

**Enterprise Benchmarks For  
New Zealand  
Tourism Characteristic  
And  
Tourism Related Industries  
1999 – 2003**

**John P. Moriarty**  
Director  
J & H Moriarty Limited  
[John@Moriarty.Biz](mailto:John@Moriarty.Biz)

March 23<sup>rd</sup> 2007.

ISSN XXXXX-XX

Tourism Recreation Research and Education Centre (TRREC)

# **Enterprise Benchmarks for New Zealand's Tourism Characteristic and Tourism Related Industries 1999 – 2003.**

## **1. Overview**

Benchmarking is an important part of any business excellence process and assists proprietors by selecting meaningful metrics to compare their performance against peers or exemplars elsewhere in the tourism economy. Financial benchmarks are usually difficult to establish as enterprise performance is normally confidential unless required to be disclosed – such as part of an obligation to list on a public exchange (e.g. NZX). More easily identified benchmarks are often activity based (e.g. revenues, customer volumes, market share) and whilst useful they offer no insight as to how an enterprise might improve its 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 overall business performance of consolidated sectors of enterprises in New Zealand Tourism's characteristic and related industries and provide insight to the degree sectors generate wealth (Financial Yield) together with 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. Confidentiality rules ensure that it is not possible to identify the performance of any single enterprise.

Enterprises trading principally in the Retail Sector are known as Tourism Related Enterprises and those trading principally in all other reported sectors are known as Tourism Characteristic Enterprises

## **2. Interpretation and Usage**

These benchmarks have been compiled from the consolidated performance of thousands of enterprises and each division may be viewed as a "super-enterprise" whose revenues, expenses and assets are the sum of the data from all of its constituent enterprises.

Enterprises are represented at two levels: at a single umbrella level and in some cases at multiple activity or business unit levels. An enterprise operating multiple business units in the same division will be represented in that division by the consolidation of those units.

However enterprises may also operate in multiple divisions distributing their revenues amongst them but usually associating assets with only one of them. Any enterprise operating distinct business units in multiple divisions is fully represented in each of those divisions with all demand and resources duplicated accordingly. Fewer than 10% of enterprises examined had multiple business units and even fewer operated them 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 New Zealand's economy.

Accordingly, divisions cannot be further consolidated as it would duplicate the contributions of enterprises operating in multiple divisions.

Proprietors should select the division that most accurately describes their core business and the corresponding benchmark will also include any other peripheral business. For example, an enterprise that offers hotel accommodation (H571010), serves meals (H573000), retails liquor (G512300) operates a bar (H572000), provides shuttle transport (I612300) and treats each as a separately reporting business unit under a single umbrella may choose any of these divisions for the core benchmark since all business activities and resources will also have been consolidated in them. The division of the business unit that contains the assets (or the bulk of them) is the most likely candidate for the core benchmark.

### 3. Benchmark Definitions

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

- a. Financial Yield (FY) is the ratio of Free Cash Flow to Assets.

Free Cash Flow (FCF) has been calculated from the following expression:

$$(\text{Total Revenues} - \text{Total Expenses} + \text{Salaries and Wages to Working Proprietors}) * (1 - \text{Tax Rate}) + \text{Interest Expenses.}$$

And

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

Tax Rate is 33% if the operating surplus is positive, otherwise zero.

If FY is positive (at all times) the enterprise is financially sustainable; if FY consistently (over the medium to long-term) exceeds the ordinary cost of capital applicable to that enterprise it is also economically sustainable. Common benchmarks for the cost of capital are:

- i. the Base Lending Rate, 6.5% after tax over the analysis period and applies to businesses borrowing from Trading Banks,
- ii. the Home Mortgage Rate, 5.% after tax over the analysis period and applies to proprietors operating small businesses who use personal equity, such as their home, as security for their business funding, and finally,
- iii. the risk adjusted Weighted Average Cost of Capital (WACC), 12% after tax and applies to larger public enterprises securing equity funding from the open market,
- iv. the risk free rate of return over the analysis period, available from 5 year NZ government bonds, was 4.3% after tax.

Note also that Salaries and Wages to Working Proprietors are deemed to be dividends as opposed to expenses and Depreciation is deemed to be an economic cost that preserves the fitness for purpose of the asset.

- b. Operating Ratios

A number of diagnostic ratios are included to assist proprietors undertaking business improvement processes.

- i. FCF/Revenue. The Free Cash Flow to Revenue Ratio is reflective of business efficiency within a trading climate (high/low turnover, seasonal, etc). 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 FCF/Revenue indicates a mildly competitive climate, whereas a lower FCF/Revenue reflects a more highly competitive climate. Also, enterprises using substantial

resources generally require a higher FCF/Revenue ratio than those using fewer resources. FCF is the enterprise's overall contribution towards Capital and Shareholder Funds and should also be considered alongside the Asset/Revenue ratio.

- ii. 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%, with a likely range between 80% and 97%. High turnover divisions generally display ratios at the top of this range, whereas lower turnover divisions are generally found in the mid/lower range.
- iii. Financial Cost/Revenue is a ratio that indicates the level of borrowing. This indicator will seldom exceed 10% 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.
- iv. 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 high turnover of resources needed to achieve business results whereas high Asset/Revenue ratios reflect a more rigid application of resources to achieve business results. In this study measurement of all resources used to achieve business results was not possible (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 FCF since short term asset reductions are often impractical. Over longer timeframes, asset efficiency is essential.
- v. 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 proprietors believe can be imitated. Trading enterprises may have ratios in the range 3% to 25% 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.

#### 4. Summary

Benchmarking is an integral part of business improvement and the pursuit of excellence. Accessing enterprise financial information is a difficult or impossible task for most proprietors due to confidentiality so reliance on activity based measures such as customer volumes, market share or even estimated turnover has often been the next best alternative. Unfortunately 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 nature of tourism trading is that there are often challenges in specifying not only the customer segment purchasing the product, but also the product itself! These benchmarks recognise that tourism enterprises can have diverse income streams associated with a set of resources and accordingly view each division of tourism as if it stood alone. Users are encouraged to select the division benchmarks that most closely align with their principal revenue stream or if multiple business units operate under one umbrella enterprise, the division benchmarks most closely associated with the unit that having the principal assets.

The provision of both peer and exemplar benchmarks of financial performance also provides a wider frame of reference than would be available to the majority of tourism proprietors. These benchmarks are an important starting point for proprietors wishing to continuously examine and improve their business processes. They are

also a very effective starting point for small business proprietors who seek re-assurance of their own performance in the tourism marketplace.

**Access to the data used in this study was provided by Statistics New Zealand under conditions designed to give effect to the security and confidentiality provisions of the Statistics Act 1975. The results presented in this study are the work of the author, not Statistics New Zealand.**

**Enterprise Benchmarks for NZ Tourism Divisions 1999-2003**  
 The Division Proprietors deem most accurately reflects the totality of their tourism business should be selected for the benchmark.



Related and Characteristic Division	1999-2002	1999-2003	1999-2003	1999-2003	1999-2003	1999-2003	1999-2003
	Financial Yield	Average Free Cash Flow/Rev	Average Total Expenses/Rev	Average Financial Cost/Rev	Average Assets/Rev	Average All Salary/Rev	Average Employee Salary/Rev
<i>G511010 Supermarkets</i>	12.6%	2.7%	96.7%	0.3%	21.1%	8.6%	8.3%
<i>G511020 Groceries and Dairies</i>	13.3%	4.4%	96.6%	0.5%	33.1%	5.6%	3.2%
<i>G512100 Fresh Meat/ Fish and Poultry Retailing</i>	14.6%	2.9%	98.3%	0.8%	20.1%	14.0%	12.6%
<i>G512200 Fruit and Vegetable Retailing</i>	16.0%	3.6%	96.9%	0.7%	22.5%	8.0%	6.8%
<i>G512300 Liquor Retailing</i>	9.7%	2.9%	97.1%	0.5%	30.3%	7.3%	6.6%
<i>G512400 Bread and Cake Retailing</i>	8.5%	4.0%	98.7%	1.3%	47.7%	24.7%	22.0%
<i>G5125xx Takeaway Food</i>	8.7%	4.3%	95.7%	0.8%	48.9%	13.2%	12.2%
<i>G512600 Milk Vending</i>	17.7%	6.2%	93.5%	0.9%	35.2%	7.3%	5.7%
<i>G512900 Specialised Food Retailing nec</i>	10.2%	4.1%	97.5%	0.9%	40.3%	13.6%	11.3%
<i>G521000 Department Stores</i>	11.9%	3.4%	95.5%	0.3%	28.2%	10.5%	10.5%
<i>G522100 Clothing Retailing</i>	18.5%	5.3%	95.1%	1.0%	28.7%	13.3%	11.7%
<i>G522200 Footwear Retailing</i>	15.5%	5.2%	97.0%	0.9%	33.6%	15.2%	11.8%
<i>G522300 Fabrics and other Soft Good Retailing</i>	10.1%	3.3%	99.2%	1.1%	32.9%	17.5%	15.0%
<i>G523100 Furniture Retailing</i>	18.1%	5.2%	96.1%	0.7%	28.8%	12.4%	9.5%
<i>G523200 Floor Covering Retailing</i>	17.4%	4.9%	97.2%	0.5%	28.1%	13.4%	9.7%
<i>G523300 Domestic Hardware and Houseware Retailing</i>	14.0%	4.5%	97.0%	1.0%	32.1%	13.6%	11.3%
<i>G523400 Domestic Appliance Retailing</i>	8.4%	2.9%	97.6%	0.5%	34.8%	10.4%	9.3%
<i>G523500 Recorded Music Retailing</i>	39.9%	4.1%	98.3%	0.8%	10.2%	13.1%	9.9%
<i>G524100 Sport and Camping Equipment Retailing</i>	7.9%	5.2%	96.1%	1.1%	65.9%	11.9%	9.7%
<i>G524200 Toy and Game Retailing</i>	22.8%	8.8%	94.2%	1.2%	38.8%	13.9%	8.3%
<i>G524300 Newspaper/ Book and Stationery Retailing</i>	13.5%	4.4%	95.4%	0.6%	32.7%	12.9%	11.9%
<i>G524400 Photographic Equipment Retailing</i>	23.7%	3.6%	101.3%	0.7%	15.2%	18.0%	12.4%
<i>G524500 Marine Equipment Retailing</i>	10.4%	4.2%	97.1%	0.9%	40.8%	8.7%	6.6%
<i>G525100 Pharmaceutical/ Cosmetic and Toiletry Retailing</i>	17.9%	7.3%	94.7%	0.7%	41.0%	17.1%	12.4%
<i>G525200 Antique and Used Good Retailing</i>	14.7%	10.3%	91.2%	1.7%	70.5%	14.9%	10.8%
<i>G525300 Garden Supplies Retailing</i>	13.4%	5.1%	96.6%	0.9%	37.8%	16.9%	14.1%
<i>G525400 Flower Retailing</i>	15.5%	7.7%	94.0%	1.5%	49.9%	14.8%	11.5%
<i>G525500 Watch and Jewellery Retailing</i>	9.0%	5.8%	95.2%	1.2%	64.3%	15.6%	13.4%
<i>G525900 Retailing nec</i>	9.5%	4.8%	96.4%	1.0%	50.9%	12.5%	10.4%
<i>G532100 Automotive Fuel Retailing</i>	13.3%	2.2%	98.5%	0.4%	16.4%	7.9%	6.9%
<i>G532200 Automotive Electrical Services</i>	16.6%	7.7%	97.2%	1.1%	46.2%	28.4%	21.3%
<i>G532300 Smash Repairing</i>	18.4%	7.8%	96.3%	1.1%	42.1%	28.8%	22.6%
<i>G532400 Tyre Retailing</i>	19.0%	6.2%	93.4%	0.4%	32.7%	13.8%	11.8%
<i>G532900 Automotive Repair and Services nec</i>	20.8%	8.3%	94.5%	1.3%	40.1%	20.7%	15.6%
H571010 Hotels (Accommodation)	4.3%	5.8%	99.2%	4.8%	133.5%	25.8%	25.2%
H571020 Motels and Motor Inns	5.3%	11.7%	93.3%	5.3%	219.2%	18.3%	15.5%
H571030 Hosted Accommodation	2.7%	11.7%	99.0%	8.2%	427.9%	19.3%	15.2%
H571040 Backpacker and Youth Hostels	6.7%	15.6%	89.5%	7.1%	233.7%	18.7%	16.4%
H571050 Caravan Parks and Camping Grounds	3.7%	13.0%	88.8%	4.5%	352.8%	17.8%	16.4%
H571090 Accommodation nec	4.3%	8.9%	91.7%	3.1%	205.0%	26.5%	26.2%
H572000 Pubs/ Taverns and Bars	11.4%	5.8%	95.6%	1.3%	50.6%	20.0%	17.7%
H573000 Cafes and Restaurants	10.0%	5.4%	96.8%	1.6%	53.9%	27.3%	24.8%
H574000 Clubs (Hospitality)	3.0%	6.2%	94.9%	2.8%	210.7%	28.2%	28.2%
I612100 & I62000 Long Distance Bus & Rail Transport	4.3%	5.7%	96.4%	3.2%	132.8%	27.5%	27.3%
I612200 Short Distance Bus Transport (including Tramway)	9.9%	13.8%	84.5%	2.7%	140.0%	34.3%	33.2%
I612300 Taxi and Other Road Passenger Transport	7.6%	13.3%	86.3%	2.5%	174.3%	23.2%	20.8%
I630x00 International, Coastal and Inland Water Transport	4.7%	5.7%	95.9%	2.9%	120.3%	26.3%	26.2%
I640300 Non-Scheduled Air and Space Transport	6.7%	11.9%	92.2%	5.3%	175.8%	11.7%	9.7%
I640x00 Scheduled Dom/Int Air Transport	-8.2%	-5.8%	107.1%	1.2%	71.1%	13.5%	13.4%
I650900 & I661900 Services to Road Transport & Transport nec	4.8%	7.9%	95.3%	2.4%	162.4%	26.9%	23.5%
I661100 Parking Services	10.2%	17.7%	80.5%	4.5%	173.5%	23.8%	23.6%
I662x100 Services & Operations to Water Transport	8.9%	20.7%	75.3%	3.9%	233.1%	26.0%	25.7%
I663000 Services to Air Transport	8.7%	29.1%	69.6%	8.7%	335.1%	24.0%	24.0%
I664100 Travel Agency Services	-8.5%	-6.6%	109.0%	1.3%	77.3%	18.2%	17.1%
L774100 Motor Vehicle Hiring & Leasing	7.0%	10.2%	93.3%	5.3%	144.8%	12.6%	12.0%
P921000 Libraries	7.1%	17.1%	80.9%	4.2%	242.2%	29.0%	28.9%
P922000 Museums	1.8%	11.9%	87.8%	3.5%	654.7%	29.4%	29.1%
P923x00 Zoos, Botanic Gardens, Recreational Parks and Gardens	4.5%	9.7%	89.1%	2.3%	216.5%	37.7%	37.5%
P924x000:P925x000 Creative Arts and Arts nec	7.3%	1.3%	80.8%	1.3%	17.9%	4.4%	23.6%
P93xxxx Racing, Gaming, Gambling, Sports nec and All Other Rec Services	7.0%	6.5%	98.4%	5.2%	92.3%	14.9%	14.4%