



Recent articles in the media regarding the required funding to keep Zealandia (Wellington) and Omaka Heritage Centre (Blenheim) afloat, highlights concerns regarding the process that local authorities undertake when evaluating funding requests (capital and operational) for visitor attractions.

Visitor attractions unlike the accommodation sector do not have significant databases of past performance to call on, such as those available to hotel and motel chains on which projections can be made for new projects. In addition, and probably of greater significance is the fact that to be successful attractions need to be different from their competition, whereas with hotel chains the aim is to create the same high quality guest experience whether you are in Wellington or Washington. This can make it very difficult to project likely visitor numbers and the financial results that follow.

The situation that Wellington City and Marlborough District Councils found themselves in was that unless they made additional investments in Zealandia and the Omaka Heritage Centre the attractions would find themselves in considerable financial strife.

Where do the risks begin?

With feasibility studies the tendency is to look at other similar facilities, if there are any, and remember the objective is to differentiate the offering to make it more attractive to potential visitors than the competition and then prepare some projections that probably indicate the attraction will achieve higher numbers than the current competition!

Alongside this comparison there are a number of other factors to consider. They include research to determine the concept appeal to your target markets, the advantages and disadvantages of your location, the appeal of the proposed pricing, the current economic situation (as visiting attractions is a discretionary activity, recessions and low economic growth periods are likely to reduce visitor numbers), seasonality of the attraction and its impact on visitor numbers, the potential to attract repeat visits or not. Determining how these factors individually and cumulatively will impact on projections is no easy task.

A major mistake which many new projects make is to assume that their attraction will be able to implement similar entry charges as other high quality attractions. What others charge is irrelevant and misleading, unless the attractions are exactly the same and operate in the same business environment. What people are prepared to pay is based on their perception of value for money and this will differ from place to place and country to country.

Even taking into account the above, there is another major factor that will impact on projections. This is the size of the market. Many new attractions make the assumption that they will achieve X% of the resident, domestic and international visitor markets. As an example let's assume that there are 10 attractions in a city and between them they generate one million visits a year (an average of 100,000 each). New attractions often automatically assume that they will gain their 'fair share' of the one million visits. If that is the case then 11 attractions now achieve an average of 90,909 visits each. The new attraction has supposedly gained that number of visits and the



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other ten have lost over 9,000 visits each. How realistic is this? It isn't, because if the other ten attractions are anything like competent operators, they will be putting in place strategies to ensure they retain their market share and limit their competitor's potential to 'pinch' their market.

The only way the assumption that the new attraction will achieve its fair share of the market is if the following occurs:

- Your attraction is so good it can draw visitors away from all the other attractions. It is the best in the city by a considerable distance. In most cases it is only the Disneylands and in the case of Wellington possibly Te Papa (free entry is appealing) that can achieve this.
- The visitor attraction market increases considerably in size. If it does, however, all the other attractions will expect their fair share of that market increase as well.
- The attraction has little competition close to its location (eg Omaka Heritage Centre) and creates its own demand. However, the demand achieved is directly related to how the potential visitors perceive its appeal.

Role and Responsibility of the Local Authority

Most not for profit attractions produce visitor and financial projections, that will be used to obtain capital and operational funding from local authorities, trusts and the like. The more attractive these look, especially when combined with an economic impact report that highlights the benefits for the city, the more likely they are to obtain the funding required. In comparison commercial developers are likely to be far more conservative with their projections, as the long term viability of their project is the key objective. If the project fails to achieve its projections, it can't expect a handout from a local authority. It has to make it work or close the doors.

When we see more and more local authorities being asked to support new tourism, recreational or cultural projects from external organisations, what is the responsibility of the local authority to undertake its own due diligence? Does it have the expertise to undertake a due diligence for a proposed visitor attraction? In most cases no. If it doesn't have the expertise within the Council then it should engage people who do. The case for this is justified by the fact that determining the long term viability of visitor attractions is a risky and complex business. Spending public money on them needs to be carefully considered, especially when the initial and future expenditure is potentially not limited to capital expenditure, but also operational. To remain successful visitor attractions need to be investing regularly in new activities and/or events to retain and grow visitor numbers. The International Antarctic Centre in Christchurch is a good example of the investment level required on an ongoing basis.

The Key Questions for Local Authorities

When considering whether to support a request for funding there are a number of key questions that the local authority should be asking of the information provided:



Project Application

- Do you have all the information required to make an informed decision on the funding requirements and the potential for success of the project?
- Does the application support the local authority's plans?

The Concept

- What is the concept, its key elements, likely users, potential constraints?

Site Analysis

- What are the key attributes and issues from a physical, market and economic/financial perspective? How are these evaluated?

Market Analysis

- Is the business environment now and in the future likely to be supportive?
- How strong are the existing visitor and resident markets?
- How will the competition impact on the project?

Visitor and Financial Analysis

- Who will visit, when and how much are they prepared to pay?
- What are the revenue and breakeven projections?
- What are the operational costs

Project Costs

- How much will it cost to complete?
- Is there a long term plan for future capital investment?
- Who are the funders and to what level?
- What are the potential risks for the local authority at the development stage and in the future? Can they be mitigated?

The above questions are only some of the areas that require indepth analysis if the local authority is to make an informed decision that ensures that it does not find itself in the same position as Wellington and Marlborough. With both of these Councils there was significant pressure to provide the rescue package.

The final question is how could the two local authorities have reduced their risk to bailing out the two organisations when the project was initially presented to them?

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