What's at Stake When Destinations Stop Marketing

The Power of Travel Promotion

U.S. TRAVEL
ASSOCIATION

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INTRODUCTION

Investing in travel promotion creates a virtuous cycle of economic benefits. Promoting a destination generates awareness and delivers additional visitors, who spend money at local attractions, hotels, retail, restaurants and transportation. This spending supports jobs and generates additional tax revenue for state and local governments to invest in public services for residents and visitors alike.

Like any product, travel destinations are brands that require investment to remain relevant, attractive and competitive. Destination marketing has proven effective at inspiring interest in a destination, growing tourism and supporting local businesses.

Decreasing investment in travel promotion, however, can have an immediate and long-term negative impact. As seen in the following case studies, destinations that have reduced their investment in travel promotion experienced a decline in overall visitation and missed out on potential economic benefits, including less travel spending and lower tax revenue. Without effective promotion, states and cities cede these benefits to competing destinations.

United States: What Happens Without Promotion

The competition for travelers is taking place not only at the state and local level, but at the national level as well. Until recently, the U.S. has remained on the sidelines—at a significant economic cost. As a recent U.S. Travel Association report, *Ready for Takeoff*, despite a global boom in travel over the past decade, the U.S. experienced virtually zero growth in overseas travelers.

Just the failure to keep pace with global long-haul travel cost the U.S. 78 million lost visitors; $606 billion in lost total travel and tourism output that could have supported 467,000 jobs annually; and $37 billion in lost direct travel-generated tax revenues. Imagine the economic benefits that might have accrued had the U.S. actually fought to increase market share, just as our travel competitors in Canada, Mexico, Australia and other nations did.

A National Loss

International travel and tourism to the United States is also impacted by promotion. Between 2000 and 2010, as global travel grew at unprecedented rates, the U.S. saw virtually zero growth in overseas arrivals. This resulted in:

- **$606 billion in lost spending;**
- **$37 billion in lost tax revenues;** and
- **467,000 lost jobs.**[1]

Fortunately, the U.S. has decided to join the competition. In 2010, Congress passed, and President Obama signed into law, the Travel Promotion Act. This law resulted in the creation of the Corporation for Travel Promotion—a public-private partnership authorized to spend up to $200 million annually to promote travel to the United States.

Losing Visitors Quickly Wipes Out Any Budget Savings

Cutting investments in travel promotion may appear to be an easy path to budget savings. But research by IHS Global Insight & D.K. Shifflet & Associates demonstrates that these budget savings are illusory because the subsequent decrease in travelers—and the tax revenues generated by their spending—wipes out any savings and leaves state and local governments further in the hole.[2]

In fact, losing just a small fraction of visitors quickly negates the temporary savings that come from even as radical a step as eliminating travel promotion budgets. For example, in Delaware, a reduction of just 0.8 percent in leisure trips would cancel out all the savings from shutting down promotional efforts. In North Carolina, a loss of just 0.5 percent of visitors would result in a net loss of tax revenues. In Utah, losing just 1.5 percent of visitors would undo every penny of savings achieved from eliminating the travel promotion budget for the state.[3]

Colorado: What Happens When States Stop Marketing

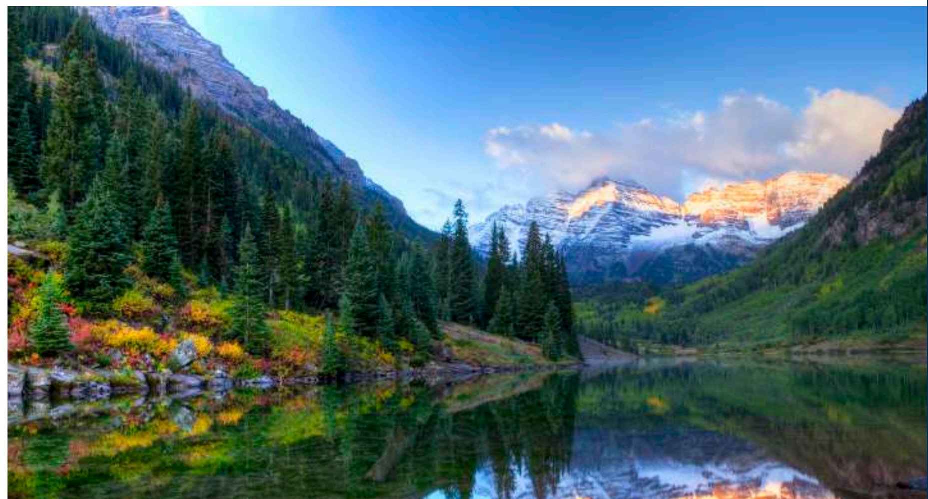
After the state of Washington took the drastic step of eliminating all tourism promotion efforts, Al White, the current head of the Colorado Tourism Office had a simple message: "Our lesson to [the state of] Washington is that it's been 18 years since we went dark in 1993, and we still haven't gotten back to the national market share we had."[4]

Colorado offers a vivid example of how even the most dramatic, well-known destinations—and travel brands—can suffer when they fail to promote themselves. According to a 2009 report, *The Rise and Fall of Colorado Tourism*, when Colorado shut down its travel promotion program in 1993 by cutting the state's promotion budget from $12 million to zero almost overnight, the consequences were immediate and dramatic:[5]

- Within one year, Colorado slipped from first place to 17th place in the summer resort category;[6]
- By 1997, Colorado's overall share of the U.S. leisure travel market plummeted by 30 percent;[7]
- Visitor spending fell dramatically, creating an immediate loss in total revenues of $1.4 billion, which increased to $2.4 billion annually by the late 1990s;[8]
- As a consequence, state and local tax receipts dropped by $134 million between 1993 and 1997.[9]

Even Colorado has gotten back in the game. In 2000, the state opened the Colorado Tourism Office with a $5 million annual budget. In 2006, citing demonstrated return on investment to the state treasury of more than 12:1, Governor Bill Owens increased funding to $19 million.[10]

Colorado's experience proves that even a state blessed with an abundance of natural attractions and one of the nation's strongest travel brands will quickly lose visitors —and tax revenues—without a vigorous travel promotion effort. On the other hand, states and cities that commit resources to travel promotion, even during difficult budget times, are realizing the economic benefits of the power of promotion.



What Colorado lost when it eliminated its tourism marketing program

30% loss	market share in overnight leisure trips
$1.4 billion lost	traveler spending within one year of closing
$2.4 billion lost	traveler spending per year within four years of closing
↓ **17th**	From 1st to 17th in summer resort destination visitation

Connecticut: Budget Cuts Equal "Gigantic Mistake"

Early in 2010, an ominous report from the Connecticut Office of Legislative Research signaled downward trends in nearly all travel-related categories, including major attraction visitation, air passengers, casino slot revenue and travel-related employment.[11] Travel is a significant contributor to Connecticut's economy. In 2010, travelers visiting Connecticut spent $8.9 billion, supporting jobs for 60,400 people and generating $774 million in state and local tax revenues. Although the report optimistically predicted a rebound in 2011, the turnaround never materialized. Why? One main reason: Connecticut eliminated its entire tourism budget.

After just one year of this disastrous experiment, Connecticut's travel-related tax revenue growth slowed to half the pace it achieved even during the deep recession of 2009-2010.[12] To reverse this decline, the travel industry helped lead a campaign to educate state and local officials about the virtuous cycle of travel promotion in terms of its positive impact on tax revenues, jobs and economic development.

During his successful 2010 campaign for governor, Daniel P. Malloy proposed to reinvigorate the state's travel promotion budget as part of his platform.

> "[Connecticut] made a gigantic mistake, in my opinion, of doing what we've been doing over the past couple of years in cutting back, cutting back, and cutting back with respect to culture and tourism. It's going to take us a few years to undo that damage unfortunately."[13]
>
> –Connecticut Governor Daniel P. Malloy

In June 2011, more than 4,000 active and engaged travel industry stakeholders with the support of newly elected Governor Malloy, Connecticut committed to investing $15 million into travel promotion at a time when many other state programs were being cut. The revived campaign included television and radio advertisements, upgrades to the travel website CTVisit.com and improved visitor guides.[14]

Connecticut was fortunate to reverse course quickly. By 2013, the economic outlook from Connecticut Economic Digest forecasted a quick recovery for travel in Connecticut and a much-needed injection into the state's economy—propelled by a two-year, multimillion dollar marketing initiative to develop, foster and stimulate the state's brand identify and bolster travel and tourism.[15]

Washington State: What Happens When States Stop Marketing

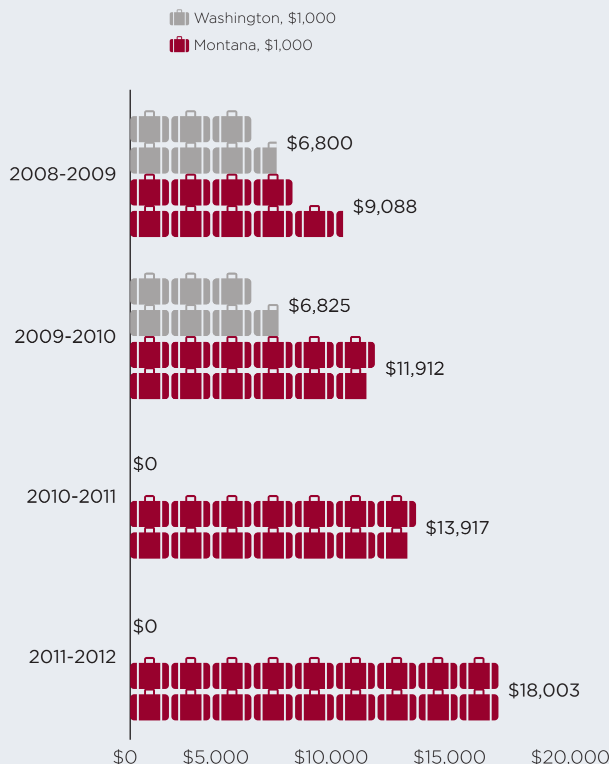
In 2011, the state of Washington took the radical step of completely shutting down its tourism office. Perhaps sensing an opportunity to increase market share, Washington's neighbors increased their promotion budgets, including a 30-percent increase in Montana during the most recent budget cycle.[16]

The results were predictable.

In 2011, traveler spending in competing Montana grew 70% faster than in Washington state. Travel-related tax revenues also grew at a far faster rate in Montana compared to Washington.

Not only is Washington state lagging seriously behind its nearby competitors when it comes to travel spending and tax revenue, it is falling behind the rest of the country as well. In 2011, the growth in traveler spending in Washington state was 13 percent slower than national growth,[17] while growth in state and local taxes generated by travel was 26 percent slower than the nation overall.[18]

With zero state support, the travel industry has tried to fill the void by creating the Washington Tourism Alliance (WTA)—a group formed by industry stakeholders to keep alive some critical tourism programs. The WTA has been able to keep the state's official travel website, www.experiencewa.com, and a mobile app, VisitWA, up and running, and continues to publish the Official Washington State Visitors Guide on an annual basis.



Nevertheless, with a WTA budget of just $481,000, Washington state continues to fall behind other states in the region, which fund tourism budgets ranging from $10 million to $60 million.[19]

In order to stay competitive, the support of both the private and public sectors is essential, says WTA Executive Director Louise Stanton-Masten.[20] The WTA is currently working to establish a long-range transition into a sustainable, industry-led and industry-funded tourism promotion organization so that Washington State is marketed in a competitive manner.

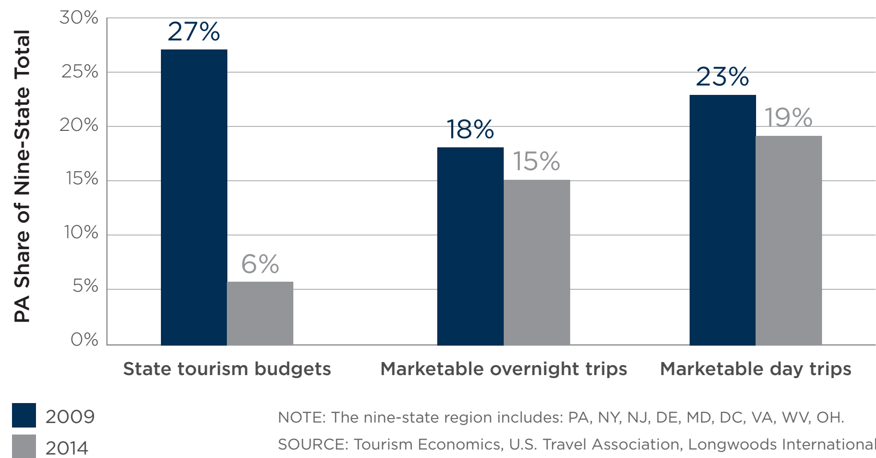
Tax revenue generated by out-of-state visitors saves Washington state families approximately $400 per year in taxes.[21] Yet, those tax savings will decline over time, as competing states invest in travel promotion efforts to seize market share from Washington state. What happened in Connecticut before that state reinstated its promotion program could happen in Washington state: continued loss of visitors, travel spending and tax revenue—at least until political leaders recognize travel promotion generates a positive return on investment.

Pennsylvania: The Economic Risks of Cutting Travel Promotion

The travel industry is essential to Pennsylvania's economy. In 2014, travelers spent **$24.4 billion** in the Keystone State, directly supporting nearly **225,000 jobs**.[22] Visitors to the state generated $3.6 billion in total tax revenue, including $1.4 billion in state and local taxes.[23] Without travel and tourism, the state unemployment rate would rise to 9.3 percent compared to the current 5.8 percent.[24] Since the start of the economic recovery in 2010, travel employment growth has contributed 11 percent of total Pennsylvania state employment growth.[25]

Even though travel has grown in recent years, Pennsylvania has been losing out to regional competitors. While many states have stepped up their marketing and promotion efforts, the Pennsylvania legislature has pursued a penny-wise/pound-foolish approach that has cost the state visitors, market share and tax revenues.

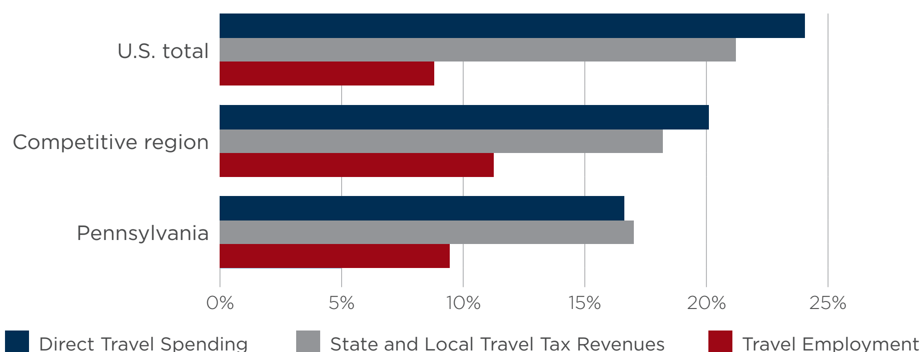
As recently as FY 2008-09, Pennsylvania spent more than $30 million on travel marketing and promotion efforts. The FY 2008-09 budget for the Commonwealth's office was competitive, representing 27 percent of their nine-state region.[26, 27] But when tax revenue slowed and budgets tightened, tourism was seen by policymakers as an easy target to cut. By FY 2014-15, tourism funding fell 77 percent to just $7 million, representing just 6 percent of the nine-state total.[28]



Pennsylvania Representative Jerry Stern, Chairman of the House Tourism and Recreational Development Committee, has warned about the dangers of Pennsylvania's destination brand being "out of sight, out of mind when people are planning vacations." The impact of those budget cutbacks bear out his warning:

- **Declining Market Share:** In 2009, Pennsylvania attracted 18 percent of marketable overnight trips[29] within a nine-state region[30] and 23 percent of marketable day trips.[31] By 2014, that share had declined to 15 percent and 19 percent respectively.
- **Lost Tax Revenues:** Tourism Economics calculates that every dollar cut from the Pennsylvania tourism budget cost the state $3.60 in lost tax revenue.[32] Between 2009 and 2014, the state lost more than $600 million in state and local tax revenue that travelers would have generated had promotion been sustained.[33]
- **Falling Behind:** Between 2010 and 2014, direct travel spending increased 24 percent, and state and local tax revenues increased 22 percent across all 50 states.[34] Yet during this period, travel spending and state and local tax revenues increased by only 17 percent in Pennsylvania.[35]
- **Losing Out on Overseas Visitors:** Since 2007, overseas visitors to the U.S. increased by 44 percent, compared to just 19 percent in Pennsylvania.[36] If Pennsylvania had kept pace with U.S. growth since 2007, the state could have welcomed about 206,000 additional overseas visitors in 2014.

2014/2010 Growth Rates



NOTE: The nine-state region includes: PA, NY, NJ, DE, MD, DC, VA, WV, OH. SOURCE: U.S. Travel Association.

To reverse this trend, a strong coalition of tourism marketing organizations in Pennsylvania published a report in the spring of 2016 outlining the economic losses the state has suffered from cutting travel promotion. The state tourism office is optimistic that funding will increase in 2016 and fully recover by 2017. Yet it will take years for Pennsylvania to recover the losses to the state's economy.

Decreases in funding at the state level affect all of the regions and cities within the Commonwealth. Not only has the state suffered economic losses, but local destinations' marketing efforts are limited without sustained funding.

San Diego: Weathering the Storm

With nearly 34 million visitors generating nearly **$10 billion** in spending in 2015, the travel industry is the second largest private-sector industry in San Diego.[37] The travel industry supported **183,000 San Diegan jobs**, while visitor spending generated more than **$700 million** in state and local taxes.[38]

Given travel's pre-eminent role in supporting the region's economy, it seems obvious that investment in travel promotion would be a top priority. Yet in recent years, the travel promotion budget has become a political football, with many city officials reluctant to support an industry that sustains so many jobs and businesses.

Since 2008, the San Diego Tourism Authority (SDTA) has not received transient occupancy tax funding and has instead relied on Tourism Marketing District (TMD) funding from the lodging industry. In 2007-08, the TMD generated $24.5 million for tourism promotion and related projects.[39]

In 2013, San Diego's new Mayor Bob Filner made the decision to withhold the five-year TMD operating agreement extension, resulting in an immediate 83-percent reduction in SDTA funding from $23 million in 2012 to just $4 million.[40] As a result, 40 percent of SDTA staff was laid off and sales and marketing campaigns were cancelled.[41] The absence of direct marketing to leisure consumers had an immediate effect on leisure spring break travel in the first quarter of 2013 and affected both leisure and group business over time as bookings decreased and business and leisure visitors made plans to go elsewhere.[42]

In response, the SDTA launched an aggressive "Why Travel Matters" campaign to educate local leaders on the value of tourism and its impact on San Diego's economy. The organization leveraged National Travel and Tourism Week to create a media blitz through local news stations and online contests. An "I Am Tourism" program created videos featuring local workers in the tourism sector to raise the profile of the industry among political officials. The SDTA generated significant exposure and pressure on the city council.

The plan worked. Under intense pressure in May 2013, the mayor released FY 2013 funds to the SDTA. In November, the city council voted to restore TMD funds. Interim Mayor Todd Gloria showed support for the industry and announced that "San Diego is back in the game."

> This year, we're going to sell this city in every way possible. We're going to be on TV. We're going to be online. We're going to be in print and special promotions."
>
> –San Diego Interim Mayor Todd Gloria

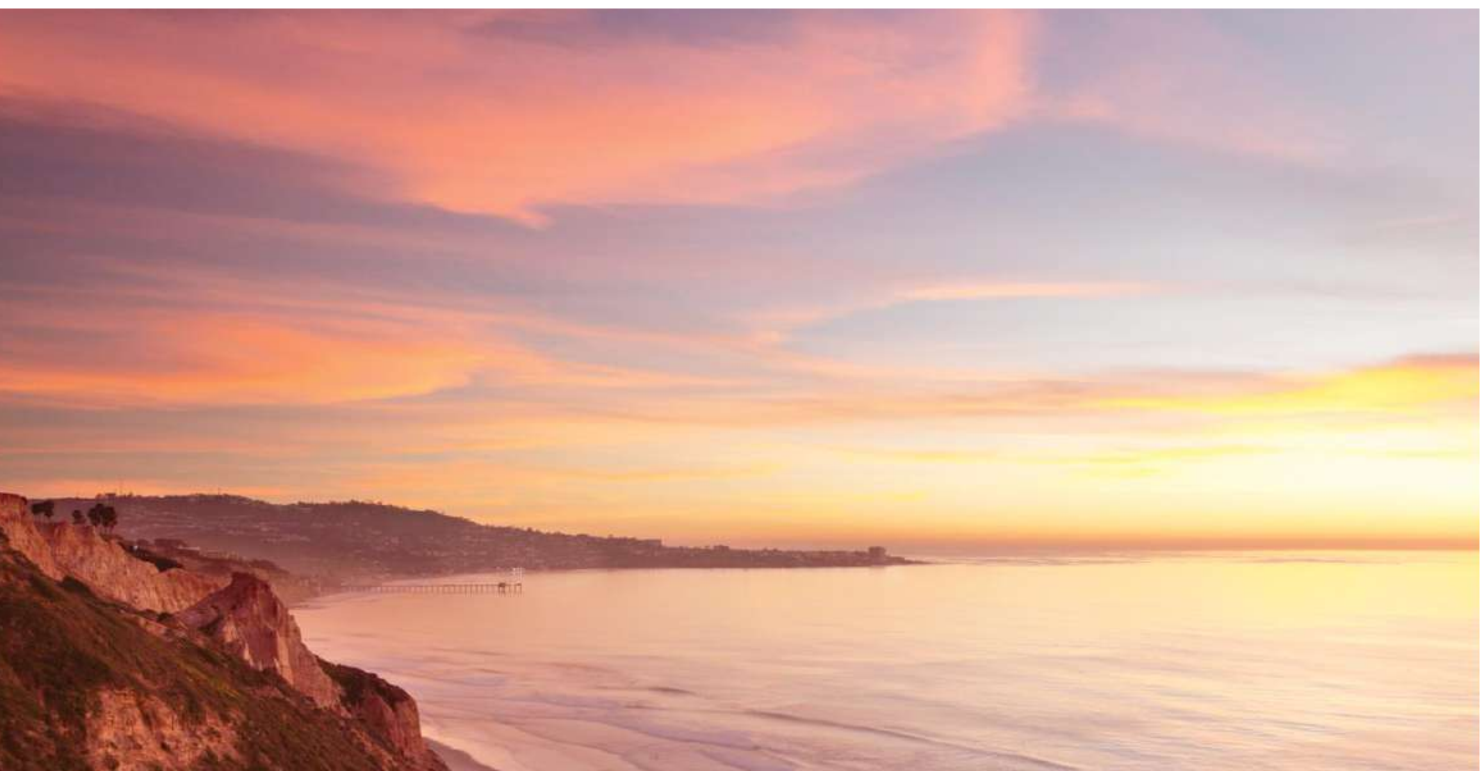
Photos courtesy of San Diego Tourism Authority.

Photo Credit: John Bahu.

Despite this victory, the funding fiasco caused significant damage to the region's economy. In 2013, both occupancy rates and room prices increased more slowly than other competitive markets. San Diego's hotel sector lost $63 million in room revenues.[43] Beyond the lodging sector, total losses to the San Diego regional economy amounted to $560 million in lost visitor spending and $24 million in reduced tax revenues. The retail, restaurant, entertainment and transportation sectors were all hard-hit.[44]

San Diego is a classic example of the negative consequences of playing politics with tourism funding. Educating elected officials on the significant economic benefits of the travel industry remains paramount. The value of tourism goes beyond the businesses directly benefitting and adds value to residents and communities by reducing tax burdens, funding infrastructure and supporting public service jobs, such as police officers and firefighters.

Destinations that fail to invest consistently in travel promotion will see visitors—and jobs and tax revenues—go elsewhere.'



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