

Review of the Tourism Aspects of the Fiordland Link Experience Project Application

February 2014 **Prepared for:** Department of Conservation



5th floor Aviation House
12 Johnston Street
P O Box 2515
Wellington 6140
New Zealand

P: 64 4 472 3114
F: 64 4 473 0020
E: info@trctourism.com

www.trctourism.com

Executive Summary

Introduction

This report reviews the tourism material associated with the Fiordland Link Experience being submitted for consent to the Department of Conservation by Riverstone Holdings Limited.

This report reviews the tourism information and assumptions in two documents submitted with the application. The first is a tourism assessment report completed in October 2009, and the second is the Business Plan completed in October 2013. Other information reviewed includes the Concession Application Overview prepared in November 2009.

Key Findings

A review of the tourism information associated with the application indicates that the proposal is based on assumptions that may have been valid in 2008 but now require revision in the light of actual visitor arrivals and travel patterns that have been identified since this time.

The reports suffer from assumptions about visitor numbers and trends made in 2007 to 2009 that have not resulted in the intervening years. As a consequence many of the assumptions and information about visitor numbers and trends are overstated. Future forecasts to 2022, the length of the business case forecasts, are therefore also overestimated.

The tourism assessment report presents a comprehensive view of the implications of the project from a commercial and social perspective. No environmental aspects are considered as these are reported elsewhere in the application. The report covers many commercial issues but does not address the competition implications of the proposal. As a result the report presents a somewhat optimistic view of the benefits of the proposal. For example, the report indicates that much of the projected visitor numbers will be achieved by capturing market share in the existing market. The report carries out an assessment of the employment consequences of the project without addressing the potential loss of employment from competitors. As a result a number of the benefits appear to be overstated.

The Business case, while presented in October 2013 draws on material and makes assumptions that date from 2009 and earlier. The result is that the assumptions are optimistic in the 2014 tourism market. Optimistic assumptions are made about the achievable ticket price, revenue increases, start-up time and the overall size of the market that might utilise the Fiordland Link Experience.

Recommendations

It is recommended that the Tourism Assessment report be updated to include current visitor arrivals information and the consequent effects on future visitor forecasts to the Queenstown and Fiordland regions. A revision of the likely visitation to Milford is also warranted. A review of the benefits of the proposal taking into account a more comprehensive view of the consequences of competitor behaviour is also warranted.

The business case requires substantial updating of the assumptions using the latest information about visitor numbers and their willingness to pay. Specifically revision of the following assumptions in the business case is required:

- Market size of visitors to Milford Sound
- Growth rate of the visitor market to Milford Sound
- Travel modes of visitors to Milford Sound (relative proportions of self-drive vs coach)
- Departure point of visitors to Milford Sound
- Achievable market share able to be captured by the Fiordland Link Experience
- Product pricing and increases over time
- Start-up timing and visitor numbers over the initial phase of product operation
- Ability of the product to operate 360 days per year.

Table of Contents

1.	Introduction	4
1.1.	Method	4
2	Review of “A Tourism Assessment of the Fordland Link Experience”	3
2.1	Overview	
2.2	Key Aspects	
2.3	Conclusions	
3	Business Case Review	11
3.1	Overview	
3.2	Key Assumptions	
3.3	Conclusions	

Appendix:

Table 1: Tourism Company Milford Sound Offers (February 2014)

1. Introduction

1.1. Method

Overview

This review is an assessment of the information provided in the application by Riverstone Holdings for consent to construct and operate the Fiordlandlink Experience. This is a new proposed business that would operate a link between Queenstown and Te Anau Downs with the combination of transport modes of catamaran, ATV busses and a monorail. No additional material has been sought from the applicant and the review has been carried out only of the material supplied in the application.

There are two key components of the application that relate to tourism issues in the region. First the applicant has prepared a Tourism Assessment report. Second the business case includes a suite of assumptions about tourism numbers that are integral to the development of the business. Both of these components are reviewed in this document.

The review is limited to data drawn from existing reports, industry experience of TRC Tourism staff and a small number of key informants within the industry. The review draws on unpublished material held by some organisations.

The conclusions drawn are based on best professional judgement at the time of preparation of this report. Further information or changes in market or competitor conditions may alter the findings of the report in future.

2. Review of “A Tourism Assessment of the Fordland Link Experience”

2.1. Overview

The tourism assessment report identifies and reports on the impacts on tourism of the proposed Fiordland Link Experience. The report was commissioned by Riverstone Holdings Ltd and is dated October 2009.

The report covers the general and tourism market at the time. It provides an assessment of the commercial impact and the social impact of the proposed development.

The principal issue with the tourism report is that it was completed in 2009 and draws on information that was available largely up until 2007. This means that much of the information covers the period from 2000 to 2007. Over this period there was significant growth in visitor markets and the forecasts at the time extrapolated this growth forward. The resultant forecasts (based on a 2014 view) were therefore optimistic in the expectations and projections that were set out compared with the subsequent tourism performance since 2009.

In addition, the report draws on significant information that is no longer available from government agencies. The Tourism Flows information previously available from the Ministry of Tourism until 2010 has been discontinued by the Ministry of Business, Innovation and Employment (MBIE). In addition detailed information about the visitor characteristics at a regional level is also currently not available from MBIE sources.

2.2. Key Aspects

Tourism Impact Assessment Framework

An assessment framework is presented which is used to structure the report and the evaluation of the proposal. While the outline is somewhat theoretical, it is consistent with many assessment approaches and is a comprehensive approach to evaluating the proposal. The proposed framework has a structure that covers the economic, social and environmental dimensions of the Fordland Link Experience proposal. The report then proceeds to assess the economic and social aspects of the proposal.

Tourism Framework

The report describes the general situation of tourism in New Zealand as at 2009. Commentary is provided on the overall market, the holidaymaker market – at which this proposal is targeted. Commentary is also provided on the origin of guests and the expectations and forecasts of the time of visitor arrivals numbers. The report is prudent in reporting on the actual negative visitor arrival performance over March to June 2009 and considers that the lower bound to forecast levels is the likely range of future growth (section 4.1.2).

The report covers the economic and financial impacts of international visitors and tourism in the Queenstown lakes and Fiordland regions. Data is presented from the tourism visitor flows modelling previously available from the Ministry of Tourism (subsequently withdrawn from public availability). Data is also presented for 2007 sourced from the Department of Conservation on the estimated number of visitors to Milford Sound. This estimate was 470,000 day visitors in 2007.

Overall this section of the assessment provides a comprehensive commentary on the tourism statistics and forecasts as at 2009 for the country as a whole, the Queenstown and Fiordland regions and expectations in relation to visits to Milford Sound.

Some comments are unsubstantiated such as: "...and "insufficient time" is an evident barrier precluding improved retail, hospitality, entertainment or recreational opportunities". This is a common heard claim put forward by all proponents of quicker travel options to Milford Sound although not backed by any firm or robust evidence. Further commentary is made about the opportunities from time efficiency gains such as that proposed by the applicant, and the potential benefits that might accrue, such as in quality of stay and increased economic value.

Commercial Resources

The report describes the commercial resources used in the project and the implications of the application of those resources to the region. These include; labour force, improved skills, energy, construction materials and market share issues.

The labour requirements are expected to be around 95 additional people and the estimated remuneration is estimated at \$7M per annum. The report considers that most will live in Te Anau, providing an immediate and long term benefit to the community.

Additional skills for the tourism industry are also reported as a benefit from the project. We would agree that additional product and different product in the region would increase the depth and breadth of the labour market for staff in the tourism industry. In particular non seasonal tourism employment would be beneficial in the region.

Energy use and materials requirements of the project are also discussed. These are consistent with an estimated \$300M development and have no implications for the tourism industry.

Competitive market share issues associated with the project are discussed and are considered to be neutral at a local level and potentially favourable at an inter – regional level. As the report identifies, the product seeks to capture market share from existing operators and as a result the additionality of this product in terms of growing the tourism market is expected to be very low. Consequently we do not expect that there would be much "pulling power" of this product as a stand- alone tourism attraction.

Comment is made that the product would establish Te Anau Downs as a new and substantial port of entry into Fiordland. This is further expanded on in the business case document whereby a transport hub is proposed at Te Anau Downs. The project proposes to provide parking, toilets and security in exchange for all private vehicles being unable to travel to Milford Sound. Buses would be the only means by which visitors could travel to Milford Sound. We consider that this is unlikely in that there is no incentive to develop the more comprehensive facilities required to encourage growth and the full suite of services required by the visitor population. Te Anau and Queenstown already provide a large range of services for the visitor population and the towns of Mosburn, Dipton, Kingston, etc provide additional services. Existing coach operators already have substantial investments in coaches and staff. Given that numbers are flat to declining we see no unmet demand in the region that would generate significant new investment in a new location within the region. In addition we consider that visitors would not be supportive of such a transport approach. Having already hired or purchased a vehicle most visitors will therefore be reluctant to have to change to another transport mode and pay to visit Milford Sound as an additional cost on the trip.

Social Impact

The report provides a commentary on the commercial implications of the proposal including, labour force requirements, skills contribution to the community, energy use, construction materials and competitive market share issues.

The report makes commentary about the time efficiency benefits associated with the proposal and its proposed three hour time savings¹. This time saving is estimated in the report to generate an additional 23,700 hours of additional downtown expenditure (valued at \$28/person hour) with a total annual value of \$ 664,000 per annum.

While this time saving might be possible, and there is some doubt about the practicality and time allowances for the four modal transfers each way with the proposal, there is no particular evidence that extra hours in Queenstown will result in additional expenditure of \$81 per person that undertook the monorail experience compared with those that took alternative travel options.

The report notes that Queenstown hospitality is adjusted to the current inflows and timing of visitors that have travelled to Milford Sounds and that there will be little benefit to this sector from the proposal. We would concur with this assessment.

An additional 95 to 100 fulltime employees are estimated to be required to operate the experience. Most would be located in Te Anau. We would agree that this would be beneficial to the town but is of a minor scale given that the normal resident population of Te Anau is around 1900 and there are around 4000 accommodation beds. In addition, a

¹ Table 9, P 23 in "Fiordland Link Experience: A Tourism Assessment" J P Moriarty

number of the employees would be located in management and sales and marketing functions (estimated at 25) which would most likely be located in Queenstown.

State highway decongestion and reduced accidents are also proposed as a potential benefit of the application. While this is a potential benefit, it is probably outweighed by the increase in use of private and rental vehicles being used on the route over the last decade and this is projected to grow in coming years. The negative impacts of the increased traffic on the Mt Nicholas road are noted, especially with the likelihood of this road being used as part of a National Cycleway.

Increased regional market share of tourism is suggested as a benefit. While the report acknowledges that this provides no additional national benefit it does describe regional benefit of being potentially worth \$53M per annum to the region. Given that the proposal is likely to be seen more as an alternative transport option than an attraction in its own right, we do not consider that there will be any increased regional preference as a result of operation of this product. In summary, it can be seen as a potential shift from one form of transport (primarily coaches) to another.

Similarly, a national tourism brand enhancement associated with this product is likely to be insignificant in the overall variability in international visitor travel to New Zealand. We would not expect this product to stimulate any additional travel by visitors to New Zealand.

A range of indirect potential benefits are also outlined in the report. These include; A cycleway, Te Anau Downs hospitality and transport options and recreational opportunities that draw on the terminus stops. We do not consider that these options are sufficiently well developed to offer a view on, except to comment that there are already some opportunities in the region. However increased transport opportunities are likely to improve uptake and could provide options for new experiences and activities. We would also note that the "Around the Mountain" National cycle trail is expected to share the Mt Nicholas road with the ATV component of this product and there may be conflicts as well as transport opportunities with the two ventures in the same location.

2.3. Conclusion

The report covers all the significant commercial and social issues associated with the project and provides some analysis based on 2009 information about visitor arrivals and forecasts made at that time.

Overall the report observes that there are benefits associated with the project to tourism in the region. It recognises that at a national level the tourism benefits would be marginal at best.

In our opinion the report makes statements about additional expenditure in the region and benefits of time savings that are overestimated.

The report does not provide any substantial information about competitor responses and any losses of economic benefits associated with this. Consequently the report is largely a presentation of the gross benefits of the project without documentation of the net position, taking into account any potential losses in commercial benefits to competitors or the potential counter-attacks by competitors that could be launched, given their substantial investment in existing coaches, staff and other plant and equipment.

Overall the report needs to be updated with current visitor arrivals and expenditure information. The report also suffers from not considering the negative consequences to employment and the regional economy of competition and the effect of a new development on other tourism ventures.

3. Business Case

3.1. Overview

The business case presents the essential information to demonstrate the financial viability of the project. While the review of the business case is carried out elsewhere, much of the business case rests on the tourism assumptions.

Key numbers on the revenue side of the business case are dependant upon the tourism assumptions that are made in the application.

Again much of the information in the business case is from 2009 and earlier. As a result many of the assumptions used in the business case can be tested against actual numbers in subsequent years.

3.2. Key Assumptions

Visitor

Application Assumption	Commentary	Proposed Action
Visitor arrivals to Milford Sounds being 450,000 in the ye Dec 2012 and increasing by 25,000 per year for 10 years on a consistent basis. The estimate is that there will be 550,000 visitors in year 1 of the FLE operating. The forecast contained in the business case for 2022 is 700,000 visitors to Milford Sound.	Visitor arrivals to Milford have fluctuated considerably over the last 10 years and without a consistent upward trajectory. Other information available at the time of development of the business case was the 2005 report on Milford transport options ² indicated that visitor arrivals to Milford were 450,000 in 2005 and forecast visitor arrivals to be 750,000 in 2012. This represented a 7% year on year increase in visitor numbers. In hindsight this forecast was overly optimistic.	Business case to review the year 1 visitor arrivals numbers to Milford. Business case to review the growth trajectory of visitor arrivals to Milford in the light of the current experience of limited growth and reduced ratios of international visitors going to Milford.

2

<http://www.venturesouthland.co.nz/Portals/0/Documents/Milford%20Issues%20and%20Options%20Vfinal.pdf>

	<p>Data provided by the Milford Development Authority³ indicates that actual visitor arrivals peaked in 2005- 2007 at around 450,000 and have subsequently declined to less than 380,000 in 2012⁴. The arrival figures have subsequently risen slightly in 2013, but remain well below the peak values.</p> <p>There is no evidence that visitor arrivals will have a continuous growth trajectory for long periods of time in the future.</p> <p>The Tourism Assessment Report assumes a consistent proportion of international visitors visiting Milford. Actual figures indicate a decline in the proportion of international visitors going to Milford.</p>	
<p>Visitors to Milford Sound are 84% ex Queenstown.</p>	<p>The MWH study⁵ on access options for Milford Sound indicates that Venture Southland considers that around 45% of visitors to Milford start their journey in Te Anau rather than the 5% assumed in the FLE business case. If this were to be the case then the pool of potential customers for the FLE who originate their travel from Queenstown would need to be reassessed</p>	<p>Review the assumptions about the number of visitors to Milford Sounds that originate their journey in Queenstown versus Te Anau.</p>

³ Commercially sensitive data provided to the author by the Milford Development Authority

⁴ The Milford Development Authority data comprises the number of visitors that take cruises on Milford Sound and hence pay a fee to support the infrastructure in the Sound. While some visitors may come to the Sound and not take a cruise and therefore not be counted in these statistics, this number is considered to be low in relation to the number that do take a cruise.

⁵http://www.es.govt.nz/media/23782/milford_access_report_2012.pdf

<p>Market share will be 50% of day coach business.</p>	<p>Coach as a percentage of travel has been falling for some time. The advent of cheap rental cars and camper vans has meant that there is a modal shift in travel patterns. This is occurring for backpackers as well as other tourist cohorts. Further evidence of this change and traffic pattern to Milford Sound is provided in the MWH report that shows an increase in traffic volumes but not an increase in cruise passenger volumes. This indicates an increase in self-drive and a reduction in coach passengers to Milford.</p>	<p>Review business case assumptions about the coach visitor numbers compared with other modes of transport being used to visit Milford. Also review the potential market share of the different transport modes being used and likely to be captured by the Fiordland Link Experience.</p>
<p>Business plan assumption of an immediate take up on opening (2 years after decision to build)</p>	<p>Generally there will need to be a ramp up in the operation of a new attraction. While there may be a honeymoon period for some attractions there is no evidence that this attraction will achieve such a rapid uptake. Construction and timetabling would have to be very accurate to achieve a delivery date that the market can rely on. The product would need to be brochured, sold through wholesale channels and probably with lead in fares to get uptake. In addition there is likely to be a vigorous competitor response resulting in price competition and also possibly some adjustment of the pricing regime for the boat trip</p>	<p>Review the business case and the start-up assumptions in 2016. Provide evidence of the tourism distribution channels being prepared to brochure and sell the product in 2015/2016.</p>
<p>Ticket price of \$ 225 for the proposed product. This includes a \$45 cost of the</p>	<p>Currently there is significant price competition on the route with prices as low as \$119 being offered in the market place (refer</p>	<p>Review business case in the light of competitor pricing to assess viability of this</p>

<p>bus from Te Anau Downs to Milford.</p> <p>The residual price of the FLE is therefore \$180 (less commissions of 15% gives a residual return of \$153</p> <p>This price excludes any activities at Milford.</p> <p>The business case also includes an estimated price inflation of around 2.5% per annum, resulting in a ticket price of \$215 in 2022.</p>	<p>to Table 1 for current offerings). At times specials as low as \$89 and \$99 are also offered.</p> <p>On a like for like basis the transport offerings included by existing competitors are in the range of \$50 - \$132. This is substantially lower than the business case price of \$225</p>	<p>ticket price and implications of a lower price point.</p>
<p>Assumption of being open for business 360 days per year⁶</p>	<p>Based on the technical complexity of the operation this appears to be quite optimistic.</p> <p>The Homer tunnel/road to Milford is subject to frequent closures (We are advised by the Milford Development Authority that they generally budget on 14 days of road closures a year) This means that the traveller market for the FLE will not be available for some periods. While this does not impact on overall numbers it does alter the perception of the service and reduces the likelihood of a 360 day a year service.</p>	<p>Question of whether the proposal is to be marketed as an experience in itself or as a faster route to Milford.</p> <p>Review the ability of the proposal to operate 360 days per year.</p>

⁶ 360 days of operation per year are used in the business plan and also the proposed operating schedule outlined in Table 6.2,3 and 4 of the Concession Application Overview.

3.3. Conclusion

There are significant assumptions made about visitor numbers to Milford Sound and their characteristics that require revision in the business case. While the application proposal is dated 2013 it appears to draw on visitor numbers and assumptions from 2009 and earlier.

The visitor arrivals information that is presently available shows a lower visitor arrivals volume to Milford Sound and a lower growth rate.

For a robust business case to be developed revision is required of many of the tourism assumptions to ensure that the business case presents a realistic financial scenario for the project. In particular the following visitor characteristics need to be assessed and incorporated into a revised business case:

- Market size of visitors to Milford Sound
- Growth rate of the visitor market to Milford Sound
- Changing travel modes of visitors to Milford Sound
- Departure point of visitors to Milford Sound
- Achievable market share able to be captured by the Fiordland Link Experience
- Product pricing and increases over time
- Start-up timing and visitor numbers over the initial phase of product operation
- Ability of the product to operate 360 days per year.

The incorporation of up to date and well justified data based on current visitor arrivals and current visitor growth forecasts would enhance the robustness of the project proposal. As currently presented the business case appears to be overly optimistic about the numbers of visitors, the market share able to be captured by this product and the price that is able to be achieved. As a result we consider that the revenue is likely to be overstated, leaving the financial viability of the project in serious doubt.

Appendix

Table 1 — Tourism Company Milford Sound Offers (February 2014)

Company Offer	Implicit Equivalent Cost of FLE components
<p>Southern Discoveries \$179 “Awesome New Zealand Encounter”</p> <p>This product offer includes:</p> <ul style="list-style-type: none"> • hotel pick up and drop off in Queenstown • \$94 Encounter Nature Cruise 	<p>The implicit price of the transport component is \$85</p>
<p>Jucy \$119 Round trip to Milford Sound.</p> <p>This product offer includes:</p> <ul style="list-style-type: none"> • Hotel pick up • 1.5 hour cruise (Cruises are \$69 and \$79 for mid day cruises if purchased separately. <p>Jucy also offers 50% off cruise costs for drivers of their rental vehicles for cruise only.</p>	<p>The implicit price of the transport component is \$ 50 - 60</p>
<p>Real Journeys \$178 round trip to Milford</p> <p>This product offers as part of the package the Nature Cruise. This costs \$85 as a stand- alone product</p>	<p>The implicit price of the transport component is \$93</p>

Company Offer	Implicit Equivalent Cost of FLE components
<p>Great Sights</p> <p>Milford Sound Day Tour \$226</p> <p>This product includes:</p> <ul style="list-style-type: none"> • Hotel Pick up and drop off • 1.75 Hour Southern Discoveries Cruise 	<p>The implicit price of the transport component is \$132</p>
<p>Naked Bus</p> <p>Milford Sound Bus Tours from \$89. Internet prices for February 2014 \$116</p> <p>This product includes</p> <p>1.75 Hour cruise</p>	<p>The implicit price of the transport component is \$50 – 60 based on the internet prices for February.</p>