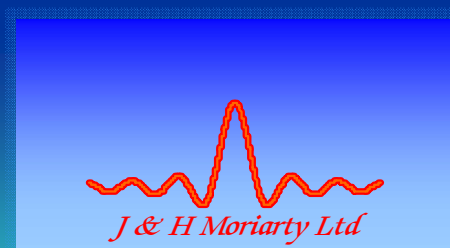




# What affects Business WORTH?

*Yield and valuing for Sale ...*

John P. Moriarty



# “Worth”

a word that is increasingly important to tourism businesses.

The worth of a visitor, the worth of Holiday Park businesses, the worth of tourism to NZ’s economy are important, but little is known about any of them.

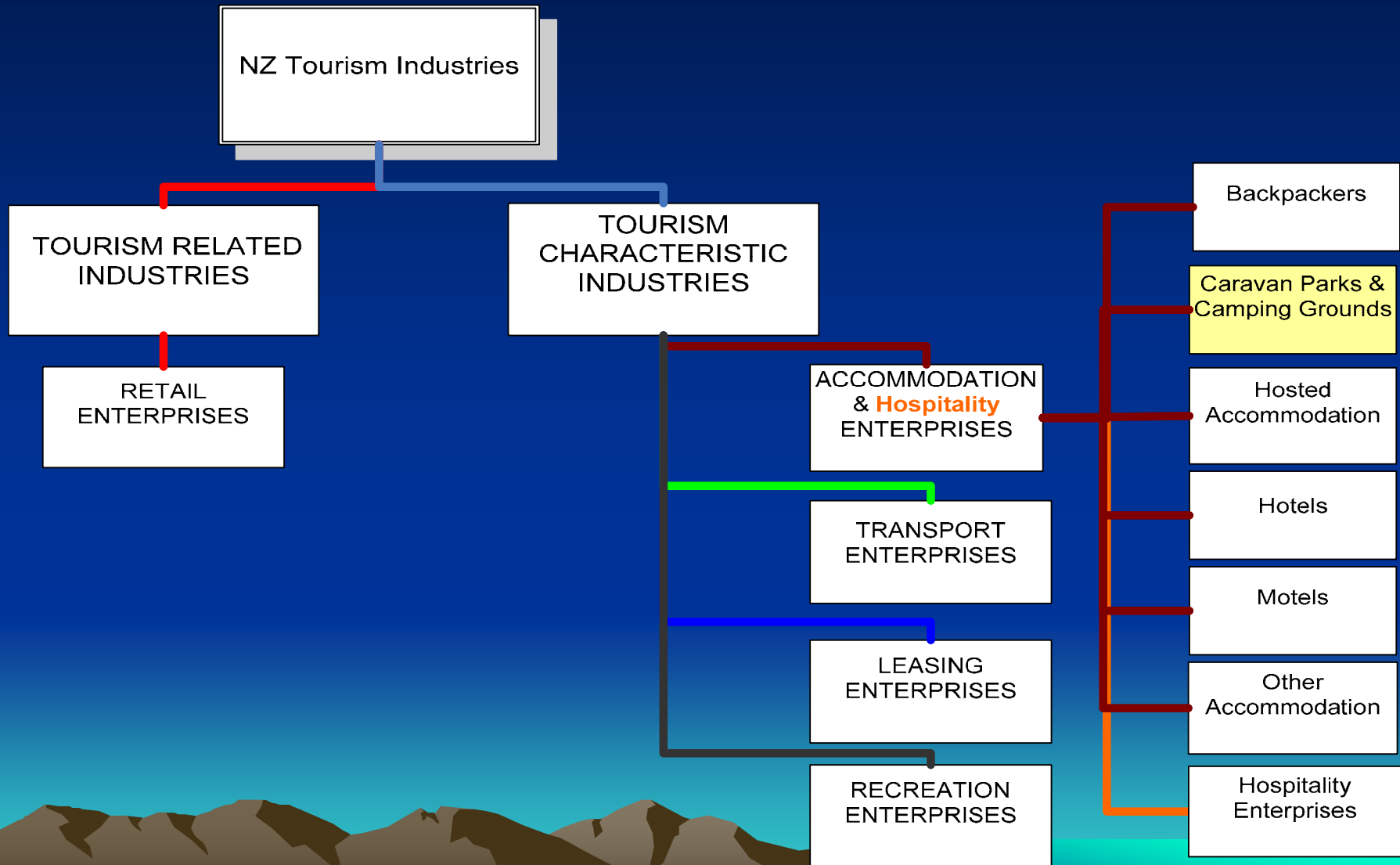
**To understand “Worth” we need to measure  
VALUE.**

# Recent Investigation into Tourism Value

- 2+ years of investigation into tourism value using a concept called **FINANCIAL YIELD**
- Current studies of tourism **EFFICIENCY** and **CAPACITY**.
- Surveys of small tourism businesses to uncover “successful habits”.

Lets fit tourism into a framework ....

# Where does everybody fit ?



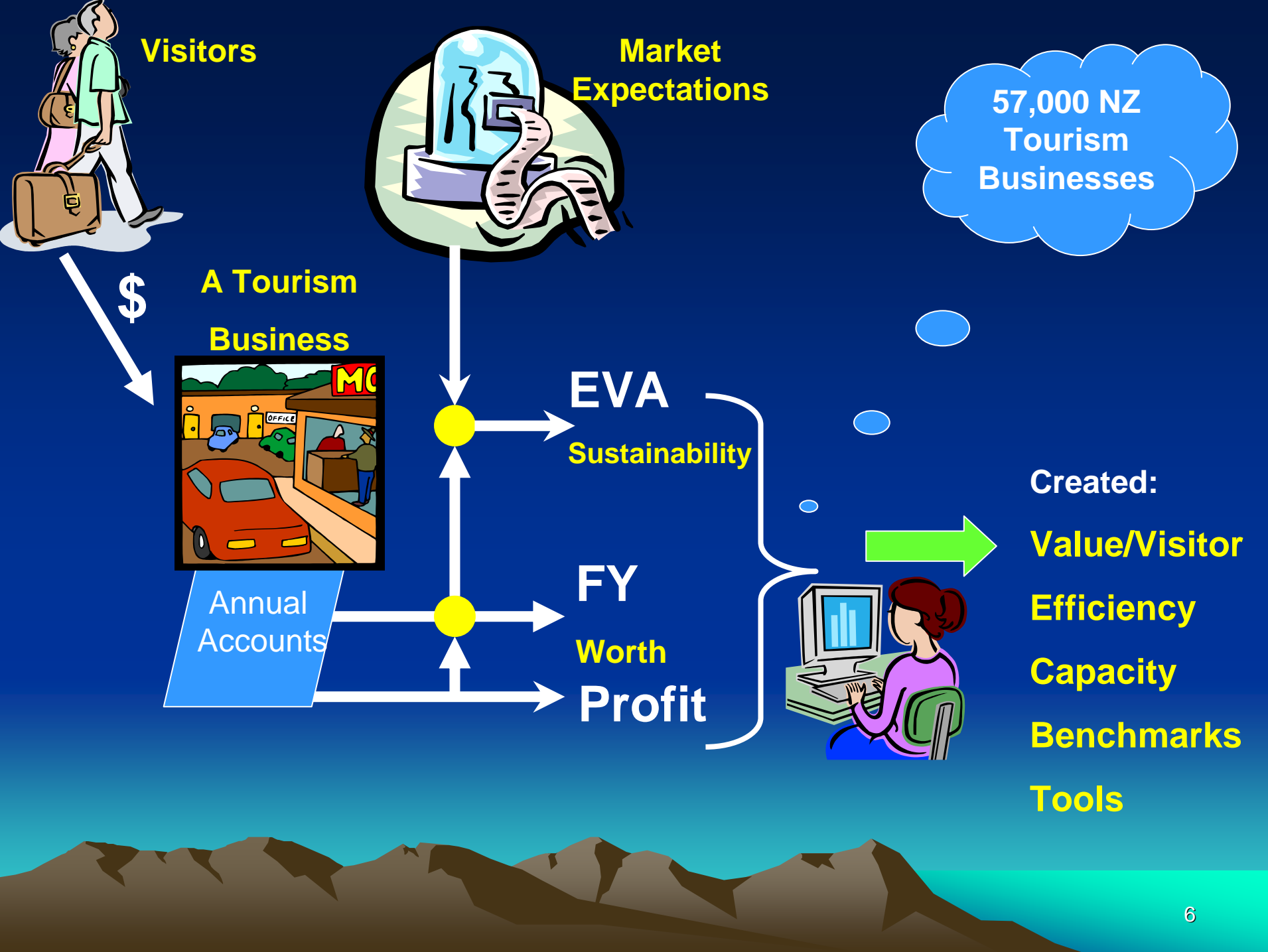
# What have we measured & how?

## WHAT?

- Financial Yield
- Profit & Economic Value Added (EVA™)
- Relative business efficiency
- Capacity performance of business operations

## HOW?

- Statistics NZ surveys (tax records), SME surveys in RO and CHCH – for over 57,000 enterprises.



# How can these help HAPNZ?

- **Financial Yield** measures business value
- **Profit** measures business output
- **EVA** measures business sustainability
- **Efficiency** identifies best profit performers
- **Capacity** identifies the greatest efficiently produced profit.

# Income Distribution

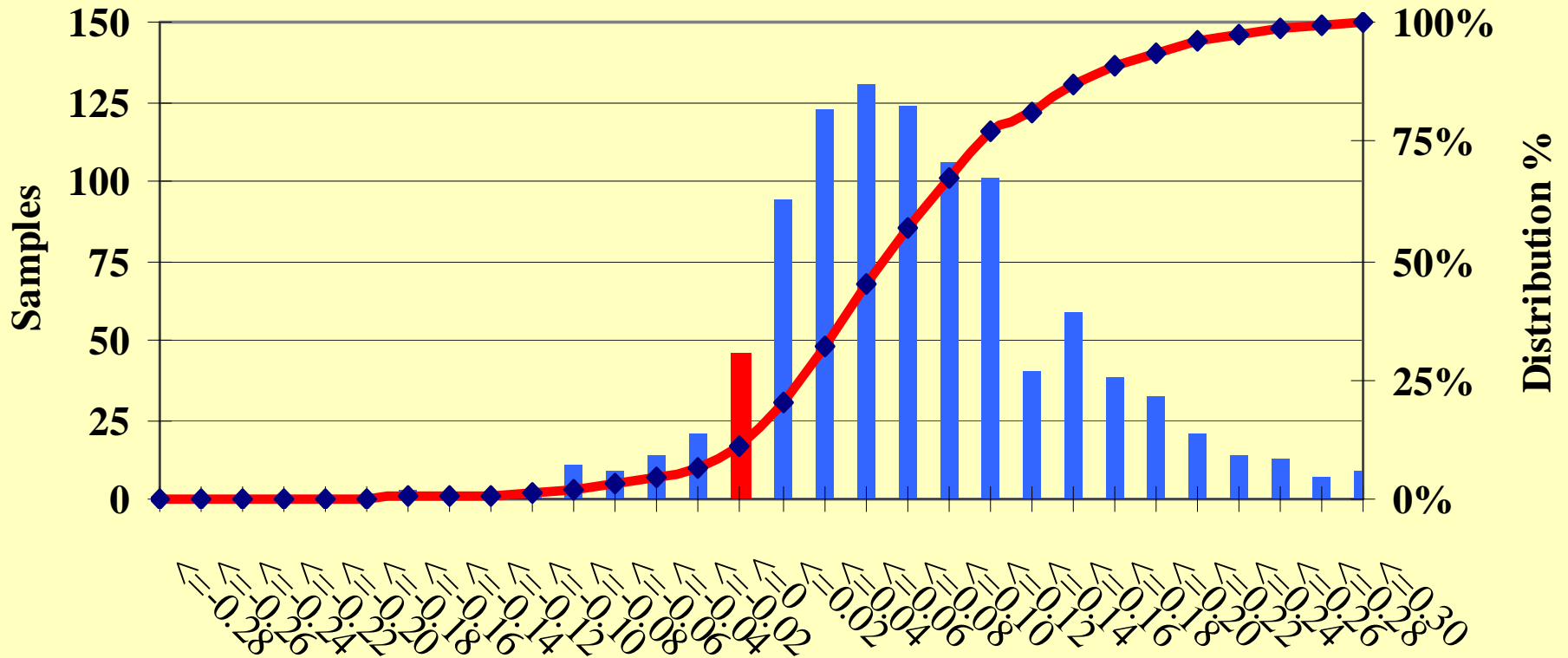
Caravan Parks and Camping Ground Income Distribution (\$000)  
2003





# Distribution of Financial Yield

Caravan Parks and Camping Grounds Spectrum and Distribution of Yield (\$000) 1999-2003



# HAPNZ has been busy too!



- Survey measured daily domestic and international visitor expenditure
- Survey did not measure value to either HAPNZ or the local community.

Let's see the value results...

# HAPNZ Visitor Value

Benchmark Cost of Capital  
5.700%

From Daily Expenditure Data

Visitor Classes	V1 HAPNZ Domestic			V2 HAPNZ Intl Person			V3 HAPNZ Domestic Party			V4 HAPNZ Intl Party		
	VA (\$)	Profit	EVA (\$)	VA (\$)	Profit	EVA (\$)	VA (\$)	Profit	EVA (\$)	VA (\$)	Profit	EVA (\$)
Activity												
Groceries and Dairies	\$1.53	\$0.67	\$0.42	\$1.46	\$0.64	\$0.40	\$6.52	\$2.85	\$1.77	\$4.62	\$2.02	\$1.25
Retailing nec	\$2.73	\$0.93	\$0.65	\$3.46	\$1.25	\$0.82	\$11.65	\$4.19	\$2.76	\$10.99	\$3.95	\$2.60
Automotive Fuel Retailing	\$0.61	\$0.17	\$0.12	\$0.46	\$0.13	\$0.09	\$2.55	\$0.71	\$0.49	\$1.46	\$0.40	\$0.28
Caravan Parks and Camping Grounds	\$6.09	\$1.90	-\$0.89	\$8.19	\$2.23	-\$1.04	\$30.42	\$8.27	-\$3.88	\$27.29	\$7.42	-\$3.48
Pubs/ Taverns and Bars	\$1.22	\$0.27	\$0.15	\$0.74	\$0.17	\$0.09	\$5.21	\$1.17	\$0.63	\$2.35	\$0.53	\$0.28
Cafes and Restaurants	\$2.59	\$0.46	\$0.24	\$4.63	\$0.82	\$0.43	\$11.03	\$1.96	\$1.02	\$14.71	\$2.61	\$1.36
Long Distance Bus	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Short Distance Bus Transport (including Tramway)	\$1.07	\$0.20	\$0.08	\$0.00	\$0.00	\$0.00	\$4.55	\$0.84	\$0.36	\$0.00	\$0.00	\$0.00
Motor Vehicle Hiring	\$0.00	\$0.00	\$0.00	\$24.09	\$6.90	\$2.69	\$0.00	\$0.00	\$0.00	\$78.06	\$21.91	\$8.53
Racing, Sports, Gambling, Lotteries and Other Recreation	\$3.83	\$1.49	\$1.02	\$15.15	\$5.88	\$4.04	\$16.32	\$6.33	\$4.35	\$47.75	\$18.53	\$12.74
Totals	\$20.56	\$6.13	\$1.78	\$58.68	\$18.00	\$7.50	\$88.28	\$26.32	\$7.50	\$187.24	\$57.36	\$23.56
Rank	4	4	4	3	3	2	2	2	3	1	1	1
Total Driving Expenditure	\$73.75			\$149.98			\$315.85			\$478.28		

2001-2005 Database Values

# What does this mean?

- HAPNZ Businesses get 32% per Domestic and 12% per International Visitor Party's profit per day, but ...
  - The nearby business community gets 68% and 88% respectively.
- Low average Financial Yield for the sector is of concern .....

# What about Financial Yield?

<b>Tourism Characteristic Divisions</b>	<b>Fin Yield (FY) 1999-2003</b>	<b>Fin Yield (FY) 2000-2004</b>	<b>Fin Yield (FY) 2001-2005</b>	<b>TREND</b>
H571010 Hotels (Accommodation)	4.0%	4.5%	6.6%	up
H571020 Motels and Motor Inns	5.3%	6.3%	7.3%	up
H571030 Hosted Accommodation	2.7%	2.6%	2.6%	flat
H571040 Backpacker and Youth Hostels	6.7%	4.8%	4.4%	down
H571050 Caravan Parks and Camping Grounds	3.7%	3.5%	3.7%	flat
H571090 Accommodation nec	3.6%	4.0%	3.3%	down
H572000 Pubs/ Taverns and Bars	11.7%	10.9%	10.9%	down
H573000 Cafes and Restaurants	10.0%	10.2%	10.6%	up
All Retail Divisions (G5xxxxx)	14.3%	14.6%	14.9%	up
All Accommodation (H5710x0)	4.2%	4.6%	5.5%	up
All Food and Beverage Serving Svces (H5723/4000)	9.0%	9.0%	9.2%	up
Accommodation and Food and Beverage Serving Svces	5.2%	5.6%	6.4%	up
All Transport (Ixxxxxx)	0.1%	2.5%	3.0%	up
All Leasing (Lxxxxxx)	9.0%	9.8%	10.3%	up
All Recreation (P9?xxxx)	8.7%	10.0%	9.3%	up

# Valuing Your Business with FY

FY is easy to obtain from annual accounts.

1. Find the value of Assets
2. Find the values of Interest, Profit before tax (PBT) & expensed proprietor remuneration
3.  $FY = ((PBT - Rem) * 0.67 + Interest) / Assets$
4. Voila!

Or use a business tool that has been developed

# Value estimation

- Suppose a potential Buyer expects to pay a price that delivers an annual return after tax greater than, say, 6%.

So Buyer's annual return = Price \* 6%

& Business annual return = Business Assets \* FY

$$\text{So Price} = \frac{\text{Business Assets} * \text{FY}}{6\%}$$

# Example

- Using FY from earlier tables at 3.7%

If Assets = \$1,000,000

$$\begin{aligned} \text{Price @ 6\% return} &= \frac{\$1,000,000 * 3.7\%}{6\%} \\ &= \$616,667 !!! \end{aligned}$$



# Implications

- If a Buyer expects 6%, without an FY of 6% or more, the business will struggle to sell as a “going concern”
- If the land’s development value provides an 6% return – OK
- If the FY trend is strongly towards 6% - OK

Otherwise .....

# Accommodation Efficiency

- Overall occupancy levels average ~ 30% during the year – NZ CAM
- Pricing is not compensating for under-utilisation of assets.
- Calculations indicate Accommodation needs to be scaled up by a factor of 6 to be as efficient as the best tourism businesses.

# But is MORE better than LESS?

- Law of Diminishing Returns – Applies to business effort.
- Businesses that can scale upwards efficiently should do so
- Businesses that cannot scale upwards efficiently should consolidate at the best size possible and expand by replication (e.g. “franchise” model)

# Accommodation Output Scaling

<b>Selected Divisions</b>	<b>Scale</b>	<b>Scale Efficiency</b>
<b>H571010 Hotels (Accommodation)</b>	<b>Decr</b>	<b>85%</b>
<b>H571020 Motels and Motor Inns</b>	<b>Decr</b>	<b>90%</b>
<b>H571030 Hosted Accommodation</b>	<b>Incr</b>	<b>99%</b>
<b>H571040 Backpacker and Youth Hostels</b>	<b>Incr</b>	<b>90%</b>
<b>H571050 Caravan Parks and Camping Grounds</b>	<b>Incr</b>	<b>96%</b>
<b>H571090 Accommodation nec</b>	<b>Incr</b>	<b>95%</b>
<b>H572000 Pubs/ Taverns and Bars</b>	<b>Decr</b>	<b>92%</b>
<b>H573000 Cafes and Restaurants</b>	<b>Decr</b>	<b>53%</b>

# Strategies?

- Good News: HAPNZ's sector shows  
Efficient Increasing Returns To Scale  
**bigger = better.**
- Occupancy may never = 100%, but if the average rose to **60%**, efficiency would have doubled and FY more so;
- Prices simply cannot be increased by 300% to grab the rest of the missing efficiency, but **revenue share** of visitor spend can be considered. Use **Retailers** as exemplars to improve overall efficiency

# Tools for Tourism Proprietors



**THANK YOU**

