

Advertising That Works - Australia Hotel Performance Up

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Australia's controversial marketing campaign, launched in February 2006, showing typical Australian scenes accompanied by the blunt tag line: 'So Where the Bloody Hell Are you?' has been very successful.

Australia often appears in the world's top ten dream destinations, and is currently ranked as the number one choice by online travel company Expedia, as well as customers of MasterCard.

Given its climate, stunning beaches, the vast outback, its rainforests and many world heritage sites, it has been an attractive option for decades, and more affordable flights are now adding to its appeal.

According to figures from the HotelBenchmark(TM) Survey by Deloitte, Australia's increasing popularity is boosting profits among the country's hoteliers, who saw revenue per available room (revPAR) move up to AU\$139 during the first nine months of 2007. This is AU\$13 higher than the year before, when Australia welcomed thousands of spectators for the Commonwealth Games.

Overall revPAR has grown by more than 10% year-on-year driven largely by average room rates which currently stand at AU\$177. With little hotel development in the pipeline and the government planning to make bold investments in tourism, hoteliers should be able to sustain this excellent performance for the coming months.

Advertising that works

The top source of tourists to Australia is neighbouring New Zealand, followed by the UK, according to Tourism Australia. However, if looked at in terms of the length of time and the amount of money spent in Australia, the Brits would be number one.

Japan takes third place, even though tourist numbers have dropped by 12% year-to-October 2007 compared to the previous year. This is mainly due to the depreciation of the Yen against the Australian Dollar, making trips to this vast continent less appealing. Currently, the US is the fourth largest source market.

Australia's controversial marketing campaign, launched in February 2006, showing typical Australian scenes accompanied by the blunt tag line: 'So Where the Bloody Hell Are you?' has been very successful. All four key source markets were targeted and numbers were up as a result. Tourism Australia reported 3.6m visitors during the first eight months of 2007, a year-on-year increase of 4%. Arrivals from China and Korea, two important markets, were also up. Now, Australia's tourism authorities are expanding their activities to position the country as a great place to do business.

Encouraging corporate travel

A US\$ 2.6m campaign to attract more international meetings, incentives, conventions and exhibitions (MICE) business to Australia called 'Re-energise in Australia' is now underway. The high-tech campaign blends indigenous art and music with advanced technologies to create a virtual podcast tour.

This initiative is hoped to bring more corporate business to Australia, as agencies seek to position the country as a 'unique, desirable and achievable destination for MICE'. Personalised direct mail is being sent to key decision-makers, suggesting that Australia, with its growing economy and low inflation, provides the ideal backdrop for conferences and trade fairs. The campaign is targeting industry segments in Northern European countries, which have high volumes of business event bookings.

Low-cost carriers expand routes

Australia's location on the world map makes it highly dependent on airlines, and the growth of low cost travel in the region is therefore extremely welcome, both to tourists and to the host country.

During 2006, airline seat capacity actually dropped due to fuel costs and delays in the delivery of the Airbus A380. But this situation is changing, as most airlines, including the national carrier, Qantas Group, plan to expand their fleets during the rest of this year and into 2008.

As in other regions across the world, Australasia is seeing a rapid increase in the number of low cost carriers, who are rapidly extending their networks. Jet Star, a subsidiary of Qantas launched three years ago, plans to add flights to Ho Chin Minh City, Phuket, Honolulu and Bali from Australia to its regular flights to Bangkok. It has recently added direct flights from Sydney to Kuala Lumpur to its timetable, and plans to launch European routes in 2008.

Virgin Blue, which started operating in 2000, established itself as a key player in both domestic and international markets, but is now being challenged by Tiger Airways. Tiger is slashing prices, calling itself the 'Asia Pacific's true low fare airline', and, since the end of 2004, has added 18 destinations in the Asia Pacific region to its route network. Asia remains an important source market, as flights originating here made up 52% of total seat capacity into Australia during 2006, according to Tourism Australia.

Demand stays high

With high demand for rooms and little development taking place, Australia's hoteliers are enjoying strong performance. With occupancy reaching almost 80% during the first nine months of the year, and average room rates of AUS\$177, hotel business is looking good.

The high costs of land and construction projects are keeping developers away from Australia, giving existing suppliers the upper hand. Colliers International Hotels has reported just 15 transactions of major hotels and resorts during the first seven months of 2007, which - compared to activities in Europe and other global regions - is very small. Rather than building new properties, operators are choosing to upgrade their product, which gives them another opportunity to increase room rates.

Hotel performance for selected Australian cities year-to-September 2007

	Occupancy %	Change %	Average Room Rate (AU\$)	Change %	RevPAR (AU\$)	Change %
All Australia	78.4	3.3	177	6.6	139	10.2
Adelaide	79.4	3.0	139	9.5	110	12.8
Brisbane	84.9	0.7	177	9.5	150	10.2
Cairns	77.5	-0.8	147	1.8	114	1.0
Canberra	71.7	-5.0	173	14.1	124	8.3
Melbourne	82.7	2.4	194	6.7	160	9.2
Perth	84.2	5.3	159	14.5	134	20.6
Sydney	80.7	7.5	207	6.0	167	13.9

Source: *HotelBenchmark(TM) Survey by Deloitte*

The HotelBenchmark(TM) Survey confirms that Australia's major cities have performed extremely well year-to-September 2007. Perth, Sydney and Adelaide have all seen double-digit revPAR growth. In most cases, this has been driven by the average room rate. The exception was Sydney, where occupancy has been a slightly stronger driver.

As our table above shows, Perth was the number one revPAR performer, with a high average room rate of AU\$159, and 84.2% occupancy. One of the reasons Perth is doing so well, according to the Australian tourism exchange, is the increase in the number of flights serving Western Australia. With more people looking for rooms, and no major hotel development, Perth's hoteliers can continue to drive up room rates.

Sydney, the financial hub of Australia, takes second place in terms of revPAR growth. The city, which remains the favourite stopping off point for people on vacation, as well as business travellers, has the highest average room rate across Australia.

Adelaide, which has struggled for several years to build its revPAR, was the country's top performer at the end of 2006, with revPAR growth of 18.9%. The city is still performing well this year, with growth of 12.8%.

Occupancy levels of almost 85% confirm that Brisbane will quickly absorb the 5% increase in rooms it has seen so far this year, the largest addition to any Australian city's supply. In June, the opening of Brisbane's first luxury boutique hotel, the Emporium Hotel, added 106 stylish studio suites to the city's portfolio.

Melbourne, with occupancy of almost 83% year-to-September is holding its own against Brisbane and Perth. However, with a convention centre due to open in 2009 including a Hilton Hotel as well as several other hotel development projects, such as the Crown Melbourne Limited's new hotel of 658-rooms planned to open in May 2010, hoteliers in Melbourne may soon find themselves competing for customers.

The capital city of Canberra, achieved an 8.3% increase in revPAR, due mostly to an increase in average room rates of just over 14%. Demand appears to be weakening, with occupancy down 5%. Cairns is also experiencing a slight drop in occupancy - almost 1% - with fewer Japanese visitors checking in.

Massive tourism investment

Australia, the world's sixth largest nation with a relatively small population of 20m, has plenty to offer. Perceived as 'the great outdoors' by many international tourists, it also has high-quality facilities to attract the corporate market. Importantly, it is also seen as a safe destination with many travellers wanting to avoid terrorist attacks or natural disasters viewing a trip to Australia as a risk-free option.

Analysts expect Australia's appeal and visitor numbers to grow, despite the background rumblings of the impact of air travel on climate change, rising oil prices and the downturn in the US economy.

The Australian Government, keen to sustain the momentum, is planning to invest AU\$193.3m in tourism over the next four years, and hopes this massive cash injection will encourage more visitors - both holiday-makers and business travellers - to make more trips down under to their dream destination.

Note: all analysis in AUS dollars

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