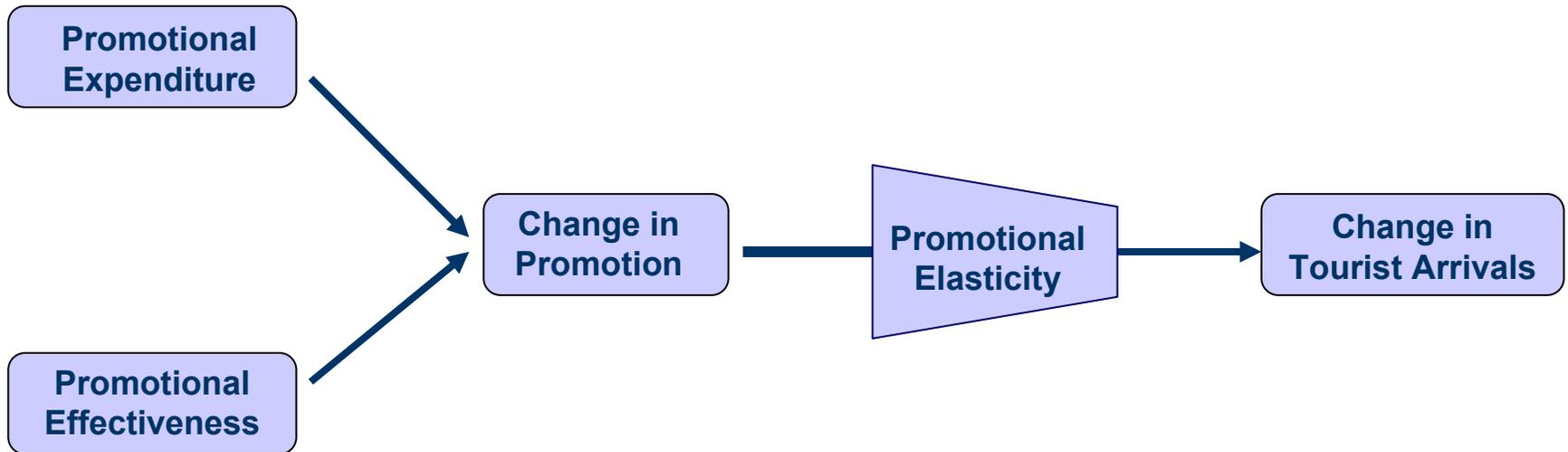


# Tourism: Promotional Effectiveness

NECG

# Overview

Changes in promotional effectiveness and expenditure will lead to an increase in tourist arrivals



# Effectiveness



Promotional effectiveness will be improved by at least 10%

## Shift in focus from rivalrous to cooperative promotion

- Greater emphasis on attracting new customers rather than gaining and defending market share
  - E.g. Almost all of QF's promotion of flights to NZ is tactical, and accounts for 15-20% of outbound advertising spend in Australia
- Stronger coordination with tourism bodies to promote NZ

## Lower unit cost of promotion

- Scale economies in media purchasing
  - Covec estimates that Air NZ accounts for 90% of expenditure by airlines in promoting NZ
  - Empirical studies suggest that there are significant scale & scope economies in the supply of advertising
  - Higher utilisation of existing facilities and channels
- More appealing airline product easier to sell

Expect at least 10% gain in promotional effectiveness

# Expenditure



Although it is very likely that promotional expenditure will *increase* under the Alliance, no such increase was assumed in the model

- Promotional expenditures will increase under the Alliance
  - Alliance would increase the return from promotion and open up new marketing opportunities
  - Air NZ has informed the NZ Treasury that it will increase inbound promotional expenditure by 10% under the Alliance (this alone would increase inbound tourism by over 7,000 visitors, assuming a promotional elasticity of 0.17)
  - Undertakings given to the ACCC commit the airlines to spending an additional A\$5.4m on promotion in the year following the effective date of the Alliance
- However, no increase in promotional expenditure was assumed for the purposes of this modelling

# Elasticity



The elasticity of passenger numbers with respect to promotions was estimated at 0.17, consistent with the Commission's own research

- The elasticity of RPK's (and passenger numbers) with respect to promotions was derived through regression analysis
- The calculated figure of 0.17 was consistent with Commission's investigations and previous studies
  - Commission quotes range of 0.15 to 0.25
- If Alliances enhance promotional effectiveness, there should be higher elasticities of arrivals with respect to promotion on such routes
  - On the Kangaroo Route which operates under the JSA, the elasticity of arrivals (RPK's) with respect to promotion was 0.28 covering the period July 1999 to June 2002.
  - This is double the elasticity on the same route estimated by Crouch et al for data covering the period prior to the JSA (0.14)



The logo for Network Economics Consulting Group (onecng) features a stylized 'o' on the left, which is a dark blue circle with a yellow-green crescent shape inside. To the right of this symbol, the letters 'necng' are written in a dark blue, lowercase, serif font.

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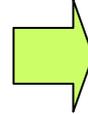
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# Promotion



Rivalrous promotion focuses on fighting for market share, while cooperative promotion focuses on expanding the market

Rivalrous / Persuasive Advertising
<ul style="list-style-type: none"><li>• Objective: gain share</li><li>• Socially inefficient<ul style="list-style-type: none"><li>– Tries to persuade customers that similar products are different</li><li>– May serve as entry-deterring mechanism</li></ul></li></ul>



Cooperative / Informative Advertising
<ul style="list-style-type: none"><li>• Objective: expand demand</li><li>• Socially beneficial<ul style="list-style-type: none"><li>– Informs consumers about existence of a product, quality, price, etc.</li><li>– Reduces consumers' costs of obtaining information</li></ul></li></ul>