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The New Zealand Hotel Industry Conference 2011

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What lies ahead?

Things don't look too bad further out for New Zealand hotel demand, ANZ economists told the New Zealand Hotel Industry Conference.

NEW Zealand's tourism industry should expect average annual growth rates of between three percent to five percent in the rest of the decade. That was the message from Khoon Goh, ANZ's head of market economics and strategy, who described the projected rate as "not bad" in challenging economic times.

Tourism, he noted, took over from dairy as the country's top export earner in the year to March 2010, although he expects dairy to knock tourism back off its top perch in the year ended March 2011.

New Zealand's tourism industry has grown remarkably since its infancy in the 1960s and weathered recent economic hard times very well. But past strong growth is unlikely to be repeated. On the plus side, though, Goh outlined a series of good-news comments that were likely to lift the spirits of conference delegates.

Tourism, he noted, has an inbuilt resilience to wider economic downwards pressures, and has bounced back from the negative effects of events as diverse as the first Gulf War, the Asian financial crisis and SARS.

Goh cautioned delegates to position themselves for future growth from China, Africa and the Middle East, Latin America and India.

"This is where New Zealand's future opportunities lie," he said. "[With the exception of China], these markets are not really on the radar to a large extent but they should be."

He noted that Malaysia, his country of origin, has already caught on to opportunities offered by the huge Middle Eastern tourism market.

Goh described as "remarkable" the wider tourism industry's ability to grow overall spend on accommodation over the past few years.

Total accommodation spend (excluding GST) has risen from \$1.922 billion in the year ended March 2007 to \$2.019 billion in 2010.

Broken down further, these stats reveal:

How big is really big in China?

CHINA'S urbanisation requires huge infrastructural investment, ANZ's head of Asia-NZ relationship management, Chris Mouat, told the conference. Over the next 10 to 15 years: -

- 350 million people will be added to China's urban population. That's three times the amount of rural Chinese (103 million) that have migrated to the cities since 1990.
- 1 million kilometres of new road and 28,000 kilometres of metro rail will be laid.
- 170 mass-transit systems will be built - twice the number that all of Europe has today.
- 40 billion square metres of floor space will be built to construct five million buildings - the equivalent of building two Chicago's every year.
- 97 new airports will be built (one every 40 days) and one in every ten planes assembled by Boeing and Airbus will be delivered to China.



The Prime Minister and Minister of Tourism, John Key, entering the NZ Hotel Industry Conference 2011 with co-host Jennie Langley of the NZ Hotel Council.

- Business and government spent \$298 million in the year to March 2010 (up from \$271 million in the same period of 2007).
- Domestic tourists lifted their spend to \$582 million in 2010 (from \$536 million in 2007).
- International tourists spent \$1.139 billion in 2010 (up from \$1.115 billion three years earlier).

Goh suggested hotel industry operators take heart from their ability to lift their market share of tourism accommodation dollars.

"It's evidence that your industry is offering value," he said.

Chris Mouat, ANZ's head of Asian relationships, said he thinks New Zealand has by no means begun to grasp how critical and important China will be. He also advised conference delegates that what you see in China is often not what the reality is.

"We cannot know for certain what the future [will bring] but China's near future will start to look quite different from its recent past and we need to think about how New Zealand can continue to benefit from China's overall economic success."

He noted that, in its new five-year plan, China's government has stated that it will become more focused on growth quality rather than pace.

"Their policy-makers therefore need to get Chinese workers to save less and buy more." *By Ruth Le Pla.*



The impact of Christchurch

Insurance premiums look set for hefty increases. By Ruth Le Pla.

THE hotel industry should expect to have to pay anything from 50 percent to 300 percent more for their insurance in the wake of the Christchurch earthquakes. That's according to AON New Zealand general manager, corporate branch, David Wood.

"Re-insurers are putting their prices up so insurers will put theirs up too," he said.

Acknowledging that this is not an easy message to sell, Wood told NZ Hotel Industry Conference delegates that everyone will see increased premiums and they need to plan for this.

He also recommended hotel industry players check out the security of their insurer. "You want your insurance company to be there when you need to make a claim."

Wood also suggested businesses think about their business interruption indemnity periods.

"The Christchurch earthquake has shown us that 12 months may not be enough if a building has to be knocked down and

rebuilt," he noted. "You may need up to 36 months."

Wood was part of a panel of speakers addressing the impact of the Christchurch earthquake on New Zealand hotels.

Tim Hunter, CEO of Christchurch and Canterbury Tourism, said arrivals in Christchurch from Australia over the past couple of months had been down 30 percent. "In fact, in March they were down 39 percent."

"Some of that is due to more people doing Easter travel last year but a lot of that was the earthquake effect. That's of no surprise. You would expect something of that magnitude after an event like that.

"What is hugely worrying to us is that people who are arriving are not coming in to the city. They're not staying in Christchurch. They are leaving and heading out to other parts of Canterbury and other parts of the South Island."

He emphasised that iconic Christchurch attractions are open.

"So we've been saying in Australia, 'please understand that the earthquake was a very localised event . . . and that half the city is in pretty reasonable nick'."

Hunter said he shared the frustration of the hotel industry.

"Without clear and definitive timelines for rebuilding, we've got nothing to sell. This is going to be hugely frustrating for the hotel industry but when we get clear timelines we'll start to feel a whole lot better."

He added that his organisation's strategy has been to say to Australia that Christchurch can't yet handle large conferences as it doesn't yet have the facilities, and it can't do large coach tours, but the city can welcome independent travellers.

"And we want those people to come because they will make an economic difference."

CINZ CEO Alan Trotter pointed out that Christchurch used to host 25 percent of all New Zealand conferences of 250 people or more and that these were the sort of conferences that would excite hoteliers due to their size.

Noting that large conferences are often planned 10 years out, Trotter said the challenge for Christchurch now lies in having to deliver a "balanced and nuanced" message: that while Christchurch is still impacted by the earthquakes, it will be fine for future events.

New convention centre

While PM John Key told the NZHIC delegates that an announcement on the proposed National Convention Centre was expected soon, exactly a month later the announcement was made.

JUST as *Tourism Business Magazine* was going to press the Prime Minister and Minister of Tourism John Key announced the government was in negotiations with SkyCity to build a 3,500 seat international convention centre in Auckland.

John Key and Economic Development Minister David Carter joined Auckland Mayor Len Brown and SkyCity chief executive Nigel Morrison on June 12 to announce plans for the proposed New Zealand International Convention Centre between Nelson and Hobson Streets in Auckland's CBD.

"An international-sized convention centre is essential for New Zealand to tap into the growing market of high value business visitors that we are currently missing out on," John Key said. SkyCity's proposal has been selected as the best option following an Expression of Interest process.

It is estimated that the proposed centre will provide a \$90 million boost to the economy through new spending by additional international visitors. In addition, it is expected that 1000 people

will be employed during its construction and, once complete, SkyCity expects employment for around 800 people to be supported.

SkyCity has agreed to pay the full construction costs of the centre – estimated at \$350 million. The company has asked the Government to consider some alterations to gambling regulations and legislation.

As for the conference itself, John Key told delegates that while the Rugby World Cup will provide a great opportunity to showcase the country, later in his address he noted that he felt New Zealand could do a better job of getting some larger events to NZ.

He pointed to the 500 members of the Society of American Travel Writers coming to New Zealand for their annual convention in November, saying it was a great event to host.

John Key also noted how successful Australia's Victoria and, in particular, Melbourne had been in attracting great events.

"They have great hotels, great restaurants and good transport. That is a lot of what we are trying to do. I think we undercook that in New Zealand," he said in May at the conference.

"That is the aim for tourism in New Zealand, not just bums on seats, it is the right ones."

As far as air connections go, he said the Government is working hard to increase the appetite for more airlines to come to New Zealand highlighting successes with AirAsia X; China Southern and Jetstar. He also sees opportunities to open up connections with Latin America.

By Annie Gray.

Satisfying Chinese and Indian visitors

There is plenty more that can still be done to satisfy visitors from China and India. By Annie Gray.

RECENT product development research focused on international visitors from China, South East Asia and India by Tourism NZ will be released to the industry in the near future, Tourism New Zealand chief executive Kevin Bowler told the NZ Hotel Industry Conference, in May.

The research aims to better understand Asian visitor feedback from their NZ experience. It investigated whether NZ's current product offering meets consumer demand and expectations and aimed to identify those sectors or products that require further development or refinement in order to ensure high visitor satisfaction from those markets.

Bowler said TNZ knows that satisfaction for Asian visitors is the lowest of all markets, although it's improving slightly from the VEM and that early findings were generally positive – in that visitors had enjoyed their time in New Zealand. However it wasn't hard for them to identify areas where New Zealand could do better.

Top line results indicate.-

- That service levels are often not what Asian visitors are used to and they expect more.
- We are under-delivering on food experiences particularly breakfasts.
- Lack of translated information was a gap particularly for Chinese visitors.

“**RWC: Building on lessons from the Sydney Olympics, and the recent Winter Olympics in Vancouver, our new focus is squarely on the visiting media.**”

“I should re-emphasise, this was a study to figure out what we could do better, and the overall impression was pretty positive. But there are opportunities to do better.”

On a more general note, his presentation recognised the “extraordinary times we are in” and while the natural disasters in Christchurch and Japan have impacted, he says the downturn in visitors at present is “we think a temporary distortion within the macro view of global tourism flows. By this I mean within a few months the

pattern we were in earlier this year will to a large degree return”.

As far as the Rugby World Cup goes Bowler says that over the past few months Tourism New Zealand's focus has changed.

“Building on lessons from the Sydney Olympics, and the recent Winter Olympics in Vancouver, our new focus is squarely on the visiting media.

“With some 2000 accredited media expected, and a large number of non accredited, we have a big opportunity to tell New Zealand's visitor stories to a large audience around the world. The TNZ team's focus is on identifying the media with the right channels who can get our visitor messages delivered.

“We're also up-dating and providing free broadcast quality images of New Zealand to visiting media who'll use this to fill out the hours of broadcast they have committed with their networks. While delivering a great experience to the expected 85,000 visitors, we have identified it's the media and what they say, what they show and their impressions that will shape the longer term benefits to tourism from the event. So this is where our focus will be through to the conclusion of the event.”

The digital media strategy

KEVIN Bowler told the NZHIC that digital media channels are vitally important to the “active considerer” strategy Tourism New Zealand is using to identify people actively think-ing about coming to NZ.

“It's through these channels we can find not only people based on demographics, but on what they're doing or viewing while on-line. Then we're able to use some advanced targeting tools to serve advertising about New Zealand to the right people at the right time.

“Search is the foundation for the strategy-if you have someone searching for terms that relate in any relevant way to a trip to New Zealand they are the people we want to see our brand messages.

“On-line display advertising, the tiles and banners, can work in similar ways to simple press ads. But the clever part is who you serve these ads to and when.

“The goal with all our media is to attract people to a website for more information and

to be inspired to move to conversion. Normally this would be *newzealand.com*, which we're working hard on improving right now. ... visitors will come to it and find themselves sold on choosing New Zealand and click on a seller to convert. This action we're calling a referral. Our campaign targets are about getting more referrals to sellers, be they hotels, airlines, or travel retailers.

“Right now we attract 1.2 million visitors to *newzealand.com* each month (about 70 percent better than a year ago) and send 150,000 referrals to sellers each month (up 67 percent on a year ago).

“In time we'll have a better understanding on the conversion to sale rates these referrals have from data sharing with partners.

“Our new marketing strategy is live now in all our target markets. Initial results are very encouraging but it's fair to say the current unstable context makes measuring the results against prior periods tough going.”



Why Host Hotels invested in New Zealand

A move into the New Zealand hotel property market had not been on the cards for the huge United States real estate investment trust Host Hotels. By Ruth Le Pla.

HOST Hotels director Christopher Hur told the New Zealand Hotel Industry Conference that: "To be totally frank, New Zealand wasn't a priority market for us. It wasn't one of the places we were thinking of spending time in. But, as transaction folks know, when a good deal comes to you, you don't ignore it. You try to understand it and follow it through."

Host Hotels is a new player in the New

Zealand market. It closed its deal to buy seven Accor-branded properties in this country in February this year, paying Tourism Asset Holdings Ltd and Accor NZ\$184 million for the seven properties, with a combined total 1,207 rooms.

Among other considerations, the company had to weigh up whether, given New Zealand's distance from other markets except Australia, it was worth the time and attention.

Hur says that had it been a single hotel that would have been a very different proposition to the seven hotel portfolio his company eventually bought.



AMANDA WIGNALL www.awp.co.nz

The deal brought Host economies of scale: "Time being one of the most precious resources."

Host Hotels is a large global player with an enterprise value of approximately US\$17 billion. It owns or has interests in 141 assets globally - 111 of them in North America - and plans to expand further into the Asia-Pacific market.

Hur says his company runs every potential new acquisition through an investment review that takes into account key factors such as location, product and value.

While every situation is different and specific factors vary, he says an analysis of locational factors may include market attractiveness, whether or not a property is in a gateway city, whether it is in a leading destination and any barriers to entry.

Product analysis includes a look at the property's asset quality, whether it is managed by a leading operator and how suited it may be to the market. Price considerations include the attractiveness of its yield, cost of capital and replacement costs.

Hur concluded that, from Host's perspective, the New Zealand market looks good.

"It's not perfect but nowhere is. The point is, we took a long-term, very positive confident view on New Zealand and we think this is a smart place to be."

Host's New Zealand properties are:

- 273-room Hotel Novotel Queenstown Lakeside
- 193-room Hotel Novotel Christchurch Cathedral Square
- 147-room Hotel Novotel Auckland Ellerslie
- 139-room Hotel Novotel Wellington
- 200-room Hotel ibis Wellington
- 155-room Hotel ibis Christchurch
- 100-room Hotel ibis Ellerslie.

Can room yield move forward?

Investment activity may move its focus away from Australasia to other markets by the first half of next year as Europe and the US sort out their investment issues and start moving forward again.

DEAN Humphries, New Zealand national director of Jones Lang LaSalle Hotels, said that in 2010 this country recorded the second highest hotel transaction volumes since his company's records began in 1990, although he cautioned that New Zealand volumes are, on an international scale, very small.

Putting the figures into perspective he said that Australia recorded 28 hotel deals in 2010. New Zealand recorded eight such deals in the last part of the year alone with a combined value of \$270 million. Typical New Zealand annual transaction numbers would usually be three or four, Humphries noted.

Hotels that changed hands in the New Zealand market included the Hotel SO in Christchurch, the Hyatt Regency Auckland and the TAHL portfolio.

The company's managing director Australasia Craig Collins noted that, in his experience, Asian investors tended not to distinguish between Australia and New Zealand, seeing them as one, Australasian, market.

Humphries predicted good prospects for the Australian market and continued investment activity on this side of the Tasman, albeit at a slower rate than in the final quarter of last year.

He said there are five hotels under construction in New Zealand which together would add a further 3.5 percent to supply. That would be balanced, however, by lost room availability in Christchurch due to the February earthquake.

While acknowledging that it is still hard to provide accurate figures as there are still many unknown factors surrounding Christchurch rebuilds, he estimated a 12 percent contraction in room supply in New Zealand overall.

"The good news is, if we have no new supply and if we listen to the ANZ economist who earlier this morning [at the conference] predicted we will have 3 percent to 5 percent increase in visitor numbers over the second half of this year, then we see no reason why you can't get room yield growth moving forward," he said.

"So the prognosis is very positive that if we get increases in room yield, there should be opportunities for new development."

Remember the regulars

As well as preparing for the RWC, the tourism sector needs to keep a focus on its core customers who return each year.

AS some 300 attendees gathered in Auckland in early May for the annual NZ Hotel Industry Conference the message from Air New Zealand deputy CEO Norm Thompson centred around how the wider tourism industry is managing the Rugby World Cup (RWC).

He challenged the sector to work together to show the world that New Zealand is open for business for everyone.

Thompson urged the industry to use the remaining few months before the event to make sure they don't lose their focus on their traditional customers.

"We've got to look after core business - that business that comes to us each and every year and every day of the year."

Thompson added that he believes the local tourism industry as a whole has got it "absolutely right" for the people coming to New Zealand specifically for the RWC.

"We've got great venues, we're going to have a great festival and we're ready for them."

But he said the industry has forgotten the fundamental principle of also looking after its regular visitors who were being put off from coming to New Zealand by higher prices during the RWC season.

"The RWC will be a failure [for NZ] if we don't maintain our normal flows."

He said the tourism industry operators need to refocus and ensure they get their rates right for September, October and beyond.

He told conference delegates that it was



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"gutting" for his people at Air New Zealand that the company's September/October RPKs are flat compared to the same time last year.

He said Air New Zealand has introduced a number of initiatives to try to stimulate traffic in those months.

For US visitors, it is promoting three free domestic stopovers and vacation packages that route visitors around the RWC games.

In the UK and Europe, Air New Zealand is partnering with specific tour operators to package itineraries either side of the RWC.

In China, it is offering free domestic sectors to non-RWC cities, and a FIT package promoting accommodation vacancies for cities not impacted by the RWC.

He added that the tourism sector needs to be working collectively to make China a success story.

"We need New Zealand to be a mono-destination out of China."

He noted that the number of Chinese visitors to New Zealand increased 20 percent last year, but their spend only increased by 7.4 percent.

"We all need to consider how to adapt our products to meet the needs of the Chinese market."

Thompson said further work is needed to establish the New Zealand brand in China.

Air New Zealand had a team in China running a major expo for more than 1,000 Chinese travel agents familiarising them with what New Zealand has to offer.

"[We're not trying] to sell the Air New Zealand story - we want to be the carrier of choice, obviously - but we're selling the New Zealand story."

By Ruth Le Pla.

What are the hotel industry's priorities?

A survey of attendees at the hotel conference found that overall delivering a great experience for the Rugby World Cup and avoiding a post-event hangover was the top priority.

This was followed by the need to drive growth and yield from emerging markets - China and India.

The third priority was recovering from the Christchurch earthquake, then delivering great experiences and service and at number five was the need to lift the Average Daily Rate.

Interestingly there was some disparity between the priorities for hoteliers and non-hoteliers attending the conference.

For the hoteliers the Rugby World Cup was the top priority, followed by:

- Recovery from the Christchurch earthquake.
 - Driving growth and yield from emerging markets - China and India.
 - Lifting ADR.
 - Maintaining/Lifting product quality.
- For non hoteliers the priorities were ordered:
- Delivering great experiences and service.
 - Driving growth and yield from emerging markets - China and India.
 - Recovery from the Christchurch earthquake.
 - Rugby World Cup.
 - Maintaining/Lifting product quality.

The winners

LYNNE McVicar, general manager of Hotel St Moritz in Queenstown, took the Senior Hotel Executive of the Year Award at the annual Hotel Industry Awards announced at the New Zealand Hotel Industry Conference dinner. This is the second year that the awards were presented to people in the hotel sector who went above and beyond the call of duty.

After almost a decade as an accountant McVicar entered hotel executive management in 1994 as a financial controller. In 1998 she opened the Hotel St Moritz in Queenstown as general manager and has remained in the role for the past 13 years.

Meanwhile the Outstanding Young Hotel Executive of the Year Award was presented to Alison Shirley, the human resource manager - corporate for Heritage Hotel Management. her role includes managing and overseeing HR activities and initiatives for more than 600 employees across eleven hotels.



The New Zealand Hotel Council represents the interests of:

- Over 130 of New Zealand's international chain, large independent, privately owned and boutique hotels.
- In eight regions - Auckland, Rotorua, Central Park (Taupo, Tongariro, Napier and Gisborne), Wellington, Nelson/Marlborough, Christchurch, Dunedin and Queenstown.
- Accounting for around 90% of hotel capacity in the main centres and close to 100% of 'large hotel' inventory.
- Collectively, NZHC members operate over 17,650 hotel rooms, control capital assets valued at NZD3.1 billion, generate annual Revenue of NZD886 million and employ almost 11,000 full and part time staff.

To find out more contact: **Rachael Shadbolt**
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*These offers are only available to new Corporate Subscribers and end on July 31, 2011.

New Zealand Hotel Council Statistics - a great industry resource:

- The New Zealand Hotel Council has one of the best sets of data in the tourism/hospitality sector with over a decade's worth of monthly occupancy, average daily rates and RevPar statistics as well as market segment data by sector and origin.

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

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New Zealand
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Horwath HTL is pleased to co-host the New Zealand Hotel Industry Conference