

Enhancing Financial and Economic Yield in Tourism:

Performance Benchmarks for New Zealand Accommodation Enterprises Based on Financial Yield

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Performance Benchmarks for New Zealand Accommodation Enterprises

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1. Introduction.

Drawing conclusions on the performance of the tourism sector requires a distinction to be made as to the type of performance being measured. New Zealand's Tourism Strategy 2010ⁱ considered this issue and recommended that the future emphasis should be on the sustainability of the private sector evidenced by financial and economic performance that enabled innovation and competitiveness in both local and international markets.

Although the private sector is tourism's most significant economic contributor, it also enjoys economic contributions from the public sector in the form of product management, promotion and a broad range of infrastructure dimensioned beyond the reasonable needs of international visitors but rather to satisfy community demands. Such contributions should enhance the private sector's performance if only through the mechanism of cost avoidance. This, together with the underlying nature of tourism enterprises – numerous, independent, geographically disparate and mainly small – suggests that proprietor behaviour and business performance is an important aspect of addressing the objective of financial and economic sustainability cited in the tourism strategy.

Common sense suggests that measurement is a fundamental tool for improving the quantity and quality of production. As a better understanding of tourism's potential within an economy develops, quantifying relationships between demand and sustainable economic performance becomes important. This shifts the emphasis towards measuring the supply side of tourism and its ability to generate value – not just in a single dimension but in sufficient measure so that all of an enterprise's stakeholders prosper (Donovan et al, 1998)ⁱⁱ. These traditional stakeholders are shareholders, customers and employees. However, in tourism, the community is also a significant stakeholder through its ownership of local infrastructure and in many cases the regional promotion and distribution channels that they fund.

The term 'value' is, from a customer's perspective, the perceived quality of a particular good or service compared with the price paid. From an enterprise's perspective, value is less easily defined but rather is a relative concept that compares the monetary and perhaps other personal outcomes arising from trading in one market as opposed to another. A financially valuable enterprise would generate monetary returns to its shareholders (who might also be proprietors) that are at least as good as other alternatives to which they might choose to apply their capital. A personally valuable enterprise would generate a style of living for its proprietors and employees (who might also be shareholders) that is at least as good as other alternatives to which they might choose to apply their time and capital.

The notion of choice in each of these considerations also recognises that there is a risk profile associated with value generation. Whilst proprietors or shareholders might gain higher value from other alternatives, these might not accord with the degree of risk they are prepared to tolerate.

Tourism receipts and visitor volumes indicate the level of demand generated, but offer no insight as to the extent to which tourism's trading enterprises generate monetary returns. A Tourism Satellite Account (TSA) provides the overall contribution to GDP made by enterprises whose trading aligns with the definition of a visitor. However, a TSA is silent as to the financial status of tourism enterprises - the degree to which they generate adequate monetary returns in the short term and have the characteristics necessary to sustain these returns over the longer term.

Since the vast majority of tourism enterprises are not publicly listed the only way of establishing conventional financial metrics such as profitability or capital efficiency is to have access to information that is normally only available to proprietors. For publicly listed enterprises, sufficient statutory information is generally available to enable some synthesis of their annual accounts to estimate economic profitability and resource efficiency.

This presents researchers with difficulties when information requests intrude into the domain of sensitive data. Financial performance, market share, production innovations and competitor analysis are examples of data that enterprise managers are reluctant to furnish except perhaps in support of a confidential application for a tourism awardⁱⁱⁱ.

New Zealand's Department of Statistics publishes Annual Enterprise Surveys^{iv} that include aggregated statements of financial position and performance for significant clusters – or sectors - of enterprises within the economy. Data is organised by ANZSIC Code^v and is useful for establishing high level historical benchmarks, but it leaves unanswered the question as to how performance is distributed about the mean and thus, can only inform enterprises as to whether they are above or below the mean value for their sector, or in some cases, their sub sector.

1.1. Proprietor Issues

Proprietor motivation is also a factor that influences the degree to which performance benchmarks are seen as important and worthy of support through provision of information to researchers. Middleton (2001)^{vi} observed that many small tourism businesses were formed for lifestyle reasons and consequently financial growth was not a priority, Getz and Petersen (2005)^{vii} also observed that a minority were driven by profit goals, the majority seeking autonomy and lifestyle. Proprietor reticence also emerged from a survey of 770 small businesses conducted by Sleeman and Wason (2005)^{viii} in New Zealand. Only 36% of respondents completed sections of the survey seeking high level financial information that is supplied by every enterprise on an annual basis for taxation purposes. This prompted the question as to whether respondents harboured concerns over confidentiality or were unable to calculate financial measures.

In the light of these observations, financial data obtained both independently and confidentially appeared to offer the best mechanism for understanding the financial performance of the tourism sector which is dominated by small enterprises.

The recent 'Datalab'^{ix} product from Statistics New Zealand provides access to enterprise financial information thereby enabling construction (Moriarty, 2005)^x of the spectrum of performance of a sector or sub-sector of tourism. Datalab information is derived from enterprise annual taxation returns and surveys mandated under the NZ Statistics Act 1975.

1.1 Performance Indicators and Sustainability

The degree to which tourism is sustainable has become an increasingly important question given the extensive intersection of public and private contributions to the activities visitors enjoy during their stay within host communities. It is clear that the commercial activities of either characteristic or related tourism enterprises account for only a proportion of the overall income and expenditures associated with visitors with the balance accruing to non-

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commercial or public good supplies (e.g. public amenities, consumption taxes). In the case of public good supplies, costs are borne by the entire community whilst revenues are raised from combinations of taxation and usage fees.

Gauging the extent to which tourism enterprises generate financial contributions to their proprietors is one of the steps in the process of understanding whether tourism is sustainable at both enterprise and community levels of the economy.

The choice of Financial Yield (FY) as a means of measuring financial and economic sustainability is based on two common-sense observations. If an enterprise fails to generate more cash than it consumes it eventually ceases trading: i.e. it is not financially sustainable. Further, if an enterprise does generate more cash than it consumes, but less than what could be obtained by deploying the cash value associated with its assets elsewhere in the marketplace at a similar level of risk it is inefficient: i.e. not economically sustainable. These are consistent with the generally accepted solvency principles established in statute^{xi}.

If these two observations are reduced to expressions that reflect business performance, then for financial sustainability,

$$\text{Surplus cash from trading} = \text{Net Operating Profit after Tax} = \text{All cash income} - \text{All cash expenses} > 0,$$

while for economic sustainability

$$(\text{Net Operating Profit after Tax})/\text{Assets} - (\text{Alternative Operating Profit after Tax})/\text{Assets} > 0.$$

If Financial Yield (FY) is defined as $(\text{Net Operating Profit after Tax})/\text{Assets}$,

and if the Cost of Capital (CC) is defined as $(\text{Alternative Operating Profit after Tax})/\text{Assets}$,

Then the expression that informs on both financial and economic sustainability is

$$(\text{FY} - \text{CC}) * \text{Assets} > 0.$$

This means that FY must be positive and also greater than CC, provided Assets are also positive. It is unlikely that the alternative or market return (CC) is negative.

This expression is also found in the work by Stern & Stewart^{xii} in their promotion of EVATM (economic value added) – a metric that used surplus cash from trading (free cash flows) to gauge the efficiency of an enterprise. The market return, CC, is more generally expressed as WACC, the weighted average cost of capital to reflect the different costs associated with component sources of capital (e.g. debt versus equity).

In summary, if FY can be measured for an enterprise and compared with the FY of other enterprises, a financial performance benchmark is obtained. If FY is generally greater than the market cost of capital (CC) then an economic benchmark is obtained. Proprietor behaviours associated with various levels of FY may be indicators of success or improvement factors that inform on the financial and economic sustainability of tourism enterprises.

This choice of a benchmark is not without definitional issues. One of the key attributes of a successful benchmark is elimination of measurement distortion. What is measured and how it is measured is critical to the authority of the resulting benchmark. How enterprises are funded, whether assets are leased or purchased or whether proprietors are also employees

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should not undermine the integrity of their financial yield if it is based on operating cash flows and the value of assets used for production. It will be necessary to introduce some measurement rules to reduce distortion and to make assumptions as to the treatment of assets over time.

2 Financial Yield (FY) methodology and Benchmark selection for the Accommodation Sector.

Information to derive FY has been gathered by Statistics New Zealand from tourism characteristic and tourism related enterprises over the period 1999-2003. Two sources of information have been combined into a single dataset: Annual Enterprise Surveys (conducted by Statistics New Zealand) that captured the entire population of large enterprises and samples of medium and small enterprises, and taxation returns that captured samples of medium and small enterprises.

The tourism dataset contained records of financial position and financial performance for all or part of the period 1999-2003 from over 57,600 tourism related and tourism characteristic enterprises. Each record was also classified by the ANZSIC code corresponding to the enterprise's business function. Accommodation sector enterprises were characterised by the ANZSIC codes shown in Table 1:

ANZSIC Code	Description
H571010	Hotels (accommodation)
H571020	Motels and Motor Inns
H571030	Hosted Accommodation
H571040	Backpacker and Youth Hostels
H571050	Caravan Parks and Camping Grounds
H571090	Accommodation nec (not elsewhere classified)

2.1.1.1 Table 1 ANZSIC Codes for Accommodation Sector

2.2 Determining FY for Accommodation Sector Enterprises

2.1.1. Financial performance and position data from enterprises within the industry classifications identified in the previous table via Statistics New Zealand's Datalab.

2.1.2. A tourism enterprise's financial yield (after taxation) was established by applying the following relationship to enterprise records:

$$\text{Financial Yield} = \frac{(0.67 * \text{Net Operating Profit Before Tax} + \text{Finance Expenses})}{(\text{Assets})}$$

2.1.3. Assumptions

Processing the financial information to calculate FY requires a few assumptions to be made as data is not accompanied by explanatory notes. The following assumptions standardised the information and reduced some of the distortions

1. Net Operating Profit before Tax, adjusted for nominal tax if positive (at 33% company tax rate), otherwise unadjusted. I.e. no allowance is made for tax credits that might arise in future years from prior losses ;
2. Assets = Equity + Other Liabilities. Since asset types are not disaggregated and are often confidential in some industry groupings, the sum of Equity and Other Liabilities has been used instead;
3. Salaries and Wages to Working Proprietors are not included as enterprise expenses in Statistics NZ's derivation of net operating profit. The reason is to

maintain parity with the treatment of shareholders. This convention could overstate the FY of small enterprises in comparison with larger enterprises for two reasons: materiality and substitutability. Proprietor wage or salary expenses have a material effect on profit in smaller businesses, however if labour was substituted by an employee (not a shareholder) it would be expensed.

4. The FY of an enterprise should not depend on the method used to finance its operations. Switching from debt funding of assets to lease funding should return the same FY provided asset financial expenses (those incurred as a result of servicing debt or leases) are added back to cash operating profit and the present value of any lease, if one exists, added to assets. If this is not done, FY will generally be exaggerated. Isolating lease and debt financing costs is difficult where anonymous enterprise data is sourced from Statistics New Zealand's Datalab as lease costs are consolidated with general expenses. However, if an enterprise's financial records are disclosed the FY is readily determined without ambiguity.

It is important to note that this treatment does not affect cash taxes. Cash tax is calculated, nominally, at 33% of accounting profit according to taxation rules and is unaffected by the re-addition of financing expenses to cash operating profit. Surveys will assist gauge the degree to which leased assets predominate over debt/equity financed assets;

5. Taxation depreciation is deemed to reflect an asset's reduced economic utility and although not cash, is retained as an economic expense. The gradual alignment of tax and economic depreciation rates reduces the materiality of this assumption;
6. No adjustment is made to asset value to reflect the present value of leases (annual lease expenses are consolidated into operational expenses). This may result in an overstatement of FY – particularly with accommodation, utilities and transportation enterprises where leases are common. Where such enterprises are publicly listed an adjustment can usually be made as lease payments are more readily identified;
7. FYs lying outside the range $\pm 30\%$ were deemed to be outliers due mainly to missing or zero data and were excluded from subsequent processing.

Note: the spectrum of FYs informs on individual enterprises. Statistics such as the average FY or its variance relate to the set of individual enterprises and not their overall industry. If the statements of financial performance and financial position for each enterprise are consolidated to division or sector level, assumptions relating to zero or missing data no longer hold and the FY will be weighted by the performance of the major revenue and capital enterprises rather than the simple average of each enterprise.

2.2. Establishing Benchmarks using FY.

Benchmark performance of enterprises can be established using enterprise FY in comparison with other sectors of the economy, other divisions within a sector or against market-wide factors such as the nominal cost of capital. It is recognised that the cost of capital for any business may vary considerably according to the lender's appetite for risk versus returns as well as the proportional weighting of the costs of equity and debt. A benchmark that provides a nominal cost of debt, and a proxy for the cost of capital for the majority of small and medium new business borrowers having a satisfactory level of equity is the "base lending rate" established by the Reserve Bank^{xiii}. However, small

business proprietors might also access cheaper debt if they can offer assets such as personal real estate as security. In such cases the cost of debt is determined by the trading banks through their housing mortgage floating interest rates^{xiv} which are considerably less than the base lending rate.

In this study, the following comparisons will be made against the FY of the accommodation sector and its component divisions:

- a) Economy-wide FY derived from Department of Statistics Annual Enterprise Surveys for ANZSIC Divisions over the period 1999-2003
- b) Sector-wide FY derived from Datalab analysis of Accommodation enterprises for each component division as described in Table 1.
- c) Nominal cost of debt comparison based on the principle that trading enterprises should generate returns that exceed the base lending rate (after tax) set by the Reserve Bank as the risk adjusted cost of debt for new business enterprises. This rate was 9.65% pre-tax over the analysis period or 6.47% after tax. Over the same period the equivalent ‘home mortgage rate’, typified by the floating rate, averaged 7.5% before tax or 5.03% after tax.

3 Tourism trading climate during the analysis period

Measurements of FY reflect the trading performance of enterprises over time, but it is also important to acknowledge the trading climate as some of its factors may influence results.

Many factors influence trading but two are particularly important as they affect demand and price. Visitor arrivals reflect the inherent demand for tourism products and the degree to which visitors can afford to spend reflects their propensity do so and to some extent the prices they may be prepared to pay. These two factors also determine the quantum and volume of gross margin^{xv} enterprises gain from trading, and if demand-independent costs (enterprise fixed costs such as asset financing, rental, core wages and salaries, etc) are met from working capital, gross margin determines the level of operating profit and FY over the short to medium term.

3.1 Visitor Demand

After the decline in visitor numbers arising from the ‘Asian crisis’ of 1998 demand rebounded rapidly from 1998 until 2003 where a further decline and rebound occurred after the international impact of September 2001 and SARS virus in 2003.

Year End Dec	International Arrivals	Annual Growth
1998	1,484,512	-1%
1999	1,607,241	8%
2000	1,786,765	11%
2001	1,909,381	7%
2002	2,045,064	7%
2003	2,104,420	3%
2004	2,334,153	11%
2005	2,447,740	5%

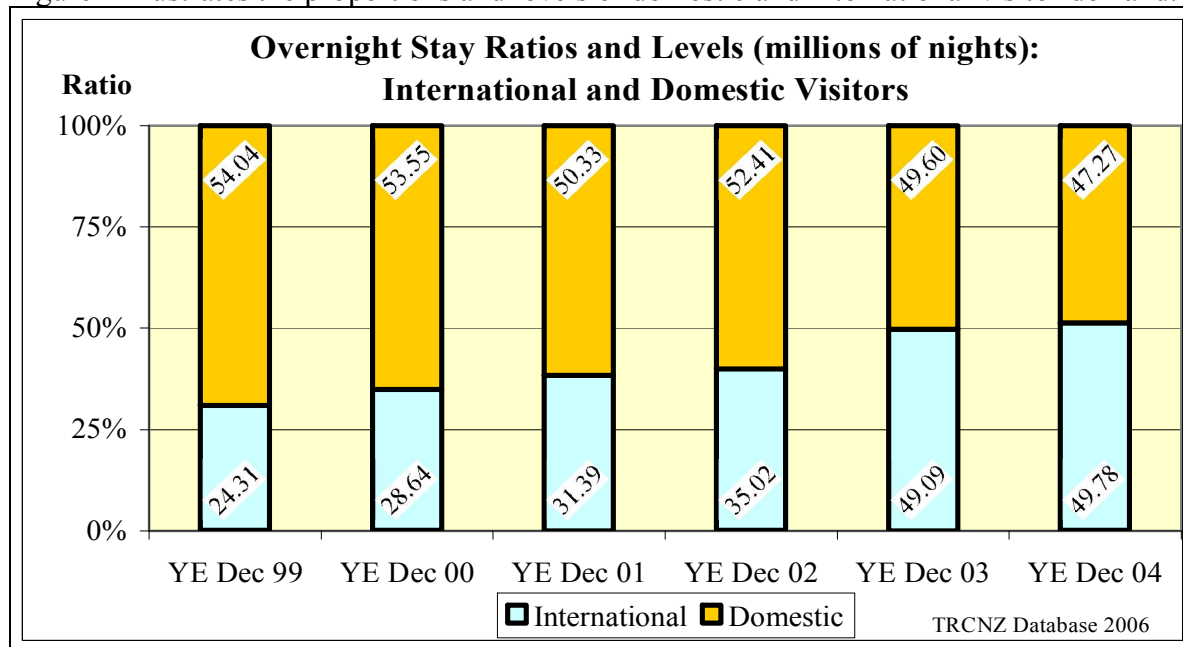
3.1.1.1 Table 2: Visitor Arrivals to New Zealand YE Dec 1998-2005

Table 2 illustrates the variability of annual growth and the rapid increase in visitors particularly between 1999 and 2003. Overall, the compound annual growth between these years was approximately 7%. This was a significant achievement in the face of considerable consumer reticence towards international travel coupled with the additional discomforts that accompanied the re-engineering of both physical and bio-security systems and processes on all major air routes throughout the world.

Regional tourism also increased as trans-Tasman travel was substituted for long-haul destinations thus providing increased visitor demand throughout both Australia and New Zealand for each other's products.

Domestic tourism, evidenced by overnight stays, has exhibited a declining trend since 1999, but overall overnight stays have increased as a result of increased international visitation. Domestic tourism increased by approximately 4% in 2001 as a consequence of instability in the global airline market that was precipitated by the event of 11th September in that year

Figure 1 illustrates the proportions and levels of domestic and international visitor demand.



3.1.1.2 Figure 1: Overnight Stay Ratios and Levels for International & Domestic Visitors

Perceptions of safety and airfare price competitiveness were also key drivers in re-directing the travel preferences of New Zealanders and Australians to each other's countries. These same factors also attracted international visitors seeking destinations that were perceived to be free of the perils that persisted after September 11, 2001. In summary, demand for New Zealand as a visitor destination had never been higher than it was over the period 1999-2003.

3.2 Price Competitiveness

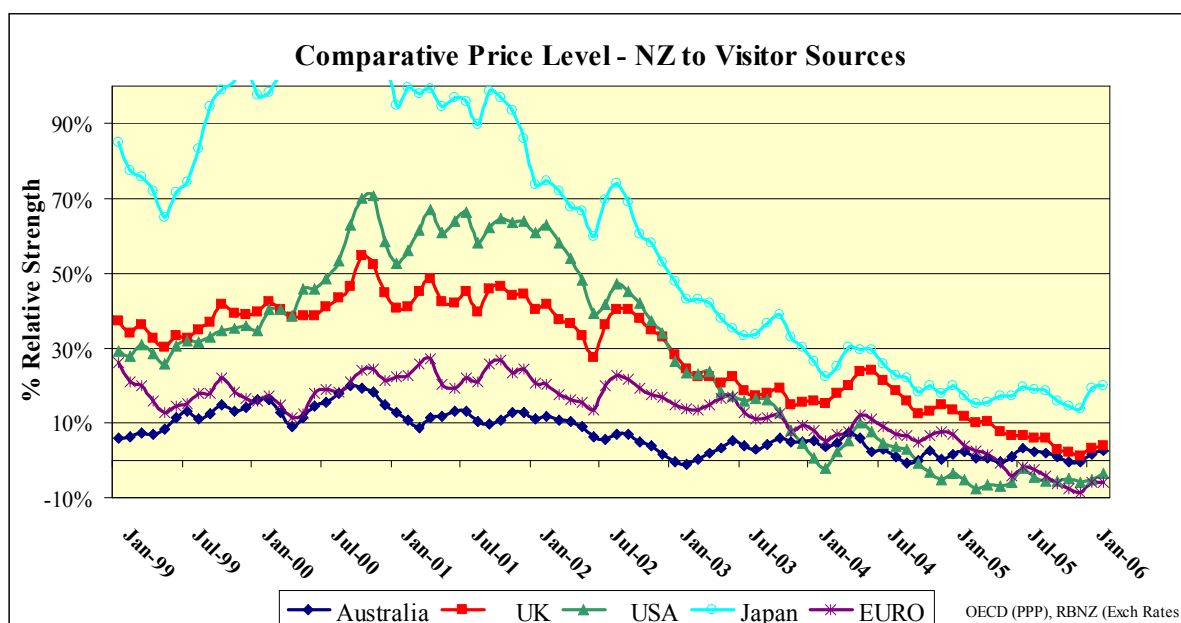
Establishing direct relationships between visitor demand and price competitiveness is challenging because reasons for travel are generally multi-factored. Some of these factors are detailed and some are holistic. Examples of detailed factors include: perceptions as to the safety of a destination, the price of airfares (generally paid in local currency) and the 'fashion' for travel as opposed to expenditure on other consumer products. Holistic factors such as the trip's overall time efficiency and its affordability also influence consumer choice.

It is a common sense matter of affordability that intending visitors have an appreciation of the broad relativity of the strength of their home currency to that of their intended destination. A metric that is used to estimate the relativity between earning in one country and spending it in another is the Comparative Price Level (CPL). Used by the OECD and World Bank, CPL reflects the relative spending power of national currencies on commodities throughout the world. This metric is the ratio of purchasing power parity (PPP) to exchange rate, where "PPP" is derived from per capita gross domestic product. Ideally PPP and exchange rates

should be similar, but it is often not the case as they also reflect local conditions such as consumer prices, the trading environment and productivity.

High CPL at a destination confers advantage to the visitor as a unit of their currency will purchase more commodity items than it does in their home country, conversely a low CPL confers disadvantage as commodity purchases will be more expensive in the destination than at home.

Figure 2 highlights the CPL for international visitors to New Zealand since January 1999.



3.2.1.1 Figure 2: Comparative Price Level, New Zealand versus Visitor Sources

What is evident is a significant advantage to visitors from the principal visitor sources from 1999 until the middle of 2003. In the case of Japan, the advantage exceeded 100% - interpreted as “visitors could purchase twice as much commodity product per converted unit of their currency within New Zealand as they could have done at home”.

For tourism, food, accommodation, local travel, and entertainment are commodities that account for a considerable component of visitor expenditure. Moreover, prices are also reflective of local demand (domestic tourism). In New Zealand’s case, domestic and international visitor-nights are comparable and suggest that prices are not solely determined by international demand.

Overall, visitor purchasing power during the period 1999-2003 was significantly high and in most cases at levels that made New Zealand appear a relatively inexpensive destination. It seems reasonable to expect that tourism prices and corresponding gross margins might reflect this and any evidence of it should appear in the annual trend of FYs.

4 Results and Commentary

The Department of Statistics’ tourism dataset for the period (year ending 31 March) 1999-2003 contained 3331 records relating to enterprises in six divisions of tourism’s key characteristic industry sector: accommodation. These divisions were hotels, motels and motor inns, hosted accommodation, backpackers and youth hostels, caravan parks and camping grounds and accommodation ‘not elsewhere classified’. Within these samples data was analysed for

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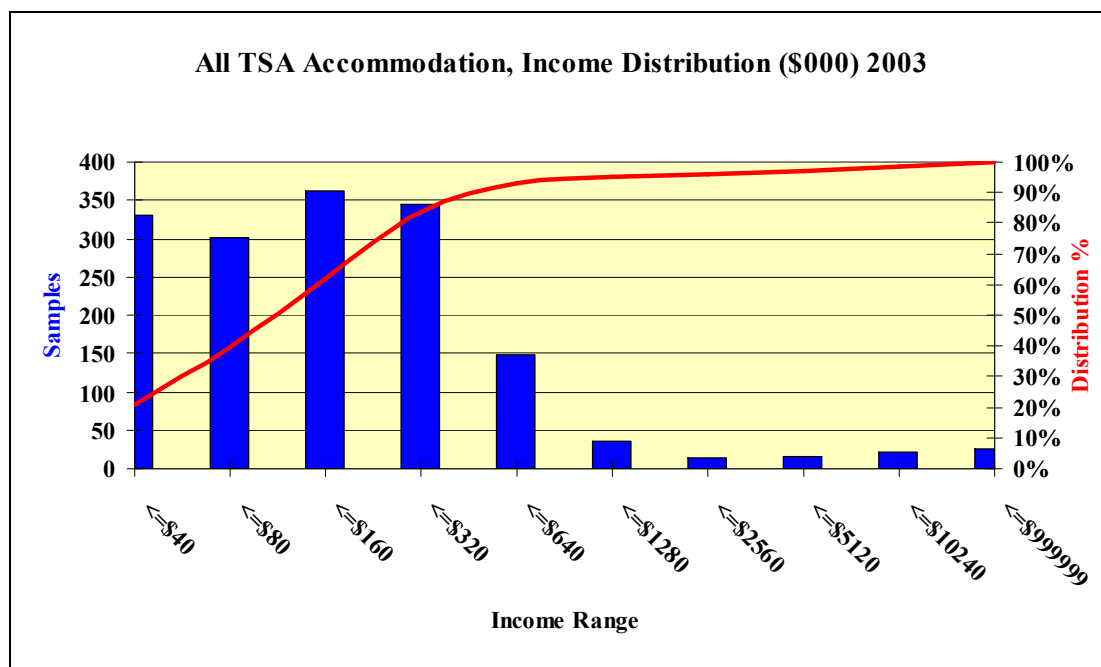
consistency as well as integrity. Data was considered consistent if there were values for revenue, expenses, net profit and assets. Data was considered to have integrity if FYs were able to be calculated (i.e. positive non-zero values for total assets). Within these constraints 52% of samples were consistent; of which over 92% had integrity and generated FYs in the range $\pm 30\%$.

For the following results the overall accommodation sector together with each of its six divisions are shown in both tabular and graphical format.

Note that all FYs in the accompanying tables and charts are "after-tax". The equivalent pre-tax FY is 149¼% larger than the "after-tax" FY based on the tax rate prevailing over the analysis period.

4.1 All Accommodation Enterprises

The Accommodation sector is a characteristic industry within the Tourism Satellite Accounts with a tourism product ratio^{xvi} of around 94%. It is perhaps the most easily recognised of all industries associated with tourism and is one of the most important with revenues of approximately \$1.92 billion and capital base of \$3.89 billion in 2003. Earlier studies of this sector^{xvii} indicated that its overall FY averaged 4.3% over the period 1999-2003; however the distribution of FY by enterprise was unknown.



4.1.1.1 Figure 3: Distribution of All Accommodation Income in 2003

Income fell into two extremes: 90% of enterprises have annual incomes less than \$640,000; about 5%, mainly hotels, have incomes in excess of \$2,500,000. Average enterprise income lay in the range \$80,000 to \$160,000.

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4.1.2 Results

These results relate to the overall accommodation sector where approximately 1650 enterprises having FYs in the range $\pm 30\%$ were analysed.

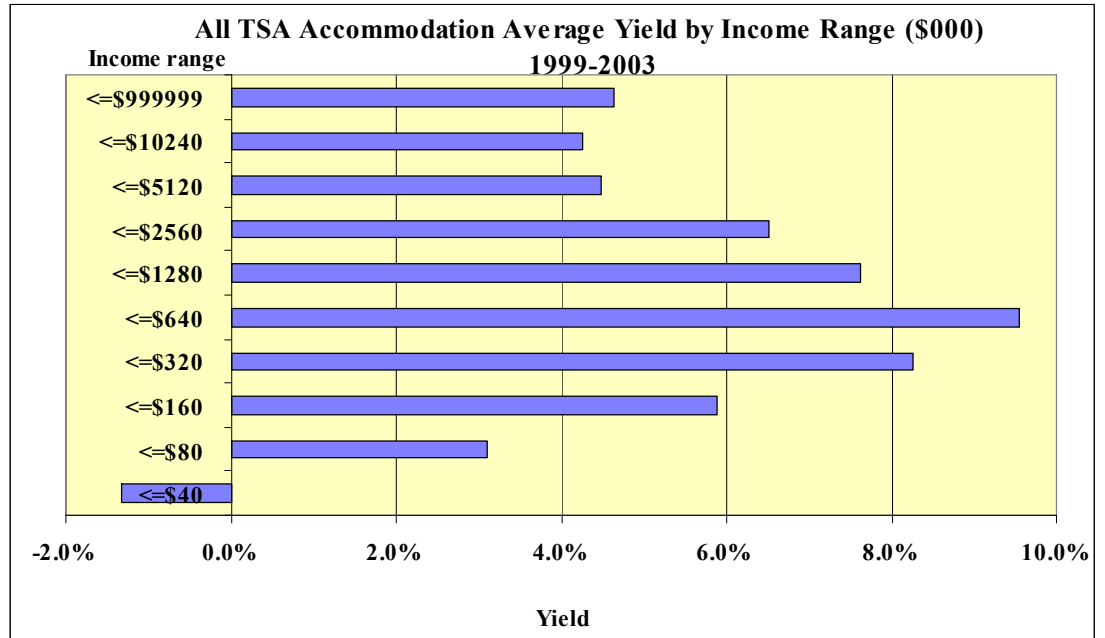
FY Statistics	All TSA Accommodation					
	1999	2000	2001	2002	2003	All
Samples	1662	1685	1665	1632	1600	
Average	4.26%	4.59%	4.69%	5.52%	5.26%	4.86%
95%Conf \pm	0.34%	0.35%	0.36%	0.36%	0.39%	0.36%
Variance	0.51%	0.53%	0.56%	0.55%	0.62%	0.55%
Std Dev	7.14%	7.28%	7.47%	7.40%	7.90%	7.44%
Max	29.76%	29.36%	30.00%	29.74%	29.94%	30.00%
Min	-27.88%	-26.15%	-30.00%	-28.81%	-29.69%	-30.00%
Deciles						
1	-4.89%	-4.74%	-4.88%	-3.96%	-4.87%	-4.67%
2	-1.75%	-1.54%	-1.60%	-0.71%	-1.39%	-1.40%
3	0.51%	0.77%	0.77%	1.64%	1.12%	0.96%
4	2.45%	2.74%	2.80%	3.64%	3.26%	2.98%
5	4.26%	4.59%	4.69%	5.52%	5.26%	4.86%
6	6.06%	6.43%	6.58%	7.39%	7.26%	6.75%
7	8.00%	8.41%	8.61%	9.40%	9.41%	8.76%
8	10.26%	10.72%	10.98%	11.75%	11.91%	11.12%
9	13.40%	13.92%	14.26%	15.00%	15.39%	14.40%

(According to a Normal Distribution of Yields)

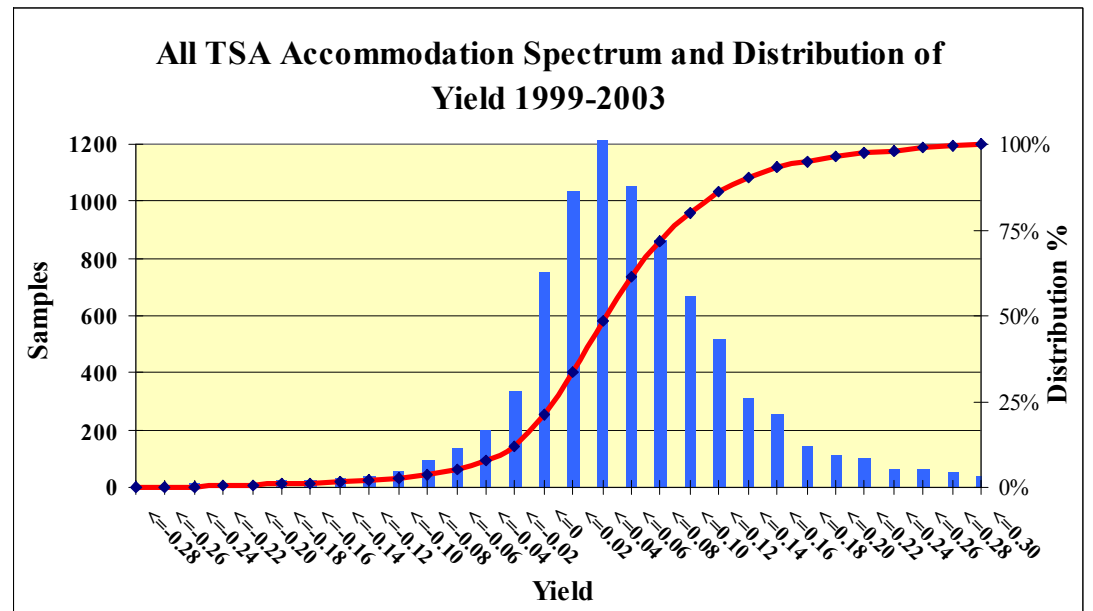
4.1.3 Figure 4: All Accommodation FY statistics

Average Yield by Income		1999	2000	2001	2002	2003	All Years
Income range (\$000)							
>=\$0	<=\$40	-1.18%	-1.52%	-1.37%	-1.00%	-1.48%	-1.31%
>\$40	<=\$80	2.15%	3.14%	3.09%	3.89%	3.30%	3.11%
>\$80	<=\$160	5.07%	5.49%	6.18%	6.28%	6.45%	5.90%
>\$160	<=\$320	7.02%	7.87%	7.81%	9.32%	9.27%	8.26%
>\$320	<=\$640	8.96%	8.21%	9.46%	10.11%	11.02%	9.55%
>\$640	<=\$1280	6.42%	9.63%	6.25%	8.18%	9.58%	7.62%
>\$1280	<=\$2560	4.99%	6.11%	7.99%	8.03%	5.44%	6.51%
>\$2560	<=\$5120	6.45%	4.74%	4.29%	3.56%	3.41%	4.49%
>\$5120	<=\$10240	2.10%	2.91%	3.43%	6.95%	5.91%	4.26%
>\$10240	<=\$999999	4.87%	6.66%	2.20%	3.85%	5.60%	4.63%

4.1.3.1 Figure 5: All TSA Accommodation FY by Income Range



4.1.3.2 Figure 6: Overall Accommodation FY by Income 1999-2003



4.1.3.3 Figure 7: Overall Accommodation Distribution of FY 1999-2003

4.1.4 Overall Accommodation: Commentary on Results

From 1999 to 2003 accommodation sector enterprise average annual FY (after tax) rose steadily from 4.26% in 1999 to a peak of 5.52% 2002 and declined slightly to 5.26% in 2003. The average enterprise FY over that period was 4.86%.

Over that period all New Zealand Industry's FY averaged approximately 5.2% (Moriarty, 2006 & Appendix 1)^{xviii} implying that decile 6 accommodation enterprises performed in excess of the national average FY.

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The distribution of FY by income range in Figure 6 highlights a narrow band of high yielding enterprises; those with annual incomes between \$320,000 and \$640,000. Not only did this group of enterprises have the highest FY over the analysis period, they generally improved significantly within decile 8 and decile 9 performance bands by the end of the analysis period, 2003. The FY of enterprises with annual incomes less than \$320,000 generally declined as income level declined. Enterprises with annual incomes in excess of \$640,000 generally maintained positive FY, but at a much lower level than the best performer and closer to the sector average.

The distribution of FYs by income range shown in figure 6 illustrates two classes of enterprise-those with superior FYs and those whose FY consistently improved throughout the analysis period. Superior and consistently improving FY occurred in the \$320000-\$640000 income band but the consistency also extended to enterprises with incomes between \$80,000 and \$2,560,000. Enterprises outside this range generally lay in the bottom half of the decile range.

The FY needed to equal or exceed New Zealand's average base lending rate was 6.47% after-tax. Decile 6 and higher accommodation enterprises achieved FYs in excess of both base lending rate and the home mortgage benchmark rate of 5.03%.

Approximately 20% of enterprises with valid data returned negative FYs. The distribution of FY shown in Figure 7 illustrates the central tendency of enterprises around the average FY.

The impact of September 11, 2001 and the subsequent SARS outbreak in Asia is not striking, but enterprises with incomes between \$160,000 and \$640,000 – mainly reflective of motels and motor inns, caravan parks and camping grounds and the more popular hosted accommodation (bed and breakfast) enjoyed greatly improved FYs driven by increasing international as well as good, but ebbing, domestic visitor patronage. Large enterprises - mainly hotels and lodges - recorded a significant downturn in 2001 but improving prospects thereafter saw FYs recover to prior levels.

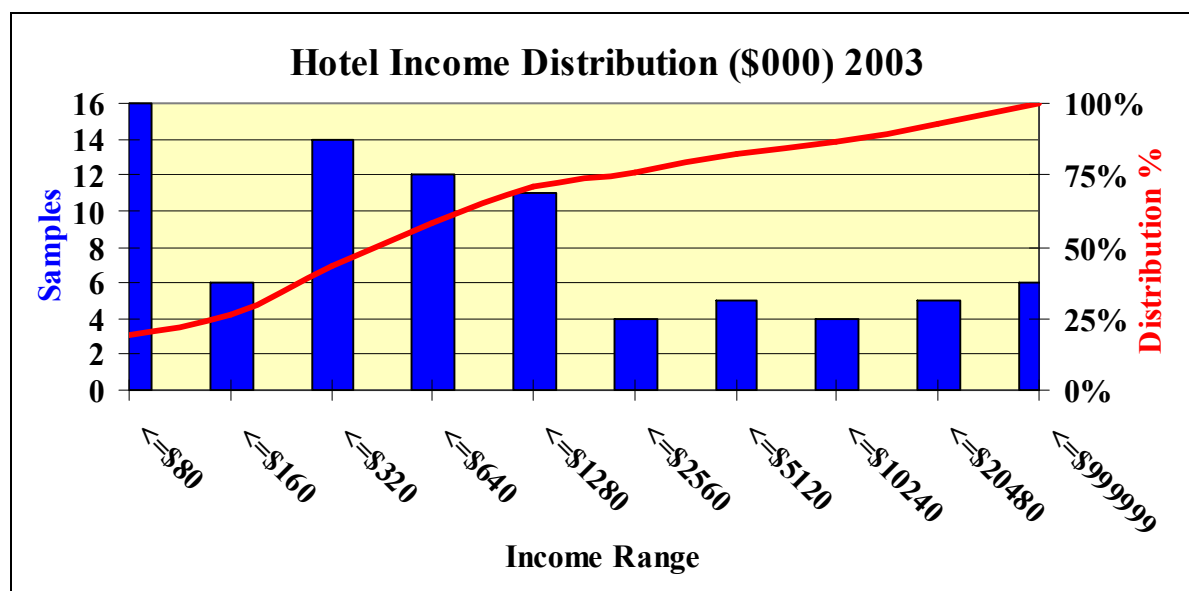
Although overall accommodation FY increased from an average of 4.26% in 1999 to 5.26% in 2003, it remained well below the base lending rate benchmark of 6.47% but exceeded the household mortgage rate benchmark of 5.03% in 2002 and 2003.

Overall, strong international demand coupled with superior purchasing power from all of New Zealand's major visitor destinations was resulted in consistently good FY growth for those enterprises with incomes in the range \$160,000 - \$1,280,000. These enterprises performed significantly better than any of the others but only the \$160,000 - \$640,000 income range exceeded the base lending rate benchmark in each of the five analysis years.

4.2 Accommodation – Hotels

The Hotel division is comprised of enterprises having the accommodation sector's highest turnover and asset structure. Figure 8 illustrates that the median turnover lay in the range \$320,000 to \$640,000 for 2003, and that there were effectively two classes of enterprise with sharp distinction between them. Large hotels comprised 25% of the sample with incomes in excess of \$2,560,000 and small hotels comprised 75% of the sample with incomes less than \$2,560,000. Average asset value for the division lay between \$400,000 and \$800,000 –

suggesting that there are a significant number of leased properties whose asset value is represented by an annual rental or lease expense.



4.2.1.1 Figure 8: Hotel Income Distribution in 2003 (\$000)

4.2.2 Hotel Results

The following results relate to enterprises having the H571010 ANZSIC code (Hotels) where the sample size varied from 134 to 83 enterprises over the sample period.

FY Statistics	Hotels (Accommodation)					All
	1999	2000	2001	2002	2003	
Samples	134	121	120	98	83	
Average	5.29%	5.76%	4.98%	6.45%	5.03%	5.50%
95%Conf ±	1.47%	1.62%	1.56%	1.76%	2.09%	1.70%
Variance	0.76%	0.83%	0.76%	0.79%	0.94%	0.82%
Std Dev	8.74%	9.10%	8.70%	8.90%	9.71%	9.03%
Max	29.73%	28.68%	29.31%	25.99%	29.66%	29.73%
Min	-22.29%	-19.83%	-29.93%	-21.85%	-22.22%	-29.93%
Deciles						
1	-5.91%	-5.90%	-6.16%	-4.96%	-7.42%	-6.07%
2	-2.07%	-1.90%	-2.34%	-1.04%	-3.15%	-2.10%
3	0.71%	0.99%	0.42%	1.78%	-0.06%	0.77%
4	3.08%	3.45%	2.78%	4.20%	2.57%	3.21%
5	5.29%	5.76%	4.98%	6.45%	5.03%	5.50%
6	7.51%	8.06%	7.19%	8.71%	7.49%	7.79%
7	9.88%	10.53%	9.55%	11.12%	10.12%	10.24%
8	12.65%	13.41%	12.31%	13.94%	13.20%	13.10%
9	16.50%	17.41%	16.13%	17.86%	17.48%	17.08%

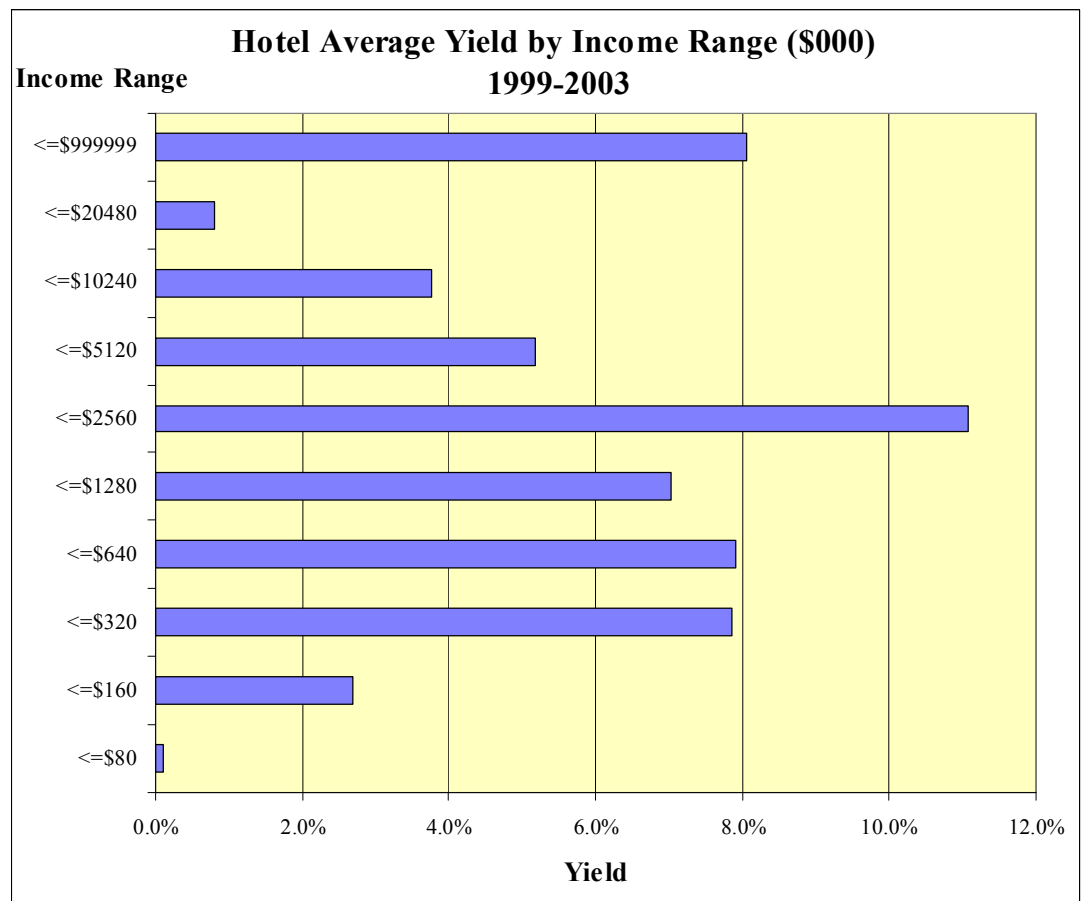
(According to a Normal Distribution of Yields)

4.2.2.1 Figure 9: Hotels FY Statistics 1999-2003

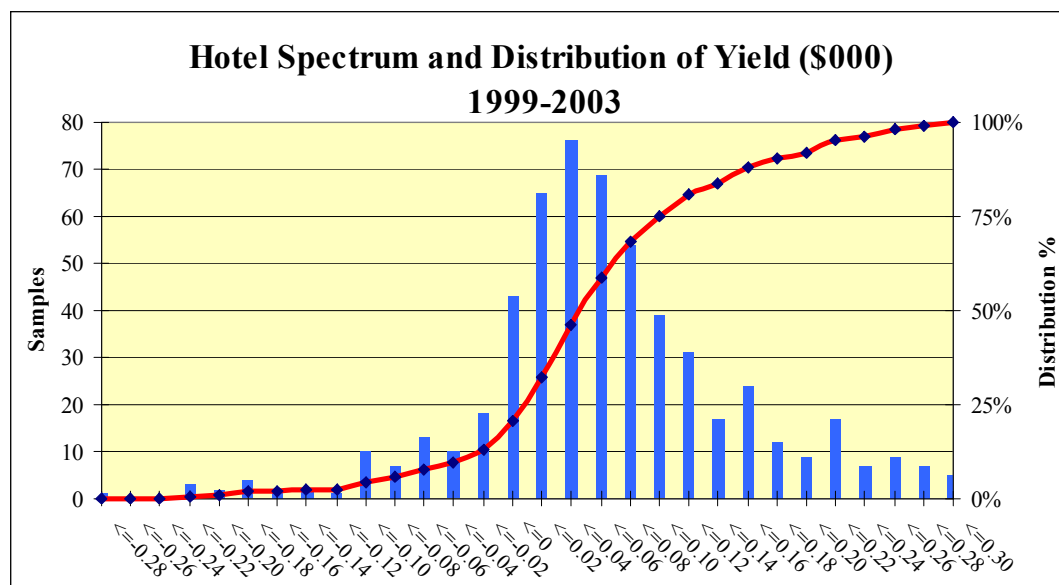
Performance Benchmarks for New Zealand Accommodation Enterprises

Average Yield by Income		1999	2000	2001	2002	2003	All Years
Income Range (\$000)							
>=\$0	<=\$80	-1.37%	0.22%	0.30%	0.42%	0.91%	0.09%
>\$80	<=\$160	2.46%	1.73%	4.84%	4.00%	0.44%	2.69%
>\$160	<=\$320	6.91%	6.43%	6.51%	11.75%	7.65%	7.85%
>\$320	<=\$640	7.22%	6.77%	8.18%	8.77%	8.63%	7.91%
>\$640	<=\$1280	4.91%	10.94%	6.83%	6.47%	5.94%	7.02%
>\$1280	<=\$2560	11.88%	8.46%	12.83%	11.12%	5.13%	11.07%
>\$2560	<=\$5120	7.48%	4.28%	6.39%	3.62%	4.12%	5.18%
>\$5120	<=\$10240	3.87%	0.71%	1.13%	6.51%	6.58%	3.76%
>\$10240	<=\$20480	1.76%	2.34%	-8.23%	4.37%	3.81%	0.81%
>\$20480	<=\$999999	9.47%	12.66%	9.56%	2.33%	6.29%	8.06%

4.2.2.2 Figure 10: Hotels FY by Income Range 1999-2003



4.2.3 Figure 11: Hotels Overall FY by Income Range 1999-2003



4.2.3.1 Figure 12: Hotels Distribution of FY 1999-2003

4.2.4 Commentary on Hotel Results

Hotels generated slightly higher average FY at 5.5% compared with the average of the overall accommodation sector at 4.9%. Compared with the sector, this division recorded lower FY at the lower decile ranges and higher FY at the 8th decile. Decile 6 enterprises generated sufficient FY to exceed the average base lending rate of 6.47% for the period.

The New Zealand Industry average FY throughout the analysis period was 5.7%,^{xix} and only decile 6 and above hotels record FYs in excess of this.

Hotels within the income range \$1,280,000 through \$2,560,000 exhibited the highest average FY over the period 1999-2003 – even though performance declined considerably in 2000 and 2003. Hotels with incomes in the range \$10 million to \$20 million recorded negative FY in 2001 and consistently returned low FY over the analysis period with an overall average of 0.81%.

As noted in Section 2.1, Hotel operating strategies that involve leases of land and buildings or ‘facilities management’ will likely cause an overstatement of the FY because total assets will be understated. Where the operating strategy involves ‘facilities management’ the facility manager’s assets (chattels and working capital) only reflect a portion of the assets needed for trading. In cases such as these, the FY will be that of the facilities manager rather than the hotel.

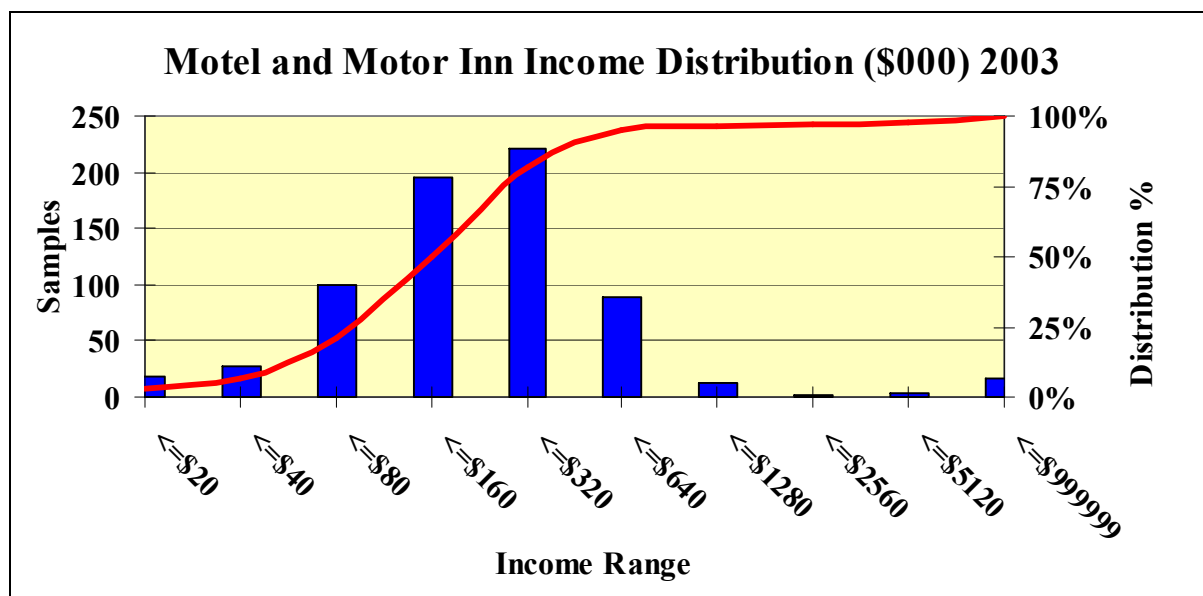
The frequent separation of hotel ‘operational management’ from hotel ‘property management’ also brings into focus another factor that influences capital providers – real estate values. Capital gain from commercial real estate appreciation throughout the analysis period varied from under 1% p.a in the early years to over 3% p.a by the end of 2004. Based on data from the NZ Property Council^{xx} this appreciation is estimated to be about 2% p.a over the analysis period. Hotel enterprises that are either fully owned and operated or leased to ‘facilities managers’ would benefit from this gain and increase their average FY by as much as 36% to about 7.5% - well above the national average FY also above the base lending rate.

Nevertheless, if a similar investment was made in the retail sector where both property and trading gains also occur, benchmark FYs in excess of 11.3% would be normal (Moriarty 2005)^{xxi}. Only the best performing hotels (decile 8) exhibit FY comparable to retail sector enterprises with similar incomes (in the range \$640,000 - \$1,280,000).

Other factors that influence FY are the expenses – particularly those associated with human resources. The accommodation sector relies heavily on human resources for management and operations yet has been reported^{xxii} as having significant annual staff churn – averaging 31% per annum. The hotel division also has significant staff turnover with anecdotal reports that it is not unusual for establishments with over 30 full-time equivalent staff to have more than 60% of them replaced each year. High staff turnover increases training and recruitment costs, triggers re-work in day-to-day operations and impinges quality standards. Hotels in the \$5 million through \$20 million income range employ significant staff numbers and reported FYs well below average. However, enterprises with incomes in excess of \$20 million, reported FYs well above average and suggests that they are good exemplars for the division.

4.3 Accommodation: Motels and Motor Inns

In terms of the number of trading enterprises, motels and motor inns form the biggest division in the accommodation sector. Average income for the 687 samples in 2003 was approximately \$160,000 with 3% enterprises recording incomes in excess of \$1 million. In summary, a division comprised almost entirely of micro-businesses. Figure 13 illustrates the distribution of income amongst the sample range for 2003. Average asset value for the division was between \$200,000 and \$400,000 also suggesting that a significant proportion of enterprises lease or rent their properties.



4.3.1.1 Figure 13: Income Distribution of the Motel and Motor Inn Division in 2003

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4.3.2 Motel and Motor Inn Results

The following results apply to between 687 and 804 enterprises with the H571020 ANZSIC Code (Motels and Motor Inns).

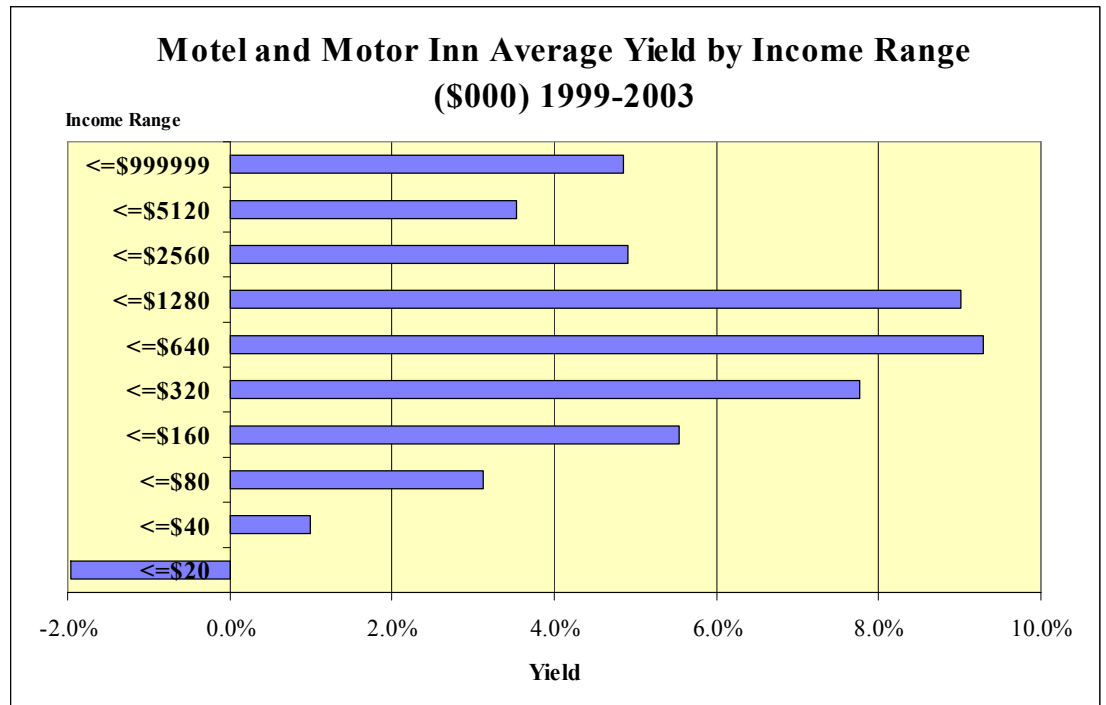
FY Statistics	H571020 Motels and Motor Inns					
	1999	2000	2001	2002	2003	All
Samples	804	779	770	741	687	
Average	4.69%	5.28%	5.59%	7.01%	7.12%	5.94%
95%Conf ±	0.45%	0.45%	0.46%	0.48%	0.53%	0.47%
Variance	0.42%	0.41%	0.42%	0.44%	0.51%	0.44%
Std Dev	6.46%	6.39%	6.49%	6.60%	7.14%	6.62%
Max	29.76%	29.36%	28.68%	29.74%	29.62%	29.76%
Min	-23.53%	-25.00%	-30.00%	-28.81%	-25.47%	-30.00%
Deciles						
1	-3.59%	-2.91%	-2.72%	-1.45%	-2.03%	-2.54%
2	-0.75%	-0.10%	0.13%	1.45%	1.11%	0.37%
3	1.30%	1.93%	2.19%	3.55%	3.38%	2.47%
4	3.05%	3.66%	3.95%	5.34%	5.31%	4.26%
5	4.69%	5.28%	5.59%	7.01%	7.12%	5.94%
6	6.33%	6.90%	7.24%	8.68%	8.93%	7.62%
7	8.08%	8.63%	9.00%	10.47%	10.87%	9.41%
8	10.13%	10.66%	11.06%	12.56%	13.14%	11.51%
9	12.97%	13.47%	13.91%	15.47%	16.28%	14.42%

(According to a Normal Distribution of Yields)

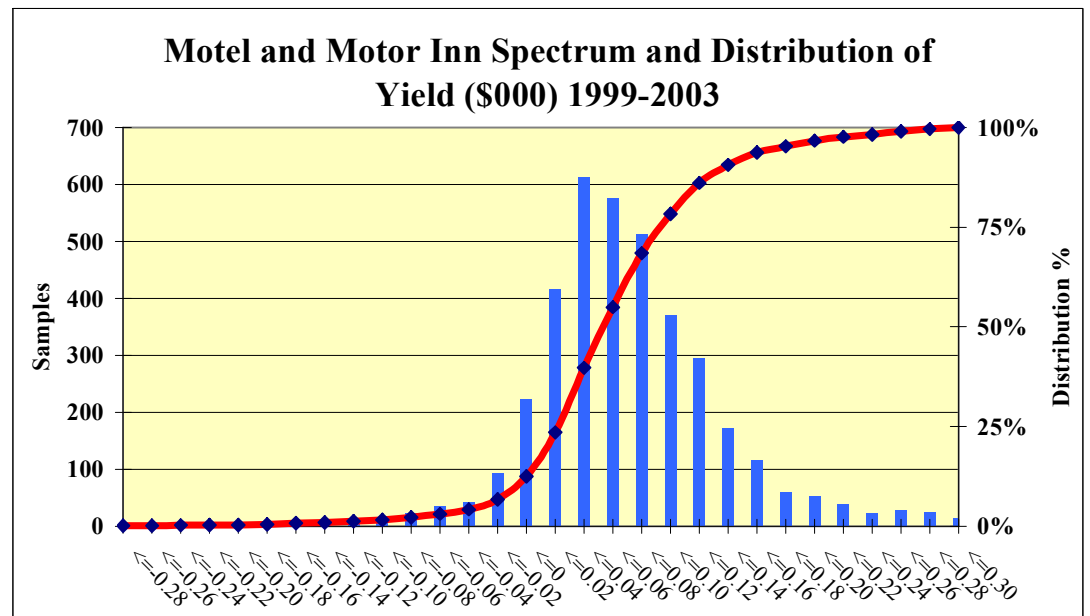
4.3.2.1 Figure 14: Motels and Motor Inns FY Statistics 1999-2003

Average Yield by Income	1999	2000	2001	2002	2003	All Years
Income Range (\$000)						
>=\$0 <=\$20	-2.78%	-1.60%	-1.30%	-2.22%	-1.89%	-1.96%
>\$20 <=\$40	0.19%	0.74%	1.40%	0.60%	1.99%	0.98%
>\$40 <=\$80	1.88%	2.71%	3.02%	4.59%	3.45%	3.13%
>\$80 <=\$160	4.70%	5.05%	5.21%	6.51%	6.23%	5.54%
>\$160 <=\$320	6.03%	7.28%	7.44%	8.90%	9.21%	7.77%
>\$320 <=\$640	9.46%	8.33%	9.51%	9.85%	10.91%	9.29%
>\$640 <=\$1280	8.69%	9.12%	6.12%	9.16%	11.99%	9.02%
>\$1280 <=\$2560	1.36%	4.02%	7.80%	2.89%	8.47%	4.91%
>\$2560 <=\$5120	6.01%	2.76%	1.97%	4.97%	2.01%	3.54%
>\$5120 <=\$999999	2.89%	3.38%	3.45%	6.91%	7.62%	4.85%

4.3.2.2 Figure 15: Motels and Motor Inns FY by income Range 1999-2003



4.3.2.3 Figure 16: Motels and Motor Inns Overall FY by Income Range 1999-2003



4.3.2.4 Figure 17: Motels and Motor Inns Distribution of FY 1999-2003

4.3.3 Commentary on Motel and Motor Inns Results

The overall average enterprise FY from this division of accommodation was 5.94% after-tax for the analysis period and exceeds the national average (5.7%). Overall average FYs improved steadily during the entire analysis period and was due to the consistently high performance of most of the lower to middle income bands of motels and motor inns. Below average performance occurred with all income levels below \$160,000 and also with income levels above \$1,280,000. The income bands generating the highest FY were from small and medium sized enterprises with

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incomes between \$320,000 and \$1,280,000. In this case FYs generally exceeded 8% but peaked at nearly 12% in 2003.

In comparison with the results for the sector, this division is positioned one decile higher-having fewer negative and slightly higher yielding enterprises in the upper deciles.

Analysis of income range identifies a narrow range of enterprises that have significantly higher FY than others. Enterprises with incomes between \$320,000 and \$1,280,000 increased their performance steadily over the analysis period to generate FYs in excess of 11% by 2003. Enterprises with incomes in excess of \$5.1 million displayed the greatest improvement by increasing FY from 3% in 1999 to 7.6% by 2003. Small enterprises with incomes between \$160,000 and \$320,000 demonstrated steady continual improvement and achieved a FY of 9.21% in 2003 - 50% above their 1999 average. Enterprises with incomes less than \$80,000 fared poorly with about 10% having negative or near zero FY throughout the analysis period.

If motels and motor inns were financed at the average base lending rate that applied over the period (6.57% after tax) enterprises with incomes in the range \$160,000-\$1,280,000 generated average returns in excess of this benchmark. If the house mortgage debt benchmark was used (5.03%), the range extends down to \$80,000.

Enterprises whose average performance exceeded decile 6 consistently generated returns in excess of the base lending rate throughout the analysis period but decile 5 enterprises improved to this FY by 2002. Figure 17 indicates that approximately 25% of the enterprises sampled averaged FYs in excess of 10% over the sample period.

These results indicate that decile 6 enterprises averaged FYs in excess of the base lending rate benchmark. However the continuous annual improvement in FYs by enterprises with annual revenues between \$160,000 and \$1.28 million together with large enterprises with incomes in excess of \$5.12 million suggests that management regimes were becoming increasingly effective and took greater advantage of opportunities that arose with high international visitor arrival growth and steadily altering proportions of domestic visitors.

This is an accommodation division with broad appeal to visitors. In many respects the demands on proprietors are not dissimilar to those facing proprietors in the retail sector-such as those operating groceries and dairies. Over the same period, decile 7 and 8 performing groceries and dairies achieved FYs in excess of 13.5% whilst decile 5 performers achieved FYs in excess of 8%.

This division generally performed three deciles lower than its retail counterparts. A decile four retail performer delivered similar FY to a decile seven motel and motor-inn performer.

4.4 Hosted Accommodation

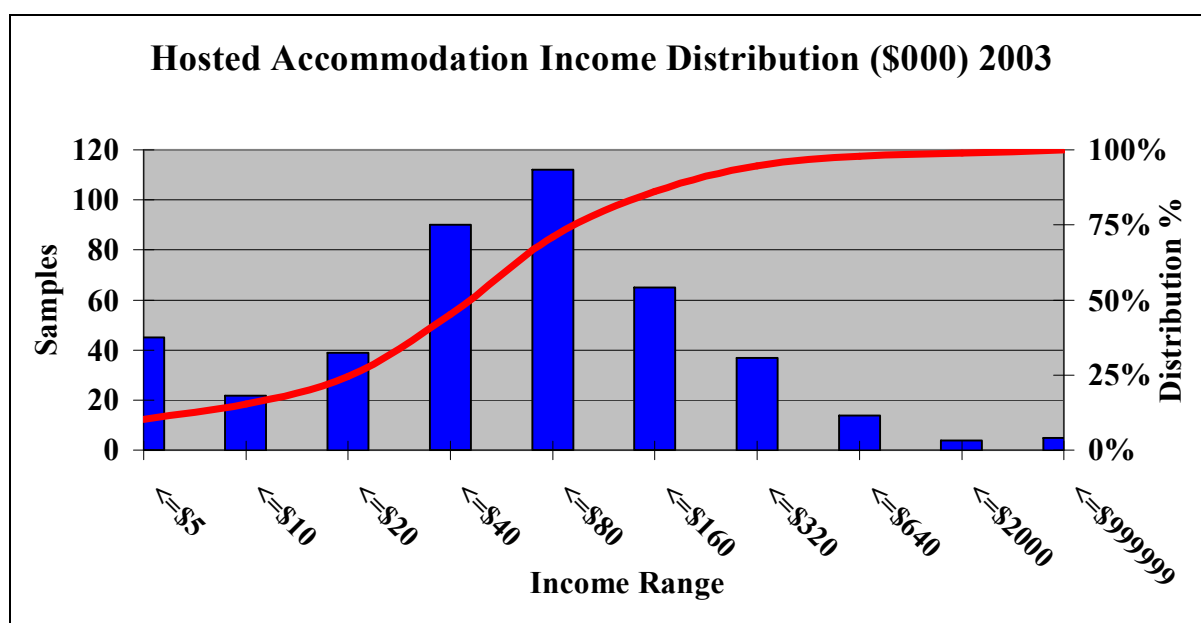
This division of the accommodation sector includes 'home stays', 'cottages', 'farm stays', 'boutique accommodation', 'lodges' and 'traditional bed & breakfast' enterprises where the visitor is also hosted by the proprietor in addition to receiving lodgings. Whilst hotels, motels and motor inns, backpacker and youth hostels and 'holiday parks' all offer varying styles of

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comfort and guest amenities, hosted accommodation is differentiated by the level of personal interaction with the host or proprietor and has gregarious or social dimension that is sought by customers.

Incomes for this division are generally low with 50% of the 433 enterprises sampled in 2003 recording annual incomes in the neighbourhood of \$40,000. Fewer than 10 enterprises recorded incomes in excess of \$640,000. Figure 18 illustrates this division's strong bias towards micro-enterprises.

The average capital employed by these enterprises lay in the range \$320,000 to \$640,000 and was broadly reflective of values for proprietor-owned properties suitable for hosting and accommodating guests. During the analysis period, properties in this value range might offer three double rooms per night and with occupancies averaging 40% and tariffs in the range of \$80-\$100 per night, suggests annual incomes in the neighbourhood of \$40,000.



4.4.1.1 Figure 18: Hosted Accommodation Income Distribution (\$000) in 2003

This division is second only to motels and motor inns in terms of the number of enterprises offering visitor accommodation.

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4.4.2 Hosted Accommodation Results

The following results apply to between 264 and 433 enterprises with the H571030 ANZSIC Code (Hosted Accommodation). Confidentiality issues prevented finer subdivision of income ranges in excess of \$640,000.

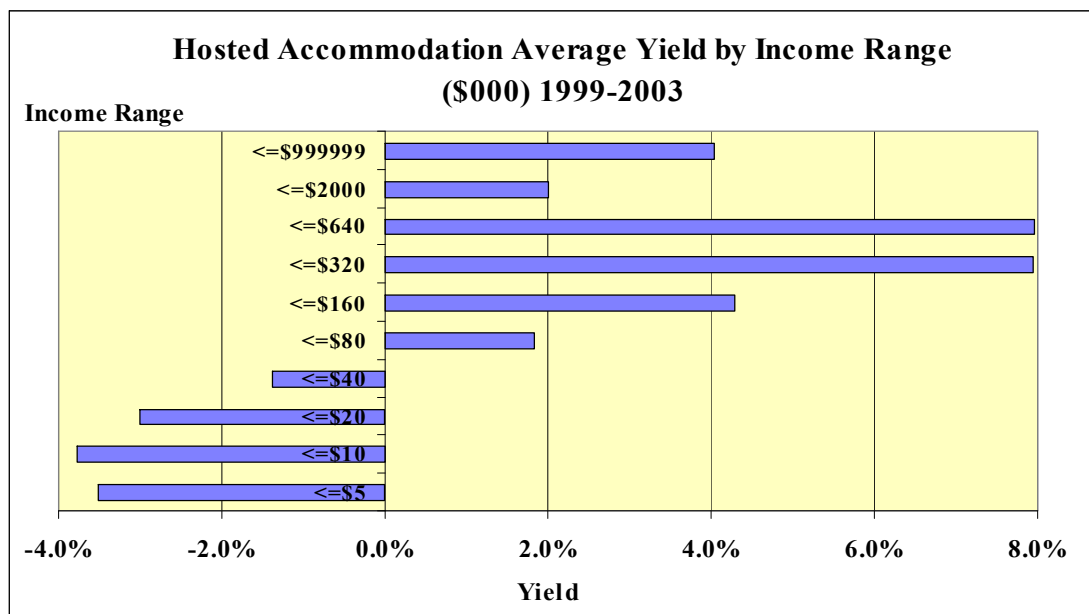
Yield Statistics	H571030 Hosted Accommodation					
	1999	2000	2001	2002	2003	All
Samples	264	348	346	379	433	
Average	0.88%	1.08%	1.27%	1.37%	0.95%	1.11%
95%Conf ±	0.77%	0.76%	0.81%	0.68%	0.64%	0.74%
Variance	0.41%	0.52%	0.60%	0.46%	0.47%	0.49%
Std Dev	6.42%	7.24%	7.73%	6.78%	6.84%	7.00%
Max	24.08%	28.29%	30.00%	27.03%	29.48%	30.00%
Min	-25.94%	-26.15%	-27.38%	-26.75%	-29.69%	-29.69%
Deciles						
1	-7.35%	-8.20%	-8.63%	-7.32%	-7.82%	-7.86%
2	-4.53%	-5.02%	-5.23%	-4.34%	-4.81%	-4.78%
3	-2.49%	-2.72%	-2.78%	-2.18%	-2.63%	-2.56%
4	-0.75%	-0.76%	-0.68%	-0.35%	-0.78%	-0.66%
5	0.88%	1.08%	1.27%	1.37%	0.95%	1.11%
6	2.51%	2.91%	3.23%	3.09%	2.69%	2.89%
7	4.25%	4.87%	5.33%	4.93%	4.54%	4.78%
8	6.28%	7.17%	7.78%	7.08%	6.71%	7.01%
9	9.11%	10.35%	11.18%	10.06%	9.72%	10.09%

(According to a Normal Distribution of Yields)

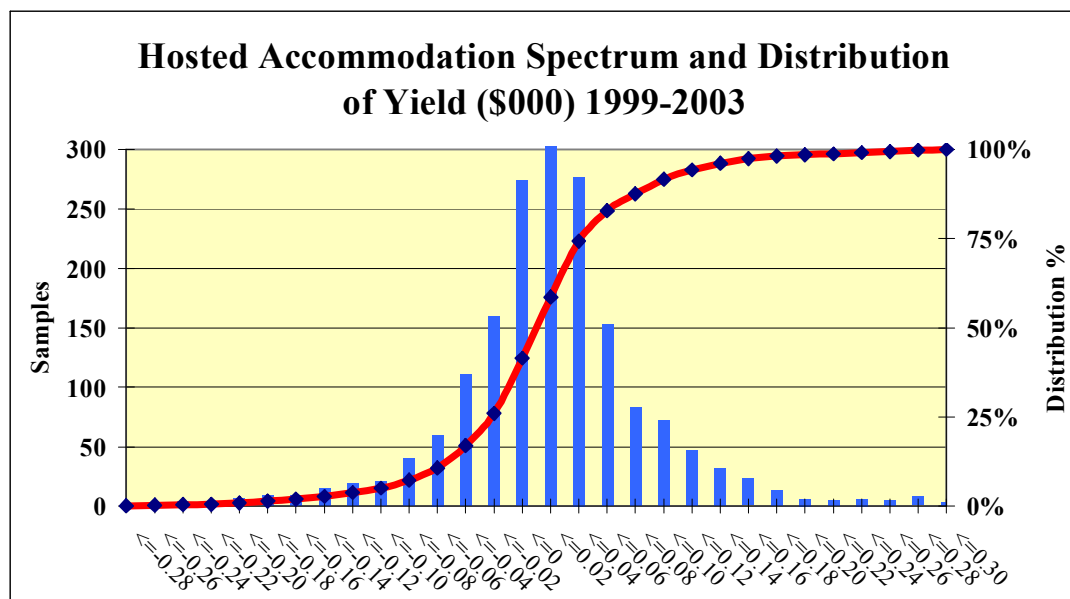
4.4.2.1 Figure 19: Hosted Accommodation FY Statistics 1999-2003

Average Yield by Income		1999	2000	2001	2002	2003	All Years
Income Range (\$000)							
>=\$0	<=\$5	-2.68%	-3.61%	-5.19%	-3.28%	-2.77%	-3.50%
>\$5	<=\$10	-4.70%	-4.94%	-5.24%	-0.56%	-3.47%	-3.78%
>\$10	<=\$20	-2.62%	-2.62%	-2.93%	-3.60%	-3.22%	-3.00%
>\$20	<=\$40	-1.08%	-1.34%	-1.40%	-1.02%	-2.03%	-1.37%
>\$40	<=\$80	0.82%	1.95%	2.35%	2.33%	1.70%	1.83%
>\$80	<=\$160	3.15%	4.39%	6.08%	3.51%	4.04%	4.28%
>\$160	<=\$320	6.84%	7.90%	7.65%	9.45%	7.91%	7.95%
>\$320	<=\$640	6.54%	5.51%	6.93%	9.34%	11.49%	7.96%
>\$640	<=\$2000	-1.78%	5.46%	5.21%	-0.60%	1.73%	2.01%
>\$2000	<=\$999999	6.93%	5.65%	3.44%	2.40%	1.79%	4.04%

4.4.2.2 Figure 20: Hosted Accommodation FY by Income Range 1999-2003



4.4.2.3 Figure 21: Hosted Accommodation FY by Income Range 1999-2003



4.4.2.4 Figure 22: Hosted Accommodation Distribution of FY 1999-2003

4.4.3 Commentary on Hosted Accommodation Results

The average FY of hosted accommodation enterprises over the period 1999 to 2003 was 1.1%. The property assets required to operate enterprises of this type had an average value of about \$500,000. The average income of the division was approximately \$40,000, leaving very little room for profit after deducting operating expenses. Even if the average income was entirely profit, the resulting pre-tax FY on assets averaging \$500,000 in value would be 8% or 5.3% after-tax. Only decile 8 hosted accommodation enterprises returned an average FY over the period in excess of 5%.

Enterprises with incomes between \$160,000 and \$640,000 generally outperformed all other income ranges and displayed an average FY of approximately 8% over the

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analysis period. Performance showed significant improvement in 2002 and 2003 for the \$160,000-\$640,000 income band. Enterprises with incomes outside this band generally fared poorly. Lower incomes delivered lower FYs whilst higher incomes struggled to achieve FY growth and in the highest income band, FY declined significantly.

Those enterprises that generated the highest quantum of FY (incomes from \$160,000-\$640,000) did not generate significant volumes of disposable profit. These good performers generated FYs of approximately 8% which corresponded to net profit after tax but before debt servicing and proprietor remuneration in the range \$12,800 to \$51,200. Unless proprietor equity exceeded 50%, the higher range delivered remuneration comparable with that of the national average wage (\$31,000) that prevailed throughout the analysis period.

For example, \$51,200 net profit after tax reduces to approximately \$26,000 available for proprietor remuneration if average enterprise assets were debt funded at house mortgage interest rates (5.03% after tax). Proprietors having an average asset value of \$500,000 and net income of \$640,000 at 8% FY would need a level of equity of around 63% in order to exceed the average wage.

Even so, Figure 22 illustrates that there are a small number of enterprises generating FYs in excess of 10%. Overall, however, there is no favourable comparison between this division of accommodation and the retail sector as well as other accommodation divisions.

Without a substantial rise in income, either from higher occupancy or higher pricing, 70% of the enterprises sampled in the study are open to the suggestion that greater economic opportunity lies elsewhere since the cash value of their assets could have achieved higher returns at lower risk elsewhere (e.g. a trading bank).

One mitigating factor that is outside the parameters of FY is the appreciation of property assets over time. From 1999 to 2003, residential property prices shifted rapidly from almost zero annual change until 2002 when they rose 9% and a further 15% in 2003^{xxiii}. The overall shift in prices was about 25% and can be approximated as a 6% compound annual return on the property asset over the analysis period. It seems that property appreciation returns outstripped trading FYs except for decile 9 enterprises!

Investment in ongoing product quality through training, asset maintenance and process efficiency is difficult to sustain with the combination of low income and low FY reported throughout the analysis period. If proprietors within this division were only part-time hosts with majority equity in their assets and perhaps receiving supplementary income, hosted accommodation could have provided many with considerable personal and lifestyle satisfaction – particularly in a rising property market. An enterprise survey is needed to distil proprietor expectations and motivations for what the analysis shows to be a very low FY division.

4.5 Backpacker and Youth Hostels

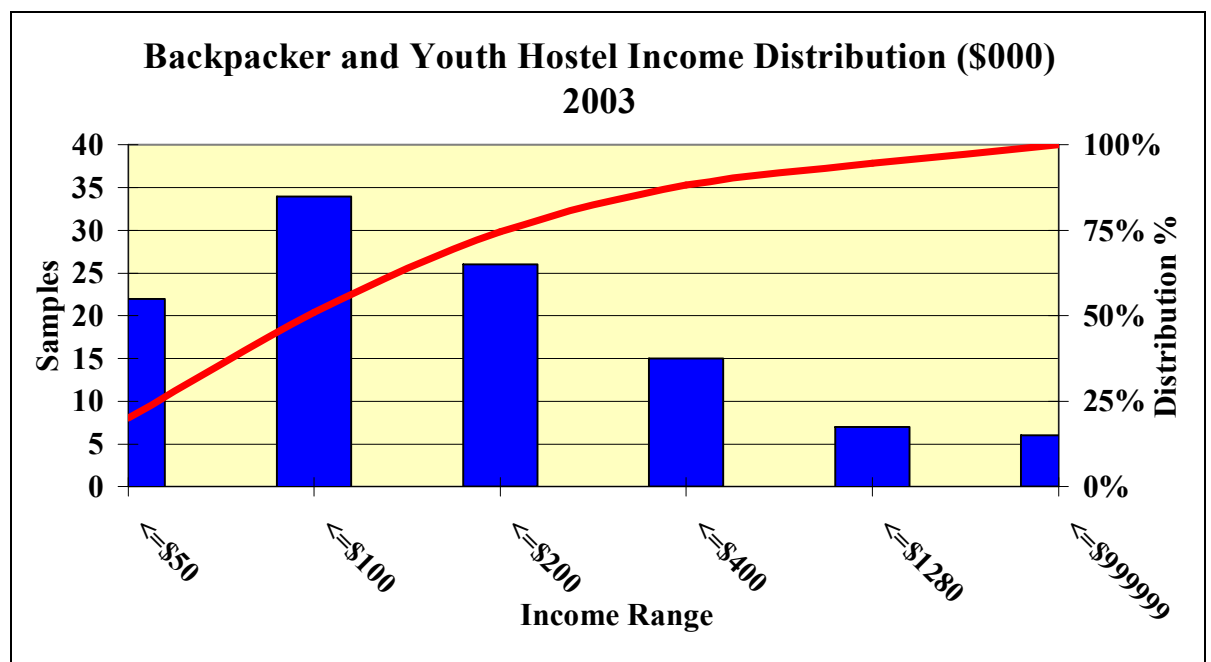
This division of the accommodation sector caters for visitors requiring sufficient amenities for overnight accommodation with options for the provision of food and beverage – either

Performance Benchmarks for New Zealand Accommodation Enterprises

self-prepared or perhaps from an adjacent restaurant. Backpacker and youth hostel accommodation generally appeals to younger free independent travellers (FIT) who prioritise activities and attractions ahead of accommodation and transportation. Accommodation styles vary considerably: at one end of the scale there are five-star “Qualmark” rated establishments and at the other end of the scale there are those offering basic bunk-room facilities.

Compared with hosted accommodation, the 111 enterprises sampled in this division in 2003 had a substantially higher average annual income range of between \$100,000 and \$200,000.

The average capital employed by these proprietors lay in the range \$200,000 to \$400,000, lower than hosted accommodation but comparable with motels and motor inns and suggests that there was a significant proportion of rented or lease hold properties. Many establishments are converted residential properties located near a town centre or on key visitor routes where there is easy access to transportation.



4.5.1.1 Figure 23: Backpacker and Youth Hostel Income Distribution (\$000) 2003

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4.5.2 Backpacker and Youth Hostel Results

H571040 Backpacker and Youth Hostels						
FY Statistics	1999	2000	2001	2002	2003	All
Samples	114	114	119	116	110	
Average	5.29%	6.90%	6.19%	7.20%	7.59%	6.64%
95%Conf ±	1.27%	1.30%	1.31%	1.45%	1.32%	1.33%
Variance	0.48%	0.50%	0.53%	0.63%	0.50%	0.53%
Std Dev	6.92%	7.10%	7.26%	7.94%	7.09%	7.26%
Max	29.00%	28.57%	25.83%	24.76%	28.55%	29.00%
Min	-27.76%	-19.67%	-15.71%	-28.81%	-21.95%	-28.81%
Deciles						
1	-3.58%	-2.19%	-3.12%	-2.98%	-1.49%	-2.67%
2	-0.54%	0.93%	0.08%	0.52%	1.63%	0.52%
3	1.66%	3.18%	2.38%	3.04%	3.87%	2.83%
4	3.53%	5.10%	4.35%	5.19%	5.80%	4.80%
5	5.29%	6.90%	6.19%	7.20%	7.59%	6.64%
6	7.04%	8.70%	8.03%	9.22%	9.39%	8.48%
7	8.92%	10.62%	10.00%	11.37%	11.31%	10.44%
8	11.11%	12.87%	12.31%	13.89%	13.56%	12.75%
9	14.16%	15.99%	15.50%	17.38%	16.68%	15.94%

(According to a Normal Distribution of Yields)

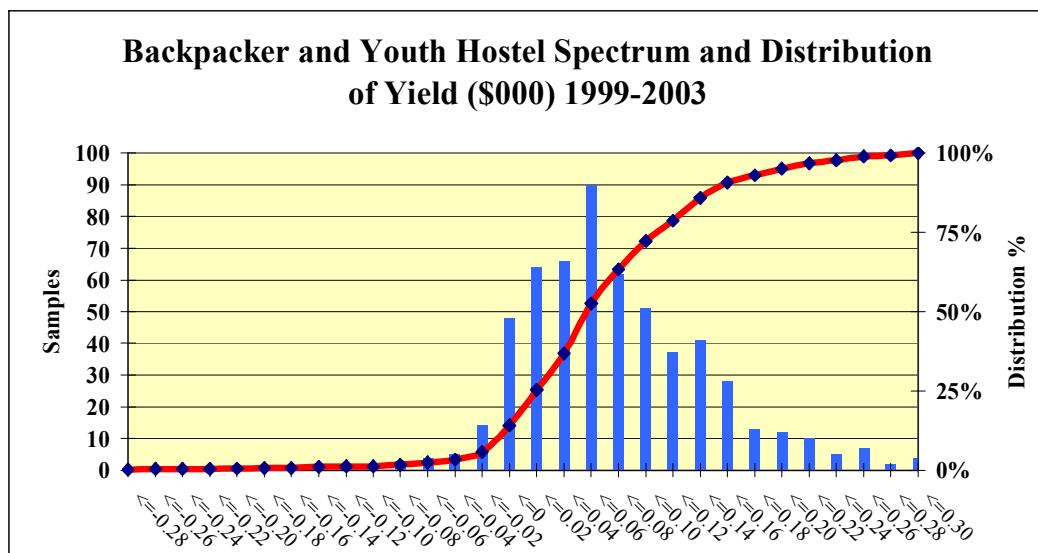
4.5.2.1 Figure 24: Backpacker and Youth Hostels FY Statistics 1999-2003

Average Yield by Income		1999	2000	2001	2002	2003	All Years
Income Range (\$000)							
>=\$0	<=\$50	0.93%	2.31%	1.17%	0.80%	2.63%	1.57%
>\$50	<=\$100	5.67%	7.62%	6.04%	9.01%	7.01%	7.07%
>\$100	<=\$200	7.99%	10.12%	12.91%	9.67%	10.34%	10.21%
>\$200	<=\$400	10.56%	8.28%	9.17%	9.39%	12.42%	9.97%
>\$400	<=\$1280	6.69%	9.85%	6.99%	14.06%	8.75%	9.27%
>\$1280	<=\$999999	-1.21%	3.02%	4.72%	1.64%	3.74%	2.04%

4.5.2.2 Figure 25: Backpacker and Youth Hostels FY by Income Range 1999-2003

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4.5.2.3 Figure 26: Backpacker and Youth Hostels FY by Income Range 1999-2003



4.5.2.4 Figure 27: Backpacker and Youth Hostel Distribution of FY 1999-2003

4.5.3 Commentary on Backpacker and Youth Hostel Results

Lower average asset values combined with higher average incomes resulted in a wide range of high yielding enterprises in this division. FY averaged 6.64% over the analysis period and was resilient throughout changing market conditions with an overall increase from 5.3% in 1999 to 7.6% in 2003.

Enterprises with incomes in excess of \$50,000 through \$1,280,000 returned average FYs exceeding 7% but those with incomes over \$100,000 averaged FYs exceeding 9%. Enterprises with high incomes fared less well and returned an average FY of 2% over the period - moving from a loss of -1.2% in 1999 and rising through 4.7% in 2001 before reducing to 3.74% in 2003.

Even though FYs were generally high in this division, the quantum of margin was relatively low and unlikely to deliver proprietor remuneration in excess of the national average wage (\$31,000) over the period. For example, the highest yielding income ranges (\$100,000 to \$400,000) returned an average FY of approximately 10% to generate a maximum net profit of \$40,000 after-tax but before finance charges and proprietor remuneration. If the average asset value of \$400,000 was financed at the base lending rate, the residual available for proprietor remuneration was about \$14,000. Although profit volume was low, proprietors may also have been able to engage in other remunerated activities as the demands on them in respect of personal hosting are comparatively lower than that required in other accommodation divisions.

This division also uses favourably situated property and gain from the steady appreciation of real estate was another component of value available to proprietors. During the analysis period, the compound annual growth rate of real estate was about 6% p.a.^{xxiv}, and considerably more in subsequent years. Decile 5 enterprises exceeded the housing mortgage rate benchmark and the base lending rate benchmark of 6.47%.

For the majority of enterprises, FY grew steadily throughout the analysis period and demonstrated resilience in the face of fluctuations in visitor demand. This suggests a strong businesslike approach to the market and the deployment of strategies that have

kept enterprise FYs at levels that are amongst the highest in the accommodation sector.

4.6 Caravan Parks and Camping Grounds

This division caters for a broad range of domestic and international independent travellers whose needs range from longer stays in a locality to overnight stays en route. Motorised caravans or camper vans have also become increasingly popular with free independent travellers and caravan parks and camping grounds have become the preferred choice for overnight stays with this class of visitor since they provide power, waste and other communal facilities to complement this mode of travel.

Location is an important component of this division's product mix and enterprises are generally found adjacent to areas of natural beauty such as sea shores, rivers, lakes or scenic vistas or conveniently close to metropolitan areas.

Accommodation choices range from self-contained motel-like facilities to cabins or bare camping sites-some with power, water and waste reticulation. Generally meal preparation, ablutions, basic entertainment and laundry facilities are provided on a communal basis.

The division positions itself towards families and visitors with independent transportation who enjoy basic but gregarious accommodation in a park-like environment.

Site ownership is mixed. Some land is part of the community estate, owned by a territorial authority and leased to proprietors on a long-term basis but a good proportion of sites are believed to be leasehold – an implication of relatively low average asset values. Recently pressure on property values, particularly on sub-divisible sites adjacent to natural features, has seen redevelopment into residential use and has prompted a public policy response by the Department of Conservation to consider releasing areas of the public estate for new camping and recreation facilities to preserve the ‘market share’ of this way of life.

Income distribution from an average of 200 samples is illustrated in figure 28 and shows mean income in the range of \$80,000-\$160,000. Very few enterprises report incomes in excess of \$640,000. This is a low tariff product that is reliant on high occupancy to generate volume of margin. The average capital employed by these enterprises lay in the range \$320,000-\$640,000 and suggests that the proportion of leased or rented sites has depressed reported asset values which may also lead to an overstatement of FY.

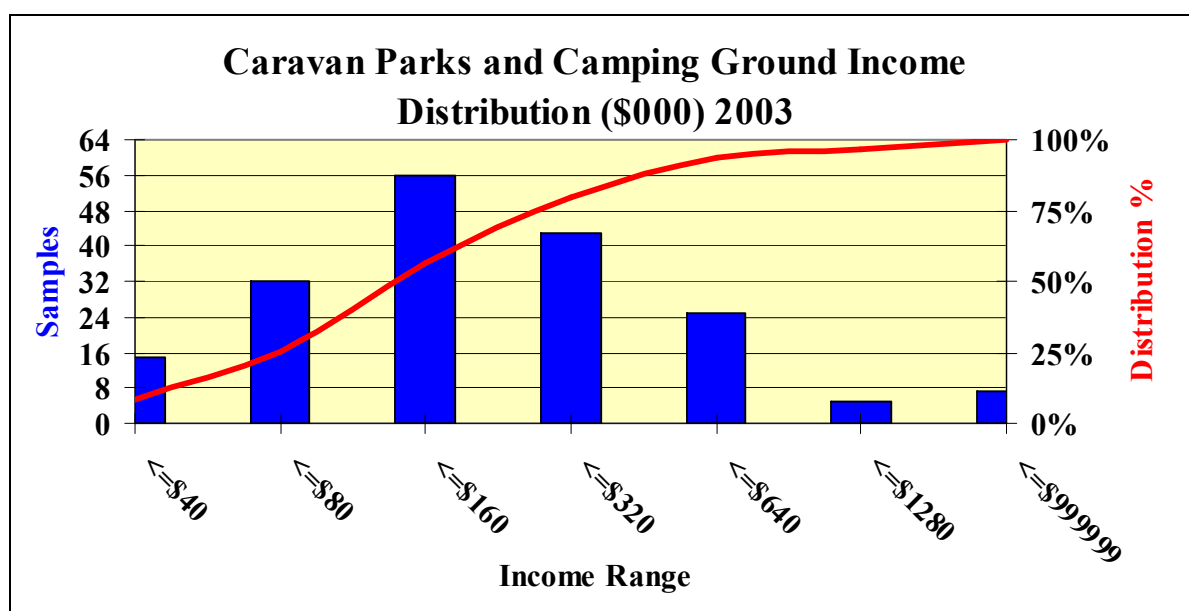


Figure 28: Caravan Parks & Camping Grounds Income Distribution (\$000) 2003

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4.6.1 Caravan Parks and Camping Grounds Results

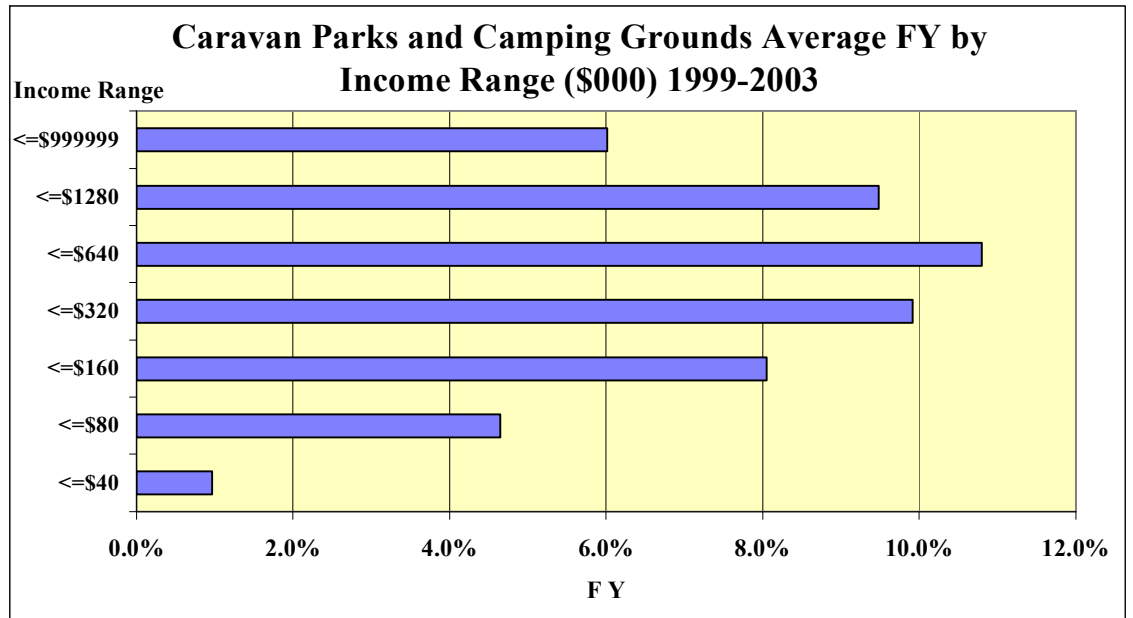
H571050 Caravan Parks and Camping Grounds						
FY Statistics	1999	2000	2001	2002	2003	All
Samples	222	219	206	194	183	
Average	7.17%	6.96%	7.41%	7.92%	8.31%	7.56%
95%Conf ±	0.96%	1.00%	0.98%	1.02%	1.19%	1.03%
Variance	0.53%	0.57%	0.52%	0.52%	0.67%	0.56%
Std Dev	7.28%	7.57%	7.20%	7.22%	8.21%	7.50%
Max	29.57%	27.21%	29.00%	29.73%	29.94%	29.94%
Min	-14.14%	-22.89%	-20.61%	-13.42%	-17.65%	-22.89%
Deciles						
1	-2.16%	-2.74%	-1.82%	-1.34%	-2.21%	-2.05%
2	1.05%	0.59%	1.35%	1.84%	1.40%	1.25%
3	3.36%	2.99%	3.64%	4.13%	4.00%	3.62%
4	5.33%	5.04%	5.59%	6.09%	6.23%	5.66%
5	7.17%	6.96%	7.41%	7.92%	8.31%	7.56%
6	9.02%	8.88%	9.24%	9.75%	10.39%	9.46%
7	10.99%	10.93%	11.19%	11.71%	12.61%	11.49%
8	13.30%	13.33%	13.47%	14.00%	15.22%	13.87%
9	16.50%	16.66%	16.64%	17.18%	18.83%	17.16%

(According to a Normal Distribution of Yields)

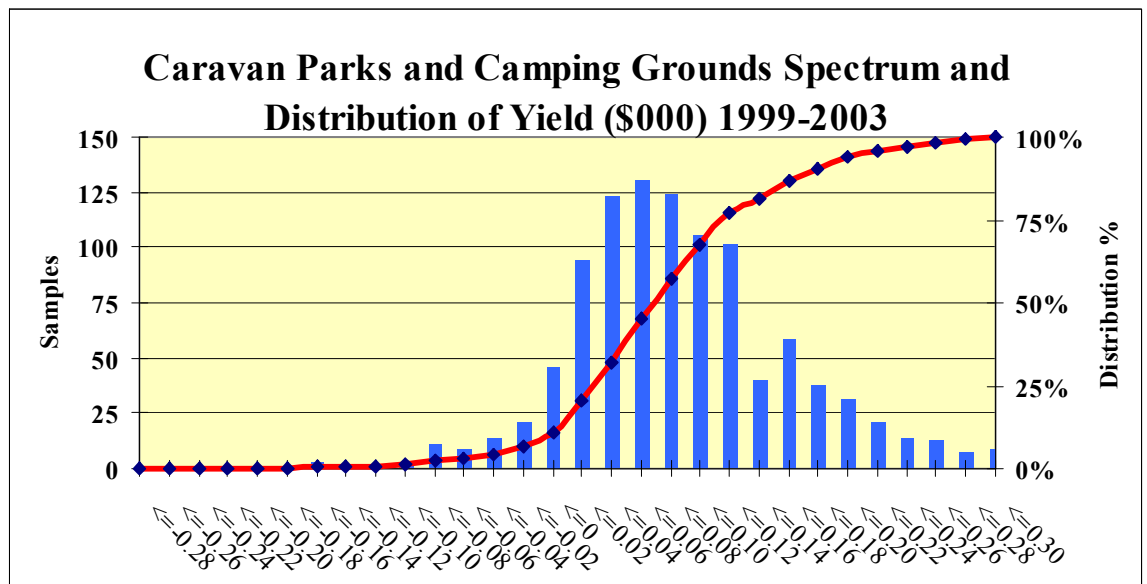
4.6.1.1 Figure 29: Caravan Parks & Camping Grounds FY Statistics 1999-2003

Average Yield by Income		1999	2000	2001	2002	2003	All Years
Income Range (\$000)							
≥\$0	≤\$40	2.10%	-0.74%	1.16%	2.83%	-0.52%	0.97%
>\$40	≤\$80	3.93%	3.81%	5.38%	5.31%	4.80%	4.64%
>\$80	≤\$160	7.78%	6.96%	8.32%	7.29%	9.88%	8.05%
>\$160	≤\$320	10.43%	10.92%	8.95%	9.93%	9.37%	9.92%
>\$320	≤\$640	8.90%	9.98%	10.79%	11.89%	12.46%	10.80%
>\$640	≤\$1280	10.13%	10.13%	6.94%	10.70%	9.66%	9.48%
>\$1280	≤\$999999	3.52%	5.77%	6.57%	5.82%	8.39%	6.01%

4.6.1.2 Figure 30: Caravan Parks & Camping Grounds FY by Income Range 1999-2003



4.6.1.3 Figure 31: Caravan Parks & Camping Grounds FY by Income Range 1999-2003



4.6.1.4 Figure 32: Caravan Parks & Camping Grounds Spectrum and Distribution of FY 1999-2003

4.6.2 Commentary on Caravan Parks and Camping Grounds Results

This division reported an average enterprise FY of 7.56% over the analysis period. Average FYs increased from 7.2% in 1999 to 8.3% in 2003 demonstrating resilience in the face of varying market conditions. Enterprises with incomes between \$80,000 and \$1,280,000 returned FYs in excess of the base lending rate. Enterprises with incomes in excess of \$1,280,000 returned FYs in excess of the house mortgage benchmark rate but fell just short of the base lending rate benchmark. As with some other divisions, ‘volume of margin’ challenges arise if proprietor incomes are solely dependent on trading. Enterprises returning the highest FYs (10.8%) generated incomes of between \$320,000 and \$640,000. Assuming assets were financed at the base lending rate, the average surplus for proprietor remuneration at the highest income level of \$640,000 was about \$28,000. If the house mortgage finance rate was

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used, this surplus rises to approximately \$37,000. Proprietors in this division were amongst the few who were able to generate remuneration in excess of the average wage (\$31,000) that prevailed throughout the analysis period. Even though non-cash items of expense such as depreciation liberate a higher cash surplus than that deduced from the FY, depreciation is an expense that mirrors asset deterioration. Unless assets are maintained or refurbished, product quality deteriorates and would be detrimental to FY over the medium term.

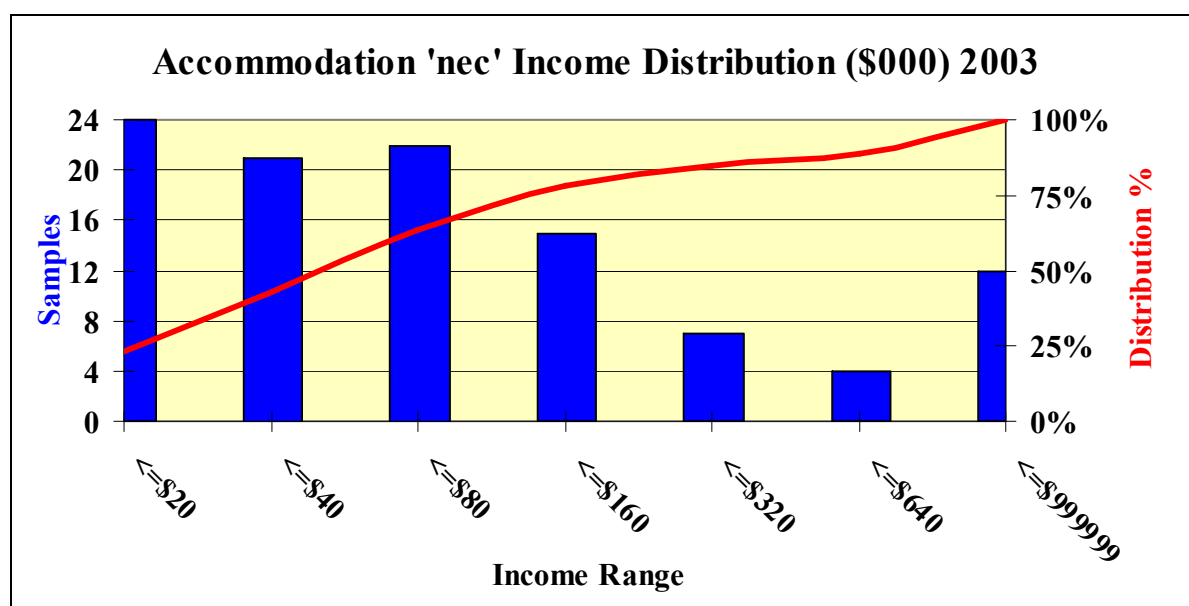
Annual property appreciation averaged about 6% throughout the analysis period but this value was dwarfed in subsequent years. Well situated, sub-divisible caravan parks and camping grounds attracted alternative-use interest and some have been sold for residential redevelopment.

Enterprises in decile 4 benchmarked above the house mortgage rate (5.03%) and those in decile 5 benchmarked above the base lending rate (6.47%).

Even though enterprises in this division returned high FY, volume of margin is also a relevant factor as only enterprises with incomes well in excess of \$640,000 generated sufficient surplus after tax and asset financing to remunerate proprietors at levels in excess of the average wage. Other factors such as significant property value appreciation would also improve proprietor remuneration over the longer term.

4.7 Accommodation 'nec' (Not elsewhere classified)

This division of the accommodation sector captures a broad range of options such as lodges, boutique accommodation and some non-hosted options such as apartments and rural stays. Overall, 7% of the samples were categorised this division where enterprises deployed assets ranging in value from \$200,000 to over \$25 million. The average capital deployed was relatively low and lay in the range \$200,000 to \$400,000 and suggests that leased or shared properties (as might be the case in rural stays) form a significant proportion of the sample. Figure 34 illustrates that income distribution was biased towards the low end of the spectrum with 50% of enterprises reporting less than \$80,000 annual income and about 13% of the samples reporting incomes beyond \$640,000. Further subdivision of higher income enterprises was not possible due to confidentiality constraints.



4.7.1.1 Figure 33: Accommodation 'nec' Income Distribution (\$000) 2003

Performance Benchmarks for New Zealand Accommodation Enterprises

4.7.2 Accommodation ‘nec’ Results

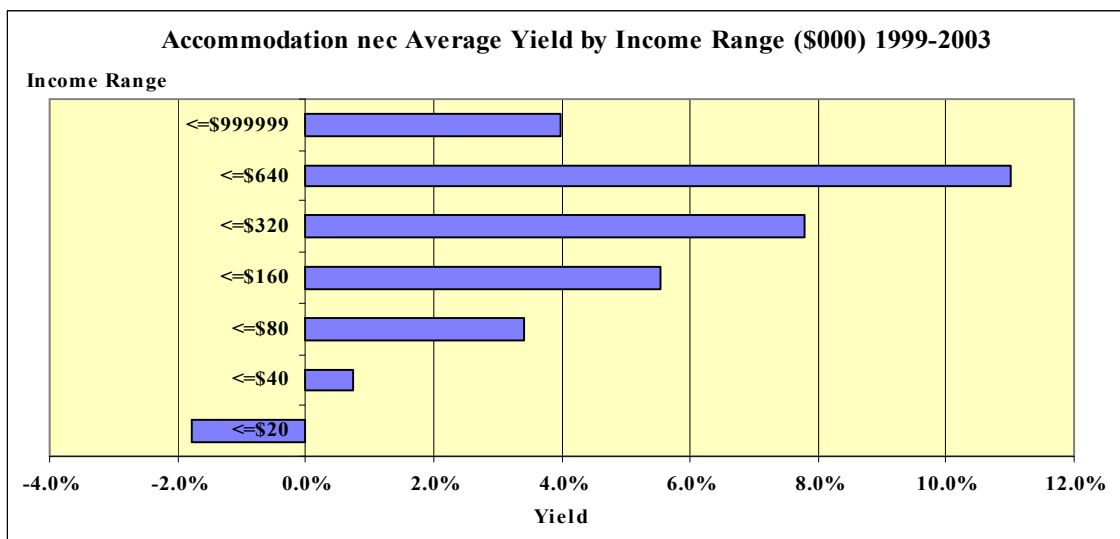
FY Statistics	H571090 Accommodation nec					
	1999	2000	2001	2002	2003	All
Samples	124	104	104	104	105	
Average	1.33%	2.27%	1.90%	2.79%	3.47%	2.35%
95%Conf ±	1.28%	1.15%	1.51%	1.19%	1.48%	1.32%
Variance	0.53%	0.36%	0.62%	0.38%	0.60%	0.50%
Std Dev	7.33%	6.00%	7.87%	6.18%	7.73%	7.02%
Max	23.67%	27.59%	27.65%	26.11%	29.20%	29.20%
Min	-27.88%	-18.00%	-25.10%	-11.54%	-15.47%	-27.88%
Deciles						
1	-8.06%	-5.42%	-8.19%	-5.13%	-6.43%	-6.64%
2	-4.83%	-2.78%	-4.72%	-2.41%	-3.03%	-3.56%
3	-2.51%	-0.88%	-2.22%	-0.45%	-0.58%	-1.33%
4	-0.52%	0.75%	-0.09%	1.22%	1.51%	0.57%
5	1.33%	2.27%	1.90%	2.79%	3.47%	2.35%
6	3.19%	3.79%	3.90%	4.35%	5.43%	4.13%
7	5.17%	5.41%	6.03%	6.02%	7.52%	6.03%
8	7.50%	7.31%	8.53%	7.98%	9.97%	8.26%
9	10.72%	9.95%	12.00%	10.70%	13.37%	11.35%

(According to a Normal Distribution of Yields)

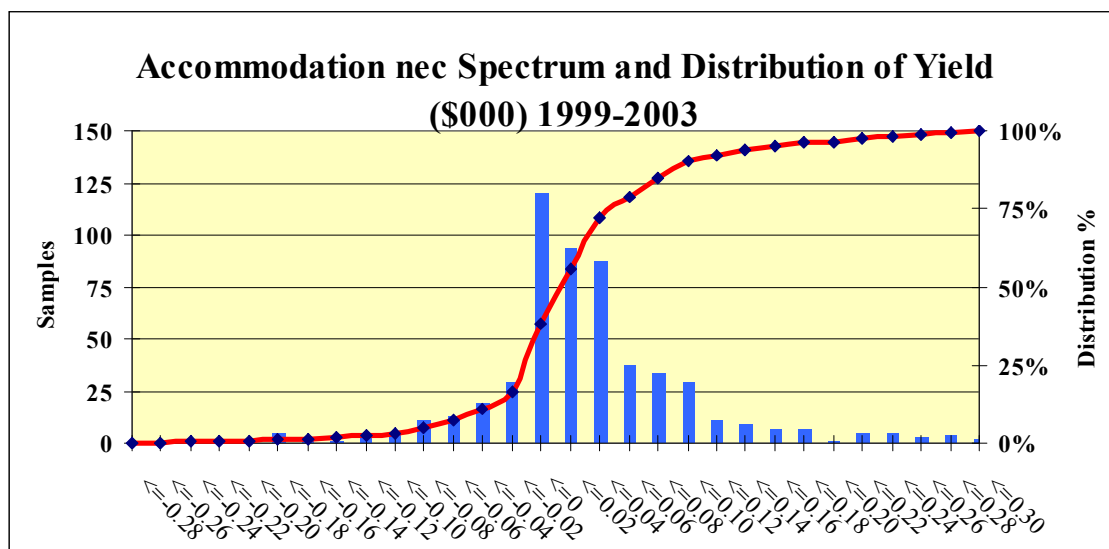
4.7.2.1 Figure 34: Accommodation ‘nec’ FY Statistics 1999-2003

Average Yield by Income		1999	2000	2001	2002	2003	All Years
Income Range (\$000)							
>=\$0	<=\$20	-2.45%	-2.60%	-2.13%	-0.36%	-1.31%	-1.77%
>\$20	<=\$40	-1.27%	0.93%	2.76%	0.94%	0.41%	0.76%
>\$40	<=\$80	3.95%	4.94%	1.86%	2.44%	3.90%	3.42%
>\$80	<=\$160	6.66%	4.36%	5.20%	5.08%	6.46%	5.55%
>\$160	<=\$320	4.84%	6.90%	10.53%	8.24%	8.47%	7.80%
>\$320	<=\$640	14.54%	4.86%	14.18%	10.47%	13.72%	11.01%
>\$640	<=\$999999	0.88%	5.21%	0.02%	6.23%	7.54%	3.98%

4.7.2.2 Figure 35; Accommodation ‘nec’ FY by Income range 1999-2003



4.7.2.3 Figure 36: Accommodation ‘nec’ FY by Income Range 1999-2003



4.7.2.4 Figure 37: Accommodation ‘nec’ Distribution of FY 1999-2003

4.7.3 Commentary on Accommodation ‘nec’ results

The overall FY for this division was relatively low with an average of 2.35% over the analysis period. However a small group (25%) of enterprises with incomes in the range \$160,000 through \$640,000 and an even smaller group (10%) with incomes in the range \$340,000 to \$640,000 returned average FYs in excess of the base lending rate benchmark. Those enterprises within the \$320,000 to \$640,000 income band reported the highest FY throughout the accommodation sector at an overall average of 11%. This small group reported FYs as high as 14.5% throughout the analysis period but also reported an uncharacteristically low value of 4.9% in 2000. However, outside this small group, FYs were relatively modest and often quite variable within income bands.

Because of the wide range of accommodation options categorised in this division and the inability to identify them it was difficult to analyse the results to the same degree as others. However extremely high FYs were able to be generated with reasonable consistency throughout the analysis period and it may be assumed that this arose from careful visitor targeting and good management.

Only decile 7 performers exceeded the house mortgage and base lending rate benchmarks of 5.03% and 6.47% respectively.

5 Triangulation of results

Datalab results are purposefully anonymous and as a result there is no ability to investigate cost or asset structures on an enterprise basis. Analysis of an entire division is possible by accumulating all financial data under one super-enterprise and comparing this to the average of sampled enterprises. This has been done in Appendix 1, but only at sector level.

The opportunity to triangulate Datalab results with the financial results from proprietors willing to share information on a non-attributable basis occurred in June 2006 with a survey of 67 enterprises distributed throughout Rotorua and Christchurch. In each case, financial statements of performance and position were made available and gave greater insight into the calculation of FY.

5.1 Estimating the reliability of Datalab FY.

Datalab information did not permit distinction between leased and purchased assets. The calculation of FY assumed that all assets were purchased and in some divisions this was evidently a gross assumption and has already been commented on. Quantifying the distortion to FY caused by undeclared leases relies on assumptions as to the ratios of lease costs to NOPAT and the ratio of purchased assets to both purchased and leased assets.

If there are no leased assets, there is no distortion but if there are only leased assets, the distortion is extreme. Many Datalab samples were discarded because asset values were extremely low or zero and returned extremely high FY. The decision to limit FY to the range $\pm 30\%$ excluded these situations. Some estimation of the magnitude of any variance can be made using assumptions as to possible ratios between NOPAT and lease costs as well as the ratio of leased to purchased assets.

If assets are equally divided between lease and purchase and NOPAT equals the annual lease cost, there is no distortion to FY.

If the ratio of leased assets to purchased assets is very high and lease costs are also significantly higher than NOPAT, but by a greater ratio, the Datalab results are actually less than what would have resulted from knowledge of the lease costs.

In all other cases, FY as calculated from the Datalab exceeds the FY that would have resulted from knowledge of the lease costs.

In the combined Rotorua and Christchurch surveys, the results for 55 sampled enterprises returned the following:

FY _{Datalab} v/s FY _{True}	#	%
Equal	31	56%
Greater	21	38%
Less	3	5%

5.1.1 Table 3: Comparing Datalab FY with True FY

The magnitude of the disparity varied depending on the mix of enterprises, but the results that would have been obtained from treating all 55 enterprises as a single entity showed FY_{Datalab} to be 12.5% versus FY_{True} of 10.9% - or an error of +15%. If the results of enterprises were simply averaged – as has been the case in this report, FY_{Datalab} was 9.5% versus FY_{True} of 7.5% - or an overstatement of about 27%. With larger sample numbers, the error decreased as shown in Table 3.

In summary, greater insight into enterprise expenses eliminates distortions in estimating FY but since this is unavailable for Datalab results, there is potentially 27% overstatement of FY for enterprises leasing a significant proportion of their assets. If the Datalab FY is used as a benchmark, the likelihood of it understating performance is very low.

5.2 Comparisons between FY from Datalab and the Enterprise Survey.

Results from the Rotorua and Christchurch Enterprise Survey plus a total sector and separate enterprise analysis provide some comparisons and further triangulates the study of Accommodation Sector FY and provides benchmark (BM) criteria. Only three sets of accommodation sector results were available from the survey due to the need to preserve respondent confidentiality.

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Comparisons were made between the survey, a NZ-wide estimation of FY from the aggregate results of all enterprises within divisions over the 1999-2003 analysis period and the individual sector studies reported in previous sections. The difference between the NZ-wide FY benchmark and the Datalab enterprise analysis benchmarks in Table 4 result from the application of FY analysis on a total sector versus an enterprise average basis. In the total sector basis all results are aggregated to provide FY whereas an enterprise average provides FY from the average of qualifying enterprise FYs (those with FY in the range $\pm 30\%$).

ANZSIC Code	Survey Average FY	N	NZ-Wide FY BM	Datalab Enterprise Analysis BM	Survey FY Quartile	Survey Average in NZ Sector Decile
H571020 (Motels)	10.7%	9	$\geq 4.3\%$	$\geq 5.9\%$	3	8
H571030 (Hosted)	-2.3%	9	$\geq 2.7\%$	$\geq 1.1\%$	1	4
H57xxxx (All Accom)	5.6%	28	$\geq 5.5\%$	$\geq 4.9\%$	2	6

5.2.1 Table 4: Comparison of Surveyed and Datalab Enterprises^{xxv}

Surveyed enterprises in the Motel division (H571020) were in the third quartile of other respondents and in the 8th decile of those surveyed in this report (Datalab). Motel respondents returned FYs significantly above survey and Datalab averages suggesting the sampling process drew mainly high performing operators.

Similarly, Hosted Accommodation division enterprises (H570130) were in the 4th decile of those surveyed in this report and All Accommodation enterprises in the 6th decile. Apart from the Hosted Accommodation enterprises, the others returned FY performance broadly in keeping with their positions in the survey and in this study. In the survey the true FY was able to be calculated and showed broad comparability with the Datalab method.

5.3 Comparisons with Valuation Reports

During the Survey, there were several situations where FY was used to estimate the market value of an enterprise. The caveat with using FY to estimate value is the need to temper any outcome with a careful appraisal of asset quality and local market conditions.

In the two cases examined, FY method provided an estimate of enterprise value (using the base lending rate benchmark) that mirrored the mid-point of recent independent valuations.

This aspect of the FY method is best left to proprietors to apply to their businesses by way of a suitable benchmarking and performance evaluation tool.

6 Summary and Conclusion

Accommodation is tourism's most pervasive characteristic industry sector. By year-end 2003 the sector sold approximately 100 million overnight stays to both domestic and international visitors and throughout the analysis period, 1999-2003, it traded in a period that was characterised by buoyant arrivals and favourable levels of visitor purchasing power.

The FY of this characteristic-industry sector contrasted adversely with the other contributing, non-characteristic sector - retail. Average enterprise income for the sector ranged between \$80,000 and \$160,000 and returned an average FY to proprietors and investors of just under 5%. The top 10% of accommodation enterprises generated FY that was achieved by the top 40% of retail enterprises. Whereas 70% of retail enterprises generated FY at levels exceeding

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the house mortgage benchmark (5.03%), only 40% of accommodation enterprises did so. Whereas 60% of retail enterprises generated returns in excess of the base lending rate benchmark (6.47%) only 40% of accommodation enterprises did so.

Proprietors of small accommodation businesses with turnover around \$640,000 having decile 8 FYs appeared to generate sufficient surplus to remunerate at levels in excess of the average wage (assuming debt was financed at the base lending rate, equity ratios were above 50% and depreciation was re-invested so as to maintain product quality). Those small business proprietors in lower decile enterprises would not have been able to extract sufficient cash from trading to remunerate themselves at levels above the average wage, but they may have fared better over the longer term if they were able to realise the benefits of increasing property values (and the corresponding value of leases and 'goodwill') which accelerated towards the end of the analysis period.

These observations are consistent with high-level value-added analysis of the New Zealand tourism satellite accounts over the same period. The combined contributions of tourism's related industry sector, retail, and tourism's characteristic sectors (accommodation, passenger transportation and cultural and recreation) grew steadily throughout the analysis period. However during that time, the retail sector became the principal component of tourism's contribution to gross domestic product^{xxvi}.

When examining sector FY trends in terms of income throughout the analysis period the following occurred for each of the years:

- 1999 - the \$40,000 through \$320,000 income range reported the lowest FY of the period,
- 2000 - the \$320,000 to \$640,000 income range reported its lowest FY,
- 2001 – enterprises with income over \$10,240,000 reported a significant drop in FY to 2.2%,
- 2003 – enterprises with income between \$2,560,000 and \$5,120,000 drifted steadily to their lowest FY over the period.

Clearly income ranges reacted differently to market conditions. Only enterprises in the income range of \$2,560,000 to \$5,120,000 returned reduced FY in each year of the analysis period.

In conclusion, the combination of the Datalab analysis and the Rotorua and Christchurch survey has provided a series of benchmarks for proprietors to consider. There are uncertainties arising from the Datalab methodology as detailed financial information on leases is unavailable, but the errors, if any, are more likely to overstate rather than understate enterprise performance.

Accommodation is clearly a thriving sector with a broad range of enterprise types, but the FY illustrates the difficulties many have in drawing average-wage remuneration from their trading performance although this may be mitigated by significant property revaluation that first occurred in the later years of the analysis period continued for many years thereafter.

Datalab outputs provide workable benchmarks for proprietors wishing to understand how they fare in respect to the rest of the industry and can use the FY methodology to estimate the market value of their enterprise as its reliance on cash-flows is a better indicator of value to independent appraisers.

Appendix 1. Summary of Selected Industry Incomes and FYs

Published data from Statistics New Zealand’s Annual Enterprise Surveys provides a statement of financial performance and position for numerous ANZSIC groupings over the period 1997 – 2003. In some cases, industry groupings are consolidated to preserve confidentiality, but in other cases, data are available at finer levels – e.g. the Accommodation sector is divided into 6 subdivisions; Hotels, Motels and Motor Inns, Hosted Accommodation, Backpackers, Caravan Parks and Camping Grounds and ‘Other’. Table 11 has applied the FY Method to the industry-level (consolidated) statements of financial performance and position to obtain the following.

Industry	Summary of Income and Financial Yield						
	1997	1998	1999	2000	2001	2002	2003
All Industries *							
Income(\$M)	\$254,064	\$299,210	\$308,538	\$333,156	\$359,296	\$384,142	\$398,386
Financial Yield (%)	6.2%	6.5%	5.1%	5.3%	5.1%	5.3%	5.2%
Retail Trade							
Income(\$M)	\$32,249	\$32,083	\$33,693	\$35,931	\$38,025	\$41,006	\$44,381
Financial Yield (%)	12.2%	12.3%	12.2%	12.0%	11.8%	14.9%	17.0%
Accommodation, Cafes and Restaurants							
Income(\$M)	\$4,376	\$4,511	\$4,879	\$5,239	\$5,358	\$5,648	\$5,732
Financial Yield (%)	5.9%	6.1%	6.5%	5.2%	6.0%	6.6%	6.2%
Accommodation Only							
Income(\$M)			\$1,587	\$1,613	\$1,749	\$1,796	\$1,924
Financial Yield (%)			4.6%	2.8%	4.2%	5.0%	4.6%
Transport, Storage and Communication **							
Income(\$M)	\$15,870	\$16,004	\$16,356	\$17,531	\$19,442	\$19,941	\$21,187
Financial Yield (%)	11.7%	10.4%	10.0%	9.2%	5.8%	6.9%	10.4%
Cultural and Recreational Services ***							
Income(\$M)	\$3,783	\$3,949	\$4,380	\$4,643	\$5,833	\$6,527	\$7,261
Financial Yield (%)	6.9%	6.9%	9.6%	8.0%	9.2%	10.5%	12.1%

* All Industries contains: ANZSIC = Divisions A-Q (Excluding Division M, Subdivision A01, Classes D3701, K7412, L7712, P9242, P9319, P9631, Q9632, Q9633 and Subclasses L771110, L771190)

** Transport, Storage and Communications grouped for confidentiality

*** Cultural and Recreational Services includes museums, casinos and many aggregated tourism services

Table 5: Summary of Sector Income and FY from AES Tables^{xxvii}

Table 5 highlights the FYs generated by All NZ Industries and Accommodation. The assumption is that Assets are comprised of purchased items only. Sectors having significant proportions of leased assets are likely to overstate FY. The amount of overstatement is dependent on the ratios of total assets to leased assets and the ratio of NOPAT to lease charge. The magnitude of the overstatement is estimated to be at least 10% for sectors having a significant proportion of leased assets.

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- ii Donovan, J. Tully, R & Wortman, B., The Value Enterprise, McGraw-Hill Ryerson, Ontario, 1998, P18
- iii TIANZ, New Zealand Tourism Awards, Business Performance and Results, (Prior to 2006), Financial Calculator.
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- vi Middleton, V., 2001. The importance of micro-businesses in European tourism. In: Roberts, L., Hall, D. (Eds.), Rural Tourism and Recreation: Principles to Practice. CABI, Wallingford, Oxon, pp. 197–201.
- vii Getz, Donald & Petersen, Tage. Growth and profit-orientated entrepreneurship among family business owners in the tourism and hospitality industry. Hospitality Management 24 (2005) 219-242.
- viii Sleeman, Ray & Watson, Karen. Enhancing Financial and Economic Yield in Tourism. Yield Report No. 3, Tourism Recreation Research and Education Centre, Lincoln University, NZ, Dec 2005, Ch6
- ix Statistics New Zealand, Datalab Service, <http://www.stats.govt.nz/products-and-services/datalab.htm>
- x Moriarty, John P. Enhancing Financial and Economic Yield in Tourism, TRREC, Lincoln University, March 2006, Page 8.
- xi New Zealand Companies Act, 1993, Section 4
- xii Stewart, G Bennet, The Quest for Value: The EVA™ Management Guide, HarperCollins Publishers Inc, 1991
- xiii Reserve Bank of New Zealand, B3 Interest Rates on Lending and Deposits, Historical Series, <http://www.rbnz.govt.nz/statistics/exandint/b3/data.html>

The base lending rate is a measure what financial institutions expect from borrowers so as to cover their cost of funds and administrative expenses. It is an approximate value for the minimum yield a borrower in a well run small or medium sized business needs to achieve to ensure long-term financial viability. It also assumes that there is no special trading risk profile associated with the borrower otherwise a much higher lending rate applies. Equally, large borrowers with low risk profiles might borrow at lower rates. Over the period 1999-2003, the average base lending rate for New Zealand was 9.65% pre-tax or 6.47% after the application of 33% Company Tax. Financial yields calculated in this report are all ‘after-tax’.

xiv Reserve Bank of New Zealand, Key Graphs, Mortgage rates, <http://www.rbnz.govt.nz/keygraphs/graphdata.xls>. These Mortgage rates include floating and 2 year fixed. The former averaged 7.5% over the period 1999-2003 and the latter averaged 7.4% - both before tax. The after tax rates are 5.025% and 4.958% respectively.

xv Gross Margin is the product price less the direct costs of that product and may also be expressed as a percentage of that cost. It is a reflection of the efficiency of a sale; high gross margins reflect high sales efficiency.

xvi Statistics New Zealand, Provisional Tourism Satellite Account 2000-2002, Tourism Product Ratio, P21

xvii Statistics New Zealand, Division H AES Tables, 2005.

xviii Moriarty, John P., Enhancing Financial and Economic Yield in Tourism, TRREC, Lincoln University, May 2006, Appendix 2, P30.

xix Ibid.

xx NZ Property Council Investment Performance Index Return Summary for YE 2004. For FY2003, the capital Return on NZ Composite Commercial Properties was 0.71% and 3.38% for FY2004.

xxi Moriarty, John P., Enhancing Financial and Economic Yield in Tourism, TRREC, Lincoln University, March 2006, Page 14-15.

xxii BERL, Tourism Workforce and Skill Projections, Sept 2004, Table 5.2, P20

xxiii Reserve bank of New Zealand, Key Graphs, <http://www.rbnz.govt.nz/keygraphs/fig4.html>,



^{xxiv} *ibid*

^{xxv} Wason, K., Sleeman R. and Moriarty J., ENHANCING FINANCIAL AND ECONOMIC YIELD IN TOURISM: Report on the Tourism operator interviews, TRREC, Lincoln University, December 2006, Section 4.3, Draft in progress.

^{xxvi} Moriarty, John P., Enhancing Financial and Economic Yield in Tourism, TRREC, Lincoln University, March 2006, Ch 7, P25.

^{xxvii} Statistics NZ, AES Data Tables, <http://www.stats.govt.nz/NR/rdonlyres/42F48D2B-7D49-4FD6-B30A-146DF7AAD1F8/0/AES.xls>