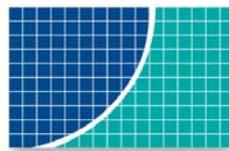


S.S. Norisle - The Return of a Great Lakes Passenger Steamship: A Market and Feasibility Study

EXECUTIVE SUMMARY



The Economic Planning Group of Canada
Tourism Consultants

Lakeshore
Excursions

BURNETT
THORNE
CULTURAL TOURISM

Canada

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Submitted by

The Economic Planning Group

In association with

**Burnett Thorne
&
Lakeshore Excursions**

March 2010

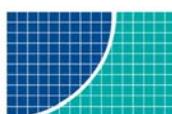
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S.S. Norisle – The Return of a Great Lakes Passenger Steamship

Introduction

S.S. Norisle (Norisle) is a retired passenger steamship, until recently in use as a marine museum in Manitowaning on Manitoulin Island. From 1947 until 1974 she operated as a passenger and vehicle ferry between Tobermory and South Baymouth, as well as providing some regional coastal transportation services. Her successor is M.S. Chi-Cheemaun, which is still in service.

A committee was established by the Corporation of the Township of Assiginack and the S.S. Norisle Steamship Society (Friends of the Norisle) to investigate the feasibility of refitting Norisle and returning her to service as a heritage passenger steamship on Great Lakes cruises.

The Economic Planning Group of Canada, in association with Burnett Thorne Cultural Tourism and Lakeshore Excursions, were contracted to undertake the feasibility study. The client committee includes volunteers having expertise and personal interest in steam technology, cruise ships, Canadian heritage and economic development. They are leading the refit work and assisted the consulting team with technical information and capital costs.

The objectives of the study were as follows:

1. Identify and assess the likely market potential for an upscale heritage steamship cruise operating on the Great Lakes and St. Lawrence River in the context of the competitive marketplace.
2. Develop a concept for the cruise program, including ship facilities and features, market positioning, suggested itineraries, shore excursions, pricing, etc.
3. Identify a management and marketing model for the enterprise.
4. Consider other uses for the ship in the off-season, such as a meeting facility in a port community.
5. Investigate the feasibility of the program in terms of operational and lay-up logistics, regulatory issues, likely revenues, operating expenditures and net income.
6. Investigate the potential availability of capital financing from government agencies and the private sector.
7. Identify the economic and other benefits of the program to the stakeholders, with particular consideration to Manitoulin Island and northern Ontario more generally.
8. Outline an implementation plan for the project.

This Executive Summary presents the highlights of the key findings and conclusions of the study. Readers seeking more details should review the full study, entitled 'S.S. Norisle – The Return of a Great Lakes Passenger Steamship: A Market and Feasibility Study'. The study also includes a Technical Appendix Report under the same name.

Norisle has a length of 215 feet, a beam of 36 feet, and a draft of 12 feet, and is powered by a triple expansion steam engine, a means of propulsion that became famous and in global use in the late 19th century and through the 20th century. Steam authorities consider this ship to exemplify important aspects of maritime heritage in Canada and internationally. Returning her to service provides an opportunity to interpret and celebrate this heritage, as well as provide an exciting cruise opportunity for Ontario's residents and national and international tourists.

The terms of reference for the study included a number of ideas and suggestions for cruise itineraries and other uses for Norisle, however, the consulting team was asked to make a fresh start in considering these and other ideas in order to find the most sustainable business model for the project.

Proposed Cruise Program

The proposed cruise program is one of five different scenarios that were assessed by the consultants. The scenarios differed on the basis of the number of cruises of each type, the pricing levels and projected demand levels.



The proposed annual cruise program provides 25 cruises in total.

The program would commence with a positioning cruise from Norisle's winter lay-up port in northern Ontario to Toronto in early May, followed by four Lake Ontario getaway cruises out of Toronto, and then six, week long one-way cruises from Toronto to Montreal, with a reverse itinerary.

In early July, a single 7 day cruise from Toronto to Midland/Port McNicoll would position Norisle at her summer cruising base for the remainder of the season. Thirteen Midland/Port McNicoll to Sault Ste. Marie and return cruises would be provided through to the mid-October Thanksgiving weekend.

Norisle would lay-up for the winter at a port in northern Ontario, with maintenance work being carried out during the lay-up period.

The Cruise Itineraries

The exhibit on page 4 illustrates the proposed cruise regions and the ports of call. The cruise itineraries would include:

- Four spring getaway ‘sampler’ cruises of 3 and 4 days duration from Toronto, on Lake Ontario, visiting Kingston, the 1000 Islands and Niagara, with the 4 day version also stopping at Picton in Prince Edward County.
- Six spring cruises of 7 days duration between Toronto and Montreal (and a reverse itinerary) via Lake Ontario and the St. Lawrence River visiting the Niagara Region, Picton in Prince Edward County, Kingston, the 1000 Islands, Brockville and Cornwall.
- Norisle’s major summer cruise program of the season on Lake Huron which would cruise her passengers for 7 days from Midland/Port McNicoll through the dramatic wilderness beauty of Georgian Bay and the North Channel, stopping at Parry Sound, Little Current, then on to the St. Marys River and Sault Ste. Marie, returning via Tobermory to Midland/Port McNicoll. Shore excursions to Mackinac Island, USA, and the Agawa Canyon Rail Tour in the Algoma Region will be memorable highlights.

Other Concept Options

Linking the summer positioning cruise to the other itineraries offers the opportunity of one mid-season extended cruise annually of up to three weeks, from Montreal to Sault Ste. Marie, essentially re-enacting the heritage of early transportation by ship in Ontario.

For passengers wanting to recreate the grander adventure of early transcontinental travel in Canada, they could link this three week cruise with VIA Rail transportation from Halifax or Quebec City to Montreal to join Norisle, and with VIA Rail’s Canadian connection from the Sault Ste. Marie area to the Pacific Coast and Vancouver.

Market Potential

There is good evidence of a significant market being available for multi-day, berthed passenger cruises on the Great Lakes and St. Lawrence River from mid-May through October. The market is being underserved by the few ships currently operating such cruises. (We understand plans are proceeding for two new ships to implement cruise programs on the lakes in 2011, and a third one is to return to the lakes for two cruises that same year.) The popularity of the Great Lakes as a cruising destination is expected to grow, consistent with a clear demand for a quality cruise experience.

Norisle's Capacity and Positioning

A critical requirement will be to maximize berthed passenger capacity and at the same time maximize fare levels. The passenger accommodations will be required to be of sufficient size and appointment in order to sustain a quality 3.5 to 4 star standard.

It has been determined that a 64 passenger capacity at a 3.5 to 4 star standard is achievable for Norisle and this is the assumption upon which the analysis has been based.

Exceeding a 4 star standard is not practical for Norisle. The physical limitations of the ship prohibit achieving a standard above 4 star unless the number of cabins is reduced considerably, which is not an appealing option as it would lower revenue potential. Also, a 4 star plus standard cruise would require more crew than the 31 being proposed, and such additional crew cannot be accommodated. Furthermore, standards above 4 star would require the addition of facilities such as a pool, spa, etc., which are not realistic options due to physical space limitations.

The positioning in the marketplace would be of a heritage steamship of high quality offering unique cruises on the Great Lakes and St. Lawrence River. They would be themed and programmed in the context of the heritage of the golden age of elegance and grand passenger ships. Norisle's cruises would particularly appeal to national and international market segments having an interest in Canada's heritage, its wilderness and its interesting ports of call.

Norisle's unique features and appeals will include:

- Silent and vibration-free steam power, which diesel-powered ships cannot equal.
- The steam propulsion plant will be visible to passengers and will provide a fascinating perspective of the long tradition of steamships sailing the world for over 150 years.
- Shallow draft, enabling the ship to safely navigate in small ports and sheltered waters.
- The fit-out of the ship will be of high standard and in a heritage style, creating the ambiance of the grand passenger ships of a bygone era.
- The small scale of the ship, accommodating 64 passengers and 31 crew members will provide a friendly, intimate environment for passengers, along with highly personalized customer service. This has been a powerful market advantage enjoyed by other similar small passenger ships on the lakes and internationally.
- The crew members will be trained in the heritage of Norisle and of Great Lakes passenger transportation generally and will therefore be able to orient and interpret features of interest to the passengers. Onboard programming will be similarly designed, with commentaries provided throughout the cruise along with presentations on topics of regional interest.

The ports of call proposed for the program each have their own unique appeals and interest. Big cities, charming towns and quaint villages; all sharing a heritage of marine transportation along with varied features of natural, cultural and heritage interest. Their stories will be told onboard and at the various ports of call.

The uniqueness of Norisle and her cruise program will rapidly achieve iconic status within Ontario's tourism industry. There is nothing else like her cruising the Great Lakes.

On a larger scale, Norisle will repeat what R.M.S. Segwun on the Muskoka Lakes has accomplished for that region; an iconic heritage attraction that has expanded regional tourism and helped transform the home port community of Gravenhurst's waterfront. A heritage steamship has its own, very special, very strong and internationally respected appeals.

Capital Costs

The overall capital budget, including an initial start-up budget and initial operating deficits to be capitalized, as well as the initial provisioning of the ship, is estimated at some \$17.3 million, as follows:

- Ship refit, \$13.5 million
- Contingency allowance, \$2.7 million (20% of the foregoing)
- Shore equipment, \$25,000
- Pre-opening operations and start-up costs, \$440,000
- Operating deficits (the first two years), \$666,000

Management and Marketing

A northern Ontario foundation would be established to own Norisle, to solicit northern Ontario partners, sponsors and supporters for the operating program and to monitor its business performance. A subsidiary northern Ontario company will be incorporated to actually manage the enterprise and her marketing.

It has been assumed in the analysis that the company would perform all operational functions, other than potential marketing partnerships with tour operators and other marketplace partners. In fact, there very likely could be a different arrangement whereby other partners become involved in providing different operational services. These options and issues are discussed in Section 5 of the main study.

An important additional point is that the ultimate investor and operator may, in fact, be another cruise company or cruise marketing company. In this case there would be the likelihood of considerable efficiencies in adding the Norisle program to existing operations, with the result that the profitability of Norisle could be considerably enhanced over the performance indicated in this study and summarized below.



Projected Operational Performance

The highlights of the operating performance of the proposed cruise program over its five month operating season follow below:

Mature year (year 4) Financial Performance (data rounded)	
Number of passengers	1355
Passenger days	8723
Average per diem retail fare (excluding shore excursions)	\$547
Average per diem net fare (net of discounts and commissions)	\$461
Average occupancy percentage	85%
Gross revenue	\$4,003,000
Revenue net of cost of sales	\$3,709,000
Total operating costs	\$3,282,000
Operating profit*	\$427,000

* The operating profit is before taxes, depreciation and interest on financing.

Note: All amounts are in current, 2010 dollars.

As mentioned earlier, an accumulated deficit from years 1 and 2 of an estimated total of \$666,000 will need to be capitalized and financed as part of the capital program.

Conclusion as to Project Feasibility

To make the project of appeal to commercial investors, most of the capital budget will need to be found from government and donors not seeking a return or repayment. Norisle's charitable status will provide unique benefits for capital funding, philanthropy and in-kind support.

As noted, the financial performance could potentially be enhanced if the ultimate proponent is already in the cruise business.

The real benefits of the program will be in the economic and other benefits Norisle will deliver to the home ports, the ports of call and related regions, including sustainable, quality jobs and careers in the tourism and marine support industries.

The S.S. Norisle Business Case

Significant economic and other benefits will flow from this project.

Economic Impacts

The Ministry of Tourism and Culture's TREIM model has been used to calculate the expected economic impacts of the project.

The initial refit of Norisle will generate 102 jobs in Ontario, \$6.1 million in employment income and \$4.5 million in total taxes. We have assumed that the refit will take place in northern Ontario and most of these impacts will accrue to the Manitoulin Island and Sault Ste. Marie areas of northern Ontario.

The passenger revenues used to fund the operation of Norisle, along with passenger spending on shore during cruises as well as before and after their cruises, will create significant annual economic impacts. These annual impacts will include 58 jobs, \$4.9 million in total spending, \$2.3 million in employment income and \$1.5 million in taxes to all levels of government as well as over \$3.2 million in gross domestic product.

Over a ten year period, Norisle's proposed operation will generate over \$49 million in spending in the economy, 580 person years of employment, some \$23 million in employment income and \$15 million in taxes.

Approximately two-thirds of the proposed cruise program will take place on the North Channel of Lake Huron and Georgian Bay, and all of the ports of call for 13 of the 25 cruises will be in northern Ontario. As such, a significant portion of the economic impacts described above will accrue to northern Ontario.

Other Benefits

Beyond the direct economic impacts, many additional benefits will flow from this project.

For the stakeholders directly involved in the program:

- For the home ports – enhanced business demand, both products and services, a new attraction, a new tourism market, enhanced market profile, increased use of port facilities and services.
- For the ports of call, including northern Ontario communities – a new tourism market, enhanced retail and attractions business opportunities, enhanced market profile, increased use of port facilities and services.
- For sponsors and partners – increased business, a new market segment, enhanced market profile.

Strategic benefits to the province's tourism sector more generally:

- Enhanced image in national and international markets as a tourism destination by adding a unique, heritage cruise program, including itineraries in the north.
- Increased awareness of the appeals of the tourism regions in which the ship operates. The North Channel of Lake Huron would particularly benefit in this regard as its appeals are not widely known.
- The fascinating heritage of Great Lakes marine transportation will be showcased
- Packaging, marketing and business opportunities for tourism operators in and near the home ports and ports of call.
- Support the development of new experiences at ports of call.

Education:

- As discussed in the study, partnerships with community colleges would provide a range of benefits for students, ranging from ship technical projects up to seasonal employment onboard.
- During the off-season lay-up, onboard maintenance projects could involve students, providing hands-on practical education to supplement their formal training, as is already taking place with current refit activities.

Culture/Heritage:

- Showcase and celebrate the culture and heritage of communities including First Nations communities in the north.
- Build awareness and understanding of cultures.
- Build awareness of Ontario's heritage and that of Great Lakes marine transportation.

Community:

- Foster pride and self-awareness within communities through Norisle's contributions to each port of call community's 'character of place' – its uniqueness and special values for both residents and visitors.

Caveats

The information in this report has been developed through research and analysis by the consulting team. The projections and conclusions, and assumptions on which they are based, are seen to be reasonable and achievable on the basis of the information assembled. At the same time, it is clear that a well managed and professional effort will be required to achieve the outcomes forecast in the report. This applies to all fundamental aspects of the project; its funding, its development, its operations and its marketing.

In light of the foregoing, while the consultants believe the outcomes presented in this report are achievable, we do not warrant that they are so. The project needs to proceed with due attention to its needs for success as well as attention to the inherent uncertainties and risks of any project of this scope and character, most notably those discussed in the main study.