

**SPECIAL NEWSLETTER**  
**Managing a Tourism Business in a Recession**

In the last six months or so the business pages of newspapers and business journals have been telling you what you should do to ensure that your business survives the current recession. How much of this advice is useful? Is there a silver bullet? Do tourism businesses have different issues from other types of businesses? Where can we go to obtain a comprehensive list of do's and don'ts?

While the internet can be a dangerous place for those who believe that it can provide the answer to every question, it can be a good starting point if you want to quickly gather some ideas on what other people are doing regarding the same issues that you may have. The rigorous analysis of what it 'spews out' is where the skill lies. This paper used the internet to identify articles/newsletters on the recession by people and organisations who work in the travel, tourism and hospitality businesses. It has then organised the recommended actions discussed in the articles under traditional business function headings.

This research is not intended to identify either all the problems that a recession can bring to a business or all the possible solutions. What it does provide are some ideas that will get you thinking about your business which you can take and adapt to meet the specific needs of your business. Prior to finding solutions however, first of all you need to know a couple of things – what is a recession and how do you know if your business is being affected by it?

The definition of a recession from an economic perspective refers to the economy as a whole. The economy is considered to be in a recession when GDP (a measure of the value of all goods and services produced within a country) declines for two or more consecutive quarters and the New Zealand economy has reached this dubious target.

The more important factor for most businesses will be to identify those 'trigger points' that indicate all is not well with their business and they are feeling the effects of the recession. Typical features of a recession for a business include:

1. Sudden decline in business enquiries from new clients
2. Existing clients reduce the number and size of purchases or they dry up completely
3. As a result of reduced enquiries revenue reduces significantly
4. Usual suppliers of goods and services push for prompt payments (yes they are in the same position as you and are looking to retain cashflow)
5. Customers become more concerning and look to who can offer the best deals (discounts, incentives, value for money, reduced interest costs on new purchases, longer payment periods etc)
6. Profits are squeezed reducing any hope of expansion and investment in new initiatives
7. Fewer staff leaving and seeking new jobs as they seek to protect their income

So what are those ideas/actions that you should be considering? From the research undertaken it is clear that some actions are specific to the tourism industry whereas many are general to all businesses. There are many ideas on what you should do, but very little on how to implement specific actions. The table below identifies the actions that should be undertaken in specific business operational areas with some additional comments on how to implement them.

	<b>Key Actions</b>	<b>Comments/Advice</b>
<b>Financial</b>	<ul style="list-style-type: none"> <li>Maintain/improve cashflow</li> </ul>	<ul style="list-style-type: none"> <li>As revenue drops you will need cash to meet your commitments. Invoice regularly, follow up slow payers. No room for Mr Niceguy.</li> </ul>
	<ul style="list-style-type: none"> <li>Protect profitability</li> </ul>	<ul style="list-style-type: none"> <li>Minimise costs, don't automatically discount prices. Be strategic so that price incentives are used to attract new business, fill gaps.</li> </ul>
	<ul style="list-style-type: none"> <li>Work with local suppliers to reduce transport costs</li> </ul>	<ul style="list-style-type: none"> <li>Creating new business for a local supplier will be appreciated and enable you to strike the best possible deal.</li> </ul>
	<ul style="list-style-type: none"> <li>Reduce fixed costs</li> </ul>	<ul style="list-style-type: none"> <li>Investigate alternative suppliers for services. A recession may mean you need less of certain services. Negotiate with existing suppliers to reduce costs.</li> </ul>
	<ul style="list-style-type: none"> <li>Trim capital spending</li> </ul>	<ul style="list-style-type: none"> <li>Do you really need to invest now, how will it impact on your business if you delay? Will putting it off free up more cash?</li> </ul>
	<ul style="list-style-type: none"> <li>Review inventories</li> </ul>	<ul style="list-style-type: none"> <li>Reduced stock increases cashflow. Monitor your requirements and leave new ordering as long as possible.</li> </ul>
	<ul style="list-style-type: none"> <li>Get rid of anything that isn't performing (product lines, marketing initiatives, staff, equipment, buildings)</li> </ul>	<ul style="list-style-type: none"> <li>This is the 'cash in the attic' approach. Generate cash through selling or reducing costs.</li> </ul>
<b>Markets</b>	<ul style="list-style-type: none"> <li>Identify business segments where demand is declining- replace with segments not declining or growing (eg New Zealand has an aging tourism market)</li> </ul>	<ul style="list-style-type: none"> <li>Know your markets so that you can identify trends occurring as early as possible and make the decision to change. This will have a positive impact of cashflow and profitability.</li> </ul>
	<ul style="list-style-type: none"> <li>Activity and attraction operators should focus on the local markets</li> </ul>	<ul style="list-style-type: none"> <li>They are easier to communicate with, they are probably already aware of your business, and travel is less of a problem. Provide incentives, especially for repeat visitors.</li> </ul>
	<ul style="list-style-type: none"> <li>Focus on markets that are less affected or have greater commitment</li> </ul>	<ul style="list-style-type: none"> <li>Not all markets will be impacted by the same degree. Event tourism is likely to be more resilient than some other markets. Can you take advantage of this?</li> </ul>
	<ul style="list-style-type: none"> <li>Create events</li> </ul>	<ul style="list-style-type: none"> <li>Groups that have a common theme/focus (sports, arts etc) tend to be more committed. Often their events have been organised for a long time.</li> </ul>
	<ul style="list-style-type: none"> <li>Expand the intermediaries</li> </ul>	<ul style="list-style-type: none"> <li>Identify other similar agencies that could sell your services into existing and/or new markets.</li> </ul>

	<ul style="list-style-type: none"> <li>Maintain business relationships</li> </ul>	<ul style="list-style-type: none"> <li>Just as you need to retain your customers you also need to retain your business relationships, especially for those focusing on international markets – no communication means soon forgotten</li> </ul>
<b>Customers</b>	<ul style="list-style-type: none"> <li>Look after your customers</li> </ul>	<ul style="list-style-type: none"> <li>Those customers you have are your most valuable asset. In a competitive recessionary environment make sure you hang onto them. Communicate with them and treat them like royalty and their loyalty will reward you.</li> </ul>
	<ul style="list-style-type: none"> <li>Offer guarantees and testimonials</li> </ul>	<ul style="list-style-type: none"> <li>Customers will be looking for products and services that give them confidence that it is the right purchase decision and if it goes wrong or doesn't meet their expectations there are guarantees in place for reimbursement and/or replacement.</li> </ul>
	<ul style="list-style-type: none"> <li>Focus on customer service</li> </ul>	<ul style="list-style-type: none"> <li>Make sure staff are well trained and understand the need to focus on the customer.</li> </ul>
	<ul style="list-style-type: none"> <li>Check online user reviews</li> </ul>	<ul style="list-style-type: none"> <li>Be aware what people are saying about your business and take action to rectify poorly performing sectors or people in your business.</li> </ul>
	<ul style="list-style-type: none"> <li>Grab your competitors' customers</li> </ul>	<ul style="list-style-type: none"> <li>Of course it is better to work with competitors to increase the size of the market, but in hard times the strong will survive and increasing your customer base will prove invaluable during the recession and in the post recession period when the focus will be on growth.</li> </ul>
<b>Marketing</b>	<ul style="list-style-type: none"> <li>Focus on value tourism</li> </ul>	<ul style="list-style-type: none"> <li>Make sure your business is competitive, with fewer visitors around for the same number of businesses you will need to ensure that customers see the value in your products/services.</li> </ul>
	<ul style="list-style-type: none"> <li>Use your website to create incentives for people to travel/visit now</li> </ul>	<ul style="list-style-type: none"> <li>This can work equally well with international, domestic and local markets. Identify incentives that fit with your markets. Use your website and electronic newsletters to communicate deals.</li> </ul>
	<ul style="list-style-type: none"> <li>Use technology to communicate regularly with customers and trade</li> </ul>	<ul style="list-style-type: none"> <li>This is the time to look at your print costs and determine whether technology can offer you more effective and efficient communication with existing and new clients.</li> </ul>

	<ul style="list-style-type: none"> <li>• Don't stop marketing</li> </ul>	<ul style="list-style-type: none"> <li>• Know which marketing initiatives provide the best return from your marketing dollar. If you can't monitor the effectiveness don't spend.</li> </ul>
	<ul style="list-style-type: none"> <li>• Be specific with marketing</li> </ul>	<ul style="list-style-type: none"> <li>• Target events, seasons, special days. Know what return you expect on your investment.</li> </ul>
	<ul style="list-style-type: none"> <li>• Monitor your website usage</li> </ul>	<ul style="list-style-type: none"> <li>• There are numerous free and paid/subscription analytics tools that will provide valuable information to assist with online marketing.</li> </ul>
	<ul style="list-style-type: none"> <li>• Capitalise on low exchange rates</li> </ul>	<ul style="list-style-type: none"> <li>• Target countries that benefit from low exchange rates. Currently the Euro buys 20% more in New Zealand than it did a year ago.</li> </ul>
	<ul style="list-style-type: none"> <li>• Share research</li> </ul>	<ul style="list-style-type: none"> <li>• For many businesses research is probably one of the first areas to be cut. Research during a recession can be even more important than during the good times. Share resources with like businesses.</li> </ul>
<b>Human Resources</b>	<ul style="list-style-type: none"> <li>• Work with staff to reduce costs</li> </ul>	<ul style="list-style-type: none"> <li>• Your staff, especially in larger organisations where you are more reliant on their expertise will know areas for potential cost saving. Involve them in the process and reward their ideas.</li> </ul>
	<ul style="list-style-type: none"> <li>• Keep your staff where possible</li> </ul>	<ul style="list-style-type: none"> <li>• While some businesses may have to shed staff, remember they are one of your most valuable assets and will repay your loyalty to them.</li> </ul>
<b>Planning</b>	<ul style="list-style-type: none"> <li>• Use a downturn in business to upgrade and improve the quality of your product/services</li> </ul>	<ul style="list-style-type: none"> <li>• Doesn't have to be a major cost. What are the key improvements visitors are looking for in your customer surveys?</li> </ul>
	<ul style="list-style-type: none"> <li>• Plan for crises such as a recession so you don't make adhoc decisions that don't achieve their targets</li> </ul>	<ul style="list-style-type: none"> <li>• We are very slow at remembering the last downturn/recession. We must learn from our past mistakes and be prepared in the future for anything that will impact negatively on our business.</li> </ul>
	<ul style="list-style-type: none"> <li>• Acquire other companies</li> </ul>	<ul style="list-style-type: none"> <li>• During a recession there will be some companies that will need to sell or are already in the hands of the bankers. These companies can provide you with opportunities for growth.</li> </ul>

In reality most of the actions you take to manage your business are the same whether you are in a recession or not. Good management of your business is critical at all times. The difference is that the emphasis changes. While there are some differences in managing your tourism business than with other businesses during a recession (especially for those focusing on international visitors) in most cases the core requirements are very similar.

Tourism for most people is a choice based on their discretionary income. In a recession the discretionary component of peoples' income gets squeezed or even disappears completely and this reduces their propensity to travel. This means that the impact of a recession on tourism businesses could be significantly more than for those selling more essential goods and services (food, housing, health, transport etc)

In a recession the key requirements for businesses to focus on are:

1. Ensuring adequate cashflow
2. Minimising operating costs (fixed and variable)
3. Using discounts and incentives strategically to meet financial objectives
4. Understanding market trends and how they are impacting on your business
5. Retaining your existing customer and agency (business suppliers) bases
6. Monitoring the effectiveness of your marketing and only investing where you are confident of the returns
7. Having confidence in your staff to help you through the crisis
8. Preparing a plan to get through the recession and how you are going to maximise the business opportunities in the post recession period

Regrettably, there is no silver bullet to pull you through this recession. The solutions involve thinking strategically about what is important for your business both now and for the future and of course hard work.

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