

PROSPECTS IN INTERNATIONAL TOURISM AND THE  
NEED FOR RESEARCH

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*ABSTRACT*

*International tourism holds great promise as a key Australian exporter and employer and has untapped potential. With world tourism traffic forecast to grow between 5 and 7 per cent a year, and up to double that for Asia/Pacific by the year 2000, there are compelling reasons for us to not only refine our forecast methodology but also to understand more about our customers and their markets.*

*If Australia is to compete successfully with other tourist destinations and maximise the benefits of international tourism to the Australian economy and society then we must add value to the tourist product. This means developing a broad and flexible range of quality experiences 'polished' with comprehensive high quality service delivery.*

## INTERNATIONAL TOURISM

### INTRODUCTION

International tourism has become big business in Australia. With growth rates in inbound tourism of 25-26 per cent over the past couple of years Australia has become the fastest growing of the OECD countries. This growth has exceeded expectations of even the most optimistic forecasters and with 2.2 million visitors in 1988 expected to grow to over 5 million by the year 2000 the growth is set to continue.

It has been estimated that international tourism adds 0.7% to GDP and provides a net employment of 78,000 jobs. The nation will not secure maximum benefit from, nor achieve sustained growth without effort however. We need to know more about the preferences of tourists once here and about the competitiveness of Australia as a destination relative to others. We need to ensure support infrastructure is available when required - we therefore need to project the quantum required. We also need to provide a consistent standard of service - of high quality - throughout the industry.

This paper outlines the value of tourism to Australia - based on research by the Centre for International Economics (1988), approaches to forecasting tourist arrivals to Australia, and some work we have done within Qantas to learn more about, and focus our efforts on, customer service.

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THE VALUE OF TOURISM TO AUSTRALIA

Tourism is an important component of the services sector. The services sector is the largest sector in all developed nations.

With regard to what constitutes the services sector, there are many definitions between countries, however, it is generally agreed that typical activities included in the Services sector are education, transport, entertainment, wholesale and retail trade, and banking for example. Agricultural, mining and manufacturing activities are excluded, while electricity, water and gas are sometimes included. When a service is provided there is often nothing actually exchanged between two parties, in the way that goods are transferred. For example, a freighter transports goods for another without necessarily purchasing the goods.

In Australia, the services sector accounts for around 75 per cent of Gross Domestic Product and about the same proportion of employment. It is three times as large as agriculture, mining and manufacturing combined.

Trade in services, especially high value-added services, has been one of the fastest growing areas of world trade in the past decade. In 1987/88 Australian services exports were valued at some \$8 billion (an increase of almost 20 per cent on 1986/87) representing 20 per cent of the total exports in goods and services. In addition, in recent years the traditional deficit in Australian services trade has been decreasing. In the period 1986/87 - 1987/88 the services deficit reduced by almost 7 per cent, with tourism as a key contributor to this reduction.

Despite these strong growth rates, Australia still only accounts for around 1 per cent of global services trade and occupies about twentieth position in the list of large services exporters, behind countries such as Austria, Singapore and Korea. While comparison of international growth rates for services exports must be made cautiously due to varying compilation of figures, data suggests that Australia is not a strong competitor against the growth rates of United States and Japan, for example.

## INTERNATIONAL TOURISM

Tourism is the major Australian services export, accounting for almost 55 per cent of services exports. Valued at \$4.5 billion in 1987/88, an increase of 18 per cent on 1986/87, tourism has shown strong growth in recent years. In the last decade inbound tourism to Australia grew by almost 250 per cent from 631,000 to some 2.2 million. OECD figures show Australia with a growth rate of almost 25 per cent in 1987 experienced the largest increase in international visitor arrivals of all OECD countries. This compared with the OECD average of 6.5 per cent. Last year international tourism to Australia grew by a record 26 per cent.

The Centre for International Economics (CIE) (1988) has stated, to get the full story about the impact of tourism, the benefits and the costs of tourism has to be told on an economy-wide basis. As well as its contribution to foreign exchange earnings, tourism also costs foreign exchange earnings (imports). It is the net contribution of tourism to the national economy that is important.

Expenditure by international visitors directly effects the current account of the balance of payments primarily in two ways. As a travel credit, firstly through spending on accommodation, meals, shopping etc. and secondly, through export earnings of Qantas in carrying foreign travellers overseas. This second expenditure is included in the transportation credit item in the current account statistics. Offsetting these credits is the spending of Australian tourists abroad and the expenditure by Australian tourists for travel on foreign carriers, both included as debits in the account.

Indirectly tourism impacts on the balance of payments through the subsequent expenditures by the providers of tourism services eg. purchase of imported aircraft by Qantas, purchase of imported goods for sale to international visitors (debits) and purchases by foreign airlines in Australia (credits).

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Taking into account these direct and indirect effects of tourism on the current account, the CIE estimates that tourism raises GDP by about 0.7 per cent (\$1.85 billion in 1986/87) and total employment by 1.1 per cent (78,000 jobs).

An increase in international tourism will have impacts throughout the economy and on overall economic performance. Using the ORANI model the CIE traces the way international tourist spending is transmitted throughout the economy, and the industry and macroeconomic impacts. To answer the question as to what will happen if there is a change in international tourism, the CIE looks at what the economy would look like if we had a 10 per cent increase in services demanded by international visitors to Australia. The scenario includes assumptions that the pattern of spending on hotels, shopping, meals etc. remains constant and that Qantas holds its current share of the international air travel market to Australia.

The projections indicate that international tourism growth of 10 per cent would add about \$180 million to GDP and would result in a net annual improvement in the current account of \$190 million. Aggregate employment would increase by some 8700 jobs.

The CIE has estimated that a 10 per cent growth in international tourism could contribute one-third of the export earnings required to stabilise Australia's foreign debt at 33% of GDP by 1992.

The contribution of an increase in international tourism to national income, employment, the current account or some other economic performance indicator will, of course, depend both on the profit Australia makes on each tourism service sold by the volume of sales and the congestion and other services costs which increase with the number of international visitors.

## INTERNATIONAL TOURISM

If Australia is to maximise the net economic benefits of international tourism, then we must look to increase the return from each tourist.

Other things being equal according to the CIE the potential economic benefits from international visitors will be greatest when the amount spent by each visitor each day is highest and spending is on items returning the largest profit per dollar.

The Bureau of Tourism Research, 1986 International Visitor Survey indicates there is considerable differences in the spending behaviour of visitors from different countries. Table 1 below outlines the average expenditure, by country of residence, of international visitors to Australia in 1986.

Table 1 VISITOR EXPENDITURE 1986

|                                    | USA  | JAPAN | UK   | SWITZERLAND | NZ   | ALL  |
|------------------------------------|------|-------|------|-------------|------|------|
| Average (\$A) spending per visitor | 1705 | 1036  | 1481 | 2110        | 1359 | 1487 |
| Average stay (nights)              | 20   | 8     | 45   | 41          | 20   | 26   |
| Average per night (A\$)            | 86   | 137   | 33   | 51          | 67   | 56   |
| Share of spending on:              |      |       |      |             |      |      |
| Domestic air fares                 | 14   | 15    | 8    | 9           | 4    | 9    |
| Shopping                           | 17   | 39    | 20   | 14          | 31   | 23   |
| Food, drink & accommodation        | 45   | 37    | 47   | 48          | 37   | 44   |

Source IVS 1986, BTR

International visitors spend on average 44 per cent of their money on food, drink and accommodation, 23 per cent on shopping and 9 per cent on domestic airfares. Of those visitor groups in Table 1, spending per visitor per length of stay is greatest for the Japanese - more than double that of the average visitor. In contrast, visitors from the UK spend around 60 per cent of the average per night expenditure. Japanese and New Zealanders spend a much higher share on shopping (31-39 per cent) but much less on food, drink and accommodation (37 per cent).

Clearly then, changes in Australia's accommodation and shopping arrangements for example, will impact differently on the different visitor groups. The Committee of Inquiry into Tourism Shopping in Australia (1988) includes in its findings the fact that one in four overseas visitors spent less on shopping than they had intended and therefore, on current performance, Australia will forego more than \$200 million in export earnings in the year 2000 when 5 million tourists are expected to visit our shores.

#### ADDING VALUE

If we want to maximise the economic return of tourism, then in addition to encouraging high-spending, low cost visitors, we need to know more about their preferences and then how to differentiate Australia from other high quality destinations.

Given the potential diversity of high yield tourists eg., Japanese honeymooners and American adventurers, Australia will need to provide a comprehensive, flexible range of opportunities which may be combined to suit each individual. The number of independent travellers can be expected to increase. These travellers in particular will seek to develop their travel experiences once they arrive in Australia.

The application of information and communication technologies has revolutionised the way tourism services are provided and has expanded the range of product and services available to the tourist.

## INTERNATIONAL TOURISM

Computer Reservation Systems (CRS) are changing international travel in a way unrivalled perhaps since the development of the jet.

The technology can be used not only to enable travel agents to connect directly to suppliers of services and products - air rail, car, hotels and resorts - around the world, but it may be used to display pictures of hotels and give advice on ski lift charges, what's on at the opera, exchange rates and so on. No matter where in the world a traveller is, his/her itinerary could be made available via computer in a local travel office for amendment. Instantaneous access to a wide range of worldwide opportunities will both provide for highly customised travel and will dramatically expand the leisure market. CRS add value by reducing uncertainty regarding availability of the tourism product and by matching the needs and limitations of the travellers to the tourism opportunity.

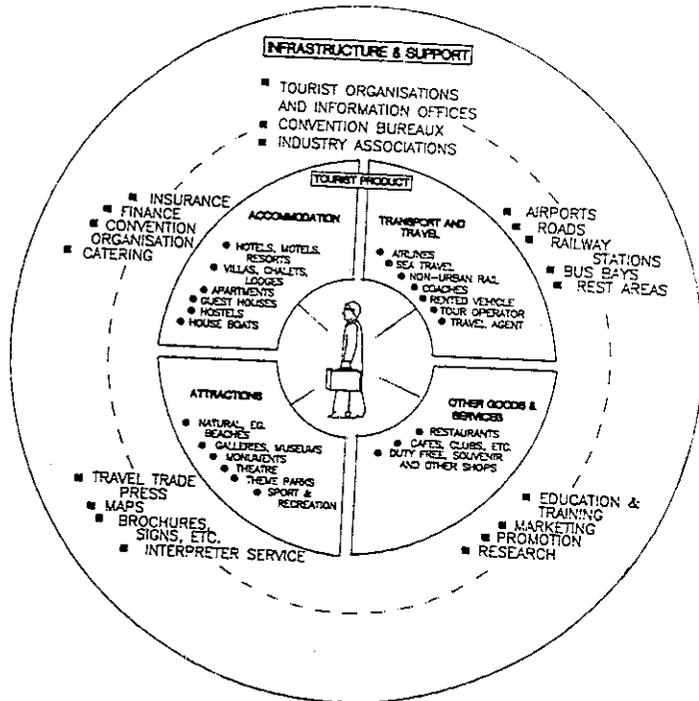
### Integrated Products

It is obvious in this context that the integration of tourist products - attractions, transport, accommodation, shopping - is fundamental. Strategic links need to be made between tourism service providers to ensure simple access by the customer to both information about the range of opportunities (via the CRS) but also to the products and services themselves.

It is important in determining the potential for such links, not to adopt too narrow a view of what constitutes the Tourism Industry. Figure 1 over portrays the Qantas view of the Industry which includes those involved with the 'tourist product' - the core of the tourism experience eg., attractions and entertainment as well as accommodation, transport and travel and other goods and services. It also includes those involved in the provision of support infrastructure, eg., airports, convention organisation, travel press and training.

Figure 1

**THE AUSTRALIAN TOURISM INDUSTRY**



Narrow definitions of the Tourism Industry which seek to identify a discrete package of goods and services with a tourism focus only, exclude a range of provisions which are important to the overall impression formed by tourists of our destination and which, if overlooked, may not realise their significance to Australia's tourism competitiveness.

Skills Development - A Customer Focus

Central to developing a broad and flexible range of quality experiences which add value to the core of the tourism product will be the Industry's ability to 'polish' the product with comprehensive high quality service delivery.

For its own part, Qantas has a corporate commitment to the delivery of the highest quality and most reliable products and services to our customers.

## INTERNATIONAL TOURISM

Starting from the stand point of the customer, the quest is one of service excellence. By listening to customers and understanding their expectations, setting standards that can consistently be achieved, constantly measuring performance against standards and most importantly investing in people through training, Qantas aims to achieve consistent quality service, to increase the satisfaction of our customers, not just match their expectations.

The benefits that will accrue to a business which offers high quality service are many:

- customer loyalty
- more repeat purchases
- less vulnerability to price
- ability to charge a relatively higher price without affecting market share
- lower marketing costs
- market share and profit improvements

Management's challenge is to learn what constitutes a quality experience and then deliver it. Training is clearly critical to the delivery process and in this regard the Australian Tourism Industry and governments are facing a mighty task. The range and depth of skills currently available within the Industry are widely reported to be insufficient and indicative of a number of structural difficulties being faced by the industry. Shortages of appropriately trained staff are being experienced, particularly for positions in the international standard hotels, such as managers, financial controllers, chefs and skilled waiters. This situation will worsen and predictions by Horwath and Horwath (1987) are that by the end of 1992 major new projects will increase the pressure for skilled personnel when an additional 23,000 full or part-time jobs are expected to be generated.

The development of training must recognise the importance of national standards and the need for flexibility if service excellence is to be achieved and retained. The training must of course be 'driven' by the needs of the Industry's customers if it is to remain relevant. A customer focus will ensure its vitality.

With the increasing trading significance of our Asian neighbours and in particular their current and forecast contribution to Australia's tourism growth, Qantas, as part of its customer focus strategy, is investing \$6 million over 3 years in a major programme to accelerate the development of Asian language skills and knowledge of Asia.

The need for Asian language and cultural skills in the Tourism Industry extends across the occupational spectrum, from front-line customer service staff to senior management in areas such as marketing, sales and administration. These skills are needed throughout many sectors of the Industry - transport, travel, accommodation, retail sales, government tourism bodies, etc.

Australia's competitors, both airlines and tourist destinations, have also recognised the competitive significance of language and cultural skills and are investing heavily in recruiting and training programmes in these skills, especially Japanese.

#### Infrastructure

Another critical element in competing successfully with other destinations is the development of sufficient and appropriate infrastructure, particularly hotels and airports.

According to the BTR International Visitor Survey 1986, the number of international visitor nights spent in hotels was some 5.9 million. It is forecast the requirement of 8.3 million for 1988 will have grown to 20.8 million by the year 2000, assuming 5 million international visitors.

This means that 35,000 new rooms will be required over the remainder of this century for international visitors, at an estimated capital expenditure, in 1988 dollars, close to \$9 billion.

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Apart from the high levels of investment required to accommodate international tourists, issues relating to the location and quality of hotels are significant. Greater market research will be necessary to ensure a greater match between tourists preferences and accommodation provided.

Australia's airports are also of critical importance to the future of our Tourism Industry and require a significant investment immediately.

An additional 3 million international visitors to Australia means an additional 60,000 passenger arrivals each week. This is equivalent to 180 additional B747 arrivals to airports already showing the strains of traffic growth of recent years.

In a world in which airport congestion is becoming more common, the construction of capacity can itself lead to an increase in demand. Singapore is an example.

### MARKETING THE AUSTRALIAN TOURIST PRODUCT

Australia will gain little by developing a value added premium product if promotion, marketing and administrative support are inadequate.

There is of the order of \$80 million spent annually in promoting Australia as a tourism destination. About half of this is attributable to the Australian Tourist Commission and half to Qantas. Qantas also spends over \$250 million annually through its sales force, travel centres etc. The Australian tourism bodies spend small amounts annually on promotion.

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There are sound economic reasons for marketing tourism. In addition to its potential to stimulate demand and increase the numbers of tourists choosing to visit Australia, marketing is an important management tool which provides a means of directing that demand and thus can also have important economic, environmental and social implications.

If Australia is maximising the net benefit of international tourism then effective marketing is critical. Extensive market research prior to implementing promotion and marketing strategies is needed to develop a better understanding of the influence of the current marketing approach, including the relative impacts of general versus specific product marketing, on the level and nature of demand for tourism to Australia.

FORECASTING TOURISM TO AUSTRALIA

Fairly standard approaches to forecasting tourism to Australia have included either:

- straight extrapolation of existing trends; or
- econometric type analysis and subsequent forecasting of economic variables and ultimately numbers of tourists.

The problem with the first approach is obviously that it fails to explain why growth occurs or if the economy was to move ahead at a certain pace what would be the impact.

The second approach provides more information about market response and is useful as an explanatory tool but is often inadequate for forecasting purposes because it cannot pick up "step" changes in, for example, Australia as a perceived international destination.

Examples of this latter approach are provided in the work of the Bureau of Transport and Communications Economics and Tourism Research. (BTCE 1978, 1988; BTR 1988). The variables used are fares, income and relative prices, (an exchange rate adjusted CPI value).

## INTERNATIONAL TOURISM

The elasticities associated with the above explanatory variables provide some understanding of the Australian inbound visitor market. Listed below in Table 2 are the elasticities used in recent studies of the Australian inbound visitor market covering the major regions from which Australia draws its inbound tourists.

Table 2

### Income, Price and Exchange Rate Elasticities For Holiday Travellers to Australia

| Country/Region<br>of Origin and<br>Variable | Bureau of<br>Industry<br>Economics | Bureau of<br>Transport &<br>Communications<br>Economics | Bureau of<br>Tourism<br>Research |
|---|------------------------------------|---|----------------------------------|
| <b>USA/Nth. America</b>                     |                                    |   |                                  |
| Fares                                       | -                                  | -1.2  | -0.4                             |
| Income                                      | -                                  | 1.2   | 2.9                              |
| Exchange Rate                               | -                                  | -   | -1.8                             |
| <b>Japan</b>                                |                                    |   |                                  |
| Fares                                       | -                                  | -0.4  | -                                |
| Income                                      | 4.6                                | 5.6   | 5.2                              |
| Exchange Rate                               | -                                  | -   | -0.5                             |
| <b>New Zealand</b>                          |                                    |   |                                  |
| Fares                                       | -                                  | -1.3  | -1.5                             |
| Income                                      | 0.6                                | 1.9   | 1.5                              |
| Exchange Rate                               | -                                  | -   | -1.1                             |
| <b>UK/Europe</b>                            |                                    |   |                                  |
| Fares                                       | -                                  | -0.6  | -0.7                             |
| Income                                      | 4.6                                | 4.1   | 2.8                              |
| Exchange Rate                               | -                                  | -   | -0.7                             |
| <b>Aggregate(1)</b>                         |                                    |   |                                  |
| Fares                                       | -                                  | -0.6  | -                                |
| Income                                      | -                                  | 2.9   | -                                |

(1) Note: No models have been developed for assessing aggregate exchange rate impacts on travel to Australia.

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However a much larger set of factors influence travel to Australia than these three explanatory variables. These include:

- cost of living in Australia compared to overseas;
- cost of travel and accommodation in Australia and overseas;
- the number of friends and relatives of overseas residents living in Australia;
- the perception of Australia as a safe destination following terrorism against US citizens and the Chernobyl accident;
- attractiveness of other destinations;
- market saturation with travel to other destinations;
- one-off factors such as the Americas's Cup and Expo;
- advertising by the Australian Tourist Commission and Qantas;
- Australia's international profile as influenced by films, music, books and so on; and
- the level of service, accommodation and leisure facilities available in Australia to cater for overseas visitors.

If a model of overseas arrivals is to be set up, all these factors should be considered. However it is not possible to build everything into the model in a formal way. Some factors cannot be quantified and in any case only a limited number of coefficients can be estimated. It is often better to estimate a fairly simple model and allow for the effects of the more subjective factors outside the model.

The BTR has set up a Delphi panel to enable the subjective factors outside the model to be taken into account.

Qantas has been involved in developing a method for forecasting visitor arrivals based on the analytical approach of the Economist Intelligence Unit described in their "International Tourism Forecasts" to 1999 (1988). The forecast methodology involves deriving the growth in outbound markets for the key countries which provide inbound tourists to Australia. These growth rates are then subjected to an analysis which determines whether the Australian market share from each country will increase or decrease. This second stage of the process is determined by:

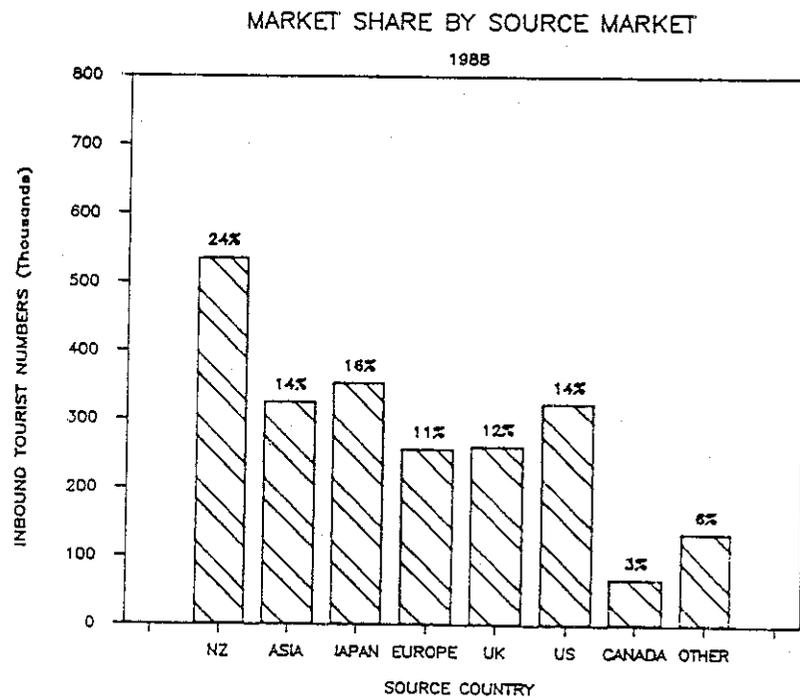
## INTERNATIONAL TOURISM

- a) Econometrics
- b) Competitor analysis
- c) Scenario development covering subjective/promotional factors

One major problem in forecasting visitor arrivals to Australia is that tourism to Australia is only a small percentage of the world tourism market. In 1987 Australia attracted 0.5% of total world tourists. A more realistic measure is Australia's share of the medium/long haul international market, as only these travellers are comparable to inbound tourists to Australia. One of our closest markets, New Zealand is over 2400 kms away, whilst other major markets are up to 12000 kms away. Using this more realistic measure of market share we have about 1.5% of the world medium/long haul market, compared with 1.0% in 1985. With a growth rate of 26% for inbound visitors in 1988, factors other than those used in the explanatory variables of the econometric models are affecting tourism.

Australia's share of medium/long haul travel from major source markets is shown in Table 3 below.

Table 3



CONCLUSION

In 1988 international tourism to Australia grew by a record 26 per cent. International tourism holds great promise as a key Australian exporter and employer and has untapped potential.

To realise this potential, the Tourism Industry and government need to enhance their knowledge of what Australia must do to sustain strong international tourism growth and in this context, competitor analysis is critically important. What is it that attracts people to Florida and not Australia, or vice versa? What do we need to do to become more competitive?

The attractive combination of unique natural phenomena that constitute the core of the Australian Tourist Product are an important determinant of a traveller's destination choice. Clearly, however, they are not the only influence on the potential tourist who will also be concerned about the other components of the product, and the range and quality of service and support.

The Industry needs to undertake extensive research into the discretionary behaviour of tourists to ensure a greater match between their preferences and the products and services provided. For example, given the high levels of investment required to accommodate international tourists, issues relating to preferred location and quality are critically important.

Marketing plays an important role in influencing travel to Australia. In addition to its potential to stimulate demand and increase the numbers of tourists choosing to visit Australia, it is an important management tool which provides a means of directing that demand. If Australia is to implement a strategy of maximising the net benefit of international tourism then extensive market research prior to implementation of promotion and marketing strategies is needed. In this way the Industry will have a better understanding of the influence of the current marketing approach on the level and nature of demand for tourism to Australia.

## INTERNATIONAL TOURISM

In addition, a better understanding of the impact of promotion and marketing on demand will assist the development of a methodology for forecasting visitor arrivals. Reliable forecasts of international tourists is very important in determining infrastructure required, including the development of appropriately skilled personnel to provide high quality service delivery.

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