A STRATEGIC ANALYSIS OF A TOURISM COMPANY

by

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Title of Thesis/Project/Extended Essay
A Strategic Analysis of a Tourism Company

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ABSTRACT

This project develops a strategic analysis for a tourism company operating in Western Canada. The company and its management have been extremely successful in the last fifteen years but now have come to a cross roads on where to dedicate resources. The company is faced with stagnate growth due to a combination of the competitive environment and world events such as September 11th and SARS.

Porter’s five forces are used to analyze the industry and examine opportunities and threats. Strategic alternatives are developed from the external analysis. Following the strategic alternatives is an internal analysis of the company’s strengths and weaknesses. Finally a recommendation and implementation plan is discussed.

Because the company is private and majority owned by a single shareholder, management preferences play a huge part in the strategic direction of the firm. Three alternatives are developed:

- Multiple tour products
- Expand value chain and differentiate
- Grow new markets

The project recommends which alternative provides the greatest growth potential.
DEDICATION

I would like to dedicate my project to my late Father, Henry and my Mother, Ying Wah. Without their dream for a better education for their children, I would have never been blessed with the opportunities I have had. I would also like to dedicate this work to my wife, Anne, for her undying support. If it were not for her visit to Whistler I would have never had the strength to continue and shine.
This project marks a significant chapter in my life as this signals the fulfillment of a dream. For the last two years I have gone through many challenging times in which I have persevered through. I would like to thank my team the Matrix for all their support through many late nights and Sunday mornings. They have now become great friends.

I would also like to acknowledge Blair Baxter who started me down this path and Doug Cucheron who ended it with me. Finally, I would like to thank Dr. Neil Abramson who’s humour and guidance made it that much easier.
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1 INTRODUCTION

1.1 Company Background

Rocky Mountaineer Railtours Ltd. (RMR), headquartered in Vancouver, BC, is North America's largest private passenger rail company. RMR operates a two-way rail tour service from Vancouver to Banff / Calgary and Vancouver to Jasper. The two-day all daylight journey overnights in Kamloops and has been called “The Most Spectacular Train Trip in the World”. RMR has been ranked as one of the top 20 rail experiences in the world and is one of the top ranked tour operators in Canada. The trip takes guests through the historic train route that connected Canada over 100 years ago.

The origins of the company date back to 1988 when Canada’s government owned passenger rail service, VIA rail, began running a daylight trip through the Rockies. VIA’s service was not profitable and was subsidized heavily by taxpayer money. After a few years, the federal government decided to privatize the service and hence RMR was born. Peter Armstrong, the current president, CEO and majority shareholder of RMR, led the successful bid for the service. RMR then began service in 1990 after purchasing and refurbishing VIA’s old equipment and coaches. Today, the company has grown to approximately $100 million in revenue and employs 450 staff during the tourist season of April to October and 170 staff for the remainder of the year. RMR owns and operates 76 pieces of railway equipment including 12 bi-level dome coaches.

The primary target market for RMR’s product is the 55 years and older age group. Couples and empty nesters make up the majority of travelers seeking a relaxing experience with special attention to guest service and comfort. The international clientele consists of about forty percent from the U.S., while the U.K. ranks second with about twenty five percent of guests. Australians and New Zealanders account for about twenty percent and the balance from the rest of the world. As a guest, you would travel through the Canadian Rockies and marvel at its natural splendour whilst a guide narrates the tour. The travel experience consists of full customer service that resembles more like a cruise ship's service than a passenger trains’. From gourmet meals served in dining cars, to the prime accommodations in Banff and Calgary, the customer is well pampered. The cost for the trip ranges from $529 to $1,579 for the one-way journey depending on factors such as season and level of service. A comparable trip on VIA rail, a competitor, costs $340 to $810 depending on season and sleeping accommodations. While RMR has a unique

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product offering, however, the travel industry is a mature market. RMR’s main product has been selling for 15 years.

1.2 Problem

Revenue and net income has been stagnant for the last five years. The company’s over-dependency on the single route for the main source of revenue has been made more evident by the events of September 11, SARS and forest fires. Further growth to increase shareholder value by increasing net income is important, particularly because RMR remains a private company and must look at the interest of the individual shareholder.

In the last few years, the company has entertained many ideas on how to grow including the start of an additional route, the acquisition of another company in a similar business and the purchase of a hotel. RMR also owns a large spectrum of the value chain including maintaining and servicing its own trains, operating its own call centre and producing its own live stage production. Evaluating the external and internal factors that affect the company will assist in understanding the company’s strengths and weaknesses. In understanding RMR’s strengths and weaknesses, we can then evaluate any gaps in current capabilities and areas needed to grow. The strategic analysis will explore alternatives to increasing shareholder wealth.
2 EXTERNAL ANALYSIS

2.1 Industry Analysis

RMR is in the Western Canada destination tourism service industry. Defining RMR’s industry is challenging because the company has three lines of business that are intertwined. Firstly, the company is in the destination tourism industry, utilizing Western Canada and the natural beauty of the Rocky Mountains as a backdrop. Secondly, RMR operates a travel agency with a fifty staff reservations booking centre. Finally, RMR operates a passenger train service.

Given the complexity of the business, RMR’s industry has to be defined by the behavior of its customers and competitors. The customers are purchasing an experience from the company and the motivating factors are convenience, time, comfort and security. It is more convenient to have someone coordinate all your travel plans for transportation, hotels and meals than it is to do it yourself. These travelers who have booked his or her air travel, accommodations and other elements of the vacation through a travel retailer are known as a package traveler. Travelers who opt to arrange travel itineraries themselves expend a considerable amount of time doing their own research and bookings. A motivating factor that is more recently prevalent is safety. After September 11, many travelers concerned with safety have opted to travel with packaged tours instead. The group travel setting and prearranged plans relieve some of the anxiety caused by the terrorist attacks.

Analyzing the behaviour of competitors also assists in defining RMR’s industry. At first the cruise ship industry appears to be a complement to RMR’s business. However, on further analysis, it is also a competitor if not a substitute. The cruise business is a complement to RMR’s business in that it brings tourists to Vancouver who may choose to overnight or stay longer. In 1999 over 900,000 passengers sailed through Vancouver. These overnight passengers may decide to purchase RMR’s train trip. Twenty six percent of RMR’s passengers arrived from the end of a cruise in 2003. Conversely, cruise ships are also substitutes in that they offer transportation as a means to showcase Western Canada and provide package tours.

The most obvious competitors are domestic and foreign tour operators who run packaged excursions around Western Canada. Tour operators coordinate and arrange package tours

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offering both convenience and time saving. Furthermore, the impact of the Internet has caused homogeneity in services by allowing travelers to gather information and search out the best possible travel alternatives. This has increased rivalry among competitors. By understanding the motivating factors of customers and the analysis of competitors, the industry can be more easily defined.

When travelers come to take a “Trip of a lifetime” with RMR, they enjoy the spectacular scenery of the Canadian Rocky Mountains. Some visitors come solely for the train experience and take in additional excursions while visiting; others visit Western Canada and take in the train trip on the side. On a macro level, Western Canada is competing in the world destination tourism industry. On a more micro level, RMR is competing in the Western Canada destination tourism service industry.

Service is an important element because the company does not own the destination but merely provides a service to showcase it. Travelers are looking for convenience and timesaving and this is the service that RMR provides. Tour operators provide the same type of service. For example, when a traveler has decided to visit Western Canada, he or she looks for excursions. Cruise ships provide a similar service but with more freedom to choose onboard activities. RMR is competing against other tourist destination service providers for business.

The other complimentary business lines, travel agency and passenger train services, is not what RMR is offering to its customers therefore we will focus only on the destination tourism industry. RMR’s travel agency and transportation business complements the company’s core industry, which is offering customers a spectacular experience. RMR differentiates its strategy by providing quality and consistency in service. These two attributes are synonymous with its brand. The company is a niche player that focuses on rail service as a catalyst for additional product sales. For example, customers will book the rail trip and purchase additional site seeing tours. RMR holds onto this niche market by possessing the contractual right to offer daylight rail service on the Vancouver to Calgary route.

2.1.1 Threat of Entry

The threat of entry in the Western Canada destination tourism service industry is moderate because of a number of variables. The big draw to Western Canada for most visitors is the amazing natural beauty of the region. Unfortunately, nature is a non-rivalrous and nonexclusive good, anyone can consume it; therefore threat of entry is high. One variable to examine is the relatively low capital investment needed to enter the industry, which increases the
threat of entry. There are many destinations in Western Canada and anyone can provide the service to showcase the region. It is relatively simple for tour operators to set up shop and coordinate travel arrangements for hotels, attractions and ground transportation. An important aspect to becoming a successful competitor is the distribution network. Because the customers are geographically dispersed, it is expensive to sell direct. The main barrier is the relationship needed to sell to the wholesalers and travel agencies. Building brand awareness is important for firms to get broad distribution. The key to distribution is the relationship based on ease of doing business, responsive and financial market support. Access to distribution channels may be easy but for distributors to represent your product is difficult in a crowded market.

The only regulation governing travel agencies is the need to join the International Air Transport Association (IATA) if firms wish to issue airline tickets. IATA will require travel agents to abide by certain rules and to have sufficient funds on hand to process airline tickets on behalf of airlines.

Other variables that require examination are product differentiation, brand identification and quality of service. These factors decrease the threat of entry. For example, there are reputable big names in the industry, ones which customers are more comfortable in dealing with e.g. Automobile Associations and Thomas Cook. A further variable to consider is economies of scale, which decrease the threat of entry; the higher the volume of customers a firm services, the greater economies of scale and therefore the greater the firm’s ability to negotiate with suppliers. Hotels, attractions, restaurants and transportation give better rates to higher volume customers and therefore it is a cost advantage to be larger.

Finally, specific to rail tour operators is the essential access to the rail line. In most cases, the tour operator does not own the rail lines but pays trackage fees. For RMR, contract negotiations have to be done with Canadian Pacific (CP) and Canadian National (CN) annually for access rights. The main revenue generator for rail line operators is freight and passenger service is a distant second. For RMR, the barrier for entrants to go into the Vancouver to Banff route is a combination of volume and politics. Volume is an issue because current freight service does not allow for another passenger train service to travel on the same tracks. Politics is an issue because even if VIA, RMR’s main competitor in the Canadian Rockies, wants to travel of the same route, CP does not want them to. A crown corporation like VIA could dictate CP’s business because it has government backing. Also important to the rail tour industry is the intensity of capital needed to acquire locomotives and coaches. This is a prohibitive factor in the industry.
Overall, the threat of entry is moderate. Although starting a tourism travel service business is relatively easy, achieving the economies of scale and distribution network to be successful is difficult.

2.1.2 Bargaining power of suppliers

The bargaining power of suppliers is viewed to be low to moderate. The travel industry workforce comprises mostly of low wage, entry-level employees that rely on gratuities for a large percentage of their wages. Average wages for tourism industry employees are well below that for employees in most other industries. Although some sectors are unionized, the majority is not and therefore decreases workers’ bargaining power. Other suppliers to the Western Canada tourism destination service industry include hotels and restaurants. There are many firms supplying accommodation and meals therefore the industry is not concentrated. Although there are some national hotel chains and the quality of service is a differentiator, bargaining power is decreased because a majority of the competitors in this industry are homogeneous.

An additional supplier is tourist attractions. The bargaining power of tourist attractions is low unless the supplier can claim exclusive access rights. For example the Banff national park is open to all visitors who pay a nominal fee. Western Canada’s natural resources cannot be easily restricted.

Finally, because many travelers rely heavily on commercial transportation to reach Western Canada, transportation providers are suppliers. An airline or an airport may have a strike that could affect the industry. Tour bus companies, rail service providers and transportation terminals (train stations) charge rents for access to their service. There are enough tour bus companies that any consolidation would not pose a major threat to the industry. To alleviate this threat, firms can always backwards integrate and purchase their own buses to operate. Firms can also build their own transportation stations if access is restricted. Unfortunately, rail service providers have an exclusive monopoly on rail routes as dictated by the government. Canadian Pacific and Canadian National grants access rights on their tracks. If a company needs to operate on the tracks they are at the mercy of the individual companies. The commercial transportation industry has high bargaining power.

Aside from the potential risk of commercial transportation routes and unionized employees, suppliers are small and geographically disbursed. A majority of suppliers have weak

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bargaining power however a few critical suppliers have a stranglehold on the industry. Currently, the onboard staff and train maintenance workers are unionized; salary cost could significantly increase if other parts of the organization join a union.

2.1.3 Bargaining Power of Customers

Customers for the Western Canada tourism destination service can be categorized into four basic types. Each type has a different degree of bargaining power. As detailed below in Table 1, fully independent travelers (FIT) book travel services without going through an intermediary. RMR, through their call centre, sells directly to FITs who are geographically dispersed and therefore the market is widely dispersed. FIT’s possess little bargaining power and margins are considerably higher versus consolidated customers. What RMR loses in margins to consolidators, it usually gains back in volume. For example, RMR does not provide FIT’s with the ability to directly book online in an effort not to commoditize the product.

Whether a customer books direct or through an intermediary, a typical RMR customer is married, travelling as a couple, between the ages of 55 – 74 and from an English speaking country. Detailed below are RMR’s customer demographics.

When an intermediary consolidates the individual customer base, the bargaining power of this group is high. Consolidation occurs when travelers book through a travel agent who may group similar bookings to a wholesale tour operator (WTO) or group tour block (GTB) to take advantage of buying power. The consolidated customers, through the intermediary, have the ability to negotiate for a lower rate with service providers. The more volume a consolidator can bring, the more bargaining power they have. The WTOs sell RMR’s tours as a whole with additional add-ons of hotels etc. The Group tour blocks imbed RMR’s two-day rail package around its own tour and has its own tour guides taking customers through the journey. Finally, there are Receptives who sell only to wholesalers.

Furthermore, most intermediaries are paid commissions on the bookings they sell on behalf of RMR. This type of customer is geography specific. North American customers are more likely to be FITs due to their proximity and familiarity with Canada. European and Australian / New Zealand customers come more frequently through intermediaries due to time savings and convenience. Given all these aspects, the bargaining power of customers is moderate to high.
Figure 1 RMR demographics

If FITs are able to consolidate their bargaining power and request better rates from industry providers, this can be a major threat. The Internet has the ability to bring customers together who would like to travel on a similar journey. Individual travelers will be empowered to coordinate their own travel on the Internet. Thus the opportunity lies in further differentiating products so that the service extracts higher rents from customers. The differentiation can occur from the value added services provided when a customer books to the services provided on their trip.
2.1.4 Threat of Substitutes

A segment of the Western Canada tourism destination service can be easily substituted. The Internet is replacing the coordination of travel services by travel agents. Consumers are finding information on line and booking directly with hotels and transportation providers. Firms, however can differentiate by offering quality service. If a traveler is engaged in a complex transaction, there is always peace of mind dealing with a person directly. This is especially true with high-ticket items. The drawback to booking independently is the time needed to do the research, lack of convenience and no economies of scale for the FIT. Convenience is a substantial motivating factor for travelers. Other regions or other modes of transportation can replace Western Canada as the destination of choice. For Asia Pacific visitors to BC, competing destination considered include fifty three percent US, seventy percent other Canadian destinations and twenty seven percent overseas destinations. In 2003, when there were forest fires in the interior of BC many visitors decided to visit other regions.

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There are also other rail tour operators including Montana Rockies Rail tours, which will be discussed later in more detail. Grand Canyon Railway (GCR) also runs a railtour service through Grand Canyon national park in the US. GCR runs a shorter trip of approximately 2 hours where meals are not served on the train. However, GCR owns its own hotel where its customers stay when on the tour. Finally, another substitute product may be the famous Orient Express train trip. The target market is different for this trip as it caters to an ultra first class travel experience. The clientele is different due to the price point of the trip that starts at $2,000 US. The Orient Express has several products travelling to different cities in Europe and Asia and includes dining and sleeping cars. European and Asian cities visited include London, Paris, Rome, Bangkok and Singapore.

The cruise ship industry is yet another substitute product. A typical 7-day Alaskan cruise departing from Vancouver ranges from $1,000 to $2,000 depending on onboard accommodation. A cruise provides a higher level of service because of onboard entertainment and activities available. A cruise ship also provides an opportunity for a family vacation that caters to different interests where travelers do not have to spend all of their time together.

The threat of substitutes is high. The Internet is displacing many of the coordination activities offered by tourism providers. There are also many alternative activities that travelers can purchase. A successful company has to differentiate itself from a crowded market of interchangeable products.

2.1.5 Rivalry Among Existing Competitors

There are many competitors in the industry comprised of small to medium sized firms all competing for the same tourist dollars. There are many local and foreign competitors who can provide the tourism travel services. For example in 1997 there were 4760 travel agencies in Canada with an average number of employees ranging from 2 to 20 and a profit margin of 7.3 percent. Competition overlaps in different industries, as there are a lot of providers of destination tourism. Competitors include tour operators that provide tours and travel agency services (Brewster) and firms that are purely just travel agencies. There are also competitors that are also partly transportation providers; this would include RMR and Royal Caribbean Cruises Ltd. (RCCL). Recently there are Receptives that have started selling direct to consumers e.g.

CanEscapes. The range of sizes of destination tourism service providers creates a vast range of services. Smaller operations sell travel services and other tour operator’s packages. Industry growth is dependent on a number of factors including economic conditions, exchange rates, weather patterns and natural disasters. If companies compete on price alone, competition will be fierce.

Rivalry among competitors will be more intense depending on the outlook for the industry. Tourism in BC has been growing marginally since 1997. Figure 1, 2 and 3 below show that there has been a minor increase in revenue and volume of visitors every year prior to September 11, 2001. There was a slight recovery in 2002 and then in 2003 SARS and the forest fires in BC’s interior reduced the growth rate. There is however growth in the Mainland Chinese and South Korean Markets. From 2000 to projected 2004 as detailed in Figure 5 the growth rates have been forty-five and thirty percent respectively. The overall low industry growth rates would increase rivalry among competitors.

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<th>2001</th>
<th>2002</th>
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*Forecasted 2004

Figure 2 Overnight visitors to BC revenue and volume.  

Figure 3 Chart of BC visitor revenue

Figure 4 Chart of BC visitor volume

The tourism product is differentiated based on the quality of the service. There are high-end services to low end cost based providers. There are also niche players that may cater to specific nationalities. The differentiation allows for less competitive rivalry. Furthermore, exit barriers are low which would decrease rivalry. Exit barriers may be higher for tour operators who invest in coaches and other transportation means, however for many service providers, exiting is easy with low capital and regulatory constraints. Low fixed cost prevent Firms will simply fold up shop in this cyclical business as opposed to sticking it out.

The firms of the Western Canada destination tourism service industry have relatively low fixed costs that promote quick price slashing when demand slows. For a typical travel service
provider, a majority of operating expenses are variable costs. The industry is labour intensive with fifty three percent of all costs consisting of salary and wages\textsuperscript{12}. There is not an extensive need for property, plant or equipment needed to provide tourism services. Rent is the main fixed costs but there are exceptions to the rule as described later. Low fixed costs decrease the rivalry among competitors. Rivalry is therefore moderate to high for the industry.

RMR is in a unique position in that it is neither strictly a travel agency nor a transportation provider. Below is an analysis of competitors in the Western Canada destination tourism service industry. Table 2 begins with (RCCL), the largest of the competitors to small niche market players like Canadian Coco. Many of the competitors of RMR are also customers and RCCL is no exception. RCCL’s has Vancouver as a port of call for their Alaskan and Hawaiian cruises and therefore competes against RMR for tourists who want to stop off in Canada on their vacation. The demographics of cruise ship customers who stop in Vancouver are also similar to that of RMR with eighty two percent - American, sixty nine percent - 55 year or older, sixty percent - female\textsuperscript{13}. RCCL is a complete end-to-end vacation that provides all possible amenities and services on the ship. RCCL is also a customer as the company imbeds RMR’s journey as part of their cruise package tour. Forty percent of cruise ship passengers reported staying an average of two nights in Vancouver pre/post travel.\textsuperscript{14}

VIA rail is also a competitor providing passenger rail service from Vancouver to Kamloops and on to Jasper. VIA does not have access to the scenic southern route of Kamloops to Banff to Calgary that RMR has. VIA is more of a transportation provider, as it must partner up with other tour companies such as Brewster and Brennan to offer full package tours. Although VIA is a larger company at $270 million in annual revenue for the fiscal year ended 2002, the company received federal government funding of $153 million. VIA had a net loss of $172 million prior to the government funding\textsuperscript{15}. Deducting the government support from the beginning of VIA’s first year of its current passenger rail network in 1990, the company has never made a profit.

Brewster has a long history of providing tours through the Canadian Rockies dating back to the early 1900’s. The company was originally owned by a Canadian family but was recently

\textsuperscript{12} Adib Farhat, “Profile of Canada’s travel agency industry” Statistics Canada, May 2000, pg. 6


\textsuperscript{15} VIA Rail Canada Annual Report, (2002): 27
sold to VIAD, a US based conglomerate. Brewster’s revenue is estimated at approximately $70 million but the company’s scope is more encompassing. Brewster’s business spans seven operating divisions including two attractions, motor coach services, charter and sightseeing services, hotel operations and travel agencies. However, Brewster’s revenue consists of only four percent of VIAD’s total revenue of $2 billion. Brewster offers rail service with both VIA and RMR. There are synergies to Brewster’s operations as the customers provide revenue to many of Brewster’s divisions. Aside from the tourist attractions and hotels, Brewster’s business is very similar to that of RMR’s business.

Brennan is more of a traditional travel agency based out of the US. The company operates tours in Canada and US and offers services from both VIA and RMR. Brennan’s tours include both traditional motor coach tours and rail tours. The company also operates in Mexico and Ireland. Although tour packages are geographically disbursed the company is assumed to be smaller that RMR.

Montana Rockies Rail Tours (MRRT) is the company most similar to RMR. MRRT operates a railtour service through the US Rockies that travels through several US states including Montana, Idaho and Wyoming and also into Canada. MRRT operates a Canadian Railtour to Cranbrook and Fernie BC though not through the Canadian Rockies. Although MRRT does offer a Banff tour, it is a flight and motor coach tour. The price point is comparable to that of RMR ranging from $529 US to $829 US, but for a longer 3 day / 2 night trip. MRRT has a higher third level of service at $1,859 US. This third class uses a coach that has no more than 14 passengers and utilizes a lounge car with sofas, private bedrooms and baths. MRRT offers several products including organizing and selling a product around VIA’s Vancouver to Kamloops to Jasper run. Finally Canadian Coco is included as a competitor. The company is a very small independent firm based out of Vancouver that is unique in that it caters totally to the Japanese market offering both VIA and RMR products. A majority of firms has multiple products to sell to customers that include multiple destinations.

Below in figure 5 is a graphical presentation of some of the competitors in the market and their relative position based on the variables of price / quality and product line / merchandising mix. RCCL is the clear leader in price / quality and product line as the cruise ship offers amenities that cannot be offered on board a train and various ports of call. MRRT is ahead of RMR slightly due to its superior class, which is above RMR’s Goldleaf service. Only

Brewster has been included as many of the tour operators bundle VIA’s or RMR’s product in their own product mix. Brewster has a large product mix in western Canada. Finally, VIA is last on price / quality but it does have many products. Also worth noting are that many of the competitors have multiple product lines in multiple geographical areas. This not only spreads business risk but also allows for multiple business streams. Table 2 summarizes many of the attributes of the competitors including size, product and promotion. RCCL is a substitute and a competitor.

Finally, in analyzing the competitors, there needs to be an evaluation of the demographics of the demand side of the industry. Based on the industry analysis, figure 6 and 7 show BC’s largest inbound tourist markets. The largest proportion of visitors come form within Canada, followed by the US and then Asia/Pacific and Europe respectively. In the last five years there has not been tremendous growth in any of the major segments.

**Figure 5 Company position matrix**
<table>
<thead>
<tr>
<th></th>
<th>RCCL</th>
<th>VIA</th>
<th>Brewster</th>
<th>Brennan</th>
<th>Montana Rockies Rail Tour</th>
<th>Canadian Coco</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Size in revenue</strong></td>
<td>$3.4 billion public co.</td>
<td>$270 mill federal crown corp.</td>
<td>Part of Viad $2 billion public co, Brewster - $70m mill</td>
<td>Medium</td>
<td>Medium</td>
<td>Small</td>
</tr>
<tr>
<td><strong>Product</strong></td>
<td>Cruise ship and tour</td>
<td>Transportation, Railtour tour</td>
<td>Full service: railtour, motorcoach tour, multiple geographic tours</td>
<td>Full service, Railtour, motorcoach</td>
<td>Full service, Railtour, motorcoach</td>
<td>Japanese Railtours and motor Coach tours</td>
</tr>
<tr>
<td></td>
<td>Onboard full entertainment,</td>
<td>packages with third party</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>sporting activities</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Promotion</strong></td>
<td>Advertising wholesalers travel agents</td>
<td>Travel agents</td>
<td>Advertising wholesalers travel agents</td>
<td>Advertising wholesalers travel agents</td>
<td>Advertising wholesaler, travel agents</td>
<td>Japanese advertising wholesaler travel agents</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Price</strong></td>
<td>High</td>
<td>Lower</td>
<td>Medium</td>
<td>Medium</td>
<td>High</td>
<td>Medium</td>
</tr>
<tr>
<td><strong>Location of products</strong></td>
<td>North &amp; Central America, Europe</td>
<td>Canada, sleeping cars</td>
<td>Western Canada</td>
<td>North America, Ireland</td>
<td>U.S. and Canada</td>
<td>Western Canada</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Service</strong></td>
<td>High</td>
<td>Medium</td>
<td>Medium</td>
<td>Medium</td>
<td>Medium</td>
<td>Medium</td>
</tr>
<tr>
<td><strong>Online res. system / multi-lingual</strong></td>
<td>Yes</td>
<td>Yes</td>
<td>Partially –</td>
<td>No</td>
<td>No</td>
<td>No (Japanese)</td>
</tr>
<tr>
<td></td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td></td>
</tr>
</tbody>
</table>

*Table 2 Competitive Analyses*
From figure 6 the Asia Pacific market is the second largest foreign market. Further detailed below in figure 7, the Japanese form the largest percentage of the Asia Pacific market, many competitors have a thriving business in this market. Drilling down into table 3, the specific sub segments of Mexican, Mainland Chinese and South Korean show great potential with twenty-four, forty-five and twenty nine percent growth respectively. China’s economy is experiencing double-digit growth in the last few years therefore market potential is huge.

Figure 7 Asia Pacific Visitors to BC 18

<table>
<thead>
<tr>
<th>BC overnight tourist sub-segments</th>
<th>2001 Compared to forecasted 2004</th>
<th>2001 to 2004 increase in visitors (thousands)</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>BC resident</td>
<td>271</td>
<td>2.52%</td>
<td></td>
</tr>
<tr>
<td>Canada</td>
<td>(112)</td>
<td>-2.27%</td>
<td></td>
</tr>
<tr>
<td>US</td>
<td>376</td>
<td>7.96%</td>
<td></td>
</tr>
<tr>
<td>Mexico</td>
<td>15</td>
<td>23.84%</td>
<td></td>
</tr>
<tr>
<td>Japan</td>
<td>(79)</td>
<td>-26.79%</td>
<td></td>
</tr>
<tr>
<td>Australia &amp; NZ</td>
<td>(11)</td>
<td>-6.88%</td>
<td></td>
</tr>
<tr>
<td>South Korea</td>
<td>25</td>
<td>29.19%</td>
<td></td>
</tr>
<tr>
<td>Taiwan</td>
<td>(63)</td>
<td>-53.35%</td>
<td></td>
</tr>
<tr>
<td>Hong Kong</td>
<td>(21)</td>
<td>-23.71%</td>
<td></td>
</tr>
<tr>
<td>China</td>
<td>21</td>
<td>45.34%</td>
<td></td>
</tr>
<tr>
<td>SE Asia</td>
<td>(19)</td>
<td>-17.19%</td>
<td></td>
</tr>
<tr>
<td>UK</td>
<td>(20)</td>
<td>-6.83%</td>
<td></td>
</tr>
<tr>
<td>Germany / Austria / Switzerland</td>
<td>(37)</td>
<td>-23.94%</td>
<td></td>
</tr>
<tr>
<td>France</td>
<td>(9)</td>
<td>-27.42%</td>
<td></td>
</tr>
<tr>
<td>Netherlands</td>
<td>(10)</td>
<td>-20.30%</td>
<td></td>
</tr>
<tr>
<td>Italy</td>
<td>(5)</td>
<td>-20.99%</td>
<td></td>
</tr>
<tr>
<td>Other Europe</td>
<td>(24)</td>
<td>-20.33%</td>
<td></td>
</tr>
</tbody>
</table>

Table 3 Overnight Visitors Sub Segments

New opportunities are the relatively unexplored Japanese market that makes up a large percentage of overall Asia Pacific travellers and the emerging Chinese and Korean markets. Also, a few competitors offer a higher quality and price product which moves it up the luxury scale. A company based on a differentiation strategy should try to move up the quality axis. Another threat is that other competitors have a fuller spectrum of the industry. Operating a tourist attraction or a hotel may not be an advantage but not owning one may be a weakness as competitors can extract more profit out of the same customer.

2.1.6 Attractiveness of Industry

Based on our discussion, the overall attractiveness of the industry can be analyzed using Porter’s five forces model in figure 8. Each force is ranked from low to high in terms of its affect on the industry. Specific attributes are tagged with a positive or negative sign depending on its

affect on the force, e.g. economies of scale decreases the threat of entry because new entrants will have difficulty gaining scale. From the five forces we can summarize in table 4 the opportunities and threats for the Western Canada destination tourism industry.

In review, the industry is moderately attractive. Destination tourism service is a crowded market with many competitors. Many competitors overlap several industries and entry is easy. However, if firms compete on price alone then it would be difficult to maintain market share. The market can also have great fluctuations in business cycles due to uncontrollable forces such as SARS. Finally, large companies can benefit from economies of scale.

<table>
<thead>
<tr>
<th>Threat of Entry</th>
<th>Moderate</th>
</tr>
</thead>
<tbody>
<tr>
<td>(-) Economies of scale - cheaper to book in large volumes</td>
<td></td>
</tr>
<tr>
<td>(+) No restrictions to access distribution channels</td>
<td></td>
</tr>
<tr>
<td>(-) Difficult to get distribution representation in crowded market</td>
<td></td>
</tr>
<tr>
<td>(-) High Branding/Ad Costs differentiate competitors</td>
<td></td>
</tr>
<tr>
<td>(+) Capital requirements - low investment needed</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Bargaining Power of Suppliers</th>
<th>Low to Moderate</th>
</tr>
</thead>
<tbody>
<tr>
<td>(-) Labour - low wage, entry level workers</td>
<td></td>
</tr>
<tr>
<td>(-) Hotels and restaurants - many suppliers and highly competitive</td>
<td></td>
</tr>
<tr>
<td>(+) Transportation - terminals and services can be restricted</td>
<td></td>
</tr>
<tr>
<td>(-) Tourist attractions (natural) - low because firms cannot restrict access to most sites if restriction is possible, may be substitutes</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Rivalry Among Existing Competitors</th>
<th>Moderate to High</th>
</tr>
</thead>
<tbody>
<tr>
<td>(+) Many Small Competitors</td>
<td></td>
</tr>
<tr>
<td>(-) Low growth rates in industry</td>
<td></td>
</tr>
<tr>
<td>(-) Low among differentiated customers</td>
<td></td>
</tr>
<tr>
<td>(-) Low fixed costs</td>
<td></td>
</tr>
<tr>
<td>(-) Low exit costs, not capital intensive</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Threat of Substitutes</th>
<th>High</th>
</tr>
</thead>
<tbody>
<tr>
<td>(+) Threat of Internet as an disintermediary</td>
<td></td>
</tr>
<tr>
<td>(+) Threat of customer booking all services themselves or performing services themselves</td>
<td></td>
</tr>
<tr>
<td>(+) Customers can find alternatives to services e.g. camping</td>
<td></td>
</tr>
<tr>
<td>(+) Customers can choose other destinations</td>
<td></td>
</tr>
<tr>
<td>(+) Customers can choose to spend discretionary income on other items</td>
<td></td>
</tr>
</tbody>
</table>

Figure 8 Industry Analysis – Porter’s five forces 19

2.2 Value Chain Analysis

2.2.1 RMR background

RMR’s overall corporate strategy is a differentiated, high quality, adequate cost, tourism and travel product. The company focuses on superior quality exemplified through exceptional customer service.

The company has diverse operations; the most obvious business is RMR’s fleet of trains and buses and the maintenance facility that keeps the operations functioning. In addition, the company’s travel agency business employs call centre staff that helps customers book the train experience and other travel. The additional travel may include airfare, additional night’s accommodation, attractions and city tours. The company also operates its own live stage production called “Two River Junction” in Kamloops. The production ensures that overnight visitors of the train have entertainment in Kamloops. Finally, the company also has a small retail souvenir business for RMR paraphernalia. RMR’s travel agency, transportation, maintenance, stage production and souvenir business only complements the company’s core business, which is offering customers a spectacular experience.

2.2.2 Industry Value Chain

As stated previously, RMR is in the Western Canada destination tourism service industry. RMR competes directly with many travel service providers from national brands like

<table>
<thead>
<tr>
<th>Opportunities</th>
<th>Threats</th>
</tr>
</thead>
<tbody>
<tr>
<td>Further differentiation based on quality of product to avoid commoditization.</td>
<td>Maintaining access to rail lines</td>
</tr>
<tr>
<td>Unexplored Japanese market</td>
<td>Further unionization of employees</td>
</tr>
<tr>
<td>Growing market segment of Mainland Chinese and South Koreans</td>
<td>Consolidation of FIT’s through intermediaries e.g. Internet</td>
</tr>
<tr>
<td>Operating a hotel or tourist attraction to complement current industry</td>
<td>Many substitutes for product including cruise ships and alternative destinations.</td>
</tr>
<tr>
<td>Increase product offerings</td>
<td>Slow overall industry growth rates</td>
</tr>
</tbody>
</table>

Table 4 Industry Opportunities and Threats
Thomas Cook and the Automobile Associations, to local mom and pop shops. The company also competes with other destination tourism service providers including cruise ships. Cruise ship companies are very similar to RMR because they also use the transportation of travelers as a medium to generate revenue by providing package tours and other travel services. Many tourism operators have backwards integrated by purchasing their own transportation. An example of this would be a travel agency owning their own buses. However, most companies do not have the scale or scope of services that RMR has.

**Industry Value Chain – Western Canada Destination Tourism Service**

![Industry Value Chain](image)

**Figure 9 Industry Value Chain**

Above in figure 9, is the Industry Value Chain for the Western Canada Destination Tourism Service Industry. The legend shows that RMR has forward and backwards integrated within the industry. The darker shaded region of figure 9 represents the operation that RMR has kept in-house while the lighter shaded region represents what RMR has contracted to outside vendors. The associated percentage of each outside contracted operation is also shown. The company’s core business is to provide a superior quality service for customers to travel. Each part of the value chain will be discussed in depth.

In the industry, a majority of the sales and marketing is done via a push strategy. Typically, direct end-user advertising is spent on travel magazines and direct mailers, however, a majority of marketing is also done in conjunction with travel agencies. The push strategy involves the sales force and trade promotions to induce travel agencies and wholesalers to recommend the product to travelers. Push strategy is assumed to be an effective method as the target market is geographically dispersed therefore any direct advertising would be costly and not particularly focused. The sales force also attends many industry tradeshows to promote the product.
Commissions to wholesalers and travel agencies are negotiated based on the size of the company. For example, the California Automobile Association can negotiate for higher commissions than a single location, independently owned agency. Access to travel agencies and wholesalers is open to anyone and therefore there are few barriers to entry.

Because the industry employs a push strategy, sales and marketing has been placed at the front of the value chain. RMR employs full time sales staff that are not direct sales people. These sales staff function more like account managers to the large wholesalers. The company also uses third party contractors for both sales and marketing. With the cyclical nature of the tourism industry, it is essential to have people in the field to judge demand for the season. Forecasting demand allows for travel service providers to judge how many staff to hire and what rates can be negotiated with tourist attractions, hotels and restaurants. Volume discounts are usually given for travel service providers who can bring in many customers. Another linkage between sales and marketing and the rest of the value chain is that the front line staff allows a travel tourism service provider to better understand what products to build. This feedback allows companies to be more in tune with market demands. An example of this is the general trend towards more lifestyle oriented tour packages, E.g. Golf vacations or spa retreats.

Next, tourist attractions and hotels are separated in the industry value chain from meals and entertainment for illustrative purposes because RMR is partially involved in the business of the latter. Tourist attractions, hotels, meals and entertainment are heavily dependent on the destination tourism service industry because it brings in volume.

Hotels and tourist attractions can have high fixed costs and any revenue contribution in slow periods is welcomed. Tour groups allow hotels to better manage their resources by allowing them to predict slow periods when special rates can be offered. Furthermore, the tourism travel industry is particularly important to hotels because group tour stays are predictable and are confirmed well ahead of time. For meals, including restaurants, margins are slim and volume brought in by tours can increase profits. Tour groups are exceptional for business because these customers usually have set menus and do not require À la Carte preparation; therefore economies of scale are achieved. The interdependencies of destination tourism service companies and restaurants may involve commissions to tour guides that bring their tour in.

RMR produces its own live stage production called “Two River Junction” in Kamloops. Two River Junction is a dinner and play that guests see in their stopover. RMR’s trip includes breakfast and lunch served on train. Both Two River Junction and onboard meals will be explored in depth in the firm value chain analysis.
Transportation is another integral link in the Destination Tourism Service Industry. Transportation can be used to get customers from point A to point B but it can also be used to provide a value added service, as in the case of RMR. Transportation companies have considerable supplier power as they can prevent tourism service providers from their guests. An example is when an airline goes on strike. Many local industry competitors have backward integrated by owning their own motor coaches to transport tourists. There are several key interdependent linkages for transportation. Firstly, owning your own transportation allows for efficient scheduling and coordination. Companies are not hostage to other’s schedule. Secondly, it allows for control of which destinations tourists visit, ensuring receipt of any volume discounts or kickback commissions previously negotiated.

The culmination of all these activities requires strengths in purchasing, coordination, organization and reservation for a guest’s experience. There are synergies to be achieved from information, economies of scale, volume discounts, market segmentation and product development. Travel tourism service providers offer customers convenience and timesaving in planning their trip. Coordination of activities is key to adding value to the industry. Firms should be able to organize better than the average person due to learning curve, experience curve and economies of scale. The experience deserves highlighting in that it is not only labour intensive but also process intensive, for example what is the most efficient method to deliver customer luggage to the end destination.

Consolidated purchasing allows industry participants to achieve economies in scale with suppliers. Suppliers give certain rates based on how many blocks of rooms a company books for the upcoming season. It is also common practice to give tour guides and coach operators free accommodations when they bring their tour in. Coordination and organization allows industry players to maximize efficiencies and planning. Buying power allows for flexibility in scheduling. Suppliers may stay open later or add staff to accommodate groups. Reservation service is also improved with size due to division of labour and specialization. Organizing all aspects of a traveler’s itinerary allows operators to obtain margin from each of the activities in the value chain. An example would include customers purchasing air transportation and accommodations. If there are guests that require a special experience such as kayaking in Howe sound, time is saved for companies that have performed such bookings before. Other efficiencies include the time saved in contacting the same vendors and the advice given to customers on the best route to take.
The source of competitive advantage must be the ability to effectively and efficiently purchase and coordinate destination travel services. The premium extracted from customers is the service provided. Information collected from guests' reservations can also be used for demographic segmentation in marketing. Age, gender and products selected can be used to sell additional services during or after the trip. If a guest has chosen an excursion to Victoria they may also be interested in taking a whale watching tour. Up selling can be achieved with customer data.

Further down the value chain, RMR is unique in that it has a full reservations call center and has the niche of a train experience to capture the customer. When customers book a RMR trip, reservation staff can also arrange for hotel, car rentals and other tours. RMR differentiates itself by providing a unique experience and an additional opportunity to sell additional services.

2.2.3 Firm Value Chain

A firm's value chain is used to understand its value-creating activities that exceed the cost of providing the service. Profits are generated from these activities. RMR's value chain is detailed below in figure 12. Each activity will be discussed in depth therefore referring to figure 12 throughout this section will facilitate a better understanding. RMR's value chain is a collection of complex interdependent activities that allow the firm to create synergies. Effective and efficient interactions within the value chain and between buyers, suppliers and other business units create these synergies. In the analysis, three important characteristics will be identified:

1. Source of the sustainable competitive advantage
2. Importance of complex linkages and interrelationships
3. Identification of where the strategy of differentiation is consistent in the different value creating activities.

2.2.3.1 Primary Activities

2.2.3.1.1 Inbound logistics

Inbound logistics in a product-manufacturing environment involves the receiving, warehousing and inventory control of input materials. RMR has some aspects of physical input materials because of its maintenance and souvenir inventory activities. However, the majority of the operation is focused on providing services
RMR’s product is providing travel services to its customers; therefore the major inputs involve the scheduling of tours, staffing, train and buses. A typical itinerary includes accommodations, transportation, meals and sightseeing. The building of a tour is essential in keeping the consistency of a high quality product. Product build involves two separate business units, marketing and guest services.

Marketing selects the inputs of a tour to ensure it is inline with customer demand and the overall marketing strategy of the company. An example of marketing’s strategy would be a plan to attract customers outside of its 55+ age group. The company therefore recently introduced the “Grizzly Bear of Knight Inlet” a more adventurous tour package that includes a floatplane tour of Knight inlet in the interior of BC. However, the demand of the product did not exist, as there were very few sales 2003.

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Marketing negotiates all new contracts with the hotels and restaurants to ensure the quality expectations are met and best pricing is achieved. Guest Services, on the other hand, provides annual renewal of existing contracts. RMR has built strategic alliances with many vendors including Hertz, Laidlaw Motor Coaches and Fairmount Hotels to ensure the ability to up sell. This collection of discrete but related pre-production activities ensures a consistent quality of service.

Marketing and guest services coordinate all inbound logistics including all hotels that are offered to guests. The product logistic responsibilities divided between the two different business units may be inefficient, centralization of this function should be further explored. RMR should ensure the company has a good vantage point to manage the most critical shared resources. How can RMR ensure marketing’s selection of product is consistent when it does not make the final purchasing decision? External food is also an input and includes restaurants that RMR has pre-contracted out at set rates so that guests can just show up and offer a RMR voucher in lieu of payment.

RMR should achieve economies of scale and therefore synergies due to the volume purchased from suppliers. However, there are many individuals that make purchases within the organization and each operation can make independent decisions. There is information asymmetry between different business units within the organization. There is no formal methodology in looking up supplier information aside from a series of telephone calls and inquiries.

The low bargaining power of suppliers increase the margin made on hotels and meals. Onboard the train, RMR sub-contracts out the meals served. The contracted company is considered only as partially subcontracted because RMR is one of its main customers and can dictate many aspects of the service including the type of food and staffing. The contracted food company operates with a staff of 130 during RMR’s train season and 17 staff during the off-season.

Additional inputs include the maintenance of the railcars, which require parts and fuel. As RMR’s maintenance operations are small, there is little efficiency. RMR also purchases and leasebacks all rail equipment it operates including the bi-level dome cars costing up to $3

millions. Finally, RMR has its own line of souvenirs that requires full time staff to manage the sale and purchasing of inventory.

2.2.3.1.2 Operations

The Operational activity of RMR has to be a sustainable competitive advantage because these activities have the most contact with the customer. Therefore this has greatest potential for differentiation. The production process for RMR involves coordinating the different inputs of the travel product, train operations and onboard customer service. Coordinating linked activities should reduce transaction costs, gather better information for control purposes and substitute less costly operations for more costly ones elsewhere\(^{23}\). RMR’s processes can be improved, as the current operation is a group of separate systems. Reporting is a combination of standalone software systems and Microsoft Excel spreadsheets. Some examples of the current system incongruities include guest reservations. Reservations are done on a system that is separate from the company’s financial system. The two are integrated as information flow from one to the other. Daily guest counts are reported separately on an Excel spreadsheet. Purchasers do not have access to supplier information and must request it from finance. Train maintenance partially uses the financial system to assist in maintenance management however; new train construction is managed in Excel. The entire value chain should be managed as a complete system.

A typical tour, such as the “4-week classic railtour to Banff” as detailed below in figure 11, can consist of airfare to Vancouver, transportation to and from the hotel, train trip, additional sightseeing and travel onward from Vancouver. The company maintains quality by bringing in-house many operations that a typical travel agency would not have and outsource ones that the vendor can live up to RMR’s standards.

Division of labour breaks down the production process. When a customer calls the call centre to book travel, a trained reservation agent takes care of all aspects of the vacation. RMR’s in-house reservation agents go through an intensive four-week training program followed by a familiarization trip on the train in order to understand the product. Reservation agents have to have experienced the product to be able to sell it properly on the phone. Agents walk the

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customer through the trip to answer any questions and relieve any anxiety. This is particularly important given that the age group of the customers is typically 55 plus. For example, some customers may need special medical attention while others are celebrating their 40th wedding anniversary. Reservation staff will go out of their way to book whatever a guest requires.

**Day 1 Vancouver Arrival**
Arrive in Vancouver and spend time exploring this scenic city on your own. Admission to The Lookout atop Vancouver Harbour Centre with spectacular views of the city, mountains and ocean is included. Overnight in Vancouver.

**Day 2 Vancouver to Kamloops**
Travel onboard the Rocky Mountaineer from Vancouver to Kamloops in the interior of British Columbia. En route you will pass through the fertile Fraser Valley and the scenic Fraser Canyon. One of the canyon's true highlights is Hell's Gate, where you will watch water torrent past the canyon's walls at its narrowest point. Upon leaving the Fraser Canyon, the train will follow the Thompson River to the city of Kamloops. Overnight in Kamloops.

**Day 3 Kamloops to Banff**
Continue your journey eastwards to the Canadian Rockies. First, you will travel through vast ranchlands to Shuswap Lake. Next, pass Craigellachie, where the "last spike" was driven completing the Canadian Pacific Railway in 1885. Beyond Craigellachie is Rogers Pass with its tunnels, glistening glaciers, and snow capped-mountains. Before crossing over the Continental Divide into Banff National Park, the train will travel through the unique Spiral Tunnels in Yoho National Park, a remarkable engineering achievement. Overnight in Banff.

**Day 4 Banff Departure**
The tour ends with check out from your Banff hotel.

*Figure 11 RMR four-day tour*

Special care is given to each individual and RMR is able to deliver because not only does the company books the vacation but also directly operates many aspects of the trip. One aspect of reservations that could create better synergies with sales is the collection of customer data. A lot of valuable information can be gathered about customers' desires, wants and needs that are invaluable if tied into the sales and marketing function. Unfortunately, the reservation, sales contact and marketing systems are separate. If this internal linkage was created, RMR may have better insight into the target market and customer segments.
Customers can select a pre-packaged tour or reservation agents can help them pick and choose different adventures. RMR’s staff can provide a complete itinerary in hopes of making it a one-stop shop. The call may begin with a customer’s specific plans but then expands into a complete vacation. The reservation staff have proprietary access to a scarce resource, the train experience. It is common for call centre staff to speak to a customer initially interested in booking a two-day Redleaf tour for $500 per person and get off the phone with them after spending $10,000 for a complete vacation. In 2004, RMR will focus more closely on this aspect of the business to exploit its greater potential. Furthermore, unlike many travel agencies, RMR reservation agents are not commission-based in order to ensure a higher quality of customer service rather than volume of sales alone. The final step in the reservation process is when Product operations confirm the booking with the hotels and transportation providers.

The next step of the operations involves the trip on the train. Onboard servers receive five weeks of training before starting. When the guest finally arrives for his or her trip, guest services provide hotel transfers to the station. A lot of coordination is needed on the train as the onboard dining cars are essentially moving restaurants. Onboard supplies encompass food and beverage, dry goods (restroom supplies and utensils) and kitchen equipment. Supply chain management is crucial to this process as effective use of marketplace leverage, supplier rationalization, standardization of product, effective forecasting and demand planning can lead to cost reduction.

RMR differentiates its product using state of the art, two tier dome cars with glass ceilings and dining rooms. Meals include salmon and venison served on white linen with fresh flowers at each table. Throughout the trip, onboard attendants give narratives on the history of the region and the train slows for sites of particular interest. Guests are also given maps so they can follow along the trip, in which a part of the route is a UNESCO world heritage site.

The maintenance yard is situated in Kamloops along the route of the trip. This can be seen as a sequential task that adds value due to its efficiency. Train maintenance can also use efficient supply chain management techniques to improve operations. The technical supply chain involves thousands of parts to operate the train including air conditioning systems, wheels, plumbing and electrical supplies. The operations budget is one of the largest in the company. RMR consistently upgrades or repairs the trains and brought maintenance in-house to allow scheduling of maintenance when the train overnights in Kamloops. Maintenance could be

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optimized with consolidation of suppliers and an overhaul of the inventory system. Parts have only been recently been itemized individually in the system and train maintenance is kept manually.

The cleaning of the trains has been outsourced to an ex-staff member who started her own company and now caters exclusively to RMR. RMR employs about thirty to forty staff for the servicing of the train. Although synergies are present, outsourcing this activity should be explored. RMR is a customer service company whereas maintenance requires a skill set in heavy machinery and industrial coordination. Furthermore, this function has been done only adequately as reflected in a $500K write off of a $1.3 million inventory.

Baggage handing is also an operations function. For Redleaf guests, baggage handling is sub-contracted out to a third party mover that transports the luggage from check-in in Vancouver to their final train destination. Guests are asked to carry an overnight bag for Kamloops. Guests in Goldleaf have their luggage transported on the train with them and baggage is delivered directly to their room in Kamloops.

When guests overnight in Kamloops, RMR realized that there was a lack of entertainment in the evening. Therefore, the company created a live dinner musical production called Two River Junction in order to provide a quality product for guests to experience. The entire operation involves direct interaction with the customer and is essential in creating a unique experience. The operations have room for further improvement if all procurement activities can be consolidated under one system.

2.2.3.1.3 Outbound Logistics

Outbound logistics for RMR involves the exit experience of customers; getting them home or moving them along on the next portion of their vacation. The end product for a customer when he or she leaves the tour should be a great experience so that they will tell all their friends and family. Again, the coordination of the tour is essential for guests to have a unique experience and RMR’s mission critical reservation system facilitates this activity. As stated previously for FIT guests, RMR can book their entire vacation package including add-on tours, transportation and accommodations. This is not only an essential part of the business but also a significant portion of revenue. For example, the firm must ensure rental cars are waiting for customers, hotel transfers are arranged and hotels are given specific instructions if guests are physically challenged. RMR’s reservation and product operations department will coordinate all activities as some travelers may stay additional weeks after the train experience ends. RMR currently does
not have any integrated system with suppliers as all orders and confirmations are done on the phone.

For travelers that are with Group tour blocks (GTB) that provide their own tour guide on the train, RMR is less involved with the guest’s experience. GTBs may take their guests on additional excursions after the train experience is over. RMR’s participation in a non-FIT guest’s experience is to ensure their baggage is delivered on time as they depart. RMR outsources a portion of this by hiring a moving company. Lost bags leaves guest with an unpleasant experience at the end of their journey.

2.2.3.1.4 Marketing and Sales

Marketing and sales for RMR involves creating awareness of the product to customers, which includes fully independent travelers (FIT), WTO, Tour Block and Receptives. For WTO and tour block, the sales process is similar to a manufacturing company distributing a consumer product onto a retailers’ shelf. RMR has to get its tour packages to travel wholesalers and retail travel agencies as the distribution channel involves pull marketing. Relationships are key in this aspect and RMR has to build them, maintain them and build new ones.25 RMR guarantee customers a superior product and has distribution with over 30,000 North American travel agents and 325 tour operators worldwide.

For FITs, the sales process involves information fulfillment and pull marketing. RMR produces a 57-page travel brochure and distributes one million copies each year. RMR’s product is very visual as guests imagine themselves on the train enjoying the scenery. The coordination of travel inputs and the production of the tour packages results in the finished goods. For RMR the brochure is used to showcase the experience. RMR sells a very visual product that needs to be seen in full colour. For many tourists who have never seen the western Canadian landscape, the pictures may sell the product. Subsequently, information fulfillment is sub-contracted out to a firm that receives the information request via e-mail or phone and distributes the brochure directly to the customer. Processing thousands of requests is a time consuming process in which there is no value added to keep in-house. RMR retains control of the content of the literature, the presentation of the package and therefore can sub-contract out the actual fulfillment. RMR stores the majority of the brochures off-site at the fulfillment company. About sixty percent of

RMR's business comes from wholesalers and tour blocks therefore a majority of the marketing is done via a push strategy.

For all non-FIT customers, RMR has five sales directors who are based out of Vancouver but travel the world maintaining relationships with distributors. Again, with quality of service being the key driver at RMR, the sales directors are one hundred percent salary based with no compensation based on a variable commission portion. The belief is that salary based compensation allows the directors to focus on the relationship aspect of the business and not just achieving short-term gains at the expense of distributors. Sales directors provide an ease of doing business with their customers. Another reason for this surprising compensation structure is that the directors feel that they have no direct impact on how much a distributor sells. There are positives and negatives to this structure with the positives not necessarily overshadowing the negatives. Finally, the reservation system allows reservation staff to mix and match tour packages for customers and is essential to getting the final product out to the customer.

The push marketing strategy involves the relationship developed by sales directors and the trade promotion to induce travel agencies and wholesalers to recommend the product to travelers. This strategy is assumed to be an effective method because the target market is an international clientele. Any direct advertising or sales would be costly and not focused.

Although cost effective, the use of intermediaries in the sales process restricts RMR's ability to gather consumer information. If a customer books a vacation through an intermediary, RMR is restricted by the wholesaler to contact the traveler directly. This is because RMR is competing directly with distributors for the tour package portion of the business. The ability to link customer demands and product attributes is reduced, as the company does not have direct communication with sixty percent of its passengers. RMR tries to compensate this disconnect by having customers fill out satisfaction questionnaires on the train. The response rate is good at twenty to thirty percent because it is an opportune activity for travelers to fill out the form during the trip. The remaining forty percent of customers, mostly FIT's that book directly with RMR does provide feedback.

The lack of customer information also inhibits word of mouth marketing, which is essential to the success of the product. From customer surveys, thirty percent of customers heard about RMR through friends while ninety percent said they would recommend RMR to others. Travelers usually tell their friends and family about their experiences but some individuals are better capable of spreading the word than others. For example a doctor may be able to tell many
of his patients about his vacation. The inability to identify individuals who are social hubs prohibits RMR to reward these people.

Outside of the North American market place, RMR has sales representatives in eighteen countries\textsuperscript{26}. Third party marketers include agencies in UK and Australia that help implement media relation strategies and marketing plans. The European market is so important that the company has a London office that manages sales and marketing activities. Third party sales partners include contractors that attend trade shows and help promote the brand. Similar to the strategy with the reservation agents, the key to selling RMR's product is to have experienced it first hand. Therefore, RMR employs the industry standard of familiarization trips for all intermediaries. This is an essential part of the sales process and is a consistent strategy throughout the firm.

There are a lot of synergies to be achieved in the sales and marketing areas. Demand is forecasted mainly through communications through distribution channels. Because tour operators and travelers book up to six months to a year in advance of travel, RMR can forecast what the demand is for the upcoming season. Once more, the drawback to this is that RMR loses a very important piece of customer feedback. Tour operators that book groups are very reluctant to release information in fear that RMR will market directly market to its customers.

RMR's pull strategy involves a few different tactics. RMR creates public relations by pitching the company in the international media via editorials. In 2000, the company generated almost two million dollars in free editorial (equivalent to what it would have cost to buy the advertising). Editorial have appeared in more than 100 publications worldwide. Most editorials are mainstream media and include major titles and broadcasters such as the BBC, CNN and the Los Angeles Times. RMR is viewed as one of the largest "importers" of foreign travel media in western Canada\textsuperscript{27}. Another example of PR is when the company hosts up to 75 groups of media, including cameramen and photographers, per season. RMR also works closely with travel agencies and bureaus to ensure that the train trip is part of the local story.

Direct advertising is usually used in conjunction with intermediaries. The consistent theme in sales and marketing is the importance of relationships and this is where listing and co-op advertising deals are formed. RMR will contribute advertising dollars to an intermediary's ad and may offer special discounts to entice business. An example would be the early bird special


when guests book before March 31, they are entitled to receive discounts on tour packages. Print campaigns targeting FITs start in January and ends in June. Ads appear in publications such as *Conde Nast Traveler* and *Canadian Living*. RMR avoids TV, radio and newspapers as these mediums usually compete on price point. Cost comparisons are prominent in these ads and therefore not part of RMR’s differentiation, quality of service strategy. The inter-business unit interdependency is advocated as the ads tell potential customers to call their travel agent or the 1-800 number. RMR is introducing an online strategy in 2004 and this may have an affect on the relationship aspect of the business because the Internet reduces customer service.

To summarize, there are still benefits for customers to deal directly with RMR than through an intermediary. First off, a Group tour block can create a tour imbedding RMR’s two day rail into it’s own package. If there are problems on the trip, e.g. a guest was not satisfied with their hotel in Kamloops, the GTB can express their concerns directly to RMR as oppose to going through third parties. Reaction time will be quicker. Second, a higher commission is paid when dealing directly with RMR than through an intermediary. Finally, RMR will provide market support in terms of direct advertising dollars to sell the product.

2.2.3.1.5 Service

In the context of the value chain, service is seen as those activities that maintain or enhance a product’s value including customer support. The company’s Guest service business unit is the main advocate of customer service. RMR’s value proposition is a high quality, adequate cost, and differentiated product. Examples of the service levels provided include an incident when a guest’s pants were stained during the trip. RMR paid for the dry cleaning necessary to make the guest happy. Other examples of superior service incidents involved an elderly couple that left their medication in their hotel room and needed it that night. Guest services got the prescription from the couple while they were still on the train, phoned ahead and had someone pick up their prescription from a local pharmacy. The medicine was waiting for them upon arrival. These service level stories abound, as RMR understands that word of mouth is essential in marketing the company. Negative word of mouth is more pervasive and has more of an impact than positive word of mouth.

2.2.3.2 Support Activities

Technology development, particularly the reservation system, is a mission critical application in the operations of RMR. The reservation system is essential for
coordination and organization of products for sale and is the information conduit of the entire firm. Sales uses the reservation system to track demand and bookings and give guests their tour package. Marketing and Products uses the system to put together packages and track costs. Guest services tracks guests with the system to ensure they are in the right hotel, train or bus. Finally, all the data accumulated in the reservation system is integrated with the company’s financial package to evaluate the performance of the company.

The financial system is also essential to tracking procurement and bookings. Currently the company does not employ any form of Electronic Data Interchange. All payments to suppliers and a majority of receipts from customers are done with cheques. Some of these process require very manual and laborious jobs. E.g. processing of commission to travel agents requires a full time staff as each cheque has to be printed manually and number into the hundreds weekly.

A strength of the financial business process allows business units to operate autonomously as each is evaluated as a cost or profit centre. Each business unit receives their financial information on a monthly basis and is empowered to make adjustments to enhance productivity. For example if guest services sees that their overtime is too high they can make adjustments to staffing. Each month, each department is required to present their performance to the COO and explain any variances. The financial system allows for accountability. The system creates an internal linkage within the value chain.

One area of improvement is the purchase of a more robust customer relationship management (CRM) system that can assist the firm to effectively market to specific segments and ensuring understanding of its customers’ desires and wants. The lack of connection between the customer base with marketing and sales appears to be a weakness for RMR. Although there is a very basic CRM, the system only tracks names and addresses. No specific demographic information is kept and there is no connection back to the customer satisfaction survey that is conducted on the train. Understanding the customer will enable the company to develop better tour packages by knowing what the customer wants in terms of service.

Because the company differentiates itself by providing superior customer service, staff training is essential. Reservation agent training has been discussed in the operations section but onboard training is just as essential. Onboard staff are seasonal employees from April to October. Surprisingly, RMR has had some onboard staff return for fifteen consecutive seasons. Staff are specifically selected for their customer service and their public speaking abilities. Public speaking is essential to telling a good story. RMR held an annual job fair, and in 2004, five
hundred applicants showed up to apply for the onboard positions. In a differentiated strategy, employees are usually highly skilled, flexible and well compensated. However, the travel industry workforce comprises mostly of low wage, entry-level employees that may rely on gratuities for a large percentage of their wages. Average wages for tourism industry employees are well below that for employees in most other industries. Gratuities make up some of the shortfall in wages and allow RMR to retain good employees and bridge the gap in the differentiation strategy.

Training seems to be lacking at RMR. Employee survey results indicate a lack of training in the reservation system which was implemented a year and a half ago. Since the application is seen as a critical application, more training is advised. Furthermore, training for tour operators and travel agents is not formalized aside from the customary familiarization trip. If RMR wants its distributors to enthuse the quality of the product, some connection to this attribute is needed.

As stated earlier, the firm infrastructure for accounting is unique as the information for financial results is empowered to that of the individual business unit leader. Except for bottom line results, each business unit is aware of how it is performing in relation to budget and can make adjustments accordingly. Information is transparent and empowering to managers. The flip side to this is that business units concentrate heavily on financial performance and at times at the detriment to other business units. Individual accountability is created but the trade-off is less team cohesiveness.

RMR's mission includes growth and recently the firm has taken on the position of actively looking for growth opportunities by employing a VP of Strategic Development. His sole responsibility is the identification and pursuit of other business opportunities.

2.2.3.3 Firm Value Chain Summary

As described, RMR is composed of many different complex industry segments that include train and restaurant operations. Coordination of all activities is essential to running a smooth and effective operation.

In summary, operations produce a competitive advantage for RMR. Although the different functions are not very well coordinated which leads to inefficiencies, the staff are dedicated to superior customer service that sets the company apart. This is measured in the high customer satisfaction from comment cards. Weaknesses include inbound logistics, which again is uncoordinated and therefore can be improved. Sales and marketing on the other hand has its strengths and weaknesses. Marketing is strong in getting free editorials with international
newspapers and sales is strong in maintaining relationships with distributors. Where this area needs improvement is the development of new markets. RMR has had the same type of customers since inception. Moreover, lack of coordination in customer information gathering is also concerning if new markets are to be developed. Technology development also needs attention, as the current systems are not integrated. RMR has the opportunity to improve in this area, as there are many disparate systems within the company. Finally training for onboard staff is done well by management whereas training in other areas like finance is inadequate.

There are synergies from RMR controlling many of the activities in the value chain in-house. These internal linkages reveal the impact of one business unit on the other. It also shows which activities need to be linked and which may benefit from being linked.

2.3 Key Success Factors

In the Western Canada destination service industry, RMR competes with many firms but there are few competitors that exactly match the company’s blend of rail, tourism and service. VIA has the rail service but not the tour package business. Many tour operators have the tour business but not the train route. In evaluating the industry and the value chain, there are a few aspects of the business that stand out for many of the participants in the industry.

First, all the competitors in the industry have multiple products. RCCL has many different cruises to different parts of the world. Whether it is to Alaska, Caribbean, Hawaii or Europe, RCCL will take you there. Multiple products spreads the business risk from one region to another e.g. SARS in Canada. All the tour operators provide different geographic tours within Canada and internationally. MRRT, one of RMR’s closest competitors, is the only comparable company that also provides variations of one train tour. Similar to RMR, MRRT offers VIA’s rail only travel in Canada. Having one product is a threat for RMR.

Second, owning a substantial portion of the value chain creates synergies within the firm. The customers of a vacation package choose a tour operator because they want many of the hassles of planning a vacation taken care of for them. Brewster provides guests an option to stay at their hotels or visit their attractions. RMR operates its own maintenance yard to conveniently schedule regular upkeep during down time. Brewster’s value chain is more customer centric as customer’s have many touch points. Having your own call centre allows for many benefits including direct customer feedback and up selling. Understanding a customer’s preferences allows you to cater the vacation to each person. Once a customer has been acquired then the firm can not only plan their entire vacation but also have the guest visit their revenue generating
activities. A large value chain also allows for greater economies of scale in procurement of goods and services.

Third, differentiation is important in a crowded market. The Internet has led to a commoditization of the travel industry. Competing on cost will only drive margins down as customers are better informed to make decisions. Firms that offer value in booking a tour and quality of service will gain greater profits than sub standard firms. For example in the hotel industry, large hotels that offer greater amenities had best operating margins and highest average room fees than smaller hotels with fewer amenities. Travellers are willing to pay more for certain conveniences. Travellers that search for deals based on price are not looking for quality. Based on the placement of RMR in figure 5, company position matrix, RMR is neither a low cost nor a high quality / adequate cost provider. The company is stuck somewhere in the middle. RMR cannot offer the same amenities and activities as a cruise but is also not a low cost provider like VIA. Furthermore, because providing convenience is important to the differentiation question, a sound methodology of coordinating tour packages is essential. Coordination would not only include the logistics of guests throughout the trip but marketing and sales data.

Finally, it is important to acquire and grow new markets. The tourism industry in BC has experienced flat or even slightly declining growth in the last five years. Acquiring new markets for existing products is essential for growth. The demand from overnight visitors of the four main markets of Canada, US, Asia/Pacific and Europe has been consistent from year to year. RMR needs a good mix of present demand and anticipated growth from expanding segments. The Japanese, Mainland Chinese and South Koreans are segments worth exploring.

2.4 Strategic Alternatives

2.4.1 Multiple Railtour Products

The most obvious alternative to grow revenue and EBITDA is to acquire another product to sell. RMR currently has derivatives of the Vancouver to Kamloops to Banff / Jasper route but all revenues are still derived from the one business line. The risk of having only one route is high as observed during SARS and the forest fires of 2003. The one route also does not encourage

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repeat customers. In 2003 only three percent of all guests have taken the trip more than once. The acquisition cost of a new customer is usually greater than for an existing customer.

The company can develop a new route from scratch or acquire an existing line. The analysis of competitors in Table 2 reveals only RMR and MRRT, these two railtour companies, do not have multiple products to sell to customers. Products in different geographic areas would be a strategic alternative to mitigate regional economical, political, ecological and social risks. A counter cyclical business would also provide RMR with a revenue stream from October to March when RMR has to reduce a majority of its staff and let capital assets sit idle for six months. A good example of a company with multiple railtour products is Orient Express, which operates the famous Venice Simplon route but also operates another route in South East Asia. One drawback to another route that is not within Western Canada is that RMR does not have any international business experience although this expertise can be acquired.

Multiple Railtour products also allow RMR to focus on a business that it has been successful at for 15 years as opposed to a completely new business. All of RMR’s staff understands the train service industry and growing or acquiring another operation would be a natural extension of existing operations.

Currently the additional route alternative is being explored with RMR’s bid for the Vancouver to Whistler to Prince George route. Due to the privatization of BC rail, CN has asked for a request for proposal (RFP) for a passenger rail service for the Whistler route. RMR, along with Whistler Railtours Ltd, is one of two bidders for the route. The RFPs have been submitted to CN and a decision has been delayed to mid 2004 awaiting the Competition Bureau’s review.

### 2.4.2 Expand Value chain & differentiation

The second alternative would be to expand the value chain. Many of RMR’s competitors operate hotels, tourist attractions or other entertainment facilities. Brewster for example owns hotels, the Banff Gondola and the Columbia Icefield Snocoach tour, which based on interviews with former staff, is one of the more profitable business units. Acquiring a customer to visit western Canada is costly to RMR. Included in the costs are marketing, advertising, sales staff and commissions expenses. Once a customer has purchased a railtour, extracting more revenue out of the same customer for the same amount of work would increase profit. Owning a hotel or tourist attraction would provide guaranteed business. There would also be synergies in scheduling and economies of scale. Going forward or backward into the value chain would also allow the
company to control prices and quality of products. Whether it is hotel rates or the quality of the food RMR can ensure it meets up to its standards.

Because RMR competes on a differentiation strategy, quality of product is important. A major area of complaint from the customers is the accommodation and restaurants in Kamloops. As customers overnight in Kamloops, only a few hotels and restaurants meet up to the standards of the Goldleaf service. Customers complain about the amenities at the Kamloops hotels and the quality of service at the Kamloops restaurants. In order to compete with the Cruise ship business RMR has to ensure adequate quality. As detailed in Figure 5, RMR is stuck in the middle with quality not quite comparable to that of a cruise ship but above that of low cost provider VIA rail. Even the dinner at the Two River Junction musical review, of which RMR operates, the quality of the meal is below that of the Goldleaf service. Owning a hotel or a restaurant in Kamloops would ensure a consistent level of service for customers. However, the problem with owning anything in Kamloops is that RMR needs business in the remainder of the off-season. A more detailed analysis needs to be done on the appropriateness of this strategy. Finally, owning or operating a hotel does not have to be in Kamloops. Strategically it would be ideal for a hotel at either Vancouver or Calgary, however RMR can also operate a hotel in other regions.

Further down the value chain RMR can operate other entertainment activities for customers. Keeping customers longer than one night in Kamloops creates multiple alternatives. RMR can operate a casino in Kamloops or other tourist attractions. The ability to have guests stay for more than one night depends on the scheduling and logistics of having a different number of guests on each leg of the journey. If guests could stay for more than one night, a motor coach tour to other regions like the Okanagan would generate additional revenue.

Additional revenue generating opportunities should not be limited to stops along the route. RCCL has multiple forms of entertainment right on the ship from casinos to recreational activities. Although the train is limited in size there could be alternative forms of entertainment including music, comedy shows and plays. The journey on the second day from Kamloops to Calgary can take up to fifteen hours if the train is delayed and having alternative forms of entertainment would improve the quality of the service.

Again RMR would be extending the boundaries of its main operations. Operating a hotel is different than operating a train. RMR's staff and management would be engaged in a different industry. Another risk of adopting any of the entertainment options on the train would be changing the branding and positioning of the product and therefore alienating the current target
market. Building RMR’s current brand took fifteen years and the target market of fifty plus has been lucrative for the company.

Adding to the value chain, RMR can also increase product differentiation by increasing quality. Based on price, RMR is comparable to RCCL and lower than MRRT. If RMR is to compete on a high quality adequate costs strategy it has to improve its quality. For example, MRRT offers a premier class of service that allows travellers to book a private car that only has fourteen guests and a lounge car. Guests have their own private room and a shared bathroom. RMR’s statistics show that in the last few years more guests have been travelling on Goldleaf service than on Redleaf service. Customers are willing to pay for quality, especially the current target market. An analysis of the US and European markets based on income shows that a large proportion of overnight visitors have annual household incomes greater than eighty thousand per annum (forty three percent US and thirty nine Canadian). An analysis of Vancouver cruise ship passengers in 1999 show that thirty eight percent of passengers have incomes greater than $80,000 US per annum and twenty six percent of passengers have incomes greater than $100,000 US. Assuming there is a direct correlation between income and the propensity to purchase a higher class of service, the market demand can be conservatively estimated by the total 2004 forecasted European and US overnight visitors of 5.8 million multiplied by the approximately twenty five percent of individuals with higher incomes, totalling 1.5 million visitors. Again assuming if RMR can capture one percent of this market, this would total 15,000 guests.

Increased differentiation will allow RMR to gain access to repeat customers. Currently customers do not want to take the trip more than once because for most passengers seeing the scenery once is enough. If RMR were to have more activities, the experience would be similar to cruise ships where the scenery is a part of trip but not the main draw.

Although a differentiation quality based strategy is not conducive for the Internet due to product commoditization, not having an Internet online booking presence can be a weakness. A small percentage of customers book travel online, a number of customers use the Internet for their initial planning and scheduling. Not having an Internet strategy can turn customers away.

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2.4.3 Acquire and grow new markets

Based on the demographics of BC overnight visitors, there are a number of market segments that can be explored by RMR. These segments include geographic, age, nationality and purpose of trip. Currently RMR’s customer base does not match the overnight visitor demographics of BC. RMR’s customers are mainly from English speaking countries and therefore the company is missing out on other markets. RMR has never been able to tap into the Asian market because demand dictates that the two-day train trip is too long for Asian tourists. For example when the Japanese visit, they fly to Vancouver from Japan, stay for two days, then fly to Niagara Falls afterwards for the remainder of their trip. Based on statistics, Japanese tourists stay for longer. Even if the Japanese stay for a shorter period the company should adapt the product to suit the market. Japan is Canada’s number two major overseas tourist market behind the UK therefore RMR should have more of a presence.

An example to contrast the current market segments; Australian guests are forecasted to represent twenty percent of total Asian Pacific overnight visitors in 2004 and proportionately make up of twenty percent of RMR’s revenue. In contrast, Japanese visitors represent twenty-eight percent of total Asia Pacific overnight visitors in 2004 but represent an insignificant portion of RMR’s customers. Again, Japanese tourists are underrepresented in RMR’s customer mix and should be pursued.

As detailed in table 5, Japanese tourists on average stay for shorter periods in BC than many other travellers. E.g. Japanese stay an average of 9.3 days in BC versus UK travellers staying and average of 12.8 days. However, Japanese spend more than the average UK traveller ($99 per day versus $81 per day). What the Japanese tourist loses in total time spent in BC, a company can make up for it in value of goods and services purchased. Since UK travellers comprise of twenty seven percent of all RMR customers a chart contrasting the travel behaviour of Japanese versus UK travellers is appropriate.

Although the comparisons of Japanese versus UK travellers favour the UK in terms of the RMR target market, there is good potential if the Japanese market can be exploited. The Japanese tend to spend more money than their UK counterparts and purchase packaged tours and train as a mode of transportation. The Japanese prefer to visit scenic mountain areas to rest or

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31 Canada tourism [online], 2004

relax which are in step with RMR’s tour. In comparison, however, fewer Japanese prefer to visit the Rockies compared to UK travellers.

Other emerging markets include the Mainland Chinese and South Koreans whose visitors have grown tremendously in the last five years. To attract other geographic markets, RMR must understand the needs and wants of these potential customers as well. RMR currently does not cater to other nationalities, as detailed in the customer demographics in figure 1. A clear example is RMR’s website which cannot be converted to other languages by a press of a button. Almost all of RMR’s competitors have multi-language websites as detailed in Table 2. Furthermore, the RMR brochure is printed in English only. A thorough market analysis should be conducted.

<table>
<thead>
<tr>
<th><strong>Japanese</strong></th>
<th><strong>Category</strong></th>
<th><strong>UK</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>217,000</td>
<td>Forecasted visitors 2004</td>
<td>277,000</td>
</tr>
<tr>
<td>$218,000,000</td>
<td>Forecasted revenue 2004</td>
<td>$311,000,000</td>
</tr>
<tr>
<td>18%</td>
<td>Visited the East Rockies*</td>
<td>35%</td>
</tr>
<tr>
<td>14%</td>
<td>Train as a mode of transportation*</td>
<td>15%</td>
</tr>
<tr>
<td>9.3 days</td>
<td>Length of stay in BC*</td>
<td>12.8 days</td>
</tr>
<tr>
<td>$99</td>
<td>Expenditure per day*</td>
<td>$81</td>
</tr>
<tr>
<td>50%</td>
<td>Percent who travel on packaged tours**</td>
<td>49%</td>
</tr>
</tbody>
</table>

* Based on 1997 data
** Based on 2001 data

Table 5 Japanese Versus UK Travel Habits

New markets should not only include geographic areas but also new age groups. Although RMR’s strategy of not being all things to everyone has made it successful to date, an expansion to other markets is necessary for the company to grow. Current demographics indicate that sixty three percent of all passengers are between the ages of 55 and 64. RMR needs to extend the tour to the forty five to fifty four age groups. Again an understanding of what the market needs has to be conducted.

The new market analysis can be performed in conjunction with the differentiation strategy. Cater to those markets that are lucrative. If the trip is too long for the Japanese, the idea of making the trip shorter should be explored. Stronger sales and marketing representation also needs to be conducted in other markets. RMR has a UK office with UK staff but do not have such representation in Asia.

The risk of exploring new markets is that the market is mature and that no other new markets can be developed for the existing product. There is a risk that if RMR caters to other markets, it will alienate the current target market.
3 INTERNAL ANALYSIS

An internal analysis of RMR will determine if the capabilities exist to implement any of the alternatives derived from the key success factors. An evaluation of resources, management preferences and the organization will be analyzed. If the businesses resources do not support the strategic alternatives, then the strategy will be unsuccessful. If managerial preferences or values are not congruent with a firm's strategy, conflict can occur. Finally, if the organization does not have the systems and structure to support the firm's plans, adjustments will need to be made. If there is an internal weakness, it can be removed. If all three variables are aligned with the firm's course of action then success is more probable. As management's current strategy is to acquire or develop multiple railtour products, this alternative will not be discussed in depth, as analysis already exists at RMR. The focus will be on the alternatives of expanding the value chain, differentiating and growing new markets.

3.1 Resources

The functional areas of finance, human resources, marketing, procurement and operations will be analyzed. The ability of each functional area to contribute to the business's strategy is important. Some areas may be more strategic than others so a stronger focus in these areas may be required. The interrelationships of different resources as stressed in the value chain analysis are imperative because what is done in one area will have a pervasive effect in another. A summary of the analysis of each area is detailed in table 6.

3.1.1 Finance

The internal analysis will begin with an analysis of current financial strength, revenue growth and profitability followed by an evaluation of the firm's capacity to generate internal and external funds. Each alternative will then be measured against RMR's financial capabilities. Financial information has been provided sparingly to maintain confidentiality for RMR. One option to evaluate a firm's financial strength is to measure it against the industry. There are no identical firms in the Western Canada destination service industry therefore industry comparatives will have to be done against the western Canada tourism industry in general and also with similar firms in other geographic regions. Using 1997 as the base year of 1000, below in figure 12 is a chart and data table detailing RMR's guest count versus the industry. The
industry numbers are based on overnight visitors to BC. The two sets of data will be used to
benchmark RMR against the industry. For each successive year from 1997 to 2004, the
percentage change from the previous is graphed. 2004 is based on forecasted numbers.

<table>
<thead>
<tr>
<th>Year</th>
<th>Industry</th>
<th>RMR</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997</td>
<td>2.06%</td>
<td>12.32%</td>
</tr>
<tr>
<td>1998</td>
<td>1.38%</td>
<td>16.03%</td>
</tr>
<tr>
<td>1999</td>
<td>1.99%</td>
<td>11.08%</td>
</tr>
<tr>
<td>2000</td>
<td>-0.49%</td>
<td>-3.29%</td>
</tr>
<tr>
<td>2001</td>
<td>0.85%</td>
<td>-4.16%</td>
</tr>
<tr>
<td>2002</td>
<td>-3.11%</td>
<td>-5.38%</td>
</tr>
<tr>
<td>2003</td>
<td>2.79%</td>
<td>13.39%</td>
</tr>
<tr>
<td>2004</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*2004 estimated

Figure 12 RMR guest count vs. Industry

Based on graph 12, RMR has out-performed the industry from 1997 to 2004. However,
with the stronger growth, RMR has experienced more significant fluctuations than the industry.
Specifically in 2001 to 2003, while the industry was relatively flat in terms of growth, RMR’s
percentage decline was greater at -3.29%, -4.16%, -5.38% respectively. Compared to the
market, RMR is prone to fluctuations that are not market specific. The non-market risk is clearly
evident in a simple regression analysis again done on RMR guest count versus industry from
1997 to 2004. The regression analysis indicates R-squared equals .89 which means 89% of the
change in RMR guest count can be explained by the change in the number of overnight visitors
to BC. This is known as market risk. The remaining eleven percent is unique, firm specific risk.
After reviewing RMR versus the industry, revenue growth needs to be assessed.

<table>
<thead>
<tr>
<th>Year</th>
<th>Revenue</th>
<th>Revenue Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>75,041</td>
<td>27.45%</td>
</tr>
<tr>
<td>2001</td>
<td>95,640</td>
<td>2.97%</td>
</tr>
<tr>
<td>2002</td>
<td>98,481</td>
<td>1.66%</td>
</tr>
<tr>
<td>2003</td>
<td>100,114</td>
<td>-6.88%</td>
</tr>
<tr>
<td>2004</td>
<td>93,224</td>
<td></td>
</tr>
</tbody>
</table>

*2004 estimated

Figure 13 RMR revenue

RMR has maintained relatively flat growth in the last four years. The anomaly is in 2000 to 2001 where guest count did not significantly increase but revenue increased by twenty seven percent. To highlight the company’s extraordinary growth, RMR has only been in business for fifteen years, starting out with no business and growing to $100 million in revenue. In the last few years including 2004, the trend has been an increase in the level of Goldleaf service. There are more customers demanding the higher end product therefore although guest count has decreased, revenue has increased.

Furthermore, ratio analysis will provide insight into the financial strength of the company. Many of the ratios listed below in figure 14 relate to invested capital. Invested capital is the total of all funds invested by financial asset holders including debt and equity. The composition of invested capital allows accurate evaluation of the decisions of management. The choice of raising more equity or more debt is at the discretion of the firm\(^{35}\). The first ratio is trade capital to invested capital and this ratio is negative for RMR. The ratio measures the percentage of a firm’s investment that is short term and held to support its operating function. This ratio is negative because of the large customer deposit (deferred revenue) account that sits on RMR’s books for prepaid travel. The negative ratio is good because it shows that RMR does not have a lot of capital invested in short-term business activities to support current operations. This is a result of customers paying RMR ahead of time and RMR using these funds for its operations.

Debt to invested capital for RMR is high. A majority of the investment made by the firm into the business has been financed by debt. Debt poses additional risk for RMR as the company has to continually generate cash flow to finance the debt. Companies that use debt financing have

greater profitability in growth stages but also have more risk of failure in down markets. Using
debt also has the advantage of tax savings versus equity. Currently, RMR is a private company.
Therefore tax savings is a main motivation. However, as the company grows and requires outside
capital, this motivation may change to one of profit maximization instead of tax reduction.

Next, in figure 14, return on invested capital (ROIC) is positive and ranges from a high
of 21.09% in 2002 to a low 6.75% in 2001. ROIC is the rate of return earned by all financial
asset holders on the money they invested into the company. RMR's ROIC is healthy. Equity for
RMR is negative and would not provide a very meaningful analysis. Therefore the return on
equity ratio has been omitted from the discussion

Finally cash flow is addressed, as this is the most important aspect to fund RMR's
growth. RMR needs cash flow in order to grow. Free cash flow is the net amount of cash that
flows into the organization. The term free is used as this denotes that it is free to be distributed to
financial asset holders of the corporation. For RMR free cash flow has been less than stellar in
the last few years. RMR has to generate more cash if it is to fund its growth internally. Negative
cash flow will hinder RMR's growth opportunities. Based on current cash flow, additional
growth will have to be financed externally with debt or equity.

<table>
<thead>
<tr>
<th>RMR ratio analysis</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade Capital to invested Cap</td>
<td>(0.52)</td>
<td>(0.54)</td>
<td>(0.49)</td>
<td>(0.23)</td>
<td>(0.23)</td>
</tr>
<tr>
<td>Debt to invested capital</td>
<td>162%</td>
<td>169%</td>
<td>170%</td>
<td>107%</td>
<td>119%</td>
</tr>
<tr>
<td>Return on Invested capital</td>
<td>13.12%</td>
<td>6.75%</td>
<td>21.09%</td>
<td>8.43%</td>
<td>11.21%</td>
</tr>
<tr>
<td>Return on assets</td>
<td>3.05%</td>
<td>9.12%</td>
<td>5.35%</td>
<td>7.12%</td>
<td></td>
</tr>
<tr>
<td>Free cash flow</td>
<td>(3,609)</td>
<td>822</td>
<td>(3,519)</td>
<td>(286)</td>
<td></td>
</tr>
</tbody>
</table>

*Figure 14 RMR ratio analysis*

Additionally RMR needs to be compared to a competitor and to the industry as a whole.
RCCL will be used in a competitor comparison. Compared to competitors and the industry in
figure 15, RMR clearly employs too much debt in its operations. Although the debt is used to
fund the operations during the off-season, the debt poses a risk of default if RMR cannot
generate cash. In contrast, the company has a solid return on assets of 5.35% above both RCCL

and the industry. The solid return can be attributed to RMR's railcar assets, which are comparatively less than the costs of cruise ships.

If RMR looks for additional capital, the high debt and lack of equity can be an issue when investors evaluate the company. RMR's current retained deficit position is approximately $2 million. The company, from a year over year basis, would generate positive cash flow and net income if it were not for the payments of interest to debt holders and management fees. This approach follows the tax minimization strategy of a private company but will hinder RMR's ability to obtain additional capital. Next the current ratio is low due to the high short-term liabilities, which consists mostly of deferred revenue. If the company were to cease operations it would have to refund all prepaid trips to customers.

<table>
<thead>
<tr>
<th>Ratio analysis</th>
<th>2003 RMR</th>
<th>2003 RCCL</th>
<th>Tourism Recreation Industry</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debt to equity</td>
<td>14.223</td>
<td>1.334</td>
<td>0.888</td>
</tr>
<tr>
<td>Return on assets</td>
<td>5.35%</td>
<td>2.92%</td>
<td>4.62%</td>
</tr>
<tr>
<td>Current Ratio</td>
<td>0.206</td>
<td>0.491</td>
<td>0.942</td>
</tr>
</tbody>
</table>

*Figure 15 RMR versus RCCL and industry*

Based on the financial analysis of free cash flow and debt, the company is not able to generate internal funds for expansion. RMR would have to go to external resources to obtain funds for expansion. If RMR were to generate funds externally, it would have to increase earnings, lower its debt and create better free cash flow. Investors would look for a positive return on investment and with these three issues looming, attracting funding will be a hurdle for the company.

The high debt and lack of cash flow would affect the multiple railtour and expand value chain alternatives. Multiple railtours or additional value chain capital acquisitions would require a cash infusion for start up costs. For example if RMR were to buy a hotel, either more equity would be needed or additional debt. It is not recommended to take on additional debt as RMR is already at industry high levels. Equity investment would also be difficult to obtain as addressed later in the management preferences section. RMR is generating enough cash to sustain current operations. From a financial perspective the alternatives of expanding the value chain without the need for a large injection of cash or expanding markets are the most viable alternatives.
3.1.2 Human resources

The analysis of RMR’s human resources will begin with the executive team, then the various levels of management and finally down to the staff. Below in figure 16 is the organization structure of RMR.

![RMR organization chart](image)

*Figure 16 RMR organization chart*

At the top is Peter Armstrong, the founder, CEO, president and majority shareholder of the company. RMR is functionally organized with the Chief Operating Officer handling the day-to-day duties of the company and the vice presidents assisting him. Mr. Armstrong and his executive team have been experiencing growth leading up to the events of September 11, 2001. The drive of senior management is to increase revenue organically or through acquisitions. RMR in 2003 hired a VP of corporate development who is responsible for identifying and executing new business and acquisition opportunities within the hospitality industry. A more thorough analysis of executive management will be conducted in the following management preferences section.

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36 Reuters website [online], 2004.
Below the vice president level is the director level of management who are the day-to-day operational managers. This level of management consists of a combination of long-term employees who have been promoted through the ranks and a blend of new managers from other industries. The company believes from promoting from within therefore if current staffs are interested in a new job posting, he or she is guaranteed an interview. This is a good policy as it shows commitment by the company to the employee and in turn employees have shown great loyalty. The risk to this policy is that as the business grows and becomes more complex; an employee who has worked through the ranks will not have the best practices and breadth of knowledge compared to a new external hire. Because one of the alternatives is to expand value chain, which may require RMR to operate a hotel or tourist attraction, promoting from within has its weaknesses. The alternative to grow new markets may also be at risk because length of service does have some correlation with complacency. Staff that have been around for a long time have the tendency to stop asking why things are done a certain way and just accept things as it stands. An example occurred during the interview process with various managers for the purpose of this paper. The question of “why do you not have any Japanese customers” was answered with the same response, “They do not like our trip”. This story was repeated many times within different departments and therefore runs the risk of being generally accepted at face value and not being challenged.

The inability to adapt may be an issue for some RMR managers. The director group consists of seventeen members with very diverse areas of management. Some directors have no staff while others have up to thirty staff members. The abilities and experiences are diverse within this group but the majority of directors are highly skilled.

As commented previously, the majority of staff are not highly skilled. There are a number of employees that have been with the company since the beginning. Low wage, entry-level positions are common within the hospitality industry and RMR is no exception. This is especially true of the reservation agents and onboard attendants. For example, the call centre staff may have some tourism industry experience but many do not. Call centre staff make reservations for travelers and have in common certain aspects of mass production in that they are evaluated by the number of calls and amount of time on each call. These statistics are prominently displayed in the call centre area by a ticker symbol-like device. Other areas that have low skill level staff include administrative and finance functions, where the employees are paid hourly and perform data entry. The CEO, however, has recently stated that he would rather have ten employees working more effectively at a higher wage than fifteen at a lower wage.
An unskilled workforce is another weakness in implementing any plans that require uncharted territory. Staff work under very process oriented tasks and do not have the scope to adapt to change. For both expansion of value chain and growing new markets, this may be a potential issue.

The maintenance crew is highly skilled and is responsible for servicing the trains to run efficiently. As a passenger service, RMR also has to ensure safety is a top priority. Because train maintenance is a specialized skill, many of the crewmembers have worked previously at other larger rail services. Furthermore, because RMR trains are equipped with a full kitchen, the company also employs plumbers and electricians. The maintenance staff are at full capacity maintaining the company’s current fleet. If RMR was to take on additional volume for any of the alternatives, it will be difficult to find qualified staff.

If RMR decided to pursue the multiple railtour products alternative, this would be the best fit, as current staff would be doing more of the same tasks. The huge risk with lower level staff is the alternative of expanding the value chain into uncharted waters. With the staff being relatively low skilled, adapting to a new business climate like a hotel operation may be an issue. Loyalty among staff is a valued trait for employees but whether these employees are the ones to take the company to the next level may be in question. The new market alternative may also be an issue because employees have less interaction with non-English speaking guests or a different age segment. Each nationality has idiosyncrasies that are unique. Staff have to adapt to these changes. For example the sales department would have to learn how to sell to the Japanese. The director level staff are more adaptable based on the diversity of the group and a majority of them are well paid professionals.

RMR does not have great fit in regards to its general workforce for a differentiation strategy. RMR should be pushing for a highly skilled flexible workforce that has good judgment in solving non-day-to-day tasks. In contrast, the company has a mass production mentality where quantity is important.

3.1.3 Marketing

RMR’s marketing initiative consists of an eight-person in-house marketing team, outside public relations firms in major markets and advertising support. There is brand recognition in that customers are willing to pay a premium on price compared to a competitor like VIA rail. Travel agents and travellers believe in the quality of the product although there is a very small percentage of repeat customers. RMR delivers a product based on what the company believes is
an ideal experience as opposed inquiring what a guest would like to see. This methodology has its strengths and has been extremely successful but because the company has reached a plateau in the last few years, more innovative strategies are necessary.

RMR deploys a combination of push and pull marketing strategy. As described earlier, a majority of customers are not Canadian. RMR therefore markets heavily in the U.S., Europe and Australia. There is direct end user advertising done including travel magazines and mailers to customers that had inquired about the tour but never booked. A majority of end user marketing is done through foreign third party promotion agencies. An example would be advertising done in the UK that is not coordinated directly by RMR but handled by an intermediary, who brokers the advertising and purchases the media space. For the expanding value chain alternative, the marketing department will have to engage in direct marketing without the use of an intermediary. If a hotel is purchased, RMR will have to market the hotel in the off-season to a more local clientele to ensure business throughout the year. The same form of direct marketing will have to be employed for a tourist attraction. RMR’s marketing department will have to have more expertise in-house to create marketing programs versus merely coordinating existing marketing programs.

Customers also request brochures through their travel agent, directly by phone or over the Internet. RMR employs the use of newspaper and television editorials to build brand awareness. Other forms of advertising include familiarization trips that are given out to journalists who travel on the train and later do an editorial on the trip.

Although there is some pull marketing, a majority of the marketing is done via a push strategy. The push strategy involves the sales force and trade promotion to induce travel agencies and wholesalers to recommend the product to travelers. This is assumed to be an effective method as the target market is narrow and non-Canadian therefore any direct advertising would be costly and not focused. The sales force also attends many industry tradeshows promoting the product. These trade shows eventually conclude by offering the intermediaries a free trip on the railtour to experience the product. This strategy is common in the travel industry but may be conflicting because RMR has high brand recognition, which calls for more direct advertising. A weakness to the push strategy is the inability to attract new markets to RMR when other markets exist in BC. Asian tourists have been part of the BC tourist industry for a number of years however, the reach of the sales force has not penetrated this lucrative market. Representation in Japan has not been strong and the current ability to market to the Japanese is not yet available e.g. shorter trip.
A booking on one of the tours is a high-ticket, high-involvement, non-impulse purchase and employing a straddling strategy of push versus pull may not be effective. A more directed pull strategy may be more appropriate given that RMR is considered one of the top twenty rail experiences in the world. RMR would want travelers to have decided on purchasing its product before going to the travel agent. Word of mouth marketing was discussed earlier. With the difficulty of RMR in reaching a dispersed, narrow market, it is advantageous to use this medium as a more effective tool in selling to customers. An effective referral program to promote word of mouth can also be advantageous.

RMR’s research and development involves new product offerings and enhancing existing ones. The company employs only two product managers to explore potential opportunities. The team ensures tours have the best attractions at the optimal price and quality. The different product offerings require site visits to hotels by staff members. The current width of the product line is narrow and all new products are a derivative of the one line e.g. Grizzly Bears of Knight Inlet. Even though the length of the product line (the total number of items in the line) is deep, all new products are still an add-on to the railtour. An example is that a customer may add on a one day Victoria tour on to the railtour package. The drawback is that it is an external product where the margins are lower. There is an opportunity to change the attributes of the product to appeal to a different market. Employing product adaptation, altering the product to meet different market needs or preferences, has great prospects. Again this is important for the new markets alternative, as the product has to change to adapt. RMR’s current weakness is the inability to adapt therefore the product has remained intact for a number of years. New variations of the same product are developed but very few new attributes or new products are created.

Finally, RMR understands its customers’ wants and behaviours through the onboard survey or focus groups, which is a great strategy for existing customers. In order to develop new markets; an understanding of unexplored markets should be conducted, e.g. Japanese market. RMR does not actively solicit the needs and wants of new markets. This is also important to the new market alternative; what would forty to fifty-year old customers desire to see on a train tour? The company’s current demographic is narrow; opening up the experience to more travellers has great opportunity to grow the company and increase market share. Changing the product without changing the brand can appeal to a younger demographic or a different geographic region.

In summary for marketing, RMR has had some success with the current product distribution using pull marketing. However; a majority of sales is currently done using push marketing through an intermediary network. Again this strength would be ideal for more of the
same business, the multiple railtour alternative. There will be some risk with the expanding value chain, differentiating and growing new markets alternatives. RMR has not introduced a new product like a hotel before and has only introduced derivations of the same product over and over again. The expertise may be lacking in the staff’s current skill set. Also risky would be the growing new markets alternative because RMR has sold to the same market for the last fifteen years with no new markets developed. To make the new market alternative successful, RMR has to engage in more direct marketing because of the lack of product awareness of this segment. The current process of brand recognition through intermediaries takes a long time although the company can mitigate this risk by hiring new staff that has the expertise.

3.1.4 Procurement

RMR’s operates a number of complex operations because of the many different lines of businesses it is engaged in. The operations include a call centre, travel agency, heavy machinery maintenance, food and beverage, souvenir business and a live stage and dinner show. During the season, RMR has hundreds of vendors that provide services to the company. Efficient management of the supply chain is essential.

Peter Armstrong is very loyal to vendors that have assisted the company from its early days and that loyalty has carried on throughout the business. There are many consultants that helped the company fifteen years ago that are still advising Mr. Armstrong today. The same can be said for suppliers, for example a husband and wife team that helped with the operations in Kamloops handed the business down to their daughter, who carries on the family tradition today. Based on these relationships, expanding the value chain may be an issue, as Mr. Armstrong would not want to displace any long time vendors.

As detailed in the value chain diagram in figure 12 and the preceding value chain discussion, coordination is key for RMR’s complex business. Efficient and effective coordination of activities will reduce costs and improve profitability. For example, the onboard train activities for a single trip require many items including food, beverages, cutlery, chinaware, tablecloths, reusable trays, disposable, napkins, glasses and on-board kitchen galley supplies. The number of different articles can reach into the hundreds. Although the preparation of food and loading of the train is done by the catering company, the logistics (supply chain) for all other items are managed by RMR. The flow of goods and services between suppliers, warehouses and caterers requires different management. If RMR is to expand the value chain with a hotel, restaurant, attraction or other entertainment venues, it must strengthen its supply chain management. The
business will become more complicated and costs will grow with a larger value chain if not
managed properly. The company must have the proper controls in place so that growing the
business becomes seamless.

The onboard demand for supplies should be based on the number of passengers, class of
service and the different services provided. However, real demand can be based on passenger
collection behaviour and loss and breakage. The goal of proper supply chain management
should provide enough materials for the service provided and minimize total costs of the supply
chain. Minimizing costs would include optimal purchase quantities, cost of warehousing and
transportation, capital acquisition, unplanned consumption (breakage) and cost of
administration.\textsuperscript{37} Supplies should be available based on just in time not just in case.

An example of an area that could be improved is the outsourced food service operations
onboard the train. Currently the contractors cannot track the items ordered on the menu and what
is being consumed. Because trends cannot be analyzed, efficient ordering is more difficult. The
contractor currently estimates how much to bill RMR on a weekly basis and at the end of year
bills any additional cost above what has been invoiced. The contractor has operated for a number
of years with RMR but still consistently has cash flow issues. Better forecasting of demand
would lead to less waste and lower inventory levels. If new markets are created, RMR needs the
ability to track what new services that cater to these markets are working. If the company cannot
track consumption on the train then it cannot adapt the product to the market.

Another area that could be enhanced is the purchasing of good and services. Purchasing
is currently left at the discretion of the individual business units and therefore the process is not
coordinated. For example, printing should be evaluated as RMR currently uses a minimum of
eight different printing vendors. Marketing uses one vendor for brochures while administration
uses another one for business cards and letterhead. Kamloops uses one vendor to print TRJ
comment cards while operations uses another vendor to print their comment cards. Once more, a
growth strategy requires control of costs to increase profit.

Kamloops maintenance inventory also has an opportunity for more efficient operations.
There was no inventory manager until recently to manage the process and this has led to a large
write off of inventory. Because the maintenance operation is complex, this department purchases
from the largest number of total vendors in the entire company. A consolidation of providers can
lead to increased purchasing power, reduced costs and better service.

\textsuperscript{37} Jan Hovora, "Logistics on onboard services (inflight services) of airlines," Tourism and hospitality
research, (2001): 177
The greatest risk posed for an inefficient procurement process is the multiple railtour product alternative. Creating another product would only increase the magnitude of the inefficiencies. More money will be used in a less than optimal way because of too much inventory or uncoordinated purchasing. Expand value chain through capital acquisitions may also be affected by inefficient operations. For example, goods and services need to be purchased for a new tourist attraction. Finally, procurement will have a less dramatic effect on new markets and differentiation because the volume of transactions is not as great.

Improving on the coordination of activities in the value chain will increase the linked interdependencies of each function and create greater value for the customer. Building the infrastructure to support the company will allow for easier integration of new business opportunities. Getting better at supply chain and value chain management may be a costly undertaking. The process may involve outside consultants, as in-house staff may not have the knowledge to perform the task. There has to be management buy-in for a full-scale review of operations and initial benefits will not be that clear cut. RMR has grown organically through its history and many systems and processes have evolved naturally though not cohesively. A more thorough look at the company processes will produce better bottom line results.

3.1.5 Operations

Operational efficiency and effectiveness can be measured by capacity, cost and productivity. RMR’s current business leaves equipment and resources sitting idle from October to March of each year resulting in excess capacity. The rail equipment totals $57 million dollars and although maintenance is conducted on the equipment during the off-season, a counter cyclical product would increase return on assets.

In contrast to the idle equipment in the off-season, there is lack of capacity for the Goldleaf product. With the introduction of the first Goldleaf dome in 1995, the customer trend has been leaning towards the higher class of service. RMR just took possession of another two dome coaches in 2003 bringing the total to twelve. RMR can build new dome coaches to satisfy demand however there are inconsistencies in the quality of the product. For the differentiation alternative, RMR may need to add to current equipment if it is to provide other forms of onboard entertainment. RMR currently has parlour cars that offer a more open area for guest to lounge in and is currently being used on the winter train.

The inconsistency of service is particularly evident for accommodation and meals in Kamloops. Customers receive excellent service and food on the train, however, when they
overnight in Kamloops, the story is different. There are a few three star hotels in Kamloops but not enough to accommodate the number of guests that visit during the peak season. Furthermore, RMR provides a four star service and yet only offers three star hotels (especially when the company is charging premium pricing). From the hotel perspective, they are unable to meet the demands to upgrade their amenities. RMR brings in guests from April to October every other night. Hotels lose the business of consecutive nights stay in order to accommodate RMR. If hotels upgrade they may not have enough business for the remainder of the year when RMR does not operate. The differentiation alternative is impacted significantly by the inconsistent service throughout the journey. If RMR is to increase product differentiation by increasing quality there is a gap with the Kamloops stop. Kamloops has to first come up to speed with RMR’s current standards before the company as a whole can further improve overall quality.

The same issue of quality exists for meals in Kamloops. For RMR’s dinner and show production, the meal is served buffet style and is a notch below that on the train. Restaurants around Kamloops are also not up to par. There are a few higher-class restaurants but a majority are medium to low range restaurants that offer mediocre service. Guests receive vouchers for the Goldleaf service and can choose certain establishments in town. Often, groups of guests choose to go together, yet the local restaurants may not have adequate staffing to handle large groups. Many guests are disappointed after their stay in Kamloops and some comment that the train experience was spectacular albeit their stay in Kamloops.

As discussed previously, in procurement there can be some improvements in costs. The decentralized structure allows individual business units to be held accountable for their spending. When the company experienced a slow down of business in 2003, all departments reacted swiftly and reduced their expenditures to match revenue levels. Other areas of the business can be automated to reduce the amount of manual labour involved. A thorough analysis of systems and structure will be done in the organization section.

Overall there is an issue with the measurement of the productivity of the operations. Key performance indicators are not readily available and transparent within the organization. RMR can be viewed as a production facility with the inputs being meals, tours, hotels, and accommodations and the output being a complete vacation. Because the business is based on guest count there should be an easy measure of variable costs for each person. RMR currently has a business philosophy of never turning away a paying customer. Theoretically, even if all the trains are full and one additional guest books for that day, RMR will add another car onto the Consist. There is no measure of the breakeven point in terms of guest, cars or trips during the
season. RMR does not have a measure of cost (direct variable or total) for each guest. Although there are few incremental costs to adding an extra railcar, sound decisions can be made from understanding costs. As the company grows with either of the two alternatives, correct productivity measurements will allow RMR to benchmark itself against the attainable goals. Managers’ compensation can be tied to this so that strategic goals are congruent with individual staff goals.

Another example of lack of productivity measurement is the food service on board the train. For each additional guest there should be an incremental variable cost that can be calculated each month. If there are any variances to budget there should be a very straightforward calculation of variable cost multiplied by the increased guest count. The inputs to the variable costs should be easily attained. Was there spoilage or did prices go up for venison? The first step to evaluating productivity is to first measure it.

Finally, the flexibility, age and condition of facilities and equipment need to be evaluated. RMR has an annual capital budget on repairs and maintenance of facilities and equipment. Equipment is maintained on a rotating basis with the current refurbished Redleaf coaches being the oldest. The locomotives used on the trip are adequate for current operations, however, if any expansion occurs within the same operating season, additional equipment will have to be purchased.

One of the main concerns is the age of the fleet of motor coaches used to transport guest from the Kamloops station to their hotels. The coaches are again not up to Goldleaf standard. Some coaches do not have air condition and this can be intolerable in the summer time. At other destinations such as Vancouver and Calgary, RMR pays the bus company to brand the buses in RMR colours and rents them as needed. RMR will also start construction of a new Vancouver station in October of 2004. Previously the company was operating out of the Vancouver Pacific Central station but wanted to control departure times, costs and service levels of which it is currently subject to VIA rail’s conditions. The expanding value chain alternative needs additional motor coaches to take customers to different venues. Whether it is to restaurants or tours, reliable, comfortable coaches are required to provide superior service.

The issue of idle equipment would be easily relieved by another counter cyclical railtour. The extra capacity would therefore favour the multiple railtour alternative and would be a strength for RMR. Currently, the inconsistencies in quality of service in Kamloops from a hotel or restaurant basis would be alleviated if RMR were to expand the value chain. Finally, the lack of measurement of productivity would be a weakness for any expansion of the current operations.
<table>
<thead>
<tr>
<th>Area</th>
<th>Current resources</th>
<th>Required resources</th>
<th>Resource Gaps</th>
<th>Filling the gaps: tactic and risk</th>
</tr>
</thead>
<tbody>
<tr>
<td>Finance</td>
<td>Good return on invested capital, positive return on assets</td>
<td>Free cash flow to grow, lower debt, increase earnings</td>
<td>Cash generation, equity investment</td>
<td>Tighten cost controls, access to capital and increase margins.</td>
</tr>
<tr>
<td>(-) Alt. #1</td>
<td>Combination of skilled and low skill staff</td>
<td>Skilled staff</td>
<td>People who can adapt to change</td>
<td>Hire more skilled people. Risk of increased costs.</td>
</tr>
<tr>
<td>(+/-) Alt. #2</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(+) Alt. #3</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Human resource</td>
<td>+ Alt. #1.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(-) Alt. #2</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(-) Alt. 3</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Marketing</td>
<td>1) Push marketing</td>
<td>1) Pull marketing</td>
<td>1) Additional resources to sell brand.</td>
<td>1) Increase direct advertising</td>
</tr>
<tr>
<td>(+/-) Alt. #1</td>
<td>2) Narrow product mix</td>
<td>2) New markets</td>
<td>2) Ability to develop new markets</td>
<td>2) More resources to develop and understand new markets.</td>
</tr>
<tr>
<td>(-) Alt. #2</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(-) Alt. #3</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Procurement</td>
<td>Lack of coordination, centralization and economies of scale</td>
<td>Improved coordination, forecasting of demand and consolidate purchasing power</td>
<td>Systems and expertise</td>
<td>Hire resources to review current processes and systems</td>
</tr>
<tr>
<td>(-) Alt. #1</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(-) Alt. #2</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(-) Alt. #3</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operations</td>
<td>Lack of consistent service and measurement of productivity</td>
<td>Improved Kamloops services, measurement of productivity</td>
<td>Four star businesses in Kamloops and equipment.</td>
<td>Provide own establishments in Kamloops.</td>
</tr>
<tr>
<td>(+) Alt #1</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(-) Alt #2</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(-) Alt #3</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

For each area (+) and (-) denotes strength or weakness for each alternative

*Table 6 Resource Gap Analysis*
3.2 Management Preferences

The personal preferences of the management team transform into group preferences that guide strategic decision-making. An analysis of power enables certain individuals to dominate the formation of managerial preferences and therefore should be evaluated in combination with management preferences. The most powerful person in the company is Peter Armstrong the owner of RMR. The executive team's preferences closely resemble that of Mr. Armstrong. There are positive aspects to this because when an individual rather than a management group sets a firm's strategy, additional complications in assessing fit and management preferences do not arise.

RMR's CEO is an entrepreneur and therefore has some aspects of a Buccaneer style of management. The Buccaneer is the unequivocal entrepreneur where money talks, profit is maximized, risks are taken and freedom is valued along with the high self-esteem that comes with success. Buccaneers question and challenge authority, especially those that dominate a market. This is evident in RMR's decision to build its own train station in order to bypass dealing with the previous station that was operated by VIA. Mr. Armstrong owns the company and although RMR has a board of directors, they are responsible only to him. To relinquish control of the company would require him to follow the rules of others. Mr. Armstrong, very early on in the company's history, bought out the loans and investments of others. Buccaneers don't mind making mistakes and perform well in times of high indecision or uncertainty and therefore they are great for start-ups. Many of these attributes are present at RMR although Mr. Armstrong has relinquished day-to-day control to the COO. Mr. Armstrong's desire to maintain control of RMR has probably influenced his decision to not seek outside capital to finance growth. There is a balance between growing the company and maintaining control. The desire to maintain control will affect any alternative that requires a large investment in external capital unless the company acquires more debt. Specifically for the expand value chain alternative, a large capital investment project, like owning a hotel, will be less favourable if it requires any relinquishment of control.

Although Mr. Armstrong remains a true buccaneer, the propensity for unnecessary risk taking has diminished as the company has become more successful and bigger. There is now more to lose with a $100 million company than when he first started. Mr. Armstrong's business

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38 Mark Wexler, Leadership in Context, Forthcoming, Edward Elgar.
history prior to RMR includes being President of Gray Line tour-bus operations and owning a 20% interest of the company. His partners forced Mr. Armstrong out of the company. Mr. Armstrong has worked extremely hard in getting RMR to where it is now and would want to preserve his labour of love. Again this desire would have an impact on any requirement for additional funding that requires an external equity stake. As previously stated RMR also has a lot of debt compared to its industry rivals therefore additional debt would be risky due to the cash flow needed to be generated to pay the interest. On face value owning a hotel is not in line with management’s preference.

Mr. Armstrong relies heavily on his two direct reports, the COO and the Executive VP finance and corporate development (EVP). These are the two main power brokers in the organization. The COO came through the ranks first as Vice President of Guest Services and then promoted to his current role of COO. The COO has expertise, track record, centrality and formal power. Centrality power comes from the fact that all employees report directly or indirectly to him. Mr. Armstrong believes very strongly on relationships and loyalty hence the EVP, who was originally part of a venture capital firm that helped RMR raise the necessary capital, is now onboard as an employee. The EVP has track record power from his original dealings with Mr. Armstrong, expertise in acquisitions and visibility power due to his proximity to Mr. Armstrong. The EVP advises Mr. Armstrong of all financing and potential acquisitions. The unique situation is that although RMR has an EVP of finance, the finance team does not report to him. The vice president of finance reports to the COO.

Mr. Armstrong’s preference is to grow the company organically or through acquisitions. However, to date, RMR has yet to find a suitable operation to buy. Mr. Armstrong has a good portion of his personal wealth tied directly to the performance of the company and therefore has a lot of risk to bear. Acquisitions are risky due to current financial resources. The criteria for any new business venture would require minimal capital investment by RMR. RMR’s current bid for the Whistler route is a complement to RMR’s current business and is not a new business venture as compared to that of owning a hotel. The acquisition initiative has picked up momentum recently with the hire of the VP of corporate development who reports directly to the EVP. The VP of corporate development has an extensive background in acquisitions. He has an MBA from Stanford, worked in consulting with McKinsey and Boston Consulting Group and also was in investment banking with Goldman Sachs. With the hire of this individual the motivation of RMR to do an acquisition is greater not only because it now has the expertise but also to help ensure the company utilizes him to his potential. The sole mandate of the VP of corporate
development is for growth therefore the EVP’s motivation is higher. From the VP of corporate
development’s perspective, if RMR is not going to grow the business his skills are not required.

The COO has a background from guest services having managed hotels and restaurants
prior to coming to RMR. The COO is also in favour of growth but has to carefully consider
ensuring that growth is not at the expense of the current staff and operations. In the end, Mr.
Armstrong has final say in all matters. There is a fine balance between extending resources,
including capital, and maintaining RMR’s current product quality. There is a dichotomy in the
motivations of the COO as all operations staff report to him. The COO’s motivation would be to
pursue alternatives that the staff are more comfortable with in order to ensure current operations
are not sacrificed.

All the VP’s that report to the COO have diverse backgrounds and none of them have
been with RMR for more than six years. Tenure ranges for a high of six years to a low of a few
months, with a majority having worked for four or five years. There are varying degrees of track
record, centrality, visibility and expertise power. With the COO coming from the guest services
operations, he has great expertise on this area whereas he may need to rely on the VP of finance
more for any financial decisions. There is also some visibility power with a VP’s proximity to
the CEO.

There is an even split among VP’s that have come through the ranks in the tourism and
hospitality industries versus ones that have a more formal education and have come from
different industries. Education can make skills more transferable in different industries. The VPs
all see an opportunity in the expansion and acquisition plan but are also hesitant on the internal
resource constraints and how such plans would impact current staff and systems. Although there
are a number of VPs that have been in one industry for most of their careers, they are not shy to
pursue new business opportunities in other industries. All the VP’s have backgrounds with
corporations that are at least equivalent or larger that RMR. The large company experience
should bring some best practices and industry know how to the company. Companies range from
Signature Vacations, Nintendo, Canadian Airlines and Bentall. Backgrounds would suggest that
VPs that have a more diverse background would be more in tune with the alternative of expand
value chain. VP’s with more of a tourism background would see the differentiation and grow
new markets alternatives as being more attractive.

The only drawback is that many of the experiences of the VPs do not specifically
encompass acquiring an existing company and more importantly operationally integrating it into
current operations. If RMR was to purchase a hotel, there is a risk. Although, the VP corporate
development has experience in acquiring companies, integrating operations is quite a different task. The alternative of expanding the value chain does not have a great fit with current management.

There is a conflict with the Buccaneer, does-whatever-it-takes, management philosophy versus the fifteen-minute coffee break staff. Many of the lower level employees are paid hourly and this has proliferated into a union like environment. Staff will nickel and dime the company if the company nickel and dimes them.

Mr. Armstrong's desire to maintain control would decrease the chances of any outside equity investment. Because RMR's current high debt, further debt would not be recommended. These two criteria would eliminate any alternative that would require a large capital investment into RMR. With the expand value chain alternative, acquiring a hotel or attraction would be too capital intensive. RMR cannot generate enough cash from current operations to sustain any new cash starved operation. The differentiation and new markets alternative, which requires less cash investment, would be more favoured by management.

3.3 Organization

The areas of systems, structure and culture will be evaluated for the organization. RMR's CEO is an entrepreneur and therefore his Buccaneer style of management has carried on throughout the company. An example is the human resources system. The hiring, development and compensation of employees do not have formal rules at RMR. Managers do not necessarily have to give formal reviews to employees and there is very little documentation that needs to be filled out. Annual objectives are not necessary therefore employees are not held accountable for their performance. Annual compensation increases are discretionary as well as bonuses for management. The HR system has few firm rules and many initiatives are subjective. Good managers will succeed but poor ones will not have a structure to fall back on in order to grow employees. There is a risk in that as the company grows and staff grows, employee performance will rely on the ability of the individual manager and not directly coordinated with the HR systems that are in place. The expanding the value chain alternative would require a large increase in staff. The issue of the lack of structure in the HR systems would have to be addressed before any large additions in staff.

Another system is compensation. In finance, the hourly wage has resulted in a union like environment in an area commonly reserved for professionals. Some employees still take exactly fifteen-minute breaks at a certain time each day. All employees get paid overtime or time off in
lieu. Staff are inflexible and they require a lot of guidance when exploring tasks that stray from their day-to-day duties. This has a large impact on RMR’s ability to provide a quality service and adapt to changes. As discussed earlier this conflicts with the buccaneer style of management.

Another area that needs to be evaluated is the overall information systems (IS) strategy. The IS strategy is not aligned with the business strategy. Where does the company need to go and how can IS assist in getting it there? The IS strategy cannot be reactive and after the fact. If the direction of the company is to grow either through additions to the value chain or organically, RMR must have the infrastructure to support the growth. Systems must be seamless. An example is the implementation of a new reservation system in 2003. There were issues with the implementation including scope creep, unclear management and user expectations, lack of testing and lack of involvement by stakeholders. The finance team had to clean up a poor implementation after it was completed. If RMR chooses to expand the value chain, the IS strategy and the business strategy must be aligned in order to absorb additional infrastructure. Management cannot start a new business and have tactical staff come in afterwards to ensure there is a fit.

Other areas within RMR that should be evaluated to ensure efficiency and effectiveness of systems include customer relationship management. Currently there is no link between the reservation system and the sales database. The information from the first point of contact with customers is not captured for future reference. If RMR chooses the alternative to grow new products, markets and lines of business, how can it easily tap into its existing customer base? This is especially essential in the multiple product alternative where previous customers is an ideal base to sell new products to. Having previous customer information is also crucial if RMR is to increase differentiation and offer different services on the train. If new products were introduced, RMR’s previous customers would be inclined to take the trip again. Growing new markets will also require customer information to measure what aspects of the trip are successful or not successful. If RMR were to tap into the Asian market or a new age segment, keeping track of trends in customers wants and desires will assist in ensuring success. As discussed, word of mouth marketing is essential to success; therefore how can the Mavens39 (people who find joy in connecting others) of the world be targeted without the ability to identify and track them? The sales contact system is also a separate standalone system that should be connected to the reservation and marketing systems.

Synchronization of train construction and train maintenance management (RMR's highest dollar value assets), is done on Microsoft Excel. When RMR commissions the construction of a multi million dollar dome, the project management is done external to the enterprise resource planning system. When a train begins operation, the preventive maintenance is not tracked in the system but again Excel is used. Although work orders are created in the system, employee time is not tracked against the specific project. If RMR is to acquire new product lines, proper management of its fixed assets needs to be performed. This is currently a weakness. Finally there are many other ex-systems software from the collection of cash from train sales to the coordination of staffing on train. All these activities require management and coordination. Many of the processes are done manually.

RMR has some very strong financial systems in place. Decision-making is decentralized, as all business units are responsible for their own budget. Decisions can be made independently at the manager level. RMR is unique in that the departmental managers are very financially well versed. Managers instruct accounting staff on what accruals to make on a monthly basis. At the end of each month, each manager and VP goes through a series of variance meetings where the business unit defends its number to the finance team and the COO. Line managers know more about the number than the finance staff. The same financial systems will be essential in managing an addition to the value chain or multiple products.

Currently, RMR has a very Buccaneer / Entrepreneurial environment but as it gets bigger, it has to lean more towards a Built to Last system. A Built to Last system would require the company to set more policies, decrease ambiguity, standardize and establish standard operating procedures. As the number of employees grow the opportunity for sub-optimal performance increases. Proper systems and structure will also allow RMR to integrate new businesses or products more easily. As more rules are in place less adhocracy will exist. New employees will have an easier time understanding procedures and systems because documentation will have been developed. There is a necessary balance in keeping the entrepreneurial spirit alive while maintaining a built to last company.

In conclusion, all three alternatives require an alignment of IS systems to overall corporate strategy. As the company grows and its systems do not keep up, there will be operational issues. If RMR decides to expand the value chain into different industries or go into new markets, its employees must be adaptable. The hourly compensation scheme is not

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40 Mark Wexler, Leadership in Context, Forthcoming, Edward Elgar.
congruent with the mentality of highly skilled employees. If RMR decides to develop another railtour then the staff will continue with at current performance levels and have fewer long-term issues. Finally, RMR’s CRM and equipment maintenance systems will be an issue if the company develops a new railtour. Lack of coordination will pose a serious problem for a bigger more complex company trying to develop new customers.
4 RECOMMENDATION

RMR's external analysis has highlighted the opportunities and threats present, while the internal analysis has stressed the strengths and weaknesses of the company. Opportunities and threats allow for the creation of new ideas, strengths and weaknesses provide a framework to assess current strategy. A viable corporate strategy has to align both the external and internal environment. If the company attempts to implement a strategic alternative without the correct internal resources, the probability of success will be diminished. Of course, complete congruency in strategy is difficult to achieve, the remainder of the paper will discuss taking advantage of opportunities and mitigating existing threats.

The Multiple railtour products alternative is already a part of management's current plans and will not be addressed specifically as there is already ample internal analysis done. However, with this alternative there are still a few resource gaps that need to be closed for this alternative to be successful. Access to additional capital is the foremost gap that needs to be closed. With the company's current cash flow constraints, internal generation of cash is not feasible. Current shareholder additional cash injection is not a preferred option by management and additional debt bears strong risk as outlined in the financial analysis. Also, with the potential of growth, efficiencies in procurement have to be addressed. Finally, within the organization, RMR needs to have the infrastructure to support the expansion.

Expanding the value chain requires careful consideration. Management preference would support expanding the value chain if it required minimal capital investment. RMR can generate additional debt but the debt level would be extremely high compared to industry averages. High debt levels would put extreme pressures to generate cash to meet debt obligations. These criteria would rule out adding a hotel or attraction due to the large capital investment that would be required to start up such an operation. The issues of quality of service with hotels in Kamloops cannot be addressed because of the lack of capital resources.

Nevertheless, the expand value chain and differentiation option has many non-capital intensive opportunities. RMR can still add value to the current operations by adding services to the existing trip and also changing the product. Additional forms of entertainment either onboard the train or in Kamloops will add to the experience. Changing the product by having a longer stay in Kamloops will extract more revenue from a captive customer onboard the train. Exploring the opportunity of a third higher-class service line will also move RMR to a higher echelon of quality versus its competitors.
Moreover, the new market alternative has good potential to tap into revenue sources that were previously deemed to be irrelevant. RMR’s product has been catering the same demographics for a majority of its history. The alternatives to expand the value chain and growing new markets will be explored in depth with implementation strategies.

4.1 Expand value chain & differentiation

4.1.1 Onboard differentiation

RMR has to increase the services on the train in order to differentiate and increase its quality of service. Differentiation can also increase the probability of repeat customers. Although many alternatives exist, the first step is to understand what services would appeal to the consumer by creating a customer or prospect database. Preliminary focus group research would allow discussion of services or activities on the train. From the focus group, a large-scale survey can be designed to target both existing and potential customers. The surveys can inquire about the awareness, interest and preferences of potential services on the train. The research has to ask the question of whether additional services on the train would take away from the overall experience of the scenery of the Rockies. This aspect is important because the main reason that RMR has not offered other services on the train is the fear that the product will change dramatically from what the customer wants. The survey should also target other age segments besides RMR’s current customer age group. The alternative of a third superior class service needs to be explored in the customer survey to measure market demand. The data should then be collected and analyzed.

If the marketing data proves that customers want additional services then RMR should plan on how to offer these services on the trains. The incremental cost of adding an additional railcar is small aside from fuel and staffing. Access to CP and CN’s tracks are based on usage and not on a per car fee. RMR’s winter train experience has shown that offering a parlour car with live music appeals to different audiences. RMR’s parlour car can be utilized for onboard entertainment. The parlour car is single level open bench-seating car that can accommodate up to twenty five to thirty passengers. For example, a wine tasting course given on the train by local wineries sampling Okanagan wines would be ideal entertainment for the current target market. Other forms of entertainment including music or comedy can be provided.

If other forms of entertainment are demanded then additional capital equipment needs to be added. Currently, Colorado Railcar, the manufacturer of RMR’s bi-level dome coach, has entertainment coaches that can be commissioned. The bi-level entertainment and dining cars
offer an open environment that provides both an entertainment area and a dining seating area. Colorado Railcar currently manufactures the car for a customer that uses it for entertainment venues. The glass-domed lounge creates a cruise-like atmosphere with a mezzanine overlooking a lower level piano bar. The car can also be constructed to include a dance floor, piano bar, gaming area, library, theatre and lobby area. The gambling industry is popular with RMR’s age group due to the higher discretionary income this segment possesses. Serious and recreational gamblers tend to be people in their 50’s and 60’s. Different coaches can alternate the use of the entertainment car. There are a multitude of entertainment alternatives that can be provided on the trip and additional fees can be charged for the different additional services. The estimated capital cost would be similar to that of RMR’s bi-level dome coached at a cost of $5 million.

As previously commented, RMR’s business philosophy is to never turn away a paying customer. RMR has enough equipment to adjust according to capacity demands. RMR does not fix the number of seats per trip therefore availability is never a question. With low incremental costs of adding an additional railcar, costs are kept to a minimum. The expansion of the value chain will help RMR differentiate its product so it is at least closer in quality to its competitors. If the company does not expand the value chain, this can become a potential weakness. In figure 17, the current pricing of two-day Goldleaf rail to Calgary is detailed. There is additional revenue from the increased quality noted above. Although current market conditions are depressed from the effects of world events in the last few years, a premium can be charged for increased quality. Based on current Gold leaf ticket prices averaging $1,345 and 35,000 guests, a five percent premium in the first year would amount to approximately $2 million dollars in incremental revenue.

<table>
<thead>
<tr>
<th>GL 2D Rail Pricing</th>
<th>Calgary</th>
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<tbody>
<tr>
<td>April</td>
<td>$ 1,219.00</td>
</tr>
<tr>
<td>May</td>
<td>$ 1,419.00</td>
</tr>
<tr>
<td>Jun - Sep</td>
<td>$ 1,549.00</td>
</tr>
<tr>
<td>Oct</td>
<td>$ 1,419.00</td>
</tr>
<tr>
<td>Dec</td>
<td>$ 1,119.00</td>
</tr>
<tr>
<td>Average</td>
<td>$ 1,345.00</td>
</tr>
</tbody>
</table>

Figure 17 Two- day Goldleaf pricing

A third superior class above the gold leaf service, e.g. platinum service, can be offered to further differentiate based on quality. The entertainment car described previously can be used for

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41 David Foot, “Boom, Bust & Echo”, (Toronto, Ontario, Canada: MacFarlane Walter & Ross, Toronto, 1996),
the platinum service and would offer lounge, sofa seating, ability to walk around and more entertainment on board the train. The service would still allow for a tour guide to give the narrative on the train while providing an opportunity to increase revenue. Attached in Appendix A is the weighted average cost of capital (WACC) used for all financial models for RMR. The highest WACC is 14.50%. In Appendix B, Platinum leaf service shows a simple net present value (NPV) model for the purchase of an entertainment car used for the platinum service and the associated cash out flow and inflows. Using the highest WACC and a modest guest count starting with five hundred guests and ending with four thousand guests in seven years, the project ends with a NPV of $2,263,221. An average sell price of $1,643.64 is used at a premium of all current RMR services. The model also details the assumption of the different rates charged in different months. The incremental revenue in 2007 amounts to approximately $800K and after seven years is forecasted to be $6.5 million. A third superior class will also move RMR up on the level of quality as detailed in figure 5 and allow RMR to compete more closely with RCCL and MRRT.

4.1.2 Off board differentiation and expand value chain

RMR has the opportunity to up sell services during and after the trip. Currently RMR sells add on tours before and after the trip that accounts for a good portion of revenues. The most significant opportunity that RMR has not captured fully is the ability to sell services in Kamloops. The company has a captive audience that would like to be taken care of during the journey. Currently RMR has the Two River Junction (TRJ) musical dinner and show, which fifty percent of the guests attend. However, RMR has to improve the quality of the product so that it is at least comparable to the quality of the food on the train. The buffet style dinner needs to be prepared onsite by the caterer as opposed to offsite and brought in. The variety and quality of the menu is inconsistent. Aboard the train, venison and salmon is served while at TRJ, roast beef under a heat lamp is offered.

When RMR overnights in Kamloops the train arrives between 5 and 6 pm. The guests have an opportunity to check into their hotel, freshen up and if they are going to TRJ depart at 7 pm for a ten-minute bus transfer. The window of opportunity for additional revenue is approximately fours hours maximum however, there is still potential for half of RMR’s current guests to attend alternative experiences. Currently, if a guest does not go to TRJ they have an opportunity to explore the city of Kamloops and dine in one of the local establishments. Goldleaf guests have the opportunity to receive a dinner voucher if they decline to see TRJ. RMR does have some mark up on the dinner.
RMR has the opportunity to sell other forms of meals and entertainment. For example RMR’s competitors, the cruise ships, offer an Alaskan gold rush tour and salmon bake. Kamloops would be an ideal setting for a similar experience. RMR can provide an experience of a historic campsite of the gold rush of the 1850’s. Guests can try their hand at panhandling and plays or stories can be told about the gold rush. Finally the evening can end off with a baked salmon dinner. As stated earlier, only fifty percent of the 70,000 annual guests attend TRJ. If RMR can capture the remainder of the guests, charging $70.00 for a salmon bake, the additional revenue would be $2.5 million. With an average profit margin of forty five percent, this would equal $1.1 million in additional income.

Many opportunities exist for other dinner and entertainment tours. A Kamloops town garden and gourmet tour can be offered. Guest can enjoy a guided bus tour of historic Kamloops ending off with a cooking demonstration using local ingredients followed by dinner. Additionally, nature walks can be provided. The only way to enjoy the local landscape after viewing the scenery on the train is to take a walk outdoors. Kamloops also has a wildlife park, with many species of indigenous animals, in which a tour can be built around. A variety of different tours can be offered.

The options described are only those that can be done on the one overnight stay. Currently guests take a continuous trip staying in Kamloops for the one night. If guests can stop off in Kamloops and stay for more than one night then other excursions can be offered. The Okanagan region is only one and half hours away and a driving tour visiting wineries ending off with a dinner and returning the same day offers guest an added excursion. The main reason for not stopping for more than one night is because of scheduling purposes and keeping the same tour guide for the whole journey. However, the additional revenue will offset the costs. There are many outdoor activities that can be provided with an additional nights stay including fishing, golf tour, lake tours and guided hikes. Guests who do not take a tour can opt to purchase accommodations and car rental. RMR’s eastbound journey currently leaves Vancouver Tuesdays, Thursdays and Sundays. For example, a guest taking a Tuesday departure can take the following train Friday morning in Kamloops for a three-night, two-day stay around Kamloops. A differentiation strategy will allow RMR to increase its quality of service and continue to charge a price premium.
4.2 Grow new markets

RMR must grow new markets that are currently untapped. The Japanese market is virtually untouched by RMR. The main reason given for the lack of Japanese business is that the trip is too long for the customers. RMR should cater the trip to the Japanese due to the size of the market. Using the UK market as a comparison RMR has a market share of 6.5% of total UK visitors to BC equivalent to 17,500 guests. The projected 2004 number of visitors to BC from Japan is 217,000. Capturing 1% of the Japanese market would equate to 2,170 guests.

The attributes of the Japanese traveller match those of the RMR’s tour. Twenty nine percent of Japanese travellers come for general sightseeing and twenty percent also enjoy outdoors and wilderness activities. Of the outdoor activities, sixty one percent visited a National or Provincial park. Furthermore, sixty seven percent of all Japanese travellers come in the spring and summer matching RMR’s season.

4.2.1 Japanese sales and marketing plan

A robust marketing and sales plan for the Japanese needs to be developed. Japan’s economy is in the best shape since 1991 and is primed for an economic turnaround that will increase travel abroad. Unemployment is the lowest in four years and GDP growth is annualized at 6.1% for the first three months of the year producing the eighth straight quarter of growth42.

RMR needs to strengthen its presence in Japan to sell to the market. A rapid skimming entry strategy should be employed in Japan. This strategy will skim the cream off the top of the market and sell to those customers that are price insensitive. Based on studies, income has the largest effect on Japanese tourists deciding to come to BC, followed by exchange rates 43. Relative price of products was less significant than the other variables. The Japanese market is unaware of RMR and is relatively price insensitive to travel. Rapid skimming will allow RMR to maximize profit and not compete on costs. This entry strategy will rely on high promotion costs and a high price to accentuate RMR’s brand. A price skimming strategy, if successful, will signal other competitors to enter the market.

Currently the company has a contract-sales representative, which based on the negligible Japanese revenues, can be improved on. RMR’s strength is not direct sales but engaging a full

42 CNN website [online], 2004.
time employee to promote the railtour is essential. Compensation would have to be based on a commission basis to directly reward the salesperson. In interviews with RMR’s competitors including Brewster, the sentiment was echoed that railtours are difficult to sell to the Japanese. However, those tour companies cannot control the attributes of the rail product like RMR can. Familiarization trips for tour guides, attending trade shows and providing information sessions are crucial to breaking into the Japanese market.

RMR needs to position itself in the Japanese marketplace to create a distinctive place in the minds of potential customers. The company has to satisfy the needs and wants of the Japanese so that RMR is distinguished from other tour operators. In creating demand, RMR has to ensure:

1. The tour and the message in the target market’s mind is clear
2. The tour has a strong identity and has a positive image in the customer’s mind.

RMR must solve the Japanese customer’s problem in a way that is unique, believable and consistent. Because RMR’s strength is not direct marketing, external help will be needed or the addition of internal staff with the expertise. Hiring a Japanese marketing expert will be essential. Furthermore, the problem with all tourism products is that it is intangible. Although RMR is selling a train trip with the tangible scenery of mountains and lakes, it has to market an experience otherwise it cannot differentiate from any other mountain or lake. Destination marketing requires tangibilizing the intangible 44.

Based on research (Bailey 1992), Japanese tourists search for a few similar attributes:

1. Places where other people have been
2. Reasonably priced
3. Coverage, visit as many places as possible
4. Minimum contact with the local community
5. Perfect Japanese-like service
6. Good food

RMR’s trip has a few obstacles that do not cater to the Japanese market such as having few previous Japanese visitors and not having perfect Japanese-like service. In RMR’s favour, the Japanese are concerned about personal safety, seeing as many places as possible and not having to associate with the local community. What better way to travel for safety and little

44 Harsha Chack, “Positioning a tourism destination to gain a competitive advantage”, School of Hotel, Restaurant and tourism administration, University of New Orleans, (2001): 32.
outside contact than on a train? The attributes described are general therefore RMR should still do its own market research targeted at the Japanese.

In selling to the Japanese, RMR needs to emphasize the intangibles such as the grandeur of the Rockies, the history of the gold rush and the railroad and the exceptional service onboard the train. The Gold rush salmon bake would be an ideal experience for the Japanese. The generic RMR brochure needs to be tailored to the Japanese market. Images of the unique Rockies have to be tied into the intangibles to show the size and magnitude of the mountains and to communicate awe-inspiring feelings experienced on the trip. Also tying in is the unique setting of traveling through the Rockies by rail and seeing many unique sights unseen by coach travel. RMR already does this well, as the company never uses any pictures with generic backdrops. To appease the Japanese desire to go where other Japanese have been, testimonials would be invaluable from the Japanese visitors that have gone on RMR’s trip. For promotion, the regular practice of familiarization trips to wholesale tour operators, media and travel industry professionals will have to be given.

RMR also needs to address the duration of the trip. If market research indicates the train trip is too long for the Japanese customer, RMR should give the option of a shorter train experience. A coach ride from Vancouver to Kamloops would take approximately three to four hours. Guests can overnight in Kamloops and board the train to Banff in the morning. Tourists can also disembark in Banff and take the Banff tour.

RMR currently caters to an English-speaking customer base. In order to attract the Japanese market, RMR should attempt to provide Japanese like service. RMR should first produce a Japanese brochure and provide Japanese narrative on the train. RMR’s website should also have automatic translation into multiple languages to compete with its competitors.

In Appendix C is a detailed forecast for the Japanese market. Certain assumptions are made for revenue and costs. Promotion for the current season always happens one-year prior. There are two scenarios. Scenario one involves selling the full current trip to the Japanese customer. Rapid skimming is employed as a large proportion of the costs are for promotion. Spanning over seven years with a market capture beginning with .3% and ending with 1.5%, the NPV is $2.9 million. The second scenario involves a shorter trip starting from Kamloops. A lower price point assumes a quicker adoption rate and costs have been adjusted accordingly. The shorter scenario produces a NPV of $783,465 after the seventh year.
4.2.2 Other geographic segments

4.2.2.1 Chinese

The mainland Chinese and South Koreans show tremendous growth of forty five percent and twenty nine percent respectively as shown in figure 8. Mainland Chinese visitors are forecasted to be 68,000 in 2004. With the Chinese economy booming, GDP up 9.8% compared to Q1 of 2003, this market has huge potential. Over the last ten years the Chinese have loosened travel restrictions therefore travel has averaged twenty one percent growth per year. The Chinese will be the fourth largest tourism generating market by 2020. The economic growth has spurred on the growth of an affluent class, leisure time and public holidays. Travel to Canada will increase even more if Canada receives approved destination status (ADS) from the Chinese government. ADS makes travel easier for the Chinese.

Key marketing motivations for Chinese travellers to Canada are safety, cleanliness and outstanding scenery. The Chinese are interested in visiting Western Canada including Vancouver, Victoria, Rocky Mountains, Banff and Jasper; again perfectly aligned with RMR. In fact the key image associated with this market is Lake Louise surrounded by the mountains and glaciers. On the other hand, Mainland Chinese travellers possess a few key motivations that are not inline with RMR’s product. The Chinese travellers are between the ages of twenty-five and fifty-five, like to see as many different places as possible and want the best value for their money. High cost is the main deterrent for Chinese travellers and RMR’s Goldleaf product is maybe out of their reach. Most travellers spend between $650 to $1700 Canadian on a trip. Furthermore, a welcoming attitude is important to Chinese travellers and the large Chinese community in Vancouver would make them feel right at home.

RMR should employ a rapid penetration entry strategy, as the Chinese market is unaware of the product. Rapid penetration involves high promotion and a lower price. The Redleaf service should be promoted because the market is relatively price sensitive and therefore will give RMR first-mover advantages in branding and pricing. This high promotion, low price strategy will require large initial out-of-pocket costs. Key to success in this market is shorter tours because Chinese tourists would like to see as much as possible. The shorter route previously proposed for the Japanese is a great option. Targeting the main cities of Beijing, Shanghai and Guangzhou for

potential customers is also important as most Chinese travellers originate from there. Furthermore, the rapid penetration strategy would have to be very targeted because of the size of these Chinese cities. Targeting specifically to the current long haul traveller’s demographics of high income, married, educated, managers or professional will achieve the best results. Professional trade magazines or leisure and lifestyle publications along with seminars to educate travellers would be ideal. Establishing relationships and partnering with local outbound tour operators on a commission basis will reduce some of the costs required for promotion.

There are additional important aspects that RMR needs to stress in marketing to the Chinese. First, Chinese consumers still have to be educated on travel in Canada and contracting a local travel agent who can hold seminars targeting professionals would increase chances of success. Familiarization trips and direct advertising including editorials have had great success in the ADS granted countries of Australia and New Zealand. Although current visitors from China are not large, there is huge growth potential. RMR should start marketing now to assist in developing this market and if Canada gets ADS this market will grow dramatically.

4.2.2.2 South Koreans

South Korean outbound travel has exhibited rapid growth since 1989 following the relaxation of foreign travel restrictions. During the period 1988 to 2003, Korean outbound travel increased by 877% to 7.1 million tourists with total expenditures of $8.1 billion US. Asia is the number one destination for tourist followed by the Americas. Canada is the number two Americas destination. South Korean visitors to BC are forecasted to be 110,000 in 2004. For 2003, seventy two percent of all visitors from South Korea came to BC with seventeen percent of all travellers falling into the 51 years old plus age group. This age segment represents 24,000 visitors to Canada but the total market for this age group represents 1.5 million tourists (22% of the total market). The South Korean economy in Q1 of 2004 has a 5.3% GDP increase from the same time last year. However, the main risk is the political instability of North Korea which has a large impact on the South Korean economy.

RMR has to be aware of this growing market segment. Marketing to the South Koreans requires a rapid skimming entry strategy much like the one recommended for the Japanese

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48 Korean National Tourism Organization website [online], 2004.
market. Because the size of the market is smaller than the Japanese, the use of sales intermediaries is more cost effective. Again, RMR has to create market awareness with high promotion and a high price to skim the cream of the market. The attributes associated with the Korean tourists that are important to RMR are:

- 50% travel in groups using packaged tours
- Older Koreans are less likely to have a working knowledge of English
- Beautiful scenery is the most popular feature followed by theme parks and shopping.
- Koreans moved from a six-day to a five-day workweek in 2003.
- Speedy service especially in restaurants is an important part of Korean culture.
- Koreans hate being treated as Japanese as they have their own distinct culture

Currently the Korean market is faced with packaged tours that offer low price as opposed to quality. RMR needs to stress the quality of the product to be successful. RMR needs to have Korean speaking onboard attendants who are aware of the cultural differences of Asians. Finally, Koreans enjoy at least one Korean meal a day if possible. If RMR can enter the market and establish a brand early, there is a higher probability of success. Korea has the potential to be the one of the largest Asian outbound markets. Table 7 summarized each new market.

<table>
<thead>
<tr>
<th></th>
<th>Japanese</th>
<th>Chinese</th>
<th>South Korean</th>
</tr>
</thead>
<tbody>
<tr>
<td>Price</td>
<td>Insensitive, High</td>
<td>Sensitive, Low</td>
<td>Insensitive, High</td>
</tr>
<tr>
<td>Product</td>
<td>Goldleaf, short trip</td>
<td>Redleaf, short trip</td>
<td>Goldleaf short trip</td>
</tr>
<tr>
<td>Promotion</td>
<td>Direct, Familiarization tours (FAM), seminars</td>
<td>Direct, FAMs, seminars</td>
<td>Direct, FAMs, seminars</td>
</tr>
<tr>
<td>Distribution</td>
<td>Direct sales</td>
<td>Distributors</td>
<td>Distributors</td>
</tr>
</tbody>
</table>

Table 7 New Market Summary

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4.2.3 New age groups

Currently, RMR’s largest customer segment is the 55 years old plus age group comprising seventy three percent of all guests. RMR’s customers in the 55 years plus age group can be further subdivided into 55 to 64 - 34%, 65 to 74 - 29% and 75 plus 10%. The next largest segment is the 45-54 years old age group representing 17% of all guests. RMR has to increase market share by appealing to the 45-54 year old target market.

The baby boom generation in the US is categorized by the group born between 1946 to 1964 therefore as of 2004 this group’s age is between 40 and 58 years old. The baby boom only occurred in the industrialized countries of Canada, US, Australia and New Zealand. This is a good segment to for RMR to concentrate on, as the firm’s own demographics has high representation from each country. As the name suggests there was a boom in birth rates in these years. In the US, the boomer population of this age group totals 76 million people. Americans, fifty plus, have over half the discretionary income but receive less than ten percent of ad messages. To market to the baby boomers, RMR has to understand the needs, wants and desires of this segment. The analysis will focus on the US baby boomers as this group represents the greatest potential for RMR market. There are some very unique characteristics for the baby boomers and marketers need to be aware of:

- Boomers are impatient because they grew up with television and fast food. Efficiency is important and long lines cause frustrations
- Boomers are not brand loyal therefore marketers have to continually recreate products to cater to this group.
- Boomers are used to luxury because they grew up not knowing real poverty unlike their parents.
- Boomers want good service and are willing to pay for it.
- Boomers are the most physically fit generation. This causes them to want more adventure and act as if they are younger than they really are.

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• Boomers are travel savvy and want to re-capture their pre-family years.  

Again, a rapid skimming form of market entry should be used. To attract the boomer segment, RMR needs to rebrand to this particular market segment by changing its product. The thoughts and feelings associated with RMR for the boomer market would include luxury, quality, service, adventure and freedom. The company needs to add more adventurous activities to the trip. First, the add-ons to the current tour need to be expanded to include activities such as white water rafting, horseback riding and other more physical activities. From the previous recommendation of stopping in Kamloops overnight for a longer period, RMR can sell more adventurous activities in the Kamloops area.

Second, more activities need to be offered on the train. The entertainment car suggested earlier would allow for additional activities such as comedy or murder mysteries. The tour narrative is excellent as boomers still like to learn about history but they also want to be entertained.

The risk of changing the product is that the current target market may be alienated. The older market segment enjoys just relaxing and taking in the scenery. A way to mitigate this risk is to create a sub-brand underneath RMR. A sub-brand has its own name and visual identity to differentiate it from the parent brand. The sub-brand would be a separate tour that would include all the aspects that appeal to the boomer market including more activities on the train and more excursions off the train. This way the current clientele would not be unhappy about the change in the product. The sub-brand can be marketed as Rocky Mountaineer Adventures. A product for the younger market that enjoys train travel but desires more adventure.

5  CONCLUSION

RMR has achieved great success in its fifteen years of business. For future growth the company has to evolve and explore new opportunities. Tourists are more sophisticated therefore further differentiation, expanding the value chain and growing new markets will help RMR to flourish. Management preferences have a significant influence on the overall strategy of the company and a shared vision while still satisfying shareholder wants can be achieved. Due to management preferences, RMR must seek different ways to fund its growth. Additional debt is not recommended due to the strain on cash flow and outside equity is not preferred due to the

decreased management control. As maintaining control is a hurdle, RMR’s management should consider a minority equity shareholder to fund growth plans. A major bank’s venture equity arm may be interested in making an investment in RMR. Management would maintain majority control however; even with a minority shareholder there are still stringent rules to be followed from both a financial and operational perspective. RMR must exploit its current strengths and mitigate some of the weaknesses in order to implement a growth strategy. RMR cannot be all things to all people but it can strategically be a product for more people.
APPENDIX A – RMR WEIGHTED AVERAGE COST OF CAPITAL

Discount Rates

Low:
We have used an adjusted WACC (Weighted Average Cost of Capital) to derive an appropriate discount rate. We have adjusted the WACC to ignore the cost of equity b/c the company is private, doesn't pay a regular dividend and the cost of equity is viewed as "whatever is left over" after covering all obligations and future needs. We have also excluded all Related Party loans and debt, which is due within 13-month period. Therefore WACC is calculated using only WACC of external long-term debt after tax costs.

The low WACC is 4.60%

Limitations: A WACC without a cost of equity is not realistic b/c the return an outside buyer would expect would be substantial.

Mid:
We have used the industry of Leisure & Recreational Services Ratio of Stock Price/Cash Flow. Our reference companies are Royal Caribbean Cruise Lines (which has cruise operation and Train operations) and Carnival cruise lines. The Price/Cash flows are 11.20 and 17.30 respectively.

The mid discount rate is 9.4 times Cash Flow or 10.63%

Limitations: This ratio does not take into accounts differing risks and differing capital structures among different industry companies, which could be materially different from GCRC. To get a more accurate rate we would have to derive an unlevered free cash flow for comparison companies and see what the market was paying for these unlevered free cash flows.

High:
We have used an implied return from "Zacks" Company reports, which factor a number of ratios and risk factors to come up with an implied return of 14.5%. This is the average of our comparison companies.

The high discount rate is 14.5%

Limitations: This is a very generic calculation and we have only used to company comparisons whose risk factors and capital structures are different than ours.

Terminal Value:
We have assumed the terminal value will be the PV of the tenth years cash flow discounted in perpetuity.

Terminal Value

<table>
<thead>
<tr>
<th>Industry - Leisure &amp; Rec Services</th>
</tr>
</thead>
<tbody>
<tr>
<td>--------------------</td>
</tr>
<tr>
<td>Carnival Cruise Price/Cash Flow</td>
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<tr>
<td>Royal Caribbean Price/Cash Flow</td>
</tr>
<tr>
<td>Industry - Leisure &amp; Rec Services</td>
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<tr>
<td>Average</td>
</tr>
</tbody>
</table>
## APPENDIX B – PLATINUM LEAF SERVICE

### Discount Rate
- 4.60%
- 10.63%
- 14.50%

### PV cash flows
- $5,748,013.09
- $3,362,962.36
- $2,263,220.66

### Platinum leaf Pricing

<table>
<thead>
<tr>
<th>Month</th>
<th>% change</th>
<th>Platinum</th>
</tr>
</thead>
<tbody>
<tr>
<td>April</td>
<td>1,479</td>
<td></td>
</tr>
<tr>
<td>May</td>
<td>1,644</td>
<td></td>
</tr>
<tr>
<td>Jun-Sep</td>
<td>2,000</td>
<td></td>
</tr>
<tr>
<td>Oct</td>
<td>1,644</td>
<td></td>
</tr>
<tr>
<td>Dec</td>
<td>1,452</td>
<td></td>
</tr>
<tr>
<td>Total Average</td>
<td>$1,843.64</td>
<td></td>
</tr>
</tbody>
</table>

### Cash in
- Bookings
  - 2006: -
  - 2007: $821,819
  - 2008: $1,643,638
  - 2009: $2,465,457
  - 2010: $3,287,276
  - 2011: $4,109,096
  - 2012: $4,930,915
  - 2013: $6,574,553

### Cash out
- Purchase
  - 2006: ($4,000,000)
- Loan Repayment
  - 2006: ($500,000)
  - 2007: ($500,000)
  - 2008: ($500,000)
  - 2009: ($500,000)
  - 2010: ($500,000)
  - 2011: ($500,000)
  - 2012: ($500,000)
  - 2013: ($500,000)
- Maintenance
  - 2006: ($5,000)
  - 2007: ($10,000)
  - 2008: ($15,000)
  - 2009: ($20,000)
  - 2010: ($25,000)
  - 2011: ($30,000)
  - 2012: ($40,000)
- Cleaning
  - 2006: ($2,500)
  - 2007: ($5,000)
  - 2008: ($7,500)
  - 2009: ($10,000)
  - 2010: ($12,500)
  - 2011: ($15,000)
  - 2012: ($20,000)
- Onboard Salaries
  - 2006: ($10,000)
  - 2007: ($20,000)
  - 2008: ($30,000)
  - 2009: ($40,000)
  - 2010: ($60,000)
  - 2011: ($60,000)
  - 2012: ($80,000)
- Contracted food
  - 2006: ($37,500)
  - 2007: ($75,000)
  - 2008: ($112,500)
  - 2009: ($150,000)
  - 2010: ($187,500)
  - 2011: ($225,000)
  - 2012: ($300,000)
- Crew meals
  - 2006: ($1,500)
  - 2007: ($3,000)
  - 2008: ($4,500)
  - 2009: ($6,000)
  - 2010: ($7,500)
  - 2011: ($9,000)
  - 2012: ($12,000)
- Misc
  - 2006: ($10,000)
  - 2007: ($20,000)
  - 2008: ($30,000)
  - 2009: ($40,000)
  - 2010: ($50,000)
  - 2011: ($60,000)
  - 2012: ($80,000)

### Cash flow
- 2006: ($4,500,000)
- 2007: $255,319
- 2008: $1,010,638
- 2009: $1,765,957
- 2010: $2,521,276
- 2011: $3,276,596
- 2012: $4,031,915
- 2013: $5,542,553
# APPENDIX C – GROW NEW MARKETS - JAPANESE

## Scenario 1 - Full trip

<table>
<thead>
<tr>
<th>WACC</th>
<th>10.6%</th>
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<tr>
<td>NPV</td>
<td>$2,910,892</td>
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<table>
<thead>
<tr>
<th>Year 1</th>
<th>Year 2</th>
<th>Year 3</th>
<th>Year 4</th>
<th>Year 5</th>
<th>Year 6</th>
<th>Year 7</th>
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<tbody>
<tr>
<td>Total Japanese overnight visitors to BC</td>
<td>217,000</td>
<td>217,000</td>
<td>217,000</td>
<td>217,001</td>
<td>217,002</td>
<td>217,003</td>
</tr>
<tr>
<td>Percentage of market capture</td>
<td>0.30%</td>
<td>0.50%</td>
<td>0.75%</td>
<td>1.00%</td>
<td>1.20%</td>
<td>1.50%</td>
</tr>
<tr>
<td>RMR total guests</td>
<td>651</td>
<td>1,085</td>
<td>1,628</td>
<td>2,170</td>
<td>2,604</td>
<td>3,255</td>
</tr>
</tbody>
</table>

### Forecasted Project budget

#### Revenue

- **Gold leaf - $1,250**
  - $ - $ 406,675 $ 676,125 $ 1,017,188 $ 1,356,256 $ 1,627,515 $ 2,034,403
- **Platinum leaf - $1,650**
  - $ - $ 537,075 $ 895,125 $ 1,342,688 $ 1,790,258 $ 2,148,320 $ 2,685,412

**Total Revenue**

- $ - $ 943,550 $ 1,573,250 $ 2,359,875 $ 3,146,515 $ 3,775,835 $ 4,719,815

#### Costs

- **Japanese Sales director / staff** $ 100,000 $ 165,100 $ 208,500 $ 262,750 $ 317,001 $ 360,402 $ 425,505
- **Media - direct advertising** $ 500,000 $ 600,000 $ 700,000 $ 800,000 $ 900,000 $ 1,000,000 $ 1,100,000
- **Japanese brochures** $ 50,000 $ 56,510 $ 158,500 $ 212,750 $ 267,001 $ 310,402 $ 375,505
- **Travel** $ 30,000 $ 40,000 $ 50,000 $ 60,000 $ 70,000 $ 8,000 $ 8,000
- **Food and entertainment** $ 20,000 $ 25,000 $ 30,000 $ 35,000 $ 40,000 $ 45,000 $ 45,000
- **Direct onboard operating costs** $ 86,583 $ 144,305 $ 216,458 $ 288,611 $ 346,335 $ 432,921

**Total cost**

- $ 700,000 $ 973,193 $ 1,291,305 $ 1,586,958 $ 1,882,613 $ 2,070,140 $ 2,386,930

**Gross profit**

- $ (700,000) $ (29,243) $ 281,945 $ 772,918 $ 1,263,901 $ 1,705,695 $ 2,332,885

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## Scenario 2 - Half trip start in Kamloops

<table>
<thead>
<tr>
<th>WACC</th>
<th>10.6%</th>
</tr>
</thead>
<tbody>
<tr>
<td>NPV</td>
<td>$783,465</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Year 1</th>
<th>Year 2</th>
<th>Year 3</th>
<th>Year 4</th>
<th>Year 5</th>
<th>Year 6</th>
<th>Year 7</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Japanese overnight visitors to BC</td>
<td>217,000</td>
<td>217,000</td>
<td>217,000</td>
<td>217,000</td>
<td>217,000</td>
<td>217,000</td>
</tr>
<tr>
<td>Percentage of market capture</td>
<td>0.75%</td>
<td>0.90%</td>
<td>1.00%</td>
<td>1.20%</td>
<td>1.40%</td>
<td>1.60%</td>
</tr>
<tr>
<td>RMR total guests **</td>
<td>1,828</td>
<td>1,953</td>
<td>2,170</td>
<td>2,604</td>
<td>3,038</td>
<td>3,472</td>
</tr>
</tbody>
</table>

### Forecasted Project budget

#### Revenue

- **Gold leaf - $700**
  - $ - $ 569,625 $ 683,550 $ 759,500 $ 911,400 $ 1,063,300 $ 1,215,200
- **Platinum leaf - $900**
  - $ - $ 732,375 $ 878,850 $ 976,500 $ 1,171,800 $ 1,367,100 $ 1,562,400

**Total Revenue**

- $ - $ 1,302,000 $ 1,562,400 $ 1,736,000 $ 2,083,200 $ 2,430,400 $ 2,777,600

#### Costs

- **Japanese Sales director / staff** $ 100,000 $ 181,375 $ 197,650 $ 208,500 $ 230,200 $ 251,900 $ 273,600
- **Media - direct advertising** $ 500,000 $ 600,000 $ 700,000 $ 800,000 $ 900,000 $ 1,000,000 $ 1,100,000
- **Japanese brochures** $ 50,000 $ 66,275 $ 245,300 $ 267,000 $ 310,400 $ 353,800 $ 397,200
- **Travel** $ 30,000 $ 40,000 $ 50,000 $ 60,000 $ 70,000 $ 8,000 $ 8,000
- **Food and entertainment** $ 20,000 $ 25,000 $ 30,000 $ 35,000 $ 40,000 $ 45,000 $ 45,000
- **Direct onboard operating costs** $ 108,229 $ 128,875 $ 144,305 $ 173,166 $ 202,027 $ 230,888

**Total cost**

- $ 700,000 $ 1,020,879 $ 1,352,825 $ 1,514,805 $ 1,723,766 $ 1,860,727 $ 2,054,688

**Gross profit**

- $ (700,000) $ 281,121 $ 209,576 $ 221,195 $ 359,434 $ 569,673 $ 722,912

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* assuming even split of gold and platinum leaf guests

** market adoption is higher due to the lower price point
9 REFERENCES


Chack, H. “Positioning a tourism destination to gain a competitive advantage”, School of Hotel, Restaurant and tourism administration, University of New Orleans, (2001).


Hovora, J. “Logistics on onboard services (inflight services) of airlines,” Tourism and hospitality research, (2001): 177


