

**Enhancing Financial and
Economic Yield
in Tourism:**

**Division Benchmarks for
New Zealand
Tourism Characteristic
and
Tourism Related Industries**

1999 – 2003

John Moriarty

Yield Report 6A



LINCOLN
UNIVERSITY
Te Whare Wānaka O Aoraki



LINCOLN UNIVERSITY, PO BOX 84, CANTERBURY 8150, NEW ZEALAND

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Chapter 1

Overview

Performance monitoring and benchmarking are important contributors to policy and planning processes. Tourism presents particular challenges as visitor expenditure supports a broad spectrum of commercial activity throughout hundreds of the economy's industrial divisions. It has been difficult to establish financial performance benchmarks at divisional level because enterprise performance is generally confidential (unless required to be disclosed – e.g. as part of an obligation to list on a public exchange such as NZX). More easily identified alternatives are generally activity based (e.g. revenues, customer volumes, market share) and whilst useful they offer no insight into financial or economic performance.

The benchmarking metrics in this report include Financial Yield (FY) and a variety of operating ratios based on revenue. These benchmarks represent the consolidated financial performance of enterprise business units within New Zealand Tourism's characteristic and related industries. They reflect the degree to which divisions generate wealth (Financial Yield) and report the operating parameters associated with that performance.

Data has been sourced from Statistics NZ's Annual Enterprise Surveys conducted over the period 1999-2003 together with supplementary information supplied to them by Inland Revenue thus enabling broad coverage of the tourism sectors.

Approximately 57,690 enterprises have been included in this study with each enterprise contributing results to all or part of the analysis period. Enterprises are comprised of one or more business activity units (Kind of Activity Unit – KAU). Each business unit is classified into a "division" of the Australia, New Zealand standard industry code (ANZSIC). Business activities are also consolidated at an umbrella level known as group top enterprise (GTE). Confidentiality rules ensure that it is not possible to identify the performance of any single enterprise or business unit.

Business activity in the retail sector is known as Tourism Related whereas trading in all other reported sectors is known as Tourism Characteristic. Tourism related activities derive between 5 percent and 25 percent of their revenues from visitor expenditure whereas for tourism characteristic activities this proportion exceeds 25 percent.

Chapter 2

Interpretation and Usage

These benchmarks have been compiled from the consolidated performance of thousands of enterprise “business units” (KAU) and each division may be viewed as a “super-business unit” whose revenues, expenses and assets are the average of the data from all divisional trading activity over the period 1999-2003.

Enterprises are represented at two levels: at a single consolidated level (GTE) and at least one business activity level (KAU). In some cases there are also multiple activities - each of which may be associated with a different division – i.e. ANZSIC. Multiple activities are generally associated with larger enterprises

If an enterprise reports on activities or business units operating in multiple divisions, the data associated with each business unit is deemed to reflect the resources needed to trade effectively. For example, a Hotel (H571010) that has distinct business units providing accommodation, food and beverage and retail liquor sales will be deemed to have reported all respective revenues, expenses and assets in ANZSIC divisions H571010, H573000 and G512300. Fewer than 10 percent of enterprises examined had distinct business units operating in multiple tourism divisions. Enterprises operating in both tourism and non-tourism divisions only have tourism business recorded in this study. Examples of non-tourism activities include the services, manufacturing or agricultural sectors of the economy.

Average annual demand as indicated in the benchmark table reflects only the demand directly associated with that division. Accordingly, divisions can be further consolidated to indicate the performance of a sector – e.g. Transportation.

Chapter 3

Benchmark Definitions

There is one key benchmark that informs on overall financial and economic sustainability and several others that may assist with diagnosis.

- a. Financial Yield (FY) is the ratio of a division's net operating profit after taxes (NOPAT) to its assets.

NOPAT has been derived from the following expression:

$$(\text{Gross Operating Surplus}) \times (1 - \text{Tax Rate}) + \text{Interest Expenses};$$

Gross Operating Surplus is the trading surplus without "Salaries and Wages to Working Proprietor" expenses

And

$$\text{Assets} = \text{Shareholder Funds} + \text{Total Liabilities}$$

Note that Salaries and Wages to Working Proprietors are deemed to be dividends as opposed to expenses.

At division level, FY is not only a comparative benchmark, but it also reflects the degree to which business activity compares with opportunities for alternative use of capital. Division enterprises fund their operations through combinations of debt and equity, the cost of which depends on its source and the security offered to the lender. Sources of funds for small and medium enterprises include proprietor's equity and trading banks whereas larger enterprises may source funds from shareholders, corporate investors and banks. The risk profiles of each of these are reflected in the cost of capital (debt and equity). Where FY meets or exceeds the cost of capital, trading generates wealth in accordance with expectations and is generally economically sustainable. Where FY does not exceed the cost of capital, alternative uses of that capital would be expected to generate more wealth and trading may not be economically sustainable. Three benchmark rates were chosen to reflect the different risk profiles of enterprises operating in tourism divisions:

1. Base Lending Rate, 6.5 percent after tax over the analysis period. Applicable to businesses meeting the lending criteria of Trading Banks,
2. Home Mortgage Rate, 5 percent after tax over the analysis period. Mainly applicable to proprietors pledging personal equity, such as their home, as security to fund small enterprises, and finally,
3. Risk-adjusted Weighted Average Cost of Capital (WACC), 12 percent after tax. Applicable to larger public enterprises reliant on unsecured equity funding from the open market.

The Risk Free rate over the analysis period, available from 5 year NZ government bonds, was 4.3 percent after tax.

A general objective would be that the long-run FY of a division exceeds the base lending rate to ensure that competitive investment funding is available to its enterprises.

- b. Operating Ratios

A number of diagnostic ratios are included to assist analysts and some of them are described in detail.


1. NOPAT/Revenue. The Operating Profit to Revenue Ratio is reflective of business efficiency within a trading climate (high/low turnover, seasonal, etc).
2. Each division may operate in a different competitive climate and this ratio is an indicator of the level of efficiency in the face of that competition. A higher NOPAT/Revenue indicates a mildly competitive climate, whereas a lower NOPAT/Revenue reflects a more highly competitive climate. Also, enterprises using substantial resources generally require a higher NOPAT/Revenue ratio than those using fewer resources.
3. Total Expenses/Revenue. This is a common operating ratio used by many to indicate pre-tax margins. This ratio should always be less than 100 percent, with a likely range between 80 percent and 97 percent. High turnover divisions generally display ratios at the top of this range, whereas lower turnover divisions are generally found in the mid/lower range.
4. Financial Cost/Revenue is a ratio that indicates the level of borrowing. This indicator will seldom exceed 10 percent of revenue. Most borrowing is an unavoidable expense (once undertaken) and a high Financial Cost/Revenue ratio is one indicator of the pressure on working capital if revenues decline for seasonal or other reasons.
5. Assets/Revenue is a ratio that informs on the degree to which resources ‘turn over’ in trading. Akin to inventory efficiency, low Asset/Revenue ratios reflect modest resources needed to achieve business results whereas high Asset/Revenue ratios reflect a more substantial and rigid set of resources to achieve business results. It was not possible to isolate all of the resources used to achieve business results (e.g. leased assets were unidentifiable and were regarded as expenses). The manner of funding an asset should not reflect on the economic or financial sustainability of an enterprise so some care should be taken with this ratio and only its broad ranges used for comparison purposes. If FY is to be improved in the short term, the most fruitful avenue is to attempt to increase NOPAT since short term asset reductions are often impractical. Over longer timeframes, asset efficiency is essential.
6. All Salaries/Revenue and Employee Salaries/Revenue are ratios that reflect the human resource levels associated with trading. Whilst many enterprises use FTE (full time equivalent staff) metrics, financial ratios indicate the level of dependence on labour resources in the same way as one would view assets or capital resources. Again, the ratios are best compared with peer division values or an exemplar that might be imitated. Trading enterprises may have ratios in the range 3 percent to 25 percent depending on the nature of their business. Note that the ratio Salaries and Wages to Working Proprietors/Revenue is the difference between All Salaries/Revenue and Employee Salaries/Revenue.
7. Sector benchmarks are constructed from consolidated division performance where each contributing division is weighted by its 2002 Tourism Product Ratio¹ (TPR).

1 Statistics New Zealand, TSA 2004, 2002 Table 4, P40, June 2005

Chapter 4 Summary

Benchmarks are a support instrument for policy and planning analysis. Accessing financial information aligned with visitor activities has previously been a difficult task due to confidentiality so reliance on activity based measures such as customer volumes, market share or estimated turnover has often been the next best alternative. However activity based measures do not inform on financial or economic sustainability and correlate poorly with the creation of wealth – without which investment and growth decline.

The provision of both peer and exemplar divisional benchmarks of financial performance provide a starting point for policy or planning performance monitoring over significant time periods.

		NZ Tourism Division Benchmarks 1999-2003 Based on Consolidated Business Activity Unit Returns										
Tourism Related Divisions	Fin Yield (FY)	Cost/ Rev	Fin Cost/ Rev	Assets/ Rev	All Sal/ Rev	Emp Sal/ Rev	Depn/ Rev	NOPAT/ Rev	NOPAT/ All Sal	SWWP/ All Sal	SWWP/ NOPAT	
G511010 Supermarkets	13.1%	0.96897	0.00240	0.19401	0.08033	0.07688	0.01426	0.02551	0.33182	0.04306	0.13559	
G511020 Groceries and Dairies	13.3%	0.96639	0.00520	0.33086	0.05613	0.03189	0.01079	0.04395	1.37808	0.43175	0.55134	
G512100 Fresh Meat/ Fish and Poultry Retailing	17.2%	0.97452	0.00799	0.20211	0.13552	0.12111	0.01566	0.03471	0.28660	0.10634	0.41518	
G512200 Fruit and Vegetable Retailing	16.0%	0.96946	0.00736	0.22505	0.07993	0.06757	0.01437	0.03611	0.53446	0.15471	0.34244	
G512300 Liquor Retailing	10.2%	0.97287	0.00474	0.27615	0.06068	0.05278	0.01190	0.02821	0.53445	0.13022	0.28014	
G512400 Bread and Cake Retailing	8.5%	0.98680	0.01348	0.47670	0.24650	0.21961	0.03181	0.04034	0.18368	0.10909	0.66663	
G5125x0 Takeaway Foods	8.8%	0.95173	0.00945	0.55854	0.14656	0.13587	0.03339	0.04895	0.36030	0.07296	0.21843	
G512600 Milk Vending	17.7%	0.93525	0.00877	0.35236	0.07273	0.05735	0.01497	0.06246	1.08907	0.21143	0.24619	
G512900 Specialised Food Retailing nec	10.2%	0.97477	0.00924	0.40259	0.13587	0.11332	0.02303	0.04125	0.36402	0.16596	0.54663	
G521000 Department Stores	11.6%	0.94421	0.00589	0.37402	0.12646	0.12626	0.02101	0.04340	0.34370	0.00152	0.00443	
G522100 Clothing Retailing	22.7%	0.94039	0.00847	0.27010	0.13714	0.11805	0.01899	0.06120	0.51841	0.13918	0.31188	
G522200 Footwear Retailing	16.8%	0.96960	0.00872	0.33465	0.16587	0.12559	0.01296	0.05608	0.44654	0.24287	0.71835	
G522300 Fabrics and other Soft Good Retailing	10.1%	0.99151	0.01090	0.32919	0.17481	0.14983	0.01388	0.03332	0.22236	0.14287	0.74960	
G523100 Furniture Retailing	18.1%	0.96140	0.00718	0.28803	0.12415	0.09548	0.00874	0.05226	0.54732	0.23098	0.54879	
G523200 Floor Covering Retailing	17.4%	0.97206	0.00544	0.28128	0.13394	0.09674	0.00874	0.04908	0.50734	0.27776	0.75802	
G523300 Domestic Hardware and Houseware Retailing	15.6%	0.97361	0.01099	0.31711	0.14923	0.11818	0.01216	0.04948	0.41868	0.20808	0.62758	
G523400 Domestic Appliance Retailing	8.5%	0.97583	0.00530	0.35797	0.10327	0.09019	0.01217	0.03026	0.33548	0.12662	0.43213	
G523500 Recorded Music Retailing	39.9%	0.98313	0.00764	0.10199	0.13103	0.09855	0.01389	0.04070	0.41301	0.24789	0.79800	
G524100 Sport and Camping Equipment Retailing	7.5%	0.96598	0.01355	0.75538	0.12608	0.09620	0.01469	0.05636	0.58590	0.23703	0.53023	
G524200 Toy and Game Retailing	22.6%	0.94045	0.01167	0.39895	0.13808	0.08036	0.01189	0.09024	1.12294	0.41801	0.63961	
G524300 Newspaper/ Book and Stationery Retailing	8.5%	0.98947	0.00902	0.39090	0.14061	0.11528	0.01897	0.03304	0.28659	0.18012	0.76659	
G524400 Photographic Equipment Retailing	33.0%	1.01330	0.00719	0.15158	0.18040	0.12433	0.02554	0.04996	0.40189	0.31082	1.12221	
G524500 Marine Equipment Retailing	10.4%	0.97096	0.00886	0.40829	0.08689	0.06586	0.00709	0.04240	0.64383	0.24198	0.49581	
G525100 Pharmaceutical/ Cosmetic and Toiletry Retailing	17.9%	0.94727	0.00701	0.40959	0.17052	0.12436	0.01296	0.07327	0.58922	0.27072	0.63000	
G525200 Antique and Used Good Retailing	14.7%	0.91177	0.01709	0.70535	0.14869	0.10816	0.01653	0.10336	0.95562	0.27257	0.39210	
G525300 Garden Supplies Retailing	13.4%	0.96536	0.00880	0.37985	0.16850	0.14032	0.01484	0.05089	0.36264	0.16721	0.55366	
G525400 Flower Retailing	15.5%	0.94017	0.01475	0.49932	0.14849	0.11499	0.01796	0.07729	0.67220	0.22566	0.43353	
G525500 Watch and Jewellery Retailing	9.0%	0.95206	0.01153	0.64279	0.15552	0.13420	0.01443	0.05794	0.43173	0.13710	0.36802	
G525900 Retailing nec	9.5%	0.96400	0.01036	0.50796	0.12430	0.10400	0.01874	0.04808	0.46228	0.16331	0.42223	
G526100 Household Equipment Repair Services (Electrical)	16.8%	0.94550	0.00953	0.49552	0.23198	0.17633	0.01918	0.08333	0.47257	0.23987	0.66778	
G526900 Household Equipment Repair Services nec	14.1%	0.91891	0.01151	0.69293	0.25017	0.20242	0.03014	0.09783	0.48331	0.19087	0.48810	
G531100 Car Retailing	14.4%	0.98300	0.00860	0.18385	0.06742	0.05775	0.00525	0.02647	0.45840	0.14341	0.36524	
G531200 Motor Cycle Dealing	10.5%	0.98003	0.01515	0.42413	0.11047	0.08679	0.00851	0.04440	0.51158	0.21442	0.53352	
G531300 Trailer and Caravan Dealing	19.9%	1.03309	0.00849	0.16431	0.18305	0.12572	0.01431	0.03272	0.26027	0.31317	1.75185	
G532100 Automotive Fuel Retailing	14.7%	0.99069	0.00511	0.14557	0.07262	0.05766	0.00596	0.02137	0.37067	0.20611	0.70038	
G532200 Automotive Electrical Services	16.6%	0.97170	0.01073	0.46221	0.28355	0.21311	0.01779	0.07689	0.36080	0.24841	0.91607	
G532300 Smash Repairing	18.4%	0.96283	0.01127	0.42139	0.28801	0.22616	0.02216	0.07761	0.34316	0.21473	0.79686	
G532400 Tyre Retailing	19.0%	0.93430	0.00448	0.32698	0.13837	0.11819	0.01148	0.06202	0.52474	0.14584	0.32537	
G532900 Automotive Repair and Services nec	20.8%	0.94463	0.01189	0.40444	0.21047	0.15778	0.01918	0.08429	0.53419	0.25033	0.62510	

NZ Tourism Division Benchmarks 1999-2003 Based on Consolidated Business Activity Unit Returns											
Tourism Characteristic Divisions	Fin Yield (FY)	Cost/ Rev	Fin Cost/ Rev	Assets/ Rev	All Sal/ Rev	Emp Sal/ Rev	Depn/ Rev	NOPAT/ Rev	NOPAT/ All Sal	SWWP/ All Sal	SWWP/ NOPAT
H571010 Hotels (Accommodation)	4.0%	1.00064	0.05566	1.57868	0.29904	0.29093	0.07328	0.06313	0.21698	0.02711	0.12841
H571020 Motels and Motor Inns	5.3%	0.93280	0.05338	2.19152	0.18314	0.15545	0.08514	0.11696	0.75238	0.15121	0.23678
H571030 Hosted Accommodation	2.7%	0.99011	0.08238	4.27874	0.19316	0.15154	0.12520	0.11689	0.77135	0.21546	0.35604
H571040 Backpacker and Youth Hostels	6.7%	0.89474	0.07065	2.33707	0.18656	0.16389	0.10154	0.15637	0.95410	0.12151	0.14497
H571050 Caravan Parks and Camping Grounds	3.7%	0.88591	0.04657	3.60677	0.17189	0.15783	0.07674	0.13243	0.83902	0.08177	0.10614
H571090 Accommodation nec	3.6%	0.92244	0.03304	2.40273	0.28302	0.27932	0.06721	0.08748	0.31319	0.01308	0.04230
H572000 Pubs/ Taverns and Bars	11.7%	0.95555	0.01369	0.50953	0.20695	0.18257	0.03029	0.05980	0.32754	0.11781	0.40770
H573000 Cafes and Restaurants	10.0%	0.96931	0.01623	0.54227	0.27744	0.25162	0.03379	0.05409	0.21497	0.09308	0.47742
H574000 Clubs (Hospitality)	3.0%	0.94850	0.02789	2.10704	0.28193	0.28193	0.08965	0.06239	0.22129	0.00000	0.00000
I612100 & I620000 Long Distance Bus & Rail Transport	3.1%	0.99558	0.03905	1.39027	0.26093	0.25934	0.07206	0.04308	0.16610	0.00609	0.03690
I612200 Short Distance Bus Transport (including Tramway)	9.8%	0.88504	0.01545	1.04763	0.37313	0.35778	0.07632	0.10276	0.28721	0.04115	0.14941
I612300 Taxi and Other Road Passenger Transport	7.6%	0.86290	0.02506	1.74281	0.23214	0.20818	0.07546	0.13297	0.63875	0.10324	0.18024
I630x00 International Sea & Coastal Transport	5.2%	0.96704	0.01310	0.69656	0.20728	0.20611	0.03963	0.03596	0.17445	0.00561	0.03232
I630300 Inland Water Transport	20.5%	0.85996	0.01635	0.54931	0.29461	0.29092	0.05812	0.11265	0.38722	0.01252	0.03275
I6401x00 Sched Int & Domestic Air Transport	-10.1%	1.07714	0.00912	0.67274	0.13261	0.13223	0.02372	-0.06763	-0.51148	0.00290	-0.00568
I640300 Non Scheduled Air Transport	6.4%	0.92324	0.05241	1.82542	0.11415	0.09376	0.07708	0.11750	1.25322	0.17865	0.17356
I650900 Transport nec & I661900 Services to Road Transport	5.5%	0.95406	0.02456	1.44212	0.27102	0.23582	0.07362	0.07893	0.33468	0.12988	0.44601
I661100 Parking Services	370.3%	0.95263	0.02507	0.01634	0.14025	0.13473	0.05203	0.06050	0.44902	0.03930	0.09111
I662x00 Stevedoring, Terminals, Ports and Services nec	9.5%	0.71968	0.03458	2.36302	0.28107	0.27730	0.08241	0.22492	0.81108	0.01339	0.01674
I663000 Services to Air Transport	8.5%	0.67777	0.09923	3.72814	0.21948	0.21896	0.14686	0.31547	1.44079	0.00239	0.00167
I664100 Travel Agency Services	14.0%	0.95353	0.01439	0.63537	0.37396	0.30952	0.04378	0.08870	0.28656	0.17232	0.72652
I670900 Storage nec	14.9%	0.93807	0.03082	0.55483	0.25371	0.23863	0.06433	0.08242	0.34540	0.05943	0.18294
L774100 Motor Vehicle Hiring	8.8%	0.90699	0.09288	1.84379	0.10742	0.09554	0.29837	0.16315	1.70761	0.11055	0.07278
L774x00 Other Transport Equipment & Plant Leasing	10.1%	0.89248	0.06879	1.56843	0.14417	0.11817	0.15459	0.15824	1.33908	0.18032	0.16429
P921000 Libraries	2.0%	0.94911	0.00127	1.85064	0.38533	0.38240	0.12077	0.03733	0.09762	0.00761	0.07852
P922000 Museums	-0.5%	1.08106	0.00646	12.83433	0.32381	0.31557	0.18779	-0.06635	-0.21027	0.02546	-0.12424
P923x00 Zoos, Botanic Gardens Recreation Parks & Gardens	1.3%	0.97445	0.00580	1.96125	0.43618	0.43295	0.05553	0.02508	0.05792	0.00740	0.12865
P924x00 & P925x00 Creative Arts	16.8%	0.80765	0.01285	1.02126	0.22219	0.17818	0.04686	0.17122	0.96093	0.19807	0.25704
P93xxxx0 Racing, Gambling, Lotteries and Other Recreation	15.9%	0.91179	0.07493	0.87255	0.14626	0.13954	0.05496	0.13854	0.99278	0.04593	0.04849
NZ Tourism Division Benchmarks 1999-2003 Based on Consolidated Business Activity Unit Returns											
Tourism Sectors Adjusted by TPR(2002)	Fin Yield (FY)	Cost/ Rev	Fin Cost/ Rev	Assets/ Rev	All Sal/ Rev	Emp Sal/ Rev	Depn/ Rev	NOPAT/ Rev	NOPAT/ All Sal	SWWP/ All Sal	SWWP/ NOPAT
All Retail Divisions (G5xxxxx)	14.3%	0.97247	0.00682	0.26103	0.10481	0.08695	0.01159	0.03723	0.42815	0.17040	0.47972
All Accommodation (H5710x0)	4.2%	0.96828	0.05461	2.04171	0.25417	0.23912	0.07933	0.08594	0.35942	0.05921	0.17511
All Food and Beverage Serving Svces (H5723/4000)	9.0%	0.96425	0.01619	0.62387	0.25793	0.23401	0.03605	0.05617	0.24004	0.09274	0.42584
Accommodation and Food and Beverage Serving Svces	5.2%	0.96637	0.03642	1.37047	0.25595	0.23670	0.05884	0.07185	0.30355	0.07521	0.26791
All Transport (Lxxxxxx)	0.1%	1.02277	0.01528	0.82618	0.18328	0.17498	0.03689	0.00081	0.00463	0.04530	10.25831
All Leasing (Lxxxxxx)	9.0%	0.90510	0.08974	1.80791	0.11221	0.09849	0.27964	0.16251	1.65000	0.12223	0.08439
All Recreation (P92/3xxxx)	8.7%	0.91248	0.05799	1.42134	0.19158	0.18108	0.06020	0.12366	0.68292	0.05481	0.08492