

# **REPOSITIONING HAWAII'S VISITOR INDUSTRY PRODUCTS**

**DEVELOPMENT STRATEGIES FOR THE NEW TOURISM ENVIRONMENT**

**Prepared for the  
Department of Business, Economic Development & Tourism  
Hawaii Tourism Office  
State of Hawaii**

**by the**

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# PREFACE

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## Purpose

At the request of the Department of Business, Economic Development and Tourism (DBEDT), the School of Travel Industry Management (TIM) at the University of Hawaii at Manoa has prepared this report which reviews opportunities for the development of tourism products for Hawaii. The framework for this review is the State of Hawaii **1994 Strategic Tourism Plan** prepared by DBEDT's Hawaii Tourism Office (HTO) and the Tourism Marketing Council. As stated in its preface, the plan was intended to be a "living, working document for Hawaii's tourism industry" requiring "constant additions, updates, and refinement based on public input, new research and evaluation of past performance."

The purpose of the report is to:

- Assess Hawaii's tourism products relative to the changing needs of the visitor markets
- Identify issues which support or hinder development or reorientation of tourism products in the public and private sectors and within the community
- Recommend appropriate actions for the strategic management and use of public resources to facilitate the development and

marketing of Hawaii's tourism products.

In assessing Hawaii's tourism products, the major focus of this report is on those aspects of product development which include attractions, events, and activities. The services aspect of Hawaii's tourism product, as reflected in the need to maintain the high quality of Hawaiian hospitality and a skilled visitor industry workforce, will require more detailed study in the future.

## Report Preparation

The preparation of this report involved a review of studies, databases, and other materials related to tourism product development in Hawaii and elsewhere. The analysis was conducted by a project team consisting of TIM School Dean Chuck Y. Gee, Dr. George Ikeda, TIM School Director of Research and Training, Russell Uyeno, TIM School researcher, and Peter Leong, TIM School graduate research assistant. To gain additional information, the project team solicited input and recommendations through two other initiatives.

**Strategic Tourism Forum.** Information on potential tourism products was used as basis for panel discussions presented at a Strategic Tourism Forum sponsored by the School of TIM on October 15-16,

1998. Panelists and participants included industry experts and leaders from Hawaii, the U.S. Mainland and the Asia-Pacific region who were invited to generate ideas for revitalizing Hawaii's visitor industry. Forum participants assessed the current economic environment and its impact on tourism, analyzed tourism product development and marketing, and discussed strategic perspectives for Hawaii's visitor industry. Issues raised in the forum are included in this report, and a summary of the forum presentations is found in Appendix A.

**Survey of State Agencies.** A major objective of this report was the need to define the role of state government in the implementation and management of the product development process. To gain insight on DBEDT's counterparts in the U.S., a survey of state tourism agencies was conducted by the TIM School to assess the level of activity and involvement of these organizations in product development. The survey results are found in Appendix B and provide the basis for recommendations on the management of product development by the state government and the Hawaii Tourism Authority.

## **Report Organization**

This report is organized in sections which assess various factors affecting tourism product development in Hawaii. Each section discusses different aspects of the product

development process providing the basis for the recommendations. The sections are as follows:

- **Executive Summary and Recommendations** provides an overview of the findings of the report and the key strategies for future development of Hawaii's tourism products.
- **Keeping Pace with Changing Markets** updates information on geographical and special interest visitor markets to Hawaii and discusses the relationship between key market segments and tourism product development.
- **Reformulating Hawaii's Tourism Product** reviews Hawaii's product development efforts based on its comparative strengths, sources, and levels of demand for the products.
- **Restructuring Management for Product Development** analyzes the state government's role in planning, management, and implementation of product development.

One of the collateral objectives of this report is to provide input that will assist the Hawaii Tourism Authority in the implementation of its responsibilities for product development for Hawaii's visitor industry.

# EXECUTIVE SUMMARY

## Setting New Directions

Global tourism will enter the new millennium as a leading economic force as the number of international travelers increase from today's 613 million to over 1.6 billion by 2020. As Asian economies recover, Asia-Pacific regional travel is expected to resume its strong growth pattern of the last two decades. In the face of Hawaii's continuing economic stagnation, however, there is mounting concern over the visitor industry's ability to reposition itself in a highly competitive global tourism market.

The repositioning challenge is two-fold.

- **Marketing.** There is a need for both short-term marketing strategies to address Hawaii's current decline in tourism resulting from the Asian economic crisis and long-term strategies to diversify into new geographic and special market segments.
- **Product Development.** There is a need to devise strategies to address Hawaii's maturity as a destination and to develop tourism products

which match the changes in visitor markets.

This report focuses on the **product development** challenge in the repositioning process.

## Keeping Pace with Changing Visitor Markets

**Changing Markets.** Due to a sharp decline in eastbound visitors, little or no growth is expected in total visitor arrivals to Hawaii over the short term despite the recent increase in westbound traffic. While the eastbound market is expected to gradually recover, it is apparent that in a changing tourism environment, new marketing strategies are required if Hawaii is to remain competitive in existing markets and diversify into new markets. Potential targets include outbound travelers from Germany, United Kingdom, China, and Taiwan, and two growing demographic groups, the mature traveler and the family market.

Today's tourism market also reflects changing lifestyles, attitudes, values, and interests of visitors with specific, well-defined expectations. These increasingly sophisticated travelers

seek new experiences and purposes for travel based on their diverse interests and preferences. As travelers seek special purpose to their trips, Hawaii will need to match products with market segments and offer a wider range of activities related to adventure, culture and history, nature, education, sports, or business. Visitors interested in the generic Hawaii emphasizing the “sun and surf” beach attractions are likely to be outnumbered by visitors from new niche markets, and Hawaii will need to develop an appropriate product mix to maintain its growth in this complex marketplace.

Although tourism marketing has been and still is the primary focus of the state government’s efforts in tourism development, the emphasis of the Hawaii Visitors and Convention Bureau (HVCB) has been on mass marketing strategies aimed at the U.S. mainland and Japan, while marketing efforts for specialized tourism to date have been unfocused. It is clear that marketing alone will not sustain tourism growth in the long run, but a strong linkage between product development and marketing is still lacking.

**Mature Destination.** After thirty years of almost uninterrupted growth, Hawaii is no longer immune to the forces which have affected other successful destinations. Although its climate and beaches provide the core of Hawaii’s appeal, its tourism products (facilities, attractions, and services) have not kept pace with new beach resort destinations which have

developed elsewhere offering similar products and attractions. Hawaii has exhibited many of the characteristics of a mature destination having apparently reached a peak in the total number of visitors in the current decade with a heavy dependence on a repeater market. The visitor market has shown a steady decline in length of stay and expenditures, and greater marketing efforts have been required to maintain the overall level of visitors.

**Strengths and Constraints.** In the effort to better match markets with products, Hawaii has certain major strengths. It is generally considered environmentally clean and a wholesome destination for families, it has a friendly resident population imbued with a sense of Aloha, with a compatible, multi-ethnic environment for Asian visitors, and it has world renowned resorts, golf courses and other recreational facilities. Constraints include transportation access both in terms of availability of seat capacity and frequency of flights and its perception as an expensive destination. Although Hawaii’s prices are in line with value and quality of accommodations and services, competitors, particularly in Southeast Asia, can offer considerably more in buying power due to favorable exchange rates. While many of the constraints are common to other competitive destinations, it is also clear that Hawaii has been slow in exploring, developing, and promoting new tourism products that have become popular elsewhere.



## **Reformulating Hawaii's Tourism Product**

**Product Development.** To meet the changing demand, Hawaii will need to expand its product offerings, but in ways which would enhance its primary attributes. Each of Hawaii's islands has its own strengths, character, and identity and can draw on existing resources to develop more offerings. Using Hawaii's existing natural and cultural attractions may be a preferable strategy to developing costly, artificial attractions like mega-theme parks to attract visitors. State efforts to date have focused on:

- Health Tourism
- Ecotourism
- Cultural Tourism
- Sports Tourism
- Education Tourism
- Business Travel

**Rethinking Hawaii's Image.** To maintain its appeal to visitors, Hawaii will need to rethink its image, improve its product, and give visitors a better idea of the different experiences, events, and activities that it offers. The opportunity presents itself for each island to reflect on its tourism strengths or "soul," while presenting a multi-faceted image within shared common themes. Thus, Honolulu might be sold as a unique urban destination for business, education, entertainment, shopping, and culture, while natural attractions on the Neighbor Islands can be promoted all within unifying themes of Hawaii's

tropical climate, friendly multi-ethnic population, and healthful environment. Currently, however, there is no organized effort at thematic packaging which would promote a specific image or identity for most of the specialized types of tourism areas which are considered priorities by the **Strategic Tourism Plan**.

## **Restructuring Management for Product Development**

Because tourism product development has far-reaching impacts and requires substantial resources, leadership from the state government is needed to strengthen Hawaii's competitive efforts. Two basic elements are required – vision and management.

**Need for Vision.** A strong vision that defines what Hawaii wants to be in terms of a tourism destination is currently lacking for the industry. Without a vision of a sustainable competitive product accompanied by a strategic plan for product development, marketing efforts will be limited in their effectiveness. The need is for a clear vision from the top, expressed in terms of desired outcomes and target goals, with a well-defined direction and a coherent program.

**Need for Management.** The other critical element is a management structure to guide marketing and product development efforts to achieve successful repositioning. With major state emphasis placed on marketing, product development has often been

neglected. The overlapping responsibility for planning, research, product development, and marketing has also resulted in lack of leadership for the state's most important industry. The establishment of the Hawaii Tourism Authority (HTA) provides a more clearly focused role for state government in tourism management and a more effective structure for channeling public resources.

# RECOMMENDATIONS

## Realigning Strategies for Tourism Development

Given the constraints on product development efforts to date, it is clear the state government will need to take a major role in providing direction and seeking commitment. The establishment of a dedicated source of funding under the new Hawaii Tourism Authority (HTA) provides the industry a rare opportunity to address the issues in an innovative manner. Key areas for consideration include the following:

- A state tourism product development policy and plan
- Interagency coordination and cooperation with the private sector
- Funding and staffing support for product development

### ❖ **Formulating a Tourism Product Policy and Plan**

A tourism product development policy and plan consistent with the vision for tourism in Hawaii is the highest priority. It will require a comprehensive and integrated approach involving collaboration among key government agencies, the private sector, and community organizations. Key

government agencies within the state include the Department of Business, Economic Development & Tourism (DBEDT), the Department of Transportation (DOT), and the Department of Land and Natural Resources (DLNR) in collaboration with the county governments. In this effort, the public sector will need to take the lead role.

It is recommended that the Hawaii Tourism Authority:

- Reexamine product-related sections of the **1994 Strategic Tourism Plan** and the **1991 Tourism Functional Plan** as a basis for the development of a unified, comprehensive product development policy and plan.
- Develop a comprehensive inventory of existing products in conjunction with the plan as the basis for further product enhancement.
- Establish both short-range and long-range objectives with priority areas for implementation. Priorities should reflect funding commitments from both the public and private sectors.

- Establish a Product Development Committee or Task Force with members from relevant government agencies, the private sector, and the community to identify new product lines and monitor the product development process and provide assistance to the HTA in its product development responsibilities.

### ❖ **Providing Product Development Funding**

The limited public sector resources available to assist in improving existing tourism products or developing new product lines is a major barrier to repositioning and requires funding support for both projects and staff.

It is recommended that the Hawaii Tourism Authority:

- Continue to support and increase funding for seed grants to counties and community organizations to develop innovative projects by expanding the Hawaii Tourism Office's (HTO) Cultural Tourism Program to include other categories of attractions development consistent with objectives in the **Strategic Tourism Plan**.
- Develop funding incentives for beautification projects.
- Expand HTO's tourism product staff and functions. The primary responsibility for these staff

members would be to update and revise product development strategies and oversee their implementation. The staff members would act as tourism product liaisons with county economic development offices, the HTA's marketing contractor(s), the private sector, and the community. Other duties would include staffing a product development committee which would advise and provide assistance to the HTA.

### ❖ **Attracting Investment in Tourism**

The primary driving force behind any investment is the potential profit to be gained. New products need to compete for scarce capital which is normally channeled into activities which provide the highest returns with the least risk. Foremost in terms of priority is the need to encourage private investment by improving returns on capital and reducing capital costs.

It is recommended that the Hawaii Tourism Authority work with DBEDT to:

- Encourage state administrative and legislative consideration of measures to provide financial incentives to potential investors in tourism products including the following:

- Establishing tax credits for renovation of existing attractions
  - Reducing the corporate income tax or cutting the general excise tax for new enterprises
  - Offering property tax abatements
  - Floating bonds to finance projects
  - Providing loans to developers
  - Offering favorable state leases on public lands
- Encourage the use of capital improvement funding sources available through the public sector including federal grants and state and county government grants.
  - Encourage public sector initiatives to streamline the zoning and permits process and to provide infrastructure assistance such as better transportation access and systems.
  - Promote public-private sector alliances which combine public subsidies and private investment funds through public-private entities created specifically to receive these funds. Consideration should also be given to taking a profit-sharing position in development projects in return for favorable leases and a guaranteed minimum portion of income from attractions.
  - Encourage the development of a Business Improvement District (BID) for Waikiki which

empowers business and property owners to take responsibility for certain initiatives including supplemental safety and security, cleaning of beaches and sidewalks, monitoring of illegal peddling, and promotional activities.

### ❖ **Developing Unifying Themes for Products**

Hawaii's existing product mix continues to be at a disadvantage in marketing. Although areas of emphasis such as Health Tourism, Ecotourism, and Cultural Tourism have been identified, they have not been packaged in a manner which unifies these elements. Although some progress has been made in developing joint marketing programs, further work needs to be done to cluster attractions into thematic packages that give them stronger identity. For example, the promotion of Hawaii as a health state would benefit from a unifying theme that would tie recreational, sports, and fitness and wellness activities and events with a clearer identity and image. Similarly, Hawaii as an ecotourism destination would benefit from a unifying theme tying Hawaii's natural attractions on each island and the ecotourism and educational activities related to nature into one common marketing strategy.

It is recommended that the Hawaii Tourism Authority:

- Encourage the development of proposals to develop unifying themes and marketing strategies for Hawaii's specialized tourism products.

### ❖ **Developing Marketing Intelligence**

Markets around the world are changing and people's preferences for different kinds of experiences are developing at a rapid pace. For Hawaii, the shift is one from the sun-and-surf orientation of its traditional mass market to a market with diverse interests seeking new experiences. Hawaii will be entering the marketing segmentation process late. Other destinations have begun targeting marketing programs/campaigns to consumers who spend more or have distinct preferences. Promotion efforts need to be modified and targeted to reflect these new interests of travelers. Segmented markets will pose a challenge since target marketing to individual preferences and consumption patterns will be expensive and could dissipate available marketing funds over a number of smaller markets. However, it would appear that this has the best potential to tap new sources where Hawaii will be able to match its products with market interests.

Shifting the focus of tourism marketing to new geographic markets

and new market segments requires the development of marketing intelligence which has hitherto been unavailable. Product development requires marketing research which is based on better data and continuous monitoring. While research statistics and data gathering functions have been transferred from HVCB to DBEDT under Act 156 which established the Hawaii Tourism Authority, neither organization has been involved to any great extent in gathering marketing information to identify new market segments to assist in developing new product opportunities. The product development efforts for tourism as directed by the HTA will require more research on market segments from both DBEDT's Research and Economic Analysis Division and HVCB's market research division.

It is recommended that the Hawaii Tourism Authority:

- Undertake and adequately fund an ongoing program of research on market segments including psychographic data on lifestyles, attitudes, values and interests of Hawaii's visitors.
- Conduct competitor analyses on a regular basis. Without an ongoing monitoring and refinement of data, the positioning process with regard to competitive destinations will remain constrained.

## ❖ **Revising Marketing Strategies**

The many images Hawaii can project as a multi-faceted destination provide both an opportunity and a challenge. Each of Hawaii's islands has its own strengths, character, life cycle, identity and image. Maui has a strong image as an outstanding resort destination distinct from the rest of Hawaii. The Big Island and Kauai, are well positioned to appeal to the growing number of visitors seeking a more natural environment. Oahu has an opportunity to reposition Waikiki and Honolulu as a leading Pacific regional educational, cultural, entertainment, meeting and convention capital.

In particular, more efforts should be expended to promote Honolulu as an urban destination. In drawing the convention market, it is especially critical that Honolulu develop a "place identity" which goes beyond Waikiki and beaches. The city of Honolulu has the attributes for promoting a distinct business image that emphasizes its ability to compete as a world-class business center and highlights the city's urban and cultural characteristics. To convey a business image for Honolulu, it is important to emphasize cityscapes which show Honolulu's urban and cultural characteristics rather than beaches and ocean. The images should include urban-based activities such as shopping, entertainment, and

museums as part of the total visitor experience in Hawaii.

It is recommended that the Hawaii Tourism Authority:

- Promote new brand images for Honolulu and Oahu and each of the Neighbor Islands. The new brand images should be consistent with the products and supply attributes of the destination to provide a focused and meaningful experience for the visitor.

# KEEPING PACE WITH CHANGING VISITOR MARKETS

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## **The Changing Landscape of Hawaii's Visitor Industry**

Hawaii's visitor industry in 1998 is facing its most serious challenge to date. Already suffering from a sharp decline in eastbound visitors due to the Asian economic crisis, the industry could face some difficulties reflecting fluctuations in the U.S. stock market. A decline in consumer confidence in the U.S. economy could adversely affect the westbound visitor market that has so far helped bolster Hawaii's sagging visitor arrivals. While these economic factors are not expected to last for the long term, it is apparent that if Hawaii is to maintain its arrival numbers, it must undertake a reappraisal of its visitor markets.

Little or no growth is expected in visitor arrivals in the short term. In 1997, total visitor arrivals to Hawaii increased by only 0.7 percent over 1996 to a total of 6,876,140. The traditionally strong eastbound market fell by 1.0 percent while the westbound market grew by 1.8 percent, making up the shortfall. According to DBEDT, Hawaii's visitor arrivals are expected to grow only marginally by 1.0 percent in 1998 and thereafter, to increase slowly over the next two years.

In this changing tourism environment, repositioning will require a marketing strategy that remains competitive in existing markets and diversifies into new markets. This section reviews recent trends in major market areas which are likely to impact Hawaii.

## **Established Geographic Markets**

### *U.S. Mainland*

Spurred by a buoyant national economy, U.S. mainland visitor arrivals in 1997 grew by 2.3 percent over 1996 with 3,726,540 arrivals. California led with 1,262,570 visitors, accounting for 31.0 percent of the westbound market, followed by Washington with 248,520 visitors. The only other states supplying more than 100,000 visitors to Hawaii were Texas, Illinois and Oregon. New York has been providing approximately 100,000 visitors sporadically between 1988 and 1994 but not in the last few years. Among the top ten states generating visitors to Hawaii in 1997, only Colorado showed a significant increase of 18.0 percent over 1996 with 95,370 visitors.

In 1998, the westbound U.S. mainland market showed a 4.8 percent increase in visitor arrivals for the first seven months compared to



the same period in 1997. Significant increases in visitor arrivals were observed from Washington (+11.8 percent) and Texas (+18.4 percent). This increase has been attributed to the healthy U.S. economy, integrated marketing efforts of the HVCB and its partners, as well as new nonstop flights from Houston and Newark to Hawaii initiated by Continental Airlines.

### ***Japan***

Arrivals from Japan, Hawaii's second largest market after the U.S. mainland, remained almost unchanged (+0.1 percent) in 1997 over 1996 because of the weakening Japanese economy and unfavorable yen/dollar exchange rate. Although Hawaii's Japanese arrivals through July 1998 declined by 3.2 percent compared to the same period in 1997, this market is proving to be more resilient than the rest of the state's eastbound visitor markets. Figures indicate that Hawaii's market share of Japan's total outbound travel market remains relatively strong. For the first seven months of 1998, Hawaii's share of the outbound market increased to 12.9 percent from 12.3 percent for the same period in 1997.

### ***Other International***

Canadian visitor arrivals declined by 6.2 percent in 1997 due to the weak Canadian dollar relative to the U.S. dollar. The beginning of the Asian crisis was reflected in the flat or weak

performance of Hawaii's top Asian markets other than Japan including Korea (-4.3 percent) and Taiwan (-21.3 percent). For the first seven months of 1998, total visitor arrivals from the Asia-Pacific region, with the exception of Japan, dropped by 21.9 percent. Visitor arrivals from New Zealand posted an increase of 12.1 percent over 1996; however, traffic from Australia dropped by 12.2 percent.

Hawaii's European market fluctuated considerably in 1998. Visitor arrivals from the United Kingdom grew by 7.3 percent to regain its position as Hawaii's top European market. Arrivals from Germany dropped 11.8 percent compared to 1996 as the deutschmark depreciated by 15.0 percent relative to the U.S. dollar. France also showed a decline in 1997, ending the year 5.7 percent lower than 1996.

### **Alternative Geographic Markets**

There are opportunities for Hawaii to further develop other geographic visitor markets and limit the potential damage caused by the decline in Asian markets. Although problems of accessibility and cost exist because of the travel distances for European visitors, more attention could be shifted to attract a larger share of Western European outbound markets as well as emerging Asian markets. Attention could also be given to targeting regional markets in Japan other than the Tokyo and Osaka metropolitan areas.

## ***Germany***

Germans are considered to be the world's most enthusiastic travelers. They account for more than 27.0 percent of all European overseas trips. According to the Pacific Asia Travel Association's (PATA) *German Market Report*, although German outbound travel has decreased over the last few years, in the long run, the market still holds huge growth potential especially for the Pacific-Asia region. Despite Germany's current economic problems – high unemployment coupled with a relatively weak deutschmark – a total of 41 million Germans are expected to travel abroad in 1998. Moreover, a leading German tour operator, TUI, forecasts a 10.0 percent rise in travel to the Pacific-Asia region this year as well as in 1999 and 2000. Presently, Hawaii has only a 4.9 percent market share of the total German arrivals in the Pacific-Asia region.

## ***United Kingdom***

Based on the continued strength of the pound sterling, United Kingdom's outbound travel grew by 10.6 percent to 47 million in 1997. The growth rate for U.K. travel to the U.S. was dramatic in 1997, increasing by 14.6 percent to 3.7 million visitor arrivals. U.K. arrivals to Hawaii also grew last year (7.3 percent). According to the *Tourism Industries' Market Profile* report, California has a 21.9 percent market share of British arrivals to the

U.S in 1997 compared to Hawaii's 2.2 percent market share.

## ***China***

The Chinese outbound travel market has increased dramatically since 1990, the first year in which Chinese citizens were allowed to travel abroad for private or leisure purposes. In 1997, an estimated 5.3 million Chinese traveled overseas, representing a growth of about 8.7 percent over the previous year. In contrast to the drastic devaluation of East Asian currencies due to the Asian economic crisis, China's currency unit, the yuan, remains stable. According to the World Tourism Organization (WTO) forecast, China is expected to become the world's fourth most important tourism generating market by the year 2020.

In 1997, Hawaii received 31,320 Chinese visitors, an increase of 15.4 percent over 1996. Although this number is insignificant compared to the overall Chinese outbound travel market and relatively small compared to the Japanese market in Hawaii, the growth rate indicates its potential. For Hawaii to fully tap into the growing Chinese outbound market, the elimination or easing of some travel barriers by the U.S. government such as a comprehensive visa waiver program may be necessary. As an example, New Zealand, in its attempt to woo the Chinese tourist, has been officially designated as an approved destination for Chinese tour groups by the Chinese State Council,

thus facilitating the tourist flow from China.

### ***Taiwan***

Although travel from Taiwan to Hawaii decreased by 21.3 percent in 1997 compared with 1996, Taiwan is still a small but steady market for Hawaii. Despite the Asian economic crisis and the depreciation of the new Taiwan dollar, Taiwan has emerged as one of Asia's more resilient economies.

### ***Latin America***

For the U.S. as a whole, there has been significant growth in travel between the U.S. and Latin America. In 1997, visitor arrivals from Argentina increased by 22.0 percent. Brazil and Colombia also posted robust double-digit growth while Venezuela ended 1997 with a strong nine-percent increase over the previous year's level. According to the *Tourism Industries' International Travel and Forecast for the U.S.* report, South American arrivals will increase by almost 33.0 percent in 2001 with 3.8 million visitors to the U.S. Central American arrivals will grow by 25.0 percent with 703,000 visitors by 2001. With a combined total of over four million visitors, South and Central America are considered growth leaders for 2001. While no Latin American origin markets were among Hawaii's top foreign markets in 1997, they represent an untapped regional

market with possible potential for growth.

## **Trends in Visitor Characteristics**

### **Demographic Markets**

In addition to shifts in geographic markets, Hawaii is facing changes in global demographics. To attract new visitors, Hawaii must be able to adapt to the demographic factors affecting tourism worldwide that will also shape Hawaii's tourism market. For Hawaii, there are two key demographic trends which affect its competitive appeal.

### ***Mature Travelers***

Mature Americans aged 55 years and above accounted for 21.0 percent of the total U.S. population (53.7 million people) in 1993. By the year 2010, it is estimated that the mature market will account for one-quarter (25.0 percent) of the U.S. population (75 million). The rapidly growing numbers of mature consumers, combined with their financial ability and availability of leisure time, have made them a lucrative target market for most destinations. The trend is also evident in other major tourism origin markets including the European Union countries, Canada, and Japan where the proportion of the population aged 55 or over is increasing steadily and is projected to continue to do so for the next 50 years. Among Japanese overseas

travelers in 1997, there was a marked increase in the “silver market” or older Japanese visitors, especially among Japanese women aged 50 and above. In 1997, it is believed that international arrivals by mature travelers (aged 55 years and above) would have exceeded 100 million for the first time.

### ***Family Market***

Family vacations have become the hottest travel trend in the 1990s. The number of pleasure travelers with children grew from 73.2 million trips in 1987 to 109.1 million in 1997, an increase of 49.0 percent in ten years. Almost one-fourth of the trips taken in the U.S. during the first six months of 1998 included children. This represents a significant increase over the same period in 1997 where 19.0 percent of the trips included children. There is also a growing trend towards multigenerational travel or vacations that include members of the extended family, e.g., grandparents, aunts, uncles and other relatives. Similarly, family travel is also on the increase among Japanese travelers, especially mothers traveling with daughters.

### **Changing Lifestyles, Attitudes, Values, and Interests**

As the worldwide travel industry approaches the new millennium, the motivations of travelers have also been transformed significantly due to changing social values, and travel

patterns have evolved to reflect contemporary lifestyles. Key consumer trends have been reflected in new market segments which also have implications for the future visitor profile for Hawaii.

### **Shorter Vacations**

The *National Leisure Travel MONITOR* survey indicates that Americans are now burdened by time poverty. The majority of Americans (78 percent) feel a need to reduce their stress levels while 56.0 percent feel that they do not have enough time. Hence, Americans are now taking shorter vacations. More and more, Americans are taking short weekend trips (four nights) and 49.0 percent of U.S. travelers are unwilling to spend more than three hours traveling to a destination. Hawaii’s geographic isolation could make it more difficult to tap into the working U.S. market. In addition, with less available time, U.S. travelers are expecting more in terms of activities and attractions when traveling.

### **Travel Motivations**

Travel motivation trends show a tendency to seek vacations with a special purpose including adventure travel, cultural and historic travel, and nature-based travel.

**Adventure Travel.** A recent study conducted by the U.S. Travel Data Center found that 50.0 percent of adult Americans or 98 million have

taken an adventure vacation in the past five years. Among the adult population in the U.S., 46.0 percent were estimated to have taken soft adventure vacations (e.g., camping, bird watching), while 16.0 percent of the adult population have taken a hard adventure vacation (e.g., whitewater rafting, mountain biking.) Among the nearly 100 million adults who had not taken any adventure trips in the past five years, 28.0 percent indicated that they would be very or somewhat likely to do so in the next five years, indicating that the adventure market will grow in the near future.

**Cultural and Historic Travel.** In 1996, 53.6 million adults in the U.S. visited a museum or historical site and 33.0 million attended a cultural event like theater, arts, or music festival. When combined, 65.9 million or one-third of U.S. adults reported taking either a historic trip, a cultural trip or both.

**Nature-based Travel.** Increased environmental awareness among travelers has resulted in an increase in nature-related travel and ecotourism. A majority of travelers (83.0 percent) have a preference for supporting “green” travel companies and are willing to spend 6.2 percent more for environmental-friendly travel services and products.

**Romantic Get-aways.** Romantic vacations have grown in popularity with all American travelers, especially married couples. In 1997, 31.0

percent of adult Americans (61.8 million) reported having taken a romantic getaway. The average traveler took 2.5 romantic trips in the past year. The favorite type of romantic get-away involved visiting a city for dining and entertainment.

### **Other Specialized Markets**

**Travelers as Shoppers.** According to the Travel Industry Association of America (TIA), about 77.0 percent of all adults did some sort of shopping on vacation whether at a hotel gift shop or elsewhere, although only 3.0 percent say it was the primary reason for their trip. Significantly, the TIA survey showed that tourists spent four to ten times more than residents when they did shop, which is why shopping mall managers have increasingly sought out tourists, and special shopping and travel packages are now being promoted in some U.S. cities. Shopping malls have become major attractions for U.S. travelers, and 37.0 percent of all U.S. travelers were reported to have visited a discount outlet mall. One indication of the growing importance of shopping malls in the U.S. travel experience occurred when Opryland USA in Nashville, closed a profitable theme park in favor of building a shopping mall. Shopping has also been a popular activity of Japanese travelers. In 1997, the three most popular activities of Japanese travelers who traveled for tourism or a honeymoon were shopping (58.3 percent), visiting natural or scenic attractions (57.4 percent) and visiting

historic and cultural attractions (38.8 percent) according to the Japan Travel Bureau.

**Honeymoon Market.** Honeymooners have represented an attractive and growing market for many destinations including Hawaii which holds a strong position among its competitors. American honeymooners outspent the average U.S. traveler by more than three times, spending \$1,402 per trip compared to \$421 for all travelers in 1994. In 1997, honeymoon travel to Hawaii grew by 10.8 percent and accounted for 9.0 percent of total visitors in 1997. The eastbound honeymoon market increased by 18.9 percent over 1996, while the smaller westbound honeymoon market rose by 1.4 percent. According to research sponsored by the magazine *Modern Bride*, U.S. mainland couples spent approximately \$775 million a year on their weddings and honeymoon in Hawaii.

Hawaii has been particularly popular among Japanese honeymoon couples who contribute an estimated \$1 billion annually into the state's economy. Hawaii has consistently ranked among the top three honeymoon destinations for Japanese couples. The U.S. mainland had topped the honeymoon destination list in both spring and autumn of 1997, but in fall 1998, Hawaii regained its position as the most popular destination for Japanese couples. This was attributed to the growing trend of overseas weddings held in Hawaii due to the ease of

making last-minute wedding bookings and the availability of comprehensive and discounted travel packages for wedding guests.

## **Identifying Target Markets for Hawaii**

While expectations remain strong that a turnaround in the Asian economy will eventually revive growth in the eastbound market, it has been apparent since the 1980s that Hawaii cannot depend on maintaining its share in established markets without developing new markets or new market segments. The state's product development efforts are based on the premise that the best long-term potential for continued growth is in tapping new sources by matching Hawaii's products with market interests which go beyond the traditional beach resort visitor.

### **Health-related Travel**

Health tourism is still a relatively new sector of the travel industry. It has its origins in the spa holidays in countries such as Japan and Germany that have had a long tradition of spa going. While the term "health tourism" is generally associated with spa holidays, it also encompasses the broader areas of medical care, fitness and wellness, and rehabilitation and recuperation. It has been estimated that almost 35 million Americans will be over the age of 65 by the year 2000. Studies indicate that men and women in the 50- to 65-year age

group together with younger, health-conscious travelers form potential markets for health promotion, wellness, nutrition, and recreational products and services. Additionally, estimates show that there are 30 million people in the Asia-Pacific region, primarily in Japan, with individual incomes of U.S. \$40,000 or above who could afford a trip to the U.S. for health purposes. With its tourism strengths such as a favorable climate, natural beauty and resort accommodations along with the availability of high quality medical care, and fitness and wellness facilities, Hawaii would be able to attract the potentially high-yielding health tourism market.

### **Nature-based Travel**

Although information on Hawaii's potential ecotourism market is limited, global trends have been encouraging. Specific figures for ecotourism are not available, but the WTO estimates that nature tourism currently generates seven percent of all international travel expenditures. The World Resources Institute found that although tourism overall had been growing at an annual rate of 4.0 percent, nature travel has been increasing at an annual rate between 10.0 percent and 30.0 percent. In Hawaii, annual nature-based tourism expenditures were estimated at \$413.2 million in 1993, which represented about 4.8 percent of total visitor expenditures received in Hawaii.

There is a great deal of overlap between the adventure travel and the ecotourism market. According to the TIA's definition of soft and hard adventure activities, many adventure activities could also be defined as ecotourism activities such as bird watching or animal watching, camping, hiking, snorkeling and scuba diving, among others. Hawaii's unique flora, fauna, and culture make it a choice destination for both adventure travelers and ecotourists.

### **Cultural and Historical Travel**

According to the TIA, more than 65 million Americans reported having visited a historic site or museum, or attended a music, arts or other cultural event in 1996. Among U.S. adults, 27.0 percent (53.6 million) took at least one trip that included a visit to a historic place or museum, while 17.0 percent (33 million adults) attended a cultural event or festival in 1996. Among U.S. travelers, 19.0 percent said that historical activity was the primary reason for their trip, while 37.0 percent said cultural activity was their principal motivation. Hawaii ranked second only to Washington D.C. for the share of its domestic visitors who took in a historical or cultural activity during their stay. More than half of the travelers to Hawaii (53.0 percent) took advantage of Hawaii's history and culture during their visit. Because historical and cultural travelers tend to be traveling for pleasure rather than business, and

because Hawaii is an expensive destination to reach, they are higher on the economic income level making them an attractive market segment for destinations. Historical and cultural travelers tend to spend more than the average U.S. traveler (\$615 per trip compared to \$425 nationally) and stay longer, making them a good potential market for Hawaii.

### **Sports Travel**

In the past five years, 75.3 million (38.0 percent) U.S. adults attended an organized sports event, competition or tournament either as a spectator or a participant while on a trip of 50 miles or more, one-way, away from their homes. Of these sports event travelers, 70.0 percent (52.7 million adults) took their most recent sports trip in 1997. According to the TIA Travel Poll, baseball or softball was the most popular organized sports event to watch or participate in while traveling. This is followed by football, basketball and auto/truck racing. Hawaii's clean environment and favorable year-round climate make it an ideal location for many of these sports events.

### **Educational Travel**

While travel in general might very well be considered as educational because it broadens the mind, there is a specific category of travel that has education as the primary purpose of the trip, which is known as educational tourism. Language

learning is probably the most prevalent type of educational tourism. In 1996, international educational travel was estimated at 7.9 million trips with approximately \$6.4 billion in expenditures. Educational travel worldwide is expected to grow at 5.0 percent a year to 10 million trips in 2000. There are three emerging trends in educational tourism:

- The rapid growth of the world student population, which would expand the market for the standard educational trip such as a language learning trip.
- The demand for post-graduate and continuing education among adult travelers in countries that have good reputations in certain subject areas such as tourism courses in Switzerland, as well as educational travel for personal growth such as wine-tasting and culinary tours.
- The development of the new leisure-education hybrid such as the programs offered by the Disney Institute and "educational" theme cruises.

Hawaii's unique language and culture and its established universities make it an ideal candidate for educational tourism. Moreover, educational tourism can have a beneficial spin off in terms of visiting friends and relatives (VFR) travel. For example, parents often visit their children at their colleges.



## **Business Travel**

The 1996 *Survey of Business Travelers*, sponsored by Reed Travel Group and conducted by the TIA, reported a record number of U.S. adults (42.9 million) took at least one business trip in 1996. Although there were more American business travelers, they were taking fewer trips on average in 1996 than in 1994. The average number of trips per business traveler dropped to 5.3 trips per traveler in 1996. There were a total of 193 million business trips taken in 1996. The percentage of women business travelers increased slightly from 38.0 percent in 1994 to 40.0 percent in 1996. Currently, 60.0 percent of U.S. business travelers are men, and 40.0 percent are women. In addition, more American business travelers are bringing their families on their business trips. In 1997, 24.4 million business trips included a child compared to the 7.4 million business trips that included a child in 1987. This represents a large 230 percent increase over a ten-year period. Another survey of more than 5,250 business travelers worldwide, the 1997 OAG *Business Travel Lifestyle Survey*, reported that on the average, international business travelers make 21 trips a year and spend 37 nights in hotels away from home. The business travel market will become an important focus as Hawaii builds its convention business.

## **Constraints to Growth**

### **Evaluating Competitive Destinations**

According to the World Tourism Organization (WTO), the number of world travelers is anticipated to increase to 1.6 billion by the year 2020 from over 613 million in 1997. Hawaii is an international destination, competing with destinations all over the world for a share of the tourist business. The major competitive destinations for the U.S. mainland visitors are California, Florida, Nevada, Mexico and the Caribbean. Additionally, Hawaii competes with Australia, Guam, and the Northern Marianas for Asian visitors. Cruise lines, a distinct form of competition, draws on both domestic and international traveler traffic. Increasingly, however, domestic competitors like California and Nevada have also developed a growing international market which draws on the Asia-Pacific region.

In this environment, many of these destinations have started new initiatives to improve their competitiveness. These initiatives have been in both marketing and product development. It is well recognized that product development and market analysis are vitally related. Knowledge of the competitor's product is as important as marketing strategies. While Hawaii may benefit temporarily from crime and security problems, natural disasters (hurricanes, tsunami), and other problems

of competitive destinations, it must also compete with major theme parks (Walt Disney World) or attractions (gaming casinos) available in other destinations which are major draws. The following reviews recent initiatives of, as well as problems faced by, Hawaii's competitors.

### **Domestic Competitors**

**California.** In 1997, California's foreign visitor arrivals increased by 7.2 percent to 6,436,000, exceeding the overall national increase of 7.0 percent. New York, which posted a 9.8 percent growth, is the only other state which exceeded the 7.0 percent national increase in foreign visitor arrivals in 1997. A recent survey on the impact of the Asian economic crisis conducted by the California Division of Tourism showed that 75.0 percent of the respondents, which included travel companies handling high volume of Asian visitors, forecast an average decrease of 19.4 percent in Asian travelers to California in 1998.

The California Tourism Marketing Act, which took effect on January 1, 1996, established a self-assessment for California's travel industry to partially fund its statewide tourism marketing program. The plan calls for travel and tourism-related businesses that earn at least \$1 million annually, of which more than 8.0 percent of their gross revenue come from travel and tourism, to contribute \$450 per \$1 million of sales revenue to fund a general tourism marketing

program. The new money generated by the assessment will bring California's total marketing budget to \$12.3 million, advancing California's tourism budget from 24<sup>th</sup> to 12<sup>th</sup> in the U.S.

A new development which will affect both domestic and international visitors is the recently approved Proposition 5 which would expand the state's \$1.4 billion Indian gambling industry. Proposition 5 will allow the broad expansion of casino-style gaming on Indian lands statewide which is likely to compete with Las Vegas to some degree in attracting California residents and some international visitors.

**Florida.** In 1997, Florida received a total of 6,073,000 overseas visitors, an increase of 6.4 percent over 1996. Florida was second to California in terms of receiving the highest number of foreign visitors in 1997. The 1996 Florida legislative session approved a new private/public partnership between the Florida Commission on Tourism and the state of Florida, establishing a new organization, the Florida Tourism Marketing Corp (FTMC) doing business as VISIT FLORIDA. VISIT FLORIDA, which conducts the day-to-day operation of the state commission, is financed by \$20 million derived largely from revenues generated by a \$2.00 per day rental car surcharge.

Rapid development of theme parks and tourism-related businesses in central Florida has led to concerns of

an oversupply situation. Walt Disney World has opened its fourth theme park, the Animal Kingdom. Universal Studios will open its second Florida theme park, the \$1 billion Islands of Adventure in 1999, and Sea World is also considering building another park in Orlando. In addition, Orlando is planning for a second convention center that would have twice the floor space of the current convention center, and there will be 10,000 more hotel rooms in Orlando by the year 2000. In order to support all these new theme parks and tourism developments, central Florida is now seeking new ways of attracting more visitors.

**Nevada.** In 1997, visitor arrivals to Las Vegas grew by 2.8 percent to 30,464,635. It is projected that visitor arrivals will increase by 2.2 percent in 1998 to 31.1 million. The Las Vegas Convention and Visitors Authority (LVCVA) recently unveiled its plans to reposition Las Vegas as an entertainment resort destination aimed at the entire audience of leisure travelers. The 1998-99 repositioning initiatives will emphasize consumer advertising and promotion including print and television advertisements. In addition, the 1998-99 plan will concentrate on the international convention and corporate meetings market.

Las Vegas is facing the problem of hotel room oversupply. In 1997, the number of hotel rooms in Las Vegas grew by 11.0 percent while its visitor arrivals increased by only 3.0

percent. In addition to the new \$1.8 billion mega-resort, the Bellagio, which opened in October 1998, four other major mega-resorts, the Paris, Venetian, Mandalay Bay and the new Aladdin, will open in Las Vegas in the next two years. These five new hotels will add another 20,000 hotel rooms to the current room base of 106,000 rooms. The current surplus of hotel rooms has already led to widespread discounting of room rates and rate wars. The LVCVA has estimated that Las Vegas must attract an additional six million visitors annually to support the increase in hotel rooms, and it has been estimated that as many as 100 additional flights a day will be required to meet this visitor arrival target. To overcome the problem of low air seat capacity, a new Las Vegas-based air carrier, National Airlines, will begin operations in early 1999. The carrier, partly financed by Harrah's Entertainment Inc. and Rio Hotel & Casino Inc., will provide nonstop flights between Las Vegas and New York, Miami, Los Angeles and San Francisco.

### **International Competitors**

**Mexico.** Mexico with 19,351,000 international tourists was ranked eighth worldwide and second in North America in terms of visitor arrivals in 1997. This can be attributed to the increased economic stability of the country. Foreign investments in the tourism sector also increased due to investors' recovery of confidence. However, soaring

crime rates, recent violent events, natural disasters (e.g., Hurricane Pauline, floods) and the worsening smog in Mexico City have all contributed to the negative image of Mexico as a tourist destination in recent years.

**Caribbean.** In 1997, tourist arrivals in the Caribbean increased by 7.0 percent to 15,345,000 with Puerto Rico, Dominican Republic and the Bahamas as the main destinations. This has been due in part to the introduction of new air services to and within the Caribbean. As a result of the Open Skies Campaign, Puerto Rico now has two new weekly flights between San Juan and Buenos Aires on Aerolineas Argentinas. KLM-Royal Dutch Airlines began a twice-weekly San Juan to Amsterdam flight in October 1996. In addition, Air Jamaica began flying to Barbados in February 1997. A growing trend in tourism development in the Caribbean has been the increase in all-inclusive resorts which charge a single fixed price typically covering all food, drinks, and recreational activities such as SuperClubs, Breezes, and Sandals. Additionally, there have been new cooperative marketing campaigns and marketing initiatives by individual Caribbean destinations such as in Puerto Rico which has implemented the “Puerto Rico Now” promotional campaign and a “Dine Around Program.”

**Australia.** Because of the economic crisis in Asia, Australia is likely to lose substantial tourism from Asia in

the near term. In the first six months of 1998, the Asian arrivals to Australia have dropped by almost 25.0 percent. In addition, Australia is expected to lose its market share of long-haul tourists in 1998 who will take advantage of bargain prices due to the strong currency devaluations of other tourist destinations such as Thailand and Indonesia. In response, the Australian Tourist Commission (ATC) has increased its marketing focus on Europe and the U.S. while continuing to appeal to the Asian market and specific market segments less affected by the financial crisis. For example, the ATC is now trying to attract the more mature Japanese traveler instead of the previous emphasis on young, female office workers. In addition, the ATC is trying to develop emerging markets such as China, India and South America. Australia is now officially an “approved holiday destination” for Chinese travelers.

**Guam and the Commonwealth of the Northern Mariana Islands (CNMI).** Guam and the CNMI (Saipan), both heavily dependent on the Japanese market and the Korean market to a lesser degree, have suffered significant declines in visitor arrivals in 1998 despite new tourist product developments such as Tarza Waterpark, Ladera Towers, and Planet Hollywood in Guam. The Korean Airlines crash on August 6, 1997 in Guam and the subsequent cancellation of all Korean Airlines’ flights have adversely affected Guam’s reputation as a popular

destination. According to the Guam Visitors Bureau (GVB), visitor arrivals from Japan decreased by 15.0 percent in June 1998 and 16.0 percent in July 1998 compared to the same periods in 1997 due to the weak yen, low confidence in the Japanese economy, and competition from lower priced destinations. Additionally, the GVB anticipates its visitor arrivals to decrease further due to the suspension of many air flights between Guam and Japan by United Airlines, Northwest Airlines, All Nippon Airways and Japan Airlines. To counteract this drastic decline in visitor arrivals, the GVB will launch several marketing campaigns targeted at young working women, families, and senior citizens.

For the first six months of 1998, the number of Japanese traveling to the CNMI dropped by 13.0 percent when compared with the same period in 1997. The visitor industry in the CNMI is expected to lose an estimated \$40 million in revenue in 1998, compared with 1997 due to the Asian economic crisis. In response to this decline in visitor arrivals, the CNMI launched the "Visit the Marianas Year 1999" campaign in September 1998. In addition, Guam and the CNMI plan to collectively market the U.S. Micronesian islands as a single destination.

**Korea and Other South East Asian Countries.** The Asian currency devaluations that started in mid-1997 have led to new competitive destinations for Hawaii. Cheaper

currencies have made many Asian destinations very attractive for Hawaii's traditional international visitor markets. This has been especially true of Hawaii's mainstay Japanese tourists. Korea is now a major destination for Japanese visitors due to the devaluation of the Korean won. According to the Japanese Ministry of Justice, Korea's market share of the Japanese outbound travel rose from 7.5 percent in 1996 to 9.5 percent in 1997. For the first six months of 1998, the number of Japanese traveling to Korea increased by 16.5 percent compared to 1997. In addition, Thailand accounted for 4.3 percent of Japanese foreign travel, up from 3.9 percent in 1996. In contrast, Hawaii's market share of Japan outbound travel was relatively unchanged in 1997. The WTO predicts that tourists from all over the world will converge to Asia in 1998 due to the destination's bargain prices. As a result, the WTO has more than doubled its initial growth forecast of travel from Europe to Asia from 7.2 percent to 15.0 percent and from the Americas from 5.4 percent to 12.5 percent respectively.

### **Cruise Lines as Competitors**

In 1997, the North American cruise industry recorded an 8.6 percent increase in passengers, carrying a record 5.05 million cruise vacationers. Currently, the cruise industry is experiencing a construction boom resulting in newer and bigger passenger ships, with at least 25 new

ships scheduled for launching. In May 1998, Princess Cruises introduced the 2,600-passenger Grand Princess, the largest and most expensive cruise ship ever built. Disney Cruise Line, the newest cruise company, launched the 1,750-passenger Disney Magic on July 30, 1998. However, there are concerns that the cruise industry's overzealous investment of over \$6.5 billion in new ships could lead to an oversupply situation.

There is a trend towards cruise lines acquiring an increasing number of private islands, which offer a seamless package including shore excursions. Holland America has purchased the 2,400-acre uninhabited island of Little San Salvador in the Bahamas for \$6 million. It is reported that Royal Caribbean is considering buying another island, in addition to Labadie, a 260-acre enclave peninsula in Haiti, and Coco Cay, a 140-acre Bahamian island. Disney Cruise Line is also reported to have purchased a 1,000-acre Bahamian island.

A problem facing the cruise industry is the inability of older cruise ships (more than 20 years old), which make up 30 percent of today's fleet of cruise ships, to be profitable when fares have been deeply discounted. Today's large, new ships can compete with steeply discounted fares because they are more productive; requiring less crew, being fuel efficient, and offering economies of scale. In addition, the new Safety

of Life at Sea regulations would cost older cruise ships millions of dollars to bring them into compliance with the new stringent safety requirements.

The cruise industry has expanded steadily in Hawaii. In 1997, foreign cruise ships made 97 stops in Hawaii. In 1998, the number of port calls in Hawaii is expected to grow to 238, a 145-percent increase. Additionally, American Hawaii Cruises will be building the two largest passenger cruise ships ever constructed in the U.S. which are expected to begin service between 2002 and 2004. In the interim, it will acquire a foreign-built cruise ship that will begin sailing between the Hawaiian islands by late 1999. For Hawaii to position itself as a premier cruise destination, it would need to improve its cruise-ship facilities. According to a state consultant's preliminary report, Honolulu will need a new modern cruise terminal in order to accommodate the growing cruise industry in Hawaii. Passenger cruise facilities at Kahului and Lahaina harbors on Maui would also need to be upgraded.

### **Assessing the Impact of Air Transportation**

The geographic location of Hawaii in the middle of the Pacific Ocean and its dependence on tourism make airlift capacity an issue of prime importance for continued growth.

**Seat Capacity.** In 1997, the total scheduled nonstop capacity to Hawaii increased only slightly (+0.5 percent) to a total of 9,345,040 seats. While eastbound capacity rose 2.5 percent to 3,987,290 seats, scheduled westbound capacity shrank by 0.9 percent to 5,357,750 seats. While the growth in overall seat capacity (+0.5 percent) somewhat parallels the 0.7 percent increase in total visitor arrivals to Hawaii, the westbound and eastbound numbers do not align. Westbound visitor arrivals grew by 1.8 percent in 1997, while scheduled seat capacity dropped by 0.9 percent. Eastbound visitor arrivals decreased 1.0 percent on a 2.5 percent increase in seat capacity. A closer analysis of the numbers shows that the decrease in westbound seat capacity was due primarily to the reduction in seat capacity from Canada, while scheduled seats from the mainland U.S. remained unchanged. In the eastbound direction, an increasing number of seats from Japan, Korea and Taiwan offset reductions from Oceania (Australia and New Zealand).

**Asian Carriers.** The Asian economic crisis has adversely impacted the Asian airline industry, and many Asian airlines are struggling to maintain their profits or wavering on the brink of collapse. The effect of the turmoil in Asia's currency and equity markets on the region's carriers has negatively affected Hawaii's air seat capacity. In June 1998, Philippine Airlines suspended its flights to Honolulu causing

Hawaii to lose about 2,000 air seats per week. In October 1998, it was reported that Philippine Airlines would resume its full international flight operations, including flights to Hawaii, but its future is still uncertain. Earlier, Asiana Airlines suspended all services to Hawaii, and Korean Airlines has reduced its daily flights to five flights per week. However, not all of the effects have been negative in Hawaii and there is still strong travel demand. Japan Airlines (JAL), which has about 70 flights to Hawaii, has been able to maintain its overall number of flights with some adjustments to the composition of its flights to Oahu and the Neighbor Islands. Because the smaller cities in Japan have been less affected by Japan's economic downturn, JAL will begin weekly flight services between Niigata and Honolulu on December 19, 1998. In addition, All Nippon Airlines (ANA) launched direct twice-weekly flight service from Narita to Honolulu beginning October 4, 1998. ANA expanded this twice-weekly service to daily flights in late October, thereby increasing its weekly Japan to Hawaii seat capacity to 2,700.

**U.S. Carriers.** U.S. airlines, which are financially stronger, have capitalized on these events by expanding their service. The approval of Continental and Delta's 11 new weekly flights between Honolulu and Tokyo by the U.S. Department of Transportation in May 1998 is likely to increase the air seat capacity from Japan to Hawaii considerably.

Hawaiian Airlines has acquired two long-range DC-10-30 aircraft and will start four flights a week between Los Angeles and Maui and three flights a week on a Los Angeles-Maui-Kona-Los Angeles route in March 1999. However, U.S airlines have not been totally immune to the Asian crisis. In early 1998, Northwest Airlines (NW) dropped its weekly flight between Fukuoka and Honolulu and one of its two daily Osaka-Honolulu flights. United Airlines eliminated its daily Honolulu-Osaka flight on October 1 and effective November 1, NW suspended its Nagoya-Honolulu route.

### **Highlights from Strategic Tourism Forum**

It is apparent that there is a need to change the focus of tourism marketing to further develop existing markets and expand into new geographic markets and new market segments. However, HVCB's emphasis remains on mass marketing strategies aimed at two primary geographical markets, the U.S. mainland and Japan. The marketing efforts for specialized tourism to date have been unfocused with the exception of business travel with funds earmarked in the HVCB's budget to attract the convention, meetings, and incentive markets. In this expansion of markets, Hawaii will also need to reinvent its tourism products to meet the expectations of market interests that extend beyond the traditional "sun and surf" visitor.

This assessment was shared by a large number of panelists at the Strategic Tourism Forum whose recommendations included:

- Identifying and defining Hawaii's uniqueness and creatively packaging and marketing this image to stand out among Hawaii's competition.
- Concentrating on increasing yield rather than visitor arrival numbers.
- Building upon Hawaii's strong and positive core image while exploring new initiatives such as promoting Hawaii's unique arts and culture and Pacific Rim cuisine to complement this well-established traditional image.
- Building links with the rest of Polynesia and the South Pacific and positioning Hawaii as the gateway to these islands.
- Developing niche markets in ecotourism, adventure travel, and cultural tourism.
- Focusing on Asian markets other than Japan which are likely to grow once the Asian economy recovers.
- Targeting the mature traveler in the U.S. and the "silver market" in Japan for longer stays in Hawaii.



- Encouraging European charter flights which allow nonstop flights from Europe to Hawaii.
- Expanding market research to include psychographic and market segmentation.
- Building an integrated marketing system.
- Developing more strategic alliances and cooperative marketing programs.

# REFORMULATING HAWAII'S TOURISM PRODUCT

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## Expanding Tourism Products for Visitor Markets

Given the changes in tourism demand described in the previous section, the continued growth of Hawaii's visitor industry will depend on an increasingly segmented visitor market. A more extensive range of tourism products and services will be required to match these market segments to help attract new visitors, extend the length of stay of visitors, increase visitor expenditures, reduce imbalances caused by seasonal peaks and valleys, ease overcrowding of popular tourism resources, and provide alternatives to the value-conscious traveler.

As defined in the **1994 Strategic Tourism Plan**, a tourism **product** consists of both attractions and services aimed at visitors while **product development** refers to the activity that conceives, plans, or develops the product or service for visitors.

Tourism product development efforts have been guided by two major objectives laid out in the **Strategic Tourism Plan**:

1. Develop Hawaii as the world's most desirable visitor destination

with a unique and diverse range of facilities, services and activities that reflect the host Hawaiian culture and the multi-ethnic population of the islands.

2. Identify and develop new sustainable competitive products compatible with the host Hawaiian culture and the multi-ethnic population of Hawaii.

Based on these objectives, tourism product development has largely concentrated on promoting activities based on Hawaii's existing natural and cultural attractions and other resources to attract identified market segments. The focus has been on enhancing and packaging existing products or attractions to give them a clearer identity. Efforts have involved converting unknown or lesser known attractions into more viable tourism products through thematic packaging (ecotourism, cultural tourism, health tourism) or upgrading or rejuvenating existing products such as older hotel properties and resorts or destination areas like Waikiki. The product development process has also involved the development of new attractions such as the recently completed Hawaii Convention Center, shopping facilities, and proposals for theme parks.

Implementation has largely been determined by funding availability through either government or private sector sources with much of the state's time and effort devoted to **process** (i.e., gaining more industry involvement, promoting community awareness) rather than the development of the **product** itself (attractions, events, activities, services, transportation, tours).

As a visitor destination, Hawaii already has a strong base upon which to build an attractive product mix. The key areas targeted for development identified in the **Strategic Tourism Plan** have also been cited in Act 156, Session Laws of Hawaii 1998, which established the Hawaii Tourism Authority. Based on the market segments most likely to travel to Hawaii, the areas include:

- Health Tourism
- Ecotourism
- Cultural Tourism
- Sports Tourism
- Education Tourism
- Business Travel

The following sections examine the progress in product development in each of these areas.

## **Building on Existing Resources**

### **Health Tourism**

Considerable interest and activity was generated in health tourism as a

possible source of high-yield visitors to Hawaii as well as an export industry for the state, following the 1994 DBEDT-sponsored study *Opportunities for the Development of Health-Related Tourism in Hawaii*. The study identified two primary areas for product development:

- Health or medical care tourism - involving treatment of a medical condition through services provided by Hawaii's specialized health care facilities and professionals. Health medical care services were indicated as the likeliest source of long-term economic benefits, attracting an Asian market seeking quality medical services.
- Fitness and wellness tourism – covering health maintenance or preventive activities and programs involving exercise or nutrition, using resort or hotel facilities. This product would appeal to the large baby boomer market and other market segments attracted to sports and recreation tourism.

A joint public/private sector Health Tourism Task Force formed in 1996 under the auspices of the Governor's Office and staffed by DBEDT's Hawaii Tourism Office (HTO) identified ten projects at various stages of development as areas of focus including Mayo Clinic, Executive Check-up Packages, Fitness/Wellness Packages, Honolulu Marathon Fitness/Wellness Sessions, Hawaiian Onsens, Dialysis

Treatment, Substance Abuse Treatment Centers, International Clinics, Health-Related Meetings/Conferences, and ACTS Telemedicine Projects.

**Health Care Tourism.** In 1995, the state administration initiated efforts to interest national healthcare organizations with established worldwide reputations to develop a presence in Hawaii. As a result, the Mayo Clinic announced a joint venture with Queen's Medical Center in 1998 to provide diagnostic laboratory services to Hawaii and Pacific Rim nations. Queen's International also initiated a marketing program to promote the medical and surgical services of Queen's Medical Center in Japan and other parts of Asia. Other medical centers including Straub and Kuakini have also maintained cooperative programs with Japanese companies and hospitals.

Activities based on telemedicine and the dissemination of health care knowledge have also progressed as part of the health industry's export efforts. Although not directly related to tourism, these projects have helped enhance Hawaii's healthcare reputation regionally. In 1997, a \$400,000 federal grant was awarded to the Center for International Business and Research (CIBER) at the University of Hawaii's College of Business Administration and the Oahu Economic Development Board (OEDB). The grant was matched by \$1.7 million in private funds from Kaiser Permanente, Queen's

International, and the Healthcare Association of Hawaii and \$85,000 from DBEDT. The project will export health care services, management systems, and medical devices from Hawaii and other western states to Japan, Korea, China, Hong Kong and Taiwan.

Although the potential for medical care tourism still exists, it is apparent that a regional market seeking medical care in Hawaii has not materialized to any significant extent. Much of the demand assessment for this market segment was based on the expectation that the level of individual incomes in the Asia-Pacific region would continue to rise, comprising a strong market composed of those who could afford to come to the U.S. for health services. With the advent of the Asian economic crisis, however, the demand is unlikely to expand in the short term.

**Fitness and Wellness.** In the short and medium term, fitness and wellness tourism which builds on Hawaii's natural appeal as a health retreat and resort destination, is likely to attract a larger number of visitors given the growth of this market segment, especially in the U.S. mainland. There is also a considerable boom among Japanese in self-healing and other health-related practices in Japan which offers a potential market. Hotels and resorts on the Neighbor Islands have increasingly recognized the demand for fitness and wellness facilities and

have installed spas and fitness centers over the past decade. Health-oriented tours which promote five- to seven-night get-away packages are being marketed by a number of properties. In addition to exercise and pampering, offerings cover a wide range including meditation, yoga, stress reduction, nutrition, and holistic healing. The Big Island's effort to establish Waimea as a health care center incorporating native Hawaiian practices and native plants has served as a model on how Hawaii can differentiate its product from that of competing destinations in attracting this market segment.

**Hawaii, the Health State.** Although the concept of promoting Hawaii as the health state has been discussed extensively, there has been no concerted marketing or promotion effort which have attempted to tie the different product elements together in a unified theme for tourism purposes. This promotion could be particularly advantageous since it also would draw on related markets in sports and recreational tourism and adventure tourism.

### **Ecotourism and Nature-related Tourism**

The 1994 DBEDT-sponsored study *Ecotourism Opportunities for Hawaii's Visitor Industry* detailed Hawaii's potential as a destination for the nature-based travel market segment in general, and the ecotourism market in particular. Although ecotourism's contribution

to Hawaii's visitor industry was projected to be modest, its benefits as a means of diversification and achieving a sustainable tourism industry have made it an attractive consideration, especially for the Neighbor Islands.

More than most types of specialized tourism, ecotourism has faced a number of constraints including the need to control the size and impact of activities to prevent environmental harm from the overuse of natural resources. The planning and management of natural attraction features including park use, access to areas, and carrying capacity are critical to ecotourism. As a result, government has had to take the lead role to ensure responsible and beneficial development. Of the three levels of government involved (federal, state, county), the role of the state government has been primary because of its land use and environmental responsibilities, largely centered in the Department of Land and Natural Resources (DLNR). The DLNR has moved cautiously in opening up commercial tour operator access because of funding and staffing constraints which prevent it from handling any large surge in ecotourists. HTO has worked with the DLNR to develop guidelines for the regulation of ecotourism activities on public lands.

**Ecotour Operators.** In October, 1998, DLNR announced guidelines for a one-year pilot project for recreational and commercial use of

public hiking trails and to facilitate the development of ecotourism. The project establishes a permitting process for tour operators which regulates the use of trails and the number of groups and persons allowed. Tours will operate on weekdays from sunrise to sunset and cost operators a fee of \$3 per patron. Commercial operators will be required to carry liability insurance and have all required state and county permits and licenses. The fees paid to the state will assist DLNR in the management and upkeep of the trails.

**Eco-resorts.** Eco-lodges have recently been introduced on Molokai and an extensive eco-resort has been proposed for Oahu's North Shore which offer low-impact, environmentally-sensitive visitor accommodations as an alternative to beach resort hotels. Eco-resorts which use basic, comfortable structures in a natural setting and provide for an environmental or cultural experience have grown in popularity in other destinations including Caribbean and Central American locations. There is likely to be more development of eco-resorts as environmentally-conscious travel segments are expected to grow in the U.S. as well as globally.

**Related Attractions.** Because no official definition for ecotourism exists for the state of Hawaii, a number of nature-based recreational activities and attractions have also been promoted as ecotourism. Although other market segments

overlap with nature tourism and ecotourism such as adventure tourism and recreational tourism, many of the activities and products emphasize fitness, excitement, and the outdoors without the educational and interpretive dimensions in support of environmental and cultural protection. Similarly, nature-related facilities including zoos, botanical gardens, natural museums, aquariums, and commercially operated parks (Sea Life Park, Waimea Valley Park) and nature museums, while not ecotourism attractions under a strict definition, have been important complementary features to nature tourism.

**Hawaii Ecotourism Association.** The establishment of the Hawaii Ecotourism Association (HEA) in 1995 was a major step in developing working public and private alliances to promote ecotourism. The HEA currently has more than 120 members representing ecotourism businesses, government agencies, educational institutions, nonprofit groups and individuals. It is working with state government to become a certifying organization for tour operators and is developing a study manual and certification courses for tour guides.

**Promoting Ecotourism.** If ecotourism is to grow as a market segment for Hawaii, it will require continued assistance from government especially in terms of marketing. Because most ecotourism operators are small businesses with limited funding, marketing and promotion remain a

challenge. A new publication "Great Outdoors Adventures in Hawaii" which will be available to travel agents and bring awareness to Hawaii's ecotourism industry is forthcoming, but additional support is needed to promote an image of Hawaii as a viable ecotourism destination.

### **Cultural Tourism**

Cultural tourism covers a broad range of activities and products considered unique to a locale which provide a "sense of place" for visitors. For Hawaii, cultural tourism has two basic thrusts. The first category covers activities which preserve and promote native Hawaiian culture, the "Aloha" spirit, and other aspects of local culture. This is considered a high priority because it contributes to the uniqueness of the visitor's experience while in Hawaii. The second category includes the performing arts and cultural attractions which are non-Hawaiian and can be considered important secondary attractions.

**Cultural Tourism Program.** For visitors seeking a Hawaiian cultural experience, few alternatives exist beyond visits to the Polynesian Cultural Center, the Bishop Museum, or special events and festivals funded by both public and private sources such as the Aloha Festivals and the Merrie Monarch Festival. To encourage more activities centered on Hawaii's host culture, HTO's Cultural Tourism Program (CTP) has funded

projects to promote Hawaiian culture and multicultural activities through a competitive grant process available to groups and organizations in amounts ranging from \$10,000 to \$25,000. In 1998, \$340,000 was distributed among 16 organizations to promote cultural tourism including museums, theater, arts and crafts, film, and local festivals. The state funds were matched by \$1.3 million in private sector funding and in-kind contributions.

Through seed money grants, the program has supported community-based tourism projects including the first Waianae Coast Community Cultural Festival in 1997. Although festivals of this type are not generally recognized as tourism attractions, visitor attendance may likely grow in the future. The Waianae festival was repeated in 1998, and the experience has led to a \$200,000 grant from Hitachi Corporation to develop a community-based cultural tourism plan for the area. The project has the potential to become an important tourism attraction which will allow visitors to experience activities in a local community setting through events which extend over several weeks and involves community residents and organizations. It may also serve as a model for other community-based tourism projects.

**Museums.** A 1992 Hawaii Museums Association (HMA) survey indicated Hawaii's museums generally attracted a well-educated, affluent visitor who stayed longer and spent more than the

average visitor to Hawaii. The study concluded that museums could be considered a tourism asset since they increased the value of Hawaii's tourism product, could help state efforts to attract new visitors and extend visitor stays, and make an important contribution to the economic well-being of the state. The value of the historical/cultural visitor was further underscored by a 1997 study conducted by the School of Travel Industry Management for the HMA. The study showed that Hawaii's 94 museums and cultural attractions including art, history and science museums, historical sites, national and state parks, nature centers, botanical gardens, zoos, and aquariums attracted more than 20 million visitors, about 67 percent from out of state. As a reflection of the growing importance of tourists as patrons, the majority of museums (58 percent) belonged to at least one visitor association, nearly half belonged to the HVCB, and a number were developing programs for out-of-state visitors.

To expand the tourist market, the 1997 study suggested that HMA consider a common marketing strategy. To assist in this effort, HTO's Cultural Tourism Program funded a grant for \$25,000 to the HMA to develop brochures on museums and historic sites in 1998. The HMA also received two additional grants from the Institute of Museum and Library Services, an independent federal grant-making agency, to design and produce a

brochure for tourists listing and describing Hawaii's museums (\$43,214) and to develop a directory of Hawaii museums for use by visitor centers and travel agents (\$10,000).

**Performing Arts.** Another aspect of cultural tourism is entertainment offered through contemporary performing areas such as symphony, opera, drama, and dance which are primarily for the enjoyment of residents, although visitors often provide substantial supplementary support. Several Waikiki hotels have distributed schedules of events and developed cooperative efforts with the Honolulu Symphony, Honolulu Academy of Arts, and the Contemporary Museum whereby guests have been referred to events or given suggestions for cultural excursions.

**Special Events.** In the past, considerable sums of public funds have supported special events to attract visitors but with fewer public resources available, events like the Pan-Pacific Festival and the Honolulu Festival, sponsored and paid for wholly by Japanese tour wholesalers, Kintetsu International and Japan Travel Bureau respectively, show promise in drawing on special markets. Like the Honolulu Marathon which annually attracts the majority of participants from Japan, the festivals have attracted organizations from Japan interested in showcasing aspects of Japanese culture and arts abroad. By appealing to the Japanese people's interest in cultural festivals, the tour wholesalers



have packaged special festival tours for these participants from Japan. In the case of the Japanese festivals, the City and County of Honolulu and the state governments have not expended any public funds but have lent their endorsements and helped publicize the festivals.

### **Supporting Cultural Tourism.**

Packaging and marketing the existing products remain a challenge. Cultural tourism will require expanded marketing support in order to increase the number of visitors to the attractions. It will also require continued support for development through HTO's Cultural Tourism Program to provide seed funds for new projects.

### **Sports Tourism**

Sports tourism covers a wide range of products involving thematic packaging, facilities, attractions, and events all of which have been and are actively being promoted by the state. The area is an HTO priority and one staff position is devoted to the sports program. Objectives of the sports program include attracting visitors as participants and attendees at sporting events, supporting events with national and international television coverage, and developing Hawaii as a major sports center.

**Sports Events.** Sports events can be categorized in two broad areas, those which primarily attract spectators and those which are designed to attract participants. Major spectator events

in Hawaii like the Pro Bowl, Aloha Bowl, and Hula Bowl bring in out-of-state visitors who come for the game and a vacation. Events which are funded by the state either through legislative proviso or other appropriations are required to file economic impact reports on the benefits to Hawaii. The economic impact reports are based on quantifiable sources including expenditures of participants, broadcasters, and spectators who traveled to Hawaii to attend the event; the local cost incurred by the sponsor to produce the event; the costs of television and radio transmission; and the ticket purchases of residents and other visitors. The indirect impacts are also included using the State Input-Output (I-O) model.

Events which primarily involve participants include the Honolulu Marathon, the Big Island's Ironman Triathlon, the Kona billfish tournament, and golf tournaments. These sports events attract large numbers of participants as well as spectators from out of state. The beneficial economic impacts can be considerable for smaller communities, especially on the Neighbor Islands, as well as the state as a whole. For example, it was estimated that the 1998 Ironman World Triathlon in Kona would generate \$14.9 million in direct sales and \$26 million in total sales using the multiplier effect. The participants in the triathlon were expected to spend an average of \$1,187 on lodging alone, and about 25 percent would visit other islands.

On Kauai, the PGA Grand Slam was estimated to have a total impact of \$11.3 million in Kauai's economy in 1997. The tournament was estimated to bring about a 10 to 20 percent increase in tourism-related business to Kauai's south shore according to the Poipu Beach Resort Association. Taxpayer support through contributions from the state and county governments and the HVCB amounted to 15 percent of the \$2 million cost of the tournament.

**Sports Centers and Facilities.** Although most recreational facilities are built to cater to local residents, they can serve as important primary or secondary attractions for visitors and spectators as sports venues such as golf courses for championship tournaments, the Honolulu stadium for football, and the UH gym for volleyball or basketball tournaments. The new state-sponsored \$27 million Kapolei Sports Recreational Complex is an example of a resident-oriented facility which could also have tourism potential. The complex will include a Triple-A level baseball stadium expected to be completed by the year 2000 featuring a 4,000 seat stadium that can be expanded to 8,000 seats. It is hoped that the facility will attract professional Japanese baseball teams that will use the stadium for spring training. Since baseball is a popular spectator sport in Japan, it is expected that Japanese visitors will consider this an additional attraction during their stay in Hawaii.

**Recreation Tourism.** Closely related to sports tourism with overlapping market segments is recreation tourism which involves packaging an activity as the primary focus for a vacation. For Hawaii, these activities build on its natural environment and its reputation as a resort destination and include activities such as surfing, sports-fishing, diving, tennis, and golfing. Although there are no available HVCB data on the market segments, research conducted in other destinations indicates that recreation enthusiasts do focus on particular activities while on vacation and have considerable impact on local economies.

Golf tourism, for example, is a fast-growing market segment which travels for the express purpose of playing golf. In other warm weather destinations in the U.S., golfers are a sought-after market segment by vacation resorts. In the U.S. southeast, Florida has taken the lead in developing and promoting golf packages, followed by South Carolina, North Carolina, Virginia, Georgia, Mississippi, Alabama, and Louisiana. Traditionally, these states have targeted the northern U.S. states and Canada for marketing golf-vacation packages. When golfers were asked to rate the list of 25 products and services in terms of importance in selecting golf vacation packages in a 1995 U.S. survey, they ranked the cost of the package, climate, quality of golf experience, dependability of tee times, and the availability of suitable hotels and

restaurants as the most important considerations. The survey also indicated that golfers were highly focused tourists and that other attributes of a destination, e.g., gaming facilities or other attractions and general sightseeing, were not important considerations in the selection of golf packages.

### **Marketing Recreational Tourism.**

Golf Digest's recent survey shows Hawaii leads the nation as the best golf state and the state with the best golf service. HVCB's 1996 *Visitor Satisfaction Report* indicated 14 percent of visitors engaged in golfing during their visit to Hawaii statewide, but there is no indication whether this was the primary purpose of their vacation. While no marketing is aimed specifically at this segment except by individual resorts which promote golf packages, an overall promotion appealing to various market segments of recreational visitors would provide a stronger image of Hawaii as a recreational destination which offers more than water-related activities.

### **Education Tourism**

Hawaii as a learning destination offers a variety of courses and programs through its postsecondary institutions and other organizations. While Hawaii's colleges and universities have focused on attracting degree students from out-of-state including foreign countries, the potential for tourism is based on non-degree programs. Edutourism

emphasizes short-term classes which bring visitors to a destination primarily for a learning experience, while at the same time using visitor accommodations and patronizing attractions like other tourists. The true size of this market segment is not known, and it overlaps with visitors who also take trips for business, meetings and conferences, and cultural events.

The market segment includes young people up to 24 as well as adults seeking learning experiences. The older segments also include individuals in their 30s and 40s seeking to further qualifications through courses in business and other professional growth courses, people who are interested in learning during a holiday, and retired persons. Popular courses offered in Hawaii include:

- English as a second language
- International business
- Personal development
- Professional advancement training
- Travel and tourism
- Outdoor recreation
- Hobbies (e.g., cooking, wine-tasting)
- Hawaiian culture

**Economic Potential.** Although no extensive study has been conducted on this market segment in Hawaii, one estimate of the economic impact of 4,210 Elderhostel program participants in Hawaii for 1995-96 was \$5,089,800. The estimate was based on the participants' average

stay in Hawaii of 10 nights, tuition to the institution of \$465 and a multiplier effect factor of 1.6 representing direct and indirect impacts.

The economic potential of edutourism has not been lost on commercial operators. Cruise lines regularly offer voyages with an "educational theme" featuring lecturers aimed at mature, higher spending participants. Disney has also been experimenting with the concept promoting what is called "smart fun" at Walt Disney World. The Disney Institute which opened in February 1996 offered 40 programs including hobbies such as cooking, interior design, landscape gardening, and computer skills as part of a vacation package aimed at an upmarket niche charging \$499 per person for a minimum 3-night stay double occupancy.

**Promoting Edutourism.** Edutourism is the least marketed form of specialized tourism in Hawaii. Other than a multi-lingual (Japanese, Korean, Chinese) publication issued by DBEDT promoting Hawaii's educational offerings which is now out of print, there has been no cooperative effort to market edutourism. Marketing current offerings is performed individually by institutions or programs with limited circulation.

### **Business Travel**

Hawaii faces considerable challenges in attracting the business traveler

because of its well-established reputation as a leisure destination where business is not ordinarily conducted. While a long-range objective is to develop a stronger business image and increase the availability of infrastructure, skilled workforce, and high technology support for business operations, short- and medium-term efforts will concentrate on the meetings, convention, and incentive markets with the focus on the Hawaii Convention Center.

Nationally, the multiple segments involved in business travel are expected to increase annually. In 1998, U.S. business travelers to meetings are expected to be up 8.5 percent, conventions up 9.5 percent, and incentive travel up 25.0 percent. For Hawaii, incentive travel has been an important business segment since it can draw on its leisure image to attract company-paid vacations to resorts. Business travelers are known to spend more than the average tourist, and in 1996 the business segment in Hawaii represented 6.3 percent of all visitors accounting for \$1.13 billion or 10.6 percent of visitor spending.

The growth potential of the business market has created a keenly competitive environment among destinations eager to tap into the market. By 2008, exhibition space in the U.S. is expected to double, and Hawaii has some built-in disadvantages of distance and cost which may be difficult to offset despite its other

attributes. A 1995 study on destination images based on a survey of meeting planners of the Professional Convention Management Association ranked overall and attribute perceptions of 30 U.S. convention destinations including Honolulu. When respondents were asked to rank destinations based on 15 attributes, San Diego was ranked first with its main strengths listed as “city image,” “clean/attractive location” and “hotel service quality.” In contrast, Honolulu was ranked 16th with its major strengths listed as “clean/attractive location,” “city image,” “hotel room availability,” and “hotel service quality.” Honolulu's major weaknesses were all cost factors related to three variables: “food and lodging costs,” “transportation costs,” and “overall affordability.”

**The Marketing Challenge.** While cost considerations are likely to remain a barrier to attracting a larger share of convention business, HVCB is expected to spend about \$3 million to attract this market in 1998, representing the only specialized marketing effort which receives HVCB attention through earmarked funding. Marketing strategies will likely be based on Hawaii's abilities to offer opportunities for pre-and post-meeting vacations especially geared to the family market.

### **Role of Secondary Attractions**

Secondary attractions cover a wide range of products and services which may not serve as the primary

motivator for a visitor's choice to visit Hawaii, but can enhance the visit, contribute to the length of stay, and increase visitor expenditures. This effort has become more significant with the completion of the Hawaii Convention Center and the promotion of Hawaii as a meeting and business destination. Although convention visitors form a substantial market segment in itself, convention centers do not exist in isolation from the cities where they are located. Aside from the convention facilities and availability of hotel space, tourist appeal is a central consideration for meetings planners, and large cities with entertainment, cultural and commercial attractions remain the primary attraction for national and international conventions. Honolulu as a multi-faceted urban destination has particular attributes which can be featured including an international dining experience with its local and regional cuisine. Honolulu also offers a broad category of traditional and contemporary performing arts which are reinforced by its cultural attractions including museums. Other entertainment includes evening dinner shows showcasing local or international talent which provide additional attractions for convention goers.

**Shopping.** Although shopping may play a prominent role in the visitor's decision to go to Hong Kong, Paris, or New York, research done for the HVCB does not indicate shopping as a primary motivation for travel to Hawaii. The opportunity for Hawaii

to capitalize on shopping as a secondary attraction, however, is very strong. As both a secondary attraction and a service, shopping is a significant activity and tourism plays a major role in the retailing industry.

According to DBEDT, visitors spent \$4.1 billion in Hawaii's retail sector representing about 40 percent of all visitor expenditures in 1996. In 1994, visitors accounted for an estimated 24 percent of the \$17 billion in taxable and non-taxed retail sales. Although shopping is not a primary motivator for the Japanese visitor, Japanese rank Hawaii behind Hong Kong, France, and Italy as a preferred shopping destination ahead of New York, Singapore, United Kingdom, California, and Florida.

The variety of shopping experiences that Hawaii offers coupled with entertainment, cultural experiences, and traditional attractions of beaches and sightseeing can provide an attractive package for many tourists. Promotional efforts for shopping can also be tied more closely with general tourism events and cultural festivals. Ala Moana Center recently announced plans for a 12-acre expansion to include a new hotel, entertainment facilities, and additional retail space. This would also capitalize on its proximity to the Hawaii Convention Center and serve as an additional enhancement to attract convention goers. The Waikole Premium Outlets center has been packaged to appeal to Japanese tour groups reflecting a general trend

in the U.S. where shopping and travel packages based on mega-malls are increasingly being promoted in some U.S. cities.

**Public Sector Involvement.** While most of the development of shopping malls and outlets are private sector initiatives, current and planned physical developments will need to be coordinated with public services and infrastructure such as transportation systems which can serve visitors and residents. In some cases, financing infrastructure and zoning are issues which require public sector approval. For example, Victoria Ward's retail plans for Kakaako, will require state-funded extensions of Queen St. at an estimated cost of \$26 million to support anticipated traffic. The project will also require the buying from the city and closing off of portions of Auahi Street expansion project would also require a formal development permit from the Hawaii Community Development Authority (HCDA). In 1998, Victoria Ward unsuccessfully lobbied for legislative approval of a \$55 million state bond issue to construct a 4,500 stall parking garage, which was criticized by opponents because it would use public financing to benefit a private, for-profit landowner.

### **Rejuvenating Waikiki**

In terms of upgrading or rejuvenating existing products, Waikiki represents a special case requiring focused attention with respect to its declining ability to attract new markets, often

disappointing return visitors as well. Specific problems such as safety and security, prostitution, environmental cleanliness, handbill proliferation, lack of viable activities for visitors aside from shopping, and declining entertainment choices are often cited as reasons for Waikiki's loss of market share to the Neighbor Islands. Waikiki's problems are not only social or environmental in nature, but also physical, including deteriorating infrastructure and lack of architectural uniqueness.

The Waikiki Improvement Association is supporting the establishment of a Business Improvement District (BID), following the success of New York City in rejuvenating the Times Square area through fees from Times Square businesses. There are an estimated 1,000 business improvement districts in the U.S. The tentative plan is to designate Kalakaua Avenue as the BID with an assessment on area businesses possibly as a property surtax to provide services that the city or state are unable to provide.

The Special Design District Plan for Waikiki proposes a number of initiatives for beautification, safety and security and other measures for renewal which are already underway. Plans for long-range development are also proposed in the City and County of Honolulu's Primary Urban Center (PUC) Development Plan (DP). The PUC district roughly stretches from Waikiki west to Pearl City. Based on DBEDT projections, islandwide

visitor units are expected to rise from 36,000 units to 52,000 units by 2020, including 32 new 500-room hotels. Most (87.0 percent) of Oahu's existing 36,000 visitor units are located in Waikiki, and current policy calls for upgrading public facilities in Waikiki to improve quality for visitors and residents and encouraging hotels to upgrade facilities in order to attract higher spending visitors.

Two alternative growth policy scenarios which are being considered include one which would lift the visitor cap in Waikiki directing all new hotel growth and support in activities to be in Waikiki. It would establish a major public/private effort to upgrade facilities and infrastructure to accommodate growth. The alternative would encourage new hotels in the Ala Moana/Kakaako/Downtown corridor and permit a variety of different types of accommodations.

The improvement of Waikiki as Hawaii's primary gateway will require collaboration and cooperation from the state and city and county governments, private sector, and non-profit organizations with strong encouragement from the HTA.

## **Building New Attractions**

### **Constraints Facing Current Attractions**

**Declining Attendance.** Hawaii has a number of attractions including

theme parks oriented to ocean/marine, adventure, or local history and culture which offer a wide range of activities including shows, thrill rides, and shopping. However, for Oahu attractions in particular, declining attendance has reflected a maturing as a destination with fewer first-time visitors as well as product weakness in the attractions market. Attendance at Oahu's major attractions has declined between 1987 and 1997, and visitor spending has also decreased since 1992 despite increases in overall entertainment spending and total spending of visitors.

**Repeat Visitors.** Although first-time visitors to Hawaii are more likely to attend and participate in these attractions and activities, repeat visitors are less likely to do so. This is particularly true of U.S. mainland visitors, the majority of whom are repeaters. Expenditures for attractions among U.S. visitors are likely to decrease substantially with repeat visits. This is further reinforced by a trend among Japanese visitors who are now spending less. A third contributing factor which has affected attendance at Oahu attractions has been the large increase in visitors to the Neighbor Islands.

**Product Renewal.** The general downward trend in attendance has persisted in 1998, and gross revenue and attendance are expected to be lower in comparison to 1997. Some of the weaknesses cited for Hawaii's attractions include the cost, the

condition of older attractions many of which have no plans for renovation or expansion, and overcommercialization of attractions. Some of Oahu's existing theme parks are attempting to improve their product offerings through the addition of new rides, activities, traveling exhibitions, interactive exhibits, and entertainment features, but re-investment may be difficult in the face of current economic conditions.

A survey of attractions operators conducted in conjunction with the proposed aquarium in Kakaako indicated the outlook was not viewed positively, and many felt the industry would continue to weaken because of:

- High percentage of repeat visitors
- Lack of new attractions
- Reduced spending by visitors
- Shorter length of stay by visitors
- Other competition for visitors' time and money
- Increased competition among attractions

### **Prospects for New Attractions**

It would appear that the prospects for new and larger theme parks are not bright given the costs involved and the limitations of a critical mass of users. With its relatively small resident population base, Oahu cannot support a major theme park which would need to draw possibly two or three million visitors annually to justify the required investment. It



would be unlikely that tourists alone could sustain this level of attendance. Since Oahu has the largest population base, it is also unlikely that any theme park attractions would be built on the Neighbor Islands that would justify the size of the required investment. Nationally, theme parks have faced major problems in maintaining visitor levels brought on by increased competition, the dominance of the repeater domestic market, and declining expenditures. Although examples of successful theme parks such as Walt Disney World are often cited as reasons for creating them as attractions, predicting theme park attendance and potential market segments is difficult.

Despite the current market conditions, some new developments are underway or have been announced which may help the attraction market on Oahu in repositioning itself.

**U.S.S. Missouri.** An important addition to Hawaii's attractions is the refurbished U.S.S. Missouri which will open in January 1999. It is expected to attract 600,000 visitors in its first year, about half of what the Arizona Memorial now attracts. The attendance is projected to increase by 10 percent each year.

**Hawaiian Waters Adventure Park.** The construction of the Hawaiian Waters Adventure Park was initiated in October 1998, and it is expected to be completed in May 1999. The 30-acre site in Kapolei will include waterslides, a wave pool and a

variety of water-related activities. It will depend largely on Oahu residents for its use although 150,000 of the 400,000 projected users are expected to be tourists. It will charge \$20-30 for adults and \$10-20 for children with the typical visit lasting five to eight hours.

**World-class Aquarium.** The construction of a new world-class aquarium as the anchor of the Kakaako Makai Gateway Park on Oahu is currently under consideration as part of the plans for the Kakaako waterfront. A feasibility study conducted for the Hawaii Community Development Authority suggests such an attraction could draw between 600,000 and 900,000 visitors with a 775,000 annual attendance used as the basis for analysis. The predicted attendance is higher than the Honolulu Zoo which attracted 600,000 visitors or Sea Life Park which attracted 460,000 visitors in 1997.

The aquarium is expected to cost between \$36 million to \$60 million with a tentative planning estimate of \$48 million in 1998 prices exclusive of land and financing costs. Government subsidies would be necessary to support development and promotion although private funds of about \$15 million would be required as a basis for seeking loans to develop the aquarium.

Many attraction operators believe theme parks will not be able to survive without substantial support

from local residents. Some concern has been expressed whether a high-cost facility would charge admission fees which would discourage visitors as well as residents from patronizing the attraction. With a proposed admission charge of \$13 for nonresident adults and \$9 for resident adults, the Kakaako aquarium is expected to net \$3.5 million in annual receipts. A concern has also been raised as to whether Oahu can support another sea attraction without taking customers away from existing attractions. The proposed aquarium will operate as a nonprofit organization, replacing the existing Waikiki Aquarium and housing University of Hawaii research and other marine lab facilities on the seven-acre site.

Concerns have also been expressed over the extent of public subsidization of the costs of the new facility, but it is unlikely that private investment would be forthcoming for such an undertaking. A private \$45 million aquarium previously proposed for the Dole Cannery in Iwilei has not materialized, although a smaller, privately operated Maui Ocean Center opened in 1998 on a five-acre site at a cost of \$20 million. The Maui Ocean Center is aimed specifically at the visitor market, and it has attracted between 1,100-1,300 visitors per day in its first three months of operation. Local residents are anticipated to be a relatively small percentage of the total visitors to the center which is expected to attract about 20.0 percent of the visitor market on Maui.

## **Highlights from Strategic Tourism Forum**

It is generally recognized that Hawaii has a relatively good product mix as a basis for attracting new market segments. However, the linkage between product development and marketing is not strongly developed at present. Little attention has been focused on rethinking Hawaii's image and informing the visitor of the many different kinds of experiences Hawaii can offer. There has been no organized effort at thematic packaging which would promote a specific image or identity for most of the specialized tourism areas reviewed in this section, and more effort and funding need to be expended to facilitate product development to remain competitive.

These factors were also identified by panelists in the Strategic Tourism Forum whose recommendations included:

- Developing creative tour packages that incorporate outdoor activities, self-healing and health treatments, Hawaiian culture, educational programs, and shopping to appeal to distinct market segments.
- Hosting more high-profile sports events such as the Superbowl and X-Games with the long-term view of attracting both competitors and spectators to form the basis for future visitors to Hawaii.

- Strengthening and promoting Hawaii's business image to attract the new convention and business market.
- Promoting Hawaii's cultural and performing arts as part of the offerings available to visitors.
- Revitalizing Waikiki as integral to enhancing Hawaii's visitor product.
- Reviewing government land-use, regulations, and permit processes to facilitate product development.

# RESTRUCTURING MANAGEMENT FOR PRODUCT DEVELOPMENT

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Because tourism product development has far-reaching impacts and requires substantial resources, both a well-defined product development policy and product development plan are needed to strengthen Hawaii's competitive efforts. Two basic elements are required – **vision** and **management**.

**Vision Statement.** A strong vision that defines what Hawaii wants to be in terms of a tourism destination is currently lacking for the industry. The **Strategic Tourism Plan** contains six vision statements which offer broad guidelines. However, the vision still lacks focus in terms of shaping strategic thrusts and priorities for the industry. Moreover, the vision statements do not address a direction for product development in Hawaii. Without a vision of a sustainable competitive product accompanied by a strategic plan for product development which defines target groups and their needs, marketing efforts will be limited in their effectiveness in today's global tourism environment.

**Management Structure.** A management structure which will guide the process of product development is the other critical element which is required in order to achieve successful repositioning. The history of product development for Hawaii's

visitor industry to date reflects a disjointed effort between the public and private sector and the different organizations involved in tourism marketing, promotion, and research. HVCB has traditionally viewed itself as a destination marketing organization with planning, research, and product development playing a less important role. Moreover, HVCB's goals and objectives have tended to be short term with emphasis on producing immediate and measurable results. The HVCB's research activities have not involved market segmentation or competitor analyses on a regular basis. Without market segment data, the state's efforts at product analysis have continued to be based on general market information which has been inadequate for developing a better product mix to meet changing market preferences.

The establishment of the Hawaii Tourism Authority (HTA) provides a clearer focus for the role of state government in tourism management. Most importantly, the HTA's role in policy and planning will span both product development and marketing.

## **Product Development in Current State Plans**

It is generally acknowledged that it is the state's responsibility to determine public policies and programs which support the economic health of the industry and the community. However, the effort to develop a guiding policy and plan for tourism has not been consistent despite tourism's prominence in the state's economy. Currently, Hawaii's visitor industry development is guided by two basic state documents:

**1991 Tourism Functional Plan** - The Tourism Functional Plan covers six topics: Growth; Physical Development; Environmental Resources and Cultural Heritage; Community, Visitor and Industry Relations; Employment and Career Development; and Marketing.

**1994 Strategic Tourism Plan** - The Strategic Tourism Plan addresses nine categories including: Product Development; Technology; Facilitation/Reduction of Barriers; Research; Promotion; Infrastructure Development; Education/Training; Environmental Concerns; and Travel, Safety, and Security.

The **Tourism Functional Plan** was last revised in 1991. The **Strategic Tourism Plan** was developed in 1994 and has not been updated. Both plans address product development in specific sections including short- and long-term strategies. Although the

**Strategic Tourism Plan** presents implementing strategies, most are broadly stated and do not lend themselves to measurement. The **Tourism Functional Plan**, in contrast, includes priorities and some project or site-specific initiatives identifying target dates for implementation, costs, and organizations involved. Neither document, however, provides a framework for decision-makers in both the public and private sectors to assess specific projects as they are proposed on the basis of their conformance to an overall vision and goals for the visitor industry. In the absence of a comprehensive development strategy, guiding policy or plan, priorities have not been assigned to different proposals, and product decisions in the public sector have been on an adhoc, case-by-case approach.

## **DBEDT's Role in Product Development**

**Hawaii Tourism Office.** Chapter 201, Hawaii Revised Statutes, placed product development responsibilities within the Department of Business, Economic Development and Tourism (DBEDT) and its Hawaii Tourism Office (HTO). In carrying out its responsibilities, HTO has been involved in a wide range of activities including both day-to-day operational and long-range, policy-setting activities. Specific to product development, HTO activities have included:

- conducting research to: (1) provide policy-makers with information on current and future trends in the marketplace, community impacts, and options to pursue in order for them to make informed decisions to guide the future development of Hawaii's visitor industry; and (2) provide entrepreneurs with the necessary information to proceed with business opportunities;
- maintaining dialogues with the community, visitors, the industry, and other government agencies to inform these groups about tourism, obtain feedback regarding their concerns, and/or gain their support for implementation of a project;
- facilitating meetings of all affected parties as necessary if there are problems with existing products or proposed projects, or to implement selected projects;
- providing seed money to support new and developing projects/events;
- drafting legislation to provide incentives for development or to remove obstacles to development;
- communicating policies and initiatives to the HVCB for incorporation into their marketing plans.

**Tourism Product Task Force.** To assist product development efforts, DBEDT has used a number of advisory bodies in the past including a Tourism Product Task Force consisting of Oahu and Neighbor Island representatives from the visitor industry, community, state and county government agencies. The task force was supported by a 27-member resource staff with representatives from federal, state, and county government agencies, the HVCB, and the UH School of Travel Industry Management. This task force recommended product development strategies to the 1994 Tourism Congress which formed the basis for the product-related recommendations in the **Strategic Tourism Plan**. This effort has not been maintained, however, and the task force has not met since 1994.

Although the HTO was active in tourism planning prior to 1995, there has been a general decline in DBEDT's level of involvement since then due to funding and staffing reductions. This is in marked contrast to the earlier part of the decade following legislative action in 1990 which created a deputy director for tourism position within DBEDT. The deputy director position was eliminated in 1994, and the role of HTO's seven-member professional staff was reduced with a program manager at its head. When the State Office of Planning was transferred to DBEDT in 1996, the HTO was placed under its supervision removing it further

from major decision-making and involvement in product development.

## **A New Management Model for Product Development**

**Hawaii Tourism Authority.** The State Legislature passed Act 156, Session Laws of Hawaii 1998, which established the Hawaii Tourism Authority (HTA), headed by an executive board with broad functions funded by new increases in the transient accommodations tax. While the powers of the board as spelled out in section 3 of the legislation are far-reaching, it has generally been regarded as a means of improving and strengthening the state's marketing efforts. However, at least three of 26 enumerated responsibilities relate to product development as follows:

- (14) Create a vision and develop a long range plan for tourism in Hawaii, including product development, infrastructure, and diversification issues;
- (19) Coordinate all agencies and advise the private sector in the development of tourism-related activities and resources;
- (22) Coordinate the development of new products with the public and private sectors, including the development of sports, culture, health, education, business, and eco-tourism;

While the legislation was based on recommendations of the Governor's Economic Revitalization Task Force, it also underscored the need to redesign and reinvent Hawaii as a destination with new products. It also reflected a need to achieve a more balanced approach between long-term tourism development and shorter-term tourism promotion. The previous and ongoing efforts of HTO in product development already offer a broad basis upon which HTA can build and further implement product development. Based on DBEDT's past experience, however, product development will face a number of constraints.

**Funding Product Development.** Other than granting seed moneys to counties and to organizations promoting sports and cultural tourism, DBEDT has not been involved in funding major infrastructure for tourism or in direct implementation of product development projects. Where government funding might be available for tourism infrastructure improvements (such as airport improvements, highways, utilities, transportation systems), these funds are not within the control of DBEDT or HTA. But even where funding is provided, past experience shows coordination with other state agencies or the private sector has sometimes delayed implementation.

**Overlapping Government Jurisdictions.** The product development process involves other levels of government (federal, city and county)

as well as units within the state government. Although the state government's role in tourism product development is the most important, its organizational structure does not lend itself to easy coordination. Many of the projects depend on how expeditiously other agencies may process DBEDT's request for cooperation. For example, an ecotourism project may involve infrastructure issues controlled by the Department of Transportation (DOT) as well as access to natural attractions controlled by the Department of Land and Natural Resources (DLNR). These conflicts may be mitigated to some degree by interagency cooperation but the only other state agency which currently sits on the HTA is the DOT.

**Private Sector Role.** Participation by the private sector is critical in both the development of policies and the implementation of product development. In many cases the private sector-based perspective has been predisposed to marketing, ignoring long-range planning, while the public sector perspective has generally been to avoid any activity which the private sector can do. However, there are many instances when the issues involved are not clear-cut. Some of the problems have been overcome through public/private sector alliances especially in meeting the resource requirements for major projects and product development.

**Priority Setting.** An assessment of DBEDT's experiences would indicate

that no particular priorities have been assigned to the wide range of projects including new attractions like an aquarium, ecotourism programs, and community support programs. Part of the problem in prioritizing is the wide variety of product development projects in both the **Strategic Tourism Plan** and the **Tourism Functional Plan** which overlap or are not comparable. Some are project specific (e.g., establish bike and jogging paths) while others are general (e.g., provide safe and secure environment). They also differ in terms of responsibility for implementation in both the private sector (e.g., promote shopping tours to "made in Hawaii" product centers) and the public sector (e.g., improve state airport's visitor information program).

Ultimately, priorities for implementation of projects have been based on funding, and the order of priorities have been subject to alteration by the Legislature or the Governor's budget. Other criteria for priorities have included the difficulty of implementation and the significance of the impacts. HTO has developed criteria for assessing new product offerings based on first-time and repeat visitor target markets. The criteria are further categorized between domestic and foreign visitors. The criteria are usable guidelines which incorporate perspectives of both visitors and residents and can be applied to project evaluation and priority setting for the HTA.



**Staffing.** Under Act 156, the current HTO staff will serve as staff to the HTA. Staff resources for product development have been limited to HTO's Research & Planning Coordinator, a Tourism Specialist, and a Sports Tourism Coordinator who also share other responsibilities and duties within the HTO. An enhanced role in product development may require augmentation of current staffing or effective use of consultants in developing product feasibility analyses.

## **Resource Requirements**

### **Hawaii's Funding for Product Development**

Hawaii currently has only limited sources of public funding devoted to tourism product development. Of the total estimated budget of \$39 million for FY 1998-99 available for tourism purposes, approximately \$1.1 million (2.7 percent) is earmarked for product development. In contrast, \$36.3 million (92.4 percent) is budgeted for marketing primarily to HVCB. The funding for product development include the seed grants from HTO's Cultural Tourism Program and grants to sports events. Although there are no other funds set aside for tourism product development, tourism-related projects are eligible for two other DBEDT programs for limited assistance.

### **Hawaii Capital Loan Program.**

This program seeks to stimulate economic development in the small

business community. Tourism-related businesses that have been unable to obtain financing from the private sector can apply for loans at interest rates lower than those offered by private financial institutions.

**Hawaii Investment Attraction Program.** This program matches local, capital-short companies in any export industry (such as tourism) with potential out-of-state investors. The U.S. Immigration Act of 1990 grants permanent resident status to non-American citizens investing in U.S. businesses amounting to \$1 million, or \$500,000 in rural areas of Targeted Employment Areas and creating 10 full-time jobs for U.S. citizens or other permanent residents.

Other measures which have been considered include allowing tourism-related businesses to be included among those eligible for participation in the program of the Hawaii Strategic Development Corporation attached to DBEDT. This program seeks to attract venture-capital firms to Hawaii and provide early stage financing for developing and expanding business in new industries. Legislation introduced by DBEDT has been enacted that allows a tax credit for hotel renovation to stimulate the remodeling and rejuvenation of Hawaii's mature visitor plant.

## **Other States' Programs**

There has been increasing interest in tourism product development among other states in response to recommendations of the 1995 White House Conference on Travel and Tourism. Recognizing the need for state incentives for travel and tourism infrastructure projects, state tourism offices were urged to implement programs to include tourism products such as hotels, attractions, golf resorts, and job training programs among projects qualifying for state grants and loans.

Among the other states, at least two have developed initiatives specifically devoted to tourism product development which can serve as examples for Hawaii.

**Kentucky Tourism Development Act.** This is a financial incentive program designed to attract major new tourism businesses and investment. Its objective is to create more tourism destination attractions in Kentucky to increase out-of-state tourism income. Eligible projects include a cultural or historical site, recreation or entertainment facility or area of natural phenomenon or scenic beauty. Lodging facilities are eligible only if they are a part of a greater tourism attraction. Strictly retail businesses and facilities which are not a likely destination for out-of-state travelers to spend a night in lodging or near the attraction are not eligible. Projects must cost a minimum of \$1 million, attract at

least 25.0 percent of visitors from out-of-state by the fourth year of operation, be open to the public at least 100 days a year, and produce an economic impact study which demonstrates the project will generate tax revenues to the state that will exceed the credit given to the company. The financial incentive is a state sales tax credit against sales tax generated by visitors to the attraction. The attraction may recover up to 25.0 percent of its initial investment through this credit over a ten-year period.

**Montana Tourism Infrastructure Investment Program.** The purpose of the program is to provide grant funding to facilitate the development of new tourism-related products and to enhance existing products to encourage visitors to stay in Montana longer. Funding is provided through the accommodations tax revenues and is administered by Travel Montana, a division of the Montana Department of Commerce.

## **Highlights from Survey of State Agencies**

Although most state government tourism agencies in the U.S. have not been directly involved in product development in the past, there is increasing interest in expanding this role to fill the leadership gap that exists in long-term planning. To assess the current level of involvement in product development, a survey was conducted in September

1998 in conjunction with this report to determine the extent of product development activities among 56 different U.S. state and territorial jurisdictions. Of the 56 organizations, 39 (69.6 percent) responded to the questionnaire. A summary of the findings follows.

**Importance of Product Development.** The survey results indicate that among those reporting, the majority (53.8 percent) felt product development was very important to their organizations' mission and goals. Thirty-three percent of the state tourism organizations or agencies including Hawaii, were authorized by statute for responsibilities in product development, while 28.2 percent reported this was not an authorized role or responsibility.

**Product Development Plan.** Only two states reported separate tourism product development plans, while 56.4 percent reported their product development plan was part of their overall tourism plan. Regarding the frequency of updating the plans, 43.6 percent of the organizations reported their product development plan was updated annually. In terms of participation, 30.8 percent reported their tourism product plans were developed by a joint public/private sector task force.

**Product Development Activities.** The product development activities in which organizations were involved varied widely. A large majority (69.2 percent) were involved in conducting

research and coordinating, facilitating, leading or participating in a tourism product development task force (61.5 percent). However, in terms of direct participation, only 38.5 percent were involved in sponsorship or other financial support or providing services (28.2 percent). Only a small number (5.1 percent) were involved in ownership or management of attraction facilities including convention centers.

**Incentives for Product Development.** There were no uniform practices in terms of incentives. Almost one fourth of the respondents (23.1 percent) used tax incentives/preferences to encourage product development, followed by streamlining the approval process (17.9 percent) and by regulations and zoning (7.7 percent).

**Reasons for Engaging in Product Development.** The most important reasons cited for the organization's decision to engage in product development activities included benefiting the local community, facilitating new visitor markets, increasing destination visibility, financial self-sufficiency, and off-setting seasonal arrival variations.

**Funding and Staff.** In terms of funding, 48.7 percent of the respondents received support for product development as part of their annual budgets and most (51.3 percent) had a separate department or division within their organizational

structure to handle product development.

On the basis of the survey results, it would appear that product development responsibilities are being increasingly recognized as an important component of the overall tourism planning and development process by most state agencies. However, there are no common patterns in terms of the approach taken by the different state agencies and organizations to guide Hawaii in this role. In Hawaii, the process of product development will also include the county governments and the private sector, but the state government's role as facilitator, coordinator, and catalyst will be of greatest importance in addressing the problems of product development. The task will fall on the HTA and HTO staff to develop a management structure which will work effectively.

## APPENDIX A

# STRATEGIC TOURISM FORUM



**October 15-16, 1998**

## **Summary Highlights, Strategies, and Recommendations**

The Strategic Tourism Forum was sponsored by the School of Travel Industry Management with the objective of bringing together key decision-makers in the public and private sectors of Hawaii's visitor industry and others in the Asia-Pacific region to share information, experiences, and strategies and explore options to reposition and revitalize Hawaii's visitor industry. The forum drew 150 participants from a cross-section of the industry, government, and the university.

## **Forum Overview**

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### **Tourism in Hawaii – From Dependency to Diversification**

Chuck Y. Gee, Dean, School of Travel Industry Management

The fundamental problem with Hawaii's tourism industry is that it has reached maturity and actions need to be taken to counter the decline. As such, there have been calls to revitalize Hawaii's appeal, to improve itself as a destination, and to diversify its economy. However, economic diversification may be difficult due to the prevalent social and economic conditions, and a different approach should be considered. Hawaii should create linkages between tourism and other sectors in our economy instead. Tourism should be viewed as a means to empower other industries rather than as an industry on which Hawaii is overly dependent.

Developing different tourism products such as ecotourism, sports tourism, health tourism and agritourism would in turn help develop other economic sectors and specialized niches to attract visitors. The success of tourism in the future will also depend on collective involvement of both the community and the industry in all areas of economic activity including the development of intellectual and human capital.

Hawaii's visitor industry needs both vision and management. Successful destinations today depend on a clear perception of its destination image. Hawaii has the necessary tourism infrastructure but unclear goals. There is a need for better tourism management and visionary leadership. It is hoped that the Hawaii Tourism Authority, with its \$60 million funding, will provide this leadership.

## Panel 1: Prospects for Hawaii's Visitor Markets

*Can Hawaii continue to rely on the Japanese and Mainland U.S. market to support its visitor industry? What emerging Asian outbound markets can Hawaii tap? How can Hawaii attract more European visitors? Panelists discussed these issues and assessed the short- and long-range prospects for travel to Hawaii.*

### U.S. Mainland Travel to Hawaii – Outlook

Norman Reeder, Managing Director - Hawaii, United Airlines

The U.S. Mainland travel market is the base visitor group driving Hawaii's visitor industry. The state should continue its efforts to maintain its hold on this market. The economic boom in the Mainland U.S. has led California to enjoy a discretionary income level that is higher than any other state. Most of this discretionary income is spent on travel, especially to Hawaii. The outlook for U.S. Mainland travel to Hawaii can be characterized as cautiously optimistic as there will be continued growth in the U.S. Mainland market. It is easy to sell Hawaii because it already has a positive image.

One possible way to further tap into this market is through partnering airlines with various members in the travel industry. Hawaii is United Airlines' primary leisure destination and it currently provides 17 daily flights to Hawaii. It is actively linking flights with hubs to bring more customers into Hawaii. The introduction of direct flights to the Neighbor Islands can help build visitor arrivals. High-yield customers, who spend more and stay longer, make decisions based on convenience and not necessarily on price, and Hawaii should take this into account in diversifying its market segments.

#### ***Recommendations for Hawaii:***

Hawaii should be more aggressive in selling itself as a destination. Hawaii is unique and easy to sell, but the Hawaii Tourism Authority needs to set the vision and direction to allow Hawaii to compete globally.

### **The Japanese Market**

Adrian Mangiboyat, Jr., Editor, Travel Journal International (Japan)

With the economic downturn in Japan, there is a shift from younger travelers to older travelers, as young travelers in the 20-29 age group cut back on their travel plans. Hawaii should target this senior market that is playing a key role in boosting the cruise market in Japan. The growth in the number of older women traveling to Hawaii is anticipated.

Japanese travelers are becoming increasingly more selective in their spending, seeking more value-for-money goods than inexpensive and cheap goods. Although many Japanese regard Hawaii as a dream destination, it is increasingly being perceived as a cheap

destination with limited appeal. Hawaii focuses too much on sun, surf and shopping, which appeals only to the young.

### ***Recommendations for Hawaii:***

Hawaii should work with wholesalers to develop new creative products which incorporate:

- Outdoor activities such as trekking and ecotours, guided by famous Japanese professors or specialists. Hawaii could develop programs similar to Switzerland's successful flower trail program.
- Self-healing and health treatments such as lomi-lomi massage, mud packs and seaweed wrappings. For Japanese, self-healing and health treatments are important reasons for travel.
- Education programs through UH offering three-day classes on different aspects of Hawaiian culture, medicine, language and cuisine. Hawaii should take advantage of its climate by establishing an outdoor school that promotes Hawaiian culture or Hawaii-Japan culture.
- Educational tours which blend shopping with some aspects of Hawaiian culture or Hawaii's natural environment. For instance, a tour that incorporates shopping for unique Hawaiian fashion or koa wood products and a trekking tour that features shopping for trekking shoes.

In addition, Hawaii should work with travel agencies in Japan as 90 percent of the Japanese travelers depend on travel agencies for travel arrangements. Hawaii should promote new creative products to and through these travel agencies.

## **European Outbound Market to Pacific-Asia and Hawaii**

Harald Bindeus, Regional Director of Leisure Sales, Hilton Resorts Hawaii

Hawaii is traditionally a destination for Japanese. However, the European outbound market holds tremendous potential for Hawaii's visitor industry. Europeans enjoy longer annual vacations, high pension benefits and view travel as a lifestyle and not a luxury. Europeans spend more, stay longer and visit more islands when they visit Hawaii. In addition, there is a rapidly growing mature European population, which is characterized by consumers with the financial ability and availability of leisure time to travel. Primary source markets are United Kingdom, Germany, Switzerland and France. Spain, Italy and France have shown an increased interest in incentives and meetings business travel.

To promote Hawaii to Europeans, Hawaii should work on increasing air accessibility. Europeans perceive Hawaii as being out of the way. However, distance is not a barrier as many Europeans continue to visit Australia. Hawaii should work with European carriers to serve Hawaii.



In addition, large portions of European vacation business are on a charter basis. European wholesalers have tried to start charter business operations to Hawaii but have failed due to poor demand. Hawaii should work to encourage the resumption of European charter operations.

The biggest challenge for Hawaii is to increase awareness among Europeans about Hawaii. Compared to many competing destinations such as Australia, Hawaii needs to be more consistent in its promotional efforts and in its attendance at tradeshow. Promotional efforts should target three conversion points: travel wholesalers, travel agencies and consumers.

***Recommendations for Hawaii:***

- Increase recruiting efforts for European students at UH.
- Promote the Immigration and Naturalization Services (INS) \$500,000 investment requirement for permanent residency in the U.S. (and Hawaii).
- Have a more consistent HVCB approach to marketing.
- Increase visitor awareness by conducting Hawaii roadshows and Hawaii food festivals in major European cities.
- Move beyond targeting just wholesalers and travel agencies and attract the FIT market.
- Use market research more effectively from merely counting visitor arrival numbers to finding out why visitors come to Hawaii.
- Provide collateral in different European languages.
- Shift promotion focus from “sun, sea and surf” to cultural and other outdoor activities.
- Increase media exposure by securing budget for advertising and organizing familiarization tours for TV crews and journalists to visit Hawaii.
- Increase marketing presence on the Internet.

**Emerging Asian Outbound Markets**

Alwin Zecha, Chairman, Pacific Leisure Group (Hong Kong and Thailand)

Despite the current economic crisis, Asian countries like Taiwan, China, India, Hong Kong and Singapore possess a strong outbound travel market. Hawaii should look beyond the crisis and tap into other Asian outbound markets that were growing rapidly before the crisis emerged. These markets include Korea (with average annual growth rate of over 20 percent), Taiwan (14 percent), Singapore (over 20 percent), Thailand (19.5 percent), India (15 percent), Indonesia (12 percent) and China (which accounts for 2 percent of worldwide outbound market).

***Recommendations for Hawaii:***

- To the Asians, Hawaii is an expensive one-dimensional leisure destination, and Hawaii is a “tired” product. The state should focus on

providing service and quality, instead of concentrating only on increasing visitor arrival numbers. There is no prospect for mass leisure tourism from the Asian markets. The visitor industry should concentrate on increasing yield rather than visitor arrival numbers. This can be achieved through diversification, segmentation and niche marketing. Hawaii could take advantage of its Asian ethnicity to develop financial tourism and act as a clearinghouse or financial hub between financial institutions in Asia and the Mainland U.S.

- To capture the Asian market, Hawaii should demonstrate more commitment and build a consistent relationship with these markets. To date, Hawaii has displayed no commitment to attract other Asian markets besides Japan. Hawaii should focus on “hardselling” itself to this market. Hawaii has the basic infrastructure but needs to be “entrepreneurially opportunistic” as an industry.

## Panel 2: Surviving the Asian Economic Crisis: Tactical Approaches of Other Destinations

*The advent of the Asian economic crisis has caused sharp declines in visitor arrivals in many tourism destinations worldwide. Panelists discussed how Hawaii's Asia-Pacific counterparts are coping with this issue and what approaches these destinations have taken to meet the challenges of the economic crisis.*

### **Singapore's Initiatives**

Christopher Khoo, Assistant Director – Competitive Analysis, Singapore Tourism Board

The Asian economic crisis and the negative media coverage of the haze problem in Southeast Asia have affected Singapore's tourism industry. The impact was not felt until a 14.4 percent drop in the fourth quarter in visitor arrivals in 1997. Since then, there have been three consecutive quarters of decline, with the third quarter of 1998 showing a decline of 15.7 percent. There is expected to be an overall 15-17 percent decline in visitor arrivals in 1998. Moreover, there has been a drop in the average hotel occupancy rate to about 70 percent, accompanied by a yield decline between 1996 and 1998.

In 1995, the Singapore Tourism Board developed a national tourism blueprint called Tourism 21 (T21), a collaborative effort between the private and public sectors. T21 outlined Singapore's aspiration to become a tourism capital, to be promoted not only as a memorable tourist destination, but also a tourism business center and a tourism hub. Despite the economic crisis, T21 is still a valid long-term development blueprint for the Singapore tourism industry albeit the arrival targets have been revised.

In response to the economic crisis, Singapore has taken the following marketing and industry development initiatives.

Market initiatives:

- Focusing on growth markets
- Nurturing and developing new market sources
- Intensifying world-wide marketing promotion push
- Reinforcing the "New Asia-Singapore" branding with emphasis on Singapore as part of a fresh, invigorating Asia of tomorrow.
- Emphasizing natural development
- Developing products which are able to exceed expectations by attention to details (i.e. baby boomers—what they want; senior friendly facilities—lower steps, slower tours, etc.)

#### Industry Development Initiatives:

- Strengthening the structure, capabilities and competencies of the industry.
- Transforming the way the travel agents will operate in the next millennium through the use of information technology (IT). IT will be the source of competitive advantage.
- Seeking economies of scales through consolidation.
- Introducing government incentive schemes for 1998: Tourism Development Assistance Scheme and the Special Allowance for Hotel Refurbishment.
- Extending a double tax deduction scheme for approved overseas tourism marketing and promotional trips.
- Revitalizing the existing tourism products such as the revitalization of Chinatown, one of the eleven thematic zones.

#### *Recommendations for Hawaii:*

- Hawaii is overly dependent on U.S. Mainland and Japanese markets that account for 84 percent of the visitor arrivals. Diversifying Hawaii's visitor markets is a long-term investment.
- Japanese arrivals are expected to decline in the short term. The Japanese still have substantial savings and the desire to travel to Hawaii. However, the Japanese are becoming more price-sensitive. Hawaii has to face these realities and plan accordingly.

### **Thailand's Initiatives**

Pradech Phayakvichien, Deputy Governor – Planning and Development Department,  
Tourism Authority of Thailand

Despite the current Asian economic crisis, the fundamentals of Asia-Pacific travel and tourism industry are still strong. Many markets especially India and China are still traveling. Both NTOs and the private sector are adjusting their policies to take advantage of emerging opportunities.

In Thailand, the main issue is to ensure that the quantity of tourists does not lead to deterioration in the quality of the tourism product. Thailand believes that with visitor arrivals reaching 10 million, marketing is less important than management. Prior to the Asian crisis, Thailand has been changing the focus of its promotion strategies to developing niche markets and identifying its core strengths, namely food, culture, heritage, health, MICE facilities and ecotourism. These are incorporated as themes in Thailand's latest "Amazing Thailand" campaign.

Thailand is also taking advantage of lifestyle trends to target highly stressed urban dwellers to relax in Thailand. With the onset of the Asian crisis, Thailand's marketing plans have shifted from the Asian-Pacific market to the European, Indian, Israeli and even the Vietnamese market. Visa facilities have been relaxed for visitors from China and Taiwan.

Thailand is now focusing on ensuring necessary infrastructure, skills and product quality to meet the growing number of arrivals. Some of the strategies in Thailand's Policy on Tourism Development and Promotion for 1997-2003 include:

- Promote the conservation and restoration of the national arts and culture and tourism resources, as well as the concept of sustainable tourism.
- Promote co-operation between public and private sectors as well as local people in solving or preventing tourism related problems and in developing and managing tourism resources.
- Use modern technology to develop tourism facilities and services and to provide tourism information both locally and internationally.
- Co-operate with neighboring countries to promote tourism, improve transportation networks and tourism facilities and services.
- Promote awareness among the Thai people of the socio-economic and ecological importance of tourism and to be good hosts to visitors.
- Upgrade human resources to meet market demands and ensure that Thailand does not lose its competitive edge in a global economy.
- Improve tourism security and ensure that visitors and operators in the tourism business are properly and legally protected.
- Promote tourism as being important for the development of quality of life as well as a contributor to social development at the family, community and national levels.
- Encourage people to stay longer, spend more and see more of the country to get to know the "real" Thailand.
- Promote domestic tourism to conserve foreign exchange, to encourage appreciation of own culture and to distribute prosperity to rural areas.
- Promote investment in tourism by liberalizing rules and regulations under regional and global free trade pacts.

***Recommendations for Hawaii:***

- The trend towards niche markets is clear. Hawaii should take advantage of its fair share of competitive advantages through development of ecotourism, adventure travel and cultural tours.
- Hawaii should ask if it really needs repositioning. While a little repositioning is needed in Mainland U.S. and Japan, where Hawaii is already well known, Hawaii should reinforce its position in Asian markets which will resume in the future. Hawaii should research travel trends for the next few years to catch the Asian market on the uptrend.
- Hawaii and Thailand can work together, especially now that PATA headquarters has moved to Bangkok. Hawaii needs to explore ways by which it can further involve local communities in the development of travel and tourism.

## **Australia's Initiatives**

Andrew Drysdale, Managing Director, Asia Pacific Travel Associates, Sydney

Tourism is Australia's number one foreign exchange earner. Traditionally, the tiger economies of Asia combined gave Australia a total of 31 percent of its tourism arrivals. To combat the decline of the Asian outbound travel market, the Australian Tourism Commission (ATC) has stepped up its promotion to both traditional and new markets not directly affected by the economic downturn. With the additional \$50 million given by the Australian Government, the ATC is turning to other traditional markets such as the U.S, U.K. and Europe. At the same time, \$41 million out of the \$50 million was committed into new markets like China, India and South America. The ATC is also actively encouraging flights to both India and South America.

In addition, the meetings, incentives, conventions and exhibitions (MICE) industry has been identified as a valuable alternative source of tourism revenue. To attract the MICE market, the Australian government has invested heavily in the development and upgrading of convention and exhibition infrastructure. The ATC has also designated 2001 as the "Meet in Australia Year" and there is coordinated effort by federal, state and city tourism bodies to promote Australia to the MICE market.

### ***Recommendations for Hawaii:***

- Hawaii should seek out new markets (both geographic and special interest) and increase promotional spending in these markets. While Hawaii should not abandon the market segments that had given Hawaii the growth in the past, Hawaii should recognize that the needs of these traditional markets are continually evolving. Asian travelers are increasingly better educated and more sophisticated.
- Hawaii should build links with the rest of the Polynesian and Melanesian Islands of the South Pacific and position itself as a gateway to these islands. Hawaii is perceived as part of the Polynesian culture, which may attract the new age tourists.

# Luncheon Speaker

## Future of Investment and Product Development in Hawaii

Theodore Teng, President – Asia-Pacific Division, Starwood Hotels and Resorts (Singapore)

There are several ways in which Hawaii can enhance its resort product by learning from resort development in Asia-Pacific. Resorts in Asia-Pacific range from remote secluded high-end resorts catering to repeat customers from the U.S., Europe and Asia such as the Aman Resorts in Phuket to the lower-priced integrated resorts aimed at family market like the Banyan Tree Resort.

Resorts can also be developed near metropolitan centers to gain leverage on existing facilities. The Bintan Resorts in Indonesia cater to the mass market and rely on Singapore's Changi Airport and ferry services for transport. There should also be government co-operation and support for resort projects. The Bintan Resort is a project developed by government-linked companies through tax incentive provisions.

### *Recommendations for Hawaii:*

- Hawaii should develop a wide spectrum of products to cater to different market segments.
- Hawaii should expand its definition of tourist and target retired visitors who want longer stays. Hawaii should seek out the Japanese “silver” market—the senior travelers—and encourage longer stays through easing visa restrictions. These long-term “visitors” could prove to be a lucrative market because of the economic multiplier effect of their extended stay.

## Featured Speaker

### A Preview of Emerging Travel Trends and Their Implications for Hawaii

Peter Yesawich, President and Chief Executive Officer, Yesawich, Pepperdine & Brown (YP&B)

According to the National Leisure Travel MONITOR, a national survey of travelers, Americans today are burdened by time poverty. Although 78 percent of all Americans want to reduce stress, 56 percent feel that they do not have enough time for anything other than short vacations. Increasingly, Americans are turning towards weekend (4 nights) trips, and 49 percent of Americans are not interested in spending more than 3 hours to get to a destination.

With less time, Americans are expecting more when traveling. The new definition of value includes dimensions of time and convenience. Value is now a function of price, quality and energy. Increasingly, Americans are mixing leisure with business travel. Americans are not only looking for products that are easy to purchase and use, but are also enriching. The new marketing paradigm is to personalize the travel product for consumers. Popular travel products include cruises, gaming, and spas.

Americans are also focusing more on family travel. Vacation for families today is not only for relaxation but also to bring the families together. There is a need to re-evaluate marketing travel to families. Affluent travelers today want to spend time doing things together with their children through participative programs.

Americans do not have faith in the news media. Increasingly, people in the U.S. do not trust what they read, see and hear in the news on television, newspapers and magazines. There is a new wave of consumer activism as 82 percent of Americans attempt to negotiate the best rates when making travel reservations. Americans are experimenting with new technology. America Online, the leading online provider, has more subscribers than the LA Times and the New York Times combined. More Americans are logging on to the Internet to get information rather than to make transactions.

#### ***Recommendations for Hawaii:***

- As a mature destination, Hawaii needs to develop a master plan to re-invent the visitor experience.
- Hawaii today suffers from the dubious distinction as the destination that offers free nights as an incentive to drive demand. This eroding perception of value should be countered by competing on some basis other than price.
- Hawaii's travel product should evolve to reflect current lifestyle changes.
- Hawaii should cultivate multiple markets (by segment and geography) and face increased competition through more aggressive promotion.
- Hawaii's challenge is not to create more demand but to convert existing demand.



## Panel 3: Strategic Issues for Developing New Markets

*Hawaii's efforts to expand its visitor market face formidable challenges. Its geographical location makes it reliant upon air transportation to bring its visitors to the islands. What can Hawaii do to increase its air seat capacities? What new niche markets and special market segments should Hawaii target and how can Hawaii attract these new niche and special market segments? Panelists explored these issues and assessed what Hawaii can do to reposition itself as a visitor destination.*

### **Niche Markets - Ecotourism, Edutourism, Cultural Tourism, Sports Tourism, Health Tourism, Special Events**

Catherine Shaw, Director of Marketing Research, Travel Industry Association of America

Tomorrow's traveler is looking for uniqueness, enrichment, and comfortable communities to travel to. Enrichment tourism will be a key segment in the future. The "baby boomers" form the biggest group of travelers. They look for fun and focus when traveling and Hawaii has a lot to offer in this respect. The "baby boomers" are also looking for comfortable communities to visit. According to the Census Bureau, in the next 50 years, the non-white population will be growing at a much faster rate than the white communities. By 2050, non-whites will be half of the U.S. population. Hawaii, which embodies the spirit of a warm and open community that possesses a diverse ethnic history, will be able to make all visitors to Hawaii feel welcomed. Hawaii should market this diversity.

According to TIA's research, the following markets have growth potential:

- Educational travel
- Intergenerational travel
- Adventure travel
- Historic/Cultural travel
- Business travel with Children
- Asian-American, Hispanic and African-American travelers

According to the "Travel Scope" survey, visitors to Hawaii are:

- Affluent, club members, educated, and are more likely to own cellular phones and computers at home.
- A very active group, participating in four or more activities on each trip compared to two activities per trip for other travelers.
- Above average in their participation of outdoor activities, visits to historical museums, golfing, commercial parks, cultural events, dancing and shopping.

### ***Recommendations for Hawaii:***

- Hawaii has a lot to offer in terms of uniqueness and adventure tours to adventure travelers. Hawaii has activities to offer to both *soft* and *hard* adventure travelers such as hiking, snorkeling, kayaking, mountain biking, and skydiving.
- Hawaii should also be aware of the “graying of America” syndrome and target the senior market. There is a growing group of senior citizens with the time and money to go on vacation.
- Another great niche market for Hawaii is historic and cultural travel. Historical and cultural travelers shop more, spend more, stay longer, fly more often, stay in hotels more, and are more likely to include multiple destinations in their travel and Hawaii has a lot to offer in terms of historical and cultural heritage.
- Hawaii should promote travel through various club organizations such as the non-profit organizations.
- Hawaii should be marketed as a unique destination, providing cultural, historical, and adventure experiences to travelers.

### **Long Haul Markets and Air Access**

J.A. Donoghue, Editor-in-Chief, Air Transport World

The decline in air seat capacities to Hawaii can be attributed to the following factors:

- Improved aircraft technology has diminished the need for stopovers in Hawaii. Long-range aircraft now by-pass Hawaii.
- The Asian economic crisis has forced airlines to be more selective in routes, redirecting flights to exclude Hawaii.

Some initiatives that are currently being discussed in Washington could impact Hawaii’s air seat capacities both positively and negatively:

- To rectify the market imperfections in the currently deregulated airline industry, the Department of Transportation has proposed to introduce re-regulation aimed at eliminating predatory practices by major airlines on new entrant airlines. This measure, although not likely to have any direct impact on Hawaii’s air seat capacities, will most likely create more barriers to traffic stimulating developments.
- The U.S. government is considering reviewing current restrictions on foreign investment in U.S. airlines that could lead to the possible removal of cabotage laws. Such initiatives will have a positive impact on Hawaii as it could lead to foreign airlines establishing hubs in Hawaii, which is strategically located between Asia and the Mainland.

### ***Recommendations for Hawaii:***

- Capitalize on European travelers' growing desire to visit green, ecotourism destinations; a description that fits Hawaii well.
- Hawaii's marketing challenge is to break into the European charter airlines' destination patterns as new long-range aircraft will allow nonstop flights from Europe to Hawaii in the near future.
- Lobby for congressional measures that will enable non-U.S. carriers to establish hubs in Hawaii. This will bring in more business and leisure traffic to the islands, thereby increasing tourism flow into the islands.

## **Repositioning for Global Markets**

Martin Mitchell, President and Chief Operating Officer, Christy Macdougall Mitchell

Global opinions are personal opinions on a massive basis. To reposition a place for the global market, one needs to change the perception of a place by finding the unique identity of the place. In the 1980s, New York was suffering from job loss, low morale and a downturn in tourism. The successful "I Love New York" campaign identified with New Yorkers' personal passion for the city and celebrated the breadth of experiences offered by the state. The campaign affected New Yorkers first before the travel industry by reminding everyone of New York's virtues and enticements, reversing job loss, and thus contributing to New York's reemergence as a desirable location.

Israel's "You have a friend in Israel" campaign failed because it was unintentionally targeted at a small percentage of American Jews who remained uninterested and who did not find Israel friendly. By aiming at the three major religious groups: Jews, Protestants and Catholics in the "No one belongs here more than you" campaign, Israel was perceived differently and was identified by both religious and non-religious segments.

### ***Recommendations for Hawaii:***

- To position itself effectively, Hawaii should discover its own "soul" unique place identity that is easily recognizable and that makes Hawaii stand out among its many competitors. Hawaii possesses unique resources that could be creatively packaged and marketed. However, Hawaii needs to truly understand its uniqueness first and define it clearly before presenting it to the world.

## **Panel 4: Rejuvenating Mature Destinations – Case Studies of New Life Cycles**

*Tourism destinations generally evolve through a product life cycle which includes stages of exploration, involvement, development, consolidation and stagnation. Mature visitor destinations like Hawaii face the ultimate choice between rejuvenation or decline. Panelists discussed how some popular mature destinations including Hawaii, have or are trying to revitalize their visitor industries.*

### **How Las Vegas is Repositioning for Future Markets**

Terry Jicinsky, Marketing Research and Internet Manager, Las Vegas Convention and Visitors Authority

Las Vegas has successfully diversified its market and product over the last decade. Visitor volume has increased by 88 percent during this period. There have been four waves of growth: between 1989 and 1992; in 1993 when 12,000 themed-hotel rooms were added; in 1996 when another 8,000 hotels were added; and with the opening of Bellagio in 1998.

Las Vegas has successfully targeted the family market, and 17 percent of the hotel rooms in Las Vegas now cater to the family market. In addition, Las Vegas has diversified its products by building non-gaming attractions such as theme parks, convention centers, restaurants and shopping malls. While none of these attractions alone is significant, as a whole, they constitute a significant attraction. For the first time in 1997, more visitors perceived Las Vegas as an entertainment destination (50 percent) than a gaming destination (48 percent).

Las Vegas's challenge as a destination is to attract 275,000 additional visitors for every 1,000 rooms added. To date, there are still many people who refuse to come to Las Vegas for conventions due to its gaming image. Las Vegas is currently working on correcting this perception.

### **South Beach Development and the Revitalization of Tourism in Miami**

Denis Russ, President, Miami Beach Development Corporation

Miami's continued challenge is to balance and protect the environment while achieving a vibrant economy. In the 1920s and 1930s, Miami Beach developed as a resort. By the 1970s, Miami Beach was in a state of decline. To turn the tourism industry around, three events occurred. First, a convention center was developed in 1984 to shift from leisure travel to a convention market. Second, a coordinated regional marketing campaign was initiated. Third, large-scale urban renewal followed as old resort buildings were leveled.

The local establishment originally wanted to demolish the old art deco district. However, led by Barbara Capitman, the old art deco district was preserved through a program of public education and concerted community effort. Design guidelines were established to

ensure that new buildings would fit into existing themes. The preservation of the art deco district became not only a showcase for people who live in the area, but also a vehicle to achieve economic development. Urban conservation and development attracted arts and cultural activities, the photo fashion industry, and the music industry. As a regional tourism destination, the art deco district attracted shops and restaurants. Economic development became compatible with the physical environment and the social fabric in the preservation of the art deco district. In addition, a sense of community and an authentic sense of place were also retained.

## **Rejuvenating Waikiki and Repositioning Oahu as a Visitor Destination**

Jeremy Harris, Mayor, City and County of Honolulu

Hawaii lacks a vision of the quality of life and the economic base the state wants. Nineteen visioning teams organized around the island have developed a vision in which the visitor industry plays a key element. This vision includes revitalizing Waikiki and defining Hawaii's sense of place.

The Waikiki Special Design District Plan aims to provide Waikiki with a sense of place and to ensure the safety and security of Waikiki. The plan will provide incentives to the private sector, beautify the Ala Wai Canal, and improve landscaping by planting more trees and creating more outdoor dining opportunities. The crime rate at Waikiki has decreased due to community voluntary groups such as the Aloha Patrol and TCP110. New lighting has been installed at Kapiolani Park to improve safety and ambience. The "kobans" or visitor aloha kiosks along Kalakaua Avenue, staffed by volunteers, will be implemented to improve information services for visitors. At Kapiolani Park, a beautiful Victorian bandstand with a lily pond will replace the aging bandstand. The historic Waikiki War Memorial Natatorium will be restored to its former glory. To create a sense of place, the Waikiki Historic Trail will be established. The trail will start at Kapahulu and end at King Kalakaua's statue. The two-mile long trail will educate people about the history, environment, and the ambience of Waikiki. Surfboard-shaped markers will be erected for interpretive purposes.

In order to reposition Oahu as a visitor destination, the state is diversifying into sports tourism, health tourism and ecotourism. The vision is to revitalize the economy while preserving the natural environment. There are plans to build a major sports complex at Kapolei and to expand hiking trails with projects like the majestic Haiku Stairs. There are also plans to reroute Nimitz Highway to improve accessibility to the waterfront. Honolulu will also be made the City of Festivals. The aim is to provide visitors access to the community's charms and to provide interaction between the community and the visitors. 21<sup>st</sup> century Oahu aims to reposition the island with a strong sense of community so that visitors can enjoy it more.

## Panel 5: Brand Image and New Visions

*What imaginative image and vision can Hawaii explore to reposition itself for future markets? Panelists presented different perspectives on how Hawaii can develop new alternative brand images and discussed new directions for resort design and development in Hawaii.*

### **Honolulu as a Dynamic Urban Gateway**

Michael Tiknis, Executive Director, Honolulu Symphony Orchestra

The arts and culture is a relatively young industry which began after the civil war. It experienced rapid growth between the 1950s and mid 1980s. Today, there is a strong demand for the performing arts. In 1987, ticket sales for non-profit performing art events exceeded spending for tickets to sports events. Hawaii, however, has yet to tap into this potential market.

Since the 1960s, urban centers have suffered from the misconception as places that no one wants to visit. Cities like New York and San Francisco have, however, celebrated themselves as being urban centers. The arts and culture can be a source of good business in an urban center.

Symphony orchestras in cities like San Francisco and New York have succeeded because of local residents' support. The visitor industry has to partner with the local community to promote pride in living in Hawaii. Residents must be proud of their local museums, arts academy and orchestra before visitors can feel a similar sense of pride.

#### ***Recommendations for Hawaii:***

- Hawaii needs to partner with local arts organizations to promote local art resources to the visitor industry. The visitor industry, not the state, has to encourage private philanthropy to develop arts resources in Hawaii in order for local arts to become prominent internationally.
- Hawaii must find venues to showcase local performers and should not restrict the repertoire of performances to only Hawaiian music played at hotels.
- The new brand image for Hawaii should incorporate the promotion of Hawaii's cultural and performing arts attractions. After all, repositioning is not what one does to the product, but what one does to the mind.

## **Resorts of the Future**

George Berean, Managing Principal, Wimberly Allison Tong and Goo

There are several problems and issues facing future resort development in Hawaii:

- Fierce competition from other destinations that package their products well.
- Low tourism budgets compared to other competitive destinations.
- The decline of airline seat capacities to Hawaii.
- High hotel construction costs.
- Low profitability of hotels although hotel revenues in Hawaii are respectable.
- Bureaucratic red-tape that leads to slow and cumbersome government permit approval process.

A vision for resort development for Hawaii should include components that capitalize on its local natural assets and resort enhancements. Currently, Hawaii underutilizes its water resources such as the ocean. For instance, Hawaii only focuses on Hanauma Bay while neglecting its other marine sanctuaries. Additionally, resorts can invite world chefs to promote its unique Pacific Rim cuisine. Hawaii can also take advantage of its rich Polynesian history and diverse ethnicity to create new tourism products.

### ***Recommendations for Hawaii:***

- Hawaii should change existing rules to allow densities and land use to change in selected areas that need to be revitalized.
- Suggestions for improvements in Waikiki include the creation of pocket parks at dead-end streets and more open spaces, as well as development of more open-air markets, dining, crafts fairs and entertainment.
- Hawaii should change its complacent attitude and learn from other destinations. Hawaii should explore synergies between groups and revisit its visitors' needs and desires.

## **Hawaii's Business Image as Part of Hawaii's Tourist Image**

David McClain, Henry A. Walker, Jr., Professor of Business Enterprise, College of Business Administration

The blurring of the distinction between tourism and business, via the Experience Economy and the Global Information Economy, means that there is a greater premium on having a sound, attractive business climate to complement and reinforce Hawaii's tourist image.

According to the Experience Economy model everything, including business, is similar to tourism in that it is experience-based. Increasingly, the economy is moving from the selling of traditional goods to the selling of experience.

Hawaii's bicultural assets are irrelevant for larger companies whose regional headquarters must remain close to their end-user markets. However, Hawaii can use information technology to serve as a "pan-Asian" vantage point for smaller firms from the Midwest and the East that are only beginning to get involved with Asia.

***Recommendations for Hawaii:***

- Hawaii needs to change the general perception of Hawaii in the eyes of the consumer. A business image should be used as a vehicle to positively influence opinions about Hawaii and to convert latent demand for visiting Hawaii into actual visitors.
- While creating linkages between tourism and business sectors, Hawaii should diversify by building on the strengths of its core business of tourism.



## **Panel 6: Public Policy Strategies for the Coming Decade**

*Implementing changes will require direction and commitment from both the public and private sectors. Government's role as facilitator, coordinator, and catalyst is key to this partnership and panelists discussed future strategies from the administrative and legislative perspectives.*

### **New Governance System for Tourism Development and Marketing**

Seiji Naya, Director, Department of Business, Economic Development and Tourism

There is a need to obtain accurate statistics of visitor arrivals to Hawaii. Although the error made by including the large numbers of returning residents into the visitor arrival counts in the late 1980s may have distorted the widely assumed peak of visitor arrivals in 1990, it is believed that generally, the statistics on Hawaii's visitor arrivals are relatively accurate.

The 3.6 percent increase in westbound travel to Hawaii has helped offset the declining eastbound visitor arrivals. Interest rate cut in the U.S has caused the yen to appreciate leading possibly to increase in travel to Hawaii again. There are signs of economic recovery in Japan as seen by the \$500 million public fund provided to help bail out ailing banks in Japan.

Hawaii's state government has been committed to the growth of the visitor industry. For example, the state built the Hawaii Convention Center and competed successfully to host the Miss Universe competition. Additionally, the Hawaii Tourism Authority (HTA) has been formed to oversee Hawaii's visitor industry. The HTA will have a cabinet level executive and have fewer restrictions, thereby empowering it to execute policies more freely. It is charged with the responsibility of setting a clear vision for Hawaii's visitor industry.

Hawaii is a mature destination. Hence, it needs to reinvent its tourism products and create value-added tourism products. Hawaii has to begin looking at the supply side and not only the demand side of the visitor industry. It must change its product to create more demand. Initiatives to improve the supply side include:

- Rejuvenating Waikiki
- Airport infrastructure improvements e.g. runway extension on the neighbor islands. The Big Island posted strong growth both from east and westbound tourists due to the Kona airport runway extension.

There is a tremendous opportunity to revitalize Hawaii's tourism but cooperation among the government, industry, and community is needed. All parties concerned need to

work together to improve Hawaii's tourism because the health of Hawaii's visitor industry is vital to the well being of the other sectors of Hawaii's economy.

## **The Legislature and the Hawaii Tourism Authority**

Senator Brian Taniguchi, Co-Chair Senate Committee on Economic Development

The Hawaii Tourism Authority (HTA) is charged with the responsibility of formulating broad-based policies and the marketing of Hawaii's visitor industry. The board is made up of eleven voting members and two non-voting members. It is exempted from state procurement procedures.

With the formation of the HTA, the amount of money devoted to tourism promotion will be doubled and the control of money will be shifted from the legislature to this appointed board. In essence, the legislature is allowing the industry to decide what is best for itself. Funding for the HTA comes from a portion of TAT (tourism accommodation's tax) which effective January 1, 1999 will be 7.25 percent.

There were various factors that led to the formation of the HTA:

- Consensus building: there have been on-going efforts by the community to come to a consensus on ways to revitalize Hawaii's economy, and there is community involvement to help resolve some visitor industry-related problems.
- Partnering efforts to develop a long-term communication network among the different segments of the community such as the education, human resource, and tourism segments to facilitate discussion regarding the tourism industry.
- Formation of the Visitor Industry Coalition which attempted to build consensus among all industry players (hotel, restaurant, tour operators, etc.)
- Legislative focus on the economy. The downturn of Hawaii's economy prompted the need to reverse economic trends by revitalizing the tourism industry.

Teamwork, consensus building, and collaboration between the community, the tourism industry, and government are all needed for a better Hawaii.

## **Role of the Convention Center Authority-Present and Future**

Alan Hayashi, Executive Director, Convention Center Authority

The Convention Center Authority (CCA) was formed in 1988. Its mission is to develop, construct and maintain the Convention Center as an economic driver for Hawaii's economy. The CCA is comprised of seven lay members and six state members. Its has an annual administrative budget of \$400,000. Spectacor Management Group (SMG) is contracted to manage the day-to-day operations of the Convention Center. It has a staff of 70

employees. The Convention Center stands on a five-acre lot and is mandated to bring in off-shore events to Hawaii in order to increase the state's tax revenues.

The current CCA will expire in June 1999 unless its authorizing legislation is extended. However, there is considerable support for continuing the CCA and maintaining it as a separate entity from the HTA because a single-focused entity is needed to run a more effective and efficient Convention Center. The HTA may already have too many other matters to oversee.

The future of the Convention Center depends largely on its ability to aggressively market itself. It has to build and maintain a base of committed customers who are profitable for the organization. The support and commitment of more parties are required to actively promote the Convention Center. Hawaii needs to promote its business image. It has to change the consumer's perception of Hawaii as only a "fun-in-the-sun" destination.

# Summary Speaker

## What Hawaii Needs to Do

John Marks, President and Chief Executive Officer, San Francisco Convention and Visitors Bureau

The forum's proceedings can be summarized into three major categories:

### 1. Common threads:

- Hawaii has a long-standing, consistent, strong, positive image that it should capitalize on.
- There is a need to diversify Hawaii's tourism mix to include business tourism.
- Hawaii should promote the growth of business, and the arts and culture to spur the growth of the tourism industry.
- The Hawaii Convention Center should not be viewed as the panacea for what ails the tourism industry but rather as additional "ammunition in its wide arsenal of weapons" to combat the declining visitor industry. There should be aggressive marketing of the Convention Center.
- Communication lines between the new Hawaii Tourism Authority and the various sectors of the travel industry have to be established.
- Reengineering of the visitor industry is required. The maturing of Hawaii as a destination should not be viewed negatively. San Francisco is in the same situation. Its strategy is to build upon its core images, and at the same time, explore new ways to complement this well-established traditional image. Hawaii should pursue a somewhat similar strategy.
- Hawaii has been very successful, and therefore has very high expectations of itself and its tourism industry. Hawaii should not abandon the very elements i.e. mass marketing and "sand-sun-sea" image that had brought about the great progress in the visitor industry in the past because they are its core business.
- Hawaii's visitor industry should not rely on a governmental bailout or solution.
- There are different perspectives on the current situation. However, it is important to keep in mind the long-term perspective.
- Do not presume to know the niche markets well because they are constantly evolving.

### 2. Marketing Opportunities

- Pursue strategic alliances and cooperative marketing. Hawaii has a powerful brand name, but it needs to seek linkages. Hawaii should work towards leveraging \$3 out of every \$1 of state promotional money spent through partnerships with the private sector.
- Develop creative and bold strategic alliances. For example, the Orlando and San Francisco convention bureaus have jointly set up a marketing

office in Chicago. Hawaii's visitor industry could partner with a swimwear line or a convertible company to jointly promote Hawaii with these products because they are highly compatible products.

- Currently, event marketing is important. For instance, San Francisco is aggressively vying to host high-profile sport events such as the SuperBowl and the X-Games with the long-term view that both the young competitors and spectators of such games will form the basis for future visitors to San Francisco.

### 3. Delivery System

- Build an integrated marketing system
- Do not dismantle the Hawaii Visitors and Convention Bureau (HVCB). It has much expertise, and is well respected outside of Hawaii. Instead of carving out the HVCB into dysfunctional pieces, it would be better to rectify the inefficiencies that exist within the HVCB.

#### Final thoughts:

- Remember that the tourism industry is a fun business.
- Tourism is the #1 business to make the world a better place.

# APPENDIX B

## SELECTED RESULTS SURVEY ON INVOLVEMENT IN TOURISM PRODUCT DEVELOPMENT OF STATE AND TERRITORY TOURISM DIRECTORS conducted by the School of Travel Industry Management, University of Hawaii for the Department of Business, Economic Development and Tourism September, 1998

### OVERVIEW

- Mailouts ..... 56 (100%)
- Non-Respondents ..... 17 (30.4%)
- Respondents ..... 39 (69.6%)

### SURVEY QUESTIONS

1. Is product development an authorized role/responsibility of your organization?
  - Authorized by statute .....33.3%
  - Authorized by charter .....2.6%
  - Other.....25.6%
  - Not an authorized role/responsibility.....28.2%
  - No response .....10.3%
  
2. How important is product development to your organization's mission and goals?
  - Very important.....53.8%
  - Moderately important.....30.8%
  - Not important.....5.1%
  - No response .....10.3%

3. Please indicate whether your organization's tourism product development plan is:
- A separate document..... 5.1%
  - Part of an overall tourism plan .....56.4%
  - There is no product development plan.....23.1%
  - Other (handled by another organization, done on an ad hoc basis, etc.) 5.1%
  - No response .....10.3%
4. How frequently is your tourism product development plan updated?
- Annually .....43.6%
  - Other.....33.3%
  - No response .....23.1%
5. How is your tourism product development plan developed?
- Public/private task force.....30.8%
  - Government task force .....7.7%
  - Other.....38.5%
  - No response .....23.1%
6. Is the nature of your product development activities:
- a) funding or conducting plans?
- Yes .....33.3%
  - No .....53.8%
  - No response .....12.8%
- b) coordinating and facilitating, leading, or participating in a tourism product development task force?
- Yes .....61.5%
  - No .....25.6%
  - No response .....12.8%

- c) conducting research?
  - Yes .....69.2%
  - No .....17.9%
  - No response .....12.8%
  
- d) sponsorship or other financial support for special events, etc.?
  - Yes .....38.5%
  - No .....48.7%
  - No response .....12.8%
  
- e) ownership or management of attraction facilities (e.g., convention center)?
  - Yes .....5.1%
  - No .....82.1%
  - No response .....12.8%
  
- f) providing services (e.g., information booths)?
  - Yes .....28.2%
  - No .....59.0%
  - No response .....12.8%
  
- g) other? (please specify)
  - Yes .....30.8%
  - No .....56.4%
  - No response .....12.8%

7. Are the following incentives used for product development?

- a) Tax incentives/preferences
  - Yes .....23.1%
  - No .....43.6%
  - No response .....33.3%



b) Regulations/zoning

- Yes .....7.7%
- No .....59.0%
- No response.....33.3%

c) Streamlining the approval process

- Yes .....17.9%
- No .....48.7%
- No response.....33.3%

d) Other (please specify)

- Yes .....35.9%
- No .....30.8%
- No response.....33.3%

8. How important are the following criteria in your organization’s decision to engage in product development activities?

<b>Criteria</b>	<b>Not important</b>	<b>Of some importance</b>	<b>Fairly important</b>	<b>Very important</b>	<b>No response</b>
Financial self-sufficiency	10.3%	7.7%	23.1%	33.3%	25.6%
Increase destination visibility	2.6%	7.7%	23.1%	46.2%	20.5%
Facilitate new visitor markets	5.1%	10.3%	7.7%	53.8%	23.1%
Benefit the local community	2.6%	7.7%	15.4%	53.8%	20.5%
Offset seasonal arrival variations	2.6%	20.5%	20.5%	33.3%	23.1%
Need for disinterested party involvement	23.1%	30.8%	7.7%	5.1%	33.3%
Other (please specify)	2.6%	0.0%	2.6%	2.6%	92.1%

9. How does your organization currently fund tourism product development?

- Part of the annual budget.....48.7%
- Ad hoc basis .....25.6%
- No response .....25.6%

10. Does your organizational structure have a department or division dedicated to handling product development?

- Yes .....51.3%
- No.....35.9%
- No response .....12.8%

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