

About Our Association and Industry

The Tourism Industry Association New Zealand (TIA) represents the interests of the tourism industry in New Zealand. The businesses we represent 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.

These businesses cover a range of tourism-related activities – hospitality, transport, adventure and activities, retail and related tourism services. In many cases, regional tourism businesses have developed around regional assets divested by other industries and have revitalised those assets and the communities that depend on them.

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.

Background

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- 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 with 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, 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 number ten in the 'top 10' countries for brand awareness (Anholt-GMI Nation Brands Index 2005). A focused six year marketing effort by TNZ has catapulted us to this position. However, New Zealand is still a long way behind our key competitor Australia which has the number one nation brand awareness. It is imperative that we keep up our 100% Pure work to maintain and increase our nation awareness ranking.

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- Contrary to popular opinion, the private sector contributes significantly to offshore marketing. The dollar value of international marketing undertaken by Air New Zealand alone is in the region of \$70 million far exceeding that of Tourism New Zealand. Companies such as Qantas, THL, SkyCity, Ngai Tahu Tourism, Agrodome and Tamaki also invest heavily in overseas marketing. All New Zealanders derive considerable economic development benefits from this private sector investment in offshore marketing.
- However, publicly-funded marketing addresses the initial tasks in the multi stage process required to stimulate visitors to come here on holiday:

Stages in the process of stimulating visitors to visit New Zealand	Implementation
<ul style="list-style-type: none"> • Country awareness • Destination brand awareness 	<ul style="list-style-type: none"> • Consumer brand work by TNZ • Destination promotion by Air New Zealand and some RTOs
<ul style="list-style-type: none"> • Consideration • Preference • Intention to visit 	<ul style="list-style-type: none"> • Tactical consumer and trade work by TNZ, Air New Zealand, RTOs, Qantas, THL, SkyCity, Ngai Tahu Tourism, Tamaki etc
<ul style="list-style-type: none"> • Product choice • Arrival • Visitor experience 	<ul style="list-style-type: none"> • Private sector communicates product offerings • Product delivery in NZ

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- The ‘100% Pure’ campaign also provides a platform for exports such as manufacturing and food and wine to leverage off. New Zealand Trade and Enterprise uses the complementary ‘New Zealand New Thinking’ umbrella brand when marketing New Zealand companies offshore. However theirs are very targeted, business-to-business communications not emotive, aspirational and motivational. It cannot be said that they provide a platform off which tourism can leverage.
- If Tourism New Zealand does not do significant offshore country and brand awareness building for New Zealand Inc, who will? The private sector won’t on its own unless this marketing specifically enhances shareholder value. As the table above shows, private sector marketing efforts are also focused on influencing product choice, and not on destination choice or motivation to travel. The marketing budgets of the bigger companies are already very stretched given the pressure on margins, and the marketing budgets of the small operators are frequently no more than \$5000 pa.

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Issues with the concept of government funds for international marketing being matched by industry

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The idea of requiring industry to match a parcel of government funding is problematic for the following reasons:

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- 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 largest tourism attractions - our National Parks) pay?
- 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?
- There are however more opportunities for collaborative partnerships between Tourism New Zealand and the private sector.

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Public funding of Tourism New Zealand is justified on the following grounds:

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- Significant offshore marketing is required to keep New Zealand highly visible on the ‘world map’. The private sector currently spends significantly more than Tourism New Zealand on this task. However private sector operators are always going to direct their investment more at a tactical and trade level. The building of awareness of country New Zealand and destination awareness falls in most countries to the government via the national tourism organisation.
- However Tourism New Zealand’s international marketing funds are severely depleted. We are losing significant ‘share of voice’ in the international markets – especially against Australia - at a time when growth in visitor numbers is declining, and the advent of budget airlines has changed the type of visitor from the high value tourists we are seeking to attract to those on a low budget who often stay with friends and family. The high dollar is also impacting perceptions of value of a holiday in New Zealand
- The whole economy benefits from tourism as does a range of industry sectors, therefore the whole New Zealand community should at least match private sector investment.

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- If tourism businesses were to be especially targeted to further fund offshore marketing this would raise a number of issues including defining what a 'tourism business' was, and who is operating in tourism. This also raises fairness and equity issues.
- Mechanisms for funding offshore marketing contributions would be unreliable because of 'freeloading' and the fact that the benefits of this marketing would be enjoyed by those who did not have to or did not choose to contribute.

Impacts of reduced growth=

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- The tourism market is truly global. It is also fiercely competitive. New Zealand has a miniscule percentage of the world tourism market. 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.
- While international tourism indicators have climbed over the past five years, there can be no assumption this trend will continue. Indeed, the October 2005 International Visitor Arrivals data shows there has been an decrease in international visitor arrivals of 2.8%, 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.
- During the past six years, Tourism New Zealand has run very successful campaigns and has been particularly successful at taking advantage of the unique international exposure provided by events such as the America's Cup, the Lord of the Rings, and Chelsea Flower Show. However, the gloss from that exposure is now fading and New Zealand faces even more aggressive competition from other destination markets, particularly Australia.
- Adding to these challenges is the high value of the New Zealand dollar. Previously, New Zealand had an under-valued dollar which made New Zealand very good value for money. The revaluation of our dollar has created competitive pressures being faced by all exporters.
- 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. It is part of an investment of around \$AUD360 million over four years by the Federal Government alone.
- However, in New Zealand financial support for Tourism New Zealand has remained static since 1999, with no inflation adjustments reducing

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significantly its purchasing power in international media. There has also been some extra one-off funding for specific marketing campaigns in recent years.

- Tourism is facing an immediate future of flat activity and, over the medium-term, lower forecast international visitor expenditure. This is reflected in the New Zealand Tourism Forecasts for 2005-2011 released in September 2005. Average international visitor expenditure growth for 2005-2010 in the latest forecasts is 6.2% per annum compared to the forecast average growth rate of 8.5% per annum in the 2004 forecasts.
- Lower growth rates can have a noticeable effect on international visitor expenditure. This is demonstrated in the table on the next page which shows the expected effects of the lower growth forecasts on expenditure.

Comparisons between August 2004 and August 2005 International Visitor Expenditure Forecasts:

Year	Original forecast (\$NZm)	Revised forecast (\$NZm)	Difference (\$NZm)
2005	7,515	6,516	999
2006	8,232	6,956	1,276
2007	8,957	7,414	1,543
2008	9,660	7,905	1,755
2009	10,477	8,434	2,043
2010	11,271	8,998	2,273
TOTAL 2005-2010	56,112	46,223	9,889

This table shows that the aggregate loss to New Zealand's offshore tourism as a result of lower forecasts will be \$9,889 million for the period 2005-2010.

These figures demonstrate tourism's contribution to the economy, and the negative regional impacts that lower growth forecasts can have.

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Call to action

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Tourism is New Zealand's number one export earner. Our competitive advantage as a visitor destination is declining, and with it tourism's contribution to the economy. What is now required to preserve this position is a recommitment to offshore marketing by New Zealand so that we continue to prosper from offshore tourism and maintain our competitiveness. Also necessary is the increased engagement of other government departments with tourism.

This requires a number of steps to be taken as soon as possible:

- An increase in the baseline public funding for Tourism New Zealand, indexed to inflation, so that it continues to be able to deliver world class offshore marketing and to enable New Zealand to have a strong marketing 'voice'. Funding arrangements must continue to reflect the wide public benefits that a successful and growing tourism industry provides to all New Zealanders. Funding arrangements must also be stable, long-term, and lead to minimal transaction costs.
- The industry would be happy to suggest and consider greater collaborative partnerships with TNZ. This might include collaborative strategic working parties looking, for instance, at ways to be world class all the way through the various distribution channels, brand and on-line partnerships.
- Assuming a meaningful increase in funding to do the task at hand, the industry would support the development of performance outcomes for Tourism New Zealand that are directly linked to specific economic development goals. For instance, Tourism Australia's targets relate to growth in visitor spending not number of visitors.

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- The industry would also benefit from much more engagement from New Zealand Trade & Enterprise under the Growth & Innovation Framework as they do with other industry sectors. This would assist the improvement of sector and business capability, productivity, product development and the level of added-value within the New Zealand economy. However this greater engagement must not come at the expense of public funding support for Tourism New Zealand.
- The appointment of a senior tourism person to the board of NZTE would be a smart idea, as would a board member common to both TNZ and NZTE. This would recognise tourism's status as the number one export sector.
- Lastly the industry requires access to public good science funding recognising the special characteristics of the sector, its size, potential and risk profile. There is a case for creating a specific FoRST funding-category for tourism research. For market related research, the funds of the Tourism Research Council need to be protected.

Tourism Industry Association New Zealand (TIA)
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