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## New Zealand Hotel Industry Conference 2008 Special Report



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# New Zealand Hotel Industry Conference 2008

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# A collective approach

**KEY** players in the New Zealand hotel industry outlined a series of steps to spread demand for hotel rooms into the traditional lower-demand shoulder seasons and collectively contribute to managing some of the key issues that the industry faces.

Following the New Zealand Hotel Industry conference held in Auckland in May, New Zealand Hotel Council chair, Jennie Langley, said the New Zealand hotel industry has long had a problem spreading demand for its services beyond the traditional summer season.

"Similar concerns were raised by a number of presenters at this year's New Zealand Hotel Industry conference and, although many of the ideas have been put forward before, this is the first time the wider industry has focused on solutions together.

"The conference marks a significant step forward in how we can collectively contribute to managing some of the key issues that our industry faces."

The objective is to more profitably use current resources while also allowing for future growth. She says this can be achieved through a combination of measures including:

- Better use of pricing in the hotel industry to reflect the shortage of rooms at peak times and to encourage increased demand in the shoulder periods;
- Further stimulation of markets such as meetings and conferences which typically fill in shoulder and off-peak periods;
- A greater focus on higher-yielding incentive travel to New Zealand;
- Building further on Tourism New Zealand's "Green and Gold" marketing campaign to encourage visitors on short breaks from Australia into all of the regions in the shoulder period; and
- Targeting more visitors from those countries where their pattern of travel to New Zealand is counter-cyclical to that of our current major visitor markets.

Langley says the conference also highlighted the need for the hotel sector to enter into more meaningful dialogue with both central and local government.

"We need to be much more sophisticated in how we articulate the benefits of what we provide to the community and to the economy. At the same time, we also need to be more proactive in promoting the interests of our industry."

The New Zealand Hotel Industry Conference 2008 was hosted by the New Zealand Hotel Council, Horwath HTL and Simpson Grierson. Scenic Circle Hotels was the platinum sponsor.



PHOTO NEW ZEALAND / TERRY HANN



*New Zealand Hotel Council chair, Jennie Langley.*

## How big is the hotel industry?

**WHILE** hotels are just part of the wider tourism sector, they are substantial contributors both to the industry in general, and the regional economies in which they operate.

The New Zealand Hotel Council says it represents about 90 percent of the total hotel capacity in this country and around 100 percent of the 'large hotel' inventory.

NZHC members operate approximately 17,000 hotel rooms and control assets with a capital value in excess of NZ\$3.5 billion. The council says they generate annual revenue of more than NZ\$1 billion and employ nearly 12,000 full and part-time staff. They include the interests of New Zealand's international chain, large independent, privately-owned and boutique hotels around the country.

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Tourism Business Magazine  
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# Reinventing paradise (and your business)

**N**EW Zealand's next economic revolution will be harder, deeper and longer than earlier economic change, but it will also be more beneficial and more rewarding.

In a key note speech at the 2008 New Zealand Hotel Industry Conference in May, business commentator Rod Oram quoted the World Economic Forum's Travel and Tourism Competitiveness Report 2008 which said that it is now widely accepted ... "that those nations that will ultimately become the most competitive in the travel and tourism sector will be those demonstrating their ability to implement measures to conserve the environment, or to correct possible damage to it, while continuing to facilitate the sector's healthy growth".

The same report also noted that more than two-thirds of U.S. and Australian travellers and 90 percent of British tourists, consider active protection of the environment, including support of local communities, to be part of a hotel's responsibility.

New Zealand is not tracking well in the global competitiveness for tourism coming in at 19th in the WEF report with part of our low ranking due to poor scores on sustainability and natural resource issues.

But Oram says we don't really have a choice. The *Harvard Business Review* recently noted that "businesses that continue to sit on the sidelines will be badly handicapped relative to those that are

now devising strategies to reduce risk and find competitive advantage in a warming, carbon-constrained world".

This, says Oram, is a hard headed strategy outlined by business thinkers Michael Porter and Forest Reinhardt.

They said in the HBR that: "Periodically, major new forces dramatically reshape the business world - as globalization and the information technology revolution have been doing for the past several decades. Climate change, in its complexity and potential impact, may rival them both. While many companies may still think of global warming as a corporate social responsibility issue, business leaders need to approach it in the same hard-headed manner as any other strategic threat or opportunity."

And essentially, Oram says, the New Zealand business model is wrong. Hotel and other accommodation businesses have low yield and room rates are declining in real terms. "Clearly, investors are accepting low profits in the hope of capital gains. This is a very common NZ business model...asset rich, cash poor [e.g. dairy industry and residential property investment] but capital values can become so high...[that] a business becomes unsustainable - in tourism or any other sector."



PHOTO: NEW ZEALAND / JEREMY BRIGHT

*"Those nations that will ultimately become the most competitive in the travel and tourism sector will be those demonstrating their ability to implement measures to conserve the environment, or to correct possible damage to it, while continuing to facilitate the sector's healthy growth".*

So, what's the strategy?

Oram says businesses need to increase value not volume; earn profits not capital gains and build year-round travel, not just peak travel. This includes the need to-

- Better target who and from where.
- Marketing and branding even more effectively.
- Raise yields rapidly.
- Recruit, train, retain, reward and grow staff.
- Invest fully and creatively in infrastructure.
- Lead the world on sustainability.

Oram believes environmental reform over the next thirty years will be triggered by gradual awareness. While the theory is very unclear, and the practice even less clear, the reform will see a "radical change in the economy; a radical change in our model and a shift from commodities to high value, higher pay and New Zealand becoming more engaged with the world".

## Dealing with staff turnover

**I**T'S time the hotel industry seriously addressed the problem of turnover, according to Unite hotel organiser Daphna Whitmore.

Speaking at the hotel industry conference the union organiser said the problem of low wages couldn't be ignored.

She said that with turnover [of staff at some hotels] running at between 50 and 80 percent, retaining staff is a key concern for the union which has promised to focus on the hospitality sector.

"Unite's success in ending youth rates and raising wages in the fast food sector means 16 year olds in their first job earn above the minimum once they get some experience. Some hotels now pay less than KFC, Pizza Hutt and Starbucks. Hotels will need to pay start rates above the minimum to make the industry more

attractive to job seekers."

She told the conference that supervisors at KFC earn \$17.44 an hour under a new contract negotiated by Unite. "Many supervisors in hotels earn less than this. Often they are on modest salaries and work long hours for little reward." Whitmore proposed that large hotel chains agree to raise the wages above the minimum. "If the major hotels signed up to a code to lift the rates it would prevent the sort of competition among hotels that has driven down wages," she said.

In the same panel discussion hotel managers noted that many already paid more than the minimum wage plus other allowances were also taken into account such as daily staff meals, transport, uniforms and the opportunity to progress a career in the industry.

# Smarter and more prudent

**WHILE** things are looking tough at present and hoteliers are going to have to be smarter, better communicators and more prudent with costs, Brand New Zealand is still very strong, and hotels are delivering unparalleled levels of facilities and services.

So says the keynote speaker at the NZ Hotel Industry Conference David Baffsky, the honorary chairman of Accor Asia Pacific. He believes that in the short term there is no good news, and the hotel industry is about to have a reality check.

"Concentrating on the small top end of the market and on the so-called independent traveller who has allegedly a higher disposable income is breathtaking," he says. "They are the very people who are the most conservative and the most affected by the current aberrations in financial and exchange rate markets."

Some of the more dramatic short term factors he pointed to included rising costs; oversupply; lack of credit; feeder markets softening and a reduction in airline seats to and from prime markets. But going back to the basics of the question, he says

three things need to be kept in mind:-

1. The pyramid of profitability.
2. The parallel with modern aircraft in relation to the number of first class; business class; and economy class seat availability. "The truth is that the economy and mid scale sectors represent the overwhelming majority of this industry and in fact in the United States and France, economy hotels alone represent more than one quarter of the total market. We need to stop talking about the top end of the market which is the most competitive and the most fragile."

3. Governments are the largest beneficiaries of this industry and they make the smallest investments. "They have a much greater responsibility to help even out these cycles, without... them spending on non-traditional areas. In fact, their greatest contribution is to create the right environment."

Baffsky says the 2011 Rugby World Cup will be more than a test of nerves on the playing field.

"You will face an equally challenging time in the lead up to the Cup when it comes to hotel pricing. It was during the



PHOTO NEW ZEALAND / JULIA THORNE

*Challenges with hotel pricing for the Rugby World Cup 2011*

2003 Rugby World Cup in Australia that Accor really decided to put our necks on the line regarding the issue of hotel pricing. I believe Accor did the wider industry in this part of the world a great service by sticking to our guns on the issue, despite one English paper running a huge headline saying "Ned Kelly Lives!"

Finally, he noted that New Zealand is considered well advanced in the tourism cycle, and while the short term is going to be challenging, the medium outlook for hotels is very good.

"We are all going to have to be smarter, better communicators and more prudent with costs, but Brand New Zealand is still very strong, and hotels are delivering unparalleled levels of facilities and services." 📷

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# Get the shoulder season sorted

**INCREASING emphasis on building visitor growth in the shoulder season months would show very tangible benefits to the New Zealand hotel industry, according to Stephen Hamilton, a director of Horwath HTL.**

Speaking at the NZ Hotel Industry Conference, on hotel performance and profitability, Hamilton outlined two possible growth scenarios for the future.

The first scenario anticipated international visitor arrival growth continuing at 6 percent per annum to 2015 (the medium term actual rate of growth) and used similar seasonality patterns as experienced by the industry over the nine years 1997 to 2006.

The second scenario he described assumed international visitor arrival growth of 4 percent per annum to 2015 and less seasonal fluctuation, with growth in occupancies in the shoulder months of September/October and March/April.

Hamilton said working from a 2006 base relating to Auckland hotels (with annual occupancy of 66 percent), the first scenario (which saw the total supply of room rise from 8,599 to 14,353) showed average annual occupancies would fall

to 62 percent while there would be an average daily rate increase from the 2006 base of \$140 to \$190.

He said the scenario showed that total Auckland hotel profit would be \$224 million from the \$107 million base in 2006. But the industry would need to invest \$994 million in the Auckland hotel industry alone under this scenario.

The second scenario showed that if demand spreads into the four shoulder months average annual occupancies would be at 69.4 percent, ADR would hit \$209 and total hotel profit would be \$238 million. Total supply of hotel rooms is anticipated at 10,508.

Hamilton estimates the total investment required under the second scenario

	2006 (Base)	2015 (Scenario I)	2015 (Scenario II)
Annual International Visitor Growth	Base	6%	4%
Seasonality Change	Base	Based on historical seasonality trend	Higher occupancy in shoulder months
Annual Occupancy	66.0%	62.0%	69.4%
Total Supply	8,599 rooms	14,353 rooms	10,508 rooms
% increase on 2006 supply	Base	67%	22%
ADR*	\$140	\$190	\$209
Total Hotel Profit**	\$107 million	\$224 million	\$238 million
Hotel Profit per Room Night Available	\$34	\$43	\$62
Hotel Profit per Room Night Sold	\$51	\$69	\$89
New Hotel Investment Required including Land		\$994 million	\$330 million

\* ADR (Average Daily Rate excluding GST) is projected to increase at the rate of inflation to 2015 for Scenario I and II, and is assumed to be 10% higher in Scenario II due to lower anticipated supply entering the market  
 \*\* EBITDA.

would be just \$330 million in Auckland. This is just one third of the amount required under the higher growth scenario. (See table above).

In general Hamilton noted that the five key messages for 2008 were that investors are now more cautious, risk has been repriced and while it is now a more rational market there are challenges ahead for inbound tourism, but also some opportunities.

## Implementing the tourism strategy

**THE detailed plan to guide the implementation of the New Zealand Tourism Strategy 2015 is expected to be released soon.**

The Minister of Tourism Damien O'Connor told the New Zealand Hotel Conference in May that this plan sets out the "who" and "when" for each of the strategy's 92 actions and as *Tourism Business* magazine went to press the plan was expected to be put to Cabinet in early July.

"The strategy to 2015 will guide how we develop tourism in New Zealand over the next seven years. It sets out the key challenges facing the sector, and we all know there are challenges ahead. But it also sets out what we need to do, together, to overcome those challenges," said O'Connor.

"And I emphasise the word 'together' because in the tourism industry, we cannot go out on our own. Our tourism pro-

duct is New Zealand, in its entirety. For our strategy to succeed, we need buy-in across the economy, and to connect with other initiatives which will help the tourism industry achieve its goals."

In his speech Damien O'Connor also noted his comments last year about the low profitability of the hotel sector.

"Hotel room rates are regarded as being low in New Zealand compared with international standards. Now I know that this is much easier said than done, and that it's easy for me to stand here telling you not to drop your prices in line with your competitor down the road. But as our tourism strategy says, we need to continue to focus on quality and develop and differentiate our products to encourage longer stays and greater spend.

"To help improve business profitability, we need to stimulate demand outside the peak season. Clever marketing is one way to do this. Tourism New Zealand's "green



and gold" campaign was first launched in August 2006 to entice more Australians across the ditch in the autumn months. By November last year, nearly 93,000 more Australians visited New Zealand compared with the same 15 month period a year earlier. That equates to an additional \$56.7 million in visitor holiday spending. This campaign has just been revamped and relaunched."

He also applauded Peter Blackwell and his team at AA Tourism for the recently revamped "101 Must-Dos" campaign.

# The hospitality industry's natural legal partner

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Our services include strategic advice on existing and new-build hospitality developments, market demand and supply studies, financial feasibility studies, operating and financial projections, hotel operating reviews, independent expert advice, litigation support, operator selection and management agreement negotiations, pre-lending bank reviews, purchaser and vendor due diligence and asset management.

To discuss our services further, please contact Stephen Hamilton, Terry Ngan or James Parkinson (Directors).



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