

**Funding Washington State's
Tourism Promotion:
A White Paper**

November 2005

Highlights

This report extrapolates from Longwoods International's experience in evaluating the performance of numerous tourism campaigns to Washington State's current budget situation. Specifically, we examined four scenarios for tourism funding promotion ranging from the current level of \$3.6 million to \$10 million. Each scenario conservatively generates a positive return in incremental tax dollars. Unlike virtually all other government-funded programs, tourism is a revenue generator, not a cost to taxpayers. Our findings demonstrate clearly that enhanced support of tourism marketing is a wise course from a public policy perspective.

Situation Analysis

Tourism is big business for the state of Washington. According to a study conducted by Dean Runyan and Associates, visitors spent more than \$10 billion in Washington in 2004 and generated:

- Nearly 130 thousand direct full-time job equivalents
- Nearly \$3 billion in direct industry earnings (wages, salaries, and proprietor income)
- \$454 million in direct state taxes
- \$235 million in direct local taxes

To further underscore the importance of tourism to Washington's economy, a recent study conducted for the Department of Community, Trade and Economic Development, also by Dean Runyan and Associates, concluded with the following "Implications."

The travel industry ranks among the leading export-oriented industries in Washington State in terms of its contribution to Gross State Product. Only the software industry has a significantly higher impact. Additional advantages of the travel industry include:

- The travel industry is labor intensive. It generates a large number of entry-level positions and opportunities for small business ownership.

- The travel industry generates a high proportion of tax revenue in relation to its Gross State Product. Visitors pay most of these taxes and local governments receive many of the benefits.
- The growth of the travel industry has historically been positive and relatively stable. This is likely to continue given the demand for leisure as household earnings rise.

A further study into Travel Industry Employment conducted by Runyan clearly demonstrates the importance of tourism jobs to rural regions of the state and the high number of proprietors in the tourism industry.

All of these points are pertinent to a number of Governor Gregoire’s stated priorities for the State of Washington:

- A commitment to create 250,000 new jobs
- A commitment to regional development
- A commitment to small business

Yet despite the importance of the industry, the huge impacts that it is already delivering and the promise that it holds for achieving the administration’s objectives, Experience Washington, the state’s tourism marketing group, has been only modestly successful in securing increases in funding for its marketing efforts (increases totaling approximately 10% between 2002 and 2005).

The State’s current marketing budget of \$3.6 million places Washington in 44th position out of the 47 states that responded to the Tourism Industry Association’s recent survey of State Tourism Offices.

To provide a more regional look at the situation, the following chart presents recently gathered data on 2004/2005 tourism promotion budgets (from the Tourism Industry Association), resident population bases (from U.S. and Canadian census data), and the resulting tourism promotion spending per capita for 13 western states and the province of British Columbia, each of whom market their respective tourism product to Washingtonians and in many of Washington’s tourism markets.

State/Province	Population	Tourism Budget <i>in millions</i>	Per Capita Spending
Hawaii	1,262,840	\$69.0	\$54.64
Wyoming	506,529	\$6.8	\$13.49
Alaska	655,435	\$8.8	\$13.46
British Columbia	4,196,400	\$50.0	\$11.91
Montana	926,865	\$8.3	\$8.97
Nevada	2,334,771	\$11.3	\$4.85

Idaho	1,297,274	\$6.0	\$4.66
Arizona	5,743,834	\$15.9	\$2.78
Oregon	3,582,600	\$9.3	\$2.61
Colorado	4,601,403	\$8.0	\$1.73
Utah	2,389,039	\$3.9	\$1.63
Texas	22,490,022	\$30.5	\$1.36
Washington	6,256,400	\$3.6	\$0.57
California	30,270,081	\$8.2	\$0.27

Among these fourteen competitors, Washington ranks 14th in terms of tourism promotion budgets and 13th in terms of tourism promotional spending per capita.

Longwoods International has specialized in tourism since 1985, and has worked for clients in seven countries, 34 U.S. states, and eight Canadian provinces. From that research, we have come to conclude that there is indeed a strong public policy basis for funding tourism promotion. Our analysis of the performance of numerous destination marketing campaigns provides hard evidence that spending public funds on tourism helps pay for other high priority government programs and can help keep taxes lower.

In this paper, we will share with you an overview of that research, and then we will use our experience in many jurisdictions, including your state, to conservatively estimate the likely return on investment in tourism promotion for the state of Washington

The Case for Tourism Funding

1. What Happens When You Cut Tourism Budgets?

The Colorado story is unique, as it became the only state to completely eliminate funding for tourism promotion. In 1992, voters shot down the tax of 0.2 percent on tourism-related expenditures that provided funding for the Colorado Tourism Board. This led to the elimination of state tourism promotion following a highly successful campaign which, with a budget of approximately \$12 million annually, helped change Colorado's image, and turned it from a regional to a national fly-in destination with cachet.

The results were catastrophic. Within two years, Colorado's share of the U.S. tourism market dropped by over 30%. The loss in tourist spending annually was almost \$2 billion. In the summer resort segment, Colorado dropped from first place nationally to 17th. The losers were not only the tourism industry, but also taxpayers across the state.

As the evidence grew of this disaster, some money for promotion was restored a few years ago by the legislature and Longwoods International was hired to track the results. The results show an excellent return on investment, and are regularly cited in the ongoing battle for funding Colorado tourism.

2. Using Economic Impact Data

Having good economic impact data and sound tracking of total visitor traffic are key pillars for making the funding case. However, we have observed that trying to justify tourism budgets on the basis of top-line economic impact and visitor volume is usually not sufficient.

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, value/cost, 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, and epidemics, in some cases far more dramatically than marketing. As examples, we can cite 9/11, terrorist attacks in London, tsunamis, recent hurricanes in Florida and the Gulf Coast, Colorado's wildfires, SARS in Hong Kong and Toronto, etc.

For example, a few years ago, the Hawaii tourism industry fell into the common trap of taking credit for the top-line numbers. When a 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 on the basis of the top-line success of earlier years. As a result, the Joint Budget Committee of the Hawaii legislature threatened to eliminate state funding for tourism entirely in 1999.

Another example illustrates how top-line tourism numbers actually increased at a time when budgets were being severely cut. From 1991 to 1993, the New Jersey State tourism's advertising budget was reduced from \$4.5 million to \$1.6 million. During that same period, New Jersey's visitation numbers (and the resulting economic impacts) actually increased. Some legislators drolly suggested that if the budget had been cut even more, that visitation to New Jersey would have been even higher! The likely reason for the increase was that the economy was growing rapidly during this period after several years of recession.

These 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 economy, but misleading if the intent is to demonstrate the success of marketing programs.

3. Getting to the Bottom Line

The real issue facing budget decision-makers is this: “If we put money into tourism, instead of education or paving roads, what do we 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 return on investment (ROI) conservatively as the **return on tax dollars for every dollar spent on promotion**. If the 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 is an investment to help lure more tourists to your destination, who will spend more money and generate even more tax dollars for your residents.

Because accountability is a key issue, our firm developed **Longwoods R.O.EYE™**, a highly conservative methodology for tracking the bottom-line impacts of tourism promotion. Since 1990, we have validated and refined the approach with numerous states and provinces, cities, regions, and private sector clients, and have conducted many research studies measuring the return on investment of their campaigns.

In the New Jersey example cited above, we had a situation in which the Garden State's overall visitation numbers grew during the campaign period, although campaign spending had dropped. Because the **Longwoods R.O.EYE™ method** isolates advertising influenced trips from trips affected by other factors, we were able to demonstrate that, by spending \$2.9 million less in promotion from 1991 to 1993, the result was actually 3.2 million fewer trips and a loss of \$52 million in tax dollars. Based on the demonstrated reduction in ROI of the advertising, Governor Christine Todd Whitman subsequently restored funding for tourism promotion.

In Hawaii's case, award-winning research demonstrated strong ROI for campaigns conducted in both the U.S. mainland and Japan. As a result, instead of following through on the threat to cut the budget to zero for lack of accountability, the Hawaii legislature actually doubled the budget from \$30 million to \$60 million.

The key to making the case for campaign ROI with credibility is to employ very conservative control procedures that back out trips that would have occurred anyway. We believe that our controls are indeed very conservative. Not only do they attribute only a small minority of visitation to marketing, in a few cases we have actually measured zero ROI!

4. Projecting Washington's ROI

We can apply Longwoods International's experience in evaluating the impact of destination campaigns to the Washington situation. Specifically, we will present highly conservative ROI estimates for four scenarios:

- (a) \$3.6 million – the current funding level
- (b) \$5.0 million – an increase of \$1.4 million
- (c) \$7.2 million – an increase of \$3.6 million
- (d) \$10 million – an increase of \$6.4 million

Our methodology takes into account the following considerations:

- The key measure to use in determining ROI is ***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 destinations in tax structure and average expenditures per trip.
 - Longwoods estimates that **the normative number of incremental trips generated per media dollar spent on advertising is .48 trips**. The norm is based on data from those studies that we have determined to be most pertinent to the Washington case in terms of such variables as distance to market and market population density.
- We estimated the impact of advertising media expenditures only, because other components of the state promotion budget, such as web and public relations, while essential to the overall marketing program are much more difficult to measure in terms of tax return on investment.

- This is a very conservative approach, since our final ROI estimates for Washington are based on the entire promotion budget, not just the media component.
- Estimates of the amount of media spending for each funding level were based on the following parameters, with estimates provided by Experience Washington:
 - For each budget scenario, we have assumed that the majority of the increase would be dedicated to media, and that ad production costs would remain fairly constant because:
 - Fixed costs/overheads for Experience Washington do not need to grow proportionately as the media negotiation and placement are already outsourced to the Tourism Office’s ad agency. As a result, there would be no need for any increase in FTEs or other overhead costs.
 - It makes sense to put the majority of the additional funds into advertising because it can be measured in terms of ROI.
 - Finally, if the advertising message is working, there is no need to spend dollars on new creative. Instead, the focus can be on increasing both audience reach and frequency with the additional funds.
- We used as input to our calculations:
 - Average spending of \$364 per person per overnight trip and \$73 per person per day trip. This amount is based on data from **Washington State Statewide Travel Impacts & Visitor Volume 1991-2004**, prepared by Dean Runyan Associates.
 - State and local taxes per dollar of visitor spending are based on the same study.
- We arbitrarily reduced our projections of campaign ROI by 20% as a conservative safety factor to allow for unforeseen events that could lead to performance problems. These could include such variables as advertising creative, media buying, the economy, weather, etc.

The following projections should be viewed as conservative performance targets based on data from other destinations, including an earlier study conducted specifically for Washington by Longwoods International. Actual ROI results for Washington’s tourism program could be lower or higher than these targets.

Total Tourism Budget	Campaign Media Budget	Incremental Spending	Incremental Taxes	ROI
\$3.6 Million	\$.72 Million	\$67 Million	\$4.5 Million	1.3:1
\$5.0 Million	\$1.7 Million	\$158 Million	\$10.7 Million	2.1:1
\$7.2 Million	\$3.2 Million	\$301 Million	\$20.4 Million	2.8:1
\$10.0 Million	\$5.3 Million	\$497 Million	\$33.7 Million	3.4:1

Our estimates indicate that the current tourism budget of \$3.6 million, which includes a media expenditure of \$720 thousand, should generate an incremental 275,000 day and overnight trips to the state, versus no promotion. These represent 275 thousand visitors who would not come in the absence of the campaign. They are projected to spend \$67 million on their trips, which will add \$4.5 million to state and local coffers. For every dollar of public funds allocated to tourism promotion, we expect that \$1.25 will be returned in tax revenue to help fund needed public programs throughout the state.

If this budget is increased by \$1.4 million to a total of \$5 million, the amount projected to be spent on media would increase to \$1.7 million and would generate more than 650,000 new visitors who would spend \$158 million in the state of Washington and contribute \$10.7 million in state and local taxes, a return of better than 2:1 in the short term.

If the budget is doubled to \$7.2 million, we estimate that this would be expected to generate an overall return of 2.8:1, representing 1.25 million additional visits, \$301 million in economic stimulus, and \$20.4 million for the state and local treasuries. These benefits would accrue short-term, with the returns occurring within a year of the marketing expenditures.

The overall return on a \$10 million budget would rise to 3.4:1, yielding 2.1 million visitors that would not otherwise have come, incremental visitor spending of \$497 million and \$33.7 million in taxes on that spending (\$11.5 million of which goes to local governments).

Unlike most other programs, tourism promotion is clearly a net revenue generator, not a cost to the taxpayer. Providing adequate funding to entice more visitors to your destination represents a major opportunity both to stimulate the economy and to take market share from competitors who fail to recognize the wisdom of investing in their tourism assets. Research conducted for many destinations and projected to Washington State suggests that increasing tourism funding would provide a generous return on that investment.

A Sampling of Longwoods' Client Experience

- U.S.
- Canada
- France
- Quebec
- Ontario
- Alberta
- Maine
- Vermont
- New Jersey
- West Virginia
- Tennessee
- Georgia
- West Virginia
- Ohio
- Michigan
- North Dakota
- Colorado
- Wyoming
- Montana
- Arizona
- Washington
- Oregon
- Hawaii
- Alaska
- Toronto
- Northern Ontario
- Virginia Beach
- Fredericksburg
- Virginia Beach
- Philadelphia
- Pittsburgh
- Baltimore
- Atlantic City
- Corning NY
- Tampa
- Columbus
- Grand Rapids
- Denver
- Vail
- Reno
- Maui
- Princess Cruises
- Gray Line Worldwide
- Tauck World Discovery
- National Tour Association
- General Motors
- Procter & Gamble
- RBC Royal Bank