

**Ontario's Accommodation Sector 1998-2002**  
**An Analysis of Costs and Revenues**

Ontario Ministry of Tourism and Recreation  
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## INTRODUCTION

The Tourism Federation of Ontario (TFO) requested that the Ministry of Tourism and Recreation (MTR) conduct a study that would examine the impact of “cost drivers” on the tourism industry. Due to the wide variety of sectors that make up the tourism industry, it was decided that the Accommodation sector would be used as a case study. The analysis was based on data gathered through the *Traveller Accommodation Survey*<sup>1</sup> conducted by Statistics Canada on an annual basis from 1998 to 2002.

The results of this analysis, as they relate to detailed cost items other than wages and salaries, should be used with caution as they are based on the performance of a sub-sample of the sector, which are then extrapolated to represent the accommodation sector in Canada.<sup>2</sup> This analysis compares Ontario’s accommodation sector (approximately 4,800 establishments) to sectors in Quebec (approximately 3,300 establishments), Alberta (approximately 1,600 establishments) and British Columbia (approximately 3,200 establishments). Revenues are only considered as a total sum due to year over year discrepancies found in the itemized data provided by Statistics Canada. It should be noted that while this report reflects the accommodation sector as a whole, it is recognized that individual operations may differ.

TFO specifically requested that the Ministry investigate the impact of minimum wage, water regulations and insurance on the accommodation sector in Ontario. The impact of water regulations will not be covered in this study, as that situation is still in flux.

## SUMMARY OF FINDINGS

The cost drivers that have the most impact on Ontario’s accommodation sector are ‘salaries, wage and benefits’ and ‘cost of goods sold’. These expense items account for approximately 50% of total expenses in a given year. In all of the years analyzed (except 1999 to 2000), these expense items contributed the most to the increase in expenses year-over-year.

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<sup>1</sup> Accommodation establishments in Statistics Canada’s *Traveller Accommodation Survey* include: hotels, motor hotels, motels, resorts, casino hotels, guest houses, tourist homes, youth hostels, campgrounds, outfitters, housekeeping cottages and cabins and bed and breakfasts.

<sup>2</sup> “The portion [of the sector] eligible for sampling is defined as all statistical establishments with revenue above a certain threshold. (Note: the threshold varies between surveys and sometimes between provinces in the same survey.) The excluded portion represents a substantial portion of the industry in terms of number of establishments (47%), but its contribution to the overall industry revenue is only about 9%. These excluded establishments are accounted for in the final estimates [of total revenue, total costs, wages and salaries] through the use of administrative data.” Statistics Canada, *Annual Survey of Traveller Accommodation 2002*, p. 3.

It was found that the total earnings of persons earning minimum wage accounted for only 8% of the total wages and salaries of all workers in the accommodation sector. The increase in minimum wage will have an impact on the bottom-line of the industry, but this will be a minimal increase of about 0.95% of total expenses.

Finally, insurance accounts for only 1% of total costs. While it will take a few more years of data collection to determine the real impact of insurance expense on the bottom-line, it is evident that the contribution of insurance to the increase in expenses is going up and its contribution to revenue is declining. In 2002, the revenue dollars that were associated with a dollar spent on insurance had declined by 24%. Nevertheless, this item's proportion to total expenses has remained constant at around 1%.

When Ontario's accommodation industry is compared to that of the other major provinces, it shows one of the best growth rates in profits, while Alberta and BC show the worst.

## A. Ontario's Accommodation Sector

### Section 1: Profit Drivers

The bottom-line of Ontario's accommodation sector has been affected in some years by poor revenue growth (a result of slow demand) and in some years by increases in costs that outstrip the increases in revenue and as such are not directly related to the productive activities of the sector.

Table 1 provides an analysis of the profit drivers for the sector for the years 1998 to 2002. In 1999, the industry performed well, with a healthy growth in revenues and no associated increase in costs. The rate of change in revenue in 1999 over 1998 was 8.5 times that of the rate of change of expenses and as a result profits increased by 27.5%. The years to follow saw the rate of change in revenue fluctuate between 0.9% and 7.2%, while costs fluctuated between 2% and 6.4%. The worst year for the industry was 2001 when revenues increased by 0.9% while costs increased by 2%. The result was a decrease in profits by -5.6%.

Table 1 shows the ratio of the rate of change in revenues to that of expenses. Although four years do not provide a lot of data points to determine the trend, it would appear that this ratio has a downward trend, which means that profits also depict a downward trend.

<b>Table 1: Ontario's Accommodation Sector Revenue, Expenses and Profit 1998 to 2002</b>						
	1998	1999	2000	2001	2002	Average Annual ROC*
Revenue	\$3,525,600,000	\$3,643,900,000	\$3,907,300,000	\$3,943,300,000	\$4,181,400,000	
ROC		3.4%	7.2%	0.9%	6.0%	4.4%
Expenses	\$3,135,200,000	\$3,146,200,000	\$3,348,600,000	\$3,415,800,000	\$3,608,400,000	
ROC		0.4%	6.4%	2.0%	5.6%	3.6%
Profit	\$390,400,000	\$497,700,000	\$558,700,000	\$527,500,000	\$573,000,000	
ROC		27.5%	12.3%	-5.6%	8.6%	10.7%
ROC Revenue / ROC Expenses		8.50	1.13	0.45	1.07	

\*ROC – rate of change (percentage change over the previous year)

## Section 2: Cost Drivers

### 1998-1999

Between the years 1998 and 1999, total expenses in the accommodation sector in Ontario increased by 0.4% or approximately \$11.0 million. The following table shows the expense items that contributed to the increase in expenses<sup>3</sup> and the expense items that offset the increase. 'Salaries, wages and benefits' accounted for 77.8% and 'cost of goods sold' accounted for 16.5% of the gross increase in expenses between 1998 and 1999. The other items ('insurance' and 'telecommunications') that increased between 1998 and 1999 had a total contribution of 5.6%.

Meanwhile, expense items that offset the increase in expenses were \$124.0 million less in 1999 than in 1998. The bulk (41.2%) of the offset was due to a reduction in 'taxes and permits', followed by 'repairs, maintenance, contract laundry' (21.3%). Table 2 provides a list of all expense items that helped offset the increase in expenses in 1999 over 1998.

<b>Table 2: Difference in Expense Items in Ontario's Accommodation Sector 1998 to 1999</b>		
<b>Contributors to Increases in Expenses</b>		
Cost of goods sold	\$22,266,955	16.5%
Salaries, wages and employee benefits paid	\$105,061,559	77.8%
Insurance	\$2,899,547	2.1%
Telephone, telecommunications	\$4,741,560	3.5%
	\$134,969,621	100.0%
<b>Expense Items that Offset Increase</b>		
Rent and/or lease of land or vehicles	-\$5,062,658	4.1%
Advertising/sales promotion, royalties, franchise fees, travel/entertainment, commissions	-\$2,542,876	2.1%
Repairs, maintenance, contract laundry	-\$26,457,275	21.3%
Legal, accounting, mgmt, consulting fees	-\$3,879,378	3.1%
Heat, light, power and water	-\$12,932,099	10.4%
Depreciation, amortization and interest expenses	-\$11,728,760	9.5%
Supplies and all other operating expenses	-\$10,291,669	8.3%
Taxes and permits	-\$51,074,908	41.2%
	-\$123,969,621	100.0%
<b>1999 Accommodation Sector</b>		
Total Revenue	\$3,643,900,000	
Total Expenses	\$3,146,200,000	
Profit	\$497,700,000	

### 1999-2000

Total expenses in the accommodation sector in Ontario increased by 6.4% or approximately \$202.4 million between the years 1999 and 2000. The following

<sup>3</sup> The total of the expense items that increased will be referred to as the gross increase throughout the report.

table shows the expense items that contributed to the gross increase and the expense items that offset the increase. 'Repairs, maintenance and contract laundry' accounted for 32.0%, 'legal, accounting, management, consulting fees' accounted for 27.6% and 'supplies and other operating costs' accounted for 22.8% of the gross increase between 1999 and 2000. The other items ('advertising/sales promotion, royalties, franchise fees, travel/entertainment, commissions', 'heat, light, power and water' and 'taxes and permits') that increased between 1999 and 2000 had a total contribution of 5.8%.

Expense items that offset the gross increase were \$61.6 million less in 2000 than in 1999. Most (47.7%) of the offset was due to a reduction in 'salaries, wages and benefits', followed by 'cost of goods sold' (31.9%). Table 3 provides a list of all expense items that helped offset the gross increase in 2000 over 1999.

<b>Table 3: Difference in Expense Items in Ontario's Accommodation Sector 1999 to 2000</b>		
<b>Contributors to Increases in Expenses</b>		
Repairs, maintenance, contract laundry	\$84,411,863	32.0%
Legal, accounting, mgmt, consulting fees	\$72,853,850	27.6%
Advertising/sales promotion, royalties, franchise fees, travel/entertainment, commissions	\$2,880,877	1.1%
Heat, light, power and water	\$2,464,745	0.9%
Depreciation, amortization and interest expenses	\$31,322,732	11.9%
Supplies and all other operating expenses	\$60,129,010	22.8%
Taxes and permits	\$9,902,713	3.8%
	\$263,965,790	100.0%
<b>Expense Items that Offset Increase</b>		
Cost of goods sold	-\$19,620,281	31.9%
Salaries, wages and employee benefits paid	-\$29,365,577	47.7%
Rent and/or lease of land or vehicles	-\$3,465,573	5.6%
Insurance	-\$1,576,524	2.6%
Telephone, telecommunications	-\$7,537,836	12.2%
	-\$61,565,790	100.0%
<b>2000 Accommodation Sector</b>		
Total Revenue		\$3,907,300,000
Total Expenses		\$3,348,600,000
Profit		\$558,700,000

#### **2000-2001**

Between the year 2000 and 2001 total expenses in the accommodation sector in Ontario increased by 2.0% or approximately \$67.2 million. The following table shows the expense items that contributed to the gross increase and the expense items that offset the increase. 'Salaries, wages and benefits' accounted for 43.0%, 'cost of goods sold' accounted for 19.8% and 'rent or lease of land or vehicles' accounted for 13.4% of the gross increase between 2000 and 2001. The other items ('advertising/sales promotion, royalties, franchise fees, travel/entertainment, commissions', 'insurance', 'heat, light, power and water' and

'taxes and permits') that increased between 2000 and 2001 had a total contribution of 23.8%

Expense items that offset the gross increase were \$177.0 million less in 2001 than in 2000. The offset was due to a reduction in 'repairs, maintenance, contract laundry' (38.3%), followed by 'legal, accounting, management, consulting fees' (34.9%) and 'supplies and other operating expenses' (22.2%). Table 4 provides a list of all expense items that helped offset the gross increase in 2001 over 2000.

<b>Table 4: Difference in Expense Items in Ontario's Accommodation Sector 2000 to 2001</b>		
<b>Contributors to Increases in Expenses</b>		
Cost of goods sold	\$48,407,560	19.8%
Salaries, wages and employee benefits paid	\$104,895,025	43.0%
Rent and/or lease of land or vehicles	\$32,786,126	13.4%
Advertising/sales promotion, royalties, franchise fees, travel/entertainment, commissions	\$19,930,404	8.2%
Insurance	\$4,011,202	1.6%
Heat, light, power and water	\$20,313,259	8.3%
Taxes and permits	\$13,830,859	5.7%
	\$244,174,434	100.0%
<b>Expense Items that Offset Increase</b>		
Repairs, maintenance, contract laundry	-\$67,782,235	38.3%
Legal, accounting, mgmt, consulting fees	-\$61,714,959	34.9%
Telephone, telecommunications	-\$868,361	0.5%
Depreciation, amortization and interest expenses	-\$7,387,605	4.2%
Supplies and all other operating expenses	-\$39,221,274	22.2%
	-\$176,974,434	100.0%
<b>2001 Accommodation Sector</b>		
Total Revenue		\$3,943,300,000
Total Expenses		\$3,415,800,000
Profit		\$527,500,000

#### 2001-2002

Total expenses in the accommodation sector in Ontario increased by 5.6% or approximately \$192.6 million between 2001 and 2002. Most expenses items increased in 2002 over 2001, as shown in the following table, resulting in a gross increase in expense items of \$210.4 million

Meanwhile, expense items that offset the gross increase were \$17.8 million less in 2002 than in 2001. Two expense categories helped to offset the increase in expenses in 2002, as shown in table 5.

<b>Table 5: Difference in Expense Items in Ontario's Accommodation Sector 2001 to 2002</b>		
<b>Contributors to Increases in Expenses</b>		
Cost of goods sold	\$61,966	0.0%
Salaries, wages and employee benefits paid	\$61,838,497	29.4%
Repairs, maintenance, contract laundry	\$33,885,009	16.1%
Advertising/sales promotion, royalties, franchise fees, travel/entertainment, commissions	\$33,006,019	15.7%
Insurance	\$12,042,026	5.7%
Heat, light, power and water	\$6,556,904	3.1%
Telephone, telecommunications	\$7,127,932	3.4%
Depreciation, amortization and interest expenses	\$26,552,690	12.6%
Supplies and all other operating expenses	\$11,629,187	5.5%
Taxes and permits	\$17,720,530	8.4%
	\$210,420,759	100.0%
<b>Expense Items that Offset Increase</b>		
Rent and/or lease of land or vehicles	-\$12,778,881	71.7%
Legal, accounting, mgmt, consulting fees	-\$5,041,878	28.3%
	-\$17,820,759	100.0%
<b>2002 Accommodation Sector</b>		
Total Revenue	\$4,181,400,000	
Total Expenses	\$3,608,400,000	
Profit	\$573,000,000	

### Minimum Wage<sup>4</sup>

The total number of people earning minimum wage in the traveller accommodation sector<sup>5</sup> in Ontario decreased by 29% in 2002 over 1999. During the same period, total employment in the sector increased by 4%. In 1999, 22% of total workers in the sector were paid minimum wage. This decreased by 32% to only 15% of total workers in the sector in 2002. In 1999, the cost of wages and salaries for persons earning minimum wage in the sector was 11% of the total cost of wages and salaries. This decreased to 8% of the total wages and salaries expense in 2002. Table 6 provides a comparison of workers earning minimum wage to total workers in the traveller accommodation sector in Ontario from 1999 to 2002.

In December 2003, the province of Ontario announced that the general minimum wage for Ontario workers would increase to \$7.15 per hour on February 1, 2004 from the previous rate of \$6.85. Further increases would follow annually, bringing the minimum wage to \$8.00 per hour by February 2007.<sup>6</sup>

<sup>4</sup> Data source: Statistics Canada, Survey of Labour and Income Dynamics, Custom Table R21824PS. It should be noted that Statistics Canada indicated that the data presented here for minimum wage is borderline to the cut-off criteria and should be used with caution.

<sup>5</sup> Includes Traveller Accommodation and RV Parks and Recreational Camps.

<sup>6</sup> Ontario Ministry of Labour, Ontario Minimum Wage Increase Fact Sheet, December 1, 2003.

If we make the assumption that the number of people earning minimum wage and their hours worked in the traveller accommodation sector in 2002 (13,596 persons) will remain constant to February 2007, the total salaries and wages for persons earning minimum wage will increase by 17% from \$145 million in 2002 to \$170 million in 2007.<sup>7</sup> However, according to the Ontario Ministry of Finance there will be further increases in wages and salaries because those individuals earning between \$6.86 (one cent higher than \$6.85 minimum wage) and \$8.00 per hour will receive increases in wages to reach \$8.00 per hour (minimum wage in 2007). The increase in all minimum wage earners (between \$5.95 and \$6.85) and those earning between \$6.86 and \$8.00 per hour will amount to a total increase in wages and salaries of \$34.3 million, or an increase in total costs of 0.9%.

Finally, one should consider the impact of increasing the minimum wage on the costs of the goods and services purchased by the accommodation sector from other sectors. It is estimated that the cost of goods sold of the accommodation sector will increase by 0.05%, resulting in an overall increase of 0.95% on total expenses when we add the impact of wages and salaries.

**Table 6: Comparison of Workers Earning Minimum Wage to Total Workers in the Traveller Accommodation Sector in Ontario 1999-2002**

	Persons Earning Minimum Wage (estimated)	Percent of Total Employed	Aggregate Wages and Salaries (current \$) Earned by Persons with Minimum Wage	Percent of Total Employed Wages and Salaries
1999	19,173	22%	\$198,708,696	11%
2000	18,283	20%	\$210,890,231	13%
2001	13,344	13%	\$105,441,580	5%
2002	13,596	15%	\$145,284,238	8%

Source: Statistics Canada, Survey of Labour and Income Dynamics, Custom Table R21824PS

## Insurance

Insurance accounted for about 1% of total expenses in each of the years under investigation. In 1999, insurance increased by \$2.9 million and accounted for 2.1% of the increase in total expenses over 1998. This was followed by a year in which insurance expenses decreased by \$1.6 million. In 2001, insurance increased by \$4.0 million over 2000 and accounted for 1.6% of the increase in total expenses. Insurance continued to increase in 2002, with a growth of \$13.5 million over 2001. In 2002, the increase in insurance expenses accounted for

<sup>7</sup> Because the percentage of total workers earning minimum wage that are paid the 'liquor server' wage (about \$0.90 to \$1.00 less than general minimum wage) is unknown, the assumption has been made that all persons earning minimum wage earned the general minimum wage in the data provided.

6.3% of the net (i.e., after taking into account the expense items that increased and those that decreased) increase in total expenses over 2001. This shows that although insurance still accounts for a small portion of total costs, it did increase its contribution to the changes in the net costs substantially after 2001.

### Section 3: Productivity Changes

The previous section has shown that the main components of the accommodation sector's costs are 'wages and salaries' and 'cost of goods sold'. It also showed that these two cost items are the main drivers of the sector's cost changes year after year. However, one would expect that as revenue increases, the costs associated with the production of that revenue would also increase.

This section examines the productivity of the sector's production inputs for selected items. The table below shows the result of dividing total revenue by the expenses item. For example, in 1998 the sector had revenues of \$3,525.6 million, divided by the 'cost of goods sold' (\$304.1 million) results in 11.6. The number 11.6 indicates the revenue dollars that were produced by a dollar of 'cost of goods sold'.

As shown in Table 7, the ratios achieved each year are consistent within the selected expense categories. This indicates that no year was more or less productive than another, with the exception of 2000 when the index figures increased across all expense items. This indicates that 2000 was a more productive year than the other years included in this analysis. The table also shows that there is a serious reduction in the revenue dollars associated with a dollar spent on insurance. In 2002, there were 29% fewer revenue dollars associated with a dollar spent on insurance than there were in 1998.

	1998	1999	2000	2001	2002
Cost of goods sold	11.60	11.17	12.74	11.10	11.42
Salaries, wages, benefits	3.12	2.95	3.24	3.01	3.21
Advertising/sales promotion, royalties, franchise fees, travel/entertainment, commissions	13.73	14.33	15.20	14.24	13.08
Heat, light, power, water	22.72	25.62	27.00	23.90	23.64
Insurance	124.74	116.93	132.07	117.37	88.87

## B. Comparison to Other Provinces

In order to make meaningful comparisons, Ontario's accommodation sector has been compared to the sectors in British Columbia, Alberta and Quebec, as the rest of the provinces and territories have much smaller accommodation sectors.

Ontario's accommodation sector is comprised of approximately 4,800 establishments, Quebec has approximately 3,300 establishments, Alberta has approximately 1,600 establishments and British Columbia has approximately 3,200 establishments.

Expenses in Ontario, Alberta and British Columbia increased year over year during the period 1998 to 2002. Expenses in Quebec increased in all years except in 2000 over 1999 when they decreased by 1.8%.

In each province, 'salaries, wages and benefits' and 'cost of goods sold' were the largest expense items.

	1998	1999	2000	2001	2002	ROC* 98-02
Ontario	\$3,135,200,000	\$3,146,200,000	\$3,348,600,000	\$3,415,800,000	\$3,608,400,000	
ROC		0.4%	6.4%	2.0%	5.6%	15.1%
Quebec	\$1,641,900,000	\$1,749,300,000	\$1,718,100,000	\$1,756,600,000	\$1,865,500,000	
ROC		6.5%	-1.8%	2.2%	6.2%	13.6%
Alberta	\$1,442,900,000	\$1,522,500,000	\$1,542,000,000	\$1,641,000,000	\$1,738,900,000	
ROC		5.5%	1.3%	6.4%	6.0%	20.5%
British Columbia	\$2,036,300,000	\$2,012,300,000	\$2,060,700,000	\$2,148,000,000	\$2,184,900,000	
ROC		-1.2%	2.4%	4.2%	1.7%	7.3%

\*ROC – rate of change (percentage change over previous year)

	1998	1999	2000	2001	2002	ROC* 98-02
Ontario	\$3,525,600,000	\$3,643,900,000	\$3,907,300,000	\$3,943,300,000	\$4,181,400,000	
ROC		3.4%	7.2%	0.9%	6.0%	18.6%
Quebec	\$1,815,400,000	\$1,908,200,000	\$1,961,400,000	\$1,995,700,000	\$2,130,300,000	
ROC		5.1%	2.8%	1.7%	6.7%	17.3%
Alberta	\$1,736,900,000	\$1,813,400,000	\$1,845,300,000	\$1,941,200,000	\$2,024,600,000	
ROC		4.4%	1.8%	5.2%	4.3%	16.6%
British Columbia	\$2,255,500,000	\$2,213,100,000	\$2,253,300,000	\$2,370,000,000	\$2,405,600,000	
ROC		-1.9%	1.8%	5.2%	1.5%	6.7%

\*ROC – rate of change (percentage change over previous year)

Due to the fact that Ontario has the largest accommodation sector in Canada, it also earns the most revenue, as shown in table 9. British Columbia was the only province to experience a decrease in revenue (in 1999) in the years analysed. Ontario experienced the largest growth in revenue in 2000 over 1999, but was followed by a year of minimal growth (0.9%) in 2001. The provinces examined experienced increases in revenue in 2002 over 2001, but British Columbia experienced the lowest growth of all with a minimal increase of 1.5%.

	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>ROC* 98-02</b>
Ontario	\$390,400,000	\$497,700,000	\$558,700,000	\$527,500,000	\$573,000,000	
ROC		27.5%	12.3%	-5.6%	8.6%	46.8%
Quebec	\$173,500,000	\$158,900,000	\$243,300,000	\$239,100,000	\$264,800,000	
ROC		-8.4%	53.1%	-1.7%	10.7%	52.6%
Alberta	\$294,000,000	\$290,900,000	\$303,300,000	\$300,200,000	\$285,700,000	
ROC		-1.1%	4.3%	-1.0%	-4.8%	-2.8%
British Columbia	\$219,200,000	\$200,800,000	\$192,600,000	\$222,000,000	\$220,700,000	
ROC		-8.4%	-4.1%	15.3%	-0.6%	0.7%

\*ROC – rate of change (percentage change over previous year)

Table 10 provides the accommodation sector's profit level and percentage change over the previous year for Ontario, Quebec, Alberta and British Columbia. Ontario was the only province to experience an increase in profit in 1999 over 1998, with Quebec and British Columbia experiencing decreases of 8.4% in profit. In 2000, all provinces had increases in profit, with the exception of British Columbia, which experienced a decline in profits for the second year in a row. In 2000, Quebec's accommodation sector more than doubled the profit level reached in 1999. British Columbia was the only province to experience growth in profit in 2001, while the other provinces felt the impact of the September 11 terrorist attacks in the USA. 2001 was also the only year under study that British Columbia's sector experienced an increase in profit. In 2002, Alberta's accommodation sector continued to experience diminishing profit levels, as increases in revenue did not offset increases in expenses in the province.

Overall, Ontario's accommodation sector appears to be the most profitable among the provinces shown in Table 10, in that not only it experienced one of the largest increases in profits over the period 1998-2002, but also the change in its profits from year to year are mainly positive (with the exception of the year when Sep 11 occurred).