

CHRISTMAS ISLAND (KIRITIMATI)

TOURISM DEVELOPMENT AND MARKETING FEASIBILITY STUDY

Prepared for
Pacific Century Inc.

by the
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EXECUTIVE SUMMARY

1.0 INTRODUCTION

Kiritimati (Christmas Island), an atoll in the Central Pacific and part of the Republic of Kiribati, currently attracts approximately 1,100 visitors annually, primarily sports fishermen from the U.S. and workers connected with Japan's satellite tracking station on-island. The proposed construction of a space launching and landing site for Japan's National Space Development Agency (NASDA) by 2002 has given impetus to plans to increase the current volume of tourism and develop Kiritimati as a resort destination. This marketing feasibility study commissioned by Pacific Century Inc. assesses current tourist attractions and facilities, target markets, and competing Pacific island tourist destinations and recommends considerations for the development, management, operation, and marketing of an appropriate resort facility on Kiritimati.

2.0 TOURISM PRODUCT ASSESSMENT

The world's largest atoll, Kiritimati offers a diversity of fish and birdlife which are the primary natural attractions for visitors. These natural elements provide the bases for three of its four major visitor activities: recreational fishing, diving, and birdwatching. The fourth activity is related to technical support of the satellite tracking station maintained by NASDA which requires observers to travel to Kiritimati for varied lengths of stay. Future expansion of tourism will continue to depend on these four specialized market segments. Tourism facilities are limited on Kiritimati and consist of the government-owned and operated Captain Cook Hotel with 36 rooms and a smaller private hotel with 5 rooms.

3.0 VISITOR MARKETS

Because of its isolation and irregular air service, Kiritimati has had an erratic tourism history, with annual arrivals peaking at 1,170 in 1987. In 1995, visitor arrivals numbered 1,064. Geographically, the U.S. has provided the majority of visitors, primarily recreational fishermen who have accounted for between 66 and 78 percent of the total between 1993 and 1995. Japan accounted for 13 to 18 percent of the total visitors. Although their numbers are relatively small, nearly all visitors come for pleasure to Kiritimati and based on 1,000 visitors a year generate over US \$1,000,000 in expenditures on food, accommodations, and activities.

4.0 COMPETITIVE ASSESSMENT

The current visitor market to Kiritimati is limited both by geographic origin and trip purpose presenting considerable market risks. Because of its limited attractions and access, it is unlikely that Kiritimati will appeal to the general tourist market, and its potential lies in expanding its appeal in its current special interest market segments and targeting other outbound markets such as Australia, New Zealand and possibly Europe. Within the special interest markets, the dive market appears to offer the best

potential. From the standpoint of price competitiveness, Kiritimati is at a distinct disadvantage. It is currently accessible only through Hawaii, and most of its visitors represent long-haul markets who must be willing or interested enough in fishing or diving to pay the price differential of traveling to Kiritimati as opposed to more accessible Pacific island destinations which offer similar attractions.

5.0 CONSTRAINTS TO TOURISM DEVELOPMENT

Air Transportation. The most critical factor affecting further tourist development for Kiritimati is reliable air service. Because there are no large passenger volumes to and from Kiritimati, the level of airfares is higher than for similar distances to other Pacific island destinations and is currently dependent on government-subsidized charter flights. There are no convenient connections available through major hubs, and all travel is currently channeled through Hawaii. When regular charter service is available, it is offered on a once-a-week basis.

Infrastructure Development. Major improvements in supporting infrastructure will be required before a new resort facility and increased tourism can be accommodated. These include increased water and electricity capacity, installation of a sewerage and solid waste disposal system, construction and extension of roads, and improvement and extension of the terminal and airfield.

Economic Constraints. The increased income and revenues that tourism will bring to Kiritimati will be offset by the high cost of goods and services which will need to be wholly or partially imported from outside. Approximately 75 percent of gross tourist expenditures can be expected to leak out of the economy because of imports. Although increased tourism and a resort facility will make new jobs available to local residents, many of the skilled, mid-management, and management level jobs will need to be filled by expatriates initially.

Physical-Environmental Constraints. Because Kiritimati's tourism is based on its natural attractions, the cost of environmental deterioration in terms of lost opportunity would be greater than in other destinations. Dependence on fish stocks for sportfishermen and divers makes tourism especially vulnerable to any type of environmental degradation.

Socio-cultural Constraints. Tourism growth will affect cultural traditions, customs, and language and change the relative isolation that the residents of Kiritimati currently enjoy.

Education and Training. Tourism-related education and training programs to raise the employability of residents are not available on Kiritimati. Training needs include skills training, mid-management and management level training, language training, professional staff development for government personnel, and self-employment and entrepreneurial training to bolster the development of a stronger private sector role in the economy.

Health Facilities. The current level of health facilities and services is inadequate to support a large tourism volume. Serious medical cases and emergencies would need to be flown to Honolulu for treatment.

Finance and Investment. The investment risk for a resort hotel complex and supporting structure is great because of the economic constraints, costs of imports, and lack of transportation. There is almost no domestic investment in tourism and sources of foreign investment are unlikely to be channeled to tourism projects on Kiritimati. In order for tourism to succeed, government investment policies, regulation, tax incentives, and other measures would require more consideration.

Marketing and Promotion. To increase tourism arrivals to meet occupancy goals for the proposed resort, government will need to play a more active role. A concerted, well-funded marketing strategy based on a public-private sector partnership will need to be developed and implemented.

6.0 ALTERNATIVE TOURISM GROWTH SCENARIOS (1999-2000)

Three tourism scenarios using different growth rates are presented as planning examples - Conservative (10%); Middle (18%) and Target or High (28.5%). They incorporate demand-based assumptions using market and developmental constraints identified by the study and supply-based assumptions provided by Mitsubishi Corporation including the construction of a 100 to 150 room resort hotel and twice-a-week Honolulu/Kiritimati air service. The Conservative Scenario's annual growth rate is closest to the historical growth pattern on Kiritimati. Although the Middle and Target Scenarios would indicate that the desired occupancy rate for the resort hotel of 65 percent and the desired air load factor of 60 percent are achievable with higher growth rates, the scenarios are essentially supply driven. In the Target Scenario, the annual visitor arrivals of 14,707 expected by 2009 also comes close to All Nippon Airways' estimate of 15,000 annual visitors as the target necessary to consider commercial air service. However, the construction of a new resort hotel on Kiritimati and the availability of two flights a week in themselves are highly unlikely to generate an increase in primary visitor arrivals. Competitive factors including convenience, cost, available attractions, and consumer preferences are likely to play a more important role in determining whether more visitors will go to Kiritimati. To some degree, these factors will be affected by the marketing and promotion strategies which will be used by the owner/developer and the government, but it is likely that only a modest growth will be the result.

Growth Rates. The average annual growth rates are applied only to primary visitor arrivals (non-NASDA visitors) and the resulting scenarios illustrate varying points at which a desired 65 percent occupancy might be achieved for a new resort hotel.

Room Capacity. The proposed resort hotel will make another 36,500 room nights (100 room hotel) to 54,750 room nights (150 room hotel) available on Kiritimati. Each scenario has two versions presenting expected occupancies if the Captain Cook Hotel is retained or eliminated, reflecting the effect of competition on the projected occupancy room rates and profitability of the new resort hotel.

Occupancy Rates. For each scenario, two occupancy rates were calculated depending on average length of stay (ALS) and party size (average number of persons per occupied room). The current ALS of 7.0 days is expected to shorten to 4.0 days once an additional air flight is in place. The first "occupancy rate" applies the 1.5 party size to primary visitors (non-NASDA arrivals) only, assuming that each NASDA-related visitor would occupy one hotel room or a 1.0 party size. The second or "adjusted occupancy rate" applies a 1.5 party size to both primary visitors and NASDA-related visitors. However, it is important to note that NASDA-related visitors will be concentrated during certain weeks in the year and during these peak weeks hotel capacity may be inadequate.

Air Load Factor. All scenarios reflect twice-a-week Honolulu/Kiritimati flights by the year 2001 to illustrate the possible effect of more flights in increasing visitor arrivals. Assuming a B737-200 aircraft with 126 seats is used twice a week, the annual seat capacity would be 13,104. A breakeven passenger load is assumed at 60 percent. In the peak weeks when NASDA-related visitors are expected, passenger capacity may be inadequate, but this would not be the case during the rest of the year.

- **Conservative Scenario**

The conservative scenario assumes:

- Average annual growth rate 2000-2009 - 10%
- Once-a-week air charter service between Honolulu and Kiritimati, twice-a-week air service after 2001
- Average party size - 1.25 persons to 2000
1.50 persons after 2000
- ALS - 7 days to 2001; 4 days after 2001 (with twice-a-week air service)
- Hotel Rooms Available
Conservative Scenario A - 140 rooms
Conservative Scenario B - 100 rooms

By 2009, annual visitor arrivals are projected to be approximately 4,251. At that point, an overall hotel occupancy rate of 70 percent (or an adjusted occupancy rate of 51 percent) is projected if a 100-room resort hotel is added, and the Captain

Cook Hotel is retained. If the Captain Cook Hotel is eliminated, the occupancy rate at a 100-room resort hotel is projected to reach 97 percent (or an adjusted occupancy rate of 72 percent) by 2009. An air load factor of 32 percent is projected by 2009.

- Middle Scenario

The middle scenario assumes:

- Average annual growth rate 2000-2009 - 18%
- Once-a-week air service to 2001, twice-a-week air service after 2001
- Average party size - 1.25 person to 2001
1.50 persons after 2001
- ALS - 7 days to 2001; 4 days after 2001 (with twice-a-week air service)
- Hotel Rooms Available
 - Middle Scenario A - 140 rooms to 2006
190 rooms after 2006
 - Middle Scenario B - 100 rooms to 2006
150 rooms after 2006

By 2009, annual visitor arrivals are projected to be approximately 7,103. At that point, an overall hotel occupancy rate of 62 percent (or an adjusted occupancy rate of 49 percent) is projected if the Captain Cook Hotel is retained or 79 percent (or an adjusted occupancy rate of 62 percent) if the Captain Cook Hotel is eliminated. An air load factor of 54 percent is projected by 2009.

- Target (High) Scenario

The target scenario is the most optimistic and assumes:

- Average annual growth rate 2000-2009 - 28.5%
- Once-a-week air service to 2004, twice-a-week air service after 2004
- Average party size - 1.25 persons to 2001
1.50 persons after 2001
- ALS - 7 days to 2001; 4 days after 2001 (with twice-a-week air service)
- Hotel Rooms Available
 - Target Scenario A - 190 rooms after 2000
 - Target Scenario B - 150 rooms after 2000

By 2009, annual visitor arrivals are projected to be approximately 14,707. At that point, an overall hotel occupancy rate of 91 percent (or an adjusted occupancy rate of 78 percent) is projected if the Captain Cook Hotel is retained, or 116 percent (or an adjusted occupancy rate of 99 percent) if the Captain Cook Hotel is eliminated. An air load factor of 59 percent is projected by 2006 and would exceed capacity by 2009.

7.0 RESORT DEVELOPMENT ASSESSMENT AND RECOMMENDATIONS

Given the nature of the specialized visitor market segments attracted to Kiritimati and lack of transportation accessibility, the risk associated with a resort project is high. Therefore, the construction of a three-star facility is recommended in two phases: 100 rooms initially and 50 additional rooms after five years or at the point when visitor arrivals justify expansion. Construction of the resort hotel would be contingent on installation of adequate infrastructure including water, electricity, sewage disposal, and supporting services such as transportation and medical services. The proposed resort would also provide amenities such as a swimming pool, tennis courts, and fitness and entertainment centers which are not currently available on-island.

8.0 RESORT MANAGEMENT AND OPERATIONS

Information currently available is insufficient to develop a comprehensive or definitive financial feasibility analysis. Assuming a 150-room hotel is eventually completed and operating, an average room rate of U.S \$125 is used for revenue projections. Given the high risk of any Kiritimati hotel project, the contracting of services of a professional management company by the owner/developer will pose a major challenge. A management contract would probably need to be negotiated with a base fee rather than fees tied to performance or incentives tied to revenues. A ratio of 1.2 full-time equivalent employees per room is recommended for the proposed resort hotel. Because there are no training facilities for hotel management personnel, training will also be a major expense in order to operate the resort hotel at acceptable service standard levels. Much of the training for managerial staff will have to be outsourced and off-premise. It is anticipated that a number of key supervisory, mid-management, and management positions may need to be filled initially by expatriates.

9.0 MARKETING PROGRAM

In order to attract the primary markets for Kiritimati--recreational fishing, diving, ecotourists, especially birdwatchers or birders, and space-related educational tourists--the owner/developer of the resort hotel will need to employ a variety of promotional strategies. Because these markets rely heavily on extensive and accurate information about their destinations the first task will be to build an inventory of its attractions, features, and information that will provide the foundation for marketing efforts. Once this is done, marketing can focus on key activities to improve Kiritimati's standing and reputation in the diving, fishing, and ecotourism markets. These activities include the creation and distribution of promotional literature, advertising in key magazines,

networking at key travel and trade shows, conducting "fam" tours, and generating publicity for the island through special events. Several activities, such as generating a database of information, creating promotional material, and establishing contacts in the diving, fishing, and birding markets, can be pursued prior to completion of the hotel, while others (such as "fam" tours) will be more appropriate and effective after its completion.

10.0 COORDINATION WITH GOVERNMENT TOURISM POLICY

The role of government in tourism development affects many facets of the industry including transportation, environment, labor, education and training, immigration, taxation, and foreign investment. Of key importance to the development, management and operation of the proposed resort hotel are government policies affecting privatization of tourism facilities and services including the disposition of the Captain Cook Hotel; marketing and promotion of Kiritimati in partnership with the private sector; stringent regulation to protect Kiritimati's natural attractions; and the consideration of a duty-free zone for Kiritimati to reduce the cost of imports and improve its competitiveness with other Pacific island destinations. Government assistance should be enlisted to facilitate the development of the resort and ensure its financial viability.