



tourism
INDUSTRY

ASSOCIATION NEW ZEALAND

The Case for the Public Funding of Tourism New Zealand

24 August 2005

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About Our Association and Industry

The Tourism Industry Association New Zealand (TIA) represents the interests of over 2,000 businesses in the tourism industry. These businesses generate more than 80% of New Zealand's tourism-related revenue.

Tourism is a \$17 billion industry (\$7.5b from international and \$9.5b from domestic tourism) and generates 18% of New Zealand's exports. The industry employs 1 in 10 New Zealanders in a diverse range of businesses – the majority of which are small and medium sized enterprises. Not only is tourism important because of its size, as well as being 10% of New Zealand's GDP, it is also:

- Highly employment intensive;
- Regionally dispersed;
- Sufficiently nimble to change its target markets quickly as conditions change.

The tourism industry in New Zealand consists of more than 8,000 small and medium sized businesses. Of these businesses, most employ less than five people.

New Zealand welcomes almost two million overseas visitors to its shores every year. The domestic tourism industry is also important in helping to sustain a vibrant tourism industry. TIA estimates that over 75 million visitor nights are spent by New Zealanders every year.

This document provides a discussion of the Tourism Industry Association New Zealand (TIA) position on the funding of Tourism New Zealand (TNZ), and the issues that are raised by the review currently taking place. This document serves as our input to this review.

The document includes:

- Background on the recent performance of the industry, and the global environment in which it has to operate
- Specific concerns raised by the review
- A summary of TIA's position.

Background and overview

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The tourism market is truly global. International tourists have an enormous range of destination options. New Zealand is located at the end of the international transport network and is comparatively expensive and time consuming to reach. In order to compete, our international marketing must be first class and our delivery of a quality experience second to none. New Zealand has only 0.8% of the world tourism market and the only viable strategy is to be a premium niche market rather than a mass market destination.

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Over the last five years, through a combination of well targeted government support, industry leadership and cohesion, and product improvements, New Zealand's tourism industry has steered a path of consistent growth through a period of international economic uncertainty, high terrorism risk, and war in the Middle East. There is evidence that growth in both visitor numbers and spend over the past six years has outstripped world tourism as a whole. New Zealand has performed better than, and is the envy of, its competitors.

At the same time, TIA believes there is little room for complacency and that previous performance does not guarantee future performance. New Zealand is facing greatly increased competition for visitors and visitor expenditure 'down under' by Australia, which has introduced new national initiatives over the past year. These include a new \$AUD360 million (over four years) global marketing campaign for Australia and the establishment of Tourism Australia. These resources come on top of the significant resources that the Australian States are individually investing in tourism (the Western Australian Government alone has \$A38 million allocated to tourism in its 2004/2005 budget). When New Zealand public tourism-specific resourcing is compared to that of Australia, New Zealand's marketing initiatives are significantly under-funded.

Also of concern is the fact that Tourism New Zealand's funding is not indexed to inflation and it's purchasing power has significantly diminished over the past seven years. This, combined with increases in advertising costs in key markets, mean New Zealand's share of advertising 'voice' has is significantly less at a time when competition is significantly tougher.

While international tourism indicators have climbed over the past five years, there can be no assumption this trend will continue. Indeed, the June 2005 International Visitor Arrivals data shows there has been an increase in international visitor arrivals of 16.9%, while the latest International Visitor Survey for the year ending March 2005 shows expenditure per visitor fell 3.9%, and total visitor expenditure was down 2.7%. Growth cannot be assumed; we have become so used to growth that we assume it will continue indefinitely. Also important is to ensure it is profitable growth not profitless volume.

Countries like Australia and the UK, key source markets for New Zealand tourism, are also in the midst of concerted domestic tourism campaigns. The *See Australia* campaign is a direct attempt to encourage Australians who do have the income to afford to travel overseas to explore their own country instead of destinations such as our own.

Adding to these challenges is the high value of the New Zealand dollar - previously a major attraction for foreign visitors - the weakened US dollar which has made that destination cheaper, and difficult economic times in some of our important markets (for example, Germany).

In general, visitor numbers are levelling off and New Zealand's competitive position is more challenging than ever before. The onus is on industry and government to actively sustain the momentum generated over the past five years. This will not be achieved by resting on our laurels or passively assuming that momentum will continue.

Quite simply, without continued – and more – investment the past seven years’ gains will diminish. The cost of retrieving New Zealand’s position as an international visitor destination would be huge – witness what happened in Australia after they didn’t invest in tourism marketing post the Sydney Olympics. They are only now getting on the front foot again and it’s taking \$340m over three years to do so.

Specific Comments

This section provides detailed comments on the relevant issues raised by the review of Tourism New Zealand.

Public Good Issues

- Tourism New Zealand marketing drives international perceptions of New Zealand as a country and destination. New Zealand is a small, remote and recently settled country that has had to reposition itself from being seen as a remote backwater full of sheep and no sophistication whatsoever. The 100% Pure campaign – and the experiences visitors have while here – have assisted considerably with the conversion of perceptions of New Zealand to being a small, smart, savvy country with fantastic scenery, great people and an intriguing culture. We do not have a history (such as countries like Italy) or size (like Australia) that makes us naturally well known throughout the world. Tourism New Zealand has been successfully engaging in smart brand-building that has placed New Zealand in the ‘top 10’ of countries for brand awareness.
- The ‘100% Pure’ campaign provides a platform for exports such as manufacturing and food and wine to leverage off. New Zealand Trade and Enterprise provides complementary activity but does not market New Zealand Inc in an emotive way as Tourism New Zealand does. Many industries benefit from this campaign, and not just tourism.
- If Tourism New Zealand does not do significant offshore marketing for New Zealand Inc, who will? The private sector won’t on its own unless this marketing specifically enhances shareholder value. Private sector marketing efforts are also focused on product choice, and not on destination choice or motivation to travel.
- Publicly-funded marketing provides the initial tiers in the process required to stimulate visitors to come here on holiday:

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Getting visitors here	Actions required
<ul style="list-style-type: none"> • Country awareness • Destination awareness 	<ul style="list-style-type: none"> • Brand work by TNZ
<ul style="list-style-type: none"> • Consideration • Preference • Intention to visit 	<ul style="list-style-type: none"> • Tactical work by TNZ via website, Air New Zealand, Qantas, and a few others
<ul style="list-style-type: none"> • Product choice • Visitor experience 	<ul style="list-style-type: none"> • Private sector communicates its offerings • Delivery by the industry

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Benefits of tourism

There are many benefits of tourism including:

- Economic wellbeing (forex, employment, regional development). Tourism has positively transformed many New Zealand communities and has helped make them viable. Tourism is now New Zealand’s ‘number one’ individual export sector.
- Exposing New Zealand’s products in situ. Visitors return home with an awareness of New Zealand’s products and can become purchasers of our exports.
- Tourism provides a catalyst for the development and preservation of our natural and cultural heritage (eg, Napier and Oamaru).
- The education market is part of tourism. This sector as well as the broader visitor industry has spin-offs for inbound investment, migration and business.
- The raw value of tourism to New Zealand. Tourism is a \$17 billion industry¹ and employs one in ten New Zealanders. Inbound tourism also provides the Government with approximately \$500 million in GST receipts each year.

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Key characteristics of the tourism industry

- Tourism is mostly made up of small businesses employing less than 10 people. There are very few medium sized enterprises, and less than 10 corporates.

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- It is a very diverse industry, with core activities ranging from accommodation to surface transport, airlines to adventure tourism operators, activities to attractions.
- It is an industry with many ‘invisible’ players, ie, petrol station in Taupo, Chartered Accountants in Queenstown, horticulture and poultry farmers (refer to the attached Rotorua Economic Impact Report).
- There are few barriers to entry. Operators do not have commercial backgrounds on the whole. Business and financial skills among operators are at best average.
- Many small operators are involved in tourism as a lifestyle choice, or to minimise tax. Therefore, many of the financial benefits of tourism expenditure go to the wider community rather than to the operators themselves; ie, many businesses are not financially profitable in themselves, and there just isn’t money for overseas joint ventures with TNZ.
- There is minimal use of technology, eg, many accommodation providers still do not use a PC in their business.
- The industry is seasonal in nature, ie, much of the industry is pretty quiet from May to September (other than skiing and winter events).
- The quality of some plant needs upgrading, eg, some accommodation. This is based on feedback Tourism New Zealand has received from overseas markets.
- Margins are currently very tight and there a focus on improving productivity, adding value and generating yield is needed to ensure sustainability. Even large hotel chains are not generally earning enough to contribute directly to offshore marketing.=

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Competition for overseas visitors is becoming intense

- Even though New Zealand has had a few years of solid growth, competition for international visitors is getting tougher.
- New Zealand tourism is very vulnerable to strong international marketing by other countries in the Asia-Pacific region. The more than 30 budget Asian and Australasian airlines are attracting visitors to destinations other than New Zealand, and drawing New Zealanders away from home.
- If inbound visitor numbers become static (currently, growth has declined), and outbound travel grows strongly, net expenditure (the gap between what inbound visitors spend, and what New Zealanders spend overseas) might decline and even turn negative. This has the potential to worsen our already poor balance of payments position.

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- The Australians have big budgets for marketing. The Australian States have their own marketing campaigns, and also benefit from Federal assistance. In Europe, countries such as Ireland and Scotland benefit from EU funding for tourism marketing. New Zealand has no supra-government organisation to provide it with such resources - we are on our own.
- We need to remain a well-organised, nimble industry and we must be prepared to spend and undertake well targeted marketing to protect and grow our position in the market. If we do not, New Zealand will not be noticed and we will lose to the 'noise' created by other marketing initiatives in Australasia and Asia. This could have dire consequences, eg, Australia in the two years after the Olympics when marketing budgets were non-existent leading to the tourism industry falling deep into recession.
- The current purchasing power of Tourism New Zealand funding has not kept pace with inflation, with increases in media costs overseas, nor with enhanced competition between destinations. This is creating a risk that New Zealand will not have sufficient resources to maintain the excellent tourism marketing position it has striven so hard to develop.
- Funding must be consistent, long-term and relatively secure so that efforts are put on marketing without the distraction of fundraising. Some Regional Tourism Organisations, for instance, suffer badly from insecure funding and a lack of political commitment.
- There is much scope for growth. We have only 0.8% of the world's international travellers.

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Domestic Marketing

- Currently none done by Tourism New Zealand.
- A little done by two or three Regional Tourism Organisations (often with airlines) for their own city/area.
- There is currently no 'stay at home' marketing done. The impact of this is starting to become evident now with the advent of cheap Trans-Tasman airfares which are drawing New Zealanders offshore. In turn, they are stimulating Australian-based New Zealanders to return home more often but they spend little as they often stay with family and friends, and don't behave like tourists making minimal use of activities and attractions.
- Many National Tourism Organisations overseas are involved in both domestic and international marketing, eg, Britain, Australia, Canada, South Africa. This means that some potential visitors to New Zealand might holiday at home instead of coming here.

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- New Zealanders are generally unaware of what visitor product and experiences are available here and how good they are.

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Changes within the industry

- Tourism destinations are quite fashion driven and very competitive.
- Our competition as a holiday destination is hotting up- eg, New Zealand is currently competing against India, Vietnam, Cambodia, South America, parts of Africa and Australia.
- The changes in the relative value of our currency are creating value issues within our market. Some visitors such as those from the United States and Japan and other parts of Asia have had their relative purchasing power fall significantly over the past two years.
- We are now operating in a wider Australasian travel market but New Zealand's marketing resources are not as extensive as the other parts of Australasia. Nor are they anywhere as extensive as Australia's in terms of offshore representation.
- Australia is likely to take a lot of market share from New Zealand.
- We are coming out of a dream marketing period. If anything, now is the time we should be investing even more in offshore marketing given that there are no more films, Lions tours, Americas Cups and the like on the horizon to leverage off.

Requiring industry to contribute to international marketing

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The following issues are raised by this concept:

- How would you define a "tourism business", given the breadth of the industry and the fact that there are many 'invisible' participants? How would you apportion the costs of marketing?
- If the private tourism sector were to contribute directly to international marketing (over and above their current contributions), would this be voluntary, or compulsory? If voluntary, what would prevent businesses from 'freeloading' and deriving the benefits of marketing without contributing financially? If compulsory, who would pay (again, what is a "tourism business"?)?
- What would organisations such as the Department of Conservation (which manages New Zealand's biggest tourism attractions - our National Parks) pay?

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- What would the community (which benefits significantly from tourism) contribute to an offshore marketing campaign? How would such a contribution be collected?
- What would be the transaction costs involved in collecting contributions from stakeholders? How would these transaction costs compare with simply using taxpayers funding as we do at present?
- Our largest tourism operators are already contributing significantly to offshore marketing initiatives, eg Air New Zealand, Qantas, SkyCity, hotels, THL. It is important that these contributions and the indirect benefits all New Zealanders gain from this private sector investment are fully appreciated.

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Summary of justifications for Tourism New Zealand support

These are the key justifications for a well-resourced and publicly funded agency such as Tourism New Zealand:

- Inbound tourism generates considerable public good benefits to the New Zealand economy, including powerful direct and indirect benefits. The whole economy benefits from this spending, not just those in the tourism industry.
- The offshore marketing of New Zealand as a visitor destination also benefits other export industries such as manufacturing and producers of goods and services sold offshore. They benefit because offshore tourism marketing creates a favourable brand awareness of New Zealand making it easier to sell New Zealand's products and services. Also, exposure to products such as food, wine and fashion while in New Zealand is beneficial for future purchase and investment.

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- An industry contribution model raises many challenges. These include identifying the beneficiaries and introducing fair mechanisms to charge those who benefit. One of the first questions to address will be: "what is a tourism business?"
- A voluntary funding approach will lead to inconsistent and insecure funding. Also, a voluntary approach to funding would make it difficult to raise a critical mass of funding necessary to plan for, and purchase offshore marketing services. It is also likely to lead to resources being dedicated to fundraising when they would be better spent on offshore marketing. This approach may lead to 'freeloading' as the benefits of an activity such as national marketing are not excludable (as opposed to producer board marketing which can be excludable) and businesses would benefit from offshore marketing whether they made a contribution or not.

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- Tourism is a sector made up of many small businesses. Individual businesses would not be able or willing to provide sufficient and consistent funding on a voluntary basis to maintain Tourism New Zealand. TIA’s position is that given the total benefits that New Zealand receives from offshore tourism promotion, it is entirely appropriate that TNZ is funded by all taxpayers, and to a greater extent than at present and indexed to inflation.
- Although it can be difficult to establish a clear relationship between specific marketing initiatives and increased revenues, TNZ has received many international awards for its marketing efforts and has clear brand and campaign management disciplines in place. Partly based on this peer review as well as on the results received, TNZ has been seen as a strong performer.
- One report prepared for the Scottish Tourism Board² suggested that “the Government’s commitment to tourism growth” and “substantial government and other public sector involvement in investment and policy-making in tourism” were key to New Zealand’s recent successes in tourism. This provides a further historic justification for continued and enhanced government support.
- Tourism New Zealand’s current purchasing power has been seriously eroded and it is struggling to compete with better funded agencies everywhere. New Zealand is now vulnerable to losing the position it has worked so hard to build up over the last five years. Tourism New Zealand must be appropriately funded so that it is able to continue to effectively market New Zealand. Without adequate funding, the net contribution that is generated from inbound tourism could diminish and over the long-term become negative. This will reduce the benefits New Zealand derives from tourism, and their flow-on effects (including Government taxation revenue).

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Support for enhanced funding of Tourism New Zealand and its activities

TIA upholds continued and enhanced publicly funded offshore marketing efforts for New Zealand and strongly recommends the following:

- A reaffirmation by central government of the importance of having a well funded offshore marketing agency such as Tourism New Zealand, which not only benefits the New Zealand tourism industry but benefits other sectors of the economy either directly or indirectly. This should also recognise that New Zealand is an isolated and remote destination that relies heavily on maintaining strong brand awareness in an increasingly competitive international visitor market.
- A review of Tourism New Zealand's budgets so that they restore that agency's purchasing power to at least the level that it was at the beginning of this decade. This would reflect: a more competitive international market (including competition from Australia and the Australian States); higher marketing costs due to diminished purchasing power and high demand internationally for media in other countries in the Asia-Pacific Region pushing prices up; and the need for New Zealand to maintain and build on the high destination profile that it has worked hard to develop over the last five years.

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Tourism Industry Association New Zealand (TIA)
24 August 2005

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