

# Ontario Product Distribution Research Study

February 2009

**OLIVER WYMAN**



MARSH MERCER KROLL  
GUY CARPENTER OLIVER WYMAN

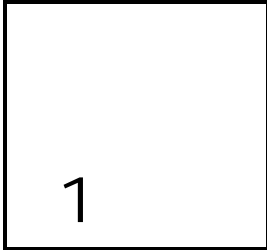
© Queen's Printer for Ontario, 2009

Although copyright in the research papers is held by the Queen's Printer for Ontario, the papers were prepared by external companies and their conclusions do not necessarily represent the views of the Government of Ontario. The research papers were commissioned by the Ontario Ministry of Tourism for the Tourism Competitiveness Study and as such their conclusions are intended for this purpose only.

ISBN 978-1-4249-8937-9 (PDF)

## Contents

1. Executive Summary .....	1
2. Introduction.....	3
▪ Background.....	3
▪ Project Overview .....	3
▪ Approach.....	4
3. Global Shifts in the Tourism Marketplace.....	6
▪ Technology has Empowered Consumer Information and Purchasing Power .....	6
▪ Consumer Preferences are also Changing.....	8
▪ A Much More Consumer Driven Market.....	9
4. Changing Global Product Distribution Patterns .....	10
▪ Increasing Online Travel Purchases.....	10
▪ New Channels to Plan and Buy Travel Products.....	12
▪ Restructuring the Travel Industry .....	13
▪ Consumer-Focused Marketing and Product Distribution .....	17
▪ Insights From Leading Jurisdictions.....	19
5. Ontario’s Competitive Position .....	22
▪ Ontario Suppliers are Facing Increased Global Competition .....	22
▪ Travel Trade Focuses on Outbound Travellers.....	23
▪ Real-Time Booking is Only Possible in Some Regions .....	24
▪ A Few “Packages” are Available, but Most Purchasing is Unbundled .....	27
6. Opportunities to Strengthen Product Distribution in Ontario.....	30
▪ Critical Success Factors of Leading Jurisdictions .....	30
▪ Recommendations to Strengthen Ontario’s Tourism Product Distribution.....	31
7. Appendix: Global Market Tourism Trends.....	34



## Executive Summary

Tourism product distribution is the variety of distribution channels that not only raises tourism product profile with potential customers, but also extends the points of sale, in order for purchases to be made using multiple distribution channels. This assignment reviews emerging trends in tourism product distribution and makes recommendations about how to strengthen the province's competitiveness within an increasingly competitive global tourism industry.

The challenges and changes affecting the tourism industry are global in nature. In order to remain competitive, Ontario must address the shifts in the way tourism products are both offered for sale and distributed. Consumers are planning travel and purchasing new and different products and experiences that are driven by a range of changing personal, economic and technological circumstances. Tourism product distribution needs to keep up with these changes.

Technology has become an increasingly important feature of tourism product distribution, empowering the customer with product information and providing them with increased purchasing power. With the Internet increasingly being utilized as a source of inspiration, a planning tool and a booking agent for potential tourists, the Internet has become the new travel agent.

Additionally, key changes in consumer preferences are driving both the types of tourism products purchased and the way that they are purchased. Changes in global demographics, education levels, leisure time, travel experience and the focus on the environment are forcing the tourism industry to make significant shifts in the way it distributes its products to potential visitors.

Potential visitors are also looking for a degree of specialization in their tourism experience. Traditional models of the "package tour" are being replaced with "build your own

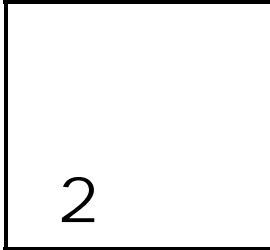
itineraries” where visitors design their own travel package to align with individual interests, hobbies and activities.

Based on a review of leading jurisdictions outside Ontario, there are several common themes and critical success factors that emerge as “best practice” in product distribution. These include:

- Customer-focused and user-friendly product distribution channels.
- Utilization of technology to support customer planning and purchasing decisions .
- Support for the development and quality of the tourism industry and products.
- Well-trained, client-centred and service-oriented workforce.
- Strategic, focused and coordinated marketing.
- Competitive and comprehensive transportation systems to and through the region.
- Funding for accurate, timely research and analysis of the tourism market and trends.
- Concerted and committed efforts across the many ministries and agencies.

In order for Ontario to compete in this global marketplace, there are several key areas where the Province, in cooperation with the private sector, should focus its efforts, including:

- Technology-enabled trip planning and purchasing (website capabilities, online booking, infrastructure, etc.) to commercialize supplier offerings.
- A consumer-driven marketplace (focus product distribution channels on the consumer’s needs and develop a consistent branding for Ontario tourism products).
- Understanding the impact of changing consumer preferences on product distribution (e.g., establishing niche markets, promote Ontario’s cultural heritage and diversity, etc.).
- Competitive market positioning to effectively compete with increasing product supply and global competition (support for new product distribution channels, flexibility in packages, etc.).
- Government and industry leadership (e.g., an umbrella organization to strengthen product development and distribution channels for the whole industry).



## Introduction

### Background

Product distribution is the variety of distribution channels that not only raises tourism product profile with potential customers, but also extends the points of sale in order for purchases to be made using multiple distribution channels.

Ontario is participating in an increasingly competitive global tourism industry where consumers are planning travel and purchasing new and different products and experiences that are driven by a range of changing personal and social circumstances. In order for Ontario to understand its consumers' current and future vacation purchasing habits and to make sound business decisions on how to distribute and sell vacation experiences, it is necessary to examine the methods of tourism product distribution.

The desired result of this research will be to identify potential improvements that will enhance Ontario's success in distributing and selling vacation experiences to consumers and strengthen Ontario's tourism industry to be more competitive in the global tourism marketplace.

### Project Overview

As noted tourism product distribution is the variety of distribution channels that raise tourism product profile, package products and extend the points of sale. This research project on Tourism Product distribution will:

- Review the ways in which Ontario's tourism product is distributed to various markets.
- Examine how other successful tourist destinations are distributing vacation experiences to visitors.

- Propose approaches on how industry and government can improve and build distribution channels resulting in better tourism experiences and more tourism economic activity.

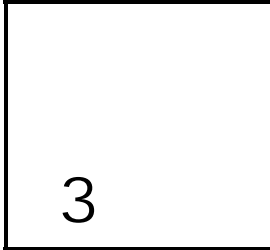
## Approach

To complete this assignment Oliver Wyman completed the following tasks:

- Reviewed and identified Ontario's current tourism distribution channels, including the key players and their relevance. Channels include:
  - Direct sell – telephone, fax, conventional mail;
  - Electronic – interactive website; and
  - Travel trade – both traditional & electronic.
- Identified key trends, including new technology available to consumers and industry and examples of how competing jurisdictions use them.
- Identified competing jurisdictions considered “best in class” in terms of successfully distributing product for a) travel planning and b) purchase.
- Provided assessment of the longevity and significance of the identified best channels as business tools for the tourism sector.
- Assessed how tourists in Ontario's key markets currently research, plan and purchase their Ontario tourism experiences. Markets to be assessed include:
  - Ontario
  - Key border states
  - Key provinces (i.e., Quebec and British Columbia)
  - Long-haul North America (Canada and U.S.)
  - Long-haul International
- Assessed Ontario's current product distribution practices/mechanisms for:
  - Travel planning
  - Purchase including:
    - Key gaps in Ontario's product distribution channels (that impact most negatively or hinder tourism economic activity).

- Key barriers/challenges to changing or enhancing distribution channels and moving them toward best in class.
- How to better integrate or link the product distribution channels (domestically and internationally) so that Ontario may reach more tourists and improve its ability to sell Ontario product.
- Based on key research findings, identified opportunities that could be considered by the private and public sectors to improve tourism product distribution channels in Ontario.





## Global Shifts in the Tourism Marketplace

### Technology has Empowered Consumer Information and Purchasing Power

*“Google has become the new travel agent”<sup>1</sup>*

With 71 percent of baby boomers and 72 percent of Generation Xers using the internet for research, and 62 percent and 63 percent respectively using the technology for booking, it is clear that information technology and the penetration of internet is a significant driver in tourism product distribution.<sup>2</sup> This, along with readily available information, has led to comparison shopping by consumers in the area of tourism. Most leisure travellers are still using the more traditional online tools for researching and booking travel (i.e., Expedia and Travelocity).

In particular, the use of hotel and airline specific sites jumped in 2008, with videos, specifically hotel videos, emerging as a trend in the online travel planning and buying process.<sup>3</sup> Research has also indicated that booking travel via mobile devices has shown strong growth, particularly in European markets.

The internet is increasingly being utilized as a planning tool, but not so much as a source of inspiration.<sup>4</sup> People often decide where they want to go and then use the power of online search engines to help plan and purchase products. Furthermore, the internet has resulted in more independent information gathering by travellers (see Chart 1<sup>5</sup>). Hence, the

<sup>1</sup>“Consumer Trends 2008, Travel Weekly, July 28, 2008, Section 2 of 2.

<sup>2</sup> Ibid.

<sup>3</sup> October 21, 2008, EFT.

<sup>4</sup> “European Segmentation Study British Columbia Summary”, Insignia Marketing Research Inc., February 2008, page 120.

<sup>5</sup> Oliver Wyman – Delta Organization & Leadership, 2008.

role of travel agents has changed as more experienced travellers put together their own holidays based on research they have conducted independently via the internet. There are multiple reasons why travellers use the internet for travel purposes (see Chart 2<sup>6</sup> below) – it is also interesting to note that the perception of travel agents about this growing phenomenon is not in line with the reality of the travel consumer.

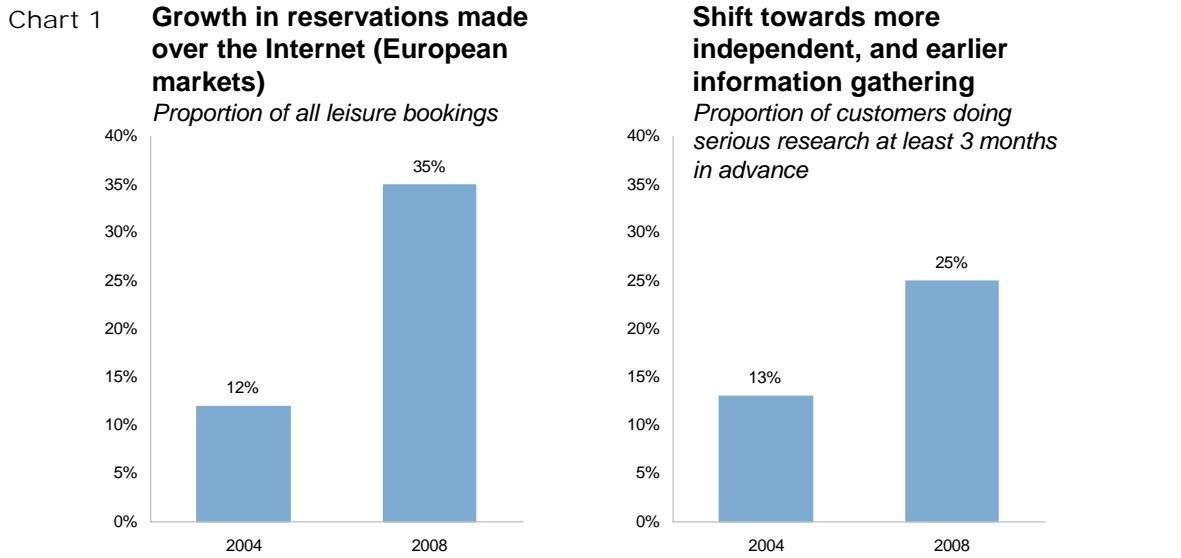


Chart 2

Why Travelers Use the Internet				
	Travel Agents		Internet Travelers	
Internet Users Believe:	Agree very much	Agree very much/somewhat	Agree Very much	Agree very much/somewhat
Prices are better on the Internet	65%	94%	31%	75%
Agents OK for complicated trip, not airlines/ hotels	58%	95%	33%	61%
Travel agents cost more	53%	92%	27%	66%
Online so much, it's convenient	52%	94%	66%	92%
Internet is fast and easy	43%	85%	73%	95%
Internet open when agencies closed	38%	86%	48%	80%
Enjoy doing personal trip planning	36%	87%	26%	62%
Don't know good agent; can't find one	35%	83%	19%	47%
Internet more accurate/unbiased	25%	69%	23%	64%
Everything done right if use Internet	21%	60%	32%	72%
Takes too much time to explain to agents	12%	48%	15%	44%
Most travel agents lack knowledge needed	10%	47%	11%	38%

<sup>6</sup> “Agents, Web users: On the same page?”, Plog, Stanley, Travel Weekly, October 27, 2008, page 30.

## Consumer Preferences are also Changing

A changing social and economic environment is also responsible for a shift in the manner in which tourists are looking to purchase travel products. An examination of key global trends is equally important to consider when looking at product distribution – both current state and what is required to maintain a competitive advantage in the future.<sup>7</sup>

- **Demography** - The number of healthy and active seniors with higher disposable incomes is growing; in turn this group will demand quality, convenience, security, easy transportation, relaxing entertainment facilities, one-person products and an emphasis on comfort when buying tourism products. They will also increase their demand for luxury, special products, city- and short-term breaks and winter sun holidays.
- **Health** - Likewise, the number of health conscious travellers are demanding “healthy” destinations. For the tourism industry the trends point to a decrease in the demand for sun-holidays and a rise in active/activity holidays coupled with an increased desire for “wellness products”.
- **Awareness and Education** – The average level of education is increasing and with this, an increase in the demand for special products, such as arts, culture and history components in package tours as well as self-organized holidays. Because travellers are better educated and more aware of their surroundings, the methods in which a potential tourism destination needs to communicate information to this segment of the population will need to more creative.
- **Leisure Time** – There is an increase in the demand for more leisure time and relaxation, however, it is coupled with less disposable income and shorter paid days of leave.
- **Travel Experience** - More sophisticated consumers, coupled with competing ways for people to spend free time, have increased the focus on the price-quality ratio. There is less fidelity to destinations and an increased demand for mobility (bikes, rental cars, etc.). Regions that offer a full, varied and balanced concept for travellers are frequently preferred.
- **Lifestyles** – With “status” becoming less important, the demand for fully escorted tours is lessened and a shift to new products/concepts is occurring. There is a trend to “back-to-basics”, meaning more simple holidays are preferred.
- **Transportation** – The advent of high-speed trains and low-cost carriers means that destinations that are available for easy, short breaks will increase, along with “budget” cruises.

<sup>7</sup> “Tourism Trends for Europe”, European Travel Commission, September 2006

- **Sustainability** – As society becomes more environmentally consciousness, the idea of destination management will become increasingly important to travellers.
- **Safety and Security** - The need for travellers to feel safe and secure in their choice of destination means that the costs for guaranteeing safety and security will increase. The tourism industry needs to be better prepared to meet needs in times of crisis.

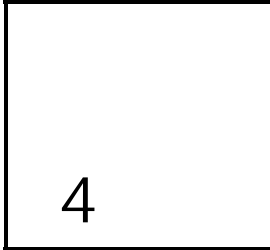
## A Much More Consumer Driven Market

In the past, supply has dictated demand – today the reverse is true. Now there is a high degree of product saturation in the marketplace and ready customer access to heavily marketed global product supply. Consumers are becoming more self-assertive and thus are more able to determine profitability in the tourism sector.

Market Shifts	Potential Implications
Significant shift to reservations made over the internet	<p>Customers turn to the internet both for information gathering as well as eventual reservations.</p> <p>Good online presence is critical – this is not a differentiator, this is a business qualifier, and will only become more important over time.</p>
More independent information gathering and 'package construction', done earlier in the process	<p>Customers use multiple sources for information gathering and are better informed when they come to make their booking. Key sources to be managed include:</p> <ul style="list-style-type: none"> <li>▪ Direct / first port of call (e.g., tourist board website / destination website)</li> <li>▪ 3rd party / aggregator (e.g., Expedia, lastminute.com etc.).</li> <li>▪ Personal (blogs, feedback, Virtualtourist).</li> <li>▪ Applications (Google maps, Google Earth).</li> </ul>
High price awareness and price sensitivity	<p>Thanks to the internet and increased availability of pricing information, price perceptions are fairly accurate, and customers are more deal-savvy.</p>

There is a growing trend for consumers to “name their own price” or an expectation of receiving a portion of the service or product for free<sup>8</sup>. Largely due to the evolution of the internet, consumers are now able to research destinations and empower themselves with the decision-making knowledge well ahead of booking their travel.

<sup>8</sup> “Embrace consumer trends for survival”, Davies, Phil, Travel Agent, November 10, 2008



## Changing Global Product Distribution Patterns

The dramatic changes in the tourism market place, including the use of technology and the shift to a more consumer-driven market, have triggered significant changes to the way in which tourism products are distributed and sold.

### Increasing Online Travel Purchases

In 2007, approximately 70 percent of online travellers (that is, adults who have taken a commercial air trip and stayed at a hotel for leisure in the past year and used the internet in the past 30 days) bought travel online, compared to 63 percent in 2006 (*from The PhoCusWright Consumer Travel Trends Tenth Edition*).<sup>9</sup> While social media is widespread, destination websites and online travel agencies are favoured by nearly half of next generation travellers during the travel shopping process.

Almost half of U.S. travel is now booked online – this \$70 billion spend is expected to rise shortly to \$100 billion.<sup>10</sup> In 2008, for example, 98 percent of VisitBritain's global customer business was conducted online compared to 40 percent eight years ago. Each month, nearly 250,000 visitors turn to the VisitBritain website to find everything from suggested itineraries to special discount packages at the country's best hotels, restaurants and attractions.<sup>11</sup>

Leisure travellers who had used a traditional travel agent in the past spent an average of their discretionary travel funds on bookings made in the following manner:<sup>12</sup>

<sup>9</sup> “Debunking Online Travel Industry Myths”, TravelMole, 23 September, 2008.

<sup>10</sup> 2007 World Travel & Tourism Council, Alex Kyriakidis, Managing Partner, Travel, Tourism & Leisure, Deloitte, page 13.

<sup>11</sup> VisitBritian Goes Solely Online”, TravelMole, 13 November, 2008.

<sup>12</sup> “Consumer Trends 2008, Travel Weekly, July 28, 2008, Section 2 of 2.

- 40% with a traditional travel agent
- 5% on home-based agents
- 24% through supplier websites
- 11% through third-party websites
- 20% “other” (e.g., telephone calls to suppliers)

The **ease and convenience** that the internet provides in making travel arrangements is the primary reason consumers book online. Almost three-fourths (73 percent) of internet users agree strongly with the statement that the internet is fast and easy to use, and another two thirds (66 percent) also agree that they are online so much that it is very convenient for them to plan and book their trips. In contrast, only 31 percent of travellers agree very much that prices are better on the internet. The next highest-rated item by travellers (48 percent) is that the internet is accessible 24 hours a day, 7 days a week while travel agencies are often closed when they want to do their travel planning.<sup>13</sup> Additionally, 42 percent of international travellers make their booking decisions one to six weeks before departure.<sup>14</sup>

While another survey of online travellers conducted by National Leisure Travel Monitor found that the top two most desirable features of a travel website are **finding and booking the lowest fares and the ease of booking**. As shown in the chart below, as consumers have become more familiar with online travel, features that were once desirable have fallen in popularity. For instance, email notifications are down considerably, largely due to issues around spam and the ability to download literature and view photos or take virtual tours is also down (see chart below<sup>15</sup>). The ability to reach a “live” counsellor remains largely unchanged from 2007, but down 20% from 2001.<sup>16</sup>

---

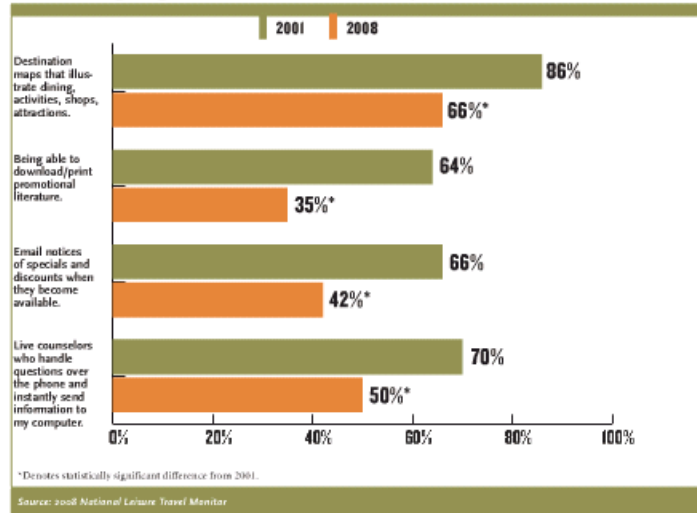
<sup>13</sup> “Agents, Web users: On the same page?”, Plog, Stanley, Travel Weekly, October 27, 2008, page 35.

<sup>14</sup> Ibid, page 35.

<sup>15</sup> “What’s up with the Web? Travel site usage”, Simons, Andrew, 2008 Travel Industry Survey, Travel Weekly, October 27, 2008, page 16.

<sup>16</sup> Ibid, page 16.

### Changing tastes: Desirability of website features



## New Channels to Plan and Buy Travel Products

### Tools & Information Lead to a More Informed Traveller

A new PhoCusWright study determined that search and shopping sites are having a major impact on the travel category.<sup>17</sup> Just over half of the top 200 travel websites in February 2008 were booking sites. The remainder were referral and media sites, which attract travel shoppers with expert and traveller-generated reviews, meta-search capabilities and maps of travel destinations.

The 2008 Leisure Travel Monitor shows that consumer confidence in traditional sources of information about travel has eroded (e.g., travel agents, company/destination website, travel advertising). This has led to a dramatic increase in the use and importance of consumer-led supplier reviews and tourist photo/video information, rather than the glossy brochures and supplier websites. With so much consumer choice, it may only take one poor review to push a travel purchaser to a competitor’s facility. Savvy operators carefully monitor customer reviews posted on sites such as Tripadvisor and in many cases will post a management response to concerns expressed, or a thank-you notice for positive reviews.

### Global Trip Planning and Purchasing Trends

As previously stated, the trend for U.S. travellers to book online is growing, with almost half of U.S. travel now being booked online. For U.K. travellers, the internet is the key source to organize the itinerary, as well as agent brochures. Germans utilized the internet as the key source to select airlines, hotels and/or packages. They arrange itineraries, have some concrete details and then go to a travel agent to help them with further constructing

<sup>17</sup> “Study: Search And Shopping Sites Having Major Influence On Travel”. TravelMole, 14 August, 2008.

and finalizing it and getting everything in order. In France, age and familiarity with the destination are key factors in online trip planning. For example, younger or middle aged travellers are far more likely to book air only and travel “à la carte” using a guide book. Those travellers over 50 are much more likely to buy a tour or independent traveller package, not wanting to leave as much to chance and having greater reassurance of a smooth, trouble free journey. For less familiar, more adventurous destinations (e.g., Southeast Asia, China), pre-paid packages are quite common whereas for more comfortable destinations or repeat visits “à la carte” is preferred (this includes Canada).<sup>18</sup>

When it comes to actually making the booking, U.K. travellers often book on the net, but many still use agents. In Germany, when a travel agent has been used to help finalize the trip, travellers have typically booked through them as well, allowing a single point of contact in case difficulties arise. More and more French travellers are buying directly on the internet. They are convinced that they will save money in doing so. There is very little reluctance to book online. Further, more travellers are opting for air only, especially to Canada.<sup>19</sup>

## Restructuring the Travel Industry

### Rush to Establish an Online Presence

A good online presence is critical to the future of the tourism industry, both as a differentiator (to help customers plan where to go and what to do) and as a business qualifier (to investigate specific suppliers and ultimately make a purchase). For any consumer, the website is now the front door to their travel experience. As one travel industry insider noted, “*The first contact with consumers is not when they walk into your hotel or onto your cruise ship or plane, but when they see you on the internet.*”

For many of Ontario’s competitors – both domestically (British Columbia, Quebec) and internationally (Great Britain, Ireland) – a comprehensive web strategy has become the foundation of how these jurisdictions distribute their tourism products.

- For instance, Quebec injected almost 4% of its traditional marketing budget into online promotional activities. The main success was a 470% increase in the number of customers served every year since 1999. In 2004, 9.4 million customers were served, of whom 69% were from outside Quebec. The internet has now become the access channel for 92% of consumers while, before BonjourQuébec.com (BQC), 50% obtained information on the phone or over the counter.<sup>20</sup>
- HelloBC Listings Program is a program that Tourism BC launched to better meet consumers' vacation planning needs by connecting them to tourist products they want

<sup>18</sup> “European Segmentation Study British Columbia Summary”, Insignia Marketing Research Inc., February 2008, page 99.

<sup>19</sup> Ibid, page 100..

<sup>20</sup> “E-tourism at a glance.... Quebec”, 2006, page 1






to experience while visiting B.C. B.C. tourism businesses, including activities, attractions, events, transportation and accommodation are all able to participate in this program and purchase listings via the internet

- In response to requests from overseas visitors, **VisitBritain** set up the online retailing arm, VisitBritain Direct, in 2006 to enhance the customer’s web journey from information gathering to travel. The idea being for the visitor to be able to buy British tourism products in their local currency before they fly. Since its launch, VisitBritain Direct has successfully opened 16 e-commerce retail shops around the world, covering a total of 24 markets.

London has a consumer-driven website, where potential visitors can find and book popular attractions<sup>21</sup>

**London's top attractions**

<p><b>London Eye Flight</b></p> 	<p>A flight on the London Eye, the world's highest observation, is an unrivalled experience. As you rise to an incredible 135 metres above the River Thames, the 30 minute rotation provides stunning panoramic views of the city and reveals parts of London which are simply not visible from the ground. For a truly stunning view, visit at sunset or after dark and see the city awash with colour and famous landmarks floodlit. Each capsule is fully enclosed, air-conditioned and holds up to 25 passengers with bench seating provided.</p> <p><b>Price</b> Adult £15.50, Child (5-15) £7.75, Under 5 FREE</p>	<p><a href="#">Book Now</a></p>
<p><b>Tower of London</b></p> 	<p>Founded by William the Conqueror in 1066-7 and enlarged and modified by successive sovereigns, today the Tower of London is one of the world's most famous and spectacular fortresses and home to the Crown Jewels Discover its 900-year history as a royal palace and fortress, prison and place of execution, mint, arsenal, menagerie and jewel house.</p> <p><b>Price</b> Adult £16.50, Child (5-15) £9.50, Under five FREE, Senior (60+) / Student (with valid card) £13.50, Family (two adults + three children) £46.00</p>	<p><a href="#">Book Now</a></p>
<p><b>Tower Bridge Exhibition</b></p> 	<p>Tower Bridge has stood over the River Thames in London since 1894 and is one of the finest, most recognisable bridges in the World. At the Tower Bridge Exhibition you can enjoy breath-taking views from the high-level walkways and learn about the history of the Bridge and how it was built. You can then visit the Victorian engine rooms, home to the original steam engines that used to power the bridge.</p>	<p><a href="#">Book Now</a></p>

<sup>21</sup> <http://www.visitbritaindirect.com/en-CA/default.aspx>

## Clearer and Specialized Roles for Travel Agencies

Now when travellers visit a travel agent, they usually know which country they want to visit. For example, in 1997, 73 percent of U.K. travellers said that travel agents were influential in choosing Canada. Today, only 7 percent in the U.K. say that travel agents have any role in their choice of Canada. In Germany, the comparable figure is now 7 percent, in France 16 percent<sup>22</sup>. These dramatic shifts have forced a change in the role of traditional travel agencies.

Growth in online bookings and an increasingly demand-driven sector also raises questions about the agent's ultimate influence in selling Canada. Where the agent can still be beneficial, especially those in the Canada Specialist programme, is with specific in-Canada product – up-selling or directing clients to options within the province.

More and more online travel shoppers are using supplier sites, but in terms of popularity, online travel agencies are also making strong inroads. Traditional travel agencies, especially store front retail operators, are not experiencing as much of this resurgence because of the strong consumer preference for the convenience and value of online planning and purchasing channels.

A recent study also indicated that traditional travel agents may see a boost in their bookings due to frustrations related to the planning and booking capabilities of online travel agencies. This, in turn, is spurring a renewed appreciation for the expertise and personalized services offered by traditional travel agents.<sup>23</sup> Reasons individuals cite for using a travel agent include:<sup>24</sup>

- Ability to get the best price
- Product knowledge
- Convenience
- “Personal touch”
- Friend's recommendation
- Not feeling comfortable booking the trip on their own.

The use of a travel agent can also increase during recessions or when booking packages and selecting an unknown or potentially unsafe destination. There is evidence that the current recessionary times are leading travellers to switching to package holidays to feel

<sup>22</sup> “European Segmentation Study British Columbia Summary”, Insignia Marketing Research Inc., February 2008, page 20.

<sup>23</sup> “Online Travelers Shrinking, Turning To Agents”, TravelMole, 28 August, 2008.

<sup>24</sup> “Consumer Trends 2008, Travel Weekly, July 28, 2008, Section 2 of 2.

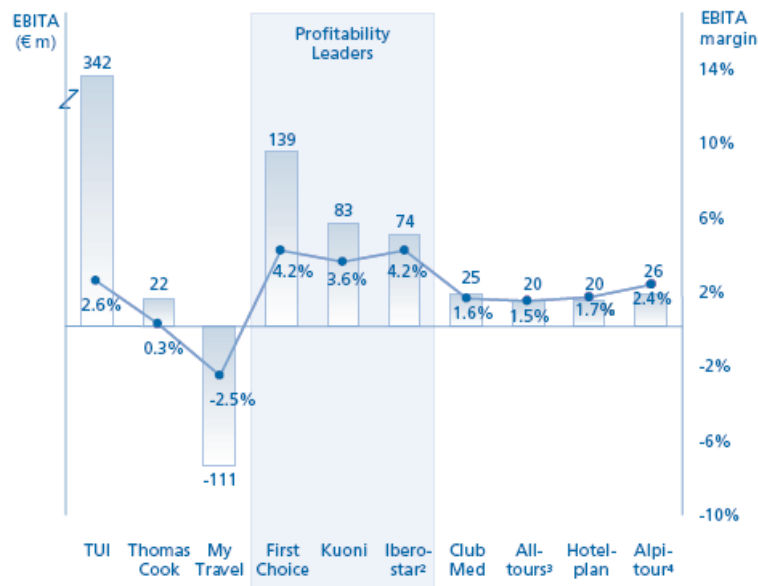
more financially protected (EyeforTravel.com, October 2008). There is a feeling that travel agents may provide more security during the economic crisis.

### Demand-Driven Restructuring & Specialization

Previously, nearly all large tour operators banked on the business model of a vertically integrated operation. By controlling the value chain from sales and “packaging” through to transportation and hotels, tour operators sought to strategically secure their market share and shore up low profit margins in their core business with more profitable activities in downstream areas of the value chain.

The consistent growth of tour operators through the 1990s seemed to support the validity of this model. But shifting tourism market trends have exposed its disadvantages, particularly in terms of flexibility, and earnings across the board for European tour operators have been slipping, with EBITA (Earnings Before Interest, Tax and Amortization) margins averaging between 1 and 2 percent. The best performing, “asset light” tour operators are seeing margins of around 4 percent at most (see chart below<sup>25</sup>).

Exhibit 2 Top 10 European Tour Operators: 2004 Earnings  
(EBITA<sup>1</sup> and EBITA margin)





<sup>1</sup> EBITA = EBIT + total amortization. <sup>2</sup> EBIT / EBIT margin, 2003.  
<sup>3</sup> Estimate. <sup>4</sup> Based on EBIT + amortization of goodwill.  
 Source: Annual reports, Amadeus, Mercer analysis.

These reduced margins and challenges to overall profitability have resulted in industry consolidation and specialization.

<sup>25</sup> “Rerouting European Tour Operators”, by Frank Döring and Alexander Neuhaus, page 24, 2006, Oliver Wyman (formally Mercer Management).

Operators are either forced to offer products in the “bulk” discount travel arena or specialize in niche travel, appealing to a highly affluent, experience-driven consumer. This concept is illustrated below, showing that consumer-focused specialization is increasingly important for tourism operators.

Exhibit 3 Major European Customer Travel Segments

	Mainstream Budget	Mainstream Good Value	Mainstream Premium	Specialists
Characteristics	<i>Increasing margin</i> 			
	<i>Decreasing price sensitivity</i> 			
	<ul style="list-style-type: none"> <li>Price more important than destination</li> <li>Very competitive</li> </ul>	<ul style="list-style-type: none"> <li>Major segment</li> <li>Intense price competition</li> </ul>	<ul style="list-style-type: none"> <li>4 &amp; 5-star hotels</li> <li>More dynamic packaging</li> </ul>	<ul style="list-style-type: none"> <li>High value to customer</li> <li>High brand affinity</li> <li>High customer loyalty</li> </ul>
Challenges	<ul style="list-style-type: none"> <li>Economies of scale</li> <li>Efficiency in sales</li> <li>Simplicity</li> </ul>	<ul style="list-style-type: none"> <li>Domination of sales channels</li> <li>Economies of scale</li> <li>Capacity management</li> <li>Simplicity, low complexity</li> </ul>	<ul style="list-style-type: none"> <li>Value proposition vs. mainstream segment</li> <li>Customer loyalty</li> <li>Sales management</li> </ul>	<ul style="list-style-type: none"> <li>Differentiation of offer</li> <li>Marketing and sales optimization</li> <li>Synergies in "production"</li> </ul>
Examples	<ul style="list-style-type: none"> <li>72Fly</li> <li>Sunstart</li> <li>Neckermann</li> <li>Preisknueller</li> </ul>	<ul style="list-style-type: none"> <li>My Travel</li> <li>First Choice</li> <li>Neckermann Reisen</li> <li>Tjaereborg</li> </ul>	<ul style="list-style-type: none"> <li>Kuoni</li> <li>Airtours</li> <li>Meier's Weltreisen</li> </ul>	<ul style="list-style-type: none"> <li>The Cruise Store</li> <li>Neilson</li> <li>Dr. Tigges</li> <li>Manta Reisen</li> </ul>

### Consumer-Focused Marketing and Product Distribution

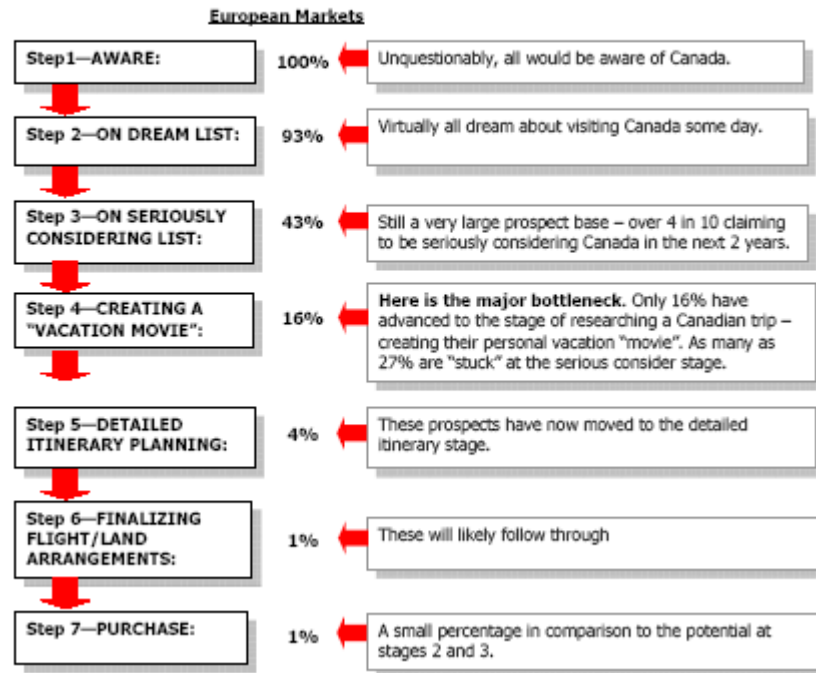
A study completed for British Columbia in 2008<sup>27</sup> indicated that potential consumers to the province had to create a “movie” of their vacation as part of the “buy-cycle” for tourism products. It was at this movie creation stage (illustrated in the diagram below) where the largest gap for consumers and potential sellers existed.

<sup>26</sup> “Rerouting European Tour Operators”, by Frank Döring and Alexander Neuhaus, page 23, 2006, Oliver Wyman (formally Mercer Management).

<sup>27</sup> “European Segmentation Study British Columbia Summary”, Insignia Marketing Research, February 2008.

The Buy-Cycle<sup>28</sup>

The major bottleneck for Canada is at Step 4. Between 6.7 and 7.7 million prospective visitors in each country are blocked here. This is where the Partners should focus their marketing – helping prospects create their own “movie”.



What information sources do travellers rely on to build their vacation movie? Typically, friends (i.e., past visitors or destination residents) are the primary source of a recommendation on where to go and what to see. However, the internet is clearly growing as a key influencer. Other sources of information include:

- Official government sites (they imply objectivity)
- Existing Packages (a great place to get itinerary ideas without any obligation to purchase).
- Travel Agents’ advice (less important now because the internet has provided so much knowledge).

Beyond the advice of friends and relatives who either live in Canada or who have travelled here, the internet is the dominant source for “movie” building for potential consumers. However, most official sites appear to be built for the North American market, not the overseas audience. They assume travellers are basically familiar with distances and travel

<sup>28</sup> “European Segmentation Study British Columbia Summary”, Insignia Marketing Research Inc., February 2008, page 15.

times. Yet, for Europeans, visitors express a lack of awareness of place names, or distances involved. They need:<sup>29</sup>

- Maps
- Itinerary suggestions
- Routes with trip times by various forms of transportation
- “Must-sees” along the way
- Pictures, video tours, etc., of highlights along the way

### Insights From Leading Jurisdictions

A review of various methods of product distribution was conducted based on a list of jurisdictions that compete with Ontario. They represent a diverse cross-section of local and international jurisdictions, including those with regulatory environments similar to those that exist in Ontario. We have provided a summary of some these jurisdictions below.

- **Tourism BC** is a provincial organization that has done a good job “branding” the regions and everyone has brought into it; people can do their own direct bookings
  - Tourism BC is a professional marketing organization structured to develop and deliver programs and services that attract visitors to BC and help ensure that the quality of their vacation experience keeps them coming back for more. It has six categories designed to help tourism providers develop and sell their products to potential visitors (Consumer Marketing, Visitor Experiences, Partnership Marketing, SuperHost, Tourism Product Management, Regional Contacts, Association Contacts).
  - Tourism BC has a large staff dedicated to tourism, in both overseas and domestic markets.
- **VisitBritain** is consumer-focused:
  - As part of a new tourism focus, they enabled a ‘one-stop-shop’ for the marketing of tourism in England in response to customers who increasingly wanted to search and book online, and to ensure that they could match what is offered by overseas competitors.
- **Ireland** capitalizes on its unique features:

<sup>29</sup> “European Segmentation Study British Columbia Summary”, Insignia Marketing Research Inc., February 2008, page 17.

- 15 years ago they were where Ontario is today: there was no umbrella organization. Visit Ireland was created. Ireland was packaged under one roof. Initially, there was some resistance, but when suppliers saw how successful it was they were eager to participate.
- VisitIreland focused on three areas:
  - Help with product development.
  - Support enterprise development in Irish tourism: promoting best practice in operations, quality and standards, and investment.
  - Build human resource capability in the industry.
- **Quebec** – built on its distinct nature and focused on consumer driven needs:<sup>30</sup>
  - Entered into a public-private partnership between Tourisme Québec and Bell Canada to provide the infrastructure to allow online booking capabilities.
    - In 2007, 4,100,000 internet users accessed Bonjourquebec.com, representing an increase of 18% compared to the previous year. The visitor breakdown is as follows: 52% from Québec, 24% from countries other than the United States, 14% from other Canadian provinces and 10% from the United States.<sup>31</sup>
- **Tourism New Zealand** and **Australia** have both done a good job in promoting the distinct nature of their respective countries:
  - They have created “experiences” and their websites are key to this.
- **Mexico** works closely with the tour operators to promote the country as a destination:
  - Their positioning took them from 400,000 Canadian visitors in 2003 to 1.2M in 2008.<sup>32</sup>
  - Once on their site, options are broken down into offerings but it can all be booked right there – it’s consistent.
- **Newfoundland** has been able to create an image for itself that relates to what the consumer is looking for.

<sup>30</sup> <http://www.bonjourquebec.com/mto/publications/>

<sup>31</sup> Tourism Quebec, Tourism Figures, 2007 Edition, page 5.

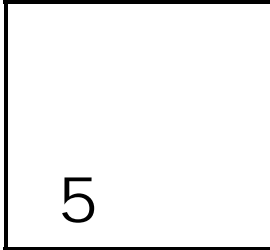
<sup>32</sup> Interview with itravel2000.com

When examining what these leading jurisdictions are doing to distribute their tourism products (accommodations, travel, attractions, others) to potential visitors, there are a number of common themes and critical success factors, including:

- Competitive and comprehensive transportation to and through the region.
- Development of the tourism industry and products.
- A well-trained, client-centred and service-oriented workforce.
- Strategic, focused and coordinated marketing.
- Funding for accurate, timely research and analysis of the tourism market and trends.
- Concerted and committed efforts across the many ministries and agencies.

In short, successful tourist destinations understand what visitors want, and they provide it. They make it easy to get to attractions and activities. The workforce is friendly, professional and allows travellers to comfortably access a variety of activities. They distribute their products based on consumer preferences and desires rather than supply-based marketing.





## Ontario's Competitive Position

A review of various methods of product distribution in Ontario was conducted based on interviews, published research and our own independent investigations.

### Ontario Suppliers are Facing Increased Global Competition

Several factors have aligned to dramatically change the travel market Ontario.

### Ontario Travellers are Being Lured Out of Province

Traditionally, Ontario's tourism sector has benefited from a strong and loyal reliance on a large local Ontario travel market. Ontario residents spent a total of \$30.1 billion on travel in 2007 with over one-third of this being spent in Ontario. Of the \$30.1 billion tourism expenditures, 83.6% or \$25.2 billion was household spending, the balance was business spending. Of the \$25.2 billion spent by Ontarians on travel world-wide, 36% was spent in Ontario, 8% was spent on travel in the rest of Canada, 25% was spent in the U.S. and 22% was spent in overseas countries. A further 9% was spent on Canadian carrier fares for travel to the U.S. or overseas countries.<sup>33</sup>

But now, with the emergence of empowered consumers and global competition, Ontario's traditional local destinations must compete head-to-head with more 'exotic' global destinations.

- Families are increasingly offered comparable pricing between a beach vacation in the Caribbean versus Muskoka.
- For natural wonders, Niagara Falls must compete with the Grand Canyon in Arizona, the Verdon Canyon in France, as well as comparable physiographic features in Australia, New Zealand, Africa and South America.

<sup>33</sup> Statistics Canada, Travel Survey of Residents of Canada AND International Travel Survey, 2007.

- For outdoor adventure Northern Ontario must compete with Costa Rica, Belize, Honduras, Australia and Kenya.

### More Difficult to Attract Visitors to Ontario

Out of province visitors to Ontario spent a total of \$8.2 billion in 2004, over half of which was from U.S. visitors. Traditionally, U.S. visitors have always come to Ontario - it was easy, cheap and you didn't need a passport; however, this is no longer true. So once Americans have to have a passport, they can go anywhere. Generally speaking, when compared to Mexico or parts of the Caribbean, Canadian travel product is very expensive. Internal competition for the consumer often presents a confusing and inconsistent travel picture to the potential visitor. Aggressive marketing efforts appear to be having an impact on Ontario's market position because Ontario's share of U.S. visits to Canada has declined steadily over the past five years.

Ontario's Share of International Visitation to all Canadian Provinces<sup>34</sup>

	2001	2002	2003	2004	2005	2006	2007
<b>Ontario share of US Visitors</b>	66.2%	65.0%	62.5%	62.4%	61.7%	61.2%	59.1%
<b>Ontario share of Overseas</b>	51.8%	51.8%	47.9%	50.7%	50.4%	50.9%	48.8%

All provinces must face the negative impact of Canada's strong dollar, but it appears from the 2001-2005 trends that Ontario has been less successful at retaining its relative attractiveness to U.S. visitors when compared to other provinces.

### Travel Trade Focuses on Outbound Travellers

The Ontario travel industry has a built-in structural issue which is that it has traditionally focused on outbound travel. Ontarians are natural travellers because of Ontario winters, a multicultural population and a predictable "trip abroad to visit the relatives" during the summer months. As a result, the province's travel trade has typically focused on outbound travel trade because the market is large, the expertise is there, the profit is better and technology/internet and global supply have increased the availability of competitively priced product outside the province.<sup>35</sup>

Changes in how travellers purchase their tourism products also have implications for the domestic markets. For instance, 73 percent of Canadians planning to visit Europe will search the internet to help plan their trip and 48 percent will book at least part of their trip online, even if this is simply car rental or tickets for cultural and/or heritage attractions.<sup>36</sup>

<sup>34</sup> Statistics Canada, Canadian Travel Survey, 2001-2005, International Travel Survey 2001-2007, and Travel Survey of Residents of Canada 2006-2007.

<sup>35</sup> Summary of themes resulting of interviews conducted during the course of this project.

<sup>36</sup> "European Segmentation Study British Columbia Summary", Insignia Marketing Research, Feb 2008.

For long haul travellers, the preference continues to be to book travel through a travel agent (either in person, by phone or online), but it is falling – 51 percent of all outbound trips to Europe were booked through travel agents in 2004, down from 62 percent in 2002. In contrast, 60 percent of Canadians planned to use the internet to plan their summer 2006 vacation (up from 41 percent in 2001).<sup>37</sup>

Most likely consulted sites:<sup>38</sup>

- Airlines (26%)
- Expedia (25%)
- Destinations (21%)
- Hotels (14%)
- itravel2000 (20%)
- Travelocity (11%)

As a result of the focus on the outbound travel market, there is no well-established sponsor for domestic travel in Ontario – no one company owns the space. The inbound trade is diverse, regionally varied and fragmented.

Furthermore, some of our interviews suggested that the level of knowledge in the retail travel sector is decreasing as demands for profit, commission and competition with direct booking sites are eroding the quality of staff that are hired in this industry.

## Real-Time Booking is Only Possible in Some Regions

With the move to the internet over the last 10-15 years – people are transferring their passions for travel or an experience and researching via the internet ways in which they can explore them.

A key advantage of real-time online booking is that is available 24 hours a day, 7 days a week. *Amazingly, according to internal sources at itravel, their peak booking time is around 11pm at night.* Operators that force travellers to call during regular business hours may be missing out on a significant opportunity to capitalize on consumer desires to buy travel products outside regular hours (i.e., after the kids have gone to bed, the day has calmed down, and minds can turn to recreation and travel plans). Success stories echo this sentiment – according to one source, when Bed and Breakfasts in the Niagara region made themselves available through an online booking agent (whether it was direct booking

<sup>37</sup> “Canadians travelling more, survey suggests”, Tuesday, November 28, 2006, CBC News (www.cbc.ca).

<sup>38</sup> Market Insights: European Travel Commission, September 2006.

through their website or through infoniagara.com) they saw their bookings increase three times.

A review of product planning and purchasing channels in different regions across the province was conducted based on an informal “customer perspective” review of online travel planning and purchasing opportunities. This is by no means a definitive list of all available channels, but it does reveal a hodgepodge of online tools for researching and booking travel products. In many cases, buyers were informed of products (e.g., hotels, attractions, etc.), but it was impossible to actually purchase the products online. In other words, prospective customers needed to phone or send an email to check availability or to actually book/buy the product.

Although Ontario has many tourism products to offer, in many cases potential visitors cannot check availability or book them real-time – there are only links to other websites and you have to do multiple bookings. It is frustrating, not customer-friendly and is not keeping pace with products offered in other jurisdictions.

In comparison to other leading jurisdictions, there were fewer opportunities in many Ontario regions to plan and purchase products in real-time. In many areas outside Ontario, even independent accommodation suppliers provided customers with the ability to check availability and purchase product online.

### Product Distribution – Comparative Shopping

Location	Accommodation (not chain)			Attractions			Transportation			Dining		
	One-Stop	Re-direct but online	Email or call	One-Stop	Re-direct but online	Email or call	One-Stop	Re-direct but online	Email or call	One-Stop	Re-direct but online	Email or call
Toronto	✓	✓	✓	✓	✓	✓	○✓^		✓	✓	✓	✓
Ottawa	✓	✓	✓	✓	✓	✓	★	✓	✓		✓	✓
Windsor		✓	✓		✓	✓		✓	✓		✓	✓
London		✓	✓	✓	✓	✓	★		✓		✓	✓
Kingston	✓	✓	✓		✓		○	✓	✓		✓	✓
Sudbury		✓	✓	✓	✓	✓	○		✓		✓	✓
North Bay		✓	✓		✓	✓			✓	✓		✓
Ottawa Valley		✓	✓		✓	✓		✓	✓		✓	✓
British Columbia	✓	✓		✓	✓			✓				
Quebec												
Ireland	✓	✓	✓		✓	✓		✓	✓		✓	
Northern Ireland	✓			✓	✓			✓				
New York State	✓	✓		✓	✓	✓	✓	✓*			✓	✓
Great Britain	✓	✓		✓	✓		✓	✓		✓		

Notes:

\*When transportation is provided by a major airline, or car rental service, you are generally re-directed to their website – however if you are buying a ‘package’ it’s all in one place.

○: Route maps/schedules online for municipal public transit but no online interaction (have to know where you are and where you want to go).

★: Municipal public transit site has online “route planner” capabilities (can input addresses to find out which routes to take).

✓\*: site of note: TravelInfoNY.com – redirects, but has highway info, links to trains, buses, etc.

✓^: Via Rail has packages; Toronto was only one available for mid-December date chosen.

Through our interviews we heard that there has been some hesitancy by suppliers to enable real-time booking capabilities. Reasons might include a lack of back office infrastructure needed to automate bookings, unavailability of broadband (high speed) internet service, or a resistance to pay commissions and/or fees to booking services.

However, there are also clear examples where these challenges can be effectively and economically overcome. The Meridian reservation system profiled below is one such example.

#### A Case Study

Meridian Reservation Systems specializes in customized reservation solutions for the tourism industry. They can develop a destination portal strategy from inception, or supply reservation capabilities and marketing services to your existing destination portal or accommodation web site. Meridian Reservations provides the backend reservation system for Toronto, Barrie, Ottawa and Niagara tourism.

Any internet connection (broadband, dial-up, line-of-sight, or satellite) can be used in conjunction with Meridian’s systems. Connection speed is an issue, but only in terms of time to access. A small B&B for example will not boast a complicated inventory so their access time will not be prohibitive to use. A variety of different models and set-ups are available to suppliers depending on their needs (i.e., number of rooms, content management, etc.).

**How does it work?** Individual suppliers control inventory management and rate structures for their operation. They also control content management and can opt to design packages through the site. When a consumer enters the reservation system either directly through the supplier’s website or through an umbrella organization (like Niagara Tourism) they are directed to Meridian’s system. The booking is made directly through Meridian’s system and the supplier and consumer are sent confirmation emails immediately confirming the reservation. Cancellations, no-shows, etc. are all handled through the same system. The initial set-up costs for a supplier is around \$1,500 – there are no additional charges for maintenance, support, etc. Reservations are either charged at a 10% commission (i.e., if booked through a 3<sup>rd</sup> party website or at \$5 per reservation up to a total of 40 per month).

There is no doubt that those suppliers that can offer one-stop shopping through a system such as Meridian do better than their counterparts who do not offer online bookings.<sup>39</sup>

### A Few “Packages” are Available, but Most Purchasing is Unbundled

A review of tourism packages in different regions across the province revealed some, but not many, opportunities to bundle tourism products into a package.

Location	Packages available		
	One-Stop	Re-direct but online	Email or call
Toronto	✓	✓	✓

<sup>39</sup> [http://www.reservationsystems.com/about\\_us/index.html](http://www.reservationsystems.com/about_us/index.html); Additional details were obtained through direct interviews with Meridian.

Location	Packages available		
	One-Stop	Re-direct but online	Email or call
Ottawa	✓	✓	
Windsor			
London		✓	
Kingston	✓		
Sudbury			
North Bay		✓	✓
Ottawa Valley		✓	✓
British Columbia	✓	✓	
Quebec			
Ireland		✓	✓
Northern Ireland	✓		
New York State	✓	✓	
Great Britain	✓	✓	

No doubt this is a reflection on the fact that many visitors to Canada prefer to travel independently (i.e., book their own airfare, hotel and attractions):

- According to recent research, the majority of U.K. visitors typically do not book a package (54 percent) when travelling to Canada. Consequently, they are likely to create their own customized itineraries. U.K. travellers express strong interest in two to seven day modular packages that take them to interesting, less well known areas. These clearly would appeal to those with customized itineraries.
- Similarly, the majority of German travellers to Canada and B.C. typically do not book a package (64 percent).<sup>40</sup> A tourism product offering that consisted of customized itineraries would be of interest to these groups as opposed to the traditional group or packaged tours.

But the lack of packaged products is also a reflection of the fact that there is a relatively underdeveloped trade that specializes in inbound tour packaging. The “experience travel” package tourism trade in Ontario is very niche at the moment and, because it’s expensive to operate, the operators are reluctant to invest in it. There are some small operators in this niche market, but it has not been developed to the extent that international travellers are looking for with respect to this type of experience.

□ \_\_\_\_\_  
<sup>40</sup> “European Segmentation Study British Columbia Summary”, Insignia Marketing Research Inc., February 2008.

---

Experience Travel

---

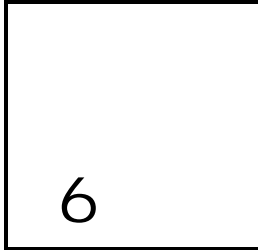
Experience travel refers to the changing preferences of consumers away from the “pre-packaged” vacation (the “generic” trip organized through a tour operator) to more creative and innovative experiences or the *genuine* experience rather than the staged one. While there is a wide variety in what constitutes “experience travel”, there are some trends and implications for the tourism industry. One phenomenon is the idea of the “trip of a lifetime” which often features personal challenge or self-development (i.e., walking or cycling, culinary classes, visiting remote long-haul destinations, etc.).<sup>41</sup> A related component is that as people travel more, they become more aware of the culture and environment of the places they visit. People are becoming “career travellers”<sup>42</sup> demanding new and deeper experiences within the communities they visit. Furthermore, in the search for different experiences, there is a growing demand for “safe danger” (for example adventure travel and thrill experiences) or at the other end of the spectrum, “spiritual products” that cater to the inner experience.

---

□ \_\_\_\_\_  
<sup>41</sup> “Tourism Trends for Europe”, European Travel Commission, September 2006, page 2.

<sup>42</sup> Ibid, page 5.





## Opportunities to Strengthen Product Distribution in Ontario

Global trends, changes to consumer behaviour and declining attractiveness of Ontario's tourism assets threaten the continued sustainability and competitiveness of this sector. The tourism market has changed dramatically during the last five years and the province's sector needs to keep pace with these changes. There is evidence of reduced visitation by out-of-province visitors, Ontarians increasingly deciding to travel outside Ontario, and a marked increase in competition from other jurisdictions.

In part these trends can be attributed to the fact that other jurisdictions are doing a better job at marketing and distributing tourism products in their markets. This report has considered how other jurisdictions are more successful at supporting product planning and purchasing decisions, as well as identifying gaps where Ontario's sector is lagging.

### Critical Success Factors of Leading Jurisdictions

When it comes to product distribution, there are several common themes and critical success factors that research has demonstrated constitute "best practice". These include:

- Competitive and comprehensive transportation systems to and through the region.
- Customer-focused and user-friendly product distribution channels.
- Support for the development and quality of the tourism industry and products.
- Well-trained, client-centred and service-oriented workforce.
- Strategic, focused and coordinated marketing.
- Funding for accurate, timely research and analysis of the tourism market and trends.
- Concerted and committed efforts across the many ministries and agencies.
- Utilization of technology to support customer planning and purchasing decisions.

## Recommendations to Strengthen Ontario’s Tourism Product Distribution

Based on the results of our best practice research and investigations there are a number of strategic recommendations that should be considered by the public and private sectors to improve product distribution in the province. Our investigations indicate that most of the emerging trends identified in this report (e.g., use of internet to plan and purchase products, consumer empowerment, global competition, etc.) are both significant and unlikely to change. The extended longevity and significance of the identified best channels for the tourism sector means that Ontario’s sector will need to keep up with these changes in order to remain internationally competitive.

The following table assesses Ontario’s current product distribution practices/mechanisms in light of key barriers/challenges arising from changing distribution channels, and presents a number of strategic recommendations to strengthen product distribution channels to help sell Ontario product. Strategic recommendations are provided for the Province of Ontario, plus additional opportunities are identified that could be considered by the private sector. Ideally a collaborative approach that includes both private and public participation will maximize Ontario’s competitive positioning within a rapidly changing tourism marketplace.

Key Trends & Practices from Leading Jurisdictions	Ontario’s Positioning: Gaps, Barriers and Challenges	Recommendation for the Province of Ontario	Opportunities for Private Sector to Consider
<p><b>Technology-Enabled Trip Planning &amp; Purchasing:</b></p> <p>The <b>internet</b> will continue to drive the next generation of travel/tourism product distribution methods.</p> <p>The strength of the <b>internet</b> to both gather information and to make reservations has made online capabilities a fundamental requirement for product distribution.</p> <p>Traditional marketing techniques are less relevant; investment in branding and technology is growing.</p>	<p>Limited ability for travellers to purchase tourism products online in real time – concept of “one-stop shopping” is absent in many Ontario tourist websites.</p> <p>There is a range of offerings and products and the consumer is forced to sift through them. This is a significant issue with product distribution because travellers are increasingly expecting to be able to plan and purchase tourism products online and in real time.</p>	<p>Similar to other jurisdictions, (i.e., Quebec) Ontario should investigate public/private partnerships to support a collaborative effort to support real time online planning and purchasing of products.</p> <p>Investigate and provide guidelines for the industry to design appropriate “customer focussed” online product distribution methods.</p> <p>Extend Ontario’s tourism website to include online purchasing capabilities.</p>	<p>Consider investing in the on-line infrastructure needed to sell and promote tourism product domestically and internationally in ways that are customer-focussed, real-time and product oriented.</p> <p>Commercialize tourism products via opportunities to purchase online in real time.</p> <p>Investigate programs and services to build broadband access to support real time planning/purchasing available for rural and remote tourism businesses.</p>

Key Trends & Practices from Leading Jurisdictions	Ontario's Positioning: Gaps, Barriers and Challenges	Recommendation for the Province of Ontario	Opportunities for Private Sector to Consider
<p><b>Consumer-Driven Marketplace:</b> A rise in <b>consumer-driven tourism</b>, with buyers that are now much more informed about destinations, pricing and trip planning tools. Buyers expect product distribution channels to be informative, user friendly and value-driven.</p>	<p>Lack of tools to help potential visitors to look for and buy Ontario tourism products. Difficult to view Ontario as a destination (the “vacation movie”). Tourism product distribution methods in Ontario are focused on media and the travel trade, with need for more opportunities to purchase products. Ontario’s tourism products are packaged to align with a geographic location which assumes that new travellers <i>know</i> where they want to go or what they want to do in the province.</p>	<p>Increase “customer focus” in efforts to attract visitors, including tools to help visitors to get information, and support the transition from “idea” to specific planning and booking. Review website and marketing materials to include ‘key attractions’ as a “jumping off” point for visitor experiences and buying opportunities. More “focus”, consistent branding or distinct image of the province for Ontario Tourism to deliver product to the consumer.</p>	<p>Increase focus on Ontario’s tourism products, including consumer-focussed planning and purchasing tools, as opposed to a focus on the media and the travel trade. Provide more products and purchasing channels that align with consumer demands. More focussed effort to inform buyers of what we can provide and give them the ability to package and buy it in a consumer-focussed channel.</p>
<p><b>Changing Consumer Preferences:</b> Mass tourism is giving way to <b>activity-based tourism</b>. Desire for <b>distinct destination</b> that can be easily researched and purchased online. Higher levels of <b>education and awareness</b> have lead to an increase in “cultural tourism” and authentic, friendly and exotic destinations, and a wider <b>range of experiences</b>.</p>	<p>Traveller operators and agents are focused on the packaged tours and outbound travel trade. This makes it difficult to build a strong Ontario brand of products that are attractive to changing consumer preferences. There are successful jurisdictions (i.e., Great Britain, Ireland, Quebec) who have managed to capitalize on their own distinctiveness and have a clear, target market with effective distribution channels.</p>	<p>Support tailoring of tourism products to suit emerging customer needs. Promote Ontario beyond the cities and focus on its cultural richness, and provide clear channels for consumers to plan and purchase products. Support development of more niche products and buying channels that cater to unique tourist preferences.</p>	<p>Develop niche travel operators across the province offering specialized packages designed for an “experience”. Travel agencies specialize in customer service, security and other value-segments. Due to buyers concern for the environment tourism producers may need to exercise care and sensitivity in the development of their products.</p>

Key Trends & Practices from Leading Jurisdictions	Ontario's Positioning: Gaps, Barriers and Challenges	Recommendation for the Province of Ontario	Opportunities for Private Sector to Consider
<p><b>Increasing Product Supply and Global Competition:</b> Emergence of empowered consumers and global competition, so that Ontario's traditional local destinations must now compete head-to-head with more 'exotic' global destinations.</p>	<p>A lack of internationally competitive packaged products, with a relatively underdeveloped inbound tourist packaging trade.</p> <p>"Experience travel" packages in Ontario are limited and small scale.</p> <p>Ontario sector facing dual impact of:</p> <ul style="list-style-type: none"> <li>▪ Ontario travellers more likely to travel out of province due to large increase in global competition.</li> <li>▪ Harder to attract out-of province visitors due to competition.</li> </ul>	<p>Encourage businesses and product distribution channels that organize their products in the form of customer-focussed experiences (e.g., cruises, Mont-Tremblant, Las Vegas).</p> <p>Promote and provide distribution channels for the distinct features of Ontario and the range of experiences available in the province (answer the questions: Why buy Ontario? And how can I buy Ontario?).</p>	<p>Increased specialization of travel trade participants, with clearly distinguished customer focus and market positioning.</p> <p>Promotion of products focussed on more creative and internationally competitive tourism products.</p> <p>Design itineraries for visitors that focus on short (2-3 day) experiences.</p>
<p><b>Leadership:</b> In many jurisdictions there is an umbrella organization with a specific mandate to strengthen the product development and distribution channels for the tourism industry.</p>	<p>In Ontario, at this time, there is no obvious umbrella organization (infrastructure) to support leading edge product distribution, no one system that brings people together for product distribution (electronically or otherwise).</p>	<p>Strengthen support for leading edge product distribution and facilitate an integrated and competitive process of product research and development.</p> <p>Strategically align Provincial business activities with the stages of the tourism purchase cycle to ensure a coordinated and comprehensive support for product distribution coordinated by an umbrella organization.</p>	<p>Partner with key private sector organizations to create buy-in and alignment around a new approach to tourism product distribution across the province.</p>

**OLIVER WYMAN**

**Delta Organization & Leadership**

February 2009

**Ontario Product Distribution  
Research Study**

**Appendix: Global Tourism Market Trends**

## Initial Findings - Highlights

- Initial scan indicates a great deal of research is available on selected jurisdictions (i.e., Ontario, Europe, UK, Australia, US).
- Many country-centric tourism bodies publish specific studies on consumer purchasing trends, industry trends, the role of technology/internet in tourism decisions, etc.
- Travel journals and industry publications also provide relevant current information on recent travel habits of consumers.

## Technology has empowered consumer information and purchasing power

- Information Technology: penetration of internet continues to increase:
  - Readily available information leads to comparison shopping.
  - Role of travel agents will decrease as more experienced travelers put together their own holidays.
  - Destination marketing will increase.
  - Shopping online will mean “later” bookings.
- “Google has become the new travel agent”<sup>1</sup>
  - Despite social networking sites, most leisure travellers are still using the more traditional tools for researching and booking travel (i.e., Expedia and Travelocity).
  - Use of hotel and airline specific sites jumped in 2008.

<sup>1</sup> “Consumer Trends 2008, Travel Weekly, July 28, 2008, Section 2 of 2.

<sup>2</sup> October 21, 2008, EFT.

<sup>3</sup> Source: “European Segmentation Study British Columbia Summary”, Insignia Marketing Research Inc., February 2008, page 120.

## Technology (cont'd)

- 71% of boomers and 72% of Xers used the internet for research, while 62% and 63% respectively used the internet for booking.
- Videos, specifically hotel videos, are an emerging trend in the online travel planning and buying process.<sup>2</sup>
- Booking travel via mobile devices shows indication of strong growth.
- The Internet used primarily as a planning tool, not as a source of inspiration.<sup>3</sup>
  - Hence, advertising/promotional campaigns should continue to drive highly serious prospects to their websites..

<sup>1</sup> “Consumer Trends 2008, Travel Weekly, July 28, 2008, Section 2 of 2.

<sup>2</sup> October 21, 2008, EFT.

<sup>3</sup> Source: “European Segmentation Study British Columbia Summary”, Insignia Marketing Research Inc., February 2008, page 120.



# Multiple Reasons Why Travellers Use the Internet

Figure 2

MULTIPLE REASONS

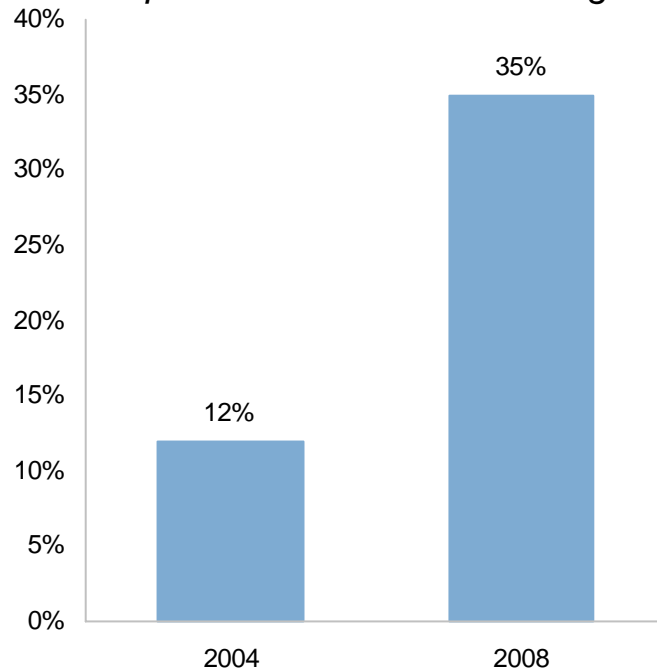
Why Travelers Use the Internet				
	Travel Agents		Internet Travelers	
Internet Users Believe:	Agree very much	Agree very much/somewhat	Agree Very much	Agree very much/somewhat
Prices are better on the Internet	65%	94%	31%	75%
Agents OK for complicated trip, not airlines/hotels	58%	95%	33%	61%
Travel agents cost more	53%	92%	27%	66%
Online so much, it's convenient	52%	94%	66%	92%
Internet is fast and easy	43%	85%	73%	95%
Internet open when agencies closed	38%	86%	46%	80%
Enjoy doing personal trip planning	36%	87%	28%	62%
Don't know good agent; can't find one	35%	83%	19%	47%
Internet more accurate/unbiased	25%	69%	23%	64%
Everything done right if use Internet	21%	60%	32%	72%
Takes too much time to explain to agents	12%	48%	15%	44%
Most travel agents lack knowledge needed	10%	47%	11%	38%

"Agents, Web users: On the same page?", Plog, Stanley, [Travel Weekly](#), October 27, 2008, page 30.

# Internet leads to more independent information gathering

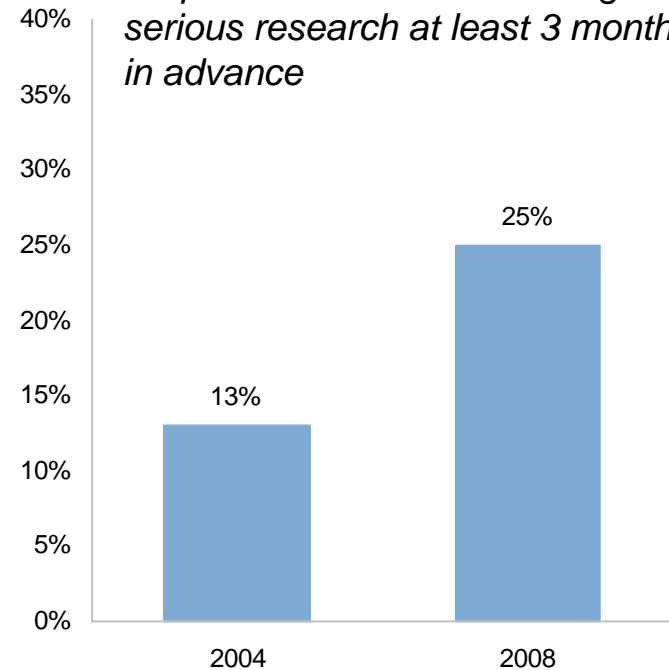
## Growth in reservations made over the Internet (European markets)

*Proportion of all leisure bookings*



## Shift towards more independent, and earlier information gathering

*Proportion of customers doing serious research at least 3 months in advance*



## Other Trends in Tourism

- **Demography:** Number of healthy and active seniors with higher disposable incomes is growing.
  - Will demand quality, convenience, security, easy transportation, relaxing entertainment facilities, one-person products, emphasis on comfort.
  - Also increase demand for luxury, special products, city- and short-term breaks and winter sun holidays.
- **Health:** health conscious travellers.
  - Demand for “healthy” destinations, sun-holidays decrease, active/activity holidays increase, increase demand for wellness products.
- **Awareness & Education:** average level of education is increasing.
  - Increase demand for special products.
  - Increase demand for arts, culture, history in package tours and self organized holiday.
  - Better and creative communication.
- **Leisure Time:** increasing demand for more leisure time and relaxation.
  - Increase demand for low-cost products, the offer of relaxation, shorter holidays.

## Other Trends in Tourism (cont'd)

- **Travel Experience:** more sophisticated consumers
  - Competing ways to spend free time.
  - Increased focus on the price-quality ratio.
  - Destination fidelity will decrease.
  - Increasing demand for mobility (bikes, rental cars, etc.).
  - Regions that offer a full, varied, balanced concept preferred.
- **Lifestyles**
  - 'Status' is less important, less demand for fully escorted tours, new products/concepts preferred.
  - Trend in "back-to-basics" means more simple holidays.
- **Transportation:** high-speed trains, low-cost carriers.
  - Destinations that are available for easy, short breaks will increase.
  - Use of trains will increase as coach trips will decrease.
  - "Budget" cruises will increase.
- **Sustainability:** environmental consciousness.
  - Destination management will become increasingly important.
- **Safety & Security:** the need of the traveller to feel safe and secure in their choice of destination.
  - Quality of water increasingly important.
  - Costs for guaranteeing safety and security will increase.
  - Tourism industry needs to be better prepared to meet needs in times of crisis.

# All These Market Shifts Have Triggered Profound Changes to the Industry

## Market Trends

- Significant shift to reservations made over the Internet
- More independent information gathering and 'package construction', done earlier in the process
- High price awareness and price sensitivity

## Potential implications

- Customers turn to the Internet both for information gathering as well as eventual reservations.
- Good online presence is critical – this is not a differentiator, this is a business qualifier and will only become more important over time.
- Customers use multiple sources for information gathering and are better informed when they come to make their booking. Key sources to be managed include:
  - Direct / first port of call (e.g., tourist board website / destination website).
  - 3<sup>rd</sup> party / aggregator (e.g., Expedia, lastminute.com etc.).
  - Personal (blogs, feedback, Virtualtourist).
  - Applications (Google maps, Google Earth).
- Thanks to the Internet and increased availability of pricing information, price perceptions are pretty accurate, and customers are more deal-savvy.

## Huge Shift to Demand-Driven Tourism Sector

- In the past, supply has dictated demand – today the reverse is true.
  - Product saturation in the marketplace.
  - Ready customer access to heavily marketed global product supply.
  - More self-assertive consumers (with more disposable income and leisure time) determine the profitability in the tourism sector.
- There is a growing trend for consumers to “name their own price” or an expectation of a portion of the service/product for free.<sup>1</sup>
- Largely because of the evolution of the internet, consumers are now researching destinations and empowering themselves with decision making knowledge.

<sup>1</sup>“Embrace consumer trends for survival”, Davies, Phil, Travel Agent, November 10, 2008.

## Restructuring the Travel Trade

- Now when traveller visit a travel agent, they usually now know which country they want to visit.
  - In 1997, 73% of U.K. travellers said that travel agents were influential in choosing Canada.
  - Today, only 7% in the U.K. say that travel agents have any role in their choice of Canada.
  - In Germany, the comparable figure is now 7%, in France 16%
- This raises the question about the agent's ultimate influence in selling Canada.
- It may be time to evaluate how resources should be directed toward the trade, since travel agents are no longer primary sellers in Canada.
- Where the agent still can be beneficial, especially those in the Canada Specialist programme, is with specific in-Canada product – selling up or directing clients to options within the province.

Source: "European Segmentation Study British Columbia Summary", Insignia Marketing Research Inc., February 2008, page 20.

# OLIVER WYMAN

Delta Organization & Leadership  
161 Bay Street, P.O. Box 501  
Toronto, Ontario M5J 2S5  
416 868 2800



MARSH MERCER KROLL  
GUY CARPENTER OLIVER WYMAN