

Industry Challenges: Beyond Price!

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The Issue.

- Industry Leaders recently advised the NZ Hospitality Industry to increase their prices!
- Was this sound advice? (*Leaving aside legality*)

Epistemology.

- What do we know about NZ's Tourism and Hospitality constraints?

Methodology

- What techniques might be deployed to check the soundness of this advice or offer new advice?

Epistemology of NZT&H Constraints.

- **Distribution** – undermanaged (Pearce, 2006)
- **Scale of Operation** – negative externalities generated (Ateljevic *et al*, 2004)
- **Objectives** – Social vs. Commercial (Hall *et al*, 2004, Getz *et al*, 2005), Risk vs. Rewards (Wason *et al*, 2007)
- **Culture** – absence of efficiency and innovation (Gray *et al*, 2000)
- **Energy** – high dependence (Becken *et al*, 2001)
- **Economic Performance** – comparatively poor (Moriarty, 2007)

A Few Important Concepts

- **Sustainability** – synonymous with survival.
- **Survival** – the ability to continuously satisfy those upon whom one is dependent for the supply and maintenance of resources. (Pfeffer & Salancik, 1978).
- **Continuous Satisfaction** – efficient welfare improvement.

The Methodology

- Derive the welfare generated by NZ's tourism and hospitality enterprises.
- Obtain the relative efficiencies with which this welfare is generated.
- Constrain the analysis to reflect actual market conditions.
- Analyse the solution for opportunities to improve efficiency and increase welfare.

Methodological Components

Welfare (after taxes)

(Financial Yield – Investor Yield)*Resources

Relative Efficiency

Use Data Envelopment Analysis (DEA)

A mathematical programming technique that rescales sets of input-output data to determine whether better outputs can be obtained with equal or fewer inputs.

Data Envelopment Analysis

Provides

- relative technical efficiency.
- scale behaviour.
- scale efficiency
- capacity utilisation.
- An improvement scenario for inefficient performers.

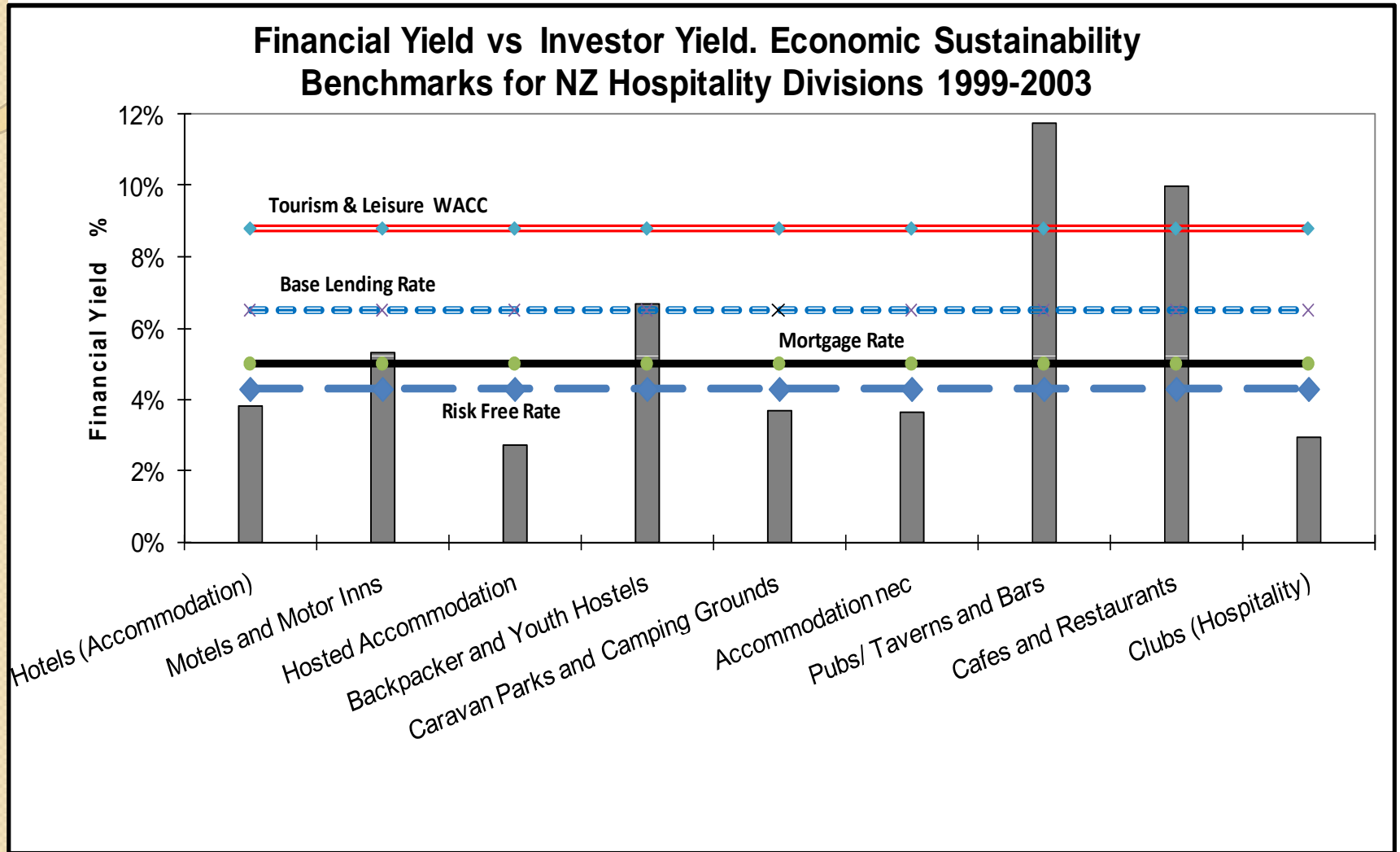
Also accepts constraints so that real-life situations can be modeled.

The Hospitality Subset (9 from 65)

Source: Statistics NZ, Datalab

Consolidated Division (KAU)	FY	Observed Annual Average Divisional Performance 1999-2003 (\$B)								N
		Revenue (I)	Materials (I)	Interest (I)	Labour (I)	Dep'n (FI)	Assets (FI)	OSBT (O)	SWWP (O)	
H571010 Hotels (Accommodation)	3.8%	\$0.909	\$0.520	\$0.051	\$0.264	\$0.067	\$1.434	\$0.007	\$0.007	175
H571020 Motels & Motor Inns	5.3%	\$0.457	\$0.279	\$0.024	\$0.071	\$0.039	\$1.001	\$0.043	\$0.013	833
H571030 Hosted Accommodation	2.7%	\$0.081	\$0.048	\$0.007	\$0.012	\$0.010	\$0.346	\$0.004	\$0.003	388
H571040 Backpacker & Youth Hostels	6.7%	\$0.059	\$0.032	\$0.004	\$0.010	\$0.006	\$0.137	\$0.008	\$0.001	127
H571050 Caravan Parks & Camping Grounds	3.7%	\$0.082	\$0.048	\$0.004	\$0.013	\$0.006	\$0.296	\$0.011	\$0.001	234
H571090 Accommodation nec	3.6%	\$0.146	\$0.079	\$0.005	\$0.041	\$0.010	\$0.352	\$0.012	\$0.001	137
H572000 Pubs, Taverns & Bars	11.7%	\$1.024	\$0.722	\$0.014	\$0.187	\$0.031	\$0.522	\$0.071	\$0.025	363
H573000 Cafes & Restaurants	10.0%	\$2.382	\$1.529	\$0.039	\$0.599	\$0.080	\$1.292	\$0.135	\$0.062	2469
H574000 Clubs (Hospitality)	3.0%	\$0.213	\$0.117	\$0.006	\$0.060	\$0.019	\$0.450	\$0.011	\$0.000	116

Findings: Sustainability.



Findings: Scale and Capacity Behaviour.

Consolidated Division (KAU) 1999-2003	Financial Yield	Technical Efficiency	Returns to Scale	Scale Efficiency	Capacity Efficiency
Hotels (Accommodation)	3.8%	14%	<u>Decr</u>	85%	3%
Motels and Motor Inns	5.3%	59%	<u>Decr</u>	90%	14%
Hosted Accommodation	2.7%	74%	Incr	99%	7%
Backpacker and Youth Hostels	6.7%	63%	Incr	90%	17%
Caravan Parks and Camping Grounds	3.7%	59%	Incr	96%	17%
Accommodation nec	3.6%	32%	Incr	95%	12%
Pubs/ Taverns and Bars	11.7%	54%	<u>Decr</u>	92%	39%
Cafes and Restaurants	10.0%	83%	<u>Decr</u>	53%	30%
Clubs (Hospitality)	3.0%	20%	Incr	97%	8%
“Optimum” Hotel	16%	100%	Const	100%	100%

High Correlation (between Financial Yield and Capacity Efficiency)

Moderate (between Financial Yield and Technical Efficiency)

What would be Optimum?

With Existing Assets

Average Capacity Improvement Factors

Consolidated Division (KAU)	Rev Optimum	Matls Optimum	Int Optimum	Labour Optimum	FY Optimum
H571010 Hotels (Accommodation)	5.60	7.85	1.01	1.98	16%
H571020 Motels & Motor Inns	6.85	8.89	1.36	3.76	24%
H571030 Hosted Accommodation	10.53	13.91	1.49	5.58	15%
H571040 Backpacker & Youth Hostels	8.04	11.97	1.16	4.27	25%
H571050 Caravan Parks & Camping Grounds	6.45	8.51	1.62	3.29	16%
H571090 Accommodation nec	5.65	8.16	2.00	1.63	21%
H572000 Pubs, Taverns & Bars	2.31	2.66	1.56	1.16	27%
H573000 Cafes & Restaurants	2.57	3.25	1.44	0.94	28%
H574000 Clubs (Hospitality)	7.12	10.34	2.62	2.19	25%

Overall, annual Hospitality revenues would need to rise from about \$6b to \$21b using existing assets!

Conclusions; Commercial.

- Hospitality division resources (assets) are underutilised and price increases (within the law) will not improve sustainability.
- Attempts to increase prices in NZ's competitive market will be immediately challenged elsewhere. This behaviour has been observed for years in numerous visitor locations.

Conclusions; Public Policy.

- Peak demand generally fully-supplies NZ Hospitality divisions (December-March). Providing additional capacity to pursue a rising peak is irrational as it will further reduce poor financial yields.
- Government-funded stimulation of peak season arrivals erodes private good for Hospitality divisions and generates little – if any – net public good.

Summary

- The Hospitality Divisions are fully utilised for a very short peak period but remain significantly underutilised.
- Pursuing rising peak patronage threatens overall sustainability. Less is much more!
- Publicly funded off-peak marketing would improve Hospitality's financial yield, improve its competitiveness and deliver public good.
- Hospitality's future is way **BEYOND PRICE!**

Questions Welcomed!

