# Minister Nash's Four Principles for Tourism

HOTEL COUNCIL AOTEAROA

Hotel Council Aotearoa (**HCA**) is New Zealand's dedicated industry body for hotels and hoteliers. We represent over 140 hotels (15,600 guest rooms).

This note sets out HCA's initial response to the four core principles outlined by the Minister of Tourism in his keynote speech to the Otago Tourism Policy School on 19 March 2021. These four principles will help inform and shape the Minister's policy programme for tourism. The principles are: (1) Brand New Zealand and our global value proposition; (2) Re-set and rebuild on a sustainable model; (3) Costs of tourism are priced into the visitor experience; and (4) Industry as partners in transformation.

## 1. Brand New Zealand and our global value proposition

- **It's not just about "brand", it's *product*:** If the underlying product or experience does not match up to the brand promise, then the brand will lose consumer trust. The quality of our marketing is only one part of the overall Brand New Zealand story.
- **Tourism backbone:** Accommodation sits alongside airline, airport and transport infrastructure as part of New Zealand's tourism backbone. Without an effective tourism backbone, it does not matter how good the view is or how well we advertise.
- **Tourism backbone and product are intertwined:** The tourism backbone is part of the product. The experience is not just the view alone, it's the view *from my hotel room* or *from the tour bus*. When deciding where to go on holiday, tourists ask: (1) How do I get there? (2) Where will I stay? (3) How will I get around? These things have a huge impact on perceptions of overall quality and value for money, both before and after tourists actually visit.
- **We should already know how to increase tourism spend:** The playbook for how to "step up" an area's tourism reputation is already well-known internationally: facilitate increased investment in assets which make up the tourism backbone to improve guest experience and appeal. For example, note the tourism transformations in Bali, Phuket and India in recent times.
- **Past (and present) government investment in the tourism backbone:** At times, governments around the world have had to make direct investments into tourism backbone assets to facilitate the step-up in the visitor economy. New Zealand is no different to these other destinations (e.g. airline ownership, local government airport ownership, recent direct investments into conference centres, etc).
- **Product must improve, too:** If New Zealand is to become a global #1 destination for quality, we must create the conditions that allow our product – airline, airports, accommodation and transport networks – to continue to improve and "do justice" to our natural resources. It's a competitive marketplace for visitors internationally and all other destinations have similar aspirations (i.e. improving product to generate more revenue from fewer people). Those other destinations are adding to tourism infrastructure and building new luxury hotels now.
- **Marketing alone won't be enough:** Destination marketing on its own is pointless without having the key tourism backbone assets in place, well-maintained and adjusting to growth. Even the best destination marketing cannot compensate for poor product or overcrowding.
- **Time to re-consider some aspects of Tourism New Zealand's focus:** As regards our own national destination marketing – Tourism New Zealand and the longstanding and hugely successful "100%

Pure" campaign – it's perhaps time to start thinking about updated approaches to brand management and destination marketing (including a continued mandate for domestic travel). We have suggested this to TNZ, already. The largest hotel companies realised some time ago that a *portfolio* of different, but complementary brands allows for more precise targeting of guests, rather than a one-size-fits-all strategy. For example:

- What "portfolio brands" might help New Zealand better target the right mix of guests to our country? Does "100% Pure" place excessive emphasis on our conservation estate and under-pressure icon sites? Should we be encouraging travellers to spend more time in our cities and towns, where there is less impact from tourism?
- Does it make sense to deploy "100% Pure" in Australia at all, if we already get sufficient leisure visitation from that market? Could we not also have a strong business travel or MICE brand for Australia to better target higher-spending travellers?
- If Auckland accounts for 30% of our population (and is the key gateway for most international visitors), do we have a problem if we genuinely believe that Auckland does not live up to the "100% Pure" brand promise? Is Australia doing better with Sydney, Melbourne and Brisbane then we are doing with Auckland? Should TNZ start thinking about this issue, rather than leaving it wholly to Auckland Council?

## 2. Re-set and rebuild on a sustainable model

- **"Big issue":** The tourism funding challenge is large and complicated. A key part is finding a suite of long-term, sustainable funding mechanisms which are (1) sufficient, (2) supported by New Zealanders and (3) aligned with our other goals for tourism.
- **We need to solve the "big issue":** No one-off measure (IVL, bed tax) will solve local government funding shortfalls. The hotel sector recognises the need for all stakeholders to come up with a sustainable and enduring funding model. We strongly support looking to international best practice, rather than falling into the trap of hurriedly designing a new, New Zealand-specific mechanism or unfairly placing most of the burden on commercial accommodation providers. No new funding model should be introduced at the bottom the cycle. We should use this COVID recovery period to engage in genuine consultation and research to ensure we are tapping into international best-practice rather than "reinventing the wheel" in a piecemeal fashion.
- **Typical hotel maintenance investment:** Typically, hotels would reserve 3-5% of annual revenues *just to stand still*. In other words, this amount is reserved each year to pay for soft goods and case goods refurbishment of the hotel every 7-10 years, but not for any expansion or investment in totally new facilities and amenities. Arguably, some of New Zealand's hotels have fallen behind in improving existing hotel room product, which will not help us become a global #1 destination for quality. Why?
- **Has government investment been sufficient?** Growth or quality improvement requires further investment beyond ordinary maintenance reserves, both for hotel owners and government. Local and central government has, for a long time, arguably *also* underinvested in tourism and not "reserved" enough from tourism-related tax revenues to maintain product (and social license). The Tourism Infrastructure Fund is a good start in terms of structure, but $25 million per annum is a comparatively small amount when considered alongside GST, profits tax and PAYE attributable to our visitor economy each year.
- **Councils are incentivised to seek out new revenue sources, even if it goes against our national tourism strategy:** The disconnect between central government tax receipts and local authority responsibility for water, transport and other infrastructure means that local government has in

recent times turned to novel revenue-raising techniques. These local governments are understandably driven by the need to raise revenue for urgent purposes, rather than to help implement any long-term strategy to improve tourism's sustainability and overall product quality. Revenue-based local authority funding mechanisms may perversely encourage over-tourism again.

- **Tourism (and accommodation) cannot bear the entire load:** Tourism businesses, and accommodation providers in particular, should not be expected to carry the entire burden of funding *all* tourism costs incurred at the local authority level. Mechanisms must be fair as between tourists, tourism businesses, central government, councils and ratepayers, or else the funding regime will never be "sustainable".
- **Maori and community engagement is essential:** We support improved destination management practices and increased input from tangata whenua and communities into decision-making, alongside government and industry. We should be looking at international best-practice when it comes to destination management planning.

## 3. Costs of tourism are priced into the visitor experience

- There is overlap between this principle and the goal of finding a long-term and sustainable solution to the tourism funding problem.
- **Smarter pricing makes sense:** HCA supports the general intent of smarter pricing to New Zealand's attractions and iconic tourism sites, especially pricing of access to the conservation estate by international travellers. New technology opens up clever, unobtrusive pricing mechanisms that truly capture the right end-users without distorting future investment or our overall competitive position as a destination.
- **Hotel sector has relevant expertise:** The hotel sector's dynamic pricing practices are fairly sophisticated compared with many other industries, including adjusting for seasonality and demand. At times, the hotel industry has had to adjust pricing practices in response to customer pressure (for example, removing paid wifi). We consider the hotel sector has a lot to contribute to the planning around new pricing initiatives and helping explain some of the pitfalls and challenges.
- **We can't continue to assume total price inelasticity:** There is a pattern in New Zealand of assuming that our physical offering is so unique and special that we have endless pricing inelasticity. Other destinations have similar attractions that they also market as being "best in the world". Some of these other destinations are closer to their target markets, and/or much cheaper (or easier) to travel around than New Zealand.
- **Guest experience and competitor pricing:** New costs or charges imposed on international travellers should be considered alongside what our international competitors are charging. We should be careful not to damage the "guest journey" with an excessive number of different costs, charges and taxes. We must consider overseas practices when developing policy in New Zealand, because our tourism offering does not exist in a vacuum and there are many other destinations competing for visitation.
- **Australia are our competitors:** It would be incredibly naïve of New Zealand to ignore pricing and related practices in Australia. Many target international travellers already believe we are part of Australia, showing how interchangeable the visitor experience is assumed to be. Australia might open up a real cost advantage over New Zealand if we depart from them significantly in terms of GST levels (including tourist rebates), visitor/departure taxes, new bed taxes etc. This sort of Australian price advantage might work against New Zealand as we try to grow our appeal for international MICE business (meetings, incentives, conventions and events). Australia's tourism backbone quality is increasingly important, too.

- **Certain pricing mechanisms can distort future investment in key infrastructure:** In hotels and accommodation generally, lower-tier product has higher operating margins. In other words, luxury hotels might charge more in rate, but once costs are taken into account, the overall operating margins are typically lower in luxury hotels than what can be achieved by budget properties. Higher tier accommodation requires higher levels of service, meaning higher levels of employment per guest and higher operating costs. If bed taxes and other charges hit top end hotels hardest, then accommodation investment will drift towards lower-tier, but more profitable, accommodation types.
- **APTR shows us how <u>not</u> to do it:** We should not introduce new mechanisms with undue speed or re-invent the wheel. The Auckland APTR is a prime example of poorly-designed policy having massive long-term consequences. The hotel sector's strong opposition to the APTR was unfairly dismissed as being self-serving and the rate was introduced with minimal genuine industry consultation. It was obvious to many experienced hoteliers that the APTR simply would not work long-term, which COVID has proven.

## 4. Industry as partners in transformation

- The hotel sector agrees that a "re-set" is needed in terms of how industry and government work together on tourism matters.
- **Large and long-term capital investment is a sign of commitment:** Hotel-owning businesses have made very large capital investments in New Zealand's tourism backbone. In this country, hotel owners are typically long-term players. The hotel sector is aligned with Government in wanting what's best for the long-term success and sustainability of our entire visitor economy.
- **Overseas perspective:** Hotels market directly to our guests overseas. Many hotel-owning businesses also have properties in overseas markets. Senior hotel sector employees have often worked for long periods in high-profile international destinations. As a nation, we must understand foreign guest preferences and how our international competitors are responding to them. New Zealand's tourism sector does not operate in a vacuum. Hotels and hoteliers have meaningful contributions to make in this regard.
- **Partnership assumes <u>genuine</u> consultation:** True partnership requires genuine consultation and dialogue. In recent times (e.g. APTR in Auckland and bed tax in Queenstown), consultation processes have appeared to be "tick-box exercises" designed to rally public support for a particular policy *against* industry participants. Such as approach is inconsistent with notions of partnership.
- **Transformation against backdrop of "recovery":** While industry hears the government's call for change, post-COVID recovery remains critical for many businesses. Destinations will be competing for the visitor spend – how to maintain a positive image and secure our share of high value visitation, while at the same time looking to implement change?
- **Deeper understanding of stakeholder drivers is needed:** Industry needs to develop better understanding of the policymaking process and Government's key challenges and constraints. Industry should aspire to contribute positively towards policymaking. Similarly, there is scope for improving regulatory understanding of the hotel sector business model, including factors that impact on the hotel development cycle. If things are going to be different, all stakeholders should first commit to *learning more* about what drives other participants in the tourism economy.

**April 2021**