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CONTENTS

CONTENTS	1
PURPOSE	3
THE VALUE OF TOURISM	3
CONTEXT	5
METHOD	5
TIA DATA	5
LINCOLN INTERVIEW DATA	6
REPORT STRUCTURE	7
THE CHRISTCHURCH EARTHQUAKE	8
THE CHRISTCHURCH EARTHQUAKE (FROM SEAN MURRAY)	8
IMMEDIATE RESPONSE TO, & IMPACT OF, THE CHRISTCHURCH EARTHQUAKE	9
RECOVERY EXPECTATIONS.....	12
PREPAREDNESS FOR CRISIS EVENTS	12
THE TOURISM SECTOR: STATUS, CHALLENGES AND VISION	14
STATUS OF THE TOURISM SECTOR.....	14
CHALLENGES TO TOURISM	15
VISION FOR 2020.....	17
KEY TRENDS/SPECIFIC ISSUES	19
INCREASING AIRLINE CAPACITY.....	19
CHANGING MARKET MIX & EMERGING MARKETS.....	21
DOMESTIC TOURISM CHALLENGES	25
USE OF SOCIAL MEDIA.....	27
IMPACTS OF OPERATIONAL & REGULATORY COSTS ON TOURISM BUSINESS.....	28
A WORLD CLASS VISITOR EXPERIENCE?	29
RUGBY WORLD CUP (RWC) IMPACTS	30
REFLECTIONS	32
NATURE OF THE TOURISM SECTOR.....	32
PROTECTING OUR BRAND	34
CONCLUSION	36

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PURPOSE

The Tourism Industry Association of New Zealand's (TIA) annual State of the Sector 2011 has been prepared in partnership with Lincoln University. The objective of this is to understand better how the tourism sector sees its future and what challenges and opportunities lie ahead in both the short and longer term. State of Sector 2011, alongside the ongoing series of *TIA Insights* and other consultations that TIA is undertaking in its research work programme, is aimed at informing participants at the Tourism Summit taking place in Wellington on 13 July 2011. This information is a key driver in assisting with the development of the 2011 Tourism Industry Election Manifesto. State of the Sector 2011 also ultimately provides a current view of the tourism sector for those within the industry and for external stakeholders who have an interest in tourism in New Zealand.

THE VALUE OF TOURISM

**\$22.4
billion**

total tourism
expenditure for the
year ended March
2010.

The tourism industry is made up of a wide range of businesses from large stock exchange-listed companies through to small lifestyle businesses such as bed and breakfast and accommodation operators. More than 85% of tourism businesses are small-to-medium enterprises (SMEs) and many have fewer than five staff. These characteristics make the industry unique.

Tourism has a significant role to play in the New Zealand economy in terms of production of goods and services. The sector plays a major role in the creation of employment opportunities. Tourism expenditure is generated from travel spend, including international, resident New Zealand households, and business and government travellers. International tourism expenditure also includes spending by foreign students who are studying in New Zealand for less than 12 months.

No.1

export earner for
the New Zealand
economy.

Total tourism expenditure reached \$22.4 billion for the year ended March 2010¹. Tourism is New Zealand's biggest export industry, earning \$9.5 billion or 18.2% of New Zealand's foreign exchange earnings (ahead of dairy products \$9 billion or 17.1% of exports, year ended March 2010). Visitors generated \$1.7 billion in goods and service tax (GST) revenue.

18.2%

of New Zealand's
foreign exchange
earnings provided
by the tourism
sector.

Tourism in New Zealand is a \$61 million per day industry. Tourism delivers \$26 million in foreign exchange to the New Zealand economy each day of the year. Domestic tourism contributes another \$35 million in economic activity every day.

Tourism contributes almost 9% of gross domestic product (GDP) for New Zealand. The sector directly and indirectly employs nearly one

Almost 1 in 10 New Zealanders

are employed in
the tourism sector.

\$150 million

is the estimated
value to the New
Zealand economy
from the China
Southern Airlines
Guangzhou to
Auckland route.

in ten New Zealanders (182,400 total) in full-time equivalent jobs.

The value of increased airline capacity into New Zealand can be gleaned from the following examples:

- The Guangzhou to Auckland airline route serviced by China Southern Airlines is expected to increase the number of visitors on China Southern Airlines to 50,000 a year; this is worth an estimated \$150 million to New Zealand's economy.
- With the boost to capacity of air routing through South-East Asia, the new service from Air Asia X is likely to bring in around \$60 million to the New Zealand economy per annum.
- An estimated \$125 million contribution per annum to the NZ economy through the introduction of the Jet Star Auckland to Singapore service.

Tourism also adds value in many other ways:

- Tourism adds value to other export sectors by promoting the New Zealand 100% Pure You brand internationally. It also adds value to industries within New Zealand that benefit from adding tourism experiences to their product offering, such as farm stays, factory tours and winery restaurants.
- Tourism helps drive regional economic growth and supports the revitalisation of towns and communities. This helps build regional pride and creates employment opportunities.
- Tourism has helped drive local government investment in infrastructure and leisure facilities, such as museums, art galleries, and convention centres. It has also encouraged urban renewal. This investment helps meet the needs of residents and visitors alike.
- Tourism provides Maori with important opportunities to nurture, celebrate and present New Zealand's indigenous culture to the world. Maori culture, in turn, adds a unique dimension to tourism in New Zealand.

¹ Source: Tourism Satellite Account, Statistics New Zealand and various sources

CONTEXT

This State of the Sector 2011 was prepared during March and April 2011 and is based on data collected by TIA over the preceding six months, and by Lincoln University researchers during the six weeks after the 22 February Christchurch earthquake. During this time a number of other events occurred which impacted on New Zealand tourism, and which because of their topical nature featured strongly in the data collected for this report. On 11 March Japan was struck by a magnitude 9 earthquake and tsunami with the loss of more than 28,000 lives. In New Zealand it was announced on 16 March that, as a result of earthquake damage to both the AMI stadium and accommodation sector in the city centre, Christchurch would be unable to host any of the Rugby World Cup (RWC) games.

Prior to these events several other natural disasters occurred which impacted on visitor flows (both to and from New Zealand). These were the series of floods which hit Australia (particularly Queensland) beginning in December 2010 and Cyclone Yasi, which made landfall on the northern Queensland coast on 3 February 2011.

There were also the impacts of the Middle East crisis and the unsettling reality it represents. This has already sent tremors through the international energy sector. Over this period there have been rapid increases in oil prices. This is compounded by the flow-on effect of the global financial crisis and the impacts this has had on major inbound international markets, such as the UK. The New Zealand dollar has remained strong over this period, apart from a significant short-term decline just after the Christchurch earthquake.

METHOD

TIA DATA

The data presented from TIA in the State of the Sector 2011 is derived from the first five *TIA Insights* that were distributed to members over the period November 2010 to April 2011. These comprised four monthly *TIA Insights* (November 2010, December 2010, February 2011 and April 2011) and one quarterly *TIA Insights* (March 2011). *TIA Insights* provide a combination of historical data and future trend data, mixed with the latest domestic and international trends. The monthly *TIA Insights* provide a snapshot view of monthly trends, while the quarterly *TIA Insights* goes into greater depth and detail to inform the industry. This information is drawn from a range of sources. Primarily the information is sourced from the Tourism Strategy Group (a division of the Ministry of Economic Development), Statistics New Zealand, Tourism New Zealand, Tourism Australia and various other sources of information, including utilising the vast amount of academic reference material. Information has also been sourced from TIA's primary research data sources. Material for *TIA Insights* is also derived from member interviews aimed at understanding their views on the mood of the industry.

In addition, a *TIA Insights* survey was conducted with members from 4 to 15 March 2011. Please note, this survey was conducted a couple of weeks after the Christchurch earthquake and this may have impacted the results. A total of 185 businesses responded to the survey (approximately 11% of

TIA members). It should be noted that these results are indicative of the views and opinions of those who responded to the survey.

LINCOLN INTERVIEW DATA

The Lincoln University data were collected via a series of semi-structured interviews with 16 tourism stakeholders (occupying a variety of roles in, and around the tourism industry) across New Zealand. These interviewees were identified as informed persons by TIA and were selected according to the matrix shown in Table 1. Together, they represent policy and practice from the Visitor, Industry, Community and Environment (VICE) perspectives. Within this VICE matrix, for example, those selected as Visitor representatives have more involvement with tourist demand, whereas Industry represents the supply side of the industry. Similarly, the Community and Environmental representatives are more broadly involved with either tourism community or environmental issues associated with tourism through local or national government positions, or because of the nature of their own tourism businesses. For all groups, Policy is generally represented by those with higher level national or regional involvement in the tourism sector, whereas Practice tends to describe more local, and direct, involvement in the tourism industry and with visitors.

Table 1: Matrix of interviewee selection

	Visitor	Industry	Community	Environment
Policy	2	2	2	2
Practice	2	2	2	2

The interviews were conducted between 15 March and 31 March 2011; all but one of the interviews was conducted by telephone. All interviews followed the same question structure beginning with broad questions on:

- The current status of tourism in New Zealand;
- Challenges to tourism in New Zealand; and
- Vision for New Zealand tourism in 2020.

These questions were followed by more targeted questions which addressed the impacts of the Christchurch earthquake on tourism in New Zealand, and a number of specific issues raised by TIA in their own member forums and research:

- Increasing airline capacity;
- Changing market mix and emerging markets;
- Domestic tourism challenges;
- The use of social media;
- Impacts of operational and regulatory costs on tourism business;
- A world class visitor experience; and,
- Rugby World Cup (RWC) impacts.

The intention of these interviews was to give an open voice to those invited to contribute and, as such, even the targeted questions were left relatively open in terms of how interviewees responded. The order of the questions also varied according to which way the interview conversation went – in some cases, for example, the last of the open-ended questions (Vision for New Zealand tourism in

2020) was left until the end of the interview. In other cases it was addressed earlier (but often returned to as a concluding question). The interview data also reflect the considerable variation in the breadth of each interviewee's engagement in, and knowledge of, the tourism sector as a whole. A number of interviewees, for example, had experience in the tourism sector that went beyond their current position or role, whilst others had little experience or engagement beyond that of their own industry segment. In respect of reporting the interview data, the implications of this approach is that it is not informative to report which representatives from the matrix described above made specific comments, nor is it practical to report exactly how many respondents offered a particular opinion. Although the majority of respondents raised or discussed similar issues, often they did so in response to different questions.

For these reasons, more generic terms have been used to denote approximately how widespread or salient the opinions given were across the 16 interviews:

- If the topic/issue was of no relevance to some/any of the respondents this is noted;
- 'Several', indicates that only three or four respondents noted a particular issue;
- 'Some', represents at least five, but fewer than eight respondents;
- 'Many' indicates responses/opinions held by more than half, but fewer than 2/3; and,
- The 'majority' indicates that comments were made by more than 2/3 of all respondents.

While some direct quotes are reported in the analysis these are not attributed to any specific interviewee for reasons of confidentiality.

Interviews concluded with an opportunity for respondents to add any other comments they had with regard to the State of the Tourism Sector in New Zealand. The majority of interviews lasted between 40 minutes and one hour (the face-to-face interview was the longest and lasted for 1hr 15 minutes).

REPORT STRUCTURE

The remainder of the report is structured into five parts:

1. The Christchurch earthquake: a commentary by Sean Murray (advisor to TIA) on the impacts of the February earthquake; TIA and Lincoln University analysis of the immediate response/impact of the earthquake;
2. Commentary on the status, challenges and vision for New Zealand tourism from the Lincoln interview data;
3. Responses to the specific issues challenging/impacting on tourism in New Zealand from the TIA analysis and Lincoln interviews;
4. Reflections on the State of the Tourism Sector which emerged across the Lincoln interview data;
5. A concluding section which brings together the two data collection approaches taken for this report to identify a set of key issues that describe the current State of the Tourism Sector.

THE CHRISTCHURCH EARTHQUAKE

This section addresses the impacts on the tourism sector from the Christchurch earthquakes, particularly the devastating quake of 22 February. To begin, a commentary on the impacts of the February earthquake is provided by Sean Murray (advisor to TIA). Then, the immediate response to, and impact of, the February earthquake on New Zealand tourism are described. The TIA analysis is presented first followed by the Lincoln interview data. The Lincoln interview data contributes two final parts to this section of the report, recovery expectations and overall preparedness for crisis events.

THE CHRISTCHURCH EARTHQUAKE (FROM SEAN MURRAY)

The New Zealand tourism industry has been severely challenged by a number of global events impacting upon its performance in generating visitor numbers and more importantly their level of spend. The weak global economies, loss of consumer confidence, fuel price increases along with other natural disasters such as the earthquakes and tidal wave in Japan earlier this year have all had a marked bearing on business levels. The earthquakes that rocked Canterbury and Christchurch in September last year and then a second in February and the most recent quake in June, have demonstrably added to the mix of negatives impacting upon fundamental business drivers.

The event has highlighted some very salient facts about the tourism industry.

- First its ability to cope with disaster and do the best that can be done for customers. Given the evidence of knock on effects across the industry, some good, but mostly bad, it has also highlighted the industry's interconnectedness. Our industry is the sum of all of the parts of a total visitor experience and the perceptions that people hold about New Zealand as a place to visit.
- The need for a strong relationship and ties between the functions of the private and public (central and local) sectors which ordinarily tend to be overlooked.
- The need and ability for businesses and organisations to adapt to the changed business and trading environment as a result of a natural disaster and find ways to quickly get back in business despite the challenges.
- When needed the industry look to natural leaders to consider and represent the totality of the industry in holistic response planning and management. This is where industry associations (such a TIA and Regional Tourism Offices) must quickly refocus their priorities and attention in order to fill that leadership role.

As traumatic as they have been, the aftermath of the earthquakes have presented the Christchurch and Canterbury tourism industry an unprecedented opportunity to reinvent itself and push the refresh button. Over time, Christchurch will become a very new and different proposition in our tourism markets, not just as a gateway to New Zealand's South Island but as a major destination in its own right. All of that, however, needs foresight, planning, confidence and co-operation. The story of Christchurch is moving on from response to rebuild and reinvigoration; history in the making, the design and build of a new city heart, an all-new and compelling destination. Whatever the outcome the recovery process will set the city's economic and lifestyle legacy for decades to come and

through its visitor industry the speed and strength with which the local and national economy will recover.

In the short term, however, there are challenges for the industry, local government and central government that can be categorised on a small number of fronts:

- Minimise the potential lost business not only to Christchurch but New Zealand as a whole and/or other regions.
- An ability for visitor industry businesses to remain viable during the rebuild period; up to 3-5 years and be strong enough to make the most of the “rebound”.
- Hold investor confidence high and committed to (re)invest in the industry as a part of the rebuild process.
- Protect and nurture business streams that Christchurch can cater to in the immediate high season and despite all of the disruption can continue to deliver a great product.
- Work hard and fast to commence a return to normal business levels; retrieve lost visitor segments such as group tours and convention markets in the 2012/13 high season.
- Use the story of Christchurch and its rebuild as a point of difference and interest in its own right.

IMMEDIATE RESPONSE TO, & IMPACT OF, THE CHRISTCHURCH EARTHQUAKE

While there was commentary from tourism businesses around the likely impact of the Queensland floods and Cyclone Yasi on inbound tourism to New Zealand in the February 2011 *TIA Insights*, the major focus was on the impacts of the earthquakes in Christchurch and the Japan earthquake. This was particularly the case after the February earthquake when opinions were canvassed as to the likely major impacts these earthquake events would have on the New Zealand tourism industry.

The Lincoln interviews were conducted three weeks after the 22 February Christchurch earthquake and interviewees were specifically asked:

- What has the immediate response/impact been?
- What will tourism in New Zealand look like one year or three years on?
- Do you think the sector was adequately prepared?
- What about other risk threats/preparedness?

TIA ANALYSIS

The March 2011 *TIA Insights* quarterly provided a first glimpse of the impact of the Christchurch earthquake from tourism businesses. There was a relatively even split on changes to forward bookings following the Christchurch Earthquake:

- 45.4% of tourism businesses in New Zealand who responded indicated they had noticed a change.
- A slightly higher proportion (46.4%) had not noticed any change (Figure 1).

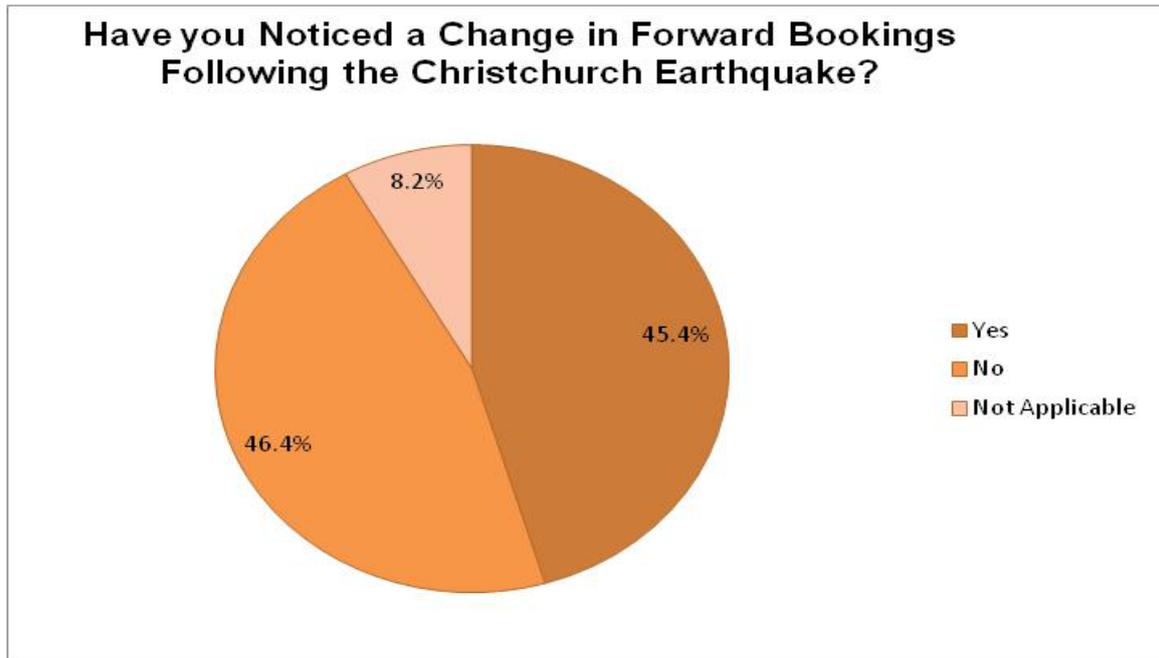


Figure 1: Changes in forward booking as a result of Christchurch earthquake (Source: TIA Insights Survey, March 2011)

Key themes that emerged from operators included the level of uncertainty, initial forward booking impacts on markets such as Japan and shifts in itineraries by visitors:

- *“A great deal of uncertainty and guilt in progressing with holidays planned.”*
- *“Forwards are well down - particularly Australia.”*
- *“We have received cancellations but have had a lot more bookings due to people changing their itineraries or they are perhaps staying two or three nights instead of one or two, as they can make it to Christchurch Airport if they have a late flight out.”*
- *“Predominantly international visitors who have had to change their plans and have visited other destinations in the time they had planned to be in Christchurch.”*
- *“A lot of our bookings from Japan have cancelled.”*
- *“Some cancellations, but not enough yet for any great concern.”*

In the March 2011 *TIA Insights* quarterly it was reported in the Westpac economic commentary that the immediate economic impact of the Christchurch earthquake was via disrupted activity – schools and shops have been closed, people have been unable to get to work, and some businesses will not survive. It was estimated that this disruption to activity is worth around \$4 billion over this year, which is equivalent to 2% off New Zealand’s annual GDP. Like other businesses, local tourism operators have been hit hard as visitors avoid the city. The loss of Rugby World Cup games in Christchurch is an added disappointment.

Moreover, the economic shockwave from the earthquake will reverberate far beyond Canterbury. The Westpac McDermott Miller survey of consumer confidence, conducted shortly after the earthquake showed confidence plummeting, driven by consumers’ increased pessimism about the near term economic outlook. This brings with it risks that falling confidence will impact wider economic activity, although only time will tell whether these risks are realised.

In the April 2011 *TIA Insights* it was found that there was a decrease in international arrivals into Australia in February 2011. It is likely this may be largely attributable to the possible flow on effect of the Queensland floods and Cyclone Yasi. Tourism Australia has been very proactive in ensuring visitors are aware that Australia is 'open for business'. It is important that businesses continually reinforce this message through social media and other communication channels.

LINCOLN INTERVIEW DATA

The impact of the Christchurch earthquake was generally considered to be what could be expected from such a catastrophic event. The global media coverage of the event was noted as a "*potential*" detractor to international visitors, although several respondents commented that the Japan earthquake (which happened on 11 March) took the spotlight off New Zealand to some extent. The presence of international Urban Search and Rescue (USAR) teams in the aftermath of the Christchurch earthquake was seen as an illustration that no single community, or country, can expect to cope with these types of events and that what is required is a global response.

Within the New Zealand tourism industry several different levels of response, occurring across varying timescales, were noted. First there was the immediate response that occurred on the ground in New Zealand, associated with how visitors and Christchurch residents immediately impacted by the earthquake were taken care of. For visitors, this involved some significant itinerary rearrangement and re-bookings across the entire tourism sector. The i-SITE network, many tour companies and AA Tourism were significantly involved in assisting with the travel arrangements of visitors disrupted by the earthquake. While Air New Zealand was given considerable media coverage with regard to their assistance (e.g. with additional flights and \$50 tickets to any New Zealand destination) none of those interviewed mentioned this.

The impacts on the interviewees themselves varied from those who reported immediate loss of business, to those who were not at all impacted. Those who noted little or no impact were commonly either working with market segments who were less affected in the short term (e.g. they were more involved with long term bookings, were inbound tour operators (ITOs)), or they were located further away from Christchurch (e.g. Northland, Auckland, East Cape, Waikato). For some respondents, the Japan earthquake had much more impact on their business. One respondent reported a loss of major international groups as a result of directives from their own country advisories to cancel New Zealand travel. While some did not experience any immediate impact on their own businesses, they did note that their region had been impacted as a result of more Christchurch residents visiting. The potential for disruption to Christchurch and Canterbury residents travel, and to domestic tourism into Canterbury in the months post-earthquake was also considered. Because the tourism sector is made up of many separate entities it was challenging for those dealing with cancellations and re-bookings in the aftermath of the earthquake. This required a great deal of coordination both across the parts of the sector and between various regions around the country. The Kiwi 'can-do' attitude was seen as helpful in this respect.

In the medium term there was concern that the loss of Christchurch as a pivotal hub and gateway to the South Island could impact on visitation patterns and the numbers visiting other destinations and regions of the South Island. Some North Island destinations also reported increased visitation as a result of the disruption in Christchurch and to tourists' usual South Island itineraries. Overall, it was

considered a good thing that the earthquake occurred at the end of the busy summer season, when there was less potential for advance bookings to be cancelled.

A second response level was that which occurred between the various tourism industry organisations – Tourism New Zealand, TIA, the Tourism Strategy Group, and others. While the ability to react quickly was crucial, this response was primarily noted in terms of the way in which it demonstrated the importance of having a coordinated approach and, in particular, the value of different players working together to coordinate communications. The main concern was to ensure that New Zealand was shown internationally to have remained ‘open’ for tourism.

RECOVERY EXPECTATIONS

In terms of the recovery of Christchurch, most respondents in the Lincoln interviews expected that there would be little change within one year, but that within three years it would be fully recovered, albeit with a very different looking Christchurch. Continuing communication, via press releases – that New Zealand was still open and that Christchurch airport as a gateway was fully functioning – was important.

There was some variation in opinion as to whether, in the interim period, Christchurch should be taken out of the tourism mix completely, or that the city could return to operate as a tourism hub without a fully functioning CBD. To some extent the September earthquake prepared the ground for the response to the February earthquake. One respondent questioned the keenness to keep business in Christchurch after the February earthquake. While some thought that perhaps the situation was not as bad as it seemed, particularly regarding the number of hotel beds that might be still available once the CBD is reopened, it was noted that activity and transport operators would be in a position to bounce back more quickly than the accommodation sector. It was suggested, however, that the flows of people may change with different hubs and different major players. There were also concerns surrounding the ability of some tourism businesses to survive until people come back. The loss of the RWC was expected to have a negative impact on the regeneration of the Christchurch tourism industry.

PREPAREDNESS FOR CRISIS EVENTS

Overall, in the Lincoln interviews it was thought that there was little that can be prepared in advance of such a catastrophic event and that much of the response was more general disaster response rather than being tourism industry specific.

Several respondents noted that many people in the tourism industry either do not have disaster plans or have inadequate contingency plans in place. Amongst the lessons that can be learned from the Christchurch earthquake are the importance of having sufficient cash reserves and key data stored somewhere accessible and making greater use of cloud computing networks. There was also some potential to improve people’s understanding of what to do in emergency situations. The earthquake experience will help people be more prepared for other risk threats, such as for example, severe weather events and health crises such as global flu pandemics. While nationwide there are seminars about preparing for global and severe crises (swine flu, bird flu etc), for many regions other low level risks are quite localized. In some regions, for example, tourism operators have to deal with extreme weather conditions on a regular basis whereas in others this is not the

case. Adventure tourism operators are also perceived to be more equipped (in a practical sense) than other segments of the tourism sector to deal with emergency situations.

While some respondents reiterated that there is little one can do about extreme threats and events, many thought that the tourism industry is well-prepared to deal with many severe events: *“Coping literally comes down to attitudes and ability to work together and it [tourism] is an industry that has the ability to support”*. This willingness to adapt and help people out is important – it is the *“heart and soul of the tourism industry”*.

THE TOURISM SECTOR: STATUS, CHALLENGES AND VISION

This section of the report presents the Lincoln interview data collected in response to the three open-ended questions. As noted earlier, there was considerable variation in which aspects of the tourism sector and which specific issues respondents elected to address in their responses to these questions. Many of the same issues were addressed, and discussed in more detail, in the targeted questions. There was also considerable interchange and overlap between the topics and issues raised as status, challenges and vision i.e. for some respondents a particular issue described the status, whereas for others the same issue might be a challenge or, alternatively, part of their vision.

STATUS OF THE TOURISM SECTOR

- *“Holding head above water”*
- *“Solid but not spectacular”*
- *“A soft market”*
- *“Doing OK – I wouldn’t say doing fantastically”*
- *“It is good – holding its own”*
- *“Only OK – not good, not bad”*
- *“South Island close to desperate, North Island pessimistic”*
- *“Fair to say it is vulnerable at the moment”*

Overall, the majority of respondents acknowledged that although numbers visiting are constant, spending and profitability are down – partly as a result of the changing market mix (e.g. UK visitors, who are traditionally good spenders are down, whereas growth out of Australia has been good, but they are not high spenders). In particular, visitors are spending less on activities and, again, this was related to the change in market mix and the *“decline in European and North American visitors who tend to stay longer, get out and about more and do more”*. One respondent noted that the industry *“looks in good health if you measure it in terms of the number of longstanding operators that are continuing to work and the growth of new ventures”*.

There is widespread feeling that international visitors are expecting more for less, as *“people are now trying to travel as leanly as possible”*. A discount mentality has developed and within the industry the deals being offered have significantly squeezed profit margins. Overall, the impact of this is that it is getting harder to survive in the industry. There are considerable variations in how proactive tourism businesses are to take up new initiatives. This appears to be related to their general propensity to be *“early adopters”* across a variety of platforms (e.g. energy efficiencies, marketing initiatives, and social media use). The propensity to adopt, however, is constrained by the fact that many tourism businesses are small and are under constant, and significant, time and financial pressures.

Another issue is that there is always something to react to – Christchurch earthquake, the dollar, fuel prices – and that overall tourism operates in *“a state of great uncertainty”*. While many considered that it was going quite well up until the earthquake, others noted that *“the earthquake comes on the back of a genuine downturn”*. There was some suggestion that *“we might need more creativity in dealing with some of these impacts”* and that we also need to realise that *“we don’t have to rely on certain markets – we have all watched markets changing in response to different global, and now*

local issues". One respondent noted that it is important to maintain a broad range of visitors, rather than having "all [our] eggs in one basket".

The status of the industry varies around the country – iconic places are seen to be "doing OK" – but it is less good in the regions. Rotorua, for example, has been helped by the increasing Chinese market, but overall regional North Island destinations are not doing so well – in part because "a large part of the accommodation sector in the North Island is [made up of] commercial business and travellers, and they are travelling less because of the recession. This has a downstream impact on accommodation and restaurants and other commercial activity". It is of note that this was the only detailed comment made about domestic tourism in response to this question (and, in fact, only five of the other 15 respondents even mentioned domestic tourism).

Internationally, New Zealand tourism is seen to be doing well in that our downturn has been small compared to other countries. There was some surprise that, given the global recession, international visitation is holding up so well – this may be because, as a destination, we are on "people's bucket lists". There was some suggestion, however, that New Zealand may suffer as a result of increasing competition from other destinations for a continuing share of the international market.

One respondent noted, however, that over the last two years there has been more cohesion across the tourism sector and that "people are seeing that we all have to be on the same page and going in the same direction and seeing that we have to have some sort of shared vision for the industry". Evidence of this increasing alignment of people both through, and across, the industry can be seen in venture partnerships and government investment in tourism. For long term survival, however, "the tourism industry needs local government to commit to tourism".

CHALLENGES TO TOURISM

There are external challenges in terms of New Zealand's geographic location as, for many international visitors, getting here involves long-haul travel. Interestingly, however, this appeared to be considered more of an issue in terms of the competing attractions of closer destinations (for international tourists), rather than as an environment concern. As one respondent noted, "the variety of options available to international visitors has expanded along with the airline capability, increasing competition for New Zealand as a destination". Another respondent did note, however, that "as the world gets more savvy about the environmental costs of long-haul travel, air miles may become an issue". The brand integrity of New Zealand tourism also needed to keep up with international environmental standards and there was some concern that "Qualmark work is being diluted in some ways".

Internally, Tourism New Zealand could do a better job at promoting the impact of tourism in New Zealand, e.g. "they need to remind locals that tourism benefits them, like having more banks or supermarkets and cafes in a town – people don't see that as an impact of tourism". Generally it was felt that there was a need to remind New Zealanders how important tourism is to both the economy and in terms of employment: "the whole of New Zealand needs to realise that we have a responsibility to look after our visitors because that visitor pays my husband, sort of thing".

Overall, considering its contribution to the New Zealand economy, tourism is not taken seriously enough. There is a widespread belief that, because it is a low paid industry, tourism does not attract

the best quality staff. There are considerable internal challenges surrounding the level of service we offer, e.g. *“we get by on that Kiwi ‘she’ll be right’ attitude which is quite endearing – but if you are paying a lot of money for something you expect to be incredibly well treated”*. This is particularly the case with food and accommodation – around activities *“we offer a niche market of activity products that is incomparable to many other locations”*.

There are also longer term challenges of staff and skill shortages. In the medium term, the lack of financial flexibility in business impacts on the quality and skill capability within that business to improve skill levels. Attracting skilled labour starts at the level of education and a key issue is inefficiency because there is no skilled labour coming through: *“As an employer I want profitability, but I also want to pay staff well – unfortunately I can’t because profitability is not good enough”*. This is an ongoing and deep-rooted issue. One respondent suggested that while, potentially, the tourism industry is very good *“because we have this natural resource available to us”*, there are some aspects of concern *“as we don’t have the human resource”*.

Overall, growth is *“terribly undermined by the nature of the industry, e.g. tourism employees/businesses are not necessarily skilled operators given the complete fabric of distribution and market”*. A key challenge is getting profitability into business so they can reinvest and invest to meet new market needs. There are a number of challenges surrounding the industry’s ability to keep pace with customer trends and customer behaviour (e.g. *“people travelling with technology on hand, rather than using traditional services provided by bricks and mortar business”*). With this, as with crisis response, it is important to be nimble enough to address issues when they occur. Recent events, including the Japan earthquake and the credit crunch, demonstrate how fragile the sector can be. It is important to understand what is happening and to have the resilience each time to respond appropriately. The Christchurch earthquake offers some important lessons in this respect: *“The government and the local authorities need to be mindful of the very strong need to ensure that minimum impact is caused as a result of the Canterbury earthquake by really putting some big money into promoting destination New Zealand in the next 12 months”*.

One challenge is associated with getting the visitors that do visit to do more and spend more money as *“if you want to ensure total overall economic return then you need to be looking for people who will do more”*. There are also concerns over the spending patterns of domestic visitors who are *“putting more money into spending on imports and the leakage of money out of the regions and the country”*. There is also *“the loss of outbound travel out of New Zealand with the high dollar encouraging trips to Australia and other parts of the world”*.

While many thought that significant investment is needed to meet new market needs it is not clear where that money will come from (e.g. both the financial state of businesses in New Zealand and the confidence of foreign investment into New Zealand are very *“fragile”*). Those operating within the tourism sector need to appreciate the importance of partnerships and of joint venture marketing as no one can go it alone. Reliance on local government support is a two-edged sword – *“it is great to have that support, but it requires constant effort to maintain that level of interest, especially as every three years you have to start again from scratch”*. There is real fragmentation throughout the industry in terms of the operation of RTOs, the ownership structure of i-SITEs and around IT environments. In a small place like New Zealand this can lead to clutter if it is not coordinated well. The RWC is a good example of this as: *“the level of noise or clutter has intensified because everyone*

is trying to get their own foot in and their own leverage out of it without doing so in a coordinated manner”.

Overall, while some considered the infrastructure across the tourism industry to be well set up, e.g. *“it is committed to a standard which is receiving recognition from an increasing number of markets worldwide as delivering a fantastic holiday experience”*; a considerable number of specific infrastructure issues were also mentioned. These included the lack of suitable hotel accommodation for some markets (e.g. in Auckland very few hotels rooms have baths which the Japanese market likes); the Auckland city transport infrastructure was also an issue. There was also perceived to be an accommodation shortage in other parts of the country. Accommodating the increased growth in the cruise market is an issue for some destinations, particularly as this growth is not perceived to be *“incremental, but rather is quite sudden”*. Having a strategy that addresses infrastructure requirements in a coordinated and planned way, rather than dealing with it in an ad hoc fashion is important.

There are challenges over *“What is tourism in New Zealand? It is all very fine to have grand tourism strategies, but the reality is that tourism in New Zealand is made up of thousands of little businesses who can only think and act for themselves”*. Also, there was some concern that, currently, only the big players get to *“have a say”* within the wider industry structures, and that a better way needs to be found to enable small businesses to contribute. This may require organisations to be more proactive about encouraging small businesses to participate. There is also a need for advisors for domestic tourism – who people can turn to for advice and mentoring.

There are also challenges in the marketing message from within New Zealand – e.g. ensuring that both the people providing tourism experiences and visitors to New Zealand can see themselves in New Zealand’s marketing message. There was also concern by some operators working in specific activity sectors that Tourism New Zealand is not promoting the right kind of message, e.g. there is a *“sense that eco-tourism is a growing and developing trend worldwide and that New Zealand is not prepared for that type of development or trying to encourage it”* and that *“Tourism New Zealand should give Maori tourism more mana”*.

VISION FOR 2020

When asked this question, the majority of respondents described what their ‘ideal’ of New Zealand tourism in 2020 would be. There was a desire to see:

- *“A well-connected industry that is smart, technology savvy but that doesn’t lose the soul of the whole thing – which is really good people”*
- *“A stronger cultural profile”*
- *“Tourism businesses making more money”*
- *“That we are a high quality premium destination”*
- *“[New Zealand] as the best tourism nation”*
- *“Tourism – a lot more of it”*
- *“A dynamic, sustainable, wealth-creating industry”*

There were a number of specific comments made with respect to the operation of tourism businesses. One respondent, for example, suggested that the nature of tourism business would have

changed with *“less in private capital hands and more in corporate capital hands”*; another noted that, ideally, we would *“see tourism businesses making more money, having greater value, focusing on profitability and value rather than discounting”*. Another business concern surrounded the current structure of marketing pathways and that *“the penny will drop that RTOs are quite impotent and that tourism businesses really have to take personal responsibility for their own survival”*. One respondent thought that those in the industry would have greater access to different markets, that there would be fewer barriers and that people will be more aware of how to protect the environment.

When asked if the resources or foundations were in place for these changes to happen, many of the same challenges and issues that had already been discussed were mentioned. These included: the willingness of people to come together (which some thought was already happening); that *“we will be having the same discussion – it won’t change a lot”*; *“the Chinese and Indian markets – those growing economies – will have a much bigger influence and bearing on the industry”*; *“if you just keep flooding the market with one market– it won’t do us any favours in the long run”*; *“New Zealand has freedom, environmental protectionism, its people, its culture – there are so many positives in a very challenging world that its desirability is actually made more attractive”*. Another commented that the remainder of 2011 will dictate the outcome – *“not just the RWC, but also how Christchurch is able to reposition the re-build by the end of the year will be absolutely critical”*.

The importance of maintaining the New Zealand brand is important and for some that brand combines landscape, culture and environment. As one respondent noted, however, *“our cultural brand has been diluted in some of the messaging”* and we have *“not really celebrated what is unique about us and that it needs to be a shared vision throughout the industry”*. There was some concern that *“the face of how we represent ourselves as a people will change as we become more homogenous, [and that] there will be lower skilled people in tourism jobs and [there will] not be ‘real’ New Zealanders greeting guests”*. The New Zealand brand is our point of difference in a crowded international market place, but is also a brand that presents challenges to the sustainability of the tourism sector. Long term sustainability requires *“protecting what we have got, but working smarter as well”*.

KEY TRENDS/SPECIFIC ISSUES

This section of the report provides a summary of key trends observed over the first five *TIA Insights* (November 2010 to April 2011). A number of these trends informed the targeted questions on specific issues asked in the interviews. The data are collated and presented according to seven broad topic areas:

- Increasing airline capacity;
- Changing market mix and emerging markets;
- Domestic tourism challenges;
- Use of social media;
- Impacts of operational & regulatory costs on tourism business;
- A world class visitor experience; and,
- Impacts of the Rugby World Cup.

For the first four of these, subheadings indicate whether the data are drawn from the TIA analysis or from the Lincoln interviews. The data reported for the final three topics were drawn only from the Lincoln interviews. A cross-analysis of the data from the two sources is presented in the conclusion section of the report.

INCREASING AIRLINE CAPACITY

TIA ANALYSIS

The March 2011 *TIA Insights* provided results of the first TIA members' survey on key issues, challenges and opportunities. It showed that although 44% of tourism businesses thought that expansion of airline capacity into New Zealand in 2011 will bring business benefits, over one third (35.7%) did not know whether this would benefit their business (Figure 2). Operators appeared concerned as to whether Asian markets would benefit their business, with one respondent noting *"Asia is not a key market for us. Providing there is still an emphasis on marketing to the UK and Europe, we could see an increase there as more air capacity opens up via Asia"*.

The introduction of low-cost carriers does potentially have a negative impact on the domestic travel market. This was highlighted in the December 2010 *TIA Insights*. Although the introduction of more capacity on low-cost carriers in 2011 will bring more international arrivals, it is also likely to lure New Zealanders to travel in even greater numbers off-shore.

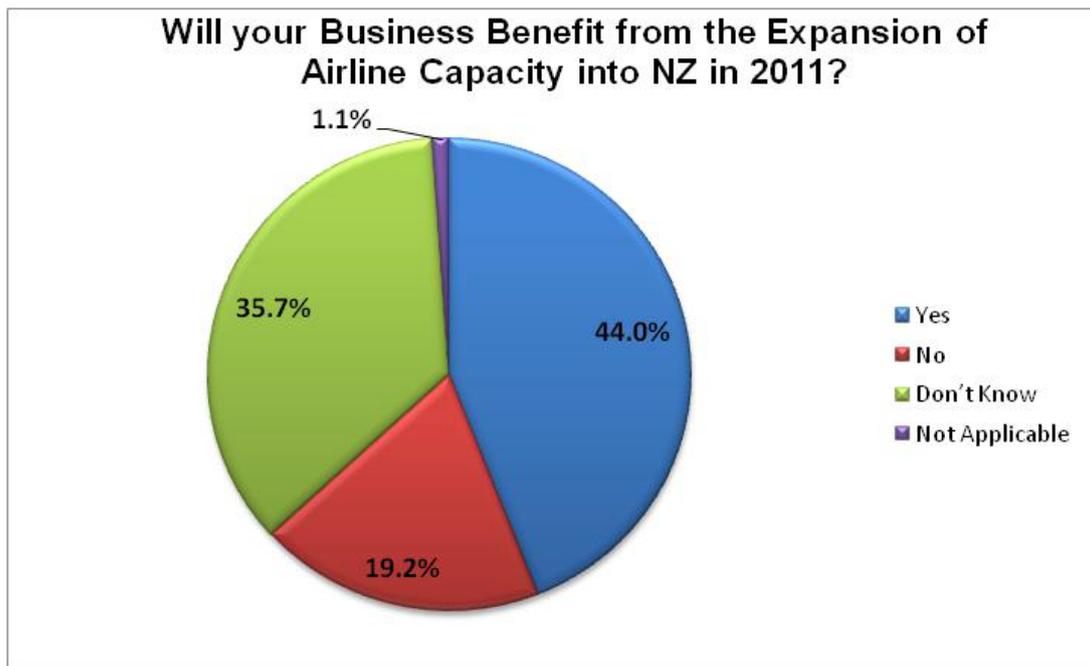


Figure 2: Will your business benefit from the expansion of airline capacity? (Source: TIA Insights Survey, March 2011)

The February 2011 *TIA Insights* provided an overview of recently released research by Covec describing key features of the operating environment of the New Zealand aviation sector which have implications for the New Zealand tourism sector. The findings include:

- Some New Zealand international routes are not highly competitive;
- A few international routes provide the majority of international connectivity;
- Many visitors view Australia and New Zealand as complementary destinations;
- The mix of international visitors is changing;
- Most secondary airports in New Zealand have not been successful at sustaining international services; and,
- Many potential international routes to New Zealand are currently not viable.

A key point from this research was that short-term overseas trips by New Zealand residents account for around 30% of international passenger traffic on New Zealand routes. Without this traffic, the current level of inbound services for international visitors could not be sustained.

LINCOLN INTERVIEW DATA

The growth of air capacity out of Asia was seen as positive for New Zealand tourism in terms of increasing visitor numbers. There were some concerns over the length of stay of these new visitors and about whether the tourism sector is well-equipped to deal with these new markets. While this raises some short term challenges, in the long term (as the new markets mature) it is perceived to be more promising. A number of respondents, however, noted that changes in air capacity would have little or no impact on either their own business, or on the market segments they dealt with.

The increase in low-cost carriers is also perceived by some as negative environmentally – both as a result of shorter staying visitors (and the increased carbon footprint of their travel) and also as a

result of the increase in the number of visitors putting pressure on New Zealand's natural environments. A major concern surrounded the impact increased air capacity (on low-cost airlines) might have on New Zealand's current brand image and the yield generated by these new visitors: e.g. "it is not just a case that a visitor at any price is a visitor worth having"; "how do you balance yield growth with volume, most of whom then fail to experience the very thing they were expecting?"

CHANGING MARKET MIX & EMERGING MARKETS

TIA ANALYSIS

In February 2011 *TIA Insights* reported on the emergence of developing countries leading the recovery in world tourism. In 2010 growth in world tourism was not evenly spread. Countries such as China, India, Malaysia and Korea have led this growth. It was highlighted that not only are China and India having a major impact on global outbound tourism numbers, but so too are Brazil and Russia. Brazil, in particular, has shown strong growth in visitor expenditure in 2010. This contrasts with British visitors who showed a marked decline in expenditure in 2010.

TIA Insights show a consistent increase in the number of Chinese visitors arriving in New Zealand. A key issue for this market is that the flow-on effect to the South Island has not been evident. This was noted in the February 2011 *TIA Insights*. The emergence of the Chinese and many other new markets is a challenge for operators to understand and best meet the needs of these markets. The February 2011 *TIA Insights* identified 'the new Chinese visitor', suggesting the Chinese travel market was changing. This included a shift away from package tours with a busy schedule, to tours that are more in-depth and theme tours. More Chinese visitors see outbound travel as a chance to broaden their horizons and experience foreign cultures.

The February 2011 *TIA Insights* revealed that 21.3% more visitors arrived from China (up 2,490 visitors) in December 2010, compared to December 2009. The figures for the year ending December 2010, shows a 20% increase on the previous year. While this is a significant increase we need to carefully consider competitor markets; the same report, for example, showed that Australia welcomed 33% more visitors from China (up 10,400 visitors) in the same period. Australian figures for the year ending December 2010 show a 24% increase on the previous year.

Growth continues to be seen at a reasonable rate from emerging inbound markets (e.g. India, Malaysia). India, as an inbound visitor market, showed a 15.5% increase in arrivals into New Zealand for the month of December 2010. This translated into an additional 554 visitors from India for this month. Australian inbound Indian visitor arrivals for the same period showed a 17% increase, an additional 2,100 Indian visitors. Comparatively therefore, Australian tourism are currently reaping greater growth and share in many of these emerging markets. Factors such as air capacity and routing are key drivers for this. Competition for emerging markets such as India is heating up. In the March *TIA Insights* quarterly, it was identified that Indian travellers are now more open to exploring new destinations, while the Indian traveller remains as value conscious as ever.

The March quarterly *TIA Insights* highlighted that according to year ending December 2010 figures, the Australian market now accounts for 45% of all international visitor arrivals. This is up from 38% in the same comparative period in 2006 (Table 2). The *TIA Insights* indicate a consistent increase in

visitor numbers from Australia. However, there are themes coming through that indicate a low spend from this market. The November 2010 *TIA Insights* highlights “the Aussie numbers have stayed strong, but anecdotal evidence says that their length of stay had not been as positive (as the European market)”.

Table 2: International Visitor Arrivals by Country of Origin YE 2006 to 2010

	YE Dec 06	YE Dec 07	YE Dec 08	YE Dec 09	YE Dec 10
Total Visitors	2,408,849	2,455,234	2,447,147	2,447,465	2,510,659
Australia	904,576	951,004	977,239	1,083,478	1,120,810
% of total market	38%	39%	40%	44%	45%
UK	294,812	292,717	285,094	258,438	234,314
% of total market	12%	12%	12%	11%	9%
United States Of America	225,629	216,027	212,410	197,792	189,709
% of total market	9%	9%	9%	8%	8%
China	105,716	120,804	112,398	102,259	122,712
% of total market	4%	5%	5%	4%	5%
Japan	136,401	121,652	102,482	78,426	87,735
% of total market	6%	5%	4%	3%	3%
Republic of Korea	111,361	99,453	79,061	52,921	67,309
% of total market	5%	4%	3%	2%	3%

The March quarterly *TIA Insights* reaffirmed trends revealed in earlier reports, indicating a decline in visitor average spend in New Zealand’s top five markets (Figure 3). When viewed over a five year period, Australian average total expenditure per person was \$1,603 in the year ending December 2010. This compares to \$1,755 in the year ending December 2006. The 2010 year ending figure is a 12.4% decrease on the year ending December 2009 per person spend of \$1,829. Visitors from China recorded a total average spend per person of \$3,203 in the year ending December 2010. This was a 12.9% decline over the same period in 2009, when this was \$3,679. This is an increase however on the December 2006 year end when the figure was \$2,709 per person.

Trends from *TIA Insights* confirmed subdued arrivals and spend from New Zealand’s long haul markets. This is also confirmed by commentary from tourism businesses. In the November 2010 *TIA Insights* it was highlighted that “Europeans, particularly English visitors, were important drivers of regional spread and that has been lost with the decline in arrivals”.

TIA Insights also reported data on the outbound Australian market. Australians are our number one visitor market (Table 2), it is therefore important to know who we are competing with for these Australian visitors. The December *TIA Insights* shows a substantial increase in Australians visiting Indonesia: based on year ending October 2010 figures, there were just over 41% more Australians visiting Indonesia compared to 2009. New Zealand only recorded just under 5% increase in Australian visitors for the same period. The USA, with a 21% increase in Australian visitors over these comparative periods, show Australians strong appetite for the US and South East Asia destinations. This is largely attributable to a high Australian dollar, a strong economy and increasing air capacity on the US and South East Asian air routes.

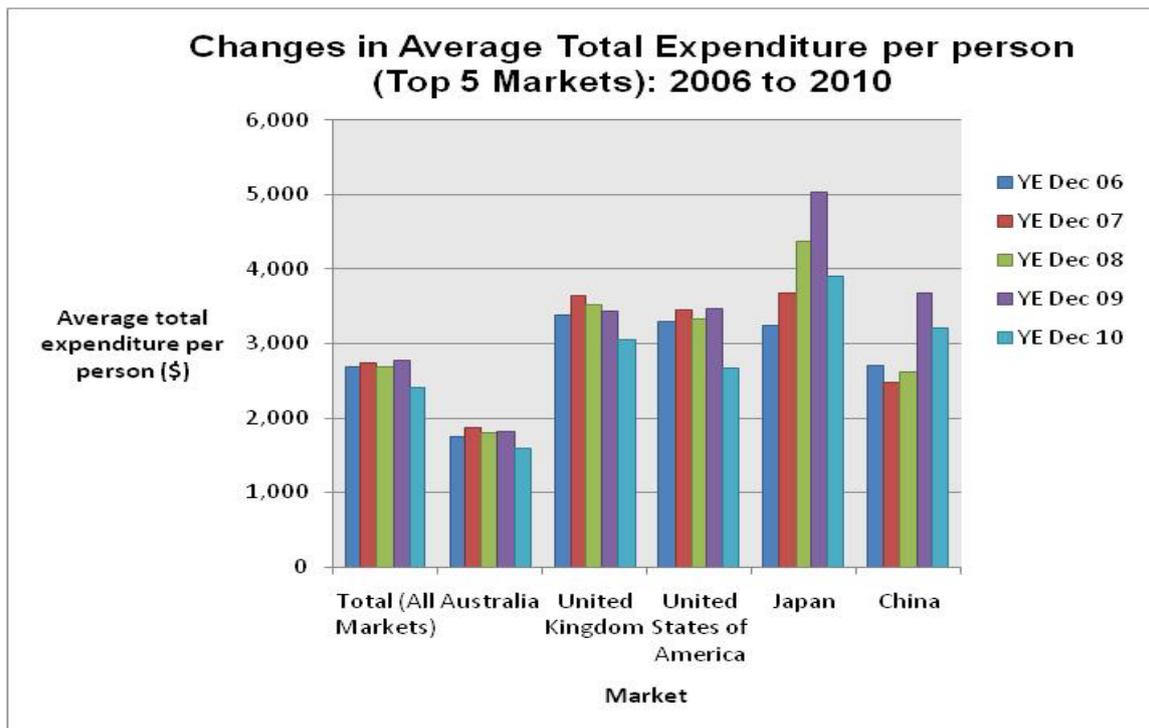


Figure 3: Changes in average total expenditure per person (Source: International Visitor Survey, Tourism Strategy Group)

A common and recurring theme in the *TIA Insights* is that after the Global Financial Crisis there is a trend for consumers around the world to ‘demand more for less’. This was highlighted in the February *TIA Insights* with a profile of the French market. One of the most important trends that emerged from the French recession has been the search for value for money and an increase in thrift and frugal living. More visitors are staying closer to home, travelling in economy instead of business class, booking a three-star instead of a four-star package, reducing expenses on non-essentials and choosing low-cost providers.

In the March *TIA Insights* it was highlighted that there were signs of a return by the German market. However, the economic slowdown has had an effect on this important market and German consumers are more demanding and price-aware in their destination choices. It was also noted that the competition for traveller’s attention is heating up, with New Zealand, South Africa and China all popular choices for German travellers.

LINCOLN INTERVIEW DATA

The new markets are more likely to be tour groups, short stay, and stick to the ‘Golden Route’. They are thought to be less interested (than traditional markets) in adventure attractions and in Maori tourism products. A change in the market mix also has implications for some segments of the accommodation sector. Waiting for new markets to mature and for their demand to meet what products we currently offer will not work – instead, the tourism industry needs to be proactive in understanding the interests and needs of these new markets. The New Zealand pavilion at the Shanghai Expo was noted as one means of both targeting and then marketing ourselves to a new market. There were, however, concerns over which aspects of New Zealand should ‘feature’ in tourism promotion (e.g. environment or Maori culture) and the suitability of these for new markets.

Some of those interviewed did not expect to 'see' any of these new emerging markets and appeared confident that there would still be enough visitors from New Zealand's traditional markets to enable them to maintain their current product delivery and profit levels. The Australian market is steady, but there is some doubt as to its reliability (e.g. it was affected by events like the Queensland floods). Because they stay with friends and relatives, and hire their own cars, Australian visitors are also a relatively low spending market. The only time 'yield' was discussed, however, was in response to a specific question on the topic and, even then, was viewed either more generically in terms of the impacts of the changing markets (and the need to continue to attract high yielding European visitors), or from the purely business perspective in which *"you can say that the hospitality businesses aren't making enough money and yields are down, but that is because of external factors which are forcing price discounts"*.

There are questions around whether operators know what new markets want and whether they are equipped to deliver it to them. According to one respondent, *"We already have a wide cover of age demographic, but there are the cultural needs of the next wave (of visitors) to consider"*. This includes their language and food requirements, their preferences for face-to-face or internet interactions, and so on. Language problems and product suitability were the two most commonly reported concerns associated with increasing numbers of Chinese visitors and several respondents noted the need for more interpreters, one adding that *"we should have thought of that first"*. While the classic interactive travellers were not attracted by retail experiences, it was suggested that these new markets might perceive us as *"boring"* unless the retail sector was *"embraced more"*. There was some concern, however, that if New Zealand tourism was to become too concentrated on the Chinese and Indian markets it would put off other customers.

There are also questions surrounding who should take responsibility for educating the industry about new markets and their needs. There was some suggestion that there was a role for an organisation operating in the tourism sector to ensure that businesses who are providing products and services understand what is required. Some of the onus was thought to lie with tour operators themselves – *"who have a responsibility to be clear to their clients about what is being offered, what they are going to get and what they need"*.

The traditional markets are also evolving and there have been some significant changes in visitor travel patterns, most notably in shortened duration of visits and changes in the timing of travel to New Zealand. There is some concern about the increasing numbers of freedom campers who are *"surviving off the smell of an oily rag"*. There has also been a change in more traditional markets seeking adventure and off-the-beaten track experiences, but still with comforts. It is necessary to keep developing and improving product delivery to these markets. Also, some markets are up and some are down (in numbers). The growth in the cruise ship market, in particular, presents issues around whether there is enough product in place to cater to high numbers of visitors at one time. In some areas, however, although the number of cruise ship visits has increased, the amount of land business generated has decreased as a result of changing passenger demographic and pricing structures, e.g. *"cruising has become less expensive and the people on the cruises have changed – they can afford to go on the cruises, but not afford the shore excursions. They have also become more savvy to the fact that cruise ships mark up tour prices and that they can get these more cheaply themselves via the internet"*.

TIA ANALYSIS

The *TIA Insights* have shown a consistent trend of a flat New Zealand domestic visitor market. There is a continued decline in domestic visitor trips and expenditure. Domestic travellers spent \$8.8 billion in the year ending December 2010, a decrease of 1.1% on the previous year. There were 16.1 million overnight trips taken, a 3.8% decline on the previous year. There was a 6.5% decline in day trips, with 29.3 million day trips in the year ending December 2010. Although trip numbers are down for domestic travellers, expenditure has held up reasonably well over this period.

Operators reported key themes of shorter booking times, a declining domestic visitor market, and a shift away by their business from attracting the domestic visitor market and resistance by New Zealanders to pay for visitor attractions. Comments included:

- *“Usually by the time we have a domestic enquiry we are already booked as the locals only book a few days out.”*
- *“It is now declining in the last six weeks and the rate of decline seems to be accelerating.”*
- *“Domestic visitors only form less than 5% of our total market.”*
- *“Any New Zealanders we have come to stay are usually 'new' Kiwis, international people recently moved to New Zealand.”*
- *“This is not a market for us - we have tried different media to attract but just not our market and we are happy with that.”*
- *“Kiwis do not like paying for attractions. We are fielding enquiries (from the domestic visitor market) about free activities and cheapest places to stay. Value adds are not being purchased.”*

There is a trend for more New Zealanders to travel overseas more often and to a greater range of destinations. In the March *TIA Insights*, for example, it was reported that around 13,000 more trips were made to China by New Zealanders in the year ending December 2010 (64,304 trips), compared to the same period in 2006 (51,202 trips). Overall, New Zealanders travelled in record numbers overseas in the year ending December 2010. Altogether, 2.026 million trips were made offshore over this period, compared to the same period in 2006 when 1.861 million trips were made overseas. The relative share of the main outbound markets New Zealanders are travelling to have remained relatively stable over the last five years (Figure 4).

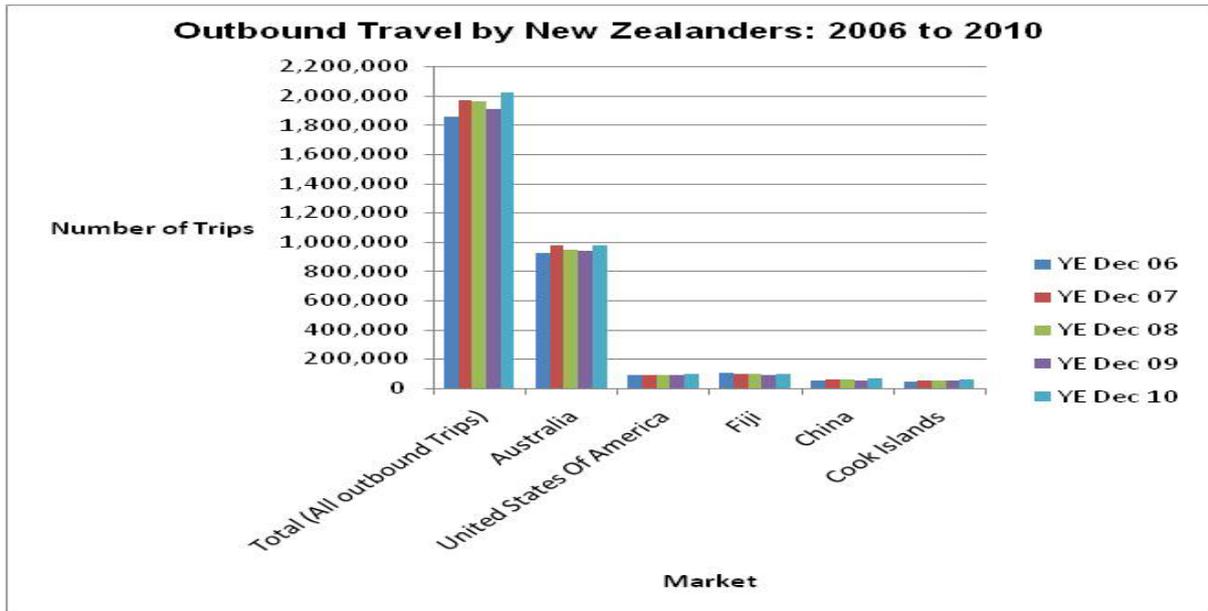


Figure 4: Outbound travel by New Zealanders 2006 to 2010 (Source: International Visitor Arrivals/Departures, Tourism Strategy Group)

LINCOLN INTERVIEW DATA

In the interviews, opinions were mixed as to the current state of the domestic market and of the 16 interviewees:

- Four reported that for them the domestic market was down or flat;
- Two reported strong domestic visitation;
- Five noted that some segments of domestic tourism were doing all right;
- Five had little or no involvement with this market.

New Zealanders are very price sensitive and there is a perception that New Zealand tourism experiences are “*pricey*”. Cheap overseas airfares are appealing to the domestic market, particularly at times when our dollar is strong. There are also a number of external challenges to domestic tourism such as changes in leisure activities, more discretionary income being spent on home entertainment, increasing fuel prices and changes in traditional holiday times. While in many areas holiday parks are doing very well, in some areas the reduction in coastal camping grounds (as a result of commercial rationalisation by local councils whereby the land is sold off in favour of residential development) has had an impact on domestic tourism. Although regional domestic tourism has remained strong in some parts of New Zealand, within those regions there is considerable competition between individual destinations.

Domestic tourism is recognised by many as an important part of the tourism industry and acts as a buffer when international markets are down. “*In order to provide an international product that delivers to the economic benefit of the country we need a vibrant domestic market to support those businesses*”. This makes it more difficult for Maori tourism businesses in particular as there is a perception by New Zealanders that those products are not for them. Fuel incentives and reduced fees for DOC services were suggested as incentives that might encourage domestic tourism.

Several suggestions were made with regard to increasing domestic travel through more careful marketing, e.g. marketing that targeted specific segments of the New Zealand population and more innovative campaigns at regional level. One respondent thought that *“It is a pathetic and lazy excuse to say that domestic tourism is flat because of the global financial crisis – as a sector we don’t do anything to market ourselves – we don’t see New Zealand as a market at all – we don’t give them information or advice, we just expect them to know what to see and do. We are disengaged and don’t respect their value as an audience, we don’t market to them – it is our lethargy”*.

USE OF SOCIAL MEDIA

TIA ANALYSIS

Globally, social media is an increasingly important part of a business’ marketing strategy. In the February 2011 *TIA Insights*, a key trend for 2011 indicated that social media marketing will go mainstream. At the same time metrics for social media will move into the spotlight. Such items as budget spend and staff investment on social media will need to be justified from a cost-benefit perspective.

It was also identified that Chinese internet users are actively engaging in social media, especially home-grown social media platforms.

LINCOLN INTERVIEW DATA

Overall, the interview respondents could be divided into those who openly welcome social media, those who think it is *“here to stay – it isn’t going to go away”* and those who consider it a *“necessary evil”*.

Those in the first group think social media provides smaller operators with a level playing field – at least for a time. They are also the most proactive in learning about social media and how to use it. One respondent noted that while everyone does it, *“tourism does it better than most people”*, something they attributed to those in the sector having *“superior people skills”* and because *“communication is such a big part of what tourism does”*.

Most of those interviewed fall into the second group. For this group, there is some concern that social media hasn’t been proven in terms of direct returns (although it is also recognised that it is difficult to measure direct return from it) and that people do not, as yet, know how to use it properly.

The last group (the smallest) appreciate social media for its speed and effectiveness in communication, but also support its use in balance with other more traditional means of communication. The speed of change in IT, the need to devote considerable resources to the use of social media and its ‘fit’ with some businesses are another concern. There was some criticism that tourism in New Zealand has *“gone down the whole road of social media marketing – they seem to have ignored the usual dependable marketing. People are ignoring a lot of their mainstream marketing just to have people making comments about things”*.

Overall, there was general concern about how labour intensive it could become to keep feeding social media platforms and some uncertainty of where it will go (i.e. what will come next). It is perceived to be *“a fast moving platform”*. There was, however, acceptance that it is replacing more traditional means of marketing – in that respect it was described by several respondents as *“word of mouth on steroids”*.

There was some support for a coordinated approach to the use of social media and the need to consider what its best role is and who should use it as a platform. Facebook (*“more exploratory”, “more effective”*) was preferred over Twitter (*“a single source”, considered “past it”*) by a number of respondents; others thought that Facebook was limited in its reach, i.e. it really only connects a tourism business to other people in the tourism industry. One respondent noted that people *“see through some of the more staged social media campaigns”*.

There are also questions around who should take the lead in educating the tourism industry about the use of social media. Companies like Air New Zealand are considered leaders – *“they are very good at viral marketing, at getting people out commenting, they monitor it very well and know the lie of the land”*. At the RTO level, there appears to be considerable uptake and investment in social media – they are also quite proactive in their regions in respect of helping/mentoring tourism operators who are serious about social media, although in the case of Taranaki, for example, the reality is that, *“there are only a handful of operators who are serious about it”*.

A number of respondents expressed a need to differentiate between the use of social media and the increasing connectivity of visitors to the internet through a variety of electronic platforms. These are changing booking behaviour, particularly in respect of timelines, as well as increasing competition. It was also suggested that care should be taken not to overestimate how fast new technology is happening and being adopted. There is an expectation that the younger generation will adopt both social media and internet technologies more readily, although already visitors from some markets (USA, older travellers with time to research travel plans) are increasingly using internet technologies. A number of respondents noted that tourism businesses in New Zealand are failing to deal with the internet and that *“the industry does not understand the value of their websites”*.

One respondent mentioned the environmental cost of social media – i.e. the high carbon footprint of giant servers in the USA that are powered by coal fired electricity, *“all this carbon just for tweets and facile things on Facebook”*.

IMPACTS OF OPERATIONAL & REGULATORY COSTS ON TOURISM BUSINESS

LINCOLN INTERVIEW DATA

While each cost might be small, cumulatively they add up to a lot. They represented both financial and psychological barriers and make doing business much harder. Operational costs compete with other desires such as, for example, improving energy efficiency, and may limit investment in training and facility upgrades. Some thought, however, that they were costs for all business – not just a tourism concern, i.e. *“You can’t do a ‘poor us’ in tourism”*. This sentiment was further reinforced by the fact that all respondents made some comments in response to this question, despite a number

of them stating that they were not able to speak from an operator perspective. While some rising costs (such as fuel prices) occurred across the economy as a whole, it was also suggested that there was some scope for the tourism industry to, *“influence the level of tax or revenue the government extracts from users”*.

Overall, it was acknowledged that *“there is a lot to know in that space”*, although a number of respondents suggested that it simply requires operators to have a proper business plan and to price products according to what their operating costs are. The fact that many do not do this, however, was attributed to the nature of many tourism businesses. As one respondent pointed out, *“we have many small hobbyists who aren’t [necessarily] serious business people. Many operators in our region are not GST registered – we use big numbers to create the impression that we are running an industry like Fonterra and that it is dominated by some very serious business people, but we have no middle tier in the industry”*. One tourism activity operator noted that, although compliance was time-costly to their business, they used it to benchmark themselves – e.g. *“how we feel we are placed in the market is by going through a lot of those processes”*.

High staff turnover also contributes to the difficulties surrounding the time commitments required to effectively implementing operational regulations and compliance. One respondent noted that *“The more that the governance organisations can hold hands with the industry through all this, the better”*. Another respondent noted that *“you need to reward those businesses that work well and not put more compliance on them because of the bad 5%”*. There was some suggestion that the tourism industry itself was the perpetrator of most of the compliance costs e.g. the need to belong to many different representative organisations puts a lot of financial pressure on tourism business operators, particularly smaller ones. Many tourism suppliers are subject to offshore operators’ demands that the products they sell meet health and safety standards.

A number of examples of increasing operating and compliance costs were given when this question was asked and it is of note that only one respondent added ‘carbon tax’ (which was not given as an example) as a cost.

A WORLD CLASS VISITOR EXPERIENCE?

LINCOLN INTERVIEW DATA

When asked if the New Zealand tourism sector is currently offering a world class visitor experience many replied that *“satisfaction levels suggest that we are”*. New Zealand tourism cannot, however, afford to rest on our laurels, i.e. *“we shouldn’t just pat ourselves on the back and mark time”*, but instead need to keep improving what we offer, especially as international competition is increasing all the time: *“We are no longer quite the hip/cool prime choice that we were 5 years ago – it is not that we have done anything wrong, but that the rest of the world has moved up”*.

What we have to offer in terms of the natural environment is world class and people like the friendliness of the people. A number of respondents noted, however, that we are not offering world class levels of service or delivery. Customer service is a big issue and is very important as people are *“your front of house – they are the experience half the time, the storytellers, the meeters and greeters”*. Questions surround how to better address this with some suggestion that it has to come

from operators themselves in driving the skill base of their staff and providing mentoring. New Zealanders in general need to be made more aware of how important good service is.

We also need to understand better what people might want – especially the newly emerging markets, while continuing to cater to our traditional markets (which includes adjusting to any changing demands they may have). Our product offering is perceived as strong as *“we don’t have dodgy operators, we have transparency, we don’t have bribery, we have strong legitimate businesses and the government backs our sector”*. We have to be careful, however, not to have too much of the same product – it is good to have products that reflect the New Zealand lifestyle and which reflect local experiences. One way of doing this is to start *“thinking about how to use the whole land mass of New Zealand rather than just Rotovegas, the Bay of Islands and Queenstown”*.

Other ways of improving service and delivery include improving the language skills of people in the industry *“it is a weakness for us as an industry, but at the same time we ‘are’ New Zealand. As a nation we are OK – we are helpful, are forthcoming, but we can change that at business level by learning some other languages”*. Providing a New Zealand experience, and maintaining that ‘New Zealandness’ is important to many of those interviewed. Another suggestion was that care needs to be taken not to provide too many *“canned experiences”* – this could be achieved by moving to *“a more genuine level of interaction with people”*.

Our distance is seen as both a strength, and as a weakness: a weakness because we are at *“end of a long skinny air route that doesn’t go anywhere”* and because of the environmental cost of long-haul travel; a strength because we are *“a little bit more unique, harder to get to, a bit more removed from what the rest of the world is doing”*. Also, through our clean/green promotion we are showing that we are a bit removed from world environmental problems.

RUGBY WORLD CUP (RWC) IMPACTS

LINCOLN INTERVIEW DATA

Many respondents noted that the hype surrounding the RWC early on was over the top, and that reality was that the numbers visiting for the RWC will actually be fewer than we normally get in summer (although they will be more condensed/ focused). There could also be some displacement of normal visitors. The RWC may have some negative impacts on other visitors immediately before and after the event e.g. the Japanese are staying away during RWC. It is, however, good timing for the event in that it is at the start of the summer season and some ITOs already have a backlog coming in post-RWC.

Most respondents thought that it will be good in parts of the six weeks of the tournament itself – the RWC will benefit Auckland in particular, especially now that Christchurch is out of the picture. It will also benefit regions around Auckland. There is some feeling that many of the RWC visitors will still only visit the iconic sites and destinations – as a consequence the more peripheral regions (such as, for example, the West Coast of the South Island) will still miss out.

Within New Zealand there is potential, particularly if the All Blacks do well, for a general economic (and psychological) boost as a result of the RWC. This could lead to some new initiatives that will

continue long-term. There are also *“opportunities around legacy and getting the experience to influence travel and work and investment decisions for years to come”*. An example of this was that the RWC experience could be used as a means of introducing the domestic market to festivals.

In the lead up to the event there is perceived to be some promising spin off in the way it has brought people from across the tourism sector together. There is, however, some tension between the promotional/organizational work the RWC organisers are doing and the amount of effort being put in by tourism operators and regions – some do not see the value in committing their own resources to it – but rather they see the value in a *“feel-good sense”* (i.e. the same as the general psychological boost to the economy noted above).

The largest impact will be in the future (but even that has a life expectancy) through the overall profile, through word of mouth and the opportunity to show-case ourselves on the world stage. However, customer service experience is a concern for one respondent – the tourism industry’s ability to understand and cater to international visitors for a sustained period is a challenge – *“there is a danger that our marketing is sometimes far more effective than the reality and for six weeks the spotlight is absolutely on us to perform”*. There is some criticism that it is only generating exposure to the countries who already know about New Zealand.

There is a lot resting on the RWC: *“The international media experience around the RWC, whilst always being important, is now [because of the fragile state of the tourism industry and the impacts of the Christchurch earthquake] almost mission critical for the next decade”*.

REFLECTIONS

This section reports some reflections on the broader contexts of the State of the Tourism Sector as reported across the Lincoln interview data. Rather than presenting data recorded in response to specific questions, data collected across all 16 interviews is collated to reflect a number of major (and interrelated) themes which respondents employed to describe the current status, the attendant challenges to growth and the future direction of the tourism sector. As such, this section employs a more qualitative analysis of the contexts and broader issues that sit behind the topics/issues that were discussed; it also notes some aspects of those topics/issues which were conspicuous by their absence in the interviews. The discussion is in two parts: Nature of the Tourism Sector and Protecting our Brand.

NATURE OF THE TOURISM SECTOR

A notable feature was the lack of engagement of some of the respondents beyond their own segment of the sector, region or market. There were also variations in breadth of respondent's viewpoints – e.g. some look at tourism quite globally, some look at the New Zealand-wide picture, some are focused only on their own patch, while some combine these viewpoints (i.e. consider their own direct involvement as well as having a New Zealand-wide view).

The 'nature of the tourism sector' was referred to continually and was posited as both a cause and effect of many of the issues and challenges affecting the sector. Most commonly, for example, issues were raised associated with the lack of cohesion in a sector made up of numerous small businesses. Numerous financial, staff, skill and time pressures on small business in general (i.e. not just because they operate in the tourism sector) limit capacity for growth and impact on their resilience to changes in the market or to global events. While for most, growth was a key business aspiration, on the whole they did not appear to have given any concrete consideration to how this might be achieved.

There is considerable fragmentation in the sector across a variety of categories and scales. Vertical fragmentation occurs from national government and organisation level, down through RTO and local government level to the individual tourism business level. Added to this is horizontal fragmentation across numerous parameters including business levels (e.g. different sizes, scope, and geographic spread), and tourism segments (e.g. accommodation, activity and transport). In turn, each of these cater to and interact with different market segments (e.g. FITs, backpackers, high-end, cruise, Japanese, domestic visitors, and so on). Geographic fragmentation also contributes to considerable inequalities, for example, of visitation at regional and destination levels. Attitudes to this varied according to how 'lucky' a region or destination was in respect of their attractions or their geographic location; some were also more proactive in their marketing. At the individual tourism business level, the sector fragmentation is exemplified by the variation in opportunities for individual businesses to have their say. The RWC was suggested by several respondents as an example of fragmentation, i.e. there is perceived to be considerable disjunction between the RWC organisers and the tourism industry.

The sheer scope, scale and spread of the tourism sector as a whole across the New Zealand economy both contributes to its fragmentation and its influence on New Zealand society. While the nature of

tourism in a broader sense also presents challenges to the cohesion of the sector, it is also seen as a positive characteristic:

- *“The fact that tourism touches down in so many places across the economy makes it hard for it to be completely unified”.*
- *“Sometimes when you are asked what you do and you say you are in tourism – it is such a blanket statement – it is almost like saying you are a human. The flip side of that is that, in general, the people skills of the average tourism person are far greater than in any other industry”.*
- *“It is massively diverse but it is still pretty collegial”.*

Overall, the tourism sector appears to be one which ‘looks back and breathes a sigh of relief’ rather than looking forward and initiating change, i.e. it is reactive rather than proactive. While respondents acknowledge that there is always going to be something to react or respond to, there is also considerable confidence that they can get through a variety of challenges and upsets purely because they have done so in the past. Although the Christchurch earthquake is perhaps one of the biggest challenges to face New Zealand tourism, most of those interviewed were not directly involved, and it did not feature as a significant challenge. Across the wider tourism sector, positives from the Christchurch earthquake were that it forced the sector to be more proactive and to work together in a more unified way than is usually the case.

The tendency to look backwards also featured when respondents talked about the changing markets in New Zealand tourism – i.e. while there is widespread acceptance that the international markets are changing there was also a strong sense in the interviews that many operators were also clinging on to the hope that the old markets will continue to be around – as they have been in the past – in order that their current business survives without having to make any changes. They did, however, acknowledge that there would need to be changes in the New Zealand tourism sector at a more remote level, i.e. these changes did not necessarily apply to them. There was also a considerable amount of talk about needing to make changes, or to do things to accommodate new markets, with very few suggestions as to who might make these changes, and how they might be done. Changes were also commonly discussed in a very generic sense, e.g. the potential need for *“new products”* to cater for new markets, while noted by the majority of respondents, was not discussed as a concrete suggestion beyond the recognition that the Asian markets like to *“shop more”*.

Despite the lack of action, however, many people do consider the bigger picture of tourism growth and appreciate the impacts global events have on New Zealand tourism. As one respondent noted, with respect to the changing air capacity, for example, *“the real question is whether we are the master or the servant of our future because air capacity/air routes are actually what drives numbers and asks the question as to what extent New Zealand is the master of our own destiny”*.

A need for greater coordination was mentioned with respect to multiple segments of the industry and most of those interviewed appreciated the need for cohesion and working together. Again, however, few appeared to have any clear sense or idea of how this might happen or who might lead it. This came out in a variety of ways across the interview data – e.g. as noted above, the need to cater to new markets was talked about as if it would be others doing that. There is some scope for partnerships within and across the tourism industry as a whole with regard to targeting particular

markets – Te Papa, for example, have aligned their own visitor strategy with those of Positively Wellington Tourism and Tourism New Zealand as they can identify having the same market. One respondent noted that there needed to be some *“alignment between the strategy of Tourism New Zealand and the regional tourism strategies”*.

Questions were also raised as to who should take responsibility for educating the industry – teaching them what the new markets might want, teaching them how to effectively use social media and new internet technologies and who should take a leadership role in a more general sense. A number of respondents commented that it would be useful to have a leader (beyond states of uncertainty or for big events like the RWC); it is important, however, that this leader is *“someone with one clear voice”*. In some regions, RTOs appear to be already working well as the primary conduit between the vertical and horizontal layers of the tourism sector. There is some debate, however, over whether this should be their role. For the RTOs themselves, taking a proactive role requires substantial funding which, in turn, requires a good relationship with local government.

This raises bigger issues over who should fill which roles in the industry and, again, is challenged by the nature of the industry itself. These interview data showed that issues are fragmented across market segments, industry segments, roles and scale of engagement in the industry (i.e. national, regional or local level) regional location and personal experience in the industry. This creates tensions within an industry which is perceived to be lacking in credibility and appreciation across the wider New Zealand society and economy. Several comments were made about the usefulness of having the PM as Minister of Tourism – one respondent saw it as *“a fundamental element in our ongoing prosperity and job creation opportunity for our people which may not have been addressed as well as it could be”*. As another respondent noted, *“tourism is an increasingly important part of the New Zealand economy”*.

PROTECTING OUR BRAND

The other key message that came out in the Lincoln interviews was the need to protect what we have, i.e. protect the multiple environments in which the tourism sector operates and which they represent. The sustainability of this brand is both dependent on and reflected by:

“A good combination of a sophisticated and well-cultured, well-serviced society that has still very much protected its core integrity around the environment, around how we deal with people, and that we still retain that New Zealandness in a lot of things we do”.

Overall, the physical environment appears to be primarily considered in terms of how important it is to the tourism industry, i.e. a strong natural environment is part of our promotional and market advantage over other destinations, rather than something that needs to be inherently protected. In the interviews when the natural environment was mentioned, for example, it was overwhelmingly in terms of how important the ‘clean green image’ was in promoting New Zealand and how lucky we are to have such a diverse natural landscape. The majority view appears to be that, as a ‘brand’, New Zealand should remain clean and green and 100% Pure.

While tourism is seen as an integral part of the economy, culture and landscapes of New Zealand, it is interesting that the *“environment”* itself did not feature much when respondents were talking about tourism and little consideration was given to longer term global changes such as the impacts

of climate change and peak oil. Climate change was discussed in interviews in terms of general risk preparedness only when it was specifically asked about – peak oil was not specifically asked about and was not mentioned in any interviews (as noted earlier, only one person added carbon tax to the business costs examples). Also, as noted earlier, the high environmental cost of long-haul travel was perceived to present less of a challenge to New Zealand tourism, than the financial cost of travel to New Zealand and the competition from other international markets. There was also a perception that changing markets might challenge the New Zealand brand, with a strong underlying inference that these markets were not as ‘good’ as those we currently rely on.

The prominence of the physical environment in the New Zealand brand creates some tension with regard to the role played by people in New Zealand tourism. Most respondents, for example, noted the importance of the cultural and social landscapes of New Zealand, and the ways in which these impact on visitors’ experiences in their ideal vision for New Zealand tourism and yet also recognised that the brand did not always reflect this. Also, although the human environment of New Zealand is seen as an important part of ‘who we are’ and of ‘what we have to offer’ international visitors, there is some tension between presenting visitors with the ‘real Kiwi approach’ as opposed to offering professional levels of service. In a practical sense, one of the very real issues and challenges to the sector surrounds the quality and level of service we offer. Again, this relates in part to the overall lack of recognition of the importance of the tourism sector – in terms of its economic and employment value – by New Zealanders. The flip side of this, however, is that parts of the tourism industry do not appear to respect the value of New Zealanders as visitors either.

CONCLUSION

This State of Sector 2011 collates quantitative data from *TIA Insights* and qualitative data collected via a set of interviews with a range of people involved with, and within, the tourism sector. As such, the qualitative data can be used to 'interpret' the facts presented by the more statistical industry analysis. Although a similar set of issues and challenges were identified by both approaches the more in-depth qualitative approach taken in the Lincoln University interviews showed that while visitor numbers, market mix, adoption of social media, and any number of other tourism parameters, may be changing over time, the impacts of these changes are far from uniform. Many of those working within the tourism sector have limited views of the sector as a whole, and quite simply some issues and changes either do not matter or do not have any impact on their business or segment of the market. However, the industry statistics and quantitative tourism measures examined in the TIA analysis (and presented to their association members through the monthly and quarterly *TIA Insights*) is an important and useful means of keeping this 'fragmented' industry informed of its own status.

TIA represents multiple segments of the tourism sector and the selection of the interviewees for the Lincoln interviews according to the VICE Matrix (Table 1) was an attempt to include a broad representation of different viewpoints. The detailed interview data that resulted highlights the size and scope of a sector which covers a myriad of activities, people and locations around New Zealand. While the timing of the Christchurch earthquake necessitated its inclusion in the collection of data by both TIA and in the Lincoln interviews, the reality was at the time this report was being prepared the full impacts of the earthquake had not been realised.

Overall, the key messages that emerge from this analysis show that the tourism sector is, in its very nature, fragmented and that this fragmentation acts as both a cause and effect of many of the issues challenging it. Greater cohesion across the sector can be achieved through increased coordination and a more unified approach across numerous parameters, including education (within and beyond the sector), leadership (particularly a more defined leadership role) and the adoption of more proactive approaches to the changing tourism environment. The following summary outlines these key messages with respect to the changing tourism environment:

The Christchurch earthquake experience

- Showed the importance of having a crisis management plan and an ability to adapt quickly
- Having common goals adds cohesion and the aftermath of the earthquake showed the effectiveness of coordination across the sector
- Demonstrated the need for stronger ties between the private sector, central and local government where common interests overlap
- Demonstrated the speed with which business levels (revenue) can dissipate
- Presents an unprecedented opportunity to revitalise the Christchurch proposition to visitors and to be even better than it was

Markets

- The markets are changing – both the market mix and the demands of each market itself
- There are issues surrounding the education of those involved in the tourism sector to adequately deal with these changes (e.g. understand the needs of new markets)
- There has not been much action to respond to market changes (e.g. product development)
- The domestic tourism market is being severely short-changed by many in the tourism sector

Delivery

- Service issues – training and recognition of the value of tourism careers
- Staffing requirements – skill levels an issue
- Information Technology and social media use is very ad hoc and often ineffective
- The tourism sector does not embrace all aspects of the market, e.g. domestic tourism is not always well-respected
- There is also a lack of respect for the new visitors, i.e. there is a strong sense that those arriving on budget airlines and the new markets are not as ‘good’ as the more traditional markets

Importance of tourism

- The credibility of the sector with the wider New Zealand public
- Partnerships beyond the tourism sector and within tourism would both strengthen the position of the tourism sector and raise its profile
- Partnerships and coordination at different levels of the tourism sector are required (e.g. within a region with councils or across scales, i.e. between regions and at the national level)
- The tourism sector speaking with a ‘common voice’ is vital

Vision

- Stronger leadership
- Strategy is talked about a lot, but appears to be rarely followed by tangible action
- Lack of engagement from those within the sector as a whole
- Short-sighted nature of vision

Structure of the sector

- Education is required across the sector (new markets, product development, service delivery, social media and IT)
- Often little awareness of the sector beyond its own doorstep
- Need coordination at different levels
- Starting to see some useful partnerships (e.g. as a result of the Christchurch earthquake, by some proactive RTOs)