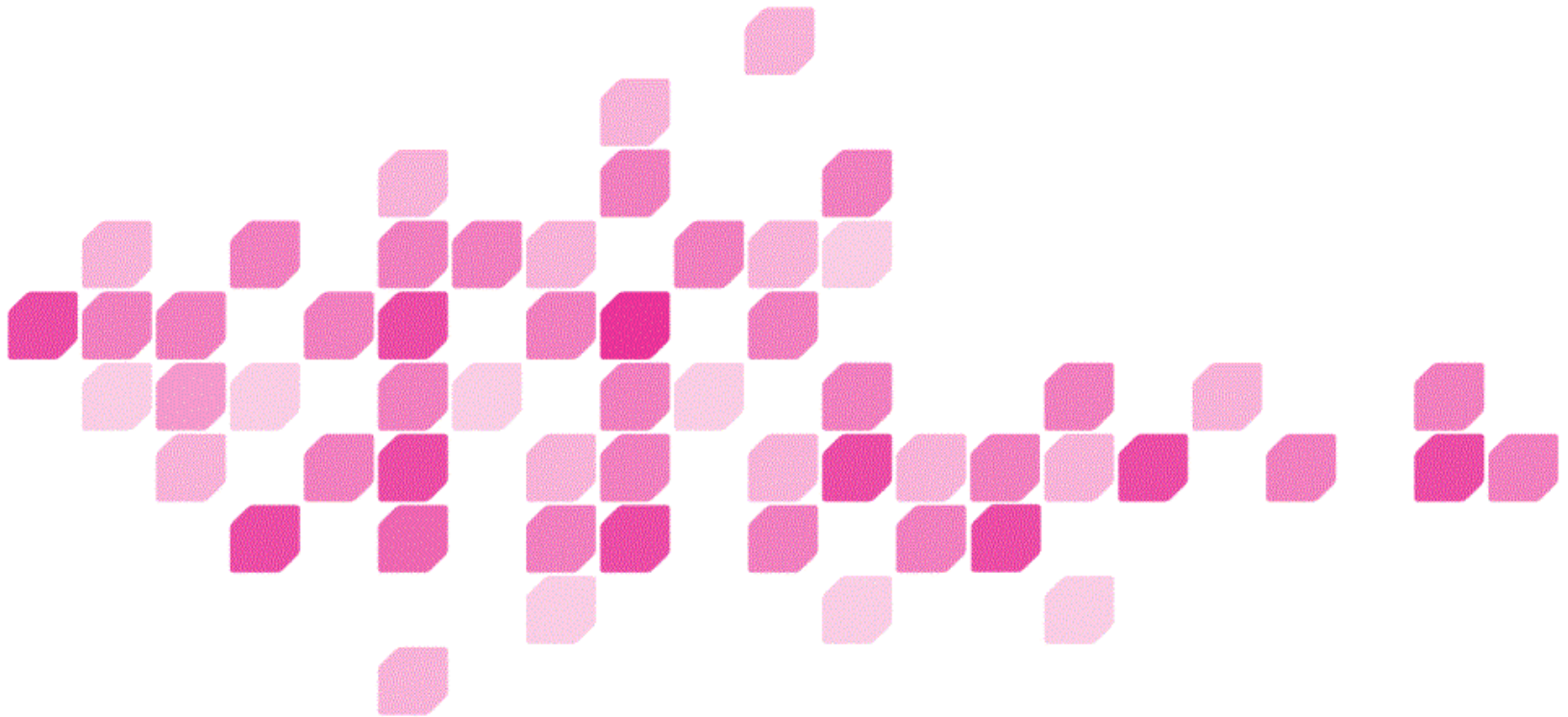


Study of The Mexican Market Project Summary

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Foreword

BACKGROUND

Mexican international travellers represent a significant potential market for Canadian destinations. Outbound travel is large and growing, with over 13 million outbound overnight travellers leaving Mexico each year.

Mexico's importance to Canada as a source of visitors is increasing. After dipping in 2003, overnight trips to Canada rebounded in 2004 and grew by 9% in 2005, for a total of over 179,000 visitors from Mexico to Canada. In addition, January to June 2006 demonstrates further growth, with visitation levels 12% higher than the equivalent period in 2005.

Average per party spending for Mexicans is higher than for many of Canada's other visitors. Air capacity is growing and new direct flights are being added. Mexico has been and will likely continue to perform solidly for Canadian tourism over the foreseeable future.

Economic signs coming out of Mexico are also looking positive. Mexico's economy is expected to grow solidly over the next three years, in spite of some hurricane damage and higher fuel prices. Consumer demand continues at a healthy 4% rate, maintaining demand for goods and services. A stable peso/dollar rate of exchange is anticipated for the coming months.

Canada is a good fit for Mexican international travellers. There is a mix of those taking tour packages and those travelling independently; however, there is a growing segment of sophisticated independent travellers who are high spenders. There is also a strong match between Canada's tourism products and Mexican travellers' preferences for shopping, sightseeing, activities relating to history and culture, national park visits and interest in participating in winter sports.



Foreword (cont'd)

OBJECTIVES

The Canadian tourism industry needs to know more about Mexican international travellers in order to effectively position and market Canada and its composite destinations. In order to support the industry's marketing efforts with research-driven marketing strategy, TNS Canadian Facts was commissioned to conduct a three-phase study, including a large-scale survey of consumers who comprise the market for Canadian destinations in Mexico.

This study will provide the foundation on which the Canadian Tourism Commission (CTC) and its partners can build a highly competitive marketing program, by positioning and marketing Canada and its individual destinations, and ensuring that the most appealing products are offered and promoted to Mexican international travellers.

Within a marketing context, the research will provide the CTC and its partners with information that can be used to influence the advertising and marketing communications targeted at both consumers and the travel trade industry. This information will influence the themes, messages, content and images used in all communications.

Within a product context, the research will provide the CTC and its partners with information that can be used to influence product packaging in Mexico and product development in Canada. The research will influence price point options, package component combinations and package characteristics. In addition, the information will be used to alter Canadian packages offered by tour wholesalers. Finally, the information will be used to determine which distribution channels (travel agents, Internet, tour wholesalers) provide the most efficient means of reaching the consumer.

Foreword (cont'd)

RESEARCH APPROACH

The research in Mexico consisted of three components:

- **Phase 1: Market Profile.** Desk research (literature review) was the first step in this research program. The outcome of this phase of the research provided an in-depth understanding of the Mexican outbound market, including external environment, social landscape, disposable income, travel volume, characteristics and trends of travellers, industry structure/organization and recent trends.
- **Phase 2: Qualitative Survey of the Travel Trade.** This phase consisted of conducting 20 in-depth interviews via telephone with key people in the travel trade industry in Mexico in order to understand their views and outlook on Mexican travel to Canada. This phase of the study afforded a “birds-eye view” of the perspective of key people who influence travellers.
- **Phase 3: Quantitative Telephone Survey.** A large-scale survey was conducted with Mexicans who have taken a pleasure trip outside of Mexico within the past three years or who intend to do so within the next two years. Key objectives include determining the incidence of travel (outside of Mexico and Central America), the interest and potential for Canada, and to provide a profile of Mexican travellers travel habits, interests and perceptions of Canada and competing destinations.

Detailed reports are available as follows:

- Market and Trade Profile – Mexico (phases 1 and 2); and,
- Quantitative Study of Mexican Outbound Travellers (phase 3).



Foreword (cont'd)

NOTES OF CAUTION

The reader is urged to bear in mind the clearly qualitative nature of the travel trade phase of the research study. These findings are drawn from a relatively small number of individuals who may or may not be typical in their views. While there is no obvious reason to suspect that these persons are not representative of their particular populations, the fact remains that these findings are not quantitative conclusions, but rather the qualitative insights of the researchers based on the response of a limited sample. They are not statistically valid unless quantified by more rigorous techniques of population sampling.

The quantitative telephone survey results are based on data derived from sample populations which are subject to variance. In order not to imply an unwarranted degree of precision, all percentage figures have been rounded to whole numbers.

Market Profile

MARKET SNAPSHOT

■ General Market Conditions

- Population 107 million – growing, young but aging
- GDP is expected to grow by 4% to 5%
- Inflation is anticipated to be 3% to 5%

■ Border Requirements

- No VISA required for direct flights to Canada

■ Market Sizing / Market Share

- 13.6 million outbound in 2006; Canada has a 1.4% market share
- Canada ranked third for outbound destination (after the US and Spain)
- 190,000 visits to Canada in 2006
- \$240 million spent in 2006 (including trips for business purposes)

■ Market Dynamics

- 48% are holiday visitors, 20% VFR, 19% business and 13% other
- 32% stay 1 to 6 nights and 40% stay 14 nights or longer
- Most likely to visit during July and August; winter travel is growing

■ Activities

- Shopping, sightseeing, scenery/parks, VFR, history and culture

■ Demographics / Potential Consumer Segments

- 20 to 34 year age group
- Travellers with children/teenagers
- A/B socio-economic consumers based in major urban centres

■ Reaching the Mexican Consumer

- Internet access in Mexico is at around 80% of A/B households. Daily newspapers, radio and television universally reach the Mexican population. Magazines are widely read among the target segment.

Market Profile (cont'd)

POPULATION / LANGUAGES

The current population of Mexico is around 107 million. The population is young with a median age of 25.3 years. The proportion aged under 34 years is forecast to decline, while the proportion aged 35+ years is forecast to grow. Spanish is the dominate language and various Mayan languages are also spoken.

ECONOMICS AND POLITICS

Since a major recession in 1994, Mexico has continued to make an impressive recovery. At present, Mexicans enjoy a reasonably high standard of living relative to most other Latin American countries; however, GDP (adjusted for purchasing power parity) is only around one-third of that of Canada. Income distribution is highly unequal and significant proportions of the population live in extreme poverty, particularly in the southern Amerindian states. Around 40% live below the poverty line (2003 est.).

Mexico has a free market economy that recently entered the trillion dollar class. It contains a mixture of modern and outmoded industry and agriculture. It has transformed in terms of export diversification subsequent to NAFTA and other free trade agreements. Foreign trade has more than doubled since the 1980s.

In terms of government, recent elections have been very close. The current president is Felipe Calderon. Public protests erupted after the recent election in December 2006 when Caldreon's leftist political adversary, Andres Manuel Lopez Obrador, declared himself the "legitimate president" of the republic.

EXCHANGE RATE

Mexico's inflation rate has declined substantially in recent years and, as a result, the exchange rate has been relatively consistent against the US dollar. The exchange rate currently stands at 11.01 Mexican pesos per US dollar, whereas it was at just over 9 in 2001.

Market Profile (cont'd)

RISING MIDDLE CLASS

Social trends are leading to a growth in the middle class. More women are entering the workplace and the number of dual income households leads to higher amounts of disposable income. Many women are delaying marriage and children. Family sizes are also smaller, again resulting in increased disposable income.

Ownership of household durables is increasing, and ownership denotes status and a high standard of living for Mexicans. While television sets are common in nearly every Mexican household, higher ticket items such as personal computers are largely restricted to the higher income segment.

WEALTH GAP

Income distribution has deteriorated since 1990. The richest one-fifth of the population received nearly 60% of the total household income in 2004 (up from 55% in 1990), while the poorest one-fifth received just 3.5% (down from 4.1% in 1990). Salary inequality is a constant in Mexico, with up to 40% of the workforce being paid minimum wage.

US POLICIES MAY DRIVE DEMAND FOR CANADA

US visa requirements and the ever increasingly border policies aimed at preventing potential terrorists are expected to reduce demand for the US as a destination. This is the case for all tourists, as well as for Mexicans who face obstacles in terms of the cost and time to obtain a visa.

This provides an opportunity for Canada, that can be activated by increasing the awareness of Canadian destinations and what they have to offer. However, direct flights will be required in order to eliminate the need for a US Visa.

Market Profile (cont'd)

AIR ACCESS

Over 25 international carriers fly to Mexico. Many offer direct flights to Canada, and according to the Short-Term Markets Outlook prepared by The Conference board of Canada for the CTC, direct air capacity is expected to expand by 21.8% during the second quarter of 2006, as compared to the same period in 2005.

The growth in air travel will also mean that airport infrastructure will be strained and will need significant investment. The airports have also been privatized. Since 1995 up to 49% of investment could be from external sources. The only international airport that was not sold was the largest one in Mexico City, which still needs a new or expanded facility.

The Travel Trade Survey

Most travel trade members who participated in this survey observe that Canada is becoming one of the main destinations for Mexican tourists, behind only the US and Europe. Many of the participants consider packages and tours offered to Canada to be their core business, representing at least 15% of their international travel sales, and demand for Canada is growing. Thus, they are very likely to continue promoting this destination and also to incorporate new offerings.

Most participants believe that Canada is a destination that will continue growing dynamically in terms of demand for the years ahead, as long as Mexican political conditions allow it.

Despite the expected growth in demand for Canada, there is a perception in the industry that interest in Canada may decline if promotion continues to focus on only the Ontario/Quebec region. It is important to consider adding programs, routes and tours to a wider range of destinations.

In addition to higher levels of promotion, there would be more interest in the western region (British Columbia, and Alberta), if lower cost packages were to be developed and offered. Promotions should focus on nature, the scenery and mountains in the area, as well as cities such as Vancouver, Calgary and Edmonton.

The offering should be expanded to include a greater variety of types of trips that could be offered to specific market segments with selective interests and tastes. For instance, ecotourism, skiing, viewing flora and fauna of the region, and other activities, focusing on the Northern and Western areas of Canada would likely prove very appealing to Mexican travellers.

The Mexican travel trade believes that Canada should have more advertising support in the Mexican market through print and electronic media. This would increase demand for Canada among Mexicans travellers. A public relations program could be implemented in collaboration with travel agencies in Mexico or with the top tour operators.

This promotional campaign should include inserts or reports in newspapers and specialized magazines, as well as radio and television programs (in both open and paid television) promoting Canada as a destination directly to the end-user.

The Travel Trade Survey (cont'd)

Key messages for this campaign should include the fact that no visa is required, that there are plenty of direct flights, that Canada is a very safe destination in terms of personal safety, and that Canadians will welcome Mexicans with kindness and cordiality.

It is also important to emphasize the diversity of activities that are available in Canada, the modern architecture, the opportunities to be in contact with the nature, the flora, the fauna, and particularly the types of scenery that cannot be experienced in Mexico.

Playing a more active role in promoting Canada to the final consumers, establishing a closer link between CTC and retailers, and lobbying among vendors (i.e., airlines, in order to open up more flights and new routes) are considered by members of the travel trade to be priorities for the CTC.

It is important to monitor the level of demand for Canada among Mexican international travellers. For example, if not enough direct flights are available, it could become a barrier to future growth.

Finally, in order to more effectively compete with the US, consideration should be given to communication regarding the unique shopping opportunities that are available in Canada. This positioning will enhance the appeal of Canada among Mexicans, for whom shopping is often a key travel motivation.

Quantitative Study of Mexican Outbound Travellers

POTENTIAL FOR CANADA AMONG MEXICAN INTERNATIONAL TRAVELLERS

There is a large, affluent segment of Mexicans that travels internationally. Affluent Mexicans who have travelled outside of Mexico and Central America on leisure trips of four nights or more in the past three years, or who plan to do so in the next two years, have taken an average of over three leisure trips to destinations outside of Mexico in the past three years.

Canada is the third most popular destination after the US and Europe, and attracted 18% of these affluent past three-year international travellers. Spend was around \$6,000 per travel party.

Mexican travellers/intenders demonstrate a lot of interest in future travel to Canada. Almost two-thirds of travellers/intenders state that they are very likely to travel outside of Mexico and Central America within the next two years and, of these, nearly two-thirds state that they are very likely to travel to Canada. While there are indications of overstatement, there is a clear and strong interest in travel to Canada.

CANADA'S POSITION AMONG COMPETING DESTINATIONS

Canada's key competitors in this market are the US and Europe, particularly Spain. Other competitors attract lower levels of visitation and interest.

The US is, by far, the dominant destination for Mexicans. Seventy percent of affluent travellers visited US destinations within the past three years and, despite increasing travel restrictions, 77% of these travellers/intenders state that they are very likely travel to American destinations within the next two years.

The US is a strong destination due to familiarity, proximity and shopping opportunities. Many Mexicans have visited the US and many have friends and family living there. Personal familiarity and word-of-mouth communications encourage travel to US destinations. In addition, shopping is an important destination consideration for Mexicans and is one of the key strengths of the US.

Quantitative Study of Mexican Outbound Travellers (cont'd)

European destinations attract significant proportions of Mexican travellers, of whom one-quarter have visited Europe in the past three years. Within Europe, the most popular destinations are Spain (14%), France (11%) and Italy (8%).

Mexicans really aspire to travel to Europe, as evidenced by their stated travel intentions. Europe overall is the dominant destination in terms of travel intentions, with Spain and France both vying with Canada for visitors.

Europe is a very significant competitor to Canada as they attract the same segments of visitors. Key strengths for Europe are the cultural affinity, language and its upscale shopping, dining and historical offerings.

Canada is a strong competitor in terms of its product offering and its image among its visitors. However, the levels of awareness of Canada's offering and lack of a strong image in the minds of many international travellers provide a major opportunity for Canada to develop a persuasive story and strong image. This will compel travellers to choose Canadian destinations over European ones.

Other competing destinations are much less important. South America (8% of past three-year travellers) and the Caribbean (5%) attract some visitors; however, other destinations in the world attract very little interest or visitation.

Visitors to Canada report higher levels of overall satisfaction with their trips and with the value that they received on their trips than do visitors to the US. Canada's satisfaction levels are similar to that of Europe. This finding demonstrates Canada's ability to deliver as a destination, as well as the strong competition when faced with European destinations.

CHARACTERISTICS OF TRAVELLERS AND TRIPS TAKEN TO CANADA

Mexican travellers to Canada tend to be drawn from the highest socio-economic status, and Canada attracts a greater proportion of residents of Mexico City than of Guadalajara or Monterrey.

Quantitative Study of Mexican Outbound Travellers (cont'd)

Trips to Canada are characterized by:

- Travellers have greater awareness of destinations in Ontario and Quebec, and these are the provinces most frequently visited, followed by BC and Alberta;
- Most visitors to Canada travel with family members, often children (20%). Others travel with friends (18%) or alone (20%);
- Many travellers book travel packages (36%) and some take tours or travel with larger groups (18%);
- One-third rent cars; and,
- Most stay in mid-priced hotels or in the homes of friends or relatives, but around one-third stay in luxury hotels or resorts.

THE IMPACT OF ACTIVITIES ON DESTINATION SELECTION AND TRAVEL MOTIVATIONS

The availability of preferred activities at the destination is a major driver in destination selection, and Mexican travellers participate in a large number of diverse activities while vacationing. Available activities in Canada, particularly those involving our natural environment and sites of historical interest, are the key draws for Mexicans international travellers. The US competes strongly for shopping, beaches and visiting friends or relatives (VFR), while other parts of the world (particularly Europe) compete in terms of history, museums and art galleries. Despite its popularity, European destinations have few strengths among its respective visitors that Canada does not meet or exceed among its visitors.

VACATION DESTINATION ATTRIBUTES

The attributes that distinguish aspirational destinations (ideal point) are quite different for Mexican travellers from the attributes that are the key drivers for destination selection (usage). Both are important, particularly when marketing to members of a culture that is very comfortable with cognitive dissonance.

Quantitative Study of Mexican Outbound Travellers (cont'd)

Looking first at the usage variables, several of the highest ranking may not be important in the development of an image for Canada. These are:

- Being together as a family is an ingrained cultural value for Mexicans, and may have emerged in this analysis because Mexicans tend to travel to destinations of this type. While this relationship is strong, it is not very actionable because the three main destinations (Canada, US and Europe) do not differentiate themselves on this benefit.
- Feeling safe and secure may be a hygienic variable. Even if nothing is said about that issue, travellers will tend to assume that a destination will be safe (unless there is news to the contrary).

Skiing and participating in active outdoor sports also correspond highly with destinations that are visited by Mexicans, and represent excellent niche target markets for Canada. However, the vast majority of Mexican travellers do not participate in these sports; what they want is to experience the outdoors, see the scenery, go for a walk and other less strenuous sorts of activities. This represents a much larger potential pool of travellers and is a benefit that Canada is strongly positioned to provide.

Shopping is an important attribute in both the ideal and the usage measures. While Canada may not be in a position to attract visits where shopping is the key motivator, it will be important to raise awareness of Canada's unique shopping opportunities, positioned as an important secondary purpose while on trips for other purposes.

When it comes to the attributes that Mexicans strongly associate with an ideal destination, they include:

- Seeing as much as possible in the time available;
- Places important in history;
- Great food and drink;
- Exciting travel stories;
- Buying the latest fashions; and,
- A sense of freedom.

Quantitative Study of Mexican Outbound Travellers (cont'd)

Learning or exploring something new or engaging is one of the most important drivers for international travel among Mexicans. Not only is it a key motivator among visitors, Canada is stronger than the US for this destination benefit. In addition to the broad range of activities where Canada is strong, this underlying motivation should be emphasized in future communications with this target audience.

INTEREST IN ACTIVITIES AND DESTINATIONS DURING FUTURE TRIPS TO CANADA

The activities in Canada which generate the most interest among travellers who plan to come to Canada are visiting the major cities and seeing Niagara Falls. World heritage sites, aurora viewing and seeing the Canadian Rockies are also highly appealing. These are all activities for which Canada has a strong and unique offering.

Experiencing French Canadian culture is also a unique offering that appeals to many Mexicans.

Consistent with their desire to see Canada's cities and well-known sites, a Canadian highlights tour is the most popular of the types of tours evaluated. This is closely followed by a combined tour to Ontario and French Canada. The popularity of these destinations is likely driven by a higher level of current knowledge of eastern Canada among Mexicans.

Touring eastern Canada and the US has appeal, as does a tour of Vancouver and its surrounding natural areas.

The activities that capture the imagination of Mexican travellers include experiencing the scenery and the outdoors, including experiencing cold weather and snow (a novelty for Mexicans). The scenery, the mountains, the forests all hold appeal. Mexicans are also interested in dining and urban experiences, as well as language, historical and cultural opportunities.

Marketing Implications

Mexico Offers a Significant Market Potential for Canada

There is a large, affluent segment of Mexicans that travel internationally, and they travel often. Canada is the third most popular destination after the US and Europe, and 18% of affluent past three-year international travellers from Mexico have visited Canada. They also express strong interest in future travel to Canada.

Canada experiences strong levels of demand and vibrant potential among affluent Mexican travellers. This market clearly warrants significant marketing and communications efforts. This will activate Canada's potential to attract these visitors, particularly in the face of strong competition from American and European destinations.

Barriers to Travel to Canada

Mexicans who are not interested in travelling to Canada provide a variety of reasons for their disinterest. The most actionable for Canada relate to a lack of knowledge about it as a destination and that these travellers do not hold an image of Canada vis-à-vis its competitors that provides them with the motivation to visit. These travellers often are not familiar with Canadian destinations (particularly those outside of Ontario and Quebec) and also lack knowledge about the activities and product offerings.

Canada needs to strengthen its awareness levels, including knowledge of specific activities and destinations that are unique and compelling reasons to visit, and that resonate with Mexican travellers.

Positioning Canada

Canada needs to position itself against its major competitors—the US and Europe. The key strengths of the US are its proximity, familiarity and shopping opportunities. Europe is a highly coveted destination, with a stronger image and greater cachet than Canada.

Marketing Implications (cont'd)

The message for Mexican travellers should be developed around an experiential appeal, where Canada's strengths are matched against the rational and emotional motivators that are important to Mexican travellers, and where they differ from the US and European offerings.

Vacation destination benefits where Canada competes strongly are the opportunities to experience the outdoors, feeling a sense of freedom and being together as a family. Mexican travellers enthusiastically participate in a wide range of activities while traveling, and activities involving Canada's natural environment and sites of historical interest are key draws.

These travellers are also keen shoppers, and many enjoy cultural activities. It will be important for Canada to communicate the diversity of its offerings. Potential visitors need to be made aware that a trip to a Canadian destination can encompass such diverse activities as observing wildlife, enjoying spectacular scenery, cultural/historical activities, fine dining and shopping.

While Canada would not likely be successful at attracting Mexicans for trips where shopping is the central purpose, it is important that these consumers have an understanding of some of the unique shopping opportunities that Canada offers, as this activity is near to and dear to the hearts of Mexican international travellers. Canada should seek to improve perceptions of its food and dining opportunities, as these are adjuncts that are very important to these travellers.

While there are niche segments of travellers in this market that have a strong interest in skiing and other active outdoor sports, there is a larger group of travellers who would like to experience the outdoors, walk through beautiful scenery, see snow, and experience the diversity of Canada's natural offering, but they do not want to participate in the more challenging athletic endeavors. Messaging and packaging around these opportunities will be key to driving a larger number of visitors.

Marketing Implications (cont'd)

Canada has the opportunity to position itself against the US as a “premium” destination, as visitors to Canada express higher levels of satisfaction overall and for the value that a trip to a Canadian destination provides. Canada needs to convince Mexicans who are open to Canadian destinations that they will, in the end, be more satisfied with their vacation and in the value they got from the trip expenditure, than they would be if they were to select destinations in the US for international leisure trips.

Recommended Communications Objectives and Media

Canada should strengthen its image and awareness of what it has to offer among Mexican travellers. It is important that Canada is among the destinations considered during the early phases of the trip planning process. This should be done directly with the consumer via mass media.

Canada needs to maintain a strong in-market, in-language, Internet presence. The Internet is the most frequently mentioned source of travel information for international travellers from Mexico, and nearly one-third of Canadian visitors booked at least one aspect of travel online. These independent travellers tend to contact airlines and hotels directly, so it is important that Canada is given serious consideration at the initial stage of destination selection.

The travel trade has a major influence on destination selection in this market. Therefore, marketing efforts with this group should be emphasized by Canada and its partners in order to strengthen awareness of the specifics of the offerings of Canadian destinations. Over one-third of international travellers relied on travel agents for travel information, and travel agents or package providers dominate the market when booking trips.

Given the high levels of satisfaction with travel to Canada and strong perceptions of value, Canada should consider extending the influence of visitors beyond their immediate family members and acquaintances by supporting blogs and other online consumer-to-consumer communications.



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