



STATE OF THE TOURISM SECTOR

2012



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PURPOSE

The Tourism Industry Association New Zealand's (TIA) annual State of the Tourism Sector 2012 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 the Tourism Sector 2012 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

\$23 billion

total tourism expenditure for the year ended March 2011.

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.

No.2

export earner for the New Zealand economy.

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 fewer than 12 months.

16.8%

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

Total tourism expenditure reached \$23.0 billion for the year ended March 2011¹. International tourism is one of New Zealand's largest export earners, recording export income of \$9.7 billion in the year ending March 2011. Complementing the tourism sector export earnings is the \$13.2 billion that is generated for the economy through domestic travel.

Almost 1 in 10 New Zealanders

are employed in the tourism sector.

International visitors generated \$662 million of the total \$1.7 billion in goods and service tax (GST) revenue paid by visitors for the year ending March

¹Source: Tourism Satellite Account Year Ending March 2011, Statistics New Zealand

\$1.7 billion

in goods and service tax (GST) revenue paid by visitors for the year ending March 2011.

2011. Just over another \$1 billion in GST revenue is generated by the domestic travel market.

Tourism directly and indirectly contributes almost 9% of gross domestic product (GDP) for New Zealand. The sector directly and indirectly employs nearly one in ten New Zealanders (179,800) in full-time equivalent jobs.

Tourism also adds value in many other ways:

- Tourism adds value to other export sectors by promoting the 100% Pure New Zealand 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 in turn 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.

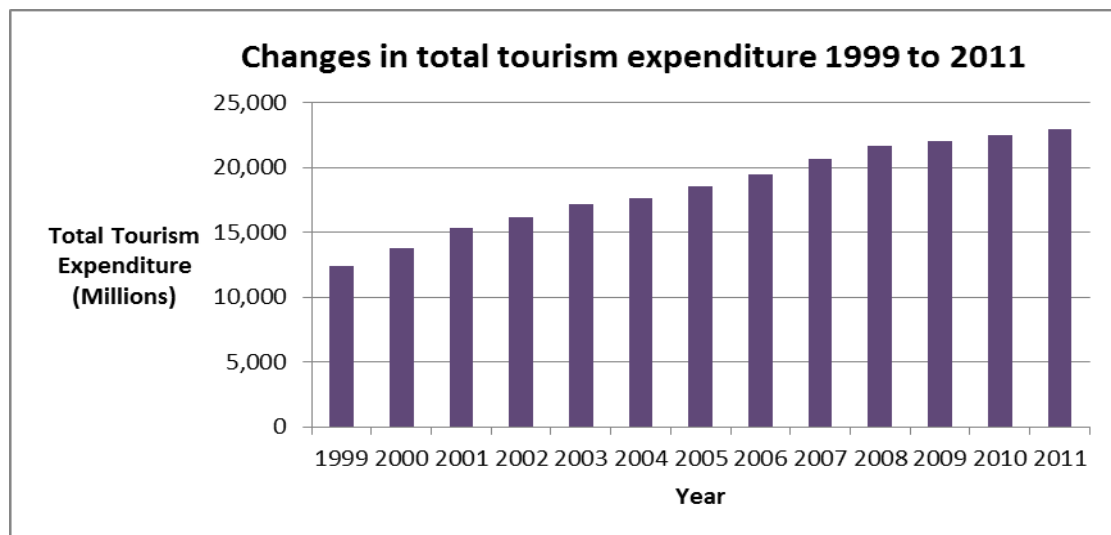
Tourism is unique as it provides economic benefits within the tourism sector and indirectly impacts other business sectors in the New Zealand economy:

- Fuel and other automotive industries are examples of sectors of the New Zealand economy that significantly benefit from visitors with total demand of \$2.4 billion from visitor retail sales in the year ending March 2011. This comprised \$345 million from international visitors, around \$1.8 billion from domestic household demand and a further \$259 million from business and government demand. The fuel and other automotive industries receive 11% of total tourism expenditure.

HISTORICAL VALUE/CONTEXT

Total visitor expenditure has increased 85% from around \$12 billion² in the year ending March 1999 to be a \$23 billion industry in the year ending March 2011 (Figure 1). Over this period just over \$240 billion has been generated for the New Zealand economy through total visitor expenditure.

Figure 1 Changes in total tourism expenditure 1999 to 2011



Source: Tourism Satellite Account, Year ending March 1999 - 2011, Statistics New Zealand

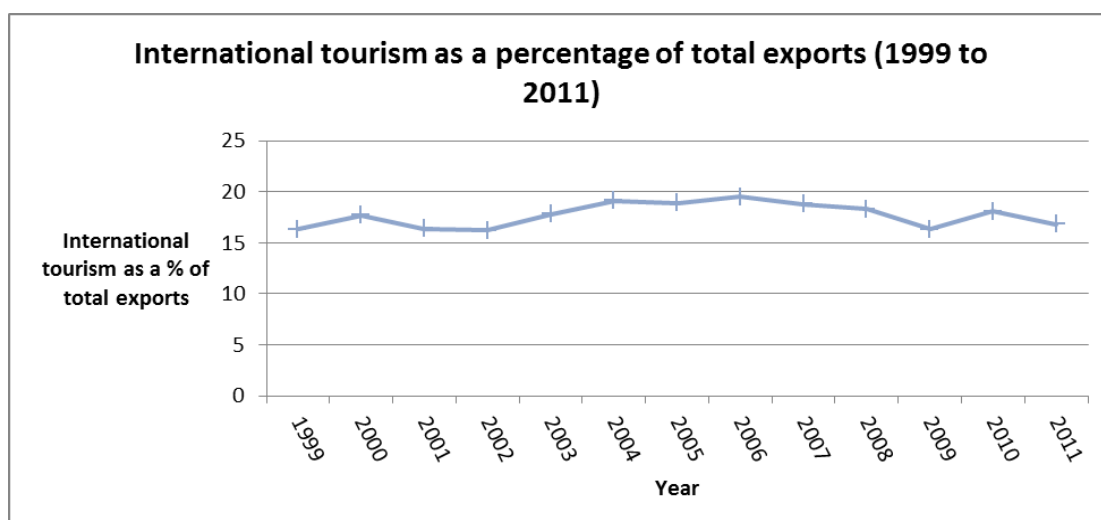
Tourism export earnings reached just under \$5 billion in 1999, but in the space of 12 years this has almost doubled to just under \$10 billion. International tourism as a percentage of total exports has fluctuated over this period within the 16% to 20% range, peaking at 19.5% in 2006 (Figure 2). The mid 2000s was a solid period for inbound international visitors largely off the back of the *Lord of the Rings* trilogy and the British and 2005 Irish Lions rugby tour.

While the dairy industry was New Zealand's number one export earner in the year ending March 2011, the tourism sector has twice been the number one export earner in the last few years, with just over \$9.5 billion in 2010 and just under \$9.5 billion in 2008. While international tourism and dairy swap places as the top export earners for New Zealand, international tourism derives almost double the amount of export income than the third-placed meat and meat products sector, which recorded \$5.2 billion in 2011. The seafood industry derives just over one tenth (\$1.3 billion in 2011) of the export income generated by international tourism.

Domestic tourism expenditure has grown by 78% over the period 1999 to 2011. In 1999 domestic tourism expenditure was \$7.4 billion, rising to \$13.2 billion in 2011.

² Source: Tourism Satellite Account (various 1999 to 2011), Statistics New Zealand

Figure 2 International tourism as a percentage of total exports 1999 to 2011



Source: Tourism Satellite Account, Year ending March 1999 - 2011, Statistics New Zealand

Total tourism employment in New Zealand was 158,600 FTEs in 2001, increasing by 13% to reach 179,800 FTEs in 2011. FTE persons directly employed in the tourism industry have increased 8% over this period with 85,200 FTEs in 2001 increasing to 91,900 FTEs in 2011. A greater increase (20%) over this period has been seen from those indirectly employed in tourism, increasing from 73,400 FTEs in 2001 to 87,900 in 2011. This illustrates the employment opportunities that have been created directly by tourism characteristic businesses and those that more broadly support the sector. Over the period 2001 to 2011 FTEs employed directly and indirectly in tourism have consistently remained around the one in ten mark of total employment in New Zealand.

In 1999, \$888 million was the total GST paid on purchases by visitors. This has increased by almost 100% to \$1.7 billion in the year ending March 2011. Over the period 1999 to the year ending March 2011, visitors have contributed \$17.6 billion of GST to the New Zealand economy.

In summary, when looking at the historical context of the tourism sector it is clear to see the solid and consistent contribution the tourism industry has made to the New Zealand economy. Even in what have been very difficult times with the on-going Global Financial Crisis and major natural disasters like the Christchurch earthquake in February 2011, international tourism has maintained between 16.3% and 18.8% of total annual New Zealand export earnings over the period 2007 to 2011. With the pending release of *'The Hobbit'* there is now an opportunity to further build on this solid base. There are also opportunities to grow tourism sector export earnings in the next few years with the 2015 Cricket World Cup and the 2015 Under 20 FIFA World Cup. With these events and getting the new market mix right, the industry has the potential to outperform the peak 19.5% of total exports that international tourism as an export sector achieved in 2006 on the back of the *Lord of the Rings* trilogy and the British and Irish Lions rugby tour in 2005.

This State of the Sector 2012 was prepared during March and April 2012 and is based on data collected by TIA over the preceding twelve months, and by Lincoln University researchers during March 2012. It is the second report in an annual series designed to monitor opinions and mood in the tourism sector across New Zealand. State of the Sector 2011 was prepared in March and April 2011 and published in July 2011.

When compared with figures for the year ended March 2010 (reported in State of the Sector 2011) tourism expenditure was up slightly (to \$23 billion from \$22.4 billion). Over this 12 month period, however, tourism slipped in position to the second highest export earner (from being number 1 in year ending March 2010) and tourism's contribution to foreign exchange earnings fell to 16.8% (from 18.1% in the year ended March 2010).

In the twelve months between the two State of the Tourism Sector reports, a number of events have had an impact on the tourism industry. These include on-going aftershocks in Christchurch, with considerable new damage in June and December. In April 2011 there was flooding in the Hawke's Bay. The grounding in October of the Rena presented further challenges to the visitor industry, particularly for the Bay of Plenty region. The worst floods experienced in the Nelson and Tasman region in decades occurred in December 2011 as tourism operators headed in to the summer season. Across New Zealand - with the exception of the southern South Island - it was overall a poor summer weather-wise. On the positive side, the Rugby World Cup (RWC 2011) brought 133,200 visitors; it is likely without this major event that overall visitor growth would have been considerably lower. The Carterton hot air balloon tragedy in January 2012 impacted the local Wairarapa community and touched New Zealanders across the nation.

The on-going global financial crisis and the impacts this has had on major inbound international markets, particularly the UK and Europe, are contributing factors to lower visitor growth. There was 4.4% growth overall (largely attributable to the RWC 2011 period) in total visitor arrivals for the year ending March 2012 against the same period in 2011. The New Zealand dollar has gained in strength over this period, which has put pressure on visitor expenditure. Other factors affecting global travel over this period included steady increases in oil prices, floods in Australia, the Chilean volcanic ash cloud and changes in the aviation sector. In aggregate, these have affected the sector.

METHOD

TIA DATA

The data presented from TIA in the State of the Tourism Sector 2012 are derived from the monthly and quarterly *TIA Insights* that were distributed to members over the period May 2011 to April 2012. *TIA Insights* provide a combination of historical data and future trend information mixed with the latest domestic and international research. 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 (TNZ), Tourism Australia, the Canadian Tourism Commission and various other sources of information, including utilising the vast amount of academic reference material that is available.

Information has also been sourced from TIA's primary research data. This includes interviews with members aimed at better understanding their views on the mood of the industry and TIA's regular *Insights* surveys.

LINCOLN INTERVIEW DATA

The Lincoln University data was collected via a series of semi-structured interviews with 16 tourism stakeholders (occupying a variety of roles in, and around the tourism sector) 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 visitor demand, whereas Industry represents the supply side. 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 by telephone between 29 February and 23 March 2012. All interviews followed the same question structure beginning with broad questions on:

- The current status of tourism in New Zealand;
- Challenges and opportunities facing tourism over the previous 12 months; and
- Challenges and opportunities facing tourism in the next 12 months.

These questions were followed by more targeted questions which addressed:

- Adding value to tourism;
- Competing internationally;
- Changing visitor profiles and new markets;
- New technologies for innovation and social media;
- Preparedness for emergency events; and,
- Seasonality.

A final open-ended question asked interviewees about their 'Vision for New Zealand tourism in 2020'.

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 targeted questions varied according to which way the interview conversation evolved. 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 two-thirds; and,
- The 'majority' indicates that comments were made by more than two-thirds 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. None of the 16 interviewees in 2012 were involved in the 2011 State of the Sector research.

REPORT STRUCTURE

The remainder of the report is structured in five parts:

1. Commentary on the status, challenges and opportunities for New Zealand tourism from the Lincoln interview data;
2. A summary of key trends observed from the *TIA Insights* programme, presented alongside responses to targeted questions from the Lincoln interviews (integrated where appropriate);
3. 'Vision for New Zealand tourism in 2020' from the Lincoln interview data;
4. Reflections on the State of the Tourism Sector which emerged from the two analyses; and,
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 TOURISM SECTOR: STATUS, CHALLENGES AND OPPORTUNITIES

This section of the report presents the Lincoln interview data collected in response to the open-ended questions. The opening question asked for comments on the current Status of the Tourism Sector. The status was then explored through specific questions on the challenges and opportunities experienced in the previous and following 12 months. Data from these questions were collated and are reported in three sections: general comments describing current status, specific challenges, and specific opportunities. Many responses addressed topics selected for the targeted questions and are discussed in greater detail in those sections of the report.

STATUS OF THE SECTOR

General status of the sector comments were roughly split between those which addressed the number of visitor arrivals (and the factors impacting on these) and discussion around the distribution of those visitors within New Zealand (i.e., variations across activity and accommodation segments, market segments and in different locations).

New Zealand is perceived to have fallen off the global radar as a desirable destination to some extent - in part as a result of increasing competition from other destinations, and in part because of economic conditions in generating countries:

- *"I don't think we are perceived as a 'must see' destination like we were back in the mid-2000s - we have certainly lost our edge"*
- *"Affected by competition from other destinations, ease of getting here"*

New Zealand is also seen as an expensive destination *"I think we could always do better - New Zealand is an expensive place to visit from a visitor perspective", "not all that cheap to come here - still an elite proposition"*. There was considerable concern over arrival figures (e.g., *"a mixed bag", "flat", "not as buoyant as we would like"*) although opinion varied with respect to the 'on the ground impacts' of the figures.

- *"Fair to say the industry is economically flat - some pockets of optimism and some pockets of potential or actual investment, but generally it is in 'holding on mode', with no significant growth and some experiencing a downturn"*
- *"Underneath the numbers it can be skewed by the fact that the visitors are actually more VFR and Australians, which doesn't filter down to the operators"*
- *"Regionally we held our own against national averages, but it is going to get tougher because the growth in visitors is not in the markets we see"*
- *"The sector I am in - the Holiday Park sector is very good - talking to other people they are not so good"*

The impacts of the Christchurch earthquake and the RWC 2011 were specifically mentioned by a number of respondents *"[the sector] has had a knock with what happened in Christchurch", "you can't compare it with a typical year - there was the Christchurch earthquake and the RWC", "season has been incredibly patchy - was good at start with RWC, but that upset normal patterns - it will bounce back though - it is just one of those tourism*

cycles". The disruption of the RWC 2011 and the weather also made it more difficult to "*pick trends*".

CHALLENGES

Overall, there were a significant number of on-going challenges perceived to be affecting the tourism sector. These included economic challenges (as a result of the global economic crisis, the New Zealand economy, and tourism business challenges), challenges associated with the impacts of specific events (the Christchurch earthquake, the weather, the RWC 2011) and challenges associated with capacity to respond to and deal with changing markets and visitor mix. Many of the challenges reported were interrelated. Also, the challenges suggested by some were perceived by others to be opportunities.

There were broad challenges around the global economy, the decrease in visitors from the UK, Germany and other European countries, especially as "*some businesses are very much exposed to the Northern Hemisphere - has been harder than expected to keep those numbers up*", the slowdown of USA visitors and the use of internet marketing (e.g. "*cheapening the product - people starting to look for those things*"). The economic situation in key markets, the strong Australian dollar (driving travel out of Australia to other places), the European air taxes, the high New Zealand dollar, and the weakness of the Pound and the Euro were mentioned by almost all respondents.

Of the other specific challenges noted, the on-going impacts (and long time frame for recovery) of the Christchurch earthquake was the most significant, affecting the sector across a variety of fronts:

- "*Perception that the whole of the South Island is damaged from the earthquake*"
- "*The loss of accommodation and conference business in Christchurch*"
- "*Tendency for some people to drop Christchurch out of itineraries*"
- "*Need to have operators think of Christchurch as a gateway and not think about earthquake damage*"

The earthquake and tsunami in Japan, volcanic ash clouds, the Rena grounding (e.g. "*operators affected by the Rena grounding - business forced to close and people cancelling holidays*"), and the weather (e.g. "*weather has been a biggie for us*", "*getting knocked around with the weather*", "*the weather and managing the media*") were also mentioned as specific challenges by a number of respondents.

A prominent theme in discussions of the previous 12 months challenges related to how "*hard it has been*". Specific challenges included: seasonality, in respect of being forgotten about by travel agents and poor business efficiencies; political and operational challenges associated with councils and regulatory issues, compliance and other costs for tourism; the cruise ship season (e.g. "*huge increase and dealing with that - we needed extra staff, extra training etc*"); loss of business revenue from lower spending visitors as "*we are a long-haul destination so [they] have to have money to come here - but people with money - even if they are coming here - are spending less*"; and, "*being more careful with costs and a lot smarter about how we are working*". Increased competition within the market as a result of fewer

visitors and changes in markets, market preferences and IT were also noted as significant challenges. At a regional level there are on-going challenges for individual tourism businesses to *“make themselves visible to tourists beyond the iconic attractions”*.

There is an expectation that the current global economic situation will continue (with some expectation that it may worsen) over the next 12 months. The global debt crisis was the number one issue for many respondents. In the longer term, economic factors (both globally and in New Zealand) are perceived to *“slow down development - [businesses] don’t want to borrow money to expand - if there is any investment it is more cautious and smaller”*. There is also an expectation of continuing challenges and uncertainty across a variety of other fronts:

- *“It won’t change much - competitive pressures, more online bookings being made, international tourists adjusting their sights to accommodate exchange rates”*
- *“The biggest challenge is the unknown - people not booking much ahead - challenge in planning staff and service levels”*
- *“Not sure what will bring international tourists to New Zealand”*
- *“Some challenges while you wait for things to happen and change”*

Other challenges reflected variations in the nature of respondent’s sector engagement and included issues surrounding work permits in areas where workers were in short supply, i-SITE revenue generation, *“work on business efficiencies - cut down layers of distribution, layers of paperwork in office”* and *“keeping our own operation costs down - looking at building leases, developing and improving relationship with Council to get more funding”*. The only environmental challenges mentioned were in respect of *“getting the market to appreciate the fact that there are costs associated with operating in wilderness areas, compared to cities”* and the potential environmental impacts if there was a cruise ship ‘event’ (e.g. *“we only need one cruise ship to go [down]”*).

Domestic tourism has been a challenge in the last 12 months and is expected to continue as such because of *“the New Zealand economic climate and hesitancy for domestic travel”*, the fact that *“bread and butter domestic visitors are not spending”*, and *“if the domestic economy doesn’t pick up we may see fewer New Zealanders - the weather also affects us and it affects domestics more than international visitors”*.

OPPORTUNITIES

Opportunities were discussed in respect of overall visitor numbers and perceived improvement in some markets, the attractiveness of New Zealand to new and niche markets, and the development of new facilities. There were also perceived to be opportunities surrounding the use of new technologies and social media.

In the last 12 months the availability of direct air services, (i.e. increasing air capacity, including *“some new domestic flight routes”*) was seen as an opportunity for growth, one respondent noted that the *“distribution of the airlines is key to the whole industry”*. A number of respondents commented that there have been some signs of improvement over the last 12 months from the USA and southern European markets. Growth in the number of

Spanish visitors was attributed to earlier *“tourism marketing forays - it takes two-three years for the cycle to move through”*. These trends were expected to continue into the next 12 months, with several respondents reporting that they had a *“feeling that visitors from some traditional markets (i.e. the USA and Japan) are starting to return as a result of improving home economies”*.

Others saw opportunities in niche products (e.g. *“interest in Christchurch - earthquake as a visitor attraction”*) or coming out of newer markets *“the opportunities have been coming out of Asia - Malaysia, China”, “Air Asia X - non-Asians were using those flights too, and people using those flights were more adventurous (which suit New Zealand)”*. Also, the *“whole camping thing seems to be in vogue and people are really recognising New Zealand as a great camping destination - that has been more of an opportunity in the last five years”*. Development of niche products necessitated *“engaging with niche groups more - we can engage better - rather than just shotgun as we have been - trying to be all things to all people”*.



Photo: Following the dream by Silvina Guardia of Magic Memories, Bay of Islands, Northland

Overall, the opportunities over the last 12 months have been mixed geographically. Some regions and specific destinations benefitted from displacement as a result of the Christchurch earthquake. The cruise ship market presented many regions with new opportunities, although there was some concern over the impacts of large numbers of visitors staying for a relatively short time.

Future opportunities for either New Zealand-wide tourism, or for multiple regions, were seen in the growing interest in cruise tourism, the conference and incentive markets, niche

markets at the upper value market end, and the new cycle ways. The new cycle trails, in particular, were perceived to offer several regions promising economic opportunity in respect of *“both domestic and international visitors”* and were seen to be *“very complementary to our client base”*. Others noted opportunities around an extended or busier shoulder season and particularly *“smoothing out a very narrow peak that is oversubscribed”*. Notable amongst the general positives were no interruption caused by RWC 2011, the ski season, and increased interest in *“special interest tourism”* by TNZ. Almost all respondents commented on the opportunity presented by the release of *The Hobbit* movie and its potential to increase interest (*“profile lift”*) in New Zealand as a destination.

Many of these opportunities, however, were perceived to be limited in terms of bringing universal benefits across the tourism sector (e.g. *“everyone tells us about the opportunities out of China, but they are not an opportunity for our niche market - we are niche and want to stay that way”*). Others saw their segment of the market as being particularly appealing (e.g. *“opportunities for Holiday Park sector because offer great deal of connectivity with customers - more appealing because people get to interact more”*).

There was an expectation, however, that any of these developments would take some time (and involve effort) to come to fruition:

- *“Probably [opportunities] with the international market - have just started marketing through TRENZ and been involved with some other marketing networks, but realise that it takes a few years to see benefits”*
- *“Asian (particularly Chinese) tour groups would be good for the South Island, but we need to market more aggressively to get them here”*
- *“Need to get our head around targeting those niche markets more”*

There were some opportunities surrounding the development of new facilities, infrastructure and attractions in New Zealand. The Auckland convention centre, a new hotel and conference centre in Nelson and new hotels in Christchurch were specifically noted, although the latter was perceived to be beyond the 12 month time-frame. In a number of instances respondents referred to their own redevelopment (e.g., *“Our big one is our own redevelopment - it will be popular, visitor satisfaction will go up several points, value for money will go up”*).

Many noted the need to focus or instigate changes themselves, this was especially the case with regard to growing domestic tourism (e.g. *“we are going to do a much stronger domestic drive in the next 12 months”*), and in respect of business development opportunities (e.g. *“more smarter marketing - getting more share of the pie, more extensive use of social media, smarter working practices”*, *“weed out some weaker links in staff - consolidate”*). One respondent noted that there was some useful *“consolidation of operators”* as a result of the downturn.

There were considerable opportunities surrounding the use of new technologies and social media with many respondents *“trying to embrace IT, get social media part going”* although there was also some concern that while *“web traffic is certainly high, there is also a lot of*

competition on the web and the challenge is to convert to sales". The increased uptake of internet marketing services (such as GrabOne) was perceived to be "both an opportunity and a threat - there are opportunities for some quick revenues".

KEY TRENDS AND RESPONSES TO TARGETED QUESTIONS

This section of the report provides a summary of the key trends observed in the last 12 months in *TIA Insights* reports alongside the data from the targeted questions from the Lincoln interviews. While the targeted questions were developed from the TIA key trends, the Lincoln approach was more thematic. As a result of this, three of the interview topics covered - added value, preparedness for emergency events and seasonality - were not specifically addressed in the TIA analysis (although they featured across a number of key issues). For the other topics in this section, subheadings indicate whether the data are from the TIA analysis or from the Lincoln interviews. Integration of the data from the two sources is presented in the Reflections and Conclusion sections of the report.

ADDING VALUE

When asked about ways to add value to New Zealand tourism, responses varied between those which addressed adding value within their own segment or business contribution, and adding value to New Zealand tourism generally. At the individual business scale 'added value' was associated with offering a *"point of difference"* within the crowded New Zealand tourism product space. At the New Zealand destination scale it involved extending that point of difference offshore, to offer visitor products and experiences that are *"uniquely"* New Zealand.

A variety of comments were made regarding the need to improve access both to - and around - New Zealand. This included physical access to New Zealand (e.g., *"create access from offshore markets into and around New Zealand"*, *"remove the need to backtrack on itineraries"*) as well as improving customer access to information and marketing. Destination marketing was perceived to be important. It was also vital to *"make products easier to find in marketplace"* and provide *"easier access to the web-surfing public"*. One respondent suggested this necessitated *"getting in people's faces - putting the New Zealand story to them"*. Networks and collaboration were seen to be very important in facilitating access:

- *"More long-haul carriers into the South Island, from a well-connected network of carriers, would have a lot of flow on benefits"*
- *"Work with others to promote products together"*
- *"Offshore marketing with partners in tourism networks"*
- *"Better networking and access across client bases in cyber space"*
- *"Consolidation across on-line booking systems to make it easier for operators and visitors"*

Greater collaboration was also perceived as a means to raise the profile of tourism within New Zealand and benefit tourism operators. One respondent noted that *"working together with councils more would add value for the tourism operators"*. Another suggested that better networking would ensure that *"even tourism staff understand New Zealand tourism better"*. Several comments were made about the need for councils to understand business needs and compliance issues better, and the value for tourism businesses of making *"life easier in the regulatory framework"*.

Value can also be added to New Zealand tourism through the development of new products. This includes offering *“quality products with an environment tag”* and *“setting the [environmental] bar high”*, *“expanding and offering product that will fill up the shoulders”*, *“offering something that is unique in New Zealand”*, and *“developing completely unique New Zealand events”*. A number of respondents offered a regional perspective and noted the value of having diverse product offerings and good access (e.g., via an international airport). Generating extra economic activity through the convention market, and through other segments of the market which broaden the economic benefits of tourism were also seen as adding value. Some noted that it was important to *“get pricing right - e.g. reduce undercutting”*.

A further set of comments addressed the value added through hospitality, service and culture. This included having *“a consistent hospitality and product on offer”* and *“recognising that warm, friendly people are as much part of New Zealand as the scenery”*. This recognition is required both within, and beyond, the tourism sector in that *“everyone the international visitor comes in contact with is - in reality - a hospitality worker”*. Several respondents commented on the appeal of products which exemplify New Zealand culture and of the unique welcome New Zealand can offer visitors:

- *“A vehicle through which can demonstrate New Zealand-ness and introduce what is unique and special about New Zealand to visitors”*
- *“Clean, green uniqueness of country that offers different experiences and more personalised service”*
- *“The world as it used to be - a feeling of community, feeling free, no commercialisation”*
- *“We are safe, our people are our community, our values - that appeals to the education market”*

There was widespread support for developing greater appreciation and awareness of the value of tourism across New Zealand, including *“taking pride in staff”* at a tourism business level. One respondent noted that *“you have to keep advertising - really educating people about what is out there - there are a lot of layers to it, but tourism is a huge earner (for the country) and is crucial”*. Overall, there was perceived to be a lack of understanding by the general population of the value of tourism to the economy and of how far that money goes through the economy (e.g., *“even councils don’t understand the potential [of tourism] and there is a lack of recognition of the investment needed into RTOs particularly”*). With councils, however, understanding tourism value (and its importance) needs to go beyond awareness to include *“help in a practical sense - working together to offer better, bigger and more professional tourism services”*.

There was also perceived to be a need to increase community awareness of the importance of tourism. Suggestions on how this could be achieved also encompassed the role played by local communities in tourism, *“Local events help showcase New Zealand culture and are valuable because they make people want to stay and live here, generate a sense of pride and can share experiences with international visitors”*.

A number of specific practical steps for adding value were noted, including: “clamp down on freedom camping - impacts on perception that New Zealand is a cheap country”, “brainstorm how to service and welcome the campervan market - instead of trying to ban them”, “more funding for i-SITEs - for facility improvements and staff training”, “take a stronger sustainability stance in events” and “make sure we have the infrastructure for tourism”.

COMPETING INTERNATIONALLY

TIA ANALYSIS

World competition for the visitor dollar continued to heat up in 2011. In our *May 2011 Insights* we highlighted South Africa’s new cohesive strategy for tourism growth in the next 10 years. This included a strong focus on the BRIC (Brazil, Russia, India and China) markets and key North American and European markets. It was noted that New Zealand needs to have a competitive edge in the unique products that are on offer to the emerging BRIC and traditional target markets.

In the *June 2011 Insights* it was reported that the inaugural Australia-China Tourism Summit was held in Australia. This was part of the Australian Government’s \$30 million commitment to the Chinese visitor market over the next four years. This provides Australian tourism with a further opportunity to make the most of a market that’s already worth over \$3 billion a year to Australia, its most valuable market. This can be seen as a potential opportunity to leverage off dual destination growth opportunities provided by Australia’s commitment to the Chinese market. It also shows that Australia is investing heavily in growing this important visitor market and New Zealand must do the same to remain competitive.

The upwardly mobile in India are seeking newer, better, more exotic destinations. The *June 2011 Insights* showed discerning Indian visitors have begun travelling to more exotic places, where the trickle is yet to become a crowd. Sensing this, even old favourite country destinations have begun trying to create new spots and places for a new crop of visitor to travel to. With competitor destinations creating new areas and activities to better accommodate the needs of this major inbound market, it was highlighted that New Zealand operators needed to consider the needs and desires of Indian travellers in their planning to ensure New Zealand is on the Indian visitor’s radar.

TIA’s October/ November 2011 Insights revealed Qunar.com, China’s biggest travel website, roundup of Chinese mainlanders’ travelling and hotel booking habits. According to Qunar’s database, Hong Kong and Taiwan are the two most popular destinations for Chinese visitors. Sydney also made the top 10. The four main reasons for their preferences were no language barriers, geographic proximity, abundant shopping opportunities and excellent food. This highlights the strong competition that New Zealand is up against in the current environment.

TIA’s February 2012 Insights also highlighted that competition continues to heat up for the Chinese visitor market. It was found that it is important to factor in that competitor destinations are also very focused on growth out of the Chinese visitor market. A growing number of Chinese travellers are choosing Canada as their destination, making it Canada’s fastest growing inbound travel market. New Statistics Canada data reveals that China has

surpassed Australia as Canada's fifth largest inbound tourism market, behind the US, the UK, France and Germany. The US is also committing to a national strategy to increase travel and tourism and spur job creation in the US. In particular, the US government has committed to increasing its visa-processing capacity for Chinese travellers.

In the *April 2012 Insights Quarterly*, a TIA survey asked members what the challenges were to raise the bar and increase New Zealand's competitiveness for a greater share of global visitors. Competitive challenges reported in the survey related to marketing and events, cumulative additional costs on travellers, service levels, pricing, adapting business processes for new markets, and air connectivity:

- *"Cost, distance and time are real challenges as many people will not come for a short-term holiday. There should be more encouragement to market areas where people can come and spend more time and have a holiday, rather than racing around trying to see all of NZ in three weeks, too much emphasis on marketing the whole of NZ as a destination"*
- *"We are generally a long haul market so it's never going to be easy, combinations of exchange rate, fuel costs impacting airline fares and GFC still lingering"*
- *"We need to be able to offer great customer service to people from other countries, particularly those that are non-English speaking. Also need to ensure that our product offerings are providing value for money. I think there is too much of a focus on the high-end consumer"*
- *"Get the price down across the board, maybe package up. Every single visitor I meet says we are the most expensive country in the world to eat, buy clothes, stay and do activities"*
- *"More incoming airline options. Better links to other hubs. Try and cash in on a tack on 'super saver Trans-Tasman deal' for long haul travellers to Australia. Once here they realise they need more time and will plan to come back again and stay longer"*

Many of these competitive challenges were also reflected in the Lincoln interview data.

LINCOLN INTERVIEW DATA

In the interviews, competing internationally was discussed in three ways. These were the New Zealand brand, competing internationally in marketing New Zealand, and how well New Zealand competes as a destination.

Having a consistent brand was seen positively. The 100% Pure brand was generally accepted as appropriate and was still strong, although a variety of additional factors the brand could (and should) encompass were suggested, *"need to be 100% organic and 100% pure experience"*, a little bit *"exclusive indulgence"*, *"need to emphasise the variety that sits under the umbrella"*. There was one suggestion that something like *"off the edge"* (which had been suggested in the past) would be a good brand if it were to be changed, as a brand it was perceived to be *"a bit edgier"*. One respondent thought that the *"brand is OK, but the message has fallen short - we offer the outdoors and a range of activities - very diverse for such a small country - that is the beauty of the New Zealand offer - you can do so much in so*

little time". It was notable that only two respondents used the '100% Pure You' slogan, one of whom noted that the *"change to '100% Pure You' was just semantics"* and that they *"had always liked the 100% Pure"*.

In respect of competing internationally in marketing New Zealand, most respondents considered that New Zealand does well, given a relatively small (especially compared to Australia) marketing budget. Some thought that *"we could learn from the way Australia market themselves"* and *"compared to Australia we are probably underperforming a bit"*. Overall, compared to other countries, and other tourism industries, New Zealand can *"hold our head up"*. There was, however, perceived to be some potential to market New Zealand better. One respondent noted that we need to be careful not to be too focused on online marketing as *"in some markets the online market is tiny and even if people are online the noise [online] is loud"*. The importance of more traditional word-of-mouth advertising was noted. The potential to market New Zealand 'better' was noted, and a number of suggestions were made about improving the New Zealand image and, again, of making more of our *"uniqueness"*:

- *"Marketing is too mono - looks cold - we have a diverse country, regions, climate, topography, colours and feel across New Zealand"*
- *"We need to get the brand out there a bit more - on television, billboards - we need to do that more in some of our markets"*
- *"It is difficult to compete if other countries do massive marketing campaigns - things like The Hobbit and LOTR help us - maybe need to do more to incorporate those into New Zealand marketing campaigns - put us in a new marketing light"*
- *"A bit concerned about the focus on China - don't want Tourism New Zealand to forget about traditional markets like USA and the UK"*

New Zealand was seen to be competing with other destinations across a range of factors, including ease of access (e.g. being a long-haul destination, airfares and value for money on the ground), the high price of the New Zealand dollar, the disadvantage of closeness to Australia (which is also expensive and offers a dual destination proposition), and the global financial crisis which brought us *"down the bucket list"*. Many of these factors were perceived to be beyond our control. The Eurozone crisis and the economy in the UK, for example, affect potential spend by those visitors. They are also *"presented with a lot of choice that is not long-haul"*. One respondent noted that all destinations are *"in the same boat"* as regards these economic issues, another noted that *"external factors impact on people coming here, but our product is good"*.

Some thought that New Zealand has competed well in the past *"but there is a lot more choice out there now"*. A number of specific destinations were noted as competition:

- *"As an outdoor and slightly more adventurous destination we are competing with SE Asia and Chile"*
- *"Maybe [we] need to do more work with our offering - South America and South Africa have come to forefront with things like FIFA World Cup"*
- *"Competing with Canada and Australia"*

- *“Domestic tourism is competing with outbound travel”*
- *“People are travelling locally - so competing with the Mediterranean with the English, South America or Alaska for North Americans, SE Asia for a lot of Australians and for Indonesians, Malays and Indians”*
- *“Competing with Australia, other parts of Asia are becoming popular, the exchange rate, the USA is more popular”*
- *“Competition out of South America and developing countries”*

While the variety and diversity of New Zealand was mentioned as a competitive advantage by a number of respondents, this was challenged by more practical concerns *“we have wide variety of products and beautiful countryside, but are not competitive in pricing - expensive on the ground”*. Some thought that the New Zealand marketing message needed to be broader *“we need a bit more balance in what we offer - not just Queenstown and Milford Sound - also cities”* and that we *“have a fantastic welcoming culture and need to remember that some visitors like a bit of everything”*.

Others thought that New Zealand provides an *“internationally ready product - can compete on the international stage”* and that we *“meet international visitor expectations”*. One respondent noted that *“we compete well against Australia (in their domestic market) - they envy us in that, we are cute to the USA market, in the UK we are reasonably competitive in our uniqueness and our PR stories (e.g., The Hobbit)”*. A variety of comments were also made around market understanding, product delivery and service levels:

- *“Other destinations look a bit snazzier - have to cut through the clutter”*
- *“We need to understand the market better - to provide what they want - need to ask ourselves if the product we have is what the market is now looking for”*
- *“Based on USA feedback we have to lift our game on service”*
- *“We need to be more aware of tourists’ insecurities and understand other cultures more”*
- *“We are competing with South America and South Africa - our service falls short and we don’t understand tourists’ needs”*

Several respondents discussed the importance of being realistic - and *“not too idealistic”* - about what can be achieved, and that the *“reality”* was that *“the phenomenal growth New Zealand tourism had experienced for many years would never have continued”*. Others commented on the need to have a clear idea of what it is we want (e.g., *“fewer people who are paying twice as much? Or more people who don’t want to pay?”*) Overall, there was support for the *“recent change of view towards yield, as opposed to volume”* although only a few respondents specifically talked about the value of visitors in terms of financial yield.

TIA ANALYSIS

Evidence was gleaned of our declining traditional markets in our *June 2011 Insights* with research supporting the negative outlook for the UK visitor market. It was reported that two in five Britons were planning not to take a summer holiday in order to improve their bank balance. ING Direct indicated its research also suggested that the rise and rise of the staycation has been halted as Brits deem UK hotels and attractions as unaffordable.

Changing composition of visitor markets appears to be engrained as a long-term trend. TIA *September 2011 Insights* presented details of the latest Tourism Strategy Group NZ Tourism Forecasts which showed the Chinese market share is forecast to increase significantly, from 6% in 2011 to 10% in 2016 while the UK market share is forecast to decline from 9% in 2011 to 7% in 2016. Most other visitor market shares are expected to remain relatively stable over this period.

In TIA's *August/September 2011 Insights* outbound travel by Australians to New Zealand was down 18% when comparing June 2011 against June 2010, this compared with a 14% increase in outbound travel by Australians to Indonesia and a 16% increase to the USA. This indicates a growing appetite by Australians for travel to a range of diverse destinations. With their high dollar and relatively strong economy, this market also continues to show signs of discovering emerging destinations such as China. It was identified that New Zealand businesses can no longer consider that their only competitors are those countries that have a similar offering. It is therefore important to keep a check on emerging destinations that have a different product offering than New Zealand.

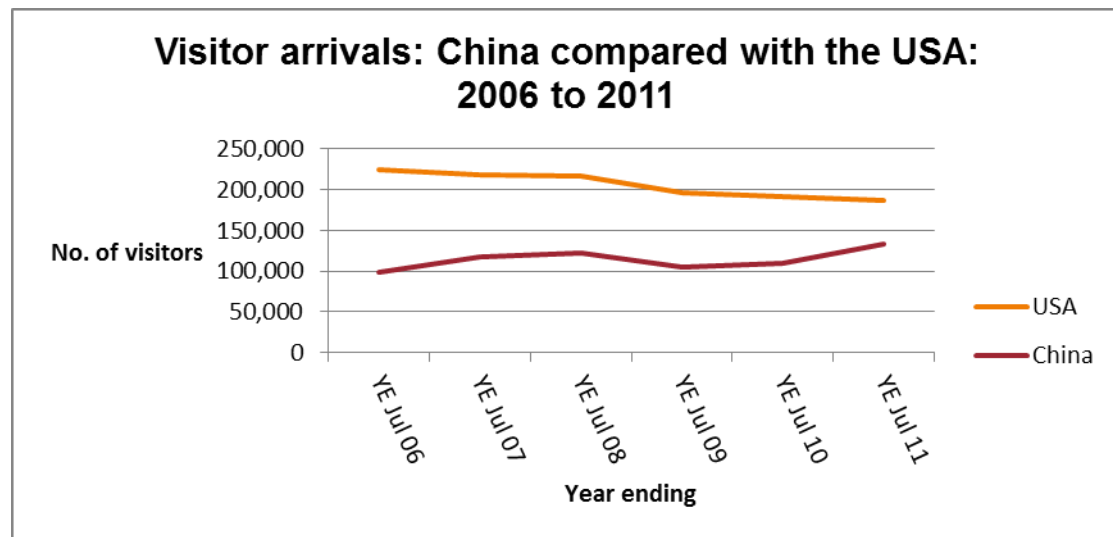
TIA's *August/September 2011 Insights* showed driving holidays are a dying fashion, with Australia's youth choosing to save money for holidays overseas over domestic weekend getaways. Domestic tourism is suffering as the number of Australians under 30 years olds not taking the 'weekend road trip' rose by 14% over the past 10 years. Destinations such as New Zealand, Bali and Thailand are increasing in popularity as 6% to 15% of respondents under 30 said they only feel like they are on a holiday when it is outside Australia. There is an opportunity for New Zealand operators to look at ways to attract the under 30 market with their own products, and to work with other operators to ensure the youth market has plenty to do when they travel to New Zealand. New initiatives are needed to further stimulate growth in the Australian visitor market. The 'Spectacular South Island Road Trips Campaign' (looked at in TIA's *October/November 2011 Insights*) is a good example of how regions can potentially increase visitor numbers, length of stay and ultimately visitor spend from our Australian visitor market. The focus to lure this market to hire rental cars or campervans to explore the South Island also provides an opportunity to engrain the regional variety of activities and icons that can be experienced.

TIA's *August/September 2011 Insights* profiled Tourism New Zealand's Asian Visitor Study. The study found that, overall, our visitors are very happy. It revealed New Zealand has fantastic products, experiences and services. However, there is a need to improve on many

aspects of the experiences we deliver. The changing dynamics of our visitors included the 'under 35 Asian power brokers' and 'sophisticated confident travellers'. The attributes the Asian market were looking for in a New Zealand holiday included peaceful stress-free experiences, pristine natural environments, clean water, wildlife and dramatic open landscapes. They have high service expectations and they need to be given clear instructions and be informed of timings of when activities will take place.

The *September 2011 Insights* highlighted that the strong growth continued to be seen from visitor arrivals from China. There were 133,304 arrivals in the year ending July 2011, up from 109,090 arrivals in the previous year (a 22.2% increase). In the year ending July 2011 there were 186,662 arrivals from the USA, down from 192,242 the previous year. This illustrates that the Chinese market is closing in on the USA to become New Zealand's third largest visitor market in terms of arrivals (Figure 3).

Figure 3 Visitor Arrivals China compared with the USA 2006 to 2011



Source: International Visitor Arrivals, Tourism Strategy Group (MED)

It was identified from the Tourism New Zealand Asia Visitor Study that the Chinese visitor is often an experienced traveller, having travelled extensively in Asia and Europe before choosing New Zealand. The emergent Chinese visitor tends to be younger, aged 25+, highly ambitious and career focused. They are also well-educated and speak at least conversational English. As an extensive user of technology, they want to stay connected and are high users of Chinese social media. They see travel as a break from the high pressured environment they live in. They want to "feel alive in the real world". The Chinese traveller fits into two travel style categories being guided tours and FIT young affluent travellers. Further opportunities from the Chinese visitor market could be gleaned from *TIA's October/November 2011 Insights*. It has been found that Chinese people often spend as much as 8% of their annual discretionary income on a single trip, far more than people in other emerging markets, according to the Boston Consulting Group (BCG). This reinforces the opportunity that exists for New Zealand businesses to generate a higher spend from this burgeoning market.

The *October/November 2011 Insights* showed an example of how businesses are seizing the opportunity to look at programmes where businesses can implement to improve their product offerings to the Chinese and other emerging markets. An example can be gleaned from a programme that has been launched by the Hilton Hotel Group across 51 hotels in 13 countries to welcome Chinese visitors to its hotels. The aim is to “*meet the cultural expectations and needs*” of Chinese business people and visitors. This includes ensuring staff learn basic Chinese and ensuring that room facilities offer amenities such as Chinese tea and a Chinese TV channel. In *TIA’s April Insights Quarterly 2012* it was highlighted by TIA members that adapting business processes for new markets is important. Operators commented on the need to “*provide non English speakers with information sheets in their own language, to facilitate the understanding of their experiences including activities, museum and guided tours*”. There was also an acknowledgement that “*we need to cater well for the growth in the Asian markets and provide what they are looking for*”.

Golf tourism was highlighted as an important niche market to the visitor economy in the *June 2011 Insights*. The average total spend by international visitors who played golf for the year ending March 2011 was \$3181.20. This is 31.6% above the total average expenditure per visitor (all markets) which was \$2418 for the same period. Over the 2006 to 2011 period, the average total expenditure per international visitor for those who played golf peaked at \$3967.50 in the year ending March 2006. It was also identified that China is a rapidly emerging golf destination and will also become one of the most important outbound markets for golf travel worldwide within a decade. As the popularity of golf expands meteorically within China, we need to ensure that Chinese golfers venturing abroad enjoy the best possible golf experience.

In *TIA’s August/September 2011 Insights* future trends of the luxury market were highlighted alongside increasing demand from the BRIC (Brazil, Russia, India and China) countries, especially from China. The Chinese market is considered the key driver of global luxury, with an estimated 250 million Chinese now able to afford luxury products. Luxury travellers are very clear about their preferences. Importantly, New Zealand is on the radar of luxury travellers. With a growing demand from this sector, it is important for businesses to look at opportunities to adapt their products to attract this market.

Business sector travel continued to improve in 2011. The *September 2011 Insights* showed that global business travel in 2011 was likely to jump 9.2% and surpass \$1 trillion, according to a Global Business Travel Association Foundation study. That increase would follow an 8.4% rise during 2010, which more than offset a nearly 8% decline in 2009. This paralleled with similar trends being seen among New Zealand business travellers domestically.

TIA September 2011 Insights highlighted the importance of new air capacity and the corresponding growth in Malaysian visitor arrivals. When comparing Quarter 2 (April to June) in 2011 with the same period in 2010, visitors from Malaysia have almost doubled. In 2011 9980 Malaysian visitors arrived compared with 5248 in the same period in 2010.

In the *October/November 2011 Insights* the Tourism New Zealand Asia Visitor Study research revealed that Malaysian visitors come to New Zealand seeking to experience New Zealand’s culture and way of life. They want to experience New Zealand’s lifestyle first hand. They are

interested in exploring provincial towns, farm visits, wildlife/sea-life, snow, and exploring scenic and natural attractions. But often they are not getting the real experience they are after. Malaysians come to New Zealand to experience untouched, pristine 100% Pure New Zealand as well as our culture and they want to experience this at very close proximity. Malaysians are also after a very peaceful, stress-free experience in New Zealand. Malaysia is a very crowded country so the openness and greenness of New Zealand can be very attractive. We need to deliver on these sorts of passive, relaxing holidays and give Malaysians the opportunity to pamper themselves. Even the ability to view the night sky can be the sort of passive experience in which Malaysians are interested.

LINCOLN INTERVIEW DATA

Changing visitor profiles and emerging markets were widely discussed in the opening question on the status of the sector (particularly as challenges) with a high level of awareness of the current visitor data evident. There was, however, some doubt expressed over what the figures actually meant: *“Have heard all sorts of talk about visitor arrivals and there seems to be a whole lot of contradictions out there”, “Don’t think it has changed at the macro level - maybe at the micro level (less Europeans, more Chinese and Indians) but the international vs. domestic and Australia vs. others has been fairly consistent”*. One respondent thought that *“the nuances (subtleties) will change - not the fundamentals”*. A number of specific shifts in the overseas visitor market and market segments were noted, along with the perceived reasons for these changes:

- *“The UK market is slipping because VFR is aging - it is cyclical and we have grown out of that one”*
- *“The top end and the bottom end of the market are doing OK (e.g. the Holiday Park end are doing fine although backpackers are down because of economic reasons - in their home countries) - the middle is not so good”*

When asked for specific comments on these changes, similar themes as in the earlier discussion emerged. These included the variations in effects of the market changes, expectations and understanding of new markets, potential need for new products, targeted marketing or changes in service delivery to cater to new markets and discussion around who the ‘preferred’ visitor is.

Some respondents noted that, while there had been changes, these had not really affected them: *“It hasn’t really changed much for us - we get younger backpacker types on working holidays”, “We haven’t seen that many changes and we rarely see the Chinese visitors”*. Others were well placed to take advantage of segments of the market which were growing *“Cruise ships are great - the business is fantastic and we are one of the few businesses that actually see benefits from them”, “The cruise industry for regions is honking”, “We are happy for the Air Asia X business”, and, “We have just opened a 5-star luxury lodge - that is one market that does not seem to be shrinking - it is travelling well and expanding”*.

It was suggested that the market changes are putting pressure on those operators who have not had to do much by way of their own marketing initiatives in the past, but with *“visitors*

not readily available” that was also changing. One respondent asked *“what can we do about changes? We have to rely on Tourism New Zealand for marketing”*. It was widely accepted that *“growth will come from Asian markets - particularly those who can get here relatively easily and those from China”*. This was accompanied by some concern, however, that *“we don’t want to put all our eggs in one basket and neglect the markets that have been good to us for a century”*.

As noted earlier, most of the discussion around new markets was on the challenges and opportunities presented by increasing numbers of Chinese and Indian visitors:

- *“A very, very difficult market (China and India) - they want their own cuisine, hot meals at lunchtime etc”*
- *“Some of the change is driven by new air routes - makes it easier for people to come here, but there are still challenges with distance (e.g., with the Indian market) - and [you] have to ask how big it will become”*
- *“Cultural differences are a challenge (toileting and social etiquette) - plus the perception that we (New Zealand tourism) are going to be taken over by them”*
- *“Need to have workshops for operators to help them deal with new markets - need to understand Chinese better and to know if we have product to suit them”*
- *“India shares so many things with New Zealand - Commonwealth countries, cricket, democracy, English-speaking, drive on right and huge potential for travel with growing middle classes”*

There was a perception that there will not be significant changes in the short term, especially as the numbers are actually quite small: *“While it is important to give the new Chinese market a ‘fair bit of love’ you have to realise that the numbers are only small - there is a huge potential over a 10-year period however”*. There were also mixed views on how well prepared the sector is for these new visitors - some segments are better placed than others:

- *“Activity operators have a better appreciation of the markets - work more with trade channels - less lifestyle operations”*
- *“Trade channels [are] very important in respect of new markets - how to market themselves successfully”*

There was also a sense that many respondents are not prepared to make any changes to meet the requirements of new markets, preferring to wait until these markets are ready for what they offered: *“It will take time for new markets to evolve - beyond group tours”*, *“It is very hard to break into the new markets when you are dealing with tailor-made itineraries - maybe some potential with Malaysia and Indonesia”* and *“It will take 10 years to attract these new markets to bespoke travel - have to wait for them to mature as tourists”*. Most appreciated that it could take a long time for this to happen and that, even if one was prepared to make changes, there is a lot of preparation associated with attracting new markets, e.g. it is *“not just a matter of clicking your fingers and they will turn up just because you are there”*.

Many respondents expressed a preference for the type of visitors they wanted to see in New Zealand. Preferences were based on a variety of criteria, including how well particular visitors aligned with the New Zealand brand, and practical considerations around how much effort would be required to both attract and to host particular visitor segments:

- *“Ideal visitor - semi-independent who only come to New Zealand”*
- *“Difficult to align our pure brand with markets who smoke”*
- *“Would like to see more put into USA/Canada market - English speaking countries are more continuously flowing”*

Attracting the Australian market was promoted by some respondents *“We could do better with the Australian market - it is a different market to others, but marketing campaigns do attract them”*, *“If we had spare money (for marketing) would definitely pop it into Australia - promote New Zealand as being a different ‘sun and sea’ product to theirs”*. Others commented on being able to attract and retain specific (and potentially valuable) market segments such as families and *“high end”* visitors:

- *“We made an informed decision to target the domestic market far more strongly than we had and that has worked well”*
- *“I am a little sceptical on timing for a lot of those new markets and whether New Zealand is ever going to attract high-end visitors - we are seen as quite a cheap destination internationally [i.e. compared to our international competitors, rather than in respect of on the ground costs]”*
- *“Problem with the high end market is that it is fickle and it is the first to go when times are tough”*
- *“We can make more of the luxury market, but it will be limited - interest will stay with the ‘tried and true’ product”*

Despite some reluctance to change either/both marketing and products, a number of potential specialist markets and niche market segments which could be attracted (or grown) were also suggested including: golf for the Asian markets; *“School and university groups could be a new niche market”*; *“School programmes can bring people in from beyond the region”*; *“We could tap into conference market”*; *“Education is one market where I don’t understand why we are not doing more - it was the cash cow for some time - and then there is the niche market for events - ‘all those fanatics’”*; *“The environmental, sustainability market is a growth one - people (tourists) have a real interest in that”*; Japanese interest in hiking tours; and, *“Singapore turning to places like New Zealand and Australia to encourage school kids to explore the outdoors”*. There were, however, mixed opinions of how easy it is to attract these new markets and how widespread their benefits would be:

- *“There are other niches we could tap into, but they are small part of general visitor market - getting people through door is still the number one priority”*
- *“Niches exist - it is just a matter of finding them”*
- *“Asian market is growth area, but we have to get them to come to the regions”*

It was also widely recognised that catering to many of these niche markets will require some product development (e.g. *“we could probably aim for families more - both international and*

domestic - but we would need more product and more affordable product”). There was some concern that - product-wise - “in most areas there is probably too much replication of the same” and “the New Zealand tourism industry needs to offer more products that the market is looking for”. One respondent noted that they had “already changed our product to suit the Indian market - which prefers more passive and shorter experiences”; another noted that “some things need to be better for Chinese market”.

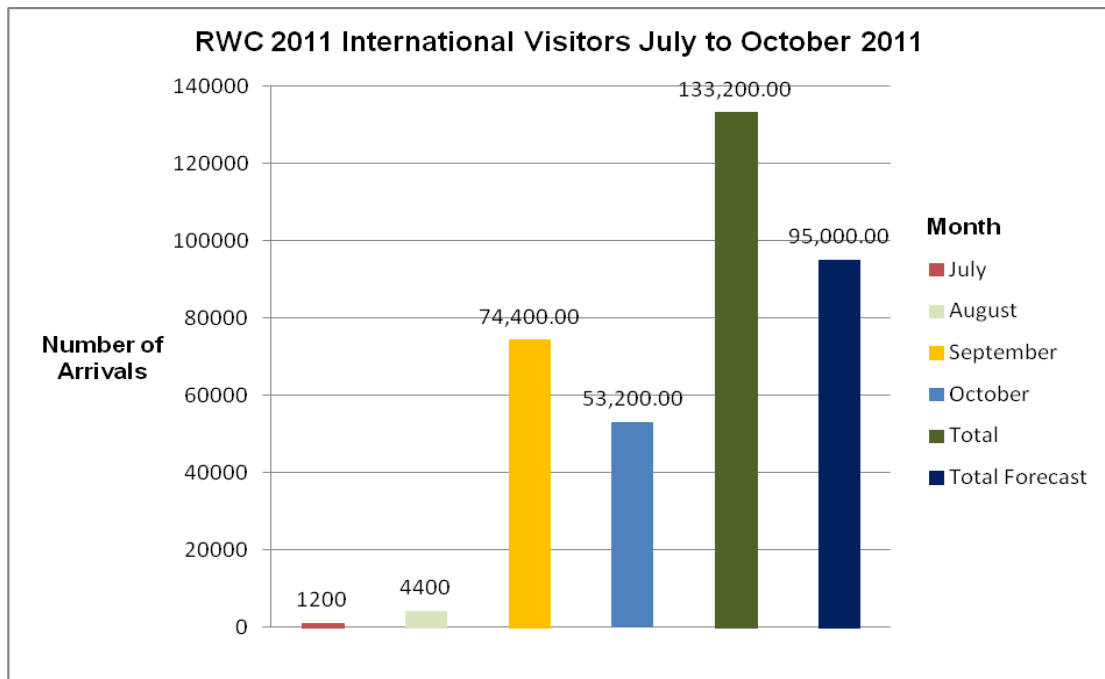
In addition to attracting niche markets, product development could attract more new visitors and return visitors. It could also be used to grow some events. Also, offering the right products provides an opportunity to increase value out of new markets. While some thought that it was “just about adding products each year to try and bring new people in” there was considerable uncertainty around exactly what products might appeal to specific markets and how long they take to become established: “Some niche markets are possible - golf, multisport, cycle trails - might appeal for new markets”, “We are working on bike tours (associated with new bike trail) - it is just starting off, but it will build traction”.

RUGBY WORLD CUP (RWC 2011)

TIA ANALYSIS

The TIA December 2011 Insights highlighted there was a total of 133,200 visitors that arrived in New Zealand for RWC 2011 against a forecast of 95,000 visitors. There were 1200 arrivals in July, 4400 in August, 74,400 RWC 2011 visitor arrivals in September and 53,200 in October 2011 (Figure 4).

Figure 4 RWC 2011 International Visitors July to October 2011

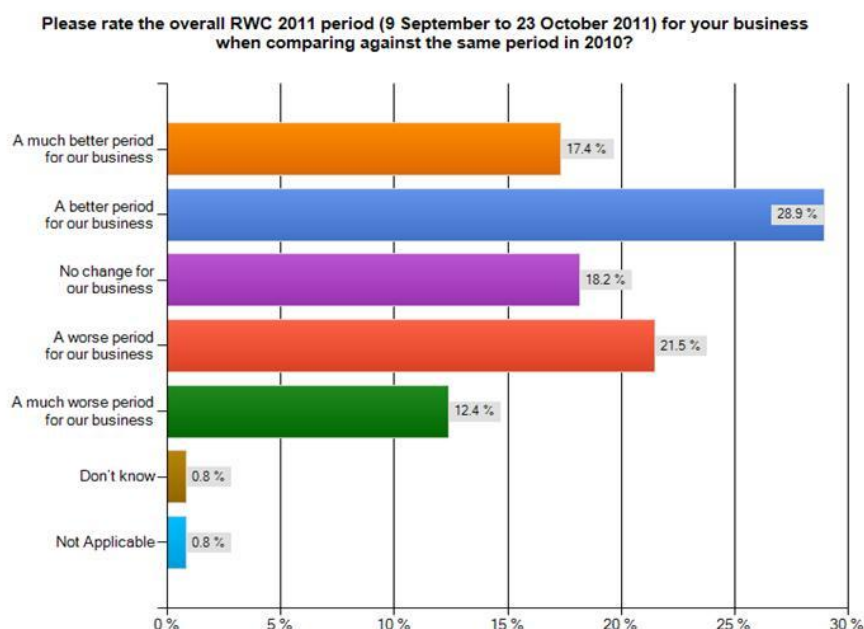


Source: International Visitor Arrivals, Statistics New Zealand

Over 41% of the RWC 2011 arrivals were from Australia. The next most common source countries were the UK (which includes England, Scotland, and Wales), France and South Africa.

TIA conducted a post-event analysis of the RWC 2011 via a survey of their members over the period 18 November 2011 to 30 November 2011. The survey results were presented in the *TIA December 2011 Insights*. Altogether 121 of our members responded to the survey. The results showed that almost half (46.3%) of respondents considered the overall RWC 2011 to be better or much better for their business when comparing with the same period in 2010 (Figure 5). Almost one fifth (18.2%) saw no change while around a third (33.9%) considered it to be a worse or much worse period for their business when comparing with the same period in 2010.

Figure 5 Rating of the overall RWC 2011 period for tourism businesses when comparing against the same period in 2010



Source: TIA Insights Quarterly, December 2011

This aligns with anecdotal evidence that would suggest that a number of businesses did very well, some saw no change and a number suffered decline in business activity during the RWC 2011. It was a mixed result for operators around New Zealand, comments included:

- *“Turned what was looking like a flat year into a growth year and we will have an increase for the year of 2011 on 2010”*
- *“We got a few more campervans for this time of year, but our motel and backpacker trade dropped considerably. Allowing freedom camping by our local District Council did not help”*
- *“We started our summer season a month early, brought on staff and subsequently had to lay them off. Traditionally in October with normal visitor numbers we would expect to carry 350-400 passengers. We carried 90”*

LINCOLN INTERVIEW DATA

The Lincoln interviews also found the impacts of the RWC 2011 to be mixed, with some respondents reporting that it was a massive opportunity for them and others that it had little impact. Domestic tourism was perceived to fall and to suffer considerable displacement as a result of the RWC 2011. The benefits of the RWC 2011 varied considerably across the country with some reports that it “*affected the start of our season - price of flights went up, people went elsewhere*”. One respondent commented on the opportunity presented by the RWC 2011 beyond the event itself: “*Great opportunities from the RWC - loved how good Auckland looked - the legacy from that - getting city tidied up has to be the best opportunity we have had in decades*”.

NEW TECHNOLOGIES FOR INNOVATION AND SOCIAL MEDIA

TIA ANALYSIS

TIA's May 2011 Insights indicated that while many companies embraced the opportunities with new two-way communication tools, social media brings a host of new problems, such as how to measure communications and stay within legal compliance. New rules for businesses are emerging, which include the importance of empowering all employees to participate in social media activities and the need to monitor for compliance. This includes social-media policy and training programmes.

A boom in Asian online travel was reported in the *June 2011 Insights*. The Asia Pacific online travel market surged 17% in 2010, surpassing the US to become the second largest online regional travel market worldwide. It grew faster than all other regions to reach US\$255.8 billion in 2010. This reinforces the importance of businesses having a clear online strategy. To capture this market, an effective, interactive website is important, as are social media tools such as Facebook to open up communication channels with important Asia Pacific travel markets.

The concept of the micro-tripper was presented in *August/September 2011 Insights*. The spontaneous micro-tripper has been created via the convergence of social networking and sharing, new e-commerce technology, an extended recession and our insatiable desire to buy deals. Email marketing is the primary delivery path of the new ‘travel deal’ product. Micro-trippers take between three and five trips per year, commonly of one or two night stays. While this market won’t do a lot to increase visitor length of stay, it is a valuable niche market for businesses that can provide a range of product experiences over a short-stay period.

TIA's September 2011 Insights highlighted Google’s useful new feature that has been added to Google Maps current weather reports. Users are now able to access a weather layer that shows highly location-specific reports provided by weather.com. The layer can be opened in the “layers” in the top-right section of Google Maps. This is a valuable tool for destination marketing organisations or a tool for businesses to use on their website. Potential visitors can also access details of terrain, photos of regions across New Zealand and webcams and is

a great tool to connect potential visitors to what a region has to offer from a climatic perspective.

LINCOLN INTERVIEW DATA

The use of existing technology, and adoption of new technologies associated with social media in particular, were described by several respondents as *“a moving feast”*. With respect to this there is a need to *“learn what works and what doesn’t and what you need”*. While a considerable amount of discussion centred on the use of websites (particularly Trip Advisor), Facebook was the most discussed medium in the social media space. There was some awareness of emerging communication mediums such as Twitter and android/smart phone Apps. One respondent, for example noted that *“iPads and iPhones might be the way of the future, but some segments of the market are not using them yet”*. Non-users included backpackers (because of the cost of international roaming) and older people and families (who preferred traditional communication media). Another respondent noted that, despite having a *“Facebook page, a database of email addresses and YouTube clips”*, they *“still have a long way to go”* in terms of social media.

There was perceived to be considerable variation across the tourism sector in the adoption of new technologies, with a number of respondents noting that *“some tourism operators do not even appreciate the value of the internet generally”*. Also, some people are *“still learning about websites”* and *“some smaller operators are even arguing the value/role of the internet”*. Most, however, were of the opinion that *“websites are a useful way to get information out and to do blogs”* and that *“connections to other websites are useful networking tools”*. Internet technology can be also used as a means to market collaboratively.

A number of respondents reported that they are increasingly interacting with customers through Facebook (rather than websites and email) and that the Facebook logo is now more prominent (i.e., larger and in a stronger position) on their web pages. One respondent noted that many businesses were like them *“In 12 months we have gone from a ban on Facebook in work time, to having a policy of each staff member needing to do one Facebook post and one tweet each day”*.

Overall, social media was *“seen as the future of marketing and exchanging information about our product”*. Social media is *“an important communication tool and serves two purposes - marketing and keeping close to customer issues”*. At the very least, businesses need to *“make sure we have visitor information available electronically”*. However, while IT is an important part of marketing there is *“almost a need for two separate approaches to address old and new schools [of visitor groups]”*. The value of social media marketing is also challenged by the fact that *“those who use social media don’t have the money older tourists have”*.

Increasing technology uptake by customers was also changing traditional customer behaviour. Internet booking behaviours are characterised as having *“not as much lead-in time which makes business planning harder”*. Increasing use of the internet to plan and to book travel components also threatens the future of i-SITEs (e.g. losses in direct revenue

generation through booking, and indirect losses as brochure revenue also falls). However, there was also perceived to be a need to maintain some traditional channels of communication (e.g., *“can’t just send off emails and hope they get answered - face-to-face contact still very important”*). There is a perception that - because of communication technology - tourism businesses no longer need the traditional support of marketing channels *“as long as you get a good Trip Advisor’ rating”*. There was some concern, however, over the increasing use - and influence - of Trip Advisor:

- *“Becoming the legal blackmail of the customer”*
- *“People choosing [basing decisions] around TripAdvisor [posts]”*
- *“We have had a couple of damning posts on TripAdvisor - they have a lot of power - the industry doesn’t realise the importance of it now”*

Increased uptake may sometimes be prompted by particular events (e.g. the floods in the Nelson/Tasman region were a good prompt to engage more with social media and generated *“more profile and cover than through traditional media channels”*). New initiatives included exploring the value of Facebook or TradeMe advertisements. There is an expectation that use of some of the newer social media (e.g., Twitter) will eventually *“settle down and [that it will] be used as a proper tool - not an inane comment space”*. Overall, uptake of Twitter was well behind that of Facebook. It was noted that Facebook pages vary in their *“seriousness”*.

Increasingly, businesses appear to be assigning social media duties to staff members or appointing a specific social media position. Tourism New Zealand was perceived to be progressive in this respect (e.g., *“using trained computer bloggers”*). Technology uptake and engagement is perceived to be age-related, with older people reliant on younger ones to be more familiar with it. There was a perception that some operators need educating on how to best use internet technology and discussion on the best way to learn about and to stay up to date with technology developments. One issue, raised by a number of respondents, was that *“when there are technology (and social media) seminars, often it is the tech-savvy people who are the ones that always come”* and that *“maybe we need to get the message to others who are not using it”*.

Several respondents were of the opinion, however, that *“opportunities are there if you want to get involved and take them, but having time is a big issue for many smaller tourism companies/businesses”*. However, another commented that *“not having time is not an excuse - if you are serious about your business you need to do it, but this is not what lifestyle operators seem to want”*. One respondent noted that, because technology is developing so quickly, the *“best way to stay up to date with it is actually via the internet (e.g. on-line training)”*.

The internet also offers a range of networking opportunities which are important in respect of innovation and technology. Most respondents reported receiving a lot of information via e-newsletters from a wide variety of tourism industry and other business and regional associations and organisations. Some noted the importance of this type of networking and information sharing *“just to keep up to date and stay in the loop - especially if one operates*

nationally, but has a fixed physical base” and as “reassurance that what you are experiencing and thinking is common”.

There were mixed views on attitudes toward - and uptake in respect of - innovation and technology use more generally. In respect of innovation:

- *“We listen to customers for innovation ideas”*
- *“Economic tightness makes you innovative - looking for better and smarter ways to do things”*
- *“I think innovation just happens naturally”*
- *“Innovation has to be relevant and you have to be able to justify the expense - most people have a tendency to wait and pick-up when technology gets cheaper”*
- *“Environmental awareness and innovation requires an on-going voice - keep niggling at the different associations”*

Several respondents noted the potential business advantages of using Quick Response Codes, one respondent noted that usage of these codes was included in Qualmark assessments. One respondent commented on the difficulties associated with *“compliance issues in technology space around credit card data protection”* which was changing *“traditional laissez faire business practices”*.

PREPAREDNESS FOR EMERGENCY EVENTS

Overall, the tourism sector perceives itself to be well-equipped to deal with emergency events. The tourism sector is used to working together, and there is perceived to be good leadership via industry associations. Some segments of the tourism sector are naturally well-prepared: *“Safety a big focus for us anyway, we have a high level of preparedness and contingency planning, strong rural fire and LANSAR culture and set of systems”, “Airlines can provide a relief valve if disaster strikes”*. There were mixed views, however, as to how prepared individual operators are: *“Typically out there they are not prepared to a high enough standard yet”, “Some are prepared and some aren’t”, “We are reasonably well-prepared these days - quite a resilient industry”*. While being prepared is *“the backbone of Civil Defence, tourism businesses have to take responsibility for themselves - especially in districts with small, scattered populations”*. It was noted that *“Councils have to work together”* and that *“those who are well-funded and have good planning in place can respond better”*.

The Christchurch earthquake and other events did, however, raise the profile of potential disruptions and many of those interviewed reported making some changes in respect of their safety procedures, safety equipment or being more business-ready in the event of something happening. Preparedness includes being *“prepared to be busier if stuff happens elsewhere”* and looking at *“potential impacts and possible responses across the destination more carefully - power loss, location of events and of tourists, business flexibility, use of cloud technology to support IT systems”*. Individual tourism operator’s preparedness is affected by what type of equipment they have (e.g., they might have boats, planes etc). Altogether, a

wide range of specific emergency preparedness, response and recovery measures were noted:

- *“Consolidated record keeping, taking data out of computer at nights, more solar garden lights, reviewed evacuation drills, brought staff up to speed (high vis vests, reviewing tasks and roles, helping guests), training”*
- *“Reviewed safety plans more thoroughly and going over them more regularly with staff”*
- *“Made personal disaster-thinking a lot wider - focusing on ways to generate passive income from what resources we already have”*
- *“Looked at what business interruption insurance we had”*
- *“Aware of the danger of losing IT - already have our own IT based in Sydney”*
- *“Have stepped up safety workshops and first aid training for staff since the Christchurch earthquakes”*
- *“It tied in with us having new UK-based owners - so there was more stringent health and safety anyway”*
- In Christchurch, health and safety plans were much more robust than in the past, with one respondent commenting *“who ever did one of those for real before?”*

As might be expected, the Christchurch earthquakes generated considerable comment although the specific earthquake impacts on businesses varied considerably. While tourism operators based in Christchurch feel a bit *“forgotten about - even Aucklanders won’t come to Christchurch”* other tourism businesses noted that *“we have been affected financially - insurance premiums have gone up and it is now prohibitive to insure old buildings for earthquake damage”*. The Christchurch earthquakes were also noted for having taken Civil Defence personnel and tradesmen from elsewhere in New Zealand.

It was generally considered that since the Christchurch earthquakes more people are now aware of Civil Defence messages and procedures across New Zealand. The Christchurch earthquake impacted on visitor attractions quite far from Christchurch (e.g. Waitomo Caves) and particularly on some market segments (e.g., Asian and Korean). One respondent noted that *“there were people posting messages about the Christchurch earthquake on our Auckland businesses Facebook page”*. There was some delay in the timing of earthquake impacts on visitor numbers in other destinations due to the length of booking lead-ins. Although disaster events elsewhere raise awareness of what might happen, personal experience *“picks that up a level”*.

One respondent noted that *“preparedness is just information and education really”*, another noted that they were *“talking about it more”*, and having *“more regular and better training”*. The internet, media and social media were found to be useful in respect of getting important information to people. However, these media were also held responsible for sending mixed messages, impacting significantly on perceptions of disaster impacts. They were also harder to control than traditional media:

- *“Difficult to manage people’s perceptions, but can keep hounding the media and hope that the open message gets through”*

- *“Messaging is important to get information out - always at mercy of old images - media management increasingly critical in future”*
- *“Harder than ever to control the messages with so many media channels”*
- *“Have to have a good person in charge of the media at Civil Defence”*
- *“[It is] good to have earthquake-related news that is good”*
- *“Was definitely a media tail which affected bookings”*

There was some concern that these types of events are happening more often, and that this *“eventually puts more people off travelling at all”*. The internet was held responsible for the fact that *“events are more in your face”*. It was considered that disaster events puts off those who are *“not 100% committed”*. One respondent noted that *“baby boomers are a significant travel group and they are becoming more risk averse”*, another noted that visitors have to pass through *“some troubled routes to get to New Zealand”*. In respect of natural disasters, it was noted that *“we have to accept that there is a level of risk, but that other bad things are more likely to happen”*. Other risks reported were around the *“vulnerability of cruise ships to natural disasters and wars”* although it was also considered that we *“can’t do much about it”*. Some respondents also expressed concern with regard to a tsunami. One respondent noted that we [the tourism industry] *“are becoming more resilient as more and more situations arise”*. This includes learning from experience to not only deal with emergency events, but of also *“being better prepared to deal with them”*.

SEASONALITY

Seasonality is a long-standing issue and contributes to a number of business and operational issues. While it is possible to put staff off over the down season, retraining new staff each season can be expensive. It can also be challenging for new staff to start work in the busy summer season. For businesses not operating continuously, staying in the forefront of travel agents minds is an issue, for those who do operate year-round there are often challenges associated with support infrastructure closing down. Some respondents were of the opinion that it might be better to take a break in the winter down-time because *“it can be tiring to operate year-round, and business costs go up [in winter] because we are not as busy”*. From a business perspective, seasonality was seen in the context of *“getting your capital to work harder for you by trying to extend the shoulder”*. Extending the operating season (e.g., by *“winterising itineraries”*) potentially brings year-round relationship gains with suppliers. The winter down-time is a good opportunity to do famils.

Most respondents addressed seasonality in respect of extending the shoulder seasons. This is perceived to be difficult in destinations that don’t have a lot of non-summer product (e.g., in regions where there is a strong focus on water-based products, which are very weather-dependent). Seasonality was commonly linked to weather: *“Doing something about the shoulders is our best bet, but it goes back to the weather patterns and weather patterns are changing”*. Finding a solution to seasonality is also difficult because *“the travel patterns of touring international visitors are entrenched and difficult to change”*. For the airline industry (and associated services), however, the shoulder seasons are the biggest issue as they have a strong winter outbound market, they also cater for a more diverse range of customer segments.



Photo: Whatever the weather by Andrew Clark of Real Journeys - TSS Earnslaw Cruises, Lake Wakatipu near Queenstown, Southern Lakes.

There is some debate over whether the best way to attract more shoulder season visitors lies with marketing, or with pricing. Down-time can be reduced through pricing with off-season bargains, cheaper airfares, more competitive winter accommodation rates, differential pricing, and so on, being involved with channels such as GrabOne and Wotif is important in this respect. There was some concern, however, that *“although this is useful for distressed inventory, it can also be disguised as discounting so the value proposition drops”*.

Marketing (as a solution to seasonality) involved targeting new niches (e.g., *“around harvest time in vineyards”*, *“Indian market is a major opportunity because of when they want to leave India”*, *India marketing not done well - we could sell to them much better to fix our shoulder season*). One respondent noted that while we *“could try urban tours and gourmet tours, it was difficult because it was not really what people come to New Zealand for”*. Another noted that we could *“develop the South Island ski product more”*. The domestic market brings different challenges (e.g., *“have to change product offering more often”*) and may be attracted by both pricing and marketing initiatives: *“Look after local market in winter - with events and price promotions”*, *“Push the ‘holiday in your own back yard’ concept with local resident discounts”*.

Events (and to a lesser extent conventions) were commonly seen as the best solution to extending seasons. Events in different seasons attract different visitor segments (e.g., *“winter events have most appeal for and promise in respect of local community”*, *“events and conventions have appeal to quite different market segments”*). Many respondents had clearly given some thought to this and a wide range of potential events were suggested, including seafood and cycling festivals, convention and trade shows, promotion of regional produce alongside cycleway development, cherry blossoms in the South Island in Spring, doing more with autumn colours, earthquake-related events and conventions in

Christchurch (once facilities are back), and holding more events like the Volvo Ocean Race in Auckland.

There was some opinion that there was a need for more events that feature on the global calendar, and which would, therefore, bring more people to New Zealand. The Volvo Ocean Race was seen as particularly beneficial, as it not only brought a lot of international visitors into New Zealand, but also had New Zealand Trade & Enterprise working with the marine sector to ensure that the guests Volvo were bringing in were introduced to marine sector, thus making future connections across the economy. The new international convention centre is seen as a way to attract higher spending visitors to New Zealand.

Funding presents the greatest challenge to events. This often requires *“selling ideas to, and begging for money from, Councils”*. There are also *“often complex funding and promotion arrangements around events and festivals”*. The RTOs play an important role in this as they *“already have a network of contacts”*. Several respondents noted that, although extending product offers to suit winter (e.g., museum, cultural products, not such a focus on the outdoors, develop year-round non-weather dependent activity) would help attract more visitors at the destination sale, there had to be someone willing to do this.

The final interview question asked respondents about their vision for tourism in 2020. Similar to 2011 respondents, most interviewees responded with an aspirational vision (i.e., what they would like it to be like); respondents were then asked if they expected their vision to happen and for suggestions as to how it could be achieved. At the conclusion of the interviews respondents were given the opportunity to make any further comments if they wished.

Overall, most respondent's vision for tourism incorporated elements of the issues discussed throughout the interviews. There was a desire to see:

- *"That we have maintained and grown the best tourism product in the world"*
- *"That we have quality tourism, we have preserved our community and our environment, and people understand that we are a country that values conservation, community and people"*
- *"Better understanding of tourism from everyone in the community - what percentage of their money comes from tourism"*
- *"To see a change in the visitor mix and a higher proportion of higher value visitors"*
- *"Make sure everyone conducts their business in an environmentally sustainable way"*

The continuing growth of tourism is predicated on having the New Zealand brand in a strong position internationally (i.e., at the top of travel 'bucket list' as a desired destination). Alongside this - and perceived to be a means to achieving it - is the importance of promoting New Zealand's 'uniqueness' through tourism products, experiences, events, and by staying true to New Zealand culture (i.e., respecting culture as part of the tourism product). Within New Zealand there is a desire to see better understanding of tourism's contribution to the economy and to communities, the recognition of tourism as a professional career (which would also improve service levels) and appreciating its value within the industry (i.e., caution around the development of a discounting mentality). Overall, this requires more unity across the whole country with *"everyone being an ambassador and promoting tourism"*. While tourism growth was perceived to be economically beneficial there was, however, some caution around having *"all our eggs in one basket in terms of general economic development"*.

There was a universal desire to see increased numbers of visitors coming to New Zealand and greater stability in visitor flows, but it was also noted that the emphasis should be on increasing yield and attracting higher value visitors. There was some variation in the types of visitor respondents wished to see, with some wanting to see a return to growth in traditional markets, and others perceiving growth to come from new markets or from niche markets. A stronger cruise market and more conventions were expressly noted as promising options. Several aspects of sustainability were also noted, including the opportunity for *"Christchurch to be the most sustainable city in the world and for people to come to check it out and just see the future"*.

Many respondents also discussed specific industry changes that would help achieve their vision. These included it being easier (i.e., more international air connections) and more affordable to come to New Zealand, having a better transport system within New Zealand, improvements in the service industry, understanding networking and its benefits, and having an *“industry focused on meeting demand and responsive to changes in demand”*.

Opinions on the likelihood of achieving these goals (or changes) varied, some thought it was *“probably wishful thinking”* or that *“it won’t happen - too closed a mind-set”*, others were more positive, suggesting that *“if everyone works together to make it happen”* and *“it would be bloody fantastic if we can”*. The largest group, however, were unsure, noting that it is *“hard to tell what will happen”* and that *“invariably things get in the way”*.

Comments also reflected variations in how change should be initiated, with some noting that it is *“important that there is a common or aligned goal in what the industry wants to achieve”*, and others that there is *“not enough emphasis on the pixels of the picture - if all the pixels are correct, then the overall picture is good”*. Most reiterated the importance of having everyone *“singing from the same songbook”*, and of having *“a clear view of how we work together”*.

While it was widely considered that the onus for change is on individuals, many respondents also noted the importance of having *“a vision at the top”*. While one respondent commented that *“from a leadership point of view work needs to be done in central government”* others were in favour of *“work from the ground up”*. A top down approach was, however, widely supported in respect of driving the education necessary to achieve any significant changes. Tourism New Zealand, the various tourism industry associations, and partnerships between these were perceived to have an important role in initiating change. Overall most appreciated a need to: *“Keep working at it”*, *“To keep looking at the big picture”*, and to *“Find ways to prepare for and deal with the unexpected”*.

ADDITIONAL COMMENTS

Altogether 13 out of the 16 respondents offered some additional comments at the end of interviews. Individual respondents either focused on a big picture policy perspective or on smaller practice scale of engagement (i.e., within the sector), this did not relate to their actual scale of involvement but seemed to illustrate their general world view.

The majority of the bigger picture policy comments appeared to be underpinned by a perceived need to look beyond New Zealand and understand what is happening overseas. While having the PM as Tourism Minister was seen as good profile, some questioned the benefit from a practical point of view. There was also some concern expressed that tourism is only recognised in rhetoric (rather than through practical support) and that the difficulties of operating in the tourism space (in respect of compliance and business costs, and so on) are not appreciated. Smaller scale perspectives focused on particular segments being underappreciated for their contribution to the sector as a whole and on competition within the sector. For many respondents, these final comments appeared to reflect the reality of their engagement and their business operations within the sector, in contrast, the earlier

interview data tended to reflect and to paint a more idealistic picture of networking and collaboration.

There was also some reflection on this research and on respondents' participation, several expressed concern that they may have sounded too negative, some were concerned that they were overly idealistic or optimistic, others noted the need to be realistic. Negativity centred on the number of 'unknowns' facing those in the tourism sector. Some appreciated the opportunity to *"have a voice within the industry"*, but also expressed a wish to have *"more time to spend more effort and energy to make the things I have talked about more of a reality"*. Time was an issue for many respondents who *"just get on and do things rather than have that time to think"*.

REFLECTIONS

This section presents some reflections on the State of the Tourism Sector which emerged from the two analyses. Rather than presenting data recorded in response to specific questions (in the case of the Lincoln interviews) or from tourism data and monitoring (as presented in the TIA analysis) data from both sources are integrated to reflect on a number of major (and interrelated) themes which emerged. As such, this section employs a more qualitative analysis of contexts and broader issues that sit behind the topics/issues that were discussed and reported. Taken together, they present a comprehensive picture of the current State of the Tourism sector.

'Reflections' also provides an opportunity to consider shifts in perceptions compared to the State of the Tourism Sector 2011. The two key themes in 2011 were the Nature of Tourism and Protecting our Brand. While many of the issues discussed under these headings are still current, over the past 12 months there have been several subtle attitude shifts. One was a more widespread acknowledgment of the need for change and associated with this the emergence of a more proactive stance (underpinned by a tendency to look forward rather than back, as was the case in 2011), is evident. Networking and collaboration was also a predominant theme in the 2012 interviews. These themes are reflected in the following two sections 'Time for Change' and 'Working Together'. A final reflection section revisits the New Zealand brand, again with the 2012 data reflecting a subtle change in focus from last year's 'Protecting our Brand' to 'Raising Tourism's Profile' this year.

TIME FOR CHANGE

While visitor expenditure has remained relatively stable over the last year, tourism's position as the number one export earner and foreign exchange earnings provided by the tourism sector have both fallen since our last reporting period. Although the 'on the ground' impacts of these changes varied across the interview respondents, the majority are 'settled in' for what is perceived to be a potentially longer-term period of stagnation and recovery than was expected last year. It may be, however, that in 2011 they were distracted by the uncertainty of the Christchurch earthquake and RWC 2011. TIA analysis throughout the year and the interview data indicated that many of the issues facing the sector are unchanged over this 12 month period.

Overall, the impacts of on-going economic crises and global downturn were of concern. However, there are a number of mega-trends that are perceived to be influencing tourism growth globally. These included increased world wealth, especially in Asia, increased integration of the world economy, demographic changes which include ageing populations bringing new opportunities, climate change, and changes in consumer behaviour.

New Zealand tourism businesses were able to draw some parallels with challenges in the Australian tourism industry (*Insights October/ November 2011*). Australia's third Tourism and Transport Forum (TTF)-MasterCard Tourism Industry Sentiment Survey for 2011 revealed a continued downward trend in tourism industry sentiment, with the mood of operators across the Tasman approaching the lows of the global financial crisis. Australian

operators listed the three most significant impediments to their business currently as the exchange rate, reputation as a visitor destination and shortage of skilled labour.

There was general acceptance in the interviews that the New Zealand tourism sector has reached the end of what was a very good cycle in New Zealand tourism characterised by volumetric growth across a number of years, a booming industry, extensive product development, and, a product mix which suited the markets we were attracting. With these markets changing (and a perceived need for some refreshment of the brand and product offering) there appears to be increasing awareness and acceptance of the need to make some changes. This was much more apparent than in 2011. The changes suggested included greater consolidation (e.g., reducing the multiplication and duplication of many attractions) within New Zealand tourism, learning to work smarter and embracing technology. The latter involves engaging with new technologies - not just to reach customers, but in the business operations space as well - and New Zealand is seen as a country/destination that technology can work well for.

The interview data reflect a range of tourism sector responses to the current conditions and the reported trends. A sense of resignation, lack of confidence and uncertainty across the sector as a whole was a notable theme in the interviews, and is illustrated by the following comments:

- *"I'm probably about as pessimistic as I have been - usually I am optimistic and I think New Zealand has so much to offer"*
- *"I am a wee bit concerned that not much is happening at the moment - including domestic tourism - losing a bit of faith in that at the moment"*
- *"Challenging, extremely competitive - those words describe the mood"*
- *"I would describe it as 'swings and roundabouts' to the equation at the moment"*
- *"I am thinking 'wallowing' is the word"*
- *"Glimpses of what maybe light, black holes in schedules where we can only look at what could have been"*

As noted above, despite (or perhaps driven by) these concerns, the 2012 interview data indicates a greater acceptance of the need to make changes within the tourism sector. There were considerable synergies across the sector as a whole, particularly in respect of initiating more effective networking and collaboration, the need to be better informed in order to benefit from market changes, and in discussions around new products, attractions and market segments perceived to have potential for growth. There was, however, still a strong sense that many of those interviewed look at potential changes in respect of being either the responsibility or initiative of others (i.e., not themselves).

Increasing understanding and education throughout the tourism sector in respect of technology uptake, and the sharing of information on practical actions and business approaches, appears to offer individuals greater confidence to initiate change however. In 2012 there also seemed to be a greater appreciation (than in 2011) that change does not happen quickly - and that businesses have to be prepared to commit (e.g., to marketing,

networking, development) in order to benefit from making changes. Alongside this there also appeared to be greater acceptance that there are no short term solutions.

Many are still relatively cautious, however, and expressed their concerns around the potential to get distracted by changes which are not all that significant, the new markets, for example, are actually quite small and while there is a lot of noise online, many people are not working in that space as yet. The continued importance of the traditional (tried and true) approaches and markets was commonly reiterated.

WORKING TOGETHER

One of the key themes in 2011 was the fragmentation of the tourism sector and, while this is also recognised in 2012, it appeared that people are starting to address ways in which this can be overcome. Overall, this was reflected in a much broader view of the sector as a whole. There was a shift in perception of who should drive any changes, however, with much less emphasis on the (connecting) role of RTOs (which was a feature in 2011), instead a multi-pronged approach, which combines top-down and bottom-up engagement, was commonly suggested. Top-down encompasses the roles played by various industry associations and Tourism New Zealand (all of whom were mentioned in the interviews more often than in 2011). It was widely recognised that bottom-up engagement requires individual businesses and stakeholders to take greater personal responsibility for making changes.

Melding the engagement of the disparate stakeholders in the sector is perceived to be reliant on effective networking and collaboration. While this was also noted in 2011, considerably more practical suggestions and examples of types of networking and collaboration possible were proffered in the 2012 interviews. Networking and collaboration is possible across many different parameters, for marketing, business and operational alliances (e.g., airlines), regional alliances, tourism segments (e.g., accommodation, activity and transport), across websites, in business practices (e.g., facilitates the consolidation of booking systems), and with Councils. Networking is an important means of sharing intelligence (both knowledge and contacts) and is particularly important for small business (e.g., can help raise their profile), or for those located in peripheral areas. RTOs are perceived to occupy the link between industry associations and businesses 'on the ground'. For tourism businesses, involvement with industry associations is important because it gives tourism operators a voice.

Sharing information through industry reports (such as *TIA Insights* and others) appears to have initiated broader engagement across the sector and is a valuable means to disseminate information throughout the sector. This is especially important in respect of understanding and engaging with new markets, while there is still some reluctance to engage with new markets this was less pronounced than in 2011 and appears to be linked to greater understanding of the new markets. As a result, people appear more comfortable with changes (e.g., to product offering) that potentially expose them to risk and uncertainty (especially if these changes take them into what was previously perceived to be 'unknown territory'). A number of respondents noted that they have learned more about these new

markets via the work of TNZ and TIA. The risks associated with making changes, however, are also exemplified by the (often) considerable delay before benefits are seen.

At a more immediate and short-term scale, sector-wide initiatives and information sharing (with respect to issues that are perceived to be of concern to the industry), are also an important means to provide practical business and strategy information to those in the industry. In the interviews, for example, there was some concern over the impact of discounting. While *TIA Insights* data noted a strong trend for post-recession visitor markets to demand more for less, or more value for the product or service they are consuming, it was also noted (in *TIA's September 2011 Insights*) that businesses don't have to cut profit margins to make a sale. Discounts can be a great tool, but they're expensive. Worse, if your customers start to wait for you to discount, they're counter-productive to your business. Other tools in the sales toolbag include 'future-use' coupons, product packages and seasonal specials. It was found that it is important for businesses to show the relationship between cost and value to your customers and that product packages are an ideal way of doing this. This may be within a business, between businesses or between regions.

Networking is also perceived to raise awareness *within* the industry (i.e. beyond each individual's own door); being better informed about what other people are doing - and seeing what is good and bad - are especially important. As noted above, for effective collaboration it is crucial for people to step up and take ownership and responsibility, within the tourism sector there was perceived to be a need to get "*our house in order*" to enable effective links across the wide range of organisations which have some interest or engagement in tourism. This holistic approach also takes a much broader view of visitors than just the holiday segment.

There was also a perceived need to network and collaborate beyond the tourism sector - part of a general shift to taking a much wider view of tourism than in 2011. There were some calls for an educational awareness programme (directed at Councils) to get the message across that "*tourism marketing is regional marketing and benefits all industries, not just tourism*". Respondents also noted the importance of convincing all New Zealanders of their own role and importance within the tourism offering AND of tourism's value, both to them and to New Zealand. Domestic tourism has an important role to play in this - events, for example, offer opportunities to share our culture with visitors. Overall, in the interviews domestic tourism was discussed (across a range of parameters) more often than in 2011.

The impact of the RWC 2011 on domestic tourism was noted in the interviews and was an on-going theme in *TIA's Insights* analyses. A strong increase in domestic guest nights in August 2011 just prior to the start of RWC 2011 is an example of the significant displacement of the domestic visitor market over the RWC 2011. Also, the Fly Buys/ Colmar Brunton Mood of the New Zealand Traveller, December 2011 (now the AA Mood of the New Zealand Traveller, conducted by Colmar Brunton), found that 28% of New Zealanders changed their travel plans because of the RWC 2011. Of these, 13% travelled less within New Zealand during the RWC 2011 while 6% travelled before or after the RWC 2011.



Photo: Good old Kiwi Bach by Michelle McCormack of Bluebridge Cook Strait Ferry. On the way to Cape Palliser Lighthouse, Wairarapa.

Parallels with our domestic visitor market can be drawn with trends experienced in Canada, as reported in the *February 2012 Insights*. In the Canadian tourism industry rising travel costs were having an impact on domestic travel in 2011. It was also highlighted that without a Canadian Tourism Commission domestic campaign, Canadian destinations and attractions needed to take up the slack in terms of promoting themselves, particularly in view of the need to stem the tide of Canadians headed to the US. With a dollar that is currently favouring US travel, aggressive marketing initiatives were seen to be prudent to ensure that domestic travel does not drop 'off the radar' for Canadians.

A more unified approach was also evidenced by considerable consistency in the few notable positives and potential opportunities for tourism recovery and growth mentioned. Alongside events, cruise tourism, cycle trails and *The Hobbit* are all 'buzz words' in 2012. There are concerns, however, over the potential for environmental damage from the cruise market and of the value in respect of visitor type and spend. While the benefits of *The Hobbit* may take some time to accrue, they are perceived to be an important means to refresh the New Zealand brand. Cycle trails are particularly promising as they can deliver across a number of fronts including seasonality, regional development and extending across multiple economic and industry sectors (i.e., not just tourism).

For similar reasons, a considerable amount of thought seems to have been given to events. Events are perceived to have a much wider appeal than just the traditional tourism markets (e.g., holiday visitors) and can be used for revenue generation and trade links across other

(broader) sectors of the economy. Some new angles for events were suggested such as, for example, Christchurch developing as an attraction for earthquake-related events. It was noted, however, that cost constraints associated with hosting international standard events made it difficult for New Zealand.

Overall, there was a much stronger emphasis on the bigger picture, and on individual tourism businesses understanding how they fit and can contribute to that bigger picture than was evident in 2011. Most of the practical ideas suggested in respect of adding value addressed improving networking and collaboration. An underlying theme in all responses was the importance of increasing understanding and appreciation of tourism across the whole country (not just within the tourism sector). Within the tourism sector there was a call for greater appreciation and valuation of staff.

RAISING TOURISM'S PROFILE

In 2011, (protecting) the New Zealand brand was a predominant theme; in 2012 the emphasis had shifted to discussions around raising the profile of the New Zealand brand. The benefits of a more unified and bigger picture approach extended to discussions around the New Zealand brand, international competitiveness, and ways in which tourism profile might be raised. There was a widespread view that in order to “*survive*”, New Zealand tourism needs to understand the competition, understand market demands and offer something different to competitors, across a range of factors:

- *“More discerning people making more comparisons - we need to focus on what the rest of the world is doing and what people’s expectations are - they are not feeling the love of our Kiwiana”*
- *“We have to be able to deal with carbon taxes on planes and to compete internationally for the tourist \$ - we have to be something different”*
- *“Get our point of difference across - telling our story - can’t compete on other parameters (e.g., South African wage structures)”*

There are some concerns around how to compete against other destinations, especially given the negative impacts of a host of external factors that aren’t expected to go away in the short term. Many respondents expressed a need to be realistic about what we can do - New Zealand is small, far away and has fewer financial resources (for marketing and tourism development) than some other destinations. However, these features were also lauded as part of New Zealand’s appeal.

The New Zealand ‘advantage’ was most often discussed in terms of being able to offer a unique proposition. Suggestions as to how this could be done included bringing both Maori culture and the broader ‘welcoming’ New Zealand culture more generally into attractions, thus raising the profile of New Zealand across products and product delivery. As noted earlier, this is perceived to sit comfortably under the 100% Pure umbrella. The diversity of what New Zealand has to offer was a predominant theme in the interviews.

It was of note that environment concerns received relatively scant attention (even less than 2011). While one respondent commented on the need to protect our heritage (i.e., “no

gondolas/tunnels through our world heritage parks - visitors can go on those things in other places") this was noted in terms of "keeping New Zealand different and special" and not as an environmental concern. Likewise, the negative impacts of freedom camping (when mentioned) were more about the image it portrayed of New Zealand being a "budget" destination rather than the environmental impacts. There was, however, perceived to be some added value in improving the environment practices in tourism (although no mention of either eco-labels or environmental certification) and a suggestion that we persevere with 100% Pure, but "live it and breathe it and not just pretend we are doing it - we need to be really passionate about it". New Zealand "being a long-haul destination presents an environmental challenge to the 100% Pure brand" and "encouraging people to drive around the country - doesn't really balance up with the 100% Pure message".

CONCLUSION

As might be expected with a diverse range of respondents, many of the issues and challenges and opportunities were specific to their involvement in the sector. There were, however, several common themes that emerged across the interviews. There was a much more unified stance evident (than was the case in the 2011 State of the Tourism Sector interviews) with more discussion around networking and collaboration. There also seemed to be a much broader engagement with the issues facing the sector as a whole (rather than from individuals' own corners) and a greater focus on long-term solutions (rather than immediate challenges). Key messages from this analysis:

- ✚ In order to compete globally we have to make more of our **point of difference**;
- ✚ General agreement on the need to attract and cater for **niche and new markets** and particularly the **importance of events**;
- ✚ Importance of **networking and collaboration**;
- ✚ In order for changes to occur, raising **awareness, understanding and education** around all aspects of the tourism sector are crucial; and,
- ✚ A tourism **vision** requires a **long-term view** and necessitates **being realistic** about what can be achieved.

Point of difference

- Need to understand how we differ from our competitors (especially Australia)
- The uniqueness of the New Zealand tourism experience (adds value, competitive edge).
- Diversity of New Zealand.
- More about people than place - and about engaging people beyond the tourism sector.
- A lot of attention/pressure on *The Hobbit* to deliver a brand refresh and to re-ignite interest in destination New Zealand.
- Natural environment is not enough - does provide the base for the New Zealand tourism offering, but needs to be adapted to suit visitor interests and capabilities.

Niche and new markets

- Markets are continuing to change.
- Increasing acceptance that the focus in the industry needs to change to suit.
- Understanding new markets (and changes in traditional ones) is vital for effective adaptation.
- Change is needed in approaches to marketing as well as to tourism product and delivery.
- Some scepticism about the magnitude of change.
- Associated with the point above, there are some concerns around the unknown, and around changing from business as usual.

- Universal promise seen in the cruise and cycleway markets/products, particularly in respect of bringing regional benefits.

Importance of events

- Events are seen as a means to cut across many tourism market segments and between the tourism sector and other economic sectors.
- Interesting paradox as events are often developed for domestic visitors and yet domestic travel is not talked about much.
- Events are a cultural brand vehicle.
- Perceived to be a good thing and yet no mention of evaluation and monitoring (only usually considered up-front when organisers are looking for financial support).
- Particularly important with respect to regional development.

Networking and collaboration

- Important across a range of parameters - regions, tourism segments, within and between industry associations, between the tourism sector and rest of economy.
- Important for a number of reasons - spread intelligence, product delivery, share costs (both temporal and financial).
- Facilitates tourism operations, development and change.

Awareness, understanding and education

- Heightens appreciation of the need to make changes.
- Acts as an important trigger to initiate change.
- Can provide a comfortable context within which change can occur.
- Particularly important in respect of the fast-changing technology and social media platforms.
- Tourism New Zealand and Industry associations are an important information conduit.

Vision

- A long term view is important, as changes will not happen immediately (as the Christchurch recovery is demonstrating).
- Being realistic about what can be achieved.
- Making changes are everyone's responsibility.
- Understanding the past as much as the future.
- Getting the message about the importance of tourism to everyone in New Zealand is paramount.
- There are a lot of good product development ideas around, but there is still some reluctance to commit to these (coupled with the expectation that others might).

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