

8. Developing tourism

Learning objectives

At the end of this chapter the reader will be able to:

- Identify the relationship between the private and public sectors in the development of tourism.
- Identify the information that must be collected in order to prepare a tourism development plan.
- Develop statements from the collected data reflecting present and desired positions.
- Describe the important elements of an area-wide master plan.
- Understand how the principles of tourism planning act as guidelines in tourism development.
- Be able to define and correctly use the following terms: core attraction, market segmentation, geographic segmentation, competing destination, loan guarantee, sole proprietor, corporation, attraction-service linkage, capacity, touring, destination tourism, supporting attraction, demographic segmentation, attracting power, environmental impact statement, zoning, partnership, clustering, natural/cultural resource dependency, social-developmental climate.

The development process

The development team

In the development of a large-scale tourism project it is likely that both the private and the public sectors will be involved. The involvement of the public sector is important for two reasons. First, because of the gap between the amount of investment required and the revenue expected, it is unlikely that major projects can be funded initially solely by the private sector. Second, because of the income-producing potential of tourism development, investment by the public sector can act as a boost to the involvement of the private sector.

Typically, the public sector is involved in preparing the master plan, acquiring land, marketing the development of the project to potentially interested parties, developing and maintaining infrastructure, and monitoring development by the private sector. The private sector conducts feasibility analyses of specific projects and plans, and constructs and operates those deemed financially feasible. The respective roles of the private and public sectors and the time gap between investment requirements and revenue expectations are illustrated in Exhibit 49.

Steps in the development process

The development process begins with an analysis of four areas: the market potential, planning and engineering, socioeconomic, and legal and business. From this basic data, areas that are ripe for development are selected. Objectives, principles and standards are developed and area-wide master plans prepared. For each area under development consideration, the environmental impact is assessed together with an estimate of the overall costs of development. From this a preliminary assessment of economic feasibility can be made. If it is decided to proceed with the project, a multi-year development plan is prepared in conjunction with more detailed financial and economic analyses. Marketing and administrative plans are prepared to support the chosen projects. The overall financial feasibility and economic impact can then be determined. This process is illustrated in Exhibit 50.

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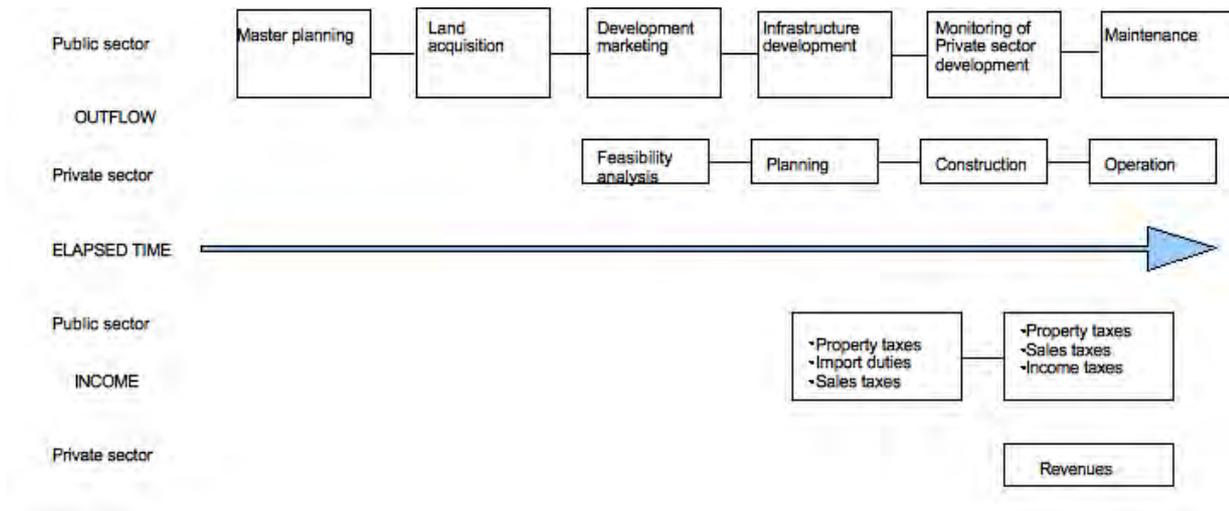


Exhibit 49: Time-related relationships between investment requirements and revenue expectations in tourism development.

Market analysis

The purpose of the market analysis is to provide an estimate of long-term tourist flows to the destination. This is done by examining the tourist resources of the area compared to those of the competition in light of present and potential tourist demand.

Inventory of tourist attractions

Core and supporting attractions. The purpose of the inventory is to summarize the current stage of tourism development in the area. The key question to be answered in this section is: "What do we have that would cause a tourist to come here?" Exhibit 51 contains a listing of various attractions. Often what is regarded as "ordinary" by local people will be of interest to outsiders. One way to approach this subject is to distinguish between core and supporting attractions. A core attraction forms the theme for the area. It is the principal reason tourists will visit the destination. It may be a natural attraction such as Niagara Falls or a way of life such as the Amish in Pennsylvania. Supporting attractions are those built around the core theme. In Niagara Falls, for example, the *Maid of the Mist* boat trip, which takes people to within yards of the bottom of the falls, and the museum of daredevils who attempted to go over the falls are examples of supporting attractions.

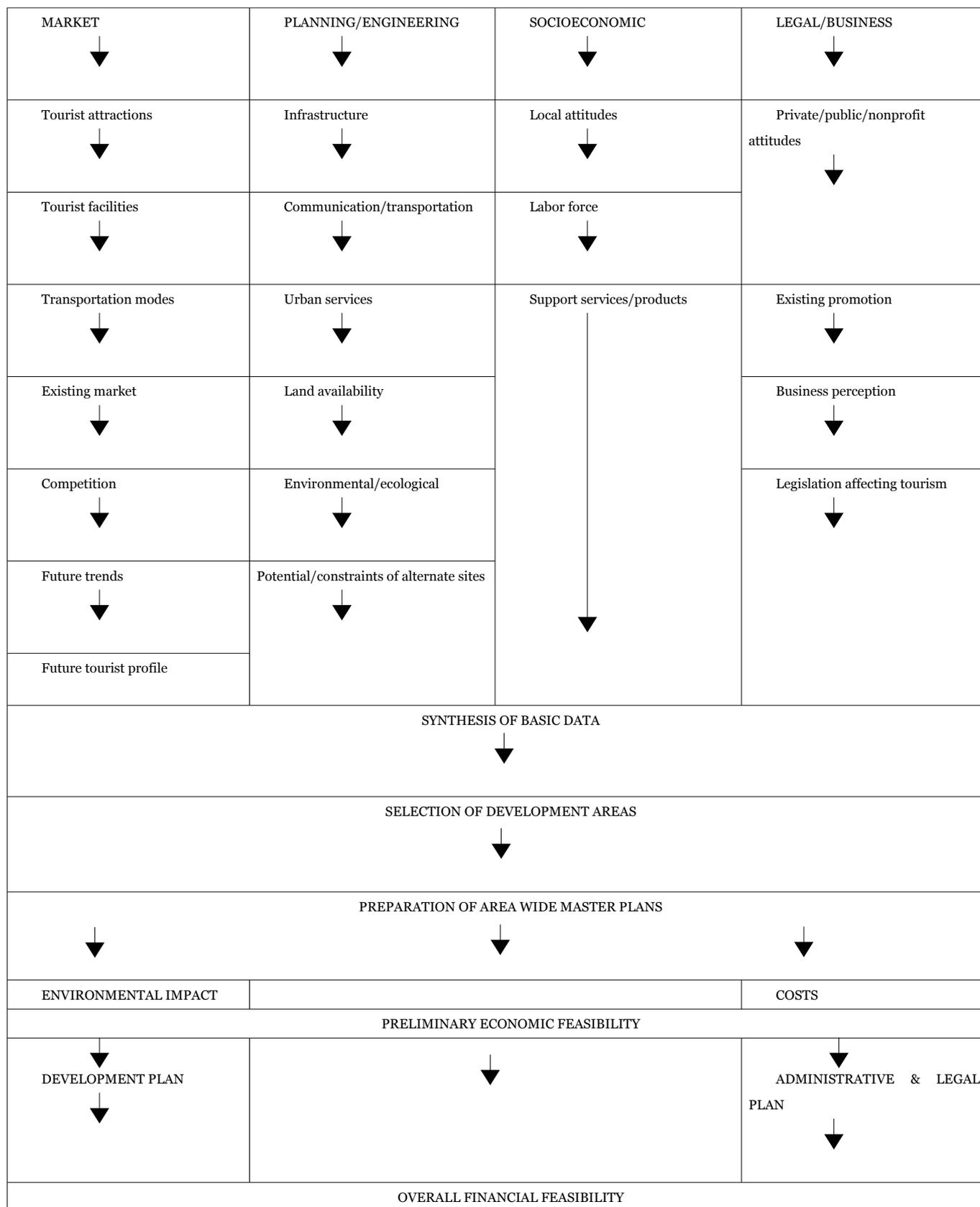


Exhibit 50: Steps in the development process. (Source: Adapted from *A Proposal to Prepare Feasibility Study of Tourism Development in Nicaragua*, Laventhol & Horwath, Leo A. Daly Company, and Osorio y Teran, 1975.)

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Sources of information. Information can be collected from several sources. These include:

- telephone directory
- chambers of commerce
- local historical societies
- area historian
- state tourist and travel offices
- people in the various tourist industries
- local elected officials and regional planning and development staff¹⁸

Collecting such information requires leadership from the appropriate national, state or provincial leadership and a coordinated effort throughout the region. At the local level this might be coordinated by representatives of the local chamber of commerce, people in businesses associated with tourism, or elected officials.

¹⁸ *Creating Economic Growth and Jobs Through Travel and Tourism* (Washington D.C.: U.S. Government Printing Office, 1981), P. 34.

| Natural, scenic, or environmental | Attraction currently exists | Area has potential to develop this attraction |
|---|------------------------------------|--|
| Beaches Botanical gardens Canyons and gorges Caves Cliffs Climate (low humidity, low rainfall, sunny, warm, etc.) Deserts Fall foliage Farms, ranches, dude ranches Fishing streams and lakes Forests Geysers Golf courses Islands Lakes Marinas Mountains Nature trails Oceans Orchards and vineyards Panoramic or picturesque views Parks: national, state, and local Picnic areas Playgrounds with equipment Rivers Sand dunes Ski slopes Springs Swamps Unique geologic formations Valleys Volcanoes Waterfalls Wildlife sanctuaries | | |
| Man-made attractions | | |
| Airports Amusement parks Antique shops Arenas Art galleries Ball parks Beauty spas Big-name entertainers Bridges | | |

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| | | |
|---|--|--|
| <p> Campgrounds or trailer parks Candles Children's parks Churches Covered bridges Craft shops Dams and power stations Fish hatcheries Ferry boats Gambling casinos Government buildings Handcraft and homecraft industries Harbors Health resorts Large city attractions Libraries Local industrial plants Lumber camps Military installations Night clubs Nuclear reactors Observation towers Planetariums Rest stations Roadside parks Ships Shopping centers Showboats Souvenir and curio shops Stage shows Swimming pools Telescopes Theaters Universities and colleges Unusual buildings Unusual restaurants Wharfs Windmills Zoos </p> | | |
| <p>Historical attractions</p> | | |
| <p> Battlefields Birthplaces of famous people Burial grounds Famous historical buildings Ghost towns Historic tours Landmarks Markers </p> | | |

| | | |
|---|--|--|
| <ul style="list-style-type: none"> Memorials Missions Monuments Museums Newsworthy places Old forts Pioneer churches Pioneer homes Reconstructed historical towns Re-enactment of historical events Ruins | | |
| Cultural and ethnic attractions | | |
| <ul style="list-style-type: none"> Antiquities Archeological sites Art galleries Ceremonial dances Conservatories Costumed events Early settlements Ethnic celebrations Exhibits Ghost towns Indian culture Indian reservations Mansions Museums Native folklore Prehistoric items Re-creations and restorations Special “nationality” days Trading centers Unique lifestyles | | |
| Recreational activities | | |
| <ul style="list-style-type: none"> Archery Beach combing Bird watching Boat rides Body surfing Bowling Camping Canoeing Fishing Fossil hunting Golf Hang gliding Hiking Horseback riding | | |

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| | | |
|---|--|--|
| <p>Hunting Ice skating Mountain climbing Nature trails Racing and regattas Rock hunting Sailing Scuba diving Skeet shooting Skiing Spelunking Swimming Tennis Trap shooting Water skiing</p> | | |
| <p>Special events (too numerous to list all possibilities)</p> | | |
| <p>Air shows Antique auto shows Arts and crafts classes Barbeques Barn dances Boy scout jamborees Country and folk music festivals Excursions Fairs Fishing Hayrides High school band days Hobby weekends Hog calling contests Holiday celebrations Home tours Jazz festivals Pageants Parades Photo contests Pie eating contests Plowing tractor contests Queen coronations Races: auto, motorcycle, horse Rodeos Shows: dog, cat, horse Sightseeing tours Tournaments: sports Turkey calling contests Turkey shoots</p> | | |

Source: University of Missouri, Tourism U.S.A., Volume II, Development: Assessing Your Product and the Market (Washington, D.C.: U.S. Government Printing Office, 1978), pp. 33-37.

Exhibit 51: Attractions checklist



Exhibit 52: Tabor, Czechoslovakia. An inventory of attractions is part of the market analysis. (Courtesy Cedok.)

Tabulating the data. Once data are collected, the information should be stored in some usable form. Data can serve as the basis for preparing a marketing plan, for determining the strength of the area attractions, and for identifying areas of weakness that must be attended to. One format for such a display is shown in Exhibit 53. Dividing the attractions into their various types can help determine what the core attraction of the destination is. The capacity together with the actual number of visitors will determine the need to expand. The price charged will give an indication of the market segment being served while a judgment of the quality will show where resources have to be improved.

Inventory of tourist facilities

An inventory similar to the one above would be prepared for tourist facilities and would include information on lodging, food and beverage outlets, and retail stores aimed at tourists. Information would be collected on the location, number of rooms or seats, amenities and services provided, and the markets served.

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| | |
|---|---------------|
| General Condition | needs improv. |
| | poor |
| | fair |
| | good |
| Should/Should not be expanded | |
| Services | |
| Admission Rate | other |
| | group |
| | child |
| | adult |
| Capacity Per Day | |
| | Man-made |
| | Recreational |
| | Historic |
| | Scenic |
| Name and Address Of Attraction | |
| <p><i>Source: University of Missouri, Tourism U.S.A., Volume II, Development. Assessing Your Product and the Market (Washington, D.C.: U.S. Government Printing Office, 1978), p. 41.</i></p> | |

Exhibit 53: Tabular inventory form for sample survey questionnaire

Transportation modes

Transportation to, from, and within the destination is covered in this section. For commercial carriers, the cost and frequency of service, cities served by direct connections, and future plans for service will be covered.

Existing market

The end product of this inventory is to answer the following questions:

- Whom do we attract?
- When do they visit and how far in advance do they decide?
- Where do they come from and how do they get here?
- Why do they visit?

Marketing is more art than science, yet one rule of thumb in marketing is to "attract people similar to those who already visit". A certain type of person already visits the area. By identifying the characteristics of existing visitors it is possible to identify similar target markets. By answering the question "Whom do we attract here?" in light of tourist trends it is possible to determine the most appropriate markets to approach.

Market segmentation. Because the travel market is made up of people who have diverse needs it is necessary to think in terms of different segments of the market. Market segmentation is the process of dividing a market into distinct groups who have relatively similar needs and developing separate marketing strategies for each one.

Demographic segmentation. Markets may be segmented demographically, geographically, psychographically, or on the basis of behavior. Demographic variables might be such factors as age, marital status, number and age of children, stage in the family life cycle, education, income, or occupation. Such a profile might determine that the visitors to a destination area are primarily between the ages of 25 and 35, married with children between the ages of 2 and 6. The parents have attended some college and are professionals with a family income of USD 20,000 to USD 30,000. Demographic variables have long been the basis for segmenting markets. However, in recent years, tourist markets have become more complex and demographics alone cannot explain tourist behavior. Many students, for example, journey to Europe. They may buy a Eurail pass and sleep on the train to avoid hotel costs as they take in the history and culture of foreign lands. On the basis of age and income, their travel to Europe could not be predicted.

Geographic segmentation. We have seen earlier that both travel distance and time impact on the decision to travel. Thus, it would appear that segmenting a market geographically would make sense. Target markets can be identified by means of a four-step process.¹⁹ In the first step, the attracting powers of the area's attractions are estimated. Attracting power is a measure of the amount of effort people will spend in getting to the area. Attracting power depends on the amount of time a visitor would have to spend seeing the attractions in the area and the degree of interest the individual has in these attractions. One way to do this is to classify the attractions of the area into those with local, state, regional, national or international appeal. The United States' Disney World, for example, has international appeal, whereas a weekly farmer's market might draw folks from 32-kilometer radius. A second method involves estimating the amount of time it takes the average person to visit the attractions of the area. The minimum measure of the area's attracting power is the time taken to see and enjoy the highlights of the destination. The total amount of time to see all or most of the attractions is the maximum measure of the

¹⁹ *Tourism U.S.A.*, Volume II, Development: Assessing Your Product and the Market (Washington D.C.: U.S. Government Printing Office, 1978), pp. 42-43, 46.

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destination's attracting power. It may be that these measures would vary by season. From these figures an estimate can be made as to whether or not visitors would take more, the same, or less time to travel to the area than to appreciate its attractions.

The second step in targeting a market geographically is to take the above estimates of attracting power and estimate the distance, travel time and travel expense for someone to drive or otherwise reach the destination. From this a radius of potential markets can be drawn with the area at the center.

The third step in this four-step process involves using a map. The maximum distance that people would be willing to travel is estimated and towns and cities within these boundaries are identified. It is important to consider also the tourists who might stop en route to another destination. An examination of tourist flows can uncover this data.

In the final step the potential competition for each geographic segment is identified. If it is determined, for example, that tourists from a particular city will drive up to 320 kilometers to vacation, then be sure to examine all other competing destinations up to 320 kilometers from the area. The destination area under development consideration can be compared to the others in terms of number and type of attractions. This may allow us to eliminate certain market segments because of the strength of the competition.

Time and money permitting, it is also possible to survey existing tourists as to where they come from in order to establish the attracting power of the area.



Exhibit 54: It is important to know your market. (Courtesy Hong Kong Tourist Association.)

Psychographic segmentation. While demographic segmentation divides the market into segments based on socioeconomic characteristics, psychographic segmentation divides tourists on the basis of personality. Segments are identified in terms of:

- Why does the tourist travel?
- What does the tourist like to do on vacation?

A demographic segment of the market can be thought of as a skeleton that provides the framework and shape of the visitors. Describing the segment in psychographic terms is like adding the flesh to the skeleton; it completes the features and makes the tourists recognizable.

Behavioral segmentation. Segmenting a market on the basis of the behavior of the visitors would cover such things as how they traveled to the area, how many were in the party, when the trip was taken, when the decision to travel was made, and how long the trip was.

Competition

It is vital that a realistic assessment be made of competing destinations in order to determine the future numbers of expected tourists. A competing destination is one that seeks to attract the same tourists as the destination under development. Ideally, each competing destination would be subjected to the same level of analysis as that being developed.

Future trends. A variety of secondary sources of information exist that identify changes in the marketplace. Many of these are listed in Appendix A. From documents that cover changes in the segments of the market being attracted, it can be seen which segments are growing, changing or declining. Appropriate changes can then be made in the forecast of future tourist numbers.

The end result of this will be a profile of the numbers and types of tourists expected in the future.

Planning and engineering analysis

The objective of this analysis is to study existing conditions in a number of potential sites and to collect, for these sites, information on factors and regulations that impact the development of these sites for tourism purposes. Areas covered include quality of infrastructure; prevailing government practices and regulations; and environmental and ecological conditions for each potential area.

Infrastructure

Information on the infrastructure covers such items as when it was originally installed, the reserve capacity of the system, programmed improvements for increasing the capacity of the system, or the programmed extension of the system to serve additional areas.

Communications and transportation. Visitors must be able to get to and from the destination. Even the enormously successful Disney World required an investment of USD 5 million by the state of Florida for access highways. As the nation's interstate highway system developed, many smaller communities that attracted tourists en route elsewhere lost that business. Some communities did not recover while others were able to develop attractions to lure people off the interstate. Asbury Park, New Jersey, was bypassed in the 1950s by the Garden State Parkway. The parkway allowed visitors quick access to better beaches farther south. The town of Asbury Park developed a new attraction (Grand Prix racing) as a way of getting people to visit. The same situation was faced by towns in Georgia that, for years, had captured visitors on their way to Florida. Interstate 95 bypassed them. Local people worked with state and federal authorities to develop codes for limited advertising along Interstate 95. Today, directional signs identifying travel service facilities, areas of scenic beauty, and public attractions are permitted. As a result, many travelers continue to stop there en route to Florida.

The principal areas for which information would be evaluated would include:

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- Roads: existing roads providing access to a given area or service within an area; number and width of lanes; paved or unpaved; planned extensions, widening or other improvements; extent and quality of parking; adequacy of signs.
- Airports: location and quality of existing airstrips and airfields; type of runway, lighted or not; accessibility of terminal to tourist areas.
- Ports and marinas: location, size, number of slips or berths; depth of channel; extent of marina facilities; accessibility to tourist areas.
- Telephone, telegraph, and postal service: availability and adequacy of telephone, telegraph and postal service; planned improvements or extension of service.

The interdependence of these facilities should be considered. For example, if an expansion is considered at the airport, there will also be increased ground traffic. How will this be handled? Will ground transportation and/or road capacity be increased? What will this do to street traffic?

When looking at transportation in and out of the region it is necessary to examine the time-zone preferences of the visitors. People generally prefer departure times convenient to their everyday schedules. In flying from the United States to Europe, it is common to leave in the evening and arrive early in the morning. On the other hand, it is not unusual for British visitors to many European resorts to have to check out of their hotel by midday and find something to do until their plane leaves early the next morning to return to Britain.

A major problem often is that, by improving the access to a destination, demand increases and the area loses its attractiveness to visitors. Destinations may be forced to limit or ban traffic from certain areas, even set speed limits or institute one-way scenic loops to keep traffic flowing.

Parking is another major problem related to congestion. Increased road traffic tends to force the elimination of parking places. On-street parking can be increased through such things as instituting one-way traffic or changing from parallel to angle parking. Parking can be handled in several ways.²⁰ It may be provided privately by the attraction, as in the case of major attractions where the cost is often included in the price of admission. For new businesses locating in low-density areas the community may require that attractions and facilities (through zoning and provision of business licenses) provide off-street parking on some ratio of spaces per room, per seat, or per square meter. Private lots may be set up by entrepreneurs. Visitors pay but local businesses often will stamp the customer's ticket if a purchase is made. The cost to the business is passed on to customers in higher prices. However, a problem occurs when the owner of the parking lot wants to turn the land into a more profitable use. This type of conversion can be deferred by placing low property assessments on land used for parking. Another way to handle parking is to provide public lots. The expense may be picked up by the community, or motorists may pay through parking fees or meters.

²⁰ Ibid, p. 77



Exhibit 55: Transportation can take many forms. (Courtesy Texas State Department of Highways and Public Transportation.)

Urban services. An inventory must be taken to ensure the adequacy of such support services as water, electricity, sewage collection and disposal, and the provision of police and fire protection.

Land availability

Development of tourist attractions and facilities obviously requires the availability of land. However, the question goes beyond the physical availability and into such areas as:

- Who owns the land?
- Are the owners willing to sell or allow development?
- Can foreigners own and develop land?
- How much does the land cost?

The situation can be illustrated by the ski industry in the United States. Approximately half of all privately operated ski areas are on federal land. To expand these areas further or to develop new areas requires the permission of the federal government.

Environmental and ecological aspects

Any major development will require some form of environmental impact statement. Oftentimes the success of a particular tourist area depends upon the quality of the physical environment. This may include such factors as sunshine, temperature, isolation, surf, snow, beaches, water, natural drainage or vegetation. The impact of development on the natural features of the environment must be considered as they relate to the planned use for each site.

Safari development in Africa has increased the close shadowing of lions by tourists. As a result, many kills are missed by the lions and lion cubs starve to death.

At this early stage of analysis it is appropriate to evaluate, in a preliminary fashion, the alternate sites. The dominant characteristics of each would be arranged, evaluated and graded on a matrix in order to allow an evaluation of their relative merits and limitations using the criteria noted above.

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Socioeconomic analysis

A socioeconomic analysis covers two areas: the local people and the support services and products.

Local people

An analysis of the residents of the area is important for three reasons. First, tourism will impact the lives of the area residents. There will be more visitors to the area; prices of certain items may increase; services may improve. The point is to determine the prevailing attitudes of people in the community toward the development of tourism. If there is an overwhelmingly negative attitude about the development of tourism, it may be unrealistic to plan for its increase. If partially negative attitudes emerge, it may suggest the need for an educational program on the benefits of tourism to the community.

A second reason considers the identification of numbers and types of people most likely to be interested in working in the tourism industries. In some instances, it has been necessary for countries to institute training sessions in order to upgrade the level of skills in the community as part of a tourism development program.

A third part of the analysis is concerned with the role of residents as part of the tourism "product". Often the hospitality of the local residents is a major attraction in itself. Local hospitality is well known, for example, in such places as Scotland, Ireland and Hawaii. How hospitable to visitors is the local population? Moreover, are local people aware of the potential attractions available in their community? The author recently asked a waitress in a restaurant in Aberdeen, Scotland: "What is there to do here for the afternoon?" The answer: "Go to Inverness" (a town some 95 kilometers away!). At the other extreme is Niagara Falls, Ontario. In the two months on either side of the summer tourist season, the Chamber of Commerce organizes visits by local groups to tourist attractions, Admission to the attractions is free to groups who make reservations through the chamber. As a result, local residents see why tourists visit their community. They develop civic pride. And when anyone comes into town and asks "What can I do here?" there is a ready answer.

Support services and products

Tourism requires many support systems such as food items, bedding, furniture, fixtures, etc. To maximize tourism's economic impact, backward linkages to other sectors of the economy should be encouraged. At this point it is important to determine the following:

- Are these support services and products available locally?
- If not, can they be developed locally?
- If not, can they be easily imported?

Business and legal analysis

The purpose of this section is to determine the need for changes in the legal and business environment for tourism development to be successful. This involves a study of the business and legal environments as they relate to tourism.

Business environment

The environment for tourism business is made up of private businesses, both tourism related and non-tourism related, the public sector, and the service and civic organizations in the community.



Exhibit 56: Tourists require many support services. (Courtesy Hong Kong Tourist Association.)

Information needs. Three types of information are needed:

- What are the attitudes of the private, public and civic sectors toward increased tourism?
- What is presently being done to promote tourism?
- What are the perceptions of the community regarding the existing economic impact and relative importance of tourism to the community?²¹

This information is vital to the development process. If organizations underestimate the present role of tourism it will affect their attitudes about the amount of effort they will put into future development. Equally, if increased development is perceived as a negative, the process of development will be slowed or stopped altogether. If the specific perceived problems of increased tourism are identified an action plan can be formulated to educate community residents if their perceptions are wrong or to ensure that problems in developing tourism are controlled. A survey of what is presently being done is necessary to determine what remains to be done. This information can be collected by means of a mail survey or through personal interviews.

Financial institutions. Of particular importance is the attitude of financial institutions toward tourism. The growth of tourism requires the availability of capital. If extensive development is envisioned, funding from outside the community may be necessary. This is a two-edged sword. On the one hand, financing is available. However, the price paid (apart from interest payments) is that control of the project is moved outside the community. Decisions are then made by those outside the community that affect those within the community. Thus, it is important to determine the extent to which the local banking community supports the growth of tourism, the extent to which it will lend financial and moral support to efforts to increase tourism, and the kinds of incentives it would give to expand tourism within the local area.

²¹ *Creating Economic Growth and Jobs Through Travel and Tourism*, p. 88.

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Financial incentives for tourism development include loans, loan guarantees, fiscal incentives and subsidies. Private banking institutions could be involved in giving loans. Many governments have also underwritten matching loans. The other incentives, if offered, would come from the public sector. A loan guarantee occurs when the host government co-signs or guarantees the loan. Fiscal incentives can take the form of reduced taxes on investments or income. This may also include such things as the relaxation or suspension of import or real estate taxes. In other cases, cash contributions, namely a subsidy, have been made to private businesses to encourage their development.

Such incentives should be made carefully and selectively. Too often communities have given financial incentives to businesses on the promise of future economic benefits to the community. But many times these benefits (jobs, taxes and revenue) did not materialize. Communities have to weigh carefully the up-front costs of incentives against the likely future benefits.

Legal environment

Government regulations in the US have increasingly affected all businesses, and tourism businesses are no exception. The objective here is to determine the extent to which government affects tourism development and to identify legislation that would hurt the development process. This analysis will serve to guide developers through the legal maze to the right agency, office or person to approach regarding regulations that affect the development under review. It will also point out to entrepreneurs the cost and risks involved in a developmental effort.

A framework for investigating the impact of the legal environment is suggested in Exhibit 55. This table identifies the basic categories of the legal environment that impact tourism development.

| Factor | Implication | Source of Information | Location | Method | Personnel |
|--|---|---|--|---|---|
| 1. Existence of agencies | Presence requires analysis of rules and regulations | Records of County Commissioners County official and residents | Courthouse City Hall | Examination of records Personal inquiry of individuals | Administrative Assistant County Commission City Manager, Clerk of County and President of County Commission |
| a. Planning Commission | | | | | |
| b. Parks and Recreation | | | | | |
| c. Transit Authority | | | | | |
| d. Health Department | | | | | |
| e. Airport Board | | | | | |
| f. Building Commission | | | | | |
| g. Sanitation | | | | | |
| h. Other | | | | | |
| 2. Environmental Protection | Preservation of the "environment" | State Code Environmental Protection Agency (EPA) | N/A | Examine written laws and rules and regulations of EPA | N/A |
| a. bird sanctuaries | | | | | |
| b. littering | | | | | |
| 3. Zoning laws and land use plans | Site selection | Planning Commission (Reports), USDA Soil Conservation (Maps), Chamber of Commerce (Proposals) | USDA Office Chamber of Commerce Courthouse | Personal Interviews Chamber of Commerce USDA, County Comm. Planning Comm. | Administrative Assistant Clerks of county and Director of Chamber of Commerce |
| a. building codes | | | | | |
| b. BZA | | | | | |
| 4. Sanitation | Protection of health | State Code Department of Health Local Health | State Capitol Local Health | Examine law Rules and regulations of State | Directors of health and sanitation locally |
| a. Dumping facilities | | | | | |
| b. Sewage systems | | | | | |

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|--|---|---|--------------------------------------|---|---|
| | | Office Sanitation Department | Office | Health Interview personnel of local agencies | |
| 5. Guests and Innkeepers | Safeguarding comfort and enjoyment | State statute Case law | N/A | Examine written law | None |
| 6. Transportation and Public | Availability of services | Public Service Commission Local utilities | State or Regional Utility Co. office | Written inquiry to Public Service Commission for rules and regulations. Interview of local utilities | Officers/Directors of local utilities |
| a. countywide or district | | | | | |
| b. private, public, quasi | | | | | |
| c. fire protection | | | | | |
| 7. Licenses and Permits | Availability of certain activities to visitors | State Code County Officials Alcoholic Beverage Board Health Department Rules and Regulations | State Courthouse | Examine statutes Interview clerks Rules and regulations | Clerk of County Commission |
| a. Fishing | | | | | |
| b. Hunting/game preserves | | | | | |
| c. Gambling | | | | | |
| d. Alcoholic beverages | | | | | |
| e. Food | | | | | |
| 8. Regulation of Attractions and Activities | Public protection; availability fosters tourism | State and Code Arts and Humanities Councils State and Local Historical Society Department of | N/A | Research Written inquiry to State Personal interview, local | Directors, Arts Councils, Historical Society, Recreation Department Personnel |
| a. art | | | | | |
| b. music | | | | | |
| c. waterways (boating and swimming) | | | | | |

| | | Recreation | | | |
|-----------------------------------|--|--|--|---|---|
| 9. Sunday closing laws | Tourism's weekend activity | Minutes of County Commission, Sheriff, Prosecuting Attorney | Courthouse | Examine record of certification of last local option vote: (Statistics) | Clerk Prosecuting Attorney Sheriff |
| 10. Advertising | Public education plus aesthetic values | State Code City ordinance County ordinance Department of Highways Local ordinances State Code | State Courthouse City Clerk's office | Examine written material | None |
| 11. Taxation-local | Encouraging or prohibitive | Local Ordinances State Code | Courthouse City Hall Assessor's office | Examine ordinances Interview of clerks and assessor | Clerks of City and County Assessor Assessor |
| 12. Wages and Compensation | Impact of development | State Department of Labor State Code | State Capitol | Written Inquiry Examination of statutes and rules and regulations | N/A |

Exhibit 57: Legal environment

Environment and land use. In recent years, controls by the US federal government on the quality of air and water have increased significantly. Appropriate permits are necessary if the quality of the environment may be put at risk. An example concerns campgrounds or recreation facilities located near lakes or streams. Under the federal Water Pollution Control Act anyone who discharges pollutants into navigable waters must obtain approval by means of a permit from the Environmental Protection Agency or the Army Corps of Engineers. Such a permit might be necessary during the building and/or operation of a facility centering around a body of water.

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Land use in many countries is controlled through a system of zoning. Zoning laws can require that certain areas be solely residential, can regulate the size and type of buildings or industry in an area, and can even specify the maximum size of buildings and the minimum space surrounding the building. Planning commissions, county commissions, or city councils generally govern the system of zoning in a community. Local government can be petitioned to alter zoning requirements.



Exhibit 58: (Courtesy California Chamber of Commerce.)

Both the National Park Service and the Heritage Conservation and Recreation Service of the US Department of the Interior can furnish information on the procedures necessary to designate specific buildings or sites as historic landmarks. Sites or buildings so designated will be protected against future development.

Public safety and health. Businesses that deal with the public have greater responsibilities than those that do not. Customers and visitors to the business are either licensees or invitees. Examples of licensees would be salespeople, people coming in out of the rain, or those taking a short cut through the property. The legal obligation to licensees is to warn people of any risks on the property. Additionally, the property owner cannot attempt to cause injury to the licensee.

Obligations toward invitees are greater. Invitees are those using the premises as a result of an apparent invitation. Customers fall into this category. The owner's duty to invitees is not only to warn the invitee of potential dangers but also to inspect the premises for potentially dangerous conditions and to take reasonable care to prevent harm to the invitee.

Enforcement is usually done at the state level. Restaurants, for example, must undergo health inspections that cover cleanliness, sanitation, lighting, plumbing and ventilation. Emergency exits and fire extinguishers are checked against the state fire code. Food-handler permits may be required from the state health department.

Transportation. Transportation companies are regulated by various federal agencies. Each state, in addition, has regulations regarding height, width and weight limits. State public service commissions are involved in regulating taxi and limousine companies.

Recreational activities. The law impacts on recreational activities in such things as liquor laws, gambling, and racing regulations as well as restrictions on various recreational pursuits such as hunting, fishing and boating.

State regulations typically control the legal age of an individual to be served alcohol, when alcohol can be served, and the presence or absence of gambling machines on the premises. Similarly, states regulate the type of betting or racing allowed in the community. It is difficult to change community laws enacted to "safeguard" the morals of the people. The type of tourism developed must be in accordance with local mores and customs.

Licenses for hunting and fishing are usually controlled at the state level. Temporary licenses are usually available for out-of-state visitors.

Taxation. The common forms of taxes are income tax, privilege tax, consumer sales tax, excise tax and licensing fees. Income tax is paid at the federal, state, and often the local level. Companies are, in addition, often taxed for the "privilege" of conducting business. Often called a business and occupation tax, this can be enacted at the state and local level. Most states have consumer sales taxes on various goods and services. There are usually exceptions to this tax, such as for food. Excise taxes are placed on items not considered essential to life, such as cigarettes and beer. Most businesses will have to have an annual license to conduct business. The business license must usually be displayed in a prominent place at each unit of business.

Business organization. Businesses may operate as a sole proprietorship, as a partnership, or as a corporation.

A sole proprietor exists when one person operates a business without incorporating it. Business taxes are paid as part of the owner's taxes. Business income is regarded as the individual's income and losses are treated the same way. The owner is liable for any debts of the business to the amount of his or her personal assets.

A partnership is similar except that it involves more than one person.

To incorporate, a business must obtain a charter and meet the requirements of the state in which it is incorporated. Business income, losses, and taxes are treated separately from that of the owners, who have limited liability for business debts.

Employment. When employees are hired, the business must adhere to regulations designed to protect the employee. Employees must be paid at least the minimum wage. If the employee works more than 40 hours a week, overtime must be paid at the rate of time and a half. (There are some limited exceptions to this rule including the requirement of 44 hours for employees of hotels, motels and restaurants.) Additional regulations aim to prevent employers from discriminating against employees on the basis of age, sex, race, color, religion, national origin or handicap.

Employers are expected to withhold taxes from employees' pay checks. They must also pay half the Social Security (Federal Insurance Contributions Act) tax of each employee. Workers' compensation mechanisms have been established as a no-fault method of compensating employees who are injured on the job. All employers pay into this fund based on the amount of hazard associated with each employee's job and the safety record of the employer.

Child labor laws must be obeyed. These place limits on the minimum age of and hours to be worked by young people. Generally, youngsters under the age of 16 cannot be employed without a special certificate, and restrictions are placed on the number of hours anyone under 18 can work.

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Exhibit 59: Many tourist operations are small businesses. (Courtesy Hong Kong Tourist Association.)

Employers have a responsibility to protect the safety and health of their employees in the workplace. The Occupational Safety and Health Administration (OSHA) regulates and inspects business premises to ensure that employees are not made to work in an unsafe environment.

Synthesis of basic data

In bringing together the information collected to date, two questions must be answered: Where are we? and Where do we want to be?

Where are we?

Position statements should be developed in the areas of development, marketing, industry organization, tourism awareness, and support services and activities. These statements should not be long and involved. An evaluation of "Where are we?" might indicate, for example, that: "Our destination area has traditionally relied upon the summer market; facilities and support infrastructure to attract and service tourists at other times of the year have not been developed; the market has evolved to where more people have the time and money to take off-season vacations; a number of potential sites are available that could attract such tourists; yet there is a lack of appreciation among community leaders for the role that tourism can play in the economic and social development of the community; this lack of appreciation manifests itself in legislation that often discourages tourism development."

| | | | | |
|---------------|-------|--|-------|-------------------------|
| Where are we? | ----- | Relative importance of objectives Relative stage of tourism | ----- | Where do we want to be? |
|---------------|-------|--|-------|-------------------------|

Exhibit 60: Synthesis of basic data

Where do we want to be?

A similar position statement would then be developed on: “Where do we want to be?” Such a statement would cover the areas mentioned above and would be related to working to solve the problems of the community while being realistic about the existing role of tourism. A region with chronic unemployment might stress the type of tourism that would produce large amounts of jobs while another with unbalanced regional growth would seek to develop tourism in those areas where the economy is weak. The point is that the answer to the question: “Where do we want to be?” should be related to solving the problems unique to that region.

Those in the region will have to determine to what extent they want tourism to:

- maximize the opportunity for tourism development to raise the level of the national and regional economy;
- maximize the opportunities for harmonious integration of tourism development with the local life style culture, and environment;
- maximize the opportunities for the creation of more jobs;
- maximize the opportunities for essential tourism infrastructure to improve the level of services for local people.²²

The position statement should realistically reflect where the region presently is in terms of tourism. It is pointless to develop a goal that has no chance of being met.

Selection of development areas

Based on the information collected, a tentative selection can be made of the most suitable areas for tourism development. The suitability of a tourist area is the likelihood that its development will contribute to meeting the needs of the region. Development areas selected will bridge the gap between where a destination area is and where it wants to be. At the same time the development process will be guided by the objectives deemed most important to the destination area itself.

Preparation of area-wide master plans

For each area in which tourism will be developed a master plan should be prepared. The plan will aim to meet the objectives deemed most appropriate for the region. Typically, such a plan will have a five-year horizon. It should be emphasized, however, that the plan, once drawn, is not carved in granite. It should be updated as circumstances dictate. In fact, the major benefit is not in the preparation of a final document, but rather in the process itself. When people get into the habit of looking several years ahead and in considering how development in one area affects the needs of the community then the benefits of planning are felt by all.

Elements

A master plan will have four elements to it. First, the land use element of the master plan will suggest appropriate uses for land within the region (agriculture, tourism development, marinas, industry, etc.). One important use may, in fact, be not to use the land. That is, for certain areas, a decision may be made to leave open space in the region. Second, the transportation element includes suggestions on roads, railroads, airports and harbor facilities. Finally, the supporting facilities and infrastructure elements of the plan identify the additional development required to service the expected influx of visitors and workers to the region.

²² Adapted from *A Proposal to Prepare a Feasibility Study of Tourism Development in Nicaragua*, Laventhol & Horwath, Leo A Daly Company and Osorio y Teran, 1975, p. 111-19.

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Land use. Land is probably the most important resource to be managed in a tourism development plan. Five elements are particularly important. First, the location is important in terms of accessibility of the site itself and proximity of accommodations to the attraction.

Second, the attractiveness of the view can either enhance the attraction or be the primary attraction for the visitor.

Third, the planned use of the area must be suitable to its environment. Many elements of the environment (sunshine, hills, isolation, etc.) are part and parcel of the tourism experience. Developing activities appropriate to the characteristics of the land will enhance the tourism experience for the visitor. This includes taking the terrain into account. Terrain affects such things as drainage in addition to the cost of excavation and construction.

Fourth, land must be available to be used. Consideration must be given to the cost, time, procedures, politics and public relations associated with the acquisition of land deemed important for development purposes.

Finally, the usable area of the land must be addressed. Planning should take into account not only the present-day development needs but also the availability of land for future development if expansion is necessary.

Transportation. The importance of transportation in tourism has been stressed several times in this text. It is important to think of traveling from the tourist's point of view: the trip from home, travel at and around the destination, and the return trip home. Of particular importance are the positioning of gateways for arrival and departure and the routing of ground transportation networks.

If tourists arrive at a destination after a long plane journey it is unlikely that they will want to, or be able to, travel great distances on the ground. Accommodation facilities must be developed close by. Ground transportation should, wherever possible, avoid doubling back on areas covered and should be routed away from destinations where tourism is not wanted.

For travel by automobile, the importance considerations include:

- comfortable, safe and attractive roads that avoid overcrowding;
- directional signs that are clear, large enough to be visible to the traveler, placed to give the driver time to react, and, where the visitors are foreign, use of universal picture-type signs to communicate;
- promotional signs that balance the need to attract and inform while avoiding unattractive signs that are a blight to the environment.

Taxis should be modern and the drivers able to speak at least a few words of the tourist's language. Strict control should be exerted over regulations regarding fares.

Buses should be appropriate not only to the segments of the market being attracted but also to the type of travel. If an area seeks to attract tourists to international-class hotels, buses used to transport the visitors should also be of this caliber. At the same time, different kinds of buses are needed depending on the use. Buses for city sightseeing trips should be designed for frequent stops, ease of entry and exit, and maximum passenger capacity. Luggage space is not important. Touring coaches, on the other hand, need to provide for passenger comfort, baggage facilities, and passenger amenities such as lavatories. Many European coaches offer videos and hostesses who serve drinks.



Exhibit 61: Safe, comfortable roads are an important part of the tourist destination.

(Courtesy New Zealand Tourist & Publicity Office.)

Rail transportation is ideal for many destinations and offers a relaxing way to reach an area. Of special importance are such things as transportation between the terminal and local hotels, the provision of sufficient baggage handling, customs and banking facilities if the terminal is a port of entry, and the provision of bus or taxi facilities sufficient to handle heavy arrival and departure loads.

Cruise ships have similar concerns. There must be ease of access from metropolitan areas at the departure points and proximity to attractions at the destination. Only a few parts of the destination will be affected by cruises such as shopping, attractions and local transportation.

A recurring transportation problem is that of transfer, from one mode to another or from transportation to hotel. There can be startling contrast when visitors arrive in a modern jet and stay in a modern hotel but must travel between the two, complete with baggage, by less than adequate means.

Supporting facilities: accommodation. There must be enough accommodation facilities of the right kind to appeal to the visitors being attracted. Ideally, facilities will be designed in accordance with the traditions and customs of the area. The more the local products can be incorporated into the design, the more money will stay in the area.

Accommodations also have to be tailored to the type of tourist. Facilities at a destination, as distinct from a pass-through, area will require larger rooms as guests will be staying longer. The quality of accommodation provided by the competition has also to be taken into account.

Accommodations are of many types. Hotels offer a number of facilities and generally have food and beverage service and may even offer such amenities as room service, laundry and valet service, and various shops or facilities such as auto rental and tour reservations.

Motor hotels are hotels with integrated parking facilities where guests park free of charge. They tend to range from 50 to 300 rooms.

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Motels offer room accommodations only. As a result, their room rates are less expensive. Motels are found primarily at roadside or heavy traffic areas in places that have a high volume of visitors who stay a short period of time.

Resort hotels are located to take advantage of natural or developed recreational attractions. Rooms are large and of high quality. Many amenities are offered as guests tend to stay longer; many resorts are in remote locations. Often a guest service director is appointed to organize an activities program.

Condominiums and apartment hotels have been developed to provide full apartment-type living facilities. Such properties appeal to families and small groups.

Other facilities might be recreational vehicle parks, campgrounds, pensions, or bed-and-breakfast homes, hostels, and even houseboats. The type of accommodation developed, as noted above, will depend upon the type of tourist being attracted.

Other support industries. Support industries are all the services, goods, or activities required by tourists. They tend to be highly fragmented. Examples of these businesses are:

- local or day tours
- art galleries
- night clubs
- recreational facilities
- handicraft studios
- festivals
- pharmacies
- retail shops
- restaurants
- museums
- movie theaters
- spectator sports
- laundries
- gas stations

Note that many of these examples are businesses that are used by both residents and tourists alike. In fact, the development of tourism may encourage the development of facilities that would not otherwise be available to residents.

Opportunities for support services fall into two areas: impulse or entertainment purchases, or staple items or requirements. The former is pleasure-related and includes such things as tours, festivals and museums. The latter is subsistence-related and includes such things as gas stations, pharmacies and restaurants. It is important that a certain amount of integration occur between both types. People attending a festival will require some place to eat, for example.

The number and type of facilities must be appropriate to the number and type of expected visitors. High-income tourists will wish to shop in high-quality stores. The type of retail store in Aspen, Colorado is much different from that at Coney Island in New York. Typically, facilities are clustered. Restaurants with different themes or retail stores selling different merchandise, when placed in close proximity, attract a mass of visitors because of the number of different facilities available.

The number, quality and type of support facilities can be controlled through two techniques: zoning and operating regulations enforced by law, and ownership control through the leasing of facilities to entrepreneurs. Many areas have had great success through controlling a large facility and leasing portions of it to individual entrepreneurs. In this way a particular theme can be established for the area. Control might be extended to such things as:

- height restrictions for buildings

- density of buildings
- green-belt requirements
- restrictions on the design of signs
- parking requirements
- architectural styles

To keep tourists in the area there must be something for the visitors to do. Through careful coordination by a number of individual small businesses, a major attraction may result that could increase the length of time visitors remain in the region.



Exhibit 62: Tourists love to shop. (Courtesy Hong Kong Tourist Association.)

A difficulty that many tourist areas have had to face is the tendency by many small entrepreneurs to take a short-term view of the business of tourism. For these business people the motivation is to maximize short-term profitability at the expense of long-term consequences. In a mind-set like this, tourists may be overcharged and costs cut to give less than adequate service. Someone has to look out for the interests of the tourist area. Depending upon the philosophy of the residents regarding individual rights, this can take the form of education, regulation, and/or enforcement; respectively, educating owners to take a longer view of their business and its impact on the region as a whole; regulating what they can and cannot do individually for the good of the whole; and enforcing the regulations in an evenhanded way.

Infrastructure. In developing the infrastructure for a tourist area the needs of the residents must be considered. Because of this, in addition to the high cost of infrastructure, the cost tends to be borne by the public sector.

A common problem in the development of tourist regions is that infrastructure is not properly provided. If done properly, infrastructure will not be noticed by the tourist. It is the lack of sufficient services that will be noticed.

At this stage in the project it will be necessary to bring in the expertise of engineers (largely civil engineers). A problem may be one of educating engineers to see things from the tourist's perspective. A highway engineer, for example, is primarily concerned with the most efficient means of moving people from point A to point B without regard to views from the road. Utility lines can be put underground (greater cost, more aesthetically pleasing) or strung on poles. The point is that a coordinated effort is necessary to develop services and utilities that enhance the area for tourists as well as being within the budget of the public sector.

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Some of the most common infrastructure concerns are outlined below.

Water. A typical resort requires 350 to 400 gallons of water per room per day. Large quantities of pure water must be available in a convenient and consistent manner.

Power and communications. Electric power and communications must be adequate and continuously in service. Peak-load requirements can be identified through forecasting, and systems designed to meet these needs.

Sewage and drainage. Drainage requirements within a typical tourism destination are approximately 1,800 gallons per day per acre of developed land.

Streets and highways. A basic question to be answered in the development of streets and highways is the extent to which tourist attractions and accommodations should be isolated from normal traffic-flow patterns.

Parks and recreation. In providing recreational space, the key is to find the right balance between use of the facility and preservation of the resource. Parks can provide excellent opportunities for residents and visitors to meet one another. In urban areas, an important concern is the mix between buildings and open space. It is vital that parks be designed to accommodate the uses to which they will be put.

Health-care facilities. Appropriate health-care facilities will depend upon the numbers, age groups, and expected activities of anticipated visitors in light of the geographic factors unique to the area. A greater than normal incidence of broken bones can be expected at ski areas, for example.

Education. Educational facilities will be required, not for the tourist, but for employees and local people. Workers may require training in skills necessary to serve the visitor, whereas educating the local people on the benefits of tourism to the area may be necessary to get local support for the development of tourism.

Employee housing. Where the tourist area is in a remote area it will be necessary to provide employee housing. It is preferable that such housing be located away from guest accommodations. Employees want to get away from their work when off-duty, while guests will not be pleased to have off-duty employees use the same facilities for which they have paid so much.

Security. Visitors must feel safe when on vacation. Local police officers should be aware that tourism often tends to bring an increase in certain types of crime (theft and prostitution, for example) and to plan accordingly.

Environmental impact

In any plan that considers development of a tourist region, the impact on the environment is particularly important. Because the environment itself is often the attracting force, care must be taken to ensure that development does not detract from that which attracted visitors in the first place. The environmental impact would include consideration of such factors as:

- alternative land uses precluded by tourism development;
- effect upon the area's resources such as water, prime agricultural land, beaches, etc.;
- effect of an influx of service personnel on such things as housing, water supply, sanitation, schools, recreation, etc.;
- effect of tourism development on local culture and life styles;
- effect on general public safety, health and welfare.²³

²³ Ibid, pp. III-23-III-24.

Costs

At this point a preliminary determination of likely costs can be made. This would include costs to both the private and the public sectors.

Economic feasibility

Based on projected costs and environmental impact an initial assessment of economic feasibility can be made. Analysis is predicated upon the anticipated investment and maintenance costs for both private and public sectors compared to estimates of revenues gained and jobs created.

If an initial assessment indicates that development should occur, two processes will result: a detailed development plan, and a supporting administrative and legal plan to ensure the success of the development. Both will be discussed in the sections that follow.



Exhibit 63: Recreational areas balance use and preservation. (Courtesy New Zealand Tourist & Publicity Office.)

Development plan

Clare Gunn has identified several principles of tourism planning to guide the development of any tourism project.²⁴

Clustering. As mentioned above, the clustering of facilities and attractions makes it more convenient for the traveler by avoiding the need to make many brief stops along the way. Clustering has also been shown to be more efficient in the provision of infrastructure. The per-unit cost of such things as water, waste and power is less with clustered facilities.

Attraction-services linkage. While minimal facilities (snack bars and rest rooms, for example) need to be provided at attraction sites, major clusters of services are better located at the nearest community. The exception would be at major attractions such as Disney World where full services are expected.

²⁴ Clare A. Gunn, *Tourism Planning* (New York: Crane, Russak & Company, Inc., 1979), pp. 307-317.

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Natural and cultural resource dependency. The basis for much of the success of a tourist attraction lies in the natural and cultural resources of the area. Each area is unique and, to maximize the development opportunity, the attraction should build upon, without destroying, the uniqueness of the resource.

Access. Access to and from attractions must be planned for as an integral part of the development. This is particularly important for linkage from the highway and air network to destination areas.

Population. For most tourist areas a relationship exists between visitation and distance. Tourist development is most successful when the attraction is within reasonable distance of major population areas. While there are exceptions such as activities highly oriented to place (for example, winter skiing), this rule tends to hold true.

Capacity. Attempts have been made to develop carrying capacity theories. The rationale is that a physical resource can handle a certain maximum number of people before the resource quality is diminished. Concerns over capacity are threefold: physical (not enough room), biological (overuse of fragile sites), and managerial (lack of staff or budget to cope with the number of tourists). It appears that the principle of capacity is elastic. That is, a site can handle an increase in visitors without a corresponding loss of quality experience if proper design and management practices are put into effect.

Cities. Cities are important to the development of tourism for several reasons. Cities are the prime location for services and facilities; they provide the destination for transportation modes; they are attractions themselves; and they contain "friends and relatives", a major motivation for tourist visits.

Social-developmental climate. As pointed out earlier, the attitude of the local population toward the development of tourism can mean the difference between success and failure.

Flexibility. The dynamics of tourism are constantly changing. New destinations become the "in place"; a shortage of fuel limits travel plans; changes in the value of the dollar make it less attractive to vacation abroad. This does not violate the idea of planning, which attempts to predict and develop alternatives for the future. It does mean that planning must be a continuous activity, constantly being updated to meet new conditions.



Exhibit 64: Madrid, Spain. Cities are important to the development of tourism. (Courtesy National Tourist Office of Spain.)

Types of tourism. For developmental purposes, tourism can be defined in terms of touring and destination tourism. Touring involves visiting several locations during the vacation period. There is a heavy reliance on the linkage between attractions, transportation, services, and facilities, and the traveler's need for information and

directions. Attractions are closely associated with the highway and are usually visited only once by the tourist. Activities tend to be more passive, and time constraints are of major concern. The vacation is a circuit rather than a point.

Destination tourism is more tightly self-contained geographically. Activities are often repeated and tend to be more physically demanding.

People. Destination areas must be designed and developed with the tourist in mind. As noted above, there must be a blend between "protection" of the area and the provision of creature comforts suitable to the type of tourist being attracted.

Heterogeneity. Tourism is place-oriented and all places are different. Destination areas cannot be treated the same. What may work for one will not necessarily work for another. Each region must be looked at individually in light of its opportunities and problems.

Facility operating and revenue projections

Within the overall development plan, feasibility studies will be performed for individual properties.

A typical objective is to provide enough rooms to accommodate 130 per cent of visitors while generating 70 per cent occupancy rate on an annual basis. The occupancy rate for a hotel is the number of rooms sold divided by the number of rooms available. For a 160-room property, an occupancy of 70 per cent means that 112 rooms (160 x 70 per cent) are occupied. Ideally, hotel room rates should be structured so that the property will break-even at 50 per cent occupancy. At the break-even point the property is not making a profit or a loss, it is holding its own. The break-even point is the point at which revenue generated is exactly equal to costs incurred. With fewer guests the property makes a loss; with more guests it makes a profit.

Typically, an accommodation facility has a relatively high percentage of fixed costs. Fixed costs do not vary as volume of business varies. The rent or mortgage must be paid irrespective of the number of guests who stay in the hotel; so must the manager's salary. These are examples of fixed costs. Certain costs, on the other hand, are variable (they vary as the volume of business varies). There are, for example, certain variable costs associated with the rooms department. Variable costs are those incurred in getting a room ready for occupancy by another guest. These would include:

- the cost of cleaning the room;
- the cost of supplies (soap, shampoo, etc.);
- the cost of laundering sheets and towels.

The relationship among fixed costs, variable costs and sales volume can be seen in Exhibit 54. A business with a high proportion of fixed costs tends to have a relatively high break-even point. However, once the break-even point is reached the only costs incurred are variable costs. The difference between revenue and costs is great. Hotels and other accommodation facilities place a great emphasis on getting in as much business as possible beyond the break-even point. If a property can achieve the breakeven point, it may be willing to discount rooms in the off-season because the revenue generated will still contribute to profit as long as the variable costs are being met.

Another way to think of the break-even point is as follows: Suppose a 160-room hotel incurs USD 1 million in fixed costs for the year; a room typically sells for USD 40 and the variable cost of that room is USD 5 (for cleaning, soap, laundry, etc.). What happens when the first room is sold? The guest pays USD 40. USD 5 goes toward getting the room ready for the next guest. The remaining USD 35 is call the contribution margin. It goes toward (or

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contributes to) paying off the fixed costs for the year. After the first room is sold the fixed costs remaining are USD 1 million minus USD 35 or USD 999,965. Every time a room is sold for USD 40, USD 5 gets the room ready for the next guest and USD 35 goes toward paying off the fixed costs. The fixed costs remaining after succeeding rooms have been sold are USD 999,930; USD 999,895; USD 999,860, and so on. Eventually, if the property gets enough guests the fixed costs will have been paid for the year. This would occur after 28,572 rooms have been sold (USD 1 million/35). At this point the hotel is breaking even. When the next guest comes in he or she pays USD 40. From that, USD 5 goes to get the room ready for the next guest. The remaining USD 35 is profit! Each additional sale adds USD 35 in profit to the operation. However, as long as the variable costs are being covered, we are adding profit. In fact, we could sell the room for USD 5.01 and still make a profit, albeit only 1 cent.



Exhibit 65: Hotels must know their break-even point. (Courtesy New Zealand Tourist & Publicity Office.)

This, however, is the rationale for selling rooms in the off-season or to groups at less than the regular rate. As long as the break-even point has been reached, rooms can be discounted and additions to profit will still occur. This should be done only if it is impossible to get the regular rate for the room.

What, then, is the break-even percentage for this hotel? The break-even percentage is the number of rooms needed to reach the break-even point divided by the number of rooms available. The number of rooms to break even is 28,572. The number of rooms available is 160 rooms times 365 days, or 58,400. The break-even point is 28,572 divided by 58,400 or 49 per cent.

Administrative and legal plan

Certain administrative functions are necessary to ensure that the development plan is carried out to its fullest potential. Such items would include:

- determining whether or not the proposed facilities are adequate to meet projected demand.
- establishing quality-control standards and means of determining whether or not they are being met.
- maintaining liaison and cooperation between the private and the public sectors.
- ensuring the protection and preservation of the quality of the environment.

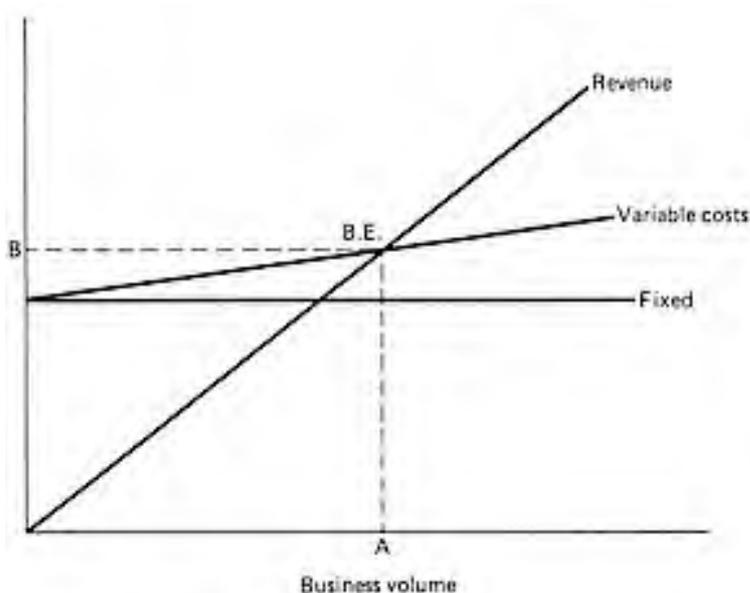


Exhibit 66: Break-even chart

- directing appropriate marketing efforts toward potential tourists. This would include a determination of the type of promotional campaign and selection of the channels of distribution that would most effectively market the destination to tourists, intermediaries in the channels of distribution, and investors. (The channel of distribution refers to the link between destination and the market. Intermediaries in the channel would be those businesses that act as conduits between destination and tourist, such as tour wholesalers, retail travel agents, etc.).
- coordinating ongoing research and analysis to support market research in both the private and public sectors.
- coordinating the various public-sector agencies that have some degree of involvement in, and responsibility for, tourism.
- determination of employee training needs. Tourism is a "people" business. The development of tourism requires those who can deliver service at a level expected by the tourist. In some cases this may mean the establishment of training centers at the destination to bring local skills up to the standard expected.

These and other points will be expanded upon in the following chapters.

Overall financial feasibility

A project is economically feasible if it provides a rate of return that is acceptable to the investors in the project. Most people favor time-value measures. The net-present-value and internal-rate-of-return techniques assume that money has a time value. A dollar received today is worth more than a dollar received a year from now, since the dollar received today can be reinvested to produce a higher overall return.

Cash flow projections provide a basis for determining the amount of money available in the future. Future flows of money are then discounted at assumed rates of return to give an overall estimate of the return on an investment.

Lenders want to know if the project will produce sufficient operating profits and cash flow to cover interest and principal payments when they become due.

Public officials are principally concerned with a project's impact on:

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- employment
- personal income
- living standards
- the balance of payments
- the physical environment
- the sociocultural environment
- tax revenue
- secondary demand for agricultural products and locally produced goods

If a project looks positive to investors, lenders, and those in the public sector, it will go forward. Organization at the local or community level will ensure its success. Managing tourism at the community level is, then, the subject of the next chapter.

Study questions

- Why is the involvement of the public sector important in the development of a large-scale tourism development project and what is its role?
- What are the steps in the tourism development process?
- What are the key questions that should be answered as a result of a market analysis?
- How can target markets be identified using geographic segmentation?
- List the ways that the development of parking can be accomplished.
- Why is an analysis of the residents of the proposed development area important?
- What information is necessary during the analysis of the business environment for tourism?
- What factor determines the suitability of an area for development?
- What are the four elements of a master plan?
- What factors are important regarding the parts of a master plan?

Discussion questions

- What roles should the private and public sectors play in the development of a tourism destination?
- What information must be collected to provide an estimate of the long-term flow of tourists to a destination?
- What role does a planning and engineering, socioeconomic, and legal and business analysis play in the development of a tourism development plan? What kinds of information must be collected as part of the process?
- Give examples of how collected data is synthesized into statements of where a destination is and where it wants to be.
- Identify the importance to tourism of the factors that are part of an area-wide master plan.
- Identify and give examples of the principles of tourism planning that can be used to guide the development of any tourism project.