

Tourism & Trade Trends and Competitiveness

Jason Burgess

Vice President and Director, Southwestern Ontario Tourism, Hospitality & Leisure Leader

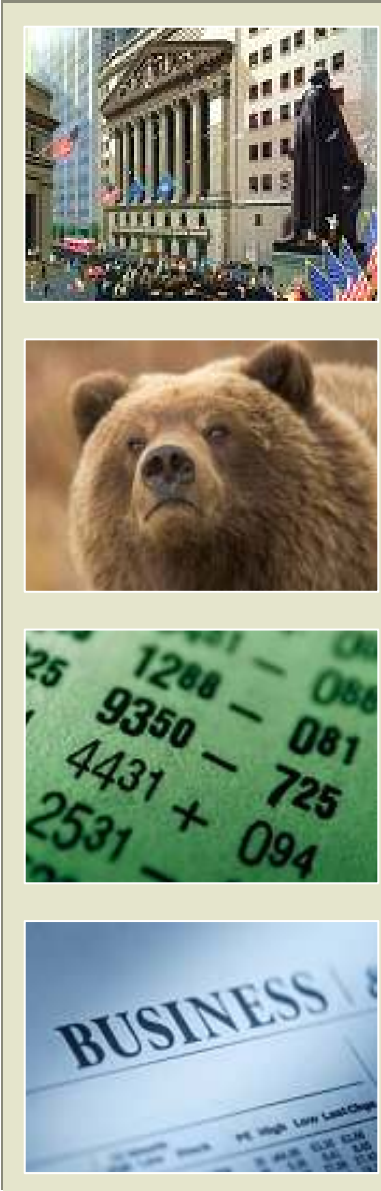
Deloitte & Touche LLP

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Tourism amid market turmoil

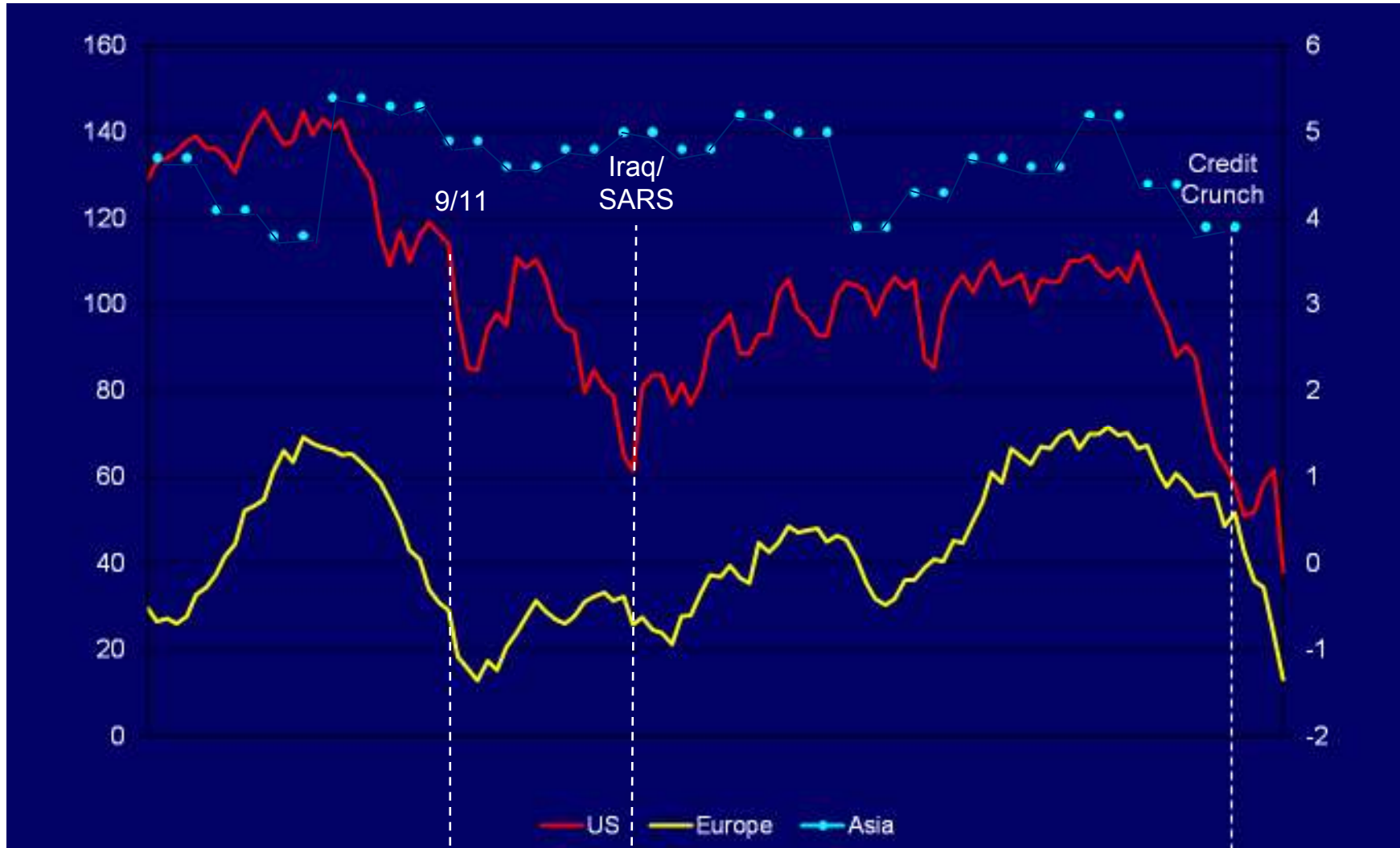


The world economies falter.....



- Banks in turmoil
- Credit crunch - where's the debt?
- Slowing world GDP
- Fluctuating currencies
- Oil price falls back
- Unemployment rises
- Terrorist attacks/Health Scares

Plummeting consumer confidence



Airlines – Turbulence occurring in first and business class

- Premium (First/Business) ticket sales declined by record numbers in the US:
 - 16.7% in January 2009, 13.3% in December 2008, 11.5% in November 2008
 - In Canada, corporate travel spend was down 25%, leisure down 20%, as travelers sought cheaper options *
- Discounting is occurring up to 84% off on premium seats**
- What regions are feeling the hit?
 - North America: 17.6% drop
 - Asia: 24.7% drop (across the Pacific)
 - Europe: 22.2% fall (within the region)
 - Transatlantic: 14.5% decline
- Routes are beginning to vanish
 - Airlines are reducing capacity, but reduction might not be fast enough, load factors are also declining.
 - Emirates A380 no longer flies to NYC (too large to fill!)
 - West Jet taking a different strategy

The silver lining....

It's easier to upgrade than ever before!



Source: International Air Transport Association, Financial Post Feb. 2009*, Wall Street Journal**

Hotels – Joined at the hip to airlines

- Continued declines in business travel are keeping hotel rooms open at night
- Worst anticipated decline since the 1930's in hotel occupancy
 - March 2009: U.S. RevPAR decline is anticipated to be **13.7%*** this year
 - Up from 9.8%* prediction that was given earlier this year
 - March 2009: 7.8%* U.S. occupancy drop
 - March 2009: 6.4%* U.S. average daily rate decline



The story is similar in Canada:

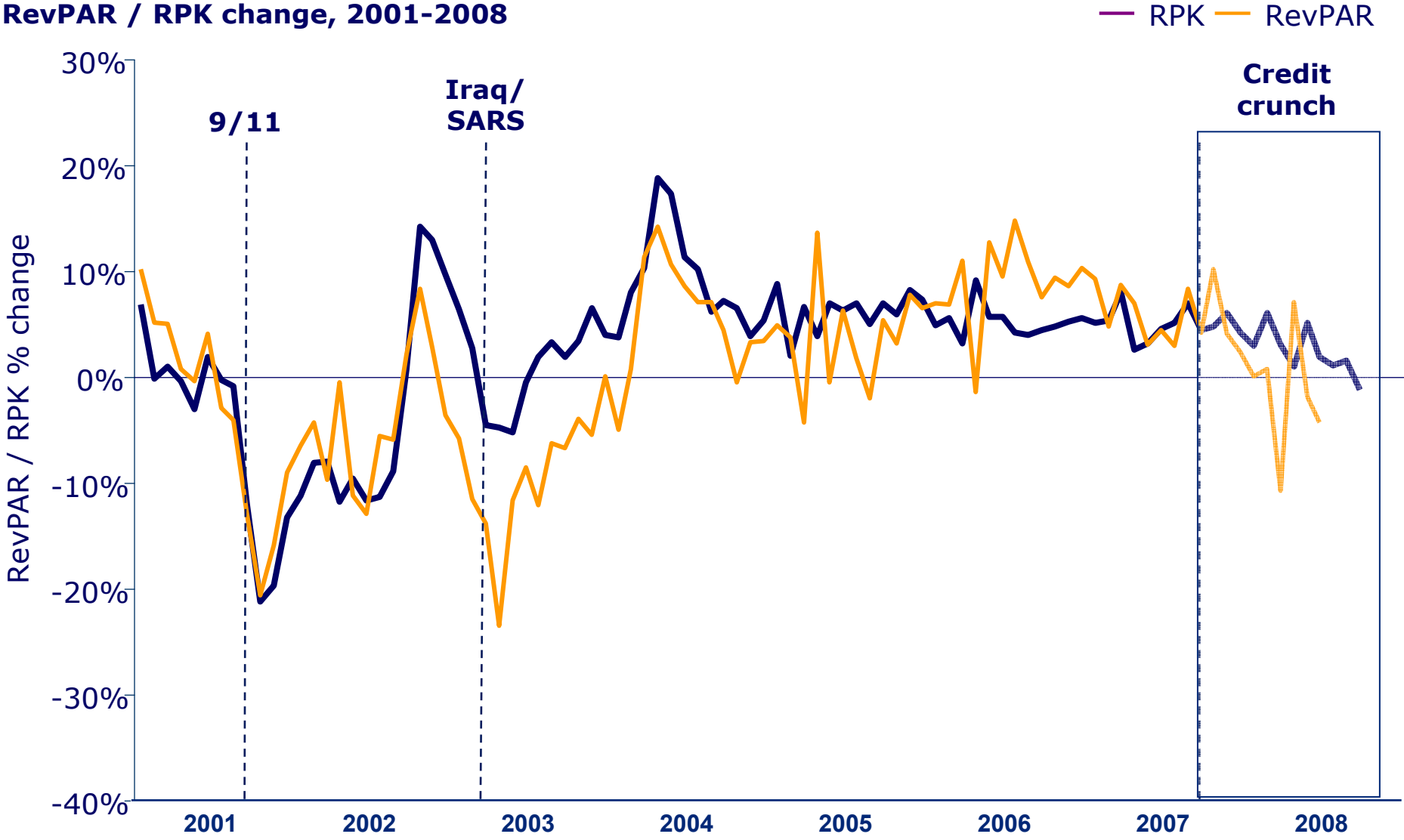
- Year over Year declines in Q1 of 2009 in Occupancy, Rate and RevPar.
- However the summer will tell the tale, and early forecasts are showing a soft summer.
- Hotels are reporting slower booking pace, rate pressures and low booking lead times.

	Occ %	REVPAR
Alberta	-8.0%	-25.3%
Ottawa	-1.1%	-20.9%
Montreal	-2.5%	-23.3%
Toronto	-7.2%	-29.5%
Vancouver	-8.6%	-28.4%

Source: PKF Research

Airlines and hotels: Joined at the hip

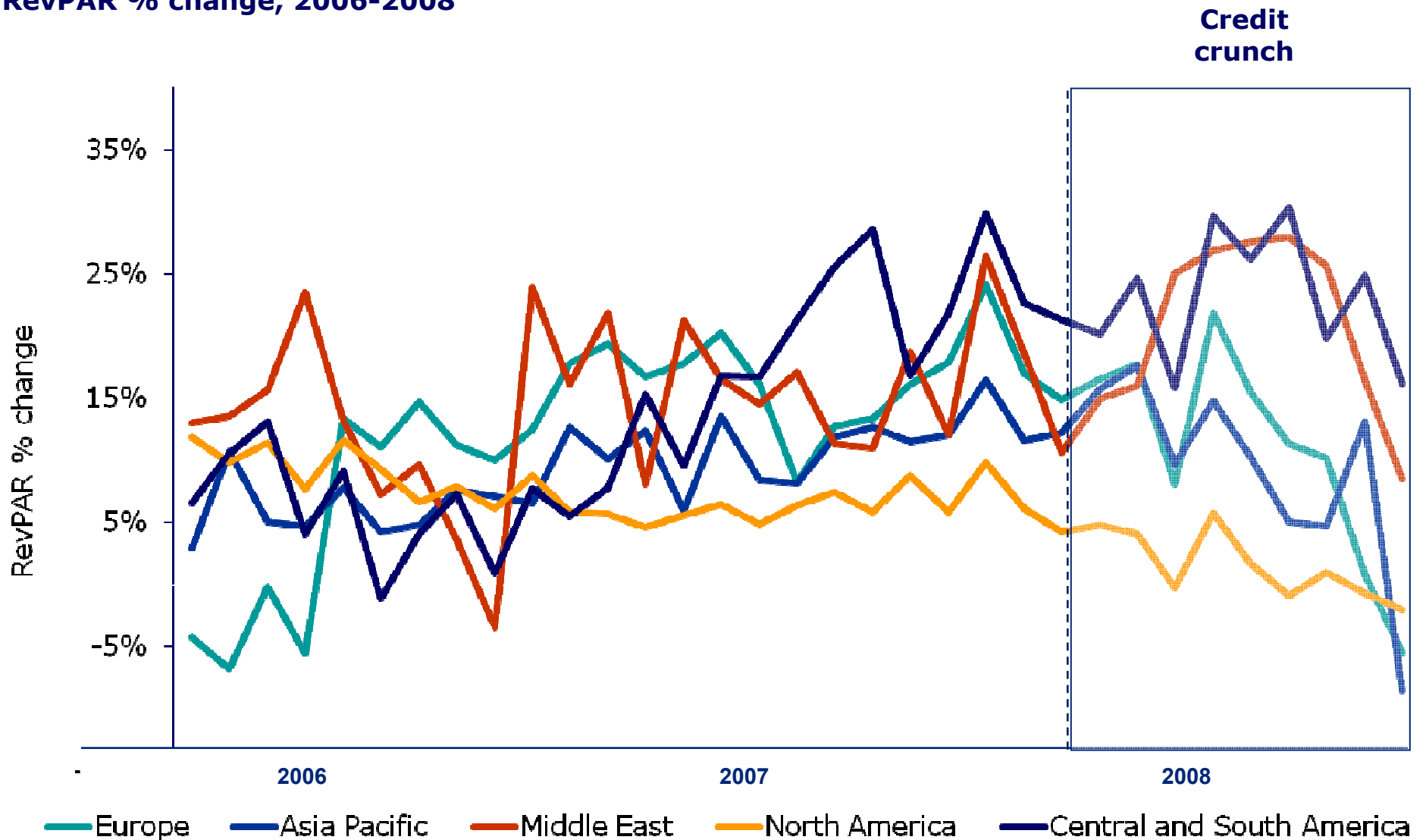
RevPAR / RPK change, 2001-2008



SOURCE: The HotelBenchmark™ Survey by Deloitte – strictly illustrative

Global hotel performance, RevPAR growth heading into negative territory

RevPAR % change, 2006-2008



SOURCE: STR Global - strictly illustrative

The recession's impact on business and leisure travel

WTTC: “Travel & Tourism investment and corporate travel are expected to be the hardest hit, with the credit crunch causing firms to scrutinize all deferrable costs.”

- Business travel bookings through agencies dropped **20%** in January and February*
- While leisure travel bookings dropped only **12%***
- February 2009, California reported 14,800 leisure and hospitality jobs were lost
- March 2009, Disney announces job cuts of 1,000.

Business Travel has been hit hardest and is likely to be the last to recover.

Leisure Travel has seen greater resilience.



Source: Amadeus*



Corporate travel cuts – Hopefully the cuts won't last.

It seems that when companies have to cut costs, corporate travel is suddenly deemed unnecessary. The good news, business executives feel otherwise...

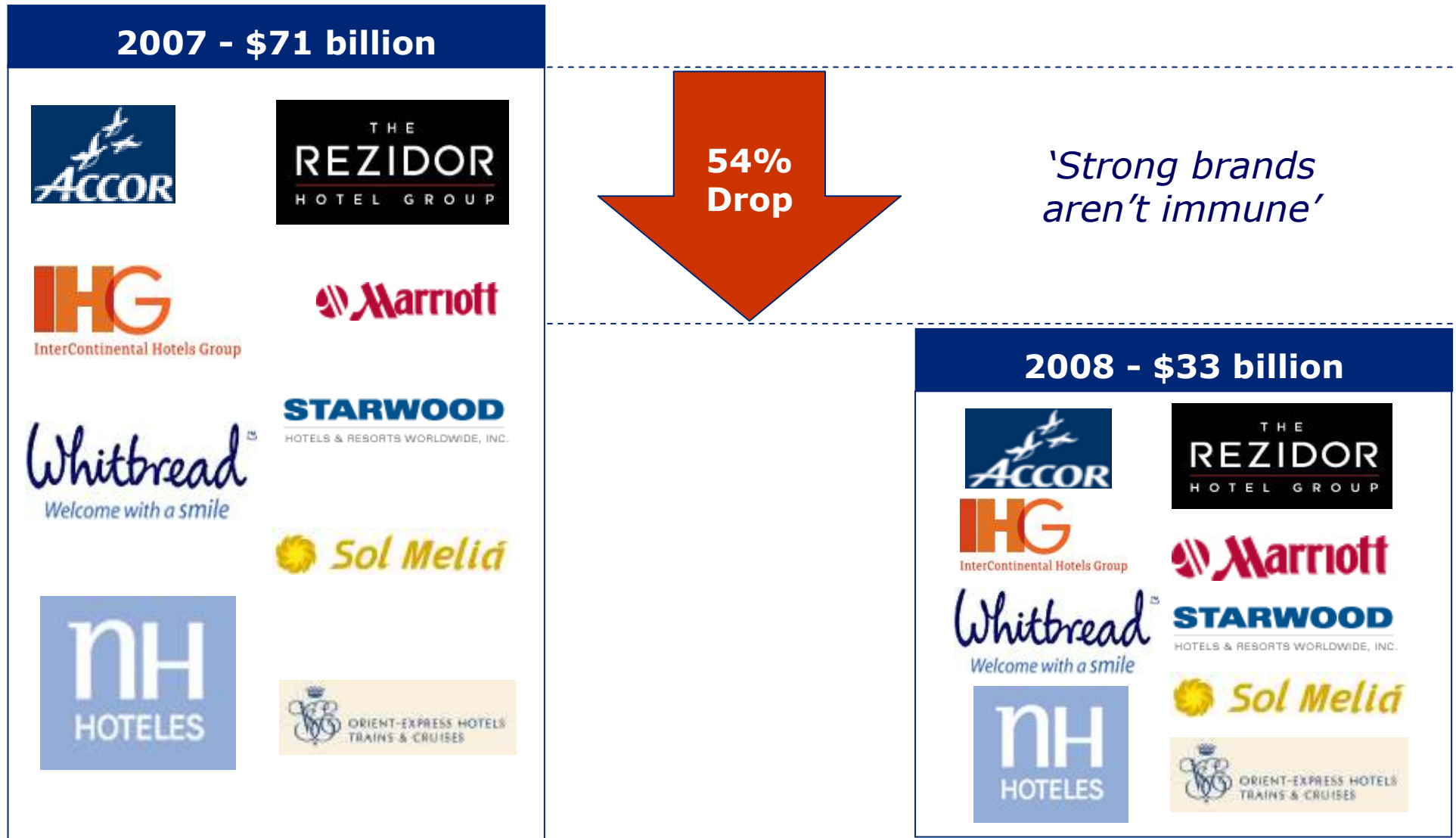
- Most business leaders do not agree with decreasing travel budgets
- **72%** believe increasing travel budgets **allow a competitive edge***
- **82%** feel travel is important for **business results***
- **81%** believe **client contact** is important in a downturn economy*
- **59%** believe **in-person contact grows businesses***
- **53%** believe **decreasing travel** gives an **advantage to their competitors***

“It’s a classic trade off between short term cost-reductions and long term value.”

During times like these, many companies will go too far, and actually cut back on the activities that would best position them to compete in the future.”

Kellogg Business School Professor Daniel Diermeier

Market cap: a vanishing act



Tourism stocks have been hit hard

What was the industry
thinking – Prior to the
Economic Crisis?

Purpose and background of the *Tourism amid turmoil* study

- Deloitte and the Tourism Industry Association of Canada (TIAC) are collaborating on several research initiatives aimed at addressing the tourism, hospitality and leisure industry's critical challenges.
- The study stemmed from TIAC's *The Report on Canada's Tourism Competitiveness*.
- A survey was conducted (just prior to the recent financial market downturn) online and in-person with TIAC members and industry executives in an effort to understand the issues they are facing and how they have chosen to respond. Input was received from 265 TIAC members via an on-line survey, and 18 face to face executive interviews.

Executive interview participation



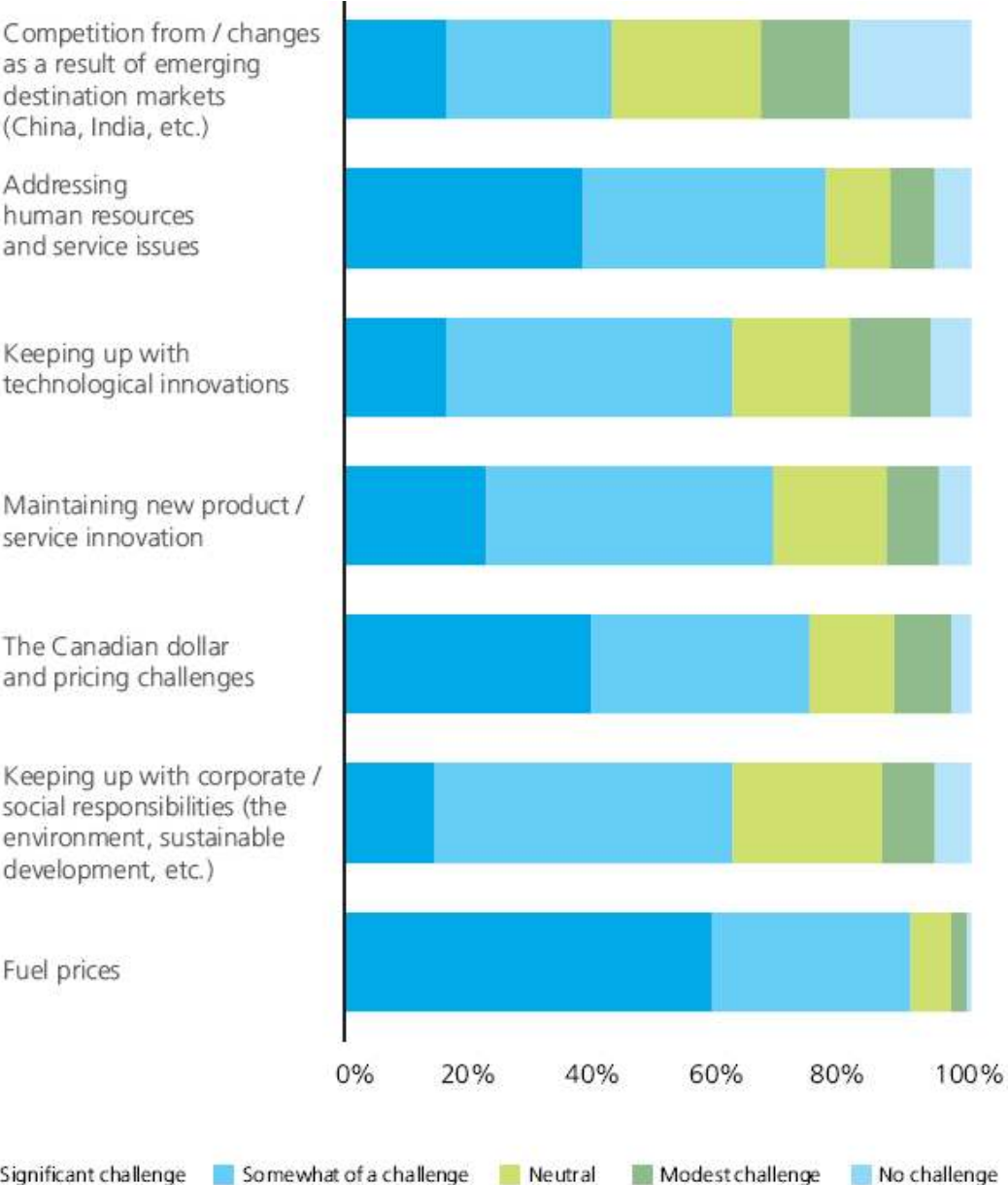
Industry trends contributing to Canada's decline

A handful of trends continue to shape our industry.

- 1. The search for experiences that transcend locations**
- 2. The growth of emerging markets**
- 3. Shifting demographics**



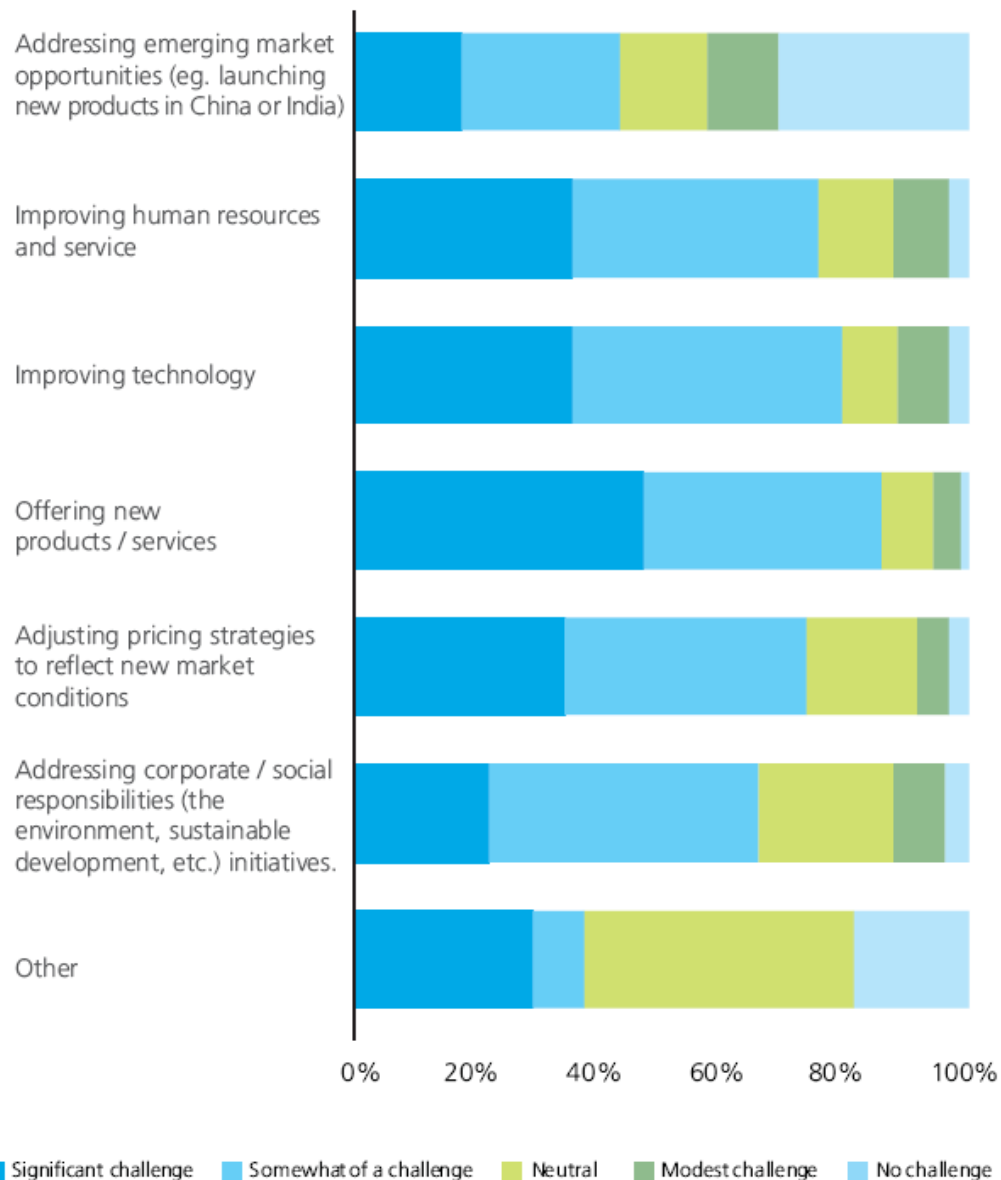
The challenges



Industry Challenges

- **Market downturn**
- Canadian dollar volatility
- Rising fuel prices
- **Domestic and international competition**
- **Corporate Responsibility**
- **Technological innovation**
- **Talent**

Where to go from here



Response strategies

- Respond intelligently to the economic downturn
- Invest in product and service innovation
- Improve staff recruitment, retention and training
- Capitalize on emerging market opportunities
- Enhance marketing and branding
- Use technology as a differentiator
- Go green

Has the Crisis Changed the Road Map?



Getting at the Market?

Is it Purely a Value Play?

- Price Discounts?
- Increasing Value add-ons?
- Currency risks/opportunities?

Need to Respond intelligently to the downturn – Ask how much does price pay in the booking decision?

“Lessons were learned after the September 11 downturn. As an industry, we set a dangerous precedent by jumping to reduce prices. This time around, as demand softens, we must be strategic in attracting new customer segments while exploring untapped channels.” – CEO Major Hotel Chain.

Or do you refine your Market?

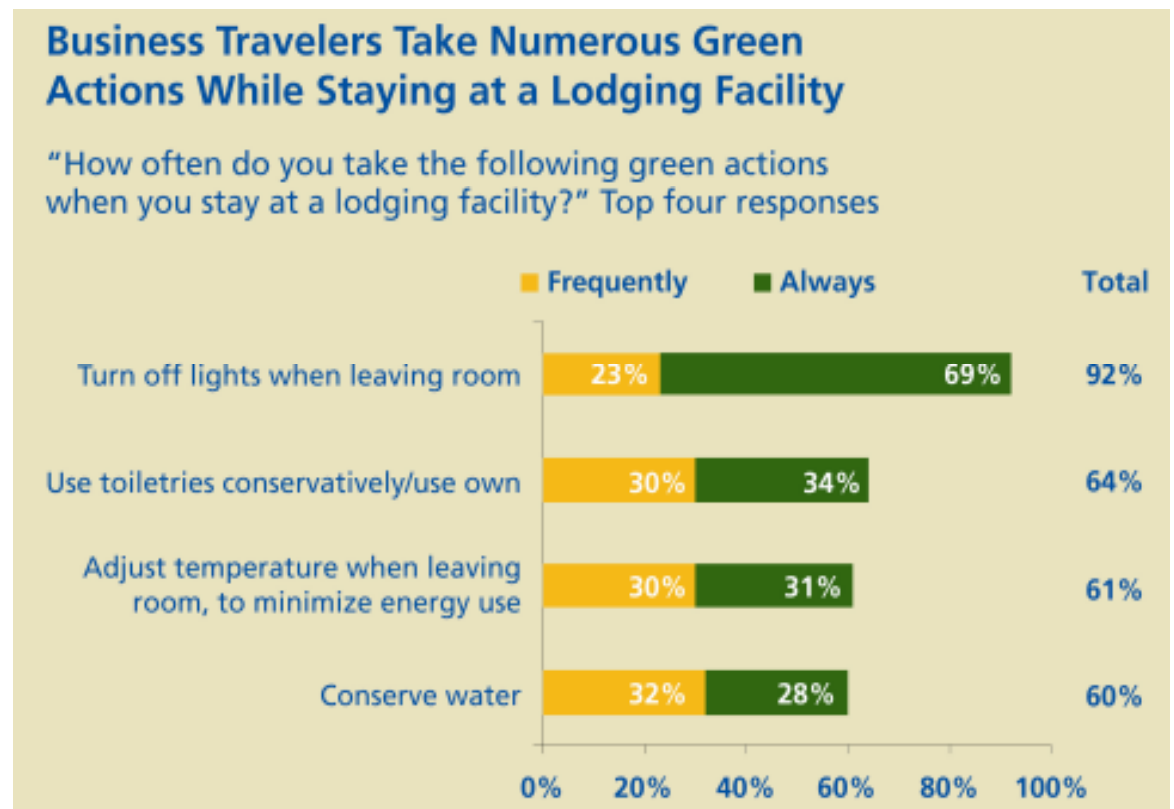


Environmental concerns are changing consumer habits...

In a bad economy, is a green agenda no longer a top priority?

Or do consumers still view it as a key to your success?

- Currently, 38% of consumers have taken steps to determine whether a hotel was green.
- Nearly 16% said, 'green concerns or issues had influenced their decision to NOT stay at a particular lodging facility.'



Source: Deloitte Consumer Survey, April 2008

New brands are still created in search of consumer loyalty...

Do consumers care about the brand expectations?

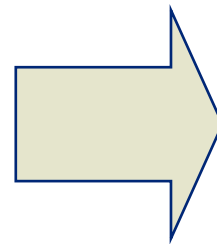
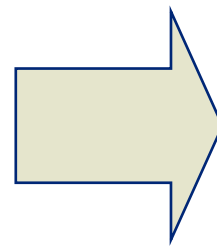
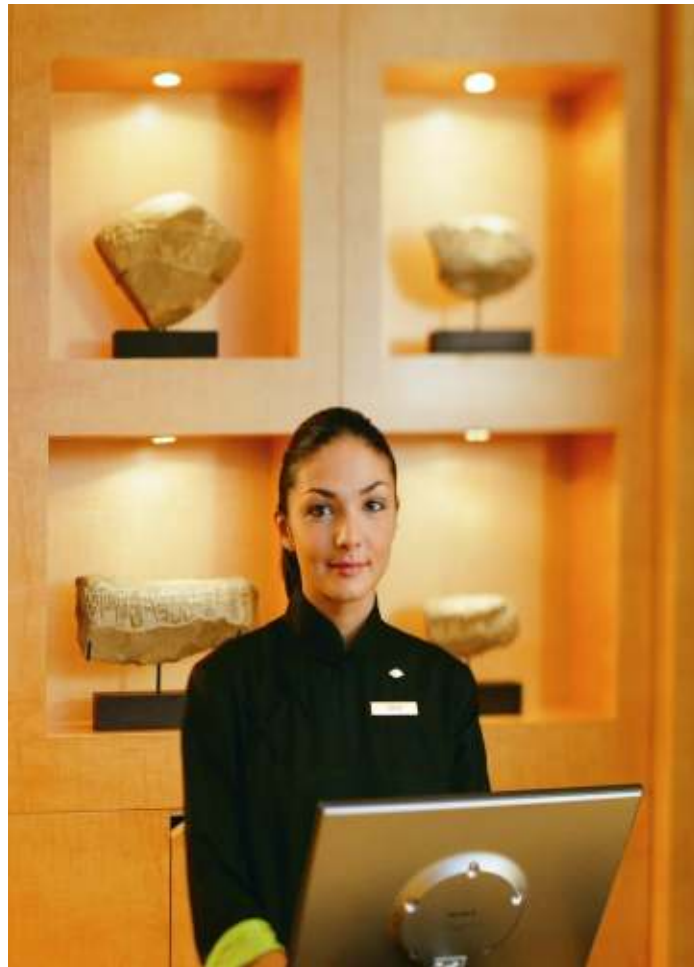
Or do they care more about incentives?



Staff retention is a growing cause for concern...

Can you recruit develop and retain the best talent?

Or will the expected labour demand shortage overcome you?



Response strategies

- Attract and retain talent by:
 - Continue to recruit even in tough times
 - Offering more apprenticeships and internships
 - Help employees define a career path that extends past entry level
 - Engage in employee recognition programs
 - Look into non-traditional demographic groups (retired, offshore etc.)

Market Outlooks

2008

Rank	Country	Personal Spend (US\$bn)	Business Spend (US\$bn)	Total Spend (US\$bn)
1	United States	889.5	190.1	1,079.6
2	Japan	274.4	70.2	344.6
3	UK	208.1	51.1	259.2
4	Germany	201.8	62.1	263.9
5	China	167.5	65.8	233.3
6	France	170.9	43.3	214.2
7	Italy	127.1	40.3	167.4
8	Spain	123.9	21.7	145.6
9	Canada	95.8	20.2	116.0
10	Mexico	77.1	15.5	92.6

2018

Rank	Country	Personal Spend (US\$bn)	Business Spend (US\$bn)	Total Spend (US\$bn)
1	United States	1,430	310.1	1,740.1
2	China	668.7	233.1	901.8
3	Japan	396.0	101.4	497.4
4	UK	335.3	77.9	413.2
5	Germany	247.1	74.9	322
6	France	217.4	54.1	271.5
7	Spain	183.0	32.5	215.5
8	Italy	160.5	47.8	208.3
9	Rus'n Fed'n	128.2	31.1	159.3
10	Mexico	130.1	28.8	158.9

Source: WTTC



A penny saved is a missed opportunity

Many hospitality CFOs have set a good example by implementing operational efficiencies (such as shared services centers and consolidated general ledgers) that help reduce costs.

But many have cut corners, sometimes patching operations together with duct tape and bail wire...Damaging their experience

Where to Invest

What to Expect

<i>Talent management.....</i>	<i>More flexibility, improved capabilities – Better service levels</i>
<i>Target Marketing.....</i>	<i>Focus market presence on quality market segments</i>
<i>Joint Ventures, Co-Branding.....</i>	<i>Offer a different product mix, access a new market segment</i>
<i>Invest /Develop new product.....</i>	<i>Focus on experience</i>
<i>Performance scorecards.....</i>	<i>People refocused on doing what matters most</i>
<i>Business intelligence.....</i>	<i>Better insights, smarter decisions, less risk</i>
<i>Financial close, consolidation and reporting.....</i>	<i>Faster management information</i>
<i>Budgeting, planning and forecasting.....</i>	<i>One dependable version of the “truth”, flexibility</i>
<i>M&A.....</i>	<i>Diversification, synergy, cash-flow, value add</i>
<i>Benchmarking.....</i>	<i>A better view of relative performance</i>



Questions



Jason Burgess

Vice President & Director

Southwestern Ontario Tourism, Hospitality & Leisure Leader

Deloitte & Touche LLP

905-323-6023

jasburgess@deloitte.ca

Deloitte.