cent, and advertising and sales promotion costs at 6.2 per cent. Table 1.3 shows the percentage distribution of the operating expenses for 2001. Given that customer service is a key characteristic of the travel agency industry, over 88 per cent[8] of their employees worked full-time, full year.

At the beginning of an economic slowdown, businesses delay in laying-off full-time employees (labour hoarding[9]). Consequently, the drop in the share of wages and salaries as a proportion of total expenses can be attributed to the decline of part-time employment in the industry. Statistics Canada's Employment, Earnings and Hours Survey indicated that the average weekly earnings of the travel arrangement industry increased by 1.7 per cent in 2001.

[8] Results are based on a panel of businesses that responded to the 2001 Travel Arrangement Survey, Statistics Canada.

[9] "Labour hoarding" occurs when businesses avoid laying off their employees from fear that "laid-off" agents may take both skills and valuable clientele with them to a competitor.

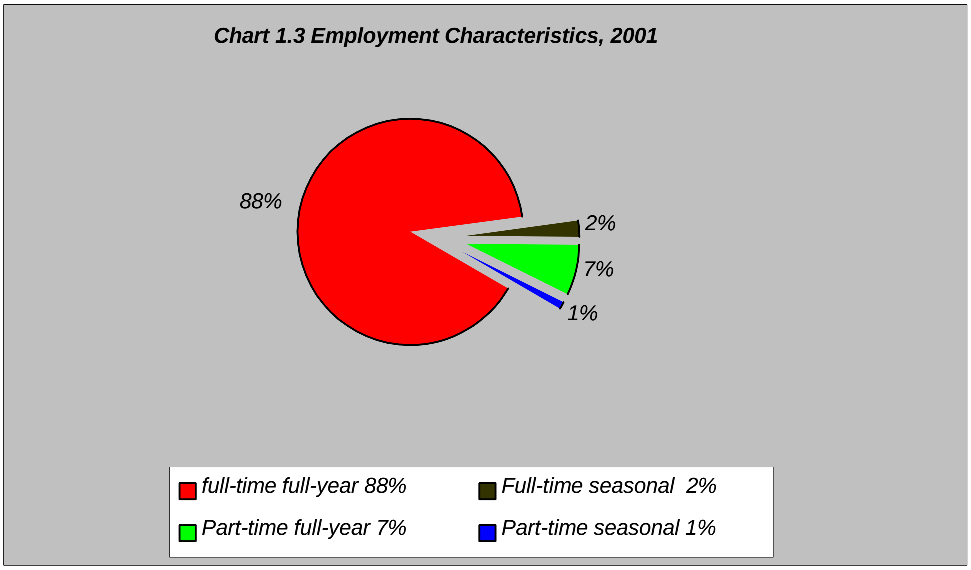
Table 1.3 Percentage Distribution of Operating Expenses

Type of Expense	2000 (%)	2001 (%)
Wages and Salaries	53.1	50.4
Employee benefits	3.5	3.4
Rent / lease of land & building	7.8	8.6
Rent or lease of vehicles	1.2	0.6
Computer services	1.8	1.6
Rent or lease of equipment	0.9	0.5
Repair and maintenance	0.5	0.6
Legal, accounting, consulting fees	3.1	5.4
Advertising and sales promotion	6.1	6.2
Insurance	0.6	0.8
Taxes, permits and licences	1.4	0.8
Heat, light, power and water	0.5	0.9
Telecommunication, postage	4.2	3.7
Travel and entertainment	2.7	2.1
Royalties and franchise fees	1.0	1.2
Depreciation expenses	2.3	2.2
Interest expenses	1.2	1.3
Office and other supplies	4.4	3.6
All other operating expenses	3.2	6.0
Total	100	100

Employment Profile

The travel agencies are generally small in size and number of employees. The average number of employees per company is 21 employees. In 2001, the industry employed an estimated 22,000 full-time and part-time employees[10]. Employment with full time status increased slightly to 88 per cent of the industry's workforce, up from 86 per cent in 2000. The increase in full-time proportion may have led to the increase of the Average Weekly Earnings in the travel arrangement industry by 1.7 per cent to $593.4[11].

Chart 1.3 shows the distribution of employment characteristics in 2001.

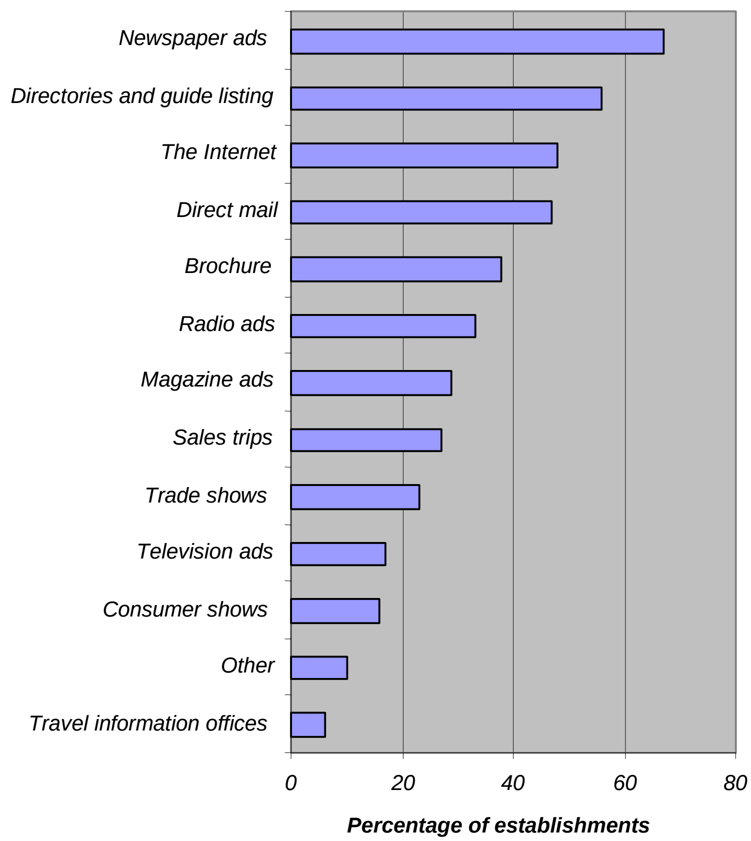


[10] *Source: Annual Survey of Travel Arrangement Services, Statistics Canada. The count does not include working partners or proprietors.*
[11] Source: Survey of earnings payroll and hours, Statistics Canada.

Marketing methods

In 2001, travel agencies spent 6.9 per cent of total operating costs on advertising. The industry uses a broad range of advertising methods. Internet advertising has replaced newspapers as the most popular method, at 69 per cent. In 1997, only 10 per cent of establishments used the Internet to advertise their products and services. Chart 1.4 shows the advertising methods used by travel agencies in declining order of importance.

Chart 1.4, Advertising Methods



Tour Operators / Wholesalers Industry

Highlights

- In 2001, the number of tour operators / wholesalers declined to 1,077 establishments[12], from 1,212 establishments in 2000.
- Total operating revenue declined slightly by 0.2 per cent in 2001 to $5.0 billion.

Panel data results

- Operating profit margin[13] stood at 4.3 per cent.
- 1 out of 5 of tour operators / wholesalers operated at a loss in 2001.
- Wages and Salaries amounted to 53.1 per cent of total operating expenses, excluding the cost of travel purchased (goods sold) from suppliers.
- 72 per cent of revenue was generated from the sale of packages to foreign destinations.
- 82 per cent of employees were employed full time throughout the year.
- 83 per cent of the revenue generated came from sales to domestic clients.
- Establishments included in the 2001 panel account for 55 per cent of total industry revenue.

Nature of the tour operators industry

Tour operators and tour wholesalers are companies that buy a range of tourist products in bulk and package it for sale to travel agents or directly to individuals.

The tour operating industry is particularly vulnerable to economic and political shocks, because they assume the ownership of products and services that comprise the packages. The decline in tourism after the terrorist attacks of September 11, 2001 has led to a major shake-up of the industry. Some large companies went out of business (Canada 3000), where others found some reprieve by merging with other large players. If the industry continues to merge at this rate, corporate concentration will be quickly realised.

The tour operators industry relies heavily on the services of travel agents to distribute their products and services. In 2001, 59 per cent of tour packages were sold by travel agents. The relationship between the two industries traditionally has been based on commissions. This association is not as strong as it used to be. In 1997, 75 per cent of tour packages were sold by travel agents. The drop to 59 per cent can be interpreted as a sign of the increasing competitive nature of the industry. The profit margin of the industry declined to just 4.3 per cent in 2001, down from the level reached in 2000 (6%).

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[12] *An "establishment" is defined as the smallest operating unit which can provide data on the value and cost of production of the business output. An establishment can have more than one location.*

[13] Profit margin = (total operating revenue minus total operating expenses)*100 divided by total operating revenue.

Tour operators' sources of revenue

Tour operators / wholesalers draw their revenue mainly from the sale of tour packages, either directly to clients or to retailers (i.e. travel agencies). In 2001, 55 per cent of the total revenue of tour operators was generated from the sale of tour and cruise packages, as shown in table 2.1. This proportion, however, dropped dramatically from that recorded in 2000.

Table 2.1 Percentage Distribution of Revenue by Source

SOURCES OF REVENUE	2000 (%)	2001 (%)
PACKAGES REVENUE :		
Tour packages	69.9	50.0
Cruise packages	4.1	5.0
Total packages revenue	74.0	55.0
TOUR WHOLESALE REVENUE :		
Tour packages	9.5	26.0
Cruise packages	0.6	3.0
Transportation fees	6.1	14.5
Other wholesale travel packages	0.2	1.0
Total wholesale revenue	18.5	44.5
All other revenue	7.5	0.5
Grand Total	100.0	100.0

On the other hand, revenue from wholesale activity increased sharply to 44.5 per cent of total revenue, from 18.5 per cent in 2000. This change in source of revenue may be due to the major shock of September 11th, where tour operators may have opted to get rid of their inventory of tour packages by selling on a wholesale basis. The sharp increase in transportation fees may be explained similarly, where tour operators decided to dismantle the tour packages and sell the products individually.

Tour operators' revenue, by destination

Normally, travel to a particular destination is affected by three main variables: the value of the travel package; the value of the domestic currency relative to foreign currency; and the political climate and sense of security in the country of destination.

Sales of tour packages to foreign destinations other than the US generated 56.7 per cent of tour operators' total revenue. While the US share decreased marginally, the share of revenue from Canadian destinations increased to 26.8 per cent in 2001 from 24.2 per cent in 2000. The increase in the Canadian share may be attributable, in part, to the depreciation of the Canadian currency relative to other major currencies in 2001[14]. The increase may also reflect tourism marketing efforts to promote Canada as a travel destination. Table 2.2 shows the percentage distribution of revenue by destination.

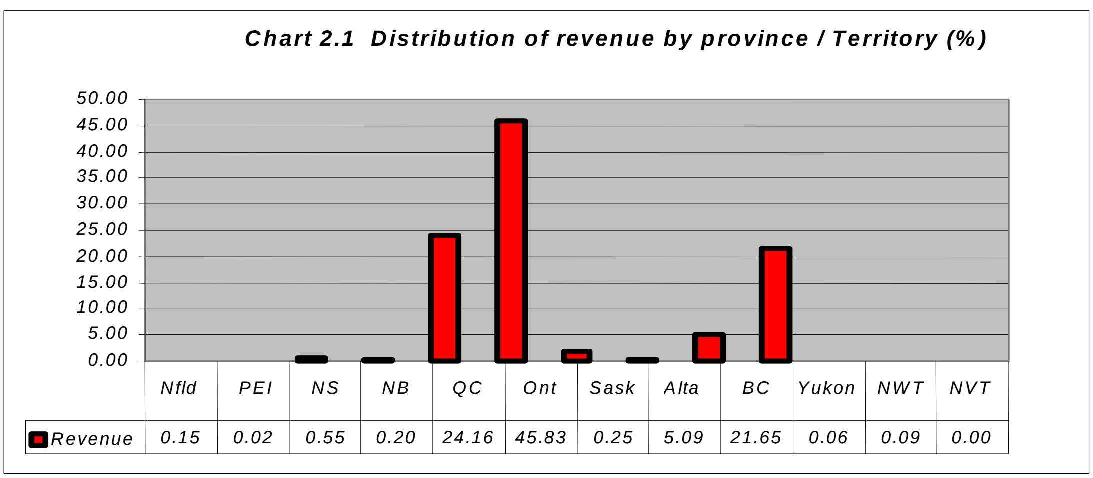
[14] Bank of Canada Review 2003, Table I1 Exchange Rates, page S104.

Table 2.2 Percentage Distribution of Revenue by Destination[15]

DESTINATION	2000 (%)	2001 (%)
CANADIAN DESTINATIONS:		
Tour and cruise	15.4	17.7
All other travel	8.8	9.1
Total Canadian destinations	**24.2**	**26.8**
AMERICAN DESTINATIONS:		
Tour and cruise	8.2	12.9
All other travel	9.3	3.6
Total American destinations	**17.5**	**16.5**
TRAVEL TO OTHER FOREIGN DESTINATIONS:		
Tour and cruise	25.6	42.0
All other travel	32.7	14.7
Total other foreign destinations	**58.3**	**56.7**

Concentration of the industry

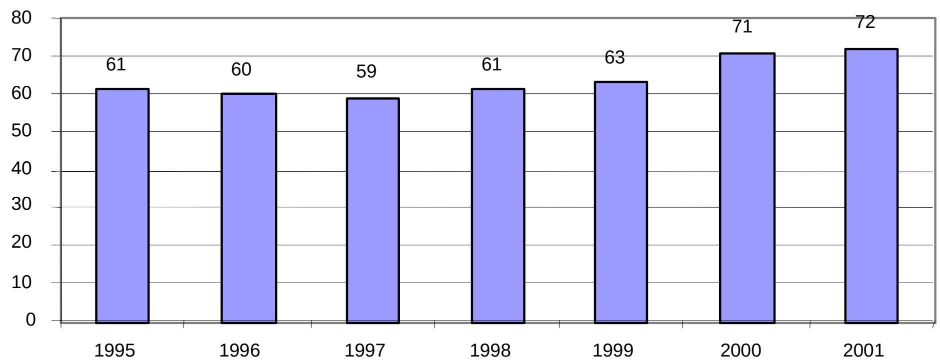
The tour operators / wholesalers industry declined slightly by 0.2 per cent in 2001 to reach $5.0 billion in total operating revenue. The industry is concentrated in three provinces: Ontario, Quebec and British Columbia. Together these provinces generated 90 per cent of total revenue. As with the travel agencies industry, the provincial distribution has been relatively stable over the past four years. Chart 2.1 indicates the percentage share of total revenue by province / territory.



[15] Panel results are based on surveyed respondents; the composition of the panel may not be identical from year to year.

Unlike the travel agencies industry, the tour operators industry is highly integrated, with the top 20 companies accounting for 72 per cent of the industry's total revenue in year 2001. The revenue generated by the top 20 increased by 13 percentage points since 1997. As shown in Chart 2.2, the largest increase in concentration occurred between 1999 and year 2000. Horizontal integration occurs when one company obtains controlling interest in, or merges with its competitor. This type of integration is reflected across many industries, and is seen as a way of adapting to the growing competitiveness of the tourism markets.

Chart 2.2 Share of top 20 tour operators / wholesalers (Revenue)

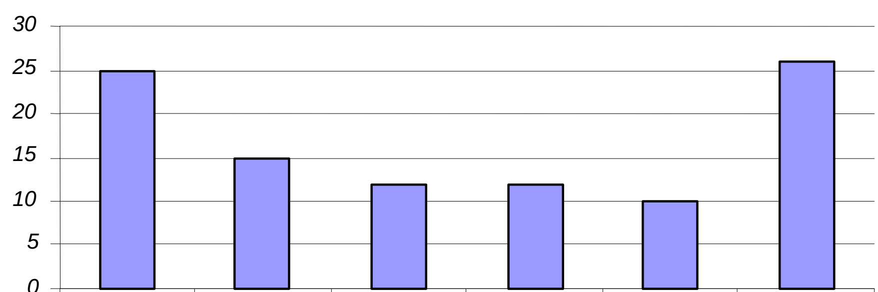


Tour operators' revenue, by client base

The tour operators industry generated most of its revenue in 2001 from sales to residents in Canada travelling for leisure purposes. This segment of the client base produced 83.3 per cent of total revenue. This was followed by sales to foreign clients with 12.4 per cent of total sales.

The major source of revenue from foreign clients was from Japan, with 25 per cent. Chart 2.3 shows the distribution of foreign clients by country of origin.

Chart 2.3 Distribution of foreign clients (%)



	Japan	US	Germany	UK	France	Other
Series1	*25*	*15*	*12*	*12*	*10*	*26*

Percent of revenue

Operating expenses (indirect costs)

Salaries and wages of tour operators / wholesalers was the largest single operating cost. In 2001, wages and salaries accounted for 53.1 per cent of total operating expenses (excluding the cost of travel purchased from suppliers). Other significant costs are rent, lease of land and building 8.3 per cent, advertising and sales promotion, commanding 13 per cent of total operating expenses (see Table 2.3).

The large share of wages and salaries may be due to the large proportion of full-time, full-year employees in the industry. In 2001, 85 per cent of total employees worked on a full-time basis.

Table 2.3 Percentage Distribution of Operating Expenses, 2001

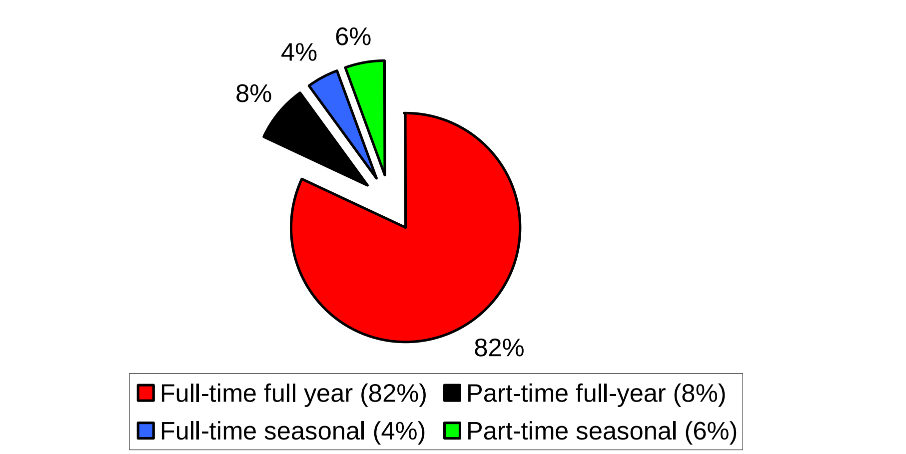
TYPE OF EXPENSES	%
Wages and Salaries	53.1
Employee benefits	3.0
Rent / lease of land & building	8.3
Rent or lease of vehicles	1.1
Computer services	1.7
Rent or lease of equipment	0.7
Repair and maintenance	0.8
Legal, accounting, consulting fees	3.2
Advertising and sales promotion	6.1
Insurance	0.7
Taxes, permits and licences	1.3
Heat, light, power and water	0.7
Telecommunication, postage	4.3
Travel and entertainment	2.6
Royalties and franchise fees	1.1
Depreciation expenses	2.3
Interest expenses	1.3
Office and other supplies	4.4
All other operating expenses	3.4
Total	**100.0**

Employment

Tour operators are generally larger employers per establishment than are travel agents. In 2001, the average establishment employed 29 employees. According to the travel arrangement survey, the tour operating industry employed 8000 full-time and part-time employees. This represents a decline of nearly 1000 employees from the level reported in 2000.

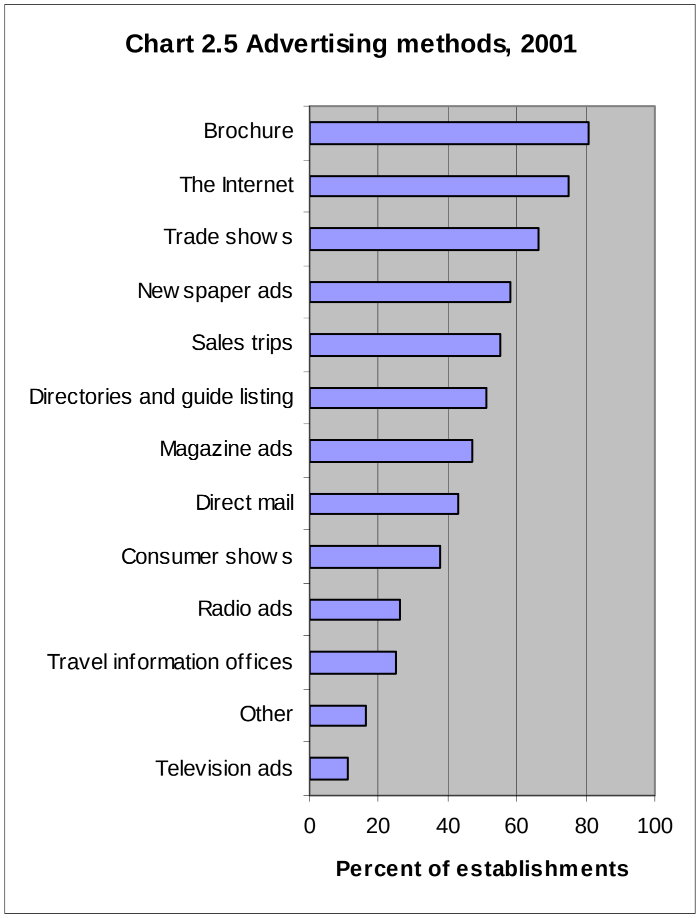
The decline was mainly in full-time full-year employment, where it dropped from 86 per cent in 2000 to 82 per cent in 2001. Chart 2.4 shows the percentage distribution of employment by status in 2001.

Chart 2.4 Employment profile, 2001



Marketing methods

In 2001, the average tour operator spent 6.1 per cent of operating expenses on advertising. All of the surveyed tour operators used more than one method to advertise their products and services in order to attract the various types of clients. Chart 2.5 highlights the advertising methods used by tour operators. The most popular methods to promote their products and services have not changed significantly from previous years with the exception of the use of the Internet. Brochure advertising remains the most widely used. In 2001, 81 per cent of tour operators used this method, followed closely by the Internet at 75 per cent. Internet advertising has shown the strongest growth among all other methods. In 1995, only 10 per cent of tour operators used the Internet to advertise their products and services.



Trade patterns

Organization of tours

Tour operators typically package tours to accommodate travellers' needs. In the past, independent and escorted tours have generated most of the revenue. In 2001 both types of tours generated 64.8 per cent of total revenue. Table 2.4 shows the distribution of revenue by type of tour. Revenue from the sales of special interest tours has increased dramatically in 2001 to 28.8 per cent of total revenue. One possible explanation for this is that; tour operators are offering more incentives to buy this type of "customised" tours.

Table 2.4 Revenue by type

	2000	2001
Independent	54.8	35.2
Escorted	34.4	29.6
Motorcoach	7.6	6.3
Special interest	2.7	28.8
Others	0.6	0.2
Total	100.0	100.0

Destination of tour packages

Sales of tour packages to resort destinations continued to be the major source of revenue for tour operators. In 2001, nearly 63 per cent of total revenue was generated from travel to resort destinations. The most notable change in the sale of tour packages from last year was the decline in the share of adventure travel[16] (see table 2.5).

Table 2.5 Revenue by destination of tour packages

	2000	2001
Resorts	56.0	62.6
City touring	11.3	21.9
Adventure and outdoor	22.0	9.7
Cultural	5.3	2.8
Sports	0.8	1.7
Educational	2.8	0.4
Others	1.7	0.9
Total	100.0	100.0

[16] The results are based on panel estimates

Summary and Outlook

Travel agencies and tour operators and wholesalers are highly interrelated businesses. Travel agencies complement the work of the tour operators by selling packages and other services on behalf of tour operators for a commission.

The decline in the level of revenue of both the travel agents and tour operators industries during 2001 can be attributed to weak economic growth and the events of September 11th, as well as structural changes affecting the industry.

During weak economic growth, the typical reaction of consumers is to cut expenditures on discretionary items such as travel. This behaviour was evident when demand for tourism transportation began to decline in the 4th quarter of 2000[17].

The initial impact of the terrorist attacks of September 11th affected revenue from transportation fares, which is the main source of revenue for travel agents. This impact was evident in the sharp decline (-17.4%) in the number of passenger miles flown on Canadian air carriers during the fourth quarter of 2001[18].

Structural changes such as the increasing utilization of information technology, levying of service fees, cuts in commission rate and the imposition of security charges have negatively affected the demand and supply side of the industry.

These developments leave the impression that the travel agents industry is a sunset industry; however, the industry is resisting these negative pressures by finding new ways to add value to their travel packages. In addition, the industry is adapting well to the structural changes, particularly by their own utilization of the Internet. A remaining significant issue which could have an adverse effect on the industry in the foreseeable future is global security; because most of the travel products and services are paid for in advance of their consumption, any information or events that could jeopardize travel plans may lead to a reluctance to buy travel products and services.

[17] Source: National Tourism Indicators, Statistics Canada Cat. No13-009.
[18] Statistics Canada, Transportation Division.