



Tourism Yield: analysing TSAs for measures of sector performance and business benchmarks

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The Issues

- Tourism's impact on local and national economies is increasing and in NZ's case has become the nation's single largest source of export revenue
- What metrics truly inform on the degree to which tourism demand is being satisfied in a sustainable manner?
 - How can tourism's performance at sector and enterprise level be compared with the rest of the economy?

Historical Performance

Volumetric measures have been used to highlight recent tourism performance in NZ. Compound annual growth rates between 1997 and 2004 have been very high for:

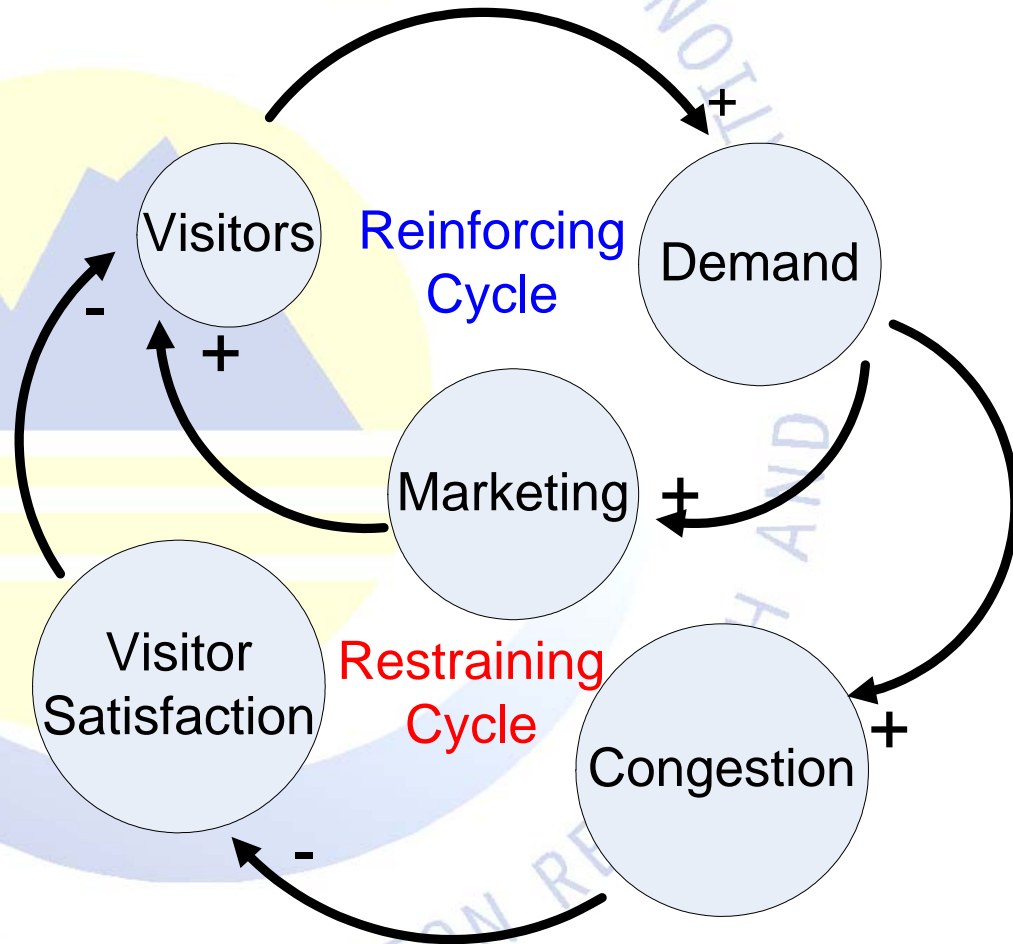
- Demand (\$b) = 7%
- Visitor Numbers = 6.5%
- Visitor Nights = 11.1%

Does this suggest excellent overall performance?

Volumetric Issues

Focus on **reinforcing cycles** is accentuated by the use of a volumetric approach.

Issues such as Congestion and Visitor Satisfaction are usually complex and slower in response, and should be included in the measurement process if sustainability (or stability) is the goal.



Tourism Satellite Accounts

- Tourism is defined in terms of consumer behaviour and the money impact of this behaviour on classes of enterprise is totalised to provide a Tourism GDP – the value added to the economy by visitors.
- The money impact is overall visitor expenditure (demand) less consumption taxes and imports.

TSA Benchmark Potential

TSA traces money flows through three classes of industry:

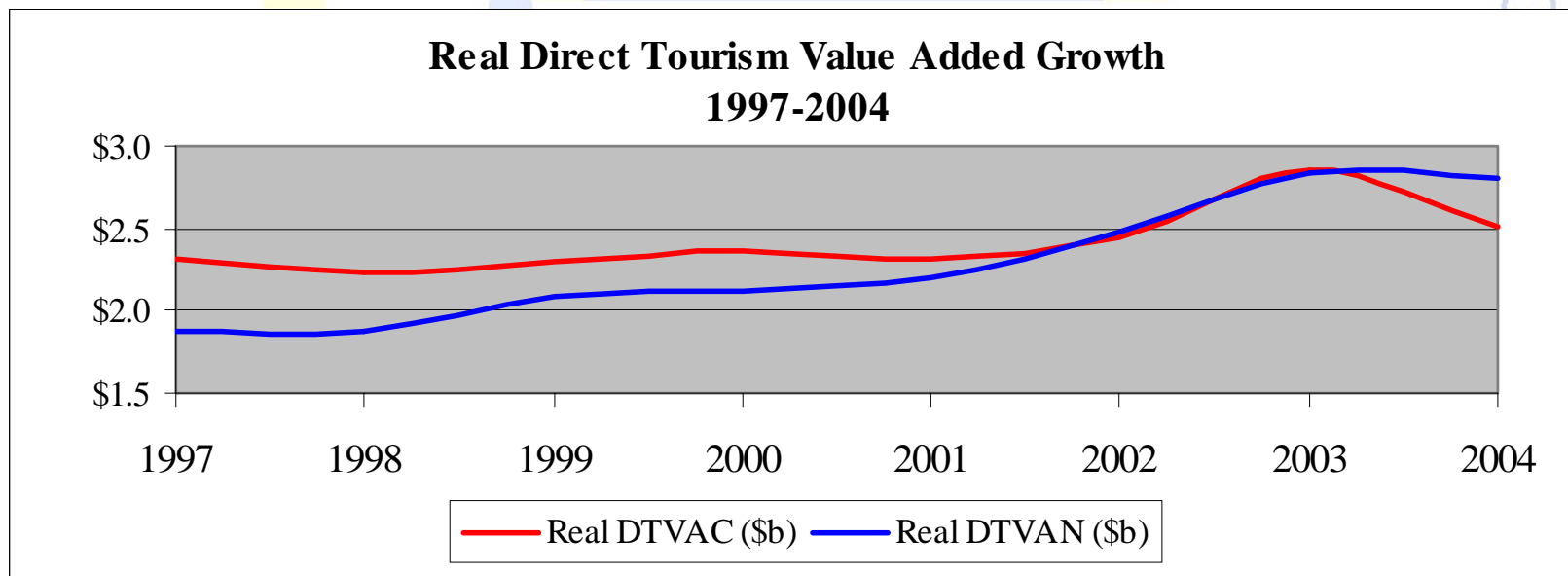
- Characteristic Industries with $> 25\%$ of revenues driven by direct visitor activity
- Non Characteristic (Related) Industries with $>5\%$ but $< 25\%$ of revenues driven by direct visitor activity
- Non-tourism Industries where there is an indirect relationship with a visitor, but supplies may be still be made – e.g. intermediate supplies.

The deflated value added growth of each of these classes provides the basis for high level value added and labour productivity benchmarks

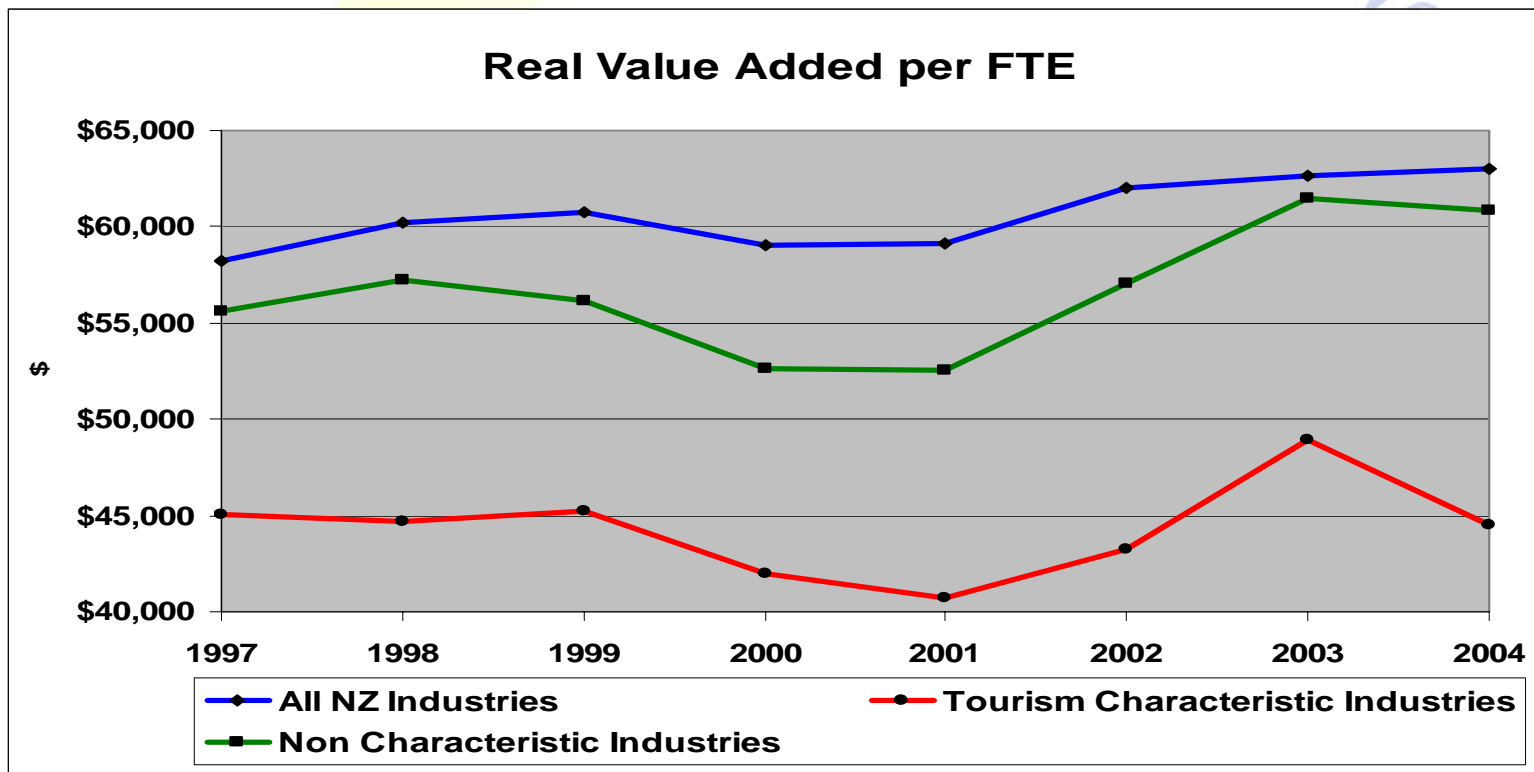
NZ TSA Value Added Performance

NZ Tourism Characteristic industries have been out-performed by Non-characteristic (related) industries (the Retail Sector). The larger share of Tourism Value Added growth has accrued to those who do not promote visitors!

The ratios between TSA **Characteristic** and **Non-characteristic** value added growth provides the first performance characteristic for the sector.



NZ TSA Labour Productivity Benchmark



Tourism's Characteristic Industry labour productivity has been essentially static compared with the rest of the economy and the Non Characteristic Industries. NZ labour productivity is low overall.

TSA Limitations

TSA is a static record of visitor expenditure remaining within the economy. It does not match costs with revenues, omits the capital impact of resources and does not inform on dynamic interactions between sectors.

In NZ's case, the reasons behind lower growth from characteristic industries need to be examined at enterprise level.

Tourism Enterprise-Level Metrics

TSA economic value concepts also apply at enterprise level, but the issue of resource funding cannot be excluded if comparisons are to be made.

Tourism Yield has many interpretations, but we will define it as the ratio of an enterprise's after-tax cash profits to the resources it uses to trade.

$$\text{Tourism Yield} = \frac{(\text{Net.Operating.Pr ofit.After.Tax} + \text{Finance.Expenses})}{(\text{Assets})}$$

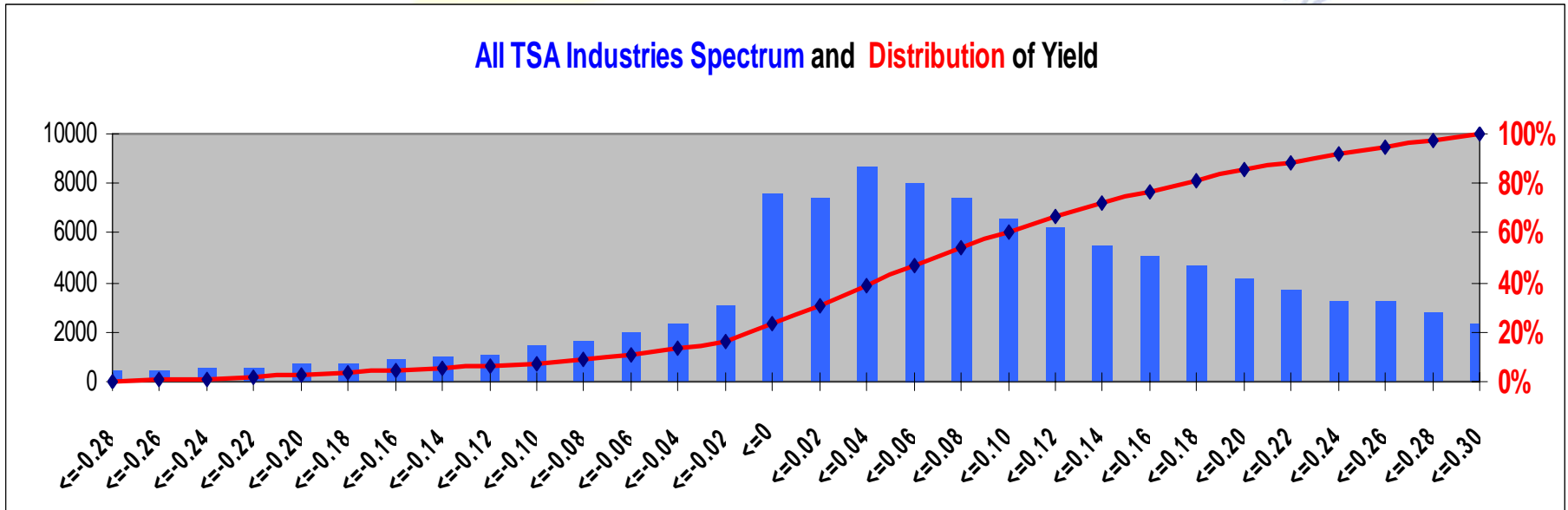
This is a form of return on assets and is also similar to the Stern-Stewart concept of EVA®. It enables enterprises to be compared without regard to their size. The yield is also the nominal cost of capital at which economic value is zero.

TSA DataSets generate Tourism Yield at enterprise and sector level

- Access to the TSA datasets at enterprise level has been achieved in NZ via Statistics New Zealand's Datalab facility.
- Financial performance and Financial Position information available for each enterprise for all or part of the time period
- Over 57,000 enterprises were included in the ANZSIC code categories comprising Tourism's Characteristic and Non-Characteristic industries.

Yield – All NZ Tourism Enterprises

1999-2003

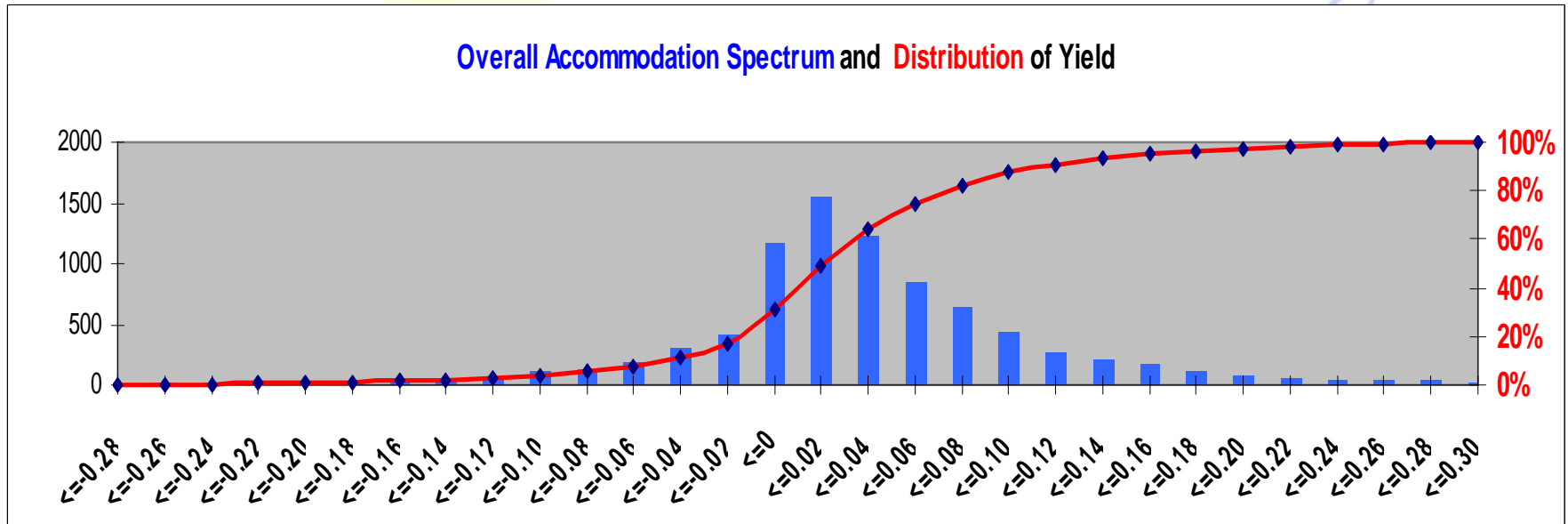


Average After-Tax Yield over the timeframe = 7.24%

This suggests that above average enterprises could borrow money at the rate of 10.8% or more and generate positive economic returns. Since the base lending rate averages 9.65% above average enterprises are more than meeting the cost of capital and should be sustainable.

Yield – NZ Tourism Accommodation

1999-2003

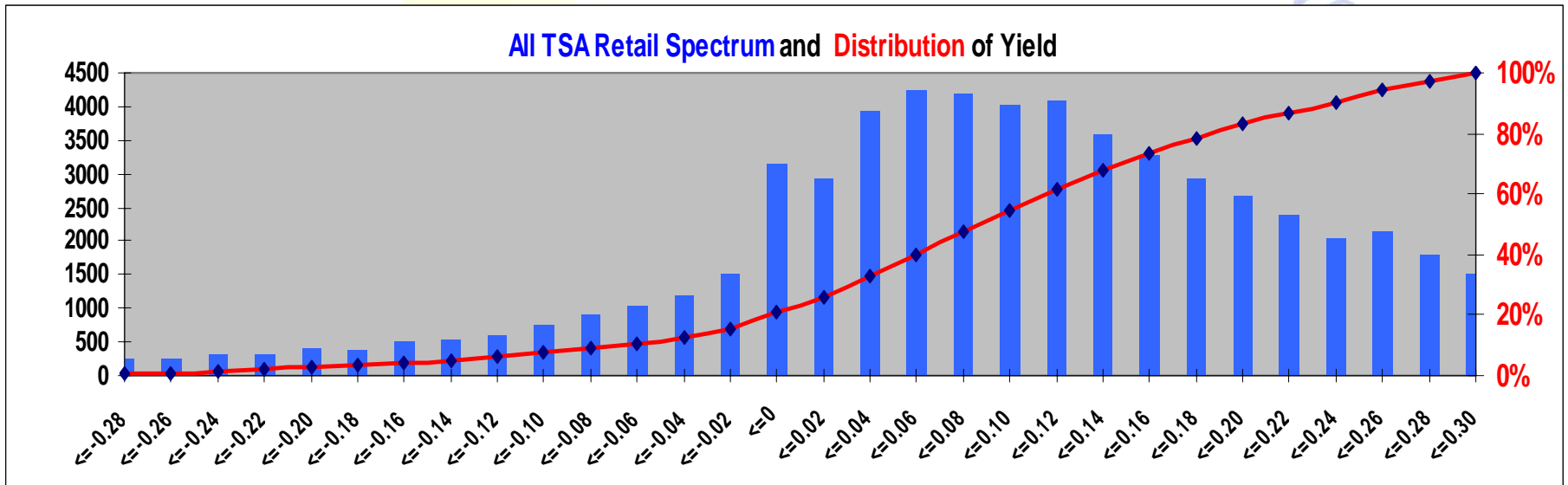


Average After-Tax Yield over the timeframe = 2.81%

This suggests that above average enterprises could borrow money at the rate of 4.2% or more and generate positive economic returns. Since the base lending rate averaged 9.65%, accommodation enterprises with after tax yields under 6.47% (7th Decile) may struggle to be competitive in the use of their assets.

Yield - NZ Retail

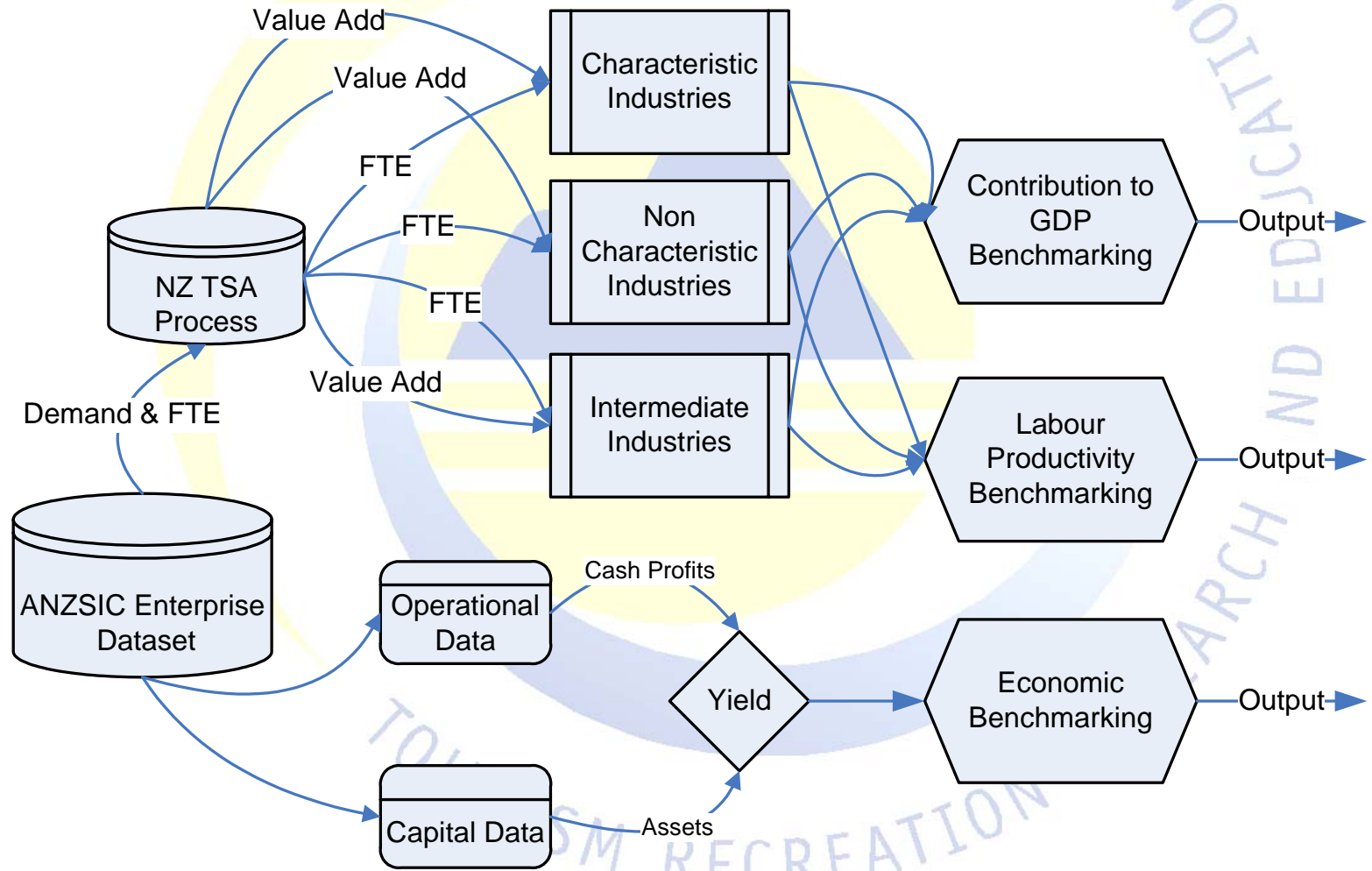
1999-2003



Average After-Tax Yield over the timeframe = 8.38%

This suggests that above average enterprises could borrow money at the rate of 12.5% or more and generate positive economic returns. Since the base lending rate averaged 9.65%, retail enterprises with yields as low as 6.47% should be able to sustain their assets.

Recapping



Conclusion

- Volumetric measures conveys very little information on tourism's sustainability.
- Overall, NZ tourism characteristic enterprises have performed at economic levels that are much lower than non-characteristic enterprises.
- NZ's tourism characteristic enterprises risk resource alienation (capital and labour) unless they can deliver yields comparable with the rest of the economy.

Ongoing Work

- This research will continue by examining the deployment of capital and labour to identify and isolate business characteristics associated with excellent tourism enterprises.
- Business benchmarks will be distributed to assist operators with performance improvement.

