



tourism  
INDUSTRY

ASSOCIATION NEW ZEALAND

**Domestic Tourism Promotion- a  
discussion paper**

**September 2005**

## About Our Association and Industry

The Tourism Industry Association New Zealand (TIA) represents the interests of over 2,000 businesses in the tourism industry.

=

Tourism is a \$17.2 billion industry and generates 18.5% of New Zealand's exports. The domestic component of the industry contributes \$9.8 million to New Zealand's economy. The tourism 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 9.4% of New Zealand's GDP, it is also:

=

- Highly employment intensive
- Regionally dispersed
- Has the flexibility 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 2.374 million overseas visitors to its shores every year. The domestic tourism industry is also important in helping to sustain a vibrant tourism industry. *(Statistics are sourced from the Tourism Satellite Account, June 2005 and refer to the year ended March 2004)*

=

## Purpose

The purpose of this document is to present the key issues affecting domestic tourism, especially in relation to the strong outflows of New Zealanders holidaying overseas. It also raises questions about the promotion of domestic tourism that might be considered by both the industry, and central government.

This document serves to provide the basis for discussion among Regional Tourism Organisation representatives of these issues, and to serve as initial input for any subsequent work undertaken by central government and the industry in the future.

This document considers:

- The background behind TIA's interest in this issue, our recent efforts in considering this issue, and some quantitative analysis that has been made over the past six months.
- The key issues behind the recent performance of domestic tourism
- The approach to domestic marketing taken in some international markets
- A series of questions for discussion raised by the performance of our domestic market.
- Suggestions for further work.

## Background

The March edition of the Tourism Leading Indicators Monitor featured regional figures which demonstrated that some New Zealanders are substituting New Zealand holidays for travel especially to Australia, but also other international destinations. That issue of the Monitor showed that international visitors were still growing strongly (10.2% for the year to February 2005) and that there were still many more people coming to New Zealand than were leaving (2.38 million arrivals versus 1.76 million leaving). However, regions such as Northland, Rotorua and Coromandel experienced drops in domestic visitor guest nights, as did Clutha/Dunedin and Queenstown. These are traditional holiday destinations for New Zealanders. At the same time, departures to Australia and other overseas destinations increased by 25%.

That report also pointed out that since 1996 the international/domestic split has shifted from 33%/67% to 42%/58%. This shift reflects stronger growth by international tourism than domestic tourism as was previously forecast by the Tourism Research Council New Zealand. However, more recently with the advent of cheap Trans-Tasman and Pacific airfares a 'substitution effect' has become noticeable.

Subsequent issues of the Monitor have generally reported that the growth in New Zealanders travelling overseas is greater than the growth in the inbound market. The one exception to this is June when the country received an exceptional number of visitors from the United Kingdom and Ireland who had come here to support the Lions.

Examples of these figures include (changes for the year ending):

- July 2005 Inbound: down 2.8% Outbound up 11.9%
- June 2005 Inbound: up 16.9% Outbound: up 2.1%
- May 2005 Inbound: up 2.3%. Outbound: up 7.2%
- April 2005 Inbound: down 5.2%. Outbound: up 10.8%
- March 2005 Inbound: up 10.6% Outbound: up 19%

In summary, the figures show that in general the outbound market is growing faster than the inbound market and this generally represents trips (and expenditure on trips) that is not being made in the domestic market.

## The domestic market

The domestic travel industry makes up the largest component of the New Zealand tourism industry. Tourism is similar to other 'export' industries in that the domestic market provides the foundation for business activity, and expansion into serving overseas markets.

Based on figures from the Domestic Travel Survey, the domestic tourism industry has the following key characteristics:

- In 2003, New Zealanders spent a total of \$7.98 billion on domestic travel
- In 2003, the average spend for an overnight trip was \$313, and the average spend for a day trip was \$93.
- 42% of overnight trips were made for the purpose for taking a holiday, 32% to visit family and friends, and 16% for business.

Tourism Research Council New Zealand forecasts to the year 2010 predict that inbound tourism will grow by an average of 5.8%, and domestic tourism visits by an average increase of 0.9% per annum (similar to the annual growth in the New Zealand population).

In summary, the domestic tourism industry remains the most important component, albeit is growing at a much slower rate. Most importantly, the recent relatively flat growth in this segment of the market is a manifestation of the growing popularity of outbound travel by New Zealanders, driven largely by cheaper airfares.

## Domestic Tourism Trends

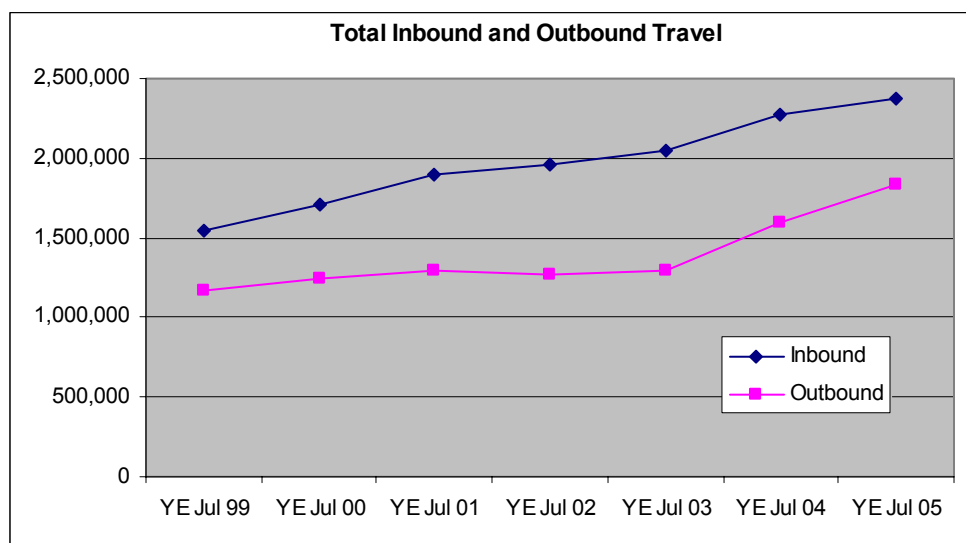
### Net visitor numbers

Origin	YE Jul 99	YE Jul 00	YE Jul 01	YE Jul 02	YE Jul 03	YE Jul 04	YE Jul 05
Inbound	1,544,056	1,708,940	1,897,391	1,963,762	2,041,589	2,273,760	2,374,591
Outbound	1,167,931	1,243,193	1,295,838	1,262,861	1,298,496	1,591,247	1,828,157
Difference	376,125	465,747	601,553	700,901	743,093	682,513	546,434
Difference as a percentage of Inbound visitors	0.2435954	0.2725356	0.3170422	0.3569175	0.3639778	0.3001693	0.2301171

The above chart illustrates the growth in both inbound and outbound travel in numbers of people between 1999 and 2005 (in annual figures). It also shows the difference between inbound and outbound numbers (the net visitor position), and the net visitor position as a percentage of inbound visitors.

This information enables us to draw the following conclusions:

- Over this period, inbound visitor numbers grew by 53.7% while outbound travel increased by 56.5%. Most of the increase in outbound travel has occurred since July 2003.
- While there was a significant increase in the net visitor position between July 1999 and July 2003, there has been a large drop since July 2003. By July 2005, this net visitor position had fallen to the level that existed between July 2000 and July 2001
- This situation is also reflected in the chart below showing the net visitor position as a percentage of inbound visitors. These figures show that even though inbound visitor numbers have grown strongly since 1999, that growth has not kept up with growth in outbound travel.



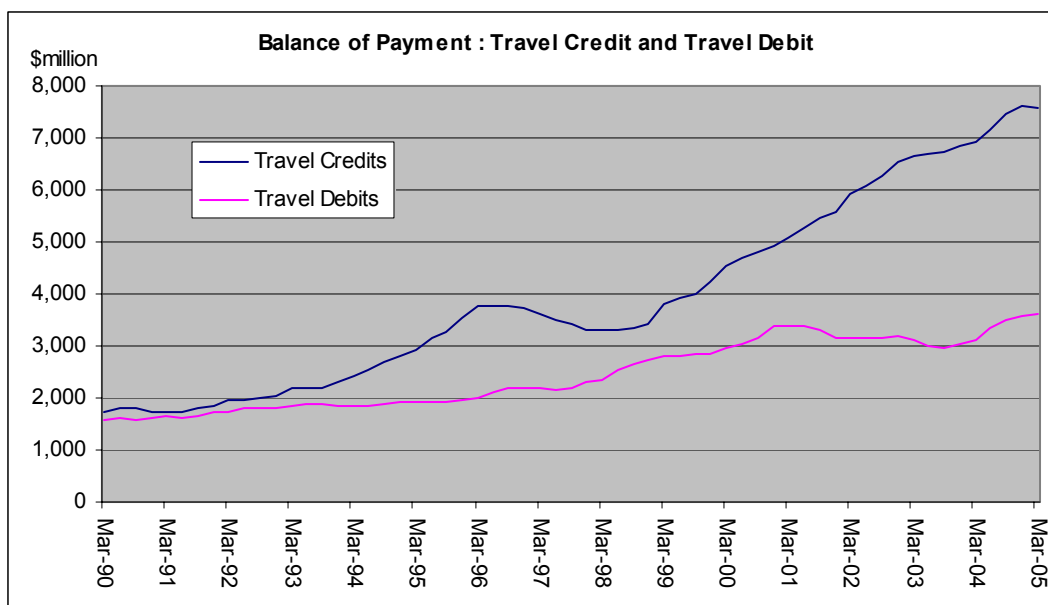
A further issue is that while current inbound arrival figures are similar to those forecast for 2005 by the Tourism Research Council, current outbound figures are close to those forecast for the year 2008.

## Net visitor expenditure

### Expenditure \$NZ millions

Origin	YE Jun 99	YE Jun 00	YE Jun 01	YE Jun 02	YE Jun 03	YE Jun 04	YE Mar 05
Inbound	3,911	4,688	5,283	6,087	6,705	7,172	7,574
Outbound	2,825	3,027	3,367	3,141	2,986	3,353	3,630
Difference	1,086	1,661	1,916	2,946	3,719	3,819	3,944
% difference	0.2776783	0.3543089	0.3626727	0.4839823	0.5546607	0.5324875	0.5207288
Outbound %		0.1986704	0.1269198	0.1521863	0.1015278	0.0696495	0.0560513
Inbound %		0.0715044	0.1123224	0.0671221	0.0493473	0.1229069	0.0826126

The net visitor expenditure position (inbound expenditure minus outbound expenditure) shows that since 1999 both inbound and outbound expenditure have grown strongly. From June 1999 to June 2003 inbound expenditure grew much faster than outbound expenditure (93% versus 263%) but between June 2003 and June 2005 outbound expenditure grew at twice the rate as inbound expenditure (21.6% versus 12.6%). This reflects the recent growth in outbound tourism, and also the weaker growth in inbound expenditure between 2003-2005 relative to the strong growth experienced between 1999-2003.



Further to this, the growth in outbound **visitor numbers** is growing at a much faster rate than outbound **visitor expenditure** (40.7% versus 21%). This reflects that while many New Zealanders are making trips overseas, many such travellers are not high spenders while they are overseas as they are staying with family and friends (such as many New Zealanders travelling to Australia)

Overall figures show that New Zealand is still in a strong net expenditure position and that the difference between inbound and outbound has still strengthened during the last two years despite the stronger position of the New Zealand dollar relative to currencies such as the U.S dollar and the Yen.

However, what is of concern is that New Zealand net expenditure position might deteriorate if the growth in outbound travel and expenditure continues to exceed growth in inbound travel and expenditure.

This document now turns to examining the issues that might be affecting the position of domestic tourism.

## Issues behind the performance of domestic tourism

There are a number of factors that will be (to varying degrees) behind the recent flat performance of the domestic tourism industry in terms of the net visitor position.

These include:

- The high relative value of the New Zealand dollar<sup>1</sup> against such currencies as the Australian and American dollars, making it more affordable for New Zealanders to travel overseas. A New Zealand dollar is now worth 69 U.S cents (as at August 2005), compared to its value of 39 cents at its low point in

<sup>1</sup> =m-éíáó-À-ì ëÉÇ-Äó-éÉâ-íáí É=i É-ââÉëë-áâ=fÜÉ=r{kp=ÇÇää-ê-

2000. Therefore, New Zealanders now have a purchasing power that is among its highest levels for half a decade. It is by no means certain that this exchange rate will stay as high as it is at the moment. A fall would be likely to reduce the purchasing power of New Zealanders travelling overseas and would re-stimulate inbound travel; although economists are not forecasting the New Zealand dollar to fall to the very low position it was in the year 2000.<sup>2</sup> New Zealand tourism will need to continue to prosper without the currency advantage it had at the beginning of this decade.

- The dramatic growth in Low Cost Carriers flying from New Zealand, especially to destinations such as Australia, and the Pacific. Trans-Tasman competition has been enhanced even further by airlines such as Emirates and Thai, which choose to fly to New Zealand as a way of avoiding aircraft lay-overs in Australia, and airlines such as LanChile and Aerolineas Argentinas which stop off in Auckland on the way to Australia. This competition has driven down airfares, making flying to Australia (and also the Pacific) affordable for a much larger number of New Zealanders.
- Air travel to overseas destinations such as Australia being in many cases similarly priced as travel within New Zealand. This situation drives many New Zealanders to travel overseas to destinations that they might view as more desirable than our own. This is probably being exacerbated by the sharp increases in petrol prices in New Zealand over the past year, in contrast to the drop in the price of airfares.

The following factors **may** be relevant in accounting for the recent poor performance of the domestic visitor industry:

- Australian research<sup>3</sup> suggests that the Australian domestic tourism market is being affected by a shift by consumers away from intangible goods such as travel towards tangible goods such as housing. It is likely this same phenomenon is occurring in New Zealand. It is also possible that the erosion of home affordability since the early part of this decade is reducing the disposable income New Zealanders might have to spend on travelling within New Zealand.
- A significant increase in flights to Australia, including the addition of flights from secondary Australasian cities, ie. Hamilton to Gold Coast. This has not only increased capacity, but also makes it easier for people to travel to the destination of their choice in Australia without having to spend extra time and money getting to their destination via a secondary centre, as used to be the case. In some cases, this now makes travel to Australia easier and cheaper than travel to regional destinations in New Zealand, ie. Hamilton to Queenstown.
- More reliable weather in destinations such as Queensland and the South Pacific which tempts New Zealanders to opt for travel to those destinations

<sup>0</sup> = ^ k w = j ~ e a E i = c c A i e = C ~ i E C = U = ^ i O i e i = O M M R = i i c e E A ~ e r e = i U E = k E i = w E ~ i ~ a C = C c a a ~ e = i C = C E A a a a E = a a = i ~ a i E = i C = r p R R = A E a r e = A o = O M M S =

<sup>p</sup> = q c i e a e a = c c e E A ~ e r a a O ~ c a a i r i E E = c c e E A ~ e r e = ^ e e a a = O M M R I = q c i e a e a = o E e E ~ e A U = ^ c i a A a a l = ^ i e r e ~ a a =

rather than staying in New Zealand (there was considerable anecdotal evidence this was occurring during the summer of 2004/2005).

- The aggressive promotion of Australia by the recently established agency Tourism Australia. An extensive multi-media campaign in New Zealand has included advertising on television (the 'marvellous' campaign), magazine and newspaper, and website pop ups. Total funding allocated to Tourism Australia was \$A360 million over four years. This funding is in addition to the significant resources that the Australian States are individually investing in tourism (for instance, the Western Australian Government has \$A38 million allocated to tourism in its 2004/2005 budget).
- At a structural level, Tourism Australia seems to regard New Zealand as part of an Australasian market for marketing purposes, and within its organisation has an Australasian division containing sections for both Australia and New Zealand. This approach recognises that New Zealanders have a high familiarity with Australia and share many characteristics of the Australian States (free movement of people within Australasia, being part of the same economic market, similar culture, shared history, and close family ties in other parts of Australasia). Such a marketing approach here may persuade more New Zealanders to holiday in New Zealand rather than in Australia.
- The availability of very competitive package holiday deals to Australia and the Pacific, also easily booked on the internet. Far fewer package holidays are available locally due to the nature of domestic airfare pricing, which makes it more difficult for wholesalers to secure competitive domestic airfares to 'bundle' as packages.
- The ease of travel between Australia and New Zealand, facilitated by the free movement of people. Anecdotal evidence suggests that New Zealanders are now viewing travel to Australia as 'domestic' travel. This is also enhanced by the Single Aviation Market between New Zealand and Australia. In essence, this may have extended the boundaries that New Zealanders have around their country and if this is true, has major implications for the domestic travel market in New Zealand. It is not certain that travelling Australians in turn view New Zealand as a 'domestic' destination', nor is it likely that they have a similar level of awareness of New Zealand that most New Zealanders have of Australia. This creates the risk that an Australasian market might draw more New Zealanders to Australia than Australians to New Zealand.

In summary, there appear to be a range of factors behind the recent flat performance of the domestic tourism industry in New Zealand including: marketing by overseas destinations; the availability of low airfares and Trans-Tasman; levels of local disposable income; changes in the dynamics within the Australasian travel market. To what degree each individual factor is responsible is not clear and requires further research.

## The international experience

A quick survey of the internet reveals that many overseas countries are now promoting the concept of domestic tourism in parallel to international tourism. This approach recognises the importance of the domestic market, and the attractiveness as a tourism experience that short breaks away can provide in an age where people are short on time, and long for quality time with family and friends in a convivial environment.

Some of these domestic campaigns include:

- The Scotland: Yours to Discover. This is part of the work of the Scottish Tourism Board that aims to persuade people to take short breaks in Scotland
- England's Just Relax campaign. This campaign provides ideas for British people on where to go locally to relax and unwind.
- The VisitBritain campaign. This has the following aim: "to grow the value of the domestic market by encouraging the British to spend more on tourism throughout the English regions, throughout the year."
- The Regional Marketing Initiatives Program in Canada, that provides private sector tourism organisations with the opportunity to create marketing partnerships with the Canadian Tourism Commission. The overall objective of the programme is to counter outbound travel by Canadians by offering Canadian alternatives to U.S and other overseas destinations.

Closer to home, Australia also undertakes domestic tourism marketing at the Federal level through Tourism Australia. On 31 March 2005, the Australian Federal Government launched a new \$AUD 8 million domestic marketing campaign to encourage Australians to take holidays at home. This campaign targets people who have the money and time to take a holiday overseas to instead take their holiday at home. The media release for the launch by the Minister for Small Business and Tourism, Fran Bailey, states that: "the campaign taps into the fact that Australia can offer people all the physical, mental, and spiritual space they need to relax and rejuvenate."

This short and incomplete list of overseas domestic campaigns shows that the competition abroad is not only for inbound visitors. The fact is that within our key overseas markets for inbound travellers to New Zealand there are strong pushes going on to encourage these travellers to holiday at home.

The successes of these campaigns are widely reported on the websites of the agencies, but it is difficult to establish a clear correlation between domestic marketing initiatives and performance in particular markets and to find firm evidence to demonstrate success. For example, one New Zealand researcher has concluded that: "There is insufficient evidence to conclude that the See Australia is successful..." or that any positive performance in the Australian market is not instead due to

“...macro-trends including a burgeoning discount airline market and a stay-at-home mentality resulting from global crisis.”<sup>4</sup>

It is difficult to establish clear correlations between individual initiatives and outcomes. Instead, considerable further work is required in New Zealand to research the state of the domestic tourism industry, and the initiatives that might be introduced that could make a difference, and how such initiatives might complement the initiatives already underway to promote tourism in New Zealand. This work should also include an evaluation of the initiatives overseas, and the results that they have achieved.

## Questions

At this stage, the issues presented in this paper raise more questions than answers. Some of these questions include:

- What implications do the issues identified in this document have for the way regions in New Zealand market themselves?
- What implications are there for New Zealand’s domestic tourism market if New Zealanders view Australia as an extension of their own domestic market?
- Where does New Zealand fit into an Australasian tourism market and what implications does this have for our domestic tourism industry? What opportunities/risks are created for New Zealand tourism in this environment?
- Given the issues raised in this document, what are the linkages between offshore marketing and domestic marketing? How should any such linkages be reflected in marketing strategies used, and the way such marketing is delivered?
- Is the current flat performance of the domestic tourism industry and New Zealand’s declining net visitor position (inflows minus outflows) a temporary blip, or is it part of a longer term trend?
- What is the real problem: a flat inbound market, or a flat domestic market?
- What are the current ‘gaps’ in our industry’s understanding of the domestic market, and the motivations of New Zealanders in making buying decisions? What might we do to ‘plug’ those gaps?
- To what degree will an increase in the minimum annual leave entitlements for all New Zealanders in 2007 benefit the domestic tourism industry? Will New

---

<sup>4</sup> =oÉî áÉî =çl-l î ÉëÉ-è-oÉÖáçã-â-qçì èäë ã l-oçÁ-j ÁfáíóéÉ-áã--èÉéçéí-ééÉé-èÉÇ-ñçê-kÉî =wÉ-â-âÇ-  
oÉÖáçã-â-qçì èäë ã=l èÖ-âäë-íáçãë-éÉáÉ-èÉÇ-â-éí-ã çãíÛ-

Zealanders use this extra leave to travel within New Zealand, or will they use it to travel overseas? What marketing opportunities are created by this increase in minimum leave entitlements?

- What is the current level of awareness by New Zealanders of the range of New Zealand tourism product? Is this level of awareness having an impact on purchase decisions?
- What changes (if any) might be made to the presentation/marketing/packaging/pricing of New Zealand tourism products and services to influence domestic purchase decisions?
- What can New Zealand learn from other countries about the effectiveness of domestic marketing, eg, what has, and what hasn't, worked?
- What initiatives could be introduced that might make a difference to the performance of the domestic tourism market, and what might be the shape of these initiatives? How might the performance of these initiatives be measured?
- How could such initiatives be funded? How could such initiatives be managed and by whom?

## **What next for New Zealand domestic tourism?**

=

The domestic market lays the foundation for our industry and these recent developments raise questions about the level of awareness that New Zealanders have about the range of products and experiences available to them in their own 'back yard.' This is particularly the case given the significant improvements in product quality and range over the last 10 years.

While Regional Tourism Organisations market their own regions, at present there is no organisation or initiatives that sell New Zealand to New Zealanders (one is reminded of the "Don't Leave Home until you see the Country" campaign in the 1980s).

At the same time, the dynamics behind these factors have not yet been extensively researched and it would be useful to gain an in-depth understanding of the problems and issues behind this substitution effect.

Much greater analysis of the issues affecting the domestic market is necessary before we even begin a discussion on who should be responsible for domestic marketing as we are not yet in the possession of research that shows that national domestic marketing is the right approach to address the issues impacting on the domestic New Zealand tourism market. Further work is also necessary to identify primary motivations for purchase decisions, and to what degree marketing and other interventions can influence the domestic market in a competitive Trans-Tasman aviation market.

The issues identified in this document also raises the question: is New Zealand becoming 'out of step' by not actively promoting the concept of domestic tourism within New Zealand: and, should New Zealand be actively promoting New Zealand to New Zealanders as a way of encouraging New Zealanders to see their own country and spending their hard earned discretionary income here rather than overseas?

Further work is necessary to consider options and what the benefits of any new initiatives might be.

## **Recommendations**

TIA recommends the following course of action:

- That a stakeholder group be convened involving tourism industry representatives (including RTONZ) and central government representatives to consider the state of the domestic tourism industry, consider the issues identified in this document (among other issues) and identify possible interventions and research needed to improve the performance of the domestic visitor market.

*Tourism Industry Association New Zealand (TIA)  
September 2005*