

**Funding Connecticut's  
Tourism Promotion:  
A White Paper**

May 2012

## Highlights

**This report extrapolates from Longwoods International's experience in evaluating the performance of numerous tourism campaigns to Connecticut's budget situation. Specifically, we examined the travel spending and tax impacts of the current funding level of \$15 million (which leaves \$14.25 million available for tourism promotion). This 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 continued support of tourism marketing is a wise course from a public policy perspective.**

**We also evaluated the impact of a \$16 million funding plan, the amount required to make \$15 million available for tourism promotion and an \$18 million funding plan.**

**Additionally, we examined the impacts of two and four million dollar reductions of the current budget. These scenarios, while still generating positive returns, generate significantly less return than the current budget level.**

## Situation Analysis

Tourism is big business for the State of Connecticut. According to an economic impact study conducted by the Connecticut Center for Economic Analysis, (University of Connecticut) for the 2004 travel year, found that:

- Nearly 6.5% of the state's workforce derived its livelihood from tourism activity
- Connecticut businesses realized \$11.5 billion in sales that they would not otherwise have had were it not for the travel and tourism industry
- Almost 5% of Connecticut's state and local revenues (\$1.15 billion) arise from travel and tourism activity.

Tourism impacts on Connecticut's economy are clearly substantial; never-the-less, in 2011 tourism marketing funding was cut to one dollar and while the funding was reinstated in 2012, the new budget remains under pressure.

Connecticut's 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. 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 usually a major challenge just to preserve tourism budgets, let alone justify an increase.

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 to conservatively estimate the likely return on investment in tourism promotion (the current \$15 million budget) for the State of Connecticut.

## **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 17<sup>th</sup>. The losers were not only the tourism industry, but taxpayers across the state.

As 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 ROI, 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. As examples we can cite 9/11, terrorist attacks in London, tsunamis, hurricanes in Florida and the Gulf Coast, SARS in Hong Kong and Toronto, etc.

For example, some 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 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 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 Connecticut's ROI

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

- (a) \$15 million - the current budget for fiscal year 2012
- (b) \$16 million - the Statewide Tourism Marketing fund needed to make \$15 million available for tourism promotion
- (c) \$18 million – an increase of \$3 million over the current budget
- (d) \$13 million – a decrease of \$2 million from the current budget
- (e) \$11 million – a decrease of \$4 million from the current budget

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 .87 trips**.
- We estimate the impact of advertising media expenditures only, because other components of the State promotion budget, such as social media 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 Connecticut are based on the entire budget available to tourism, not just the media component.
- Estimates of the amount of media spending at each of the budget levels were based on estimates provided by the Connecticut Department of Economic and Community Development's Office of Tourism.
- We used as input to our calculations:
  - Average spending of \$165 per person per overnight trip and \$58 per person per day trip (based on the Longwoods' 2010Travel USA®, our syndicated travel tracking study).
  - State and local taxes per dollar of visitor spending are based on our experience in having seen the results of numerous state level economic impact studies. From those studies we estimate that approximately 7% of visitor spending goes to either state or local taxes.
  - We strongly recommend that an economic impact of tourism study be undertaken in the near future to confirm this estimate.

- 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. Actual ROI results for Connecticut’s tourism program could be lower or higher than these targets.

Statewide Tourism Marketing Fund	Available to Tourism	Tourism Media/Ad Budget	Total Incremental Visitors	Total Incremental Visitor Spend	Tax Dollar Return	ROI
\$15,000,000	\$14,250,000	\$6,960,000	4.83 Million	\$585,420,000	\$41,000,000	2.88
\$16,000,000	\$15,000,000	\$7,710,000	5.35 Million	\$648,500,000	\$45,400,000	3.03
\$18,000,000	\$17,000,000	\$9,000,000	6.25 Million	\$757,000,000	\$53,000,000	3.12
\$13,000,000	\$12,250,000	\$5,000,000	3.47 Million	\$420,560,000	\$29,500,000	2.40
\$11,000,000	\$10,250,000	\$4,000,000	2.77 Million	\$336,450,000	\$23,500,000	2.30

Our estimates indicate that the current Connecticut Statewide Tourism Marketing Fund of \$15 million should generate an incremental 4.8 million day and overnight trips to the state, versus no promotion. These represent nearly 5 million visitors who would not come in the absence of a campaign. They are projected to spend \$585 million on their trips, which will add \$41 million to state and local coffers in direct taxes. For every dollar of public funds available to tourism promotion, we expect that \$2.88 will be returned in tax revenue to help fund needed public programs throughout the state. These benefits would accrue short-term, with the returns occurring within a year of the marketing expenditures.

In comparison, the \$16 million Statewide Tourism Marketing Fund level (making \$15 million available for Tourism promotion) would deliver nearly 5.4 million incremental visitors who would spend nearly \$650 million, resulting in more than \$45 million in incremental taxes and a return of 3:1. The \$18 million funding level would further enhance the impacts, driving over six million incremental visitors who would spend more than \$750 million and leave behind \$53 million in direct state and local taxes.

The impact of a \$2 million decrease from the current funding level would be significant. We estimate that a \$13 million dollar funding level would deliver 1.3 million fewer visitors, \$165 million less visitor spending in Connecticut and more than \$10 million fewer tax dollars.

If the budget were reduced to \$11 million (a \$4 million dollar reduction from the current funding level) the resulting losses are substantial – two million fewer visitors, \$250 million less in visitor spending and \$17 million in lost tax dollars for state and 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 Connecticut suggests that funding tourism provides a generous return on that investment.**



## A Sampling of Longwoods' Client Experience

### Tourism Clients

- U.S.
- Canada
- France
- Quebec
- Ontario
- Alberta
- Maine
- Vermont
- New Jersey
- West Virginia
- Tennessee
- Georgia
- West Virginia
- Ohio
- Louisville
- California
- Michigan
- North Dakota
- Colorado
- Wyoming
- Montana
- Arizona
- Ohio
- Oregon
- Hawaii
- Alaska
- Arkansas
- Toronto
- Northern Ontario
- Virginia Beach
- Fredericksburg
- Virginia Beach
- Philadelphia
- Pittsburgh
- Baltimore
- Atlantic City
- Corning NY
- Tampa
- Columbus
- Grand Rapids
- Denver
- Kansas City
- Louisville
- New York City
- New York State
- Pennsylvania
- Vail
- Reno
- Maui
- Princess Cruises
- Gray Line Worldwide
- National Tour Association
- Tauck World Discovery

## **Private Sector Clients**

- General Motors
- Procter & Gamble
- RBC Royal Bank
- Bell Canada
- United States Postal Service
- Canada Post
- United States Navy
- Whirlpool
- The Globe And Mail
- Labatt Breweries Canada