Longwoods INTERNATIONAL

Making the Case for Michigan's Tourism Funding

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Highlights

This report extrapolates from Longwoods International's experience in evaluating the performance of numerous state tourism campaigns to Michigan's current budget situation. Specifically, we examined three funding scenarios for tourism promotion ranging from $10 million to $25 million. Each scenario conservatively generated a positive return to the state treasury of over 2:1 in incremental tax dollars. This suggests that cutting tourism funding in order to address budget shortfalls will backfire, yielding fewer dollars to pay for priority programs. Unlike virtually all other government programs, tourism is a revenue generator, not a cost to the state treasury. Our findings demonstrate clearly that enhanced funding, not cutting back on marketing Michigan's $12.8 billion travel industry, is the wiser course from a public policy perspective.

Situation Analysis

Tourism represents big business for Michigan. According to the Travel Industry Association of America, visitors to the state spent $12.8 billion in 2000, generating:

- 173,000 full-time job equivalents
- $3.8 billion in wages
- $669 million in state taxes
- $142 million in local taxes

Despite these huge impacts, the budget for Travel Michigan, the state's tourism marketing agency, has been under increasing pressure. This is no surprise, given Michigan's current fiscal situation, and the need to eliminate a large budget shortfall in 2004. Governor Granholm has committed to cut over $1 billion from the budget, and to eliminate the deficit without raising taxes. Tourism promotion is being cut 10.9%, or $700,000, in the 2004 Executive Budget.

Preserving jobs is one of the administration's stated budget priorities, based on consultation with the public. Paradoxically, despite the importance of tourism to Michigan's economy, fewer dollars will be spent to attract more visitors to the state.

The Michigan situation is far from unique. In today's economy, many governments, federal, state, and local, are facing deficits and looking for ways to cut costs. Our company has conducted many public opinion polls on fiscal issues to help governments

manage deficit reduction and design their budgets. When queried on their priorities, people typically put programs such as education, public safety, and health care at the top of the list. We've yet to see a poll that identifies tourism promotion as a key issue for voters. Since many politicians are highly influenced by public opinion, it's a usually a major challenge just to preserve tourism budgets, let alone justify an increase.

Longwoods International has also specialized in tourism since 1985, and has worked for clients in seven countries, 32 U.S. states, and eight Canadian provinces. We have consulted to both tourism industry leaders and their political masters, including governors, mayors, legislators, treasurers, and state budget committees, and have listened to their viewpoints and concerns. We have also had the benefit of conducting research on several million members of the traveling public that can bring hard data into the debate. From that research, we have come to conclude that there is indeed a strong public policy basis for funding tourism promotion that goes far beyond the traditional economic impact argument. Our analysis of the performance of numerous destination marketing campaigns provides hard evidence that cutting tourism promotion budgets will actually lead to ***fewer*** dollars for priority programs, not more.

In this paper, we will share with you an overview of that research, and then we will use our experience with other jurisdictions to conservatively estimate the likely return to the state treasury on Michigan's investment in tourism promotion.

Making the Case for Funding

1. Using Economic Impact Data

Having good economic data represents one key pillar for making the funding case. However, we have observed that trying to justify tourism budgets on the basis of economic impact alone is usually not sufficient to convince budget decision-makers to maintain or increase funding levels, especially in tough economic times. There are several reasons why this is the case. First, the huge numbers from economic impact models, such as Michigan's $12.8 billion in expenditures, tend to make the audience's eyes glaze over. While impressive, they are simply too large to relate to.

Taking the numbers down to a human level, e.g., "The tourism industry generates over $1,200 for every man, woman, and child living in Michigan," can help somewhat. However, the much larger problem is that destination marketing organizations often take credit for top-line economic numbers, instead of being accountable for the component that can be directly and conservatively attributed to their marketing efforts.

Our research shows that there are many reasons why tourists visit a destination beyond advertising and promotion, such as habit, word of mouth, convenience, visiting family and friends, etc. In addition, there are a number of external factors beyond the control of the marketer that can impact the top-line numbers positively or negatively, such as the economy, the weather, wars, terrorism, SARS and West Nile Disease, in some cases far more dramatically than marketing. In many studies evaluating destination campaigns, we have found that promotion typically accounts for only a minority of tourism impacts, in comparison to extraneous factors. This is the case even with clients with excellent marketing programs that are driving significant business to their venues.

A few years ago, the Hawaii tourism industry fell into the common trap of taking credit for the top line. In the boom times of the 1980's, they went to the government asking for more money for tourism, and they got it with the promise that it would lead to economic growth. Sure enough, the numbers went up. Then, when recession hit in the early 1990's, Hawaii's tourism business plunged precipitously, just after the state promotion budget had been given a hefty increase.

Not surprisingly, the response from legislators was outrage. Some accused the industry of lying. The skeptics drew the seemingly logical argument that, the more money they gave for tourism promotion, the fewer the number of people would come to Hawaii. As a result, the Joint Budget Committee of the Hawaii legislature threatened to eliminate state funding for tourism entirely in 1999.

During the same time period, New Jersey had the reverse problem with economic impact numbers. From 1991-1993, the tourism budget was slashed repeatedly because of disagreements between the Democrats, who controlled the executive branch, and Republicans who controlled the legislative branch. However, the economy was coming out of recession during that period, and New Jersey's visitation numbers actually grew despite the budget cuts. A few legislators questioned whether chopping the budget further would bring even more visitors to the Garden State!

These two examples clearly illustrate the fallacy of hanging your hat on top-line visitation and economic impact numbers. Such data can be useful for demonstrating the importance of tourism to the state economy, but misleading if the intent is to demonstrate the success of your marketing programs.

2. Getting to the Bottom Line

The key issue with economic impact numbers is that they represent the top-line value of travel and tourism, not the smaller component that reflects just the contribution of marketing. As a result, economic impact data are only indirectly related to the real issue

facing budget decision-makers: “If I put money into tourism, instead of education or paving roads, what does the state get back in return?”

In our experience, the most compelling case is not to demonstrate that return in terms of expenditures by tourists, since most of that goes to the private sector. Instead, we prefer to define ROI conservatively as the **return on state tax dollars for every dollar spent on promotion**. If the state treasury receives significantly more than one dollar in taxes for every dollar invested, then we have a compelling public policy case for funding tourism marketing.

Tourism promotion then becomes a net revenue generator, not a cost, to taxpayers. It doesn’t compete with priority programs; it helps pay for them. It’s an investment to help lure more tourists to your state, who will spend more money and generate even more tax dollars for your residents.

While decision-makers want a direct answer on ROI, the solutions provided by the research industry have traditionally fallen short of their needs. Standard practice in advertising research is to conduct tracking surveys before and after a campaign to look at changes induced by advertising. This typically generates a host of useful diagnostics to agencies and their clients in terms of short-of-sales measures, such as awareness, image shifts, and purchase intentions. But the traditional methodologies, while useful to marketers, do not get to the bottom-line question of the impact of marketing on sales, and in the case of state tourism, tax dollars.

Within the tourism industry, a unique paradigm emerged in 1974 called the “Conversion Study,” which purported to measure to measure the ROI of tourism campaigns. This approach, while widely adopted and still used within tourism, was discredited in the late 1980’s for producing inflated numbers. The U.S. Department of Commerce convened a task force of experts to investigate the Conversion Study and to set standards and guidelines for evaluating tourism marketing campaigns. Longwoods Chairman, Dr. Bill Siegel, was invited to participate, and he published his conclusions in the **Journal of Travel Research** in 1990.

At the same time, accountability was becoming a key issue for our clients, and we responded by developing the **Longwoods ROI Model**, a highly conservative approach to tracking the bottom-line impacts of tourism promotion. Since 1991, we have validated and refined the approach with numerous states and provinces, cities, regions, and private sector clients, and have conducted approximately 50 research studies measuring the return on investment of their campaigns.

The Longwoods ROI Model combines the best features of traditional advertising tracking research and conversion studies. It adds proprietary control procedures that back out the impact of people who would have come even if there were no campaign. It has gone through intense scrutiny by academics and economists. It has won awards for best practices in research and tourism from the Travel & Tourism Research Association and in a study conducted by Georgia Tech, which was funded by the U.S. Economic Development Administration. Most importantly, it has provided the fundamental argument for preserving and enhancing our clients' budgets.

In the case of New Jersey, the budget cuts of the early 1990's were reversed by Governor Christine Todd Whitman, starting in 1994. While most departments were initially subjected to cuts, Governor Whitman made an exception for tourism, citing Longwoods International's positive ROI numbers for the Garden State.

You may recall that the legislature had threatened to cut Hawaii's tourism budget to zero in 1999 for lack of accountability. Our first ROI study for that state had been scrutinized for two years by the Accountability Task Force chaired by the chief economist of the Bank of Hawaii. Members were appointed by Governor Cayetano to provide him with independent counsel on our research.

The results came in positive, and we were asked to present them at budget hearings in the legislature. Immediately afterwards, the Accountability Task Force gave a strong endorsement of our findings. The headline in the Honolulu press the next day was "Lawmakers Welcome Study of Marketing." The legislature backed off its threat to eliminate funding, and Governor Cayetano came up with an extra $10 million in emergency funds for advertising Hawaii in the U.S. and Japan. Longwoods tracked the results in both markets, and they came back positive as well. Shortly after, the governor and legislature approved more than doubling Hawaii's tourism budget to $60 million.

That was a few years ago. Even in these difficult economic times, states such as Colorado, Maine, North Dakota, and Ohio have secured major budget increases by demonstrating accountability and a positive ROI to taxpayers from tourism promotion.

3. Projecting Michigan's ROI under Three Funding Scenarios

Next, we extrapolate from Longwoods International's experience in evaluating the impact of destination campaigns to the Michigan situation. Specifically, we will present highly conservative ROI estimates for three scenarios which assume that Travel Michigan's promotion budget is increased from its current level of $5.7 million to:

(a) $10 million
(b) $20 million
(c) $25 million.

Our methodology takes into account the following considerations:

- Norms were obtained using Longwoods International's U.S. state data, but excluding Hawaii and Alaska. The latter have very long planning cycles and low conversion rates relative to Michigan, because of extreme distance and cost factors.
- The key measure we derived from this database was ***incremental trips generated per media dollar spent on advertising***. We have found this to be the fairest measure of campaign efficiency because of major differences among states in:
    - tax structure
    - average expenditures per trip
    - mix of day and overnight trips
- We estimated the impact of advertising media expenditures only, because other important components of the promotion budget, such as web and public relations, are much more difficult to measure.
    - This is a very conservative approach, since our final ROI estimates for Michigan are based on the entire promotion budget, not just the media component.
- Travel Michigan provided us with information on the following information for the state, which we used as input to our calculations:
    - percentage of the total promotion budget allocated to media buy for each of the three funding scenarios
    - average spending per person per trip (overnight and day trips)
    - mix of day and overnight trips
    - state taxes per dollar of visitor spending
- We built in a safety factor of 40%, to allow for unforeseen factors that could lead to performance problems. These could include such issues as creative, media buying, the economy, weather, natural disasters, etc.

The following projections should be viewed as very conservative performance targets based on data from other states. Actual ROI results for Michigan's tourism program could be lower or higher than these targets.

Promotion Budget	Media Budget	Incremental Spending	Incremental State Taxes	ROI
$10 Million	$7.5 Million	$436 Million	$22.8 Million	2.28:1
$20 Million	$16 Million	$931 Million	$48.7 Million	2.43:1
$25 Million	$21.25 Million	$1,236 Million	$64.6 Million	2.59:1

Our estimates indicate that, at a minimum, spending $10 million on promoting Michigan tourism should generate an incremental 1.60 million day trips and 1.58 million overnight trips to the state. These represent visitors who would not come in the absence of the campaign. They are projected to spend $436 million on their trips, which will add $22.8 million to state coffers. For every dollar of public funds allocated to tourism promotion, $2.28 will be returned to the treasury in tax revenue to help pay for priority programs and reduce the deficit.

A $25 million dollar promotional budget would be expected to generate an even higher return of 2.59:1, adding an additional $1.236 million in economic stimulus to the state, and $64.6 million to Michigan's treasury. These benefits would accrue short-term, with the returns occurring within a year of the marketing expenditures.

Unlike most other programs, tourism promotion is clearly a net revenue generator, not a cost to the Michigan taxpayer. Providing adequate funding to entice more visitors to your state represents a major opportunity in difficult times, both to stimulate the economy and to take market share from competitors who fail to recognize the wisdom of investing in their tourism asset.